

Perspectives Paper:

The Art of Valuing Personal Property with IVS



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The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

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The IVSC has issued this Perspectives Paper to initiate discussion and debate on the topic of ESG in tangible assets valuation. Share your thoughts and perspectives with us [through LinkedIn](#)

Overview and Definition

This perspective paper has been drafted by the IVSC Tangible Assets Board to focus on issues in relation to the valuation of art and antiques (defined here as fine and decorative arts, antiques, paintings) and to encourage personal property valuers to comply with IVS when undertaking art and antique valuations.

The IVSC Tangible Assets Board may issue future perspectives paper reviewing other aspects of personal property valuation such as classic cars and jewellery.

Introduction

Global sales of art and antiques reached an estimated \$64.1 billion with the three major art hubs, the US, the UK, and China accounting for 82% of global sales¹. The US was the largest market worldwide and accounted for \$28.3 billion (44%) of global sales by value. The art market can be further divided into a resale market and new art works market and both of these can be further subdivided into a primary and secondary art market.

The primary art market largely comprises galleries, producer galleries and arts fairs and can be both physical and online. If an artwork comes straight out of an artist's studio, by way of a gallery or a contemporary art fair, it's most likely being offered for sale for the first time. This is deemed to be the primary art market as the price for the piece is established for the first time but it should be noted that the manner, promotion and other such matters are influential in establishing the 'tone' of the price it might fetch and of crystallising levels of demand. However, it should be noted that in some instances the identity of the creator of the art work may have led to potential values already having been established from

market demand before an initial sale takes place.

The secondary art market largely comprises galleries, auctions, private sales and art fairs, physical and online. Once a piece has been acquired on the primary market and is being resold, it becomes part of the secondary market. Often prices in the secondary market may be more stable than those of emerging or mid-career artists but there is no guarantee of this as artists can go in and out of fashion. However, the objective of those involved in the sale is to try and achieve a continuous and sustainable development of the artist.

Furthermore, as long as an artist is still alive the stock/supply of their art may grow, whereas once the artist has died the stock/supply will normally be static unless previously unknown works come to light. Although due to the role of private collections and the undoubted issues, such as wars when work was 'taken' this can sometimes happen as some old master's work thought lost does surface from time to time. Moreover, once an artist has died, their work may be lost or have gone out of fashion and it is only a small minority of artists that are remembered for posterity.

¹ The Art Market 2020, An Art Basel & UBS Report: https://d2u3kfw92fzu7.cloudfront.net/The_Art_Market_2020-1.pdf

Purposes of Art and Antiques Valuation

For valuation of art and antiques the following are a list of some of the common purposes for which art and antiques valuation is required:

- Advice on the acquisition or disposition of property for investment or personal consumption
- Auction estimation
- Business Transactions
- Buying or selling art
- Collection Management
- Damage or loss due to fire, water or other reason
- Dissolution of business
- Dissolution of marriage
- Divorce
- Estate planning, equitable distribution, and probate
- Financial Reporting
- Inheritance (only applicable in some countries)
- Insurance coverage
- Inventory valuation
- Litigation, including claims of fraud
- Loan Collateral
- Mortgage / Pawn
- Pre-nuptial agreements
- Taxation (charitable contribution, gift tax, estate tax, casualty loss)

Basis of Value

However, the main challenges in relation to the art and antique valuers adopting

IVS lies not in the valuation approach adopted but with the basis of value used. As with other tangible assets valuations the basis of value used will vary according to the purpose.

IVS 104 Basis of Value states that “compliance with this mandatory standard requires a valuer to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of this standard (for IVS-defined bases of value) or not (for non-IVS-defined bases of value).”

Within IVS a basis of value describes the fundamental premises on which the reported values will be based and “it is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer’s selection of methods, inputs and assumptions, and the ultimate opinion of value.”

The bases of valuation used in art and antiques valuations do not cause any issues as IVS recognises that “a valuer may be required to use bases of value that are defined by statute, regulation, private contract or other document.”

However, art and antiques valuers sometimes use the United States Internal Revenue Service (US IRS) definition of Fair Market Value, which is defined as “the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.”, which is in effect Market Value.

However, in many markets such as Germany the Fair Market Value is usually not estimated as there is limited to no data available on this and the relationship of trust between buyer and seller (as in the gallery trade) cannot be assessed in monetary terms. As a result, many art and antique valuers in Europe adopt a more formulaic approach.

Even though this does not cause an issue with IVS compliance the IVSC Tangible Assets Board would recommend that it may be preferable for art and antique valuers to adopt the IVS definition of Market Value for secured lending or reporting purposes rather than Fair Market Value (FMV). FMV is a basis of value that largely relates to US valuations for tax purposes and has many requirements which sit below it that may not be fully understood by valuers operating outside the US such as the inclusion of special purchasers.

