

VALUATION CONSIDERATIONS

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An appraiser's job is three-fold: 1) to accurately identify an article, 2) to accurately describe that article, and 3) to accurately value that article. Without proper identification, a description will be inaccurately recorded which could, in turn, result in a compromised valuation. As such, it is paramount that all relevant notes are taken on site and a photograph is available for use during the description and valuation phase. It is the ultimate goal of an appraiser to obtain an apposite¹ value conclusion. This valuation should be based on principles and concepts of economic theory.

It is important to remember that appraising is not an exact science. However, when two qualified appraisers are asked to appraise the same item, their values should be within a 20% range. Experienced appraisers should be able to properly identify the work and use the same or comparable tools and reference materials to arrive at the appraised value. The element of subjectivity in appraisals of fine art and antiques accounts for the 20% acceptable difference.²

There are many considerations that may affect the value of an article.

- Purpose of appraisal
- Likelihood of sale
- Authenticity/authorship
- Condition
- Quality of goods
- Market acceptance
- Current trends
- Media hype

Each of these must be considered as appropriate to the object being appraised.

To begin the valuation process, some basic economic theories should be understood.

NATURE OF PROPERTY AND DATA

Physical Identification and Description

¹Fitting, suitable, appropriate

²Such is true with auction estimates as high and low estimates are provided by the auction houses. Auction estimates, however, are usually in excess of a 20% range.

The information ascertained and reported by the appraiser should reflect the general and specific history of the object. The work should be properly identified and described as to its type, artist, medium, date and all other relevant information. Marks, measurements, and condition should be recorded. The appraiser should ask for documentation supporting provenance, literary and/or exhibition history. Some of this information may be available through research. The appraiser should have the vocabulary necessary to properly describe the work using the appropriate terminology for each discipline. The appraiser should also have the knowledge to judge the quality and significance of the work and the ability to place the work within its historical and artistic context³.

EXAMPLE - Native American feathered headdress

- Measurements
- Type of feathers
- Construction
- Supporting materials
- Age
- Condition
- Historical significance
- Provenance

Intellectual and Historical Identification

The information obtained about an object should reflect any provisions of pertinent laws and decisions regarding the specific type of object. Appraisers should be aware of laws governing the transaction of specific objects. Using the example of the Native American headdress, the appraiser must be aware of laws protecting Native Americans (cultural patrimony⁴) – as well as laws protecting wildlife (i.e., the Migratory Bird Law⁵ which prohibits the sale of specific feathers). However, a donation of the headdress may be possible under certain circumstances. It is important that an appraiser is well-versed in a subject before the principles of valuation are applied.

NATURE OF VALUE

³It is not unusual that the context might be just as a decorative item.

⁴Related article: <http://www.nps.gov/history/nagpra/MANDATES/25USC3001etseq.htm>

⁵Related articles: <http://www.r6.fws.gov/law/le65.html> and

Value in Exchange / Supply and Demand

Value in Exchange is one of the three major components of economic theory. *Value in Exchange* refers to the amount of money one can receive for the sale of property. This is based on supply and demand - its scarcity, rarity, marketing and popularity.

If an item is in current production or can be replaced with a newer and better model, the demand decreases (e.g., cars, computers, sofas at Macy's). When production of an item is terminated, it is no longer available and can be considered rare and desirable. This may result in an increase in demand and, therefore, pricing. If the item is contemporary, however, and there is a significant inventory in stock (e.g., cars, computers, sofas at Macy's), the price is usually lowered to move the merchandise.

Art can go either way. When an artist dies, production is terminated. Had the artist been active until the date of death, there is often a surge in his/her prices. After a few years, the values of his/her artwork may stabilize and more-or-less follows general trends. If the artist had been ill for a number of years and gallery representation was weak or non-existent, it is possible that the market had already dropped and it is doubtful that pricing will increase in the current generation. Should future scholarship revive the artist or tastes change, the artist's values may be resurrected. However, such rediscovery is often several generations later.

