

Defining Appraisals – Fair Market Value, Retail Replacement & Auction Estimates

by Mark Prendergast

As an auction house with many experts in a wide variety of fields, Heritage is frequently approached by individual clients, estate executors and wealth advisors for all types of appraisals and valuations. A general inquiry from a client or advisor for an appraisal of a single piece of tangible property, a collection or an estate must be scrutinized for the actual purpose and need of the situation. Usually, the request for an "appraisal" actually refers just to an evaluation for the potential value of an item through auction or private sale. The person just wants to know how much something is worth. The term "appraisal" is commonly used in referring to any assessment of value of a tangible piece of property. This is correct in most cases; however, in the art and collectibles industry, a true formal "appraisal" is a specific document that requires adherence to IRS dictated regulations, formats and liability agreements, rather than just an opinion of value.

Heritage regularly provides quick and free evaluations of the current market value of art or collectibles. This is in the form of a verbal or written auction estimate - the range of value that one would expect to see the item sell for in today's auction market. This valuation is not intended for use as a formal appraisal or for any purposes of establishing a value for insurance, tax, estate planning, collateral or third party transactions.

Heritage is also able to provide purchase offers in certain categories of collectibles, such as coins, stamps, gold, jewelry, timepieces, comics and silver. The purchase offer is in many ways the truest valuation of an item, as it represents a real and immediate proposal for a monetary amount exchanged for the transfer of ownership of goods. The purchase price offered is usually below the value that one would expect to achieve given the proper time, marketing and venue, but it does not include or require the expenses and fees normally associated with selling through auction or consignment with a dealer. Depending on the circumstances and requirements of the client, an immediate and efficient sale through a purchase offer can be the most beneficial and lucrative means of liquidating property, especially in estate situations where funds are needed quickly.

When a formal written appraisal is required, the next determination is to the purpose and use of that appraisal. Insurance appraisals have different requirements and can represent different values than estate tax or charitable donation appraisals. Appraisals that will be used for tax purposes require the use of fair market values. The IRS defines fair market value as "the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts."

(IRS Regulation §20.2031-1) While fair market value can be determined using the

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prices realized at auction – one must take into account any fees associated with the auction sale, such as buyer's premium (as high as 25% at some auction houses – 15% or 19.5% at Heritage). These additional fees must be considered as part of the sale price - and thus fair market value.

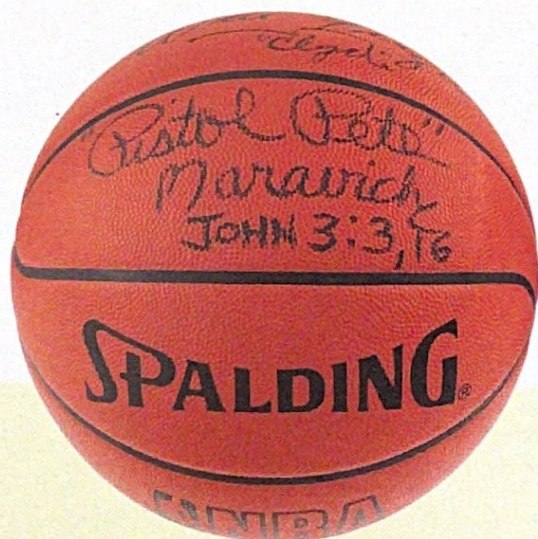
The IRS also stipulates that "The fair market value of a particular item of property . . . is not to be determined by a forced sale price. Nor is the fair market value of an item of property to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate. Thus, in the case of an item of property which is generally obtained by the public in the retail market, the fair market value of such an item of property is the price at which the item or a comparable item would be sold at retail." (26 C.F.R. §20.2031-1(b)) A qualified appraiser should look at the proper and true market for a piece of property to determine how best to establish the fair market value – whether that be at auction or in a retail environment.

A retail replacement cost appraisal is mostly used for insurance purposes and represents the value that one would expect to pay for the same or similar item in a retail setting at the present time. When an insured item needs to be replaced in a timely manner, the retail market is often the only place to do so. With retail prices fluctuating due to locations, sales, marketing, and the economy, one must be cognizant of the specific market and criteria the appraiser used to arrive at the appraised value. The retail price of a work of art by a well known and established artist can vary considerably in locations throughout the country and world. Two paintings of the same size, date of creation, medium

and quality can vary in price in a retail setting if the gallery happens to be in New York City, San Francisco or Houston.