The definition of Market Value within IVS is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

The advantage of adopting the IVS definition of Market Value is that though the valuation figure will not necessarily be the same as FMV it is a globally understood and adopted basis of value for the valuation of both tangible and intangible assets and would enable direct comparison across different assets. In relation to these two bases of value there are the following differences.

Fair Market Value includes the economic principles of free and open market activity whereas Market Value simply refers to the estimated amount for an asset within a marketplace. Furthermore, as decided in a recent Washington Supreme Court Decisions, Fair Market value includes sales tax whereas Market Value represents “the estimated exchange price of an asset without regard to the seller’s costs of sale or the buyer’s costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction.”

Even though the estimated exchange price can be difficult to confirm in the market and insurance, replacement or auction value are often used to provide Market Value in these circumstances, this does not preclude the adoption of Market Value as the main basis of value for the valuation.

Market Value is an internationally used definition that is universally applicable and would bring art and antiques valuers in line with other valuers of tangible asset valuations. This could be seen as particularly important not only for benchmarking across other markets where different definitions may be used but would also ensure that all tangible assets are valued on the same basis for secured lending purposes.

In respect of Insurance Estimation for Art and Antiques this differs from the IRS definition of Fair Market Value as not only would the buyer's premium or elements of for an auction acquisition not be included as in this instance the buyer would be seen as a special purchaser but also an assumption is made that the insured item needs to be replaced in a timely manner. As a result, a retail replacement is often considered which is usually at a higher figure than the original valuation. However, in reality this is no different from providing an Estimated

Reinstatement Cost for a property valuation, which will provide a different figure from a Market Value due to both the differing purpose of the valuation and the assumptions made. Therefore, there would be no issue with Insurance Estimation under IVS.

Other purposes of value commonly used within art and antiques valuations are for inheritance and tax calculation and auction estimation. Valuations for these purposes are also commonly undertaken for other tangible assets and there would be no issue with these valuations coming under IVS. In fact, IVS defines the word purpose as "the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions." The other basis of value commonly used in IVS is an Auction Estimation and insurance, which should be no different from providing an auction estimate for a tangible asset.

1. *What IVS bases of value should be considered for valuation for art and antiques? If the basis of value suggested is an IVS non-defined basis of value, please provide the definition used together with the purpose of valuation. Please send your responses to the questions to: comments@ivsc.org*

Valuation Approach

However, despite the size and sophistication of the global art market the valuation approach and the basis of value used is inconsistent in many instances for the valuation of personal property, not only across countries but also within countries. In many jurisdictions art and antique valuations are undertaken by art experts who have great specialist knowledge and expertise on the assets in question but in some cases may lack awareness of the International Valuation Standards and the approaches contained within.

Art valuation can be seen as the process of estimating the market value of works of fine art and as such art valuation can be seen as more of a financial rather than an aesthetic concern, although it is recognised that as with other asset classes the valuer must factor in subjective variables. In the case of art these variables include “authenticity, artist, school, signature and dating, genre, technique, dimensions, motif, innovation, (hype), condition, market freshness, art- and cultural-historical significance, quality, provenance, restitution freedom, rarity, period of creation, characteristic and performance. The so-called “eco system” of an artist – the environment that

protects, promotes and markets him – is also considered.”

In addition, within the art market not only are special purchasers prevalent, but also it is quite common for a portfolio/collection effect to be applied. For example, if an artist issues a collection of paintings and a collector is missing one item to complete his collection then the collector would in principle act as a special purchaser as he may be willing to pay more than other collectors to complete his collection.

IVSC do not favour a formulaic approach to valuation, although one approach which relates value in terms of the commercial, social and artistic merit compounded by the reputation and standing of the artist does capture some of the influences between price determination in the market. These separate elements are now considered

The impact of the artist’s brand: When using this formula, the largest determinant of value is the “brand” of the artist which can vary during and after the artist’s lifetime and is often subject to the fashion and mores of the time of valuation.

Artistic value is a standalone value embedded in the artwork and includes its quality and significance as a standalone work irrespective of its attribution. For

example, many works executed by 'followers' or pupils of masters may have very large artistic value in their own right; but to underscore the relevance of the artist's brand to establish that a work is capable of attribution to the 'master' will transform the value of the object. It is in the area of attribution of work that the skill and expertise of the valuer is paramount.

Social value is inherent in all artworks as art is a physical representation of the temporal, spatial and human context within which it was produced. In turn this may resonate with prevailing mores, standards and cultural issues all of which determine the level of influence the artwork has created in the minds of the populace.

Commercial value is largely determined by views of valuers as their assessment of likely interest in purchasing the object by investors and others as to the ongoing value prospects for the work, including the level of probability that the artist will change in terms of their brand value and of change in the overall demand for such objects and the wider art market.