Many generations later, other factors in supply and demand may be prevalent. Obviously, works by a painter such as Vermeer (who was not particularly prolific), who has lost numerous works to natural disasters of floods and fires) and man-made ones as in wars, is in extremely high demand. Should any of his works appear on the market, which is unlikely given that most are in public museum collections and will undoubtedly never resurface, the scarcity of his work drives up the value of his remaining works.

Limited edition fine art prints will usually retain their value⁶ due to the limited number of prints released to the market. Be aware, however, that the theory behind some limited edition prints, ceramics, post 1972 Barbie dolls⁷ or post 1985 baseball cards⁸ can be used as a marketing ploy to hype the sale of currently

<http://laws.fws.gov/lawsdigest/baldeg.html>

⁶Note the distinction between a collectible print and a fine art print. Prints issued in limited editions of 1,000s rarely retain their value. Even some fine art prints by contemporary artists may not retain their value if the artist does not remain on the contemporary art scene and loses market recognition.

⁷Vintage Barbie (1959-1972) is highly collectible. Post 1972 Barbies (called "Modern Barbies") are considered "play" Barbies. In 1986, the "Collectible Barbie" era started when vintage Barbies were reproduced in limited editions. This market peaked in the late 1990s but still has an active following.

⁸Early baseball cards have a legitimate market. The T206 Honus Wagner card is considered to be the most famous baseball card in existence. One of these cards was the first baseball card to be sold for over a

manufactured objects (e.g., commemorating an athletic achievement) positioned as “limited edition” sales.

The value of wine is also related to its scarcity. Years which yielded smaller but high quality grape crops and subsequent superb wines will generate higher-than-average appreciation from those with comparable quality but larger crops. However, this can change as the wine matures.

Value in Use / Usefulness

Value in Use is another important economic theory to consider. Although it is most often discussed in reference to income-producing properties, it should be a consideration for all appraisals. *Value in Use considers the property's ability to benefit its owner.* One could consider the owning of prestigious items to be viewed as society status symbols, to some a benefit. For example, status symbols can have multiple benefits. Sizable diamonds are more prestigious as status symbols than smaller stones. Additionally, stones greater than one carat tend to be investment quality. Another example is name brand quality silver (Tiffany, Cartier) versus manufactured silver (Lunt, Towle). The name Tiffany always carries a premium and will always have a greater resale value than Lunt or Towle. Although appearing prestigious, the usefulness of much personal property can be considered as an investment that can be enjoyed during the owner and the objects lifetimes.

Using the wine example, as time passes, its value can be a like a roller coaster journey. Initially, in the speculative stage, the value is a gamble based on various conditions including weather, natural disasters, marketing and media hype. As the wine matures, its value can dip or spike depending on reviewers' (such as Robert Parker or *The Wine Advocate*) opinions. With solid red wines, this can continue for decades. As the period to drink the wine draws near expiration, wine's value begins to decline, again becoming more of a gamble because optimal storage can rarely be proven. At the end of its life, the wine is vinegar and its value is nil. It is no longer a useful product.

A painting that has been considered to be a Goya painting for generations but now proves to be a 19th century copy loses its usefulness as a work of fine art. Serious Goya collectors would not spend significant money to acquire the work. As such, although the same painting, but now with a different attribution, its value

million dollars. Supposedly, the card's scarcity relates to the fact that Wagner, a non-smoker, requested the production of this card be halted since it was used as a marketing vehicle for tobacco products. The fault found in this theory is that Wagner appears on a tobacco piece produced by Recius in the late 1800s. Another theory postulates that Wagner was not offered any compensation for the use of his likeness. Consequently, he supposedly withdrew his permission to print any more copies.

has diminished. Its usefulness as an authentic Goya painting is nonexistent; it is only useful as a decorative object.