An oversimplified - and broadly incorrect - summary of the difference between fair market value and retail replacement cost is the price you can sell something for versus the price you would have to pay for it at retail. Collectors, estate professionals and financial advisors should be very aware that the initial purpose of an appraisal may not translate to subsequent needs and uses. Auction houses and dealers are often approached by clients with insurance retail replacement appraisals expecting to see those values achieved in a sale. In many instances, this is just not possible as the secondary market does not generally attain prices near the retail level. Likewise, individuals may be shocked when an item appraised in a family member's estate is seen in a retail store with a price tag of multiple times the appraised value.

Appraisals and valuations have specific purposes, uses and determinants. An appraiser or Heritage's Appraisal Services can assist with identifying what type of appraisal or valuation is actually needed. Inquiries for appraisals can be found on the Heritage website at www.HA.com/appraise. Auction estimate requests can be made at www.HA.com.



1987 Hall of Famers Signed
Basketball with Maravich. World
Record, Signed Basketball
SOLD FOR: \$20,315
October 2009
HA.com/716-18011



Flying Down to Rio
(RKO, 1933)
One Sheet (27" X 41")
SOLD FOR: \$239,000
HA.com/695-79023

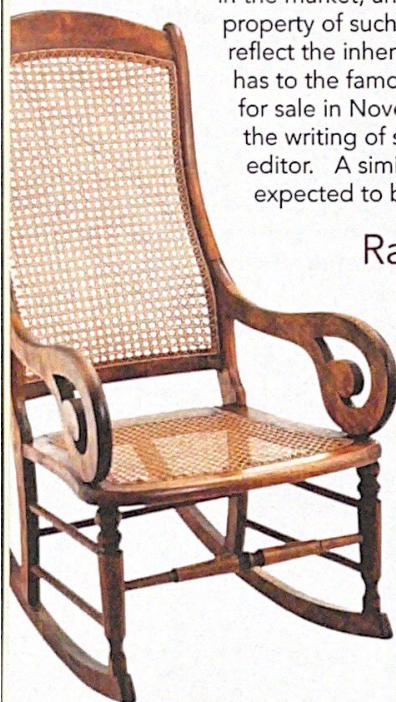
The Factors of Value

by Mark Prendergast

In order to properly value an object, whether for a formal appraisal or for estimates of value at auction, a number of factors must be considered. The primary determinants of value are provenance, rarity, condition, quality, and fashion/market trends. No one feature alone can determine a value, though there are occasions when one aspect is much more heavily measured. The more desirable and prized each factor is in the particular market, the more 'valuable' an object will be.

Provenance

The provenance of an item is the record of the people and places that an object has encountered throughout its existence. Provenance is not just who owned it but also where it has lived, where it was exhibited and who handled its sale in the past. An object's association with a famous person or renowned collector can greatly increase its desirability in the market, and thus its value. The prices achieved during the highly publicized auctions of the personal property of such iconic figures as the Kennedys, Marilyn Monroe or Martin Luther King do not necessarily reflect the inherent values of the objects themselves but much more the value of the connection the object has to the famous person - and ultimately history. Martin Luther King Jr.'s cane rocking chair is being offered for sale in November 2009 at Heritage's 20th Century Icons auction. The chair was used by Dr. King during the writing of some of his seminal late 1960's books and comes to auction through the family of his literary editor. A similar chair from the period is worth a few hundred dollars, while the King associated chair is expected to bring some \$12,000.



Martin Luther King, Jr. Rocking Chair
Estimate: \$12,000

To be sold in our upcoming Music & Entertainment
Auction, November 6-8, 2009
HA.com/7011-100011

Rarity

Rarity is a consideration that can truly drive up the price of an object but can also be limiting in extreme instances. The rare "Inverted Jenny" stamp is heavily sought by collectors as the holy grail of stamps. A mistake in the 1918 printing of the two-color stamp has the image of a Curtiss JN-4 "Jenny" airplane mistakenly depicted upside down. Only a single sheet of 100 of these stamps survived the initial erroneous printing. When government officials demanded the stamps back, the original buyer wisely held his ground, and later sold the sheet of stamps, which were subsequently split apart and sold individually. The fact that there have only ever been 100 of these stamps creates a limited and finite supply. Individual "Inverted Jenny" stamps see six figure prices, while the best preserved examples come close to a million dollars.