Benchmark Value

When valuing personal property, it is necessary to determine a "Benchmark Value" and/or an "Appraisal Value". A

Benchmark Value can be described as an approach that determines the current market price of an artwork, by benchmarking it with the value of a comparable artwork. The valuer makes an effort to ensure that the comparable artwork is as similar as possible to the artwork being valued in terms of size, medium, age and subject, and necessary adjustments are made to account for the differences. The valuation carried out under this approach is based on artwork images and available data and does not include examination of the original artwork and is often used for insurance value. For accounting purposes book value is also sometimes considered.

In IVS terms the Benchmark Value is akin to a desktop or book valuation in real estate as the level of due diligence in relation to inspection and investigation is limited and the valuation is reliant on data provided by the commissioning client and on market pricing for similar comparables in terms of style, age and subject. However, when adopting this approach, the valuer is arriving at figure without regard to proven provenance and there this approach only provides an indicative value, which depends on the accuracy of the assumptions made, particular those in relation to provenance. Whether this approach provides an IVS compliant valuation is questionable as the level of

due diligence such as the verification of information supplied is in most cases too limited for a Benchmark Value to be IVS compliant and could give rise to negligence claims.

Appraisal Value

The Appraisal Value incorporates the Benchmark Value but is seen as a more sophisticated approach to art valuation as unlike the benchmark mark valuation the valuer will not take the provenance at face value but will investigate the provenance and will require the owner to provide as much of the following information as practicable;

- Colour prints of photographs of the asset,
- All available documentation for the asset and its provenance,
- References of the asset in any publication (auction catalogue etc.)
- Details and reports of any previous restoration work

When carrying out an Appraisal Value the valuer must inspect the artwork and carry out a detailed analysis (historic, stylistic, forensic, scientific etc.) to establish the authenticity and provenance of the artwork before undertaking a valuation in accordance with the parameters stated above. However even when adopting this approach, the level of due diligence and

investigation undertaken to establish the condition and provenance is critical.

However, both these approaches would come under the market approach within IVS as “the market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.”

Furthermore, IVS also states that “the market approach should be applied and afforded significant weight under the following circumstances:

- (a) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value,
- (b) the subject asset or substantially similar assets are actively publicly traded, and/or
- (c) there are frequent and/or recent observable transactions in substantially similar.”

Once again, all these circumstances are applicable to the valuation of art and antiques as much as real estate and, just as many the large surveying firms have their own data on recent and historic transactions, so do all the main auction houses and other participants in the art market. As with other tangible asset valuations there are also other databases publicly available such as the art price, art

net and art info databases. However, the art market lacks full transparency and finding direct full comparable transactions may prove more challenging than in real estate markets.

Moreover, just as the real estate valuer is required to weight the comparable evidence using his professional judgement when using the market approach, an art and antiques valuer is also required to weight the comparable information and sometimes use the data of a comparable artist to estimate the possible market resonance of the artwork. In both instances the heterogeneous nature of many assets means that it is “often not possible to find market evidence of transactions involving identical or similar assets”.

Therefore, IVS also states that “when comparable market information does not relate to the exact or substantially the same asset, the valuer must perform a comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject asset.”

However, although both a Benchmark Value (Desktop Valuation) and an Appraisal Value (Market Value) would come under the Market Approach though the requirements for documentation are

stronger under IVS than those commonly used by an art and antiques valuer as under IVS “valuers must document the reasons for the adjustments and how they were quantified⁵.”

Even though both of the art and antiques valuation approaches would generally meet the requirements of IVS, when undertaking a Benchmark Value IVS requires the valuer to specify the extent of their investigations and any limits would have to be noted in the terms of engagement.

Furthermore, IVS requires “valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose” and where the “limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS⁶.”

2. *Do you believe that both the Benchmark Value and Appraisal Value would come under the Market approach within IVS? If not, please provide your reasoning.*
3. *Under what circumstances and for what purpose would you use another valuation approach or method? Please*

provide details of the approach or method adopted.

Please send your responses to the questions to: comments@ivsc.org

Conclusion

In summary the valuation of art and antiques is equivalent to the valuation of other tangible assets valued using the market approach and the valuation of art and antiques and other forms of personal property valuation is already part of IVS. Therefore, the IVS would encourage the use of IVS by all art and antiques valuers in order to provide global consistency across their valuations and to bring their profession. professionals and valuations in line with the increasingly globally adopted international valuation standards.

4. *Are there any additional issues in relation to the global valuation of art and antiques that the IVSC should consider?*
5. *Do you think that art and antiques valuers should fully adopt IVS, and if not why?*

Please send your responses to the questions to: comments@ivsc.org