Works that lose aspects of function can also lose their usefulness and, hence, their value. A Chippendale chair with a broken leg, although cosmetically repairable, cannot withstand the weight of a person. As such, it is no longer useful as a piece of seat furniture.

Items that are obsolete either by date, style, color, or function may lose their usefulness.⁹ Chamber pots, bedside commodes, spinning wheels, sewing machines, kneehole desks, typewriters, 8 track tapes, early computers and printers all have fallen from favor. Sometimes, however, these objects can have a second life. For example, chamber pots become planters and bedside commodes become end tables. Values of kneehole desks have significantly suffered in the past twenty years because they were too small to hold desktop computers. Now with wireless keyboards and flat screens, there has been a rise in their values. If one waits long enough, some cultural discards eventually become collectors' items and command high prices. Today, a Laser Jet I Printer is a collector's item!

The saleability of an item relates to its usefulness. Its resale potential can be driven by social concerns, geographic or physical limitations or even the decorator market. Most ancestral portraits have little resale value. Unless and this is the key concept here: the portrait was painted by a famous artist or the sitter was of historical importance, the art has only sentimental value¹⁰ -- decorative at best.¹¹ A refectory table is too large for most Manhattan apartments. A better market for such furniture may be in the South or the Midwest. However, the cost to ship out of the New York area may outweigh the difference in a Manhattan selling price.

The sale potential of rugs is also decorator driven. The dark, rich colors and busy patterns that were highly sought after in the 1980s now sit in showrooms for years. The lighter palettes and open fields are now the preferred carpets. Also, the size of a rug may be a decisive factor in valuation. A palatial size rug may be very rare and pricey on the primary market, but few dealers may choose to inventory the rug until the right buyer

⁹Value in use could still be a consideration. A 1990 sofa upholstered in a dated cabbage rose pattern is no longer fashionable, possibly a bit lumpy, but still functions as a sofa. Depending on the purpose of the appraisal, the sofa may still have a value despite the fact that it could be considered obsolete based on age and style.

¹⁰Unfortunately, there is no monetary value in sentiment.

¹¹An exception could be American portraits done by itinerant artists. They have a unique place in the Folk Art market.

with the appropriate space appears.¹²

Some objects are income-producing in themselves. An original Ansel Adams negative can be used to make prints. Although the printing of a contemporary photograph will rarely reach the value of a vintage/lifetime printing, it is salable and will produce an income stream. Another example could be a diary of an historic figure. Its writings may be the basis for a book, a movie, or an Oprah special!

Marginal Utility

Lastly, the economic concept of marginal utility is a consideration. *Marginal Utility is the limit of the consumer's willingness to purchase an item.* When society bands together to trade, a market is formed and commerce develops. Individuals trade for things desired or needed, for things they find most useful (hence, "utility"). When an individual trades or exchanges goods with another, he/she will offer goods that are of less usefulness or utility to them in exchange for those other goods considered by them to be of more use. This is the theory of marginal utility. It is setting the market.

This marketability can widely vary. Principles of Substitution, Conformity, Progression and Regression, Contribution, Competition and Change may play a role in establishing the market's acceptance of an item. These principles are also closely related to the economic theories of Value in Exchange and the Value in Use.

The value of a property in the market is often set by the availability of substitute properties of similar utility and desirability. This is the *Principal of Substitution* which is inherent to the development of the market data approach. This principal affirms that a prudent purchaser will not pay more for one item than it would cost to purchase another of like kind in a specific market for a specific purpose. That is not to say that the substituted item may be the lowest price item of kind. This will depend on the purpose of the appraisal. Hence, the same item may have many different substitution levels (price points):

EXAMPLE - a contemporary 10¹/₄" Limoges plate, *Diplomate* pattern by Haviland.

- Insurance purposes (RRV):

New retail (without tax and shipping):

Michael C. Fina list \$264

Bloomingdale's special order \$290

¹²The purpose of the appraisal will dictate the appropriate market concerns for palatial-sized rugs.