Without a traceable history of related sales, the value of an item might be undeterminable or minimized. Independent rarity - being the only example in the world - can be limiting in the fact that there is not an identifiable market for the item. If you have the only one of something - without relative comparable examples in the market, the likelihood of finding a willing buyer at a healthy price is difficult, if not unlikely.

Condition

Condition of an object can bear heavily on value. Using the "Inverted Jenny" example, the value of each stamp, or group of stamps, is based on the condition. Whether they have been hinged, damaged, creased, worn or the gum has been disturbed, all factor into the desirability to collectors. For stamps and coins, where there are means of formalized grading of condition, the condition is rated in a numeric scale that can mean the difference of hundreds, thousands, or, as in the case of the "inverted Jenny", hundreds of thousands of dollars in value.

In art and antiques, condition also can play a key role in determining value. We have all heard the stories of early American furniture pieces being heavily cleaned by an eager owner only to find that the value of the piece was washed away with the years of grime and dirt - more eloquently referred to as the 'patina'. Paintings and antiques can often be restored to return them



Inverted Jenny:
Heritage sold this "never Hinged" example
(only six known thus) of the most famous of
all U.S. error Stamps - the INVERTED JENNY
rarity - **SOLD FOR \$825,000.**
December 2007.

Considered by collectors to be the top quality 'pin-up' artist, Gil Elvgren paintings are selling at record prices in Heritage's Illustration Art auctions.

GIL ELVGREN (American, 1914-1980)
A Near Miss (Right on Target), 1964
SOLD FOR: \$143,400.00 July, 2009
From the Estate of Charles Martignette.
HA.com/7010-23033



to a pristine or at least more marketable state. A heavily soiled painting cleaned professionally can look like a completely different work of art and become much more desirable to collectors. Of course, a painting or antique requiring no assistance will hold the most value, but in many instances value can be increased and recouped through the conscientious attention of a skilled restorer. Auction houses and art experts can provide insight into the benefit – or detriment – of having an item's condition improved.

Quality

The intrinsic quality of a work of art or collectible can determine whether it will retain or increase its value over time. The best quality items tend to appreciate and retain value most easily. Quality is sometimes very subjective as it can be maximized or minimized according to the tastes and appreciation of an era. Top workmanship, the best means of production and the most skilled artisans - no matter the period, category or collectible - will result in the highest quality object. A painting regarded as a very high quality example of its style, independent of the artist associated with it, can fetch very high prices on its artistic quality alone. Conversely, a very poor quality work by a famous artist will be much lower in value than a painting that is considered one of their masterpieces. Many artists had bad days or even periods when their production is not recognized to be of the best quality.

Fashion

People's tastes and opinions of worth can vary from decade to decade - if not year to year. Collector's must be careful not to be too swept up in the trends and escalating prices in certain markets. Changes in attitudes and styles will be reflected in swells and corrections in values. The Post-War and Contemporary Art market saw staggering increases in value consistently from 2004 to mid-2008. It was in vogue to buy works by the "hot" artists of the moment – with collectors driving prices at auction to many multiples of the pre-sale estimates. Some speculative and aggressive collectors are known to pay trendy artists in advance to be on a list for works that have not yet been produced or even conceived. The question now remains if the fashions and trends that drove prices during the heady times of economic potency will continue into a more subdued, cautious market.

The art and collectibles market is directly affected by the larger economic trends, but as in any market there are higher risk/reward areas and more consistent 'blue chip' segments. The rare coin market as a whole has not seen the dramatic effects of the economic downturn, and is proving to strengthen as the price of gold and interest in diversifying portfolios increases.

Today's expansive access to information allows for almost anyone to find databases that chart and record the sales or market prices of objects and art. From coins and stamps to artwork and diamonds, there are internet sources to track the going markets. All these resources are crucial in determining value. What becomes more of an art in itself is using the aspects of value discussed in this article to see where a particular item fits into the hierarchy of value. That is the art of appraising.

In some instances, rarity, condition, provenance and quality all converge during the ideal moment of fashionability. When all factors of value are embodied in the right object, incredible prices are achieved. Such a 'perfect storm' of value is seen when over \$3.7 million is paid for a silver dollar (1804 Class I Original), \$20 million is paid for a crystal egg (Imperial Fabergé) and \$140 million is reportedly paid for a 1948 painting (Jackson Pollock's No. 5).



1804 \$1 Original PR62 NGC
SOLD FOR: \$3,737,500
April 2008
HA.com/1104-07001