

# Piano Appraisal and the Technician

PTG Convention Institute 2023, Washington DC

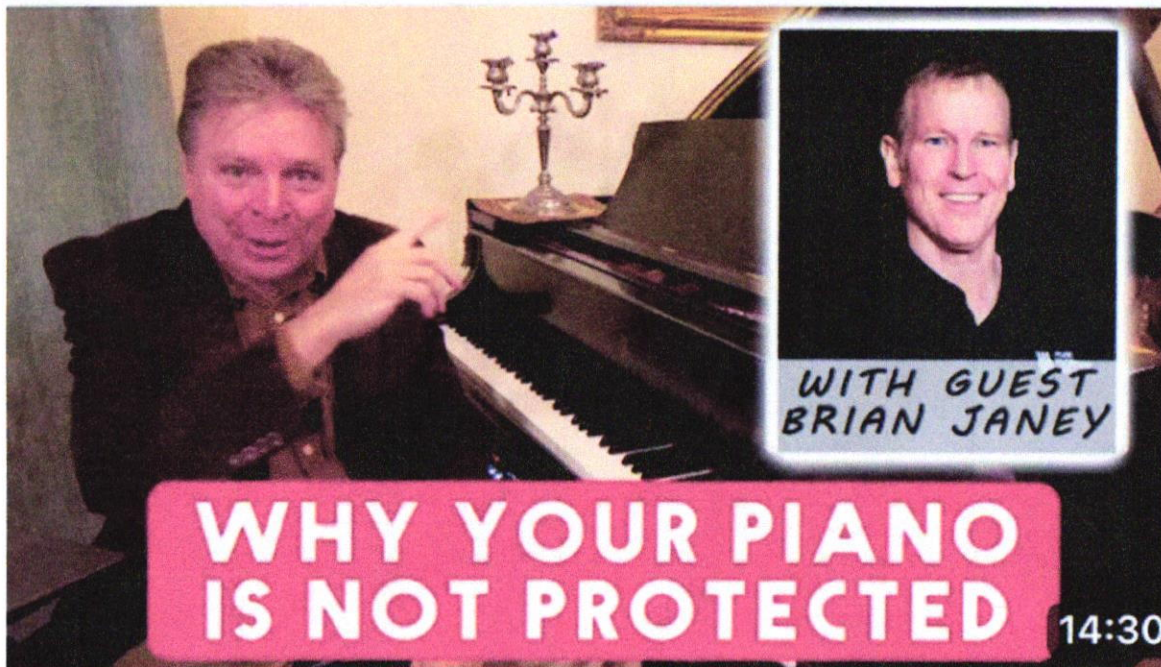
Brian Janey, RPT/Appraiser  
San Diego County Chapter

Enclosed:

- Select Slides from today's presentation
- What a Chat GPT had to say about Piano Appraisal
- Select Pages from USPAP on Valuation
- Examples of pictures to take for an Insurance and Tax Appraisal
- Inspection Sheet (when I am at the piano)
- Select Pages from *Types of Value for Varied Intended Uses, American Society of Appraisers, Monograph #2, pages 2-2 to 2-10*
- *Intended Use and Type of Value Chart, Appraisal Development, American Society of Appraisers, Monograph #5, page 7-10*



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## PIANOS AND INSURANCE

- Allstate: Anything more that \$2500.00 in value has to be scheduled on a home owner's policy
- Merchants Fire Assurance Corporation v. Ann Lattimore, US Court of Appeals, Ninth Circuit, 1959
- Clients need to inform their insurance company they have a piano.
- They may need an appraisal.
- If home contents coverage is limited, have your client contact Clarion Musical Instrument Insurance.



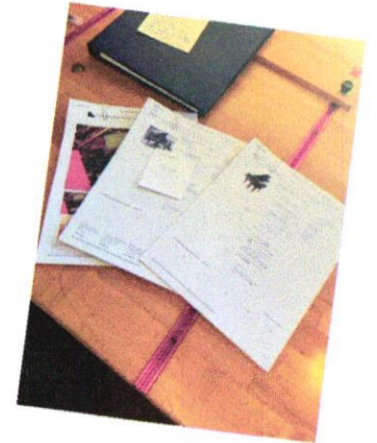
# SO WHAT CAN A PIANO TECH DO?

## VALUATION SERVICES

- The difference between a “Home Inspector” and a “Real Estate Appraiser”
- Be an evaluator for clients looking to buy an instrument – be a resource and encourage them to make a good choice.
- Prepare pianos for clients looking to sell them privately .. “trying to sell a untuned/unserviced piano is like trying to sell a dirty car!” Advise about the best ways to sell their piano based on their situation.
- Avoid “off handed” appraisals. Don’t make statements about possible value without doing some research!
- Watch out if you find yourself lacking objectivity (i.e., you’ve fallen in love with your own work).
- Defer to an USPAP compliant appraiser when you encounter ANY situation where the IRS, accounting professionals, attorneys or insurance agents or adjusters are possibly going to be involved on any level.



# PROVIDING VALUATION SERVICES



- Private or commercial sales.
- Understand the condition of their piano (service it!).
- “If you have a Picasso, you don’t put it out in a garage sale!” You pass it to an auction house or gallery. If it is a nicer piano, point them to a dealer(s) locally or regionally you trust and help them to understand how to work with a dealership (and stay out of it) allowing them to understand it an option.
- If they would like to sell it themselves, research the private party market for comparable pianos. You will come off as much more creditable if you give them hard data as opposed to “intuitive guesses” that may set unrealistic expectations high or low.
- Help them to understand where their piano is positioned among those comparable pianos found in your research based on its condition. Depreciation is an insurance term that is not applicable to marketable personal property including pianos!
- Provide them with copies of your research THEN discuss with them verbally what might be a realistic