Internet (without tax and shipping):

[.smithschina.com](http://smithschina.com) discounted \$192.72

[.crayonsoup.net](http://crayonsoup.net) discounted \$215.69

[.chefscorner.com](http://chefscorner.com) discounted \$195.36

- IRS purposes (FMV)

Auction (without tax, premium, shipping):

High end auction (Sotheby's/Christie's) not interested

Mid range auction (Doyle, Skinner, Susanin's, Butterfield's) - \$10/20

Country auction - \$5/10

- Liquidation purposes (MVC/LV)

Flea market (without tax and shipping):

Fast sale - \$2/5

The *Conformity* of the item in the market can also dictate a consumer's willingness to buy. This is associated with general market attitudes which can be stable, cyclical or decorator-driven and trendy. The classic example of the principal of conformity is the "Hula-Hoop." In 1958 Wham-o marketed the plastic "Hula-Hoop" for \$1.98 and convinced over twenty million people to purchase their product within six months. Within two years, the craze had passed and "Hula-Hoops" were sold at garage sales for ten cents.

Stable, traditional, middle market items do not have as severe fluctuations because they tend to be more cyclical. Their value may fall slightly one year only to rise several years later. An example of this could be English furniture and accessories. Currently, English furniture is not particularly salable because interior decorators are pushing the Modernist look. When Georgian furniture was hot (the Parish-Hadley look), good¹³ Staffordshire King Charles Spaniel figurines were fetching over \$1,000. Today, due to decorators pushing the cleaner lines of Modern furniture, the Parish-Hadley look is somewhat dated and fewer people want these figurines. They may be sold for \$700-800. In five years, decorators will be onto something new, and the figures may well be back to \$1,000 or more depending on the value of the dollar.

Tied to the Staffordshire example is also the *Principle of Progression and Regression*. *Progression* refers to the increase in interest/value that lower valued items may realize from their association with higher

¹³There were, and still are, many fakes and reproductions on the market.

value items. The Staffordshire figurines followed the general trends of English furniture. Another example is the infamous Warhol cookie jars which sold at Sotheby's in 1988¹⁴. Normally, a cookie jar would not have reached the minimum for a Sotheby's sale. However, since these objects were affiliated with Andy Warhol, they were expected to surpass their typical value of \$50-200.¹⁵ After the sale, cookie-jar collecting increased in popularity and has continued to grow in the years since. Although few examples reach the heights of those that sold at Sotheby's because of the celebrity market factor and their prevalence in the marketplace, the market continues to be strong.

The opposite theory, the *Principle of Regression*, states that higher-valued items may suffer a decrease in value from association with lower valued properties. This is why Sotheby's has an evening sale and afternoon sale. This explains why one would not sell a Rauschenberg painting at a flea market. The sale of the same Rauschenberg print may vary depending on the location and type of auction. A sale of this Rauschenberg print at a smaller auction in a "country-type" house -- which includes general household contents and only a few paintings and antiques -- may not reach the heights of a dedicated print sale at Christies or Sotheby's.

The *Principle of Contribution* often relates to the "good, better, best" qualities of an item. The value of various parts/qualities of the item is directly related to how their specific value contributes to the total value of the item; or, if specific parts/qualities are not present, how much it could reduce the total value. In most cases, a signed painting is more valuable than an unsigned work by an artist who generally signed his/her work. The signature carries a premium which contributes to a higher value for the item. Adversely, the lack of an attribute can detract from the valuation of the whole. For example, an American Federal chest without the original brasses is less valuable than the same chest with the original brasses.

Competition, the backbone of the American economy, is firmly rooted in the theory of Marginal Utility. As market demand generates profit, profits generate competition. To create a market, there always has to be a supply and a demand. The supply can be limited, but there has to be more than one buyer to create a demand. When an object is in demand, the market will try to increase the supply to meet the demand, assuming that the current supply is insufficient.

¹⁴Article with good bibliography on cookie jars:
<http://www.auctionbytes.com/cab/abu/y203/m12/abu0109/s05>

¹⁵After Warhol's death in February 1987, it was discovered that he owned as many as 175 cookie jars when Sotheby's inventoried the estate for sale. Although Sotheby's collectively valued them at about \$7,000, the cookie jars brought a quarter of a million dollars because of the intense public interest.

When goods are limited and the demand is great, fraudulent works often appear on the market. Prior to the 1980s, William Aiken Walker was a fairly unknown American artist with few sales above \$20,000. Sales of his works began to spike when the Americana market exploded in the mid-1980s. Walker paintings, legitimate and fraudulent, began to appear everywhere, eventually driving prices down¹⁶.

Another example is Chagall prints, legitimate and fraudulent. In the early 1980s, the market saw rapidly escalating prices¹⁷— primarily as a result of intense Japanese interest combined with their “deep pockets.” In the 1990s with the downturn of the Japanese economy, demand decreased driving prices down. While sellers still demanded the 1980 prices, buyers were unwilling to pay. At auction, where many Chagall prints were aggressively bought, prices kept declining. Dealers began to lower their asking prices (often below auction estimates) just to move inventory.¹⁸

The *Principle of Change* can incorporate many economic theories and principles. Change recognizes the shifting importance of other principles and explains the cycles of market development, stabilization, decline and renewal. Value is created and modified by economic, social, political and physical changes that occur outside the property. There is always a force behind a change in the economy.

Political changes may force the market’s acceptability of an item. Regulations concerning import and export laws may prohibit trade of certain items. Stolen art (Holocaust art, cultural patrimony) and endangered species (eagle feathers, tortoise shell, ivories and emeralds) have become international concerns. The New York State Print Law¹⁹ was enacted to protect consumers from misrepresentation by artists and galleries. These laws ultimately protect society from previous illicit practices.

Historically, legal mandates have affected the production of certain objects. This resulted in a scarcity of those items on the market and making those which exist today even more rare and costly for the collector.

¹⁶*Fast forward to 2007* - After the fakes were flushed out and collectors became savvier, the market has stabilized and the values are back to the \$15,000-25,000 range they hit in the 1980s.

¹⁷Many were fakes; usually with intense market interest, forgeries begin to appear

¹⁸*Fast forward to 2007* - After the fakes were flushed out and collectors became savvier, the market has begun to stabilize for the best Chagalls. Beware - given the number of forgeries on the market and the salability of Chagall’s prints (often sold in tourist markets), the market is still flooded with Chagall fakes.

¹⁹In 1981, New York enacted a law that extensively regulates the sale of prints and photographs in or from that state. The statute requires the written disclosure of certain information about prints and photographs sold or consigned for sale and the warranty that the information is correct. Severe penalties, including actions for treble damages and attorney fees, are provided for violations of the law.

The English taxation bills curtailed the use of mahogany, forcing craftsmen to use native woods. Today, pieces made of mahogany are rare and highly sought after.

Escheat laws regulate the terms of unclaimed property. These laws ensure that property is not left in limbo and ownerless upon the death of the owner. That said, all property could be forfeited (including bank accounts) to the state treasury if it appears that there are no heirs, descendants or named beneficiaries to take the property upon the death of the last known owner. Appraisers are regularly called to value such property which may ultimately be sold at auction.

Changes in the general state of the economy can play significant roles in valuations. Local, national and international changes in the economy can affect individual items. In 1987 when the American stock market suffered a major downturn, a decline in the art market followed about two years later. American and Contemporary Art markets²⁰ were most significantly affected. Since American art is almost exclusively collected by Americans whereas Contemporary Art has more of an international following, the American market was the first to suffer. The Contemporary market followed within a few sales. It has since been proven, however, that American art can be a good investment because it is not subject to the blips in the international market.

The value of the dollar often dictates where the market is strongest and who the biggest players are. In the past two decades, we have seen solid activity from the Americans, Japanese, Germans, Chinese and Russians. Investment analysts have been professing the importance of including art as part of a diversified portfolio.²¹ NYU professors Jianping Mei and Michael Moses found that art has outperformed the S&P 500 in the past 50 years using data on repeat sales of fine art auctions from *Sotheby's* and *Christie's*. The index includes nearly 6,000 sales. While their index shows that art investing has nearly kept up with stocks, importantly, their index does not include transaction costs or storage costs (which can be quite high for art)²².

²⁰Coincidentally, these are the areas most often collected by American investment bankers and Wall Street brokers.

²¹ One of the most famous examples of art as an investment is the British Rail Pension fund. In the 1970s with Sotheby's assistance, the British Pension Fund committed about \$70 million to fine art. The huge portfolio included works by Canaletto and El Greco and it proved quite profitable with a compound annual return of 11.3% between 1974 and 1999.

²²www.MeiMosesFineArtIndex.org

Art, just as any other investment, is subject to bubbles and bursts. Van Gogh's *Dr. Gachet* was purchased in 1990 at the height of the Japanese stock market by a Japanese businessman for \$82.5 million. At that time, the Japanese were buying "trophy" artworks and paying exorbitant prices. The work has since sold at a significantly lower amount due to changes in the international economy.

Natural and man-made disasters can cause valuations to change. Hurricanes, floods, fires, wars, terrorism and pollution have been the demise of art collections for centuries. The 1966 Uffizi flood destroyed numerous masterpieces resulting in a rise in value of the untouched remaining works by those masters, Botticelli in particular. The earthquakes in India resulted in an influx of temple statuary fragments on the market. Many Tiepolo paintings were destroyed in Austria during WWII resulting in increased scholarship of Tiepolo after the war and ultimately increased values in his remaining works.

Pollution has affected art throughout the world, the Sistine chapel in Rome, Diego Rivera murals in Mexico City. A prevalent example is paintings from homes/offices where a smoker has lived and or worked. The artwork will accumulate a layer of nicotine which yellows the composition and devalues the work.

Social changes can affect the international market as well as the local market. Local markets are often defined by the characteristics and customs of people, communities and countries. The Judaic market is very strong in New York City but is virtually nonexistent in Fargo, North Dakota due to the latter's limited Jewish population. Vintage Barbie dolls are typically collected in a specific "baby boomer's" nostalgia market. The primary market for 1959-1962 dolls is an American woman born 1950 - 1955 (the women were approximately age 9-12 when the dolls were issued); the primary market for 1963 - 67 dolls is American women born 1955 - 1960 (they were approximately age 9-12 when dolls were issued).

A change in the psychographics -- the personality and life style of consumers -- greatly affects the market. For example, since there are significantly fewer smokers today, interest and values on smoking paraphernalia has significantly dropped vs. twenty years ago. Another example is the desirability of silver. Where once silver was a sought after wedding present, today's young brides do not want to be bothered. Lifestyles are less formal and younger generations do not have the inclination or the staff to keep silver polished.

Demographics of collectors have also changed resulting in varying art market developments. For example, there are a growing number of professional African-American collectors who are buying both works by African-American artists and African-American historical documents. As a result the prices of these pieces are

on the rise. On the other hand many African-Americans are avoiding African-American collectibles because they are viewed as "Mammy art" and, therefore, as politically incorrect. Consequently, prices for some of these items are stagnating.

While specific economic and legal concerns are always changing, the theories, concepts and underlying principles guiding appraised valuations have proven to be consistent throughout the years. Therefore, while it may be impossible for an appraiser to predict where a market is headed or what legal decisions may be rendered; he/she should always be grounded in the above market fundamentals to arrive at valid, reliable and DEFENDABLE appraisal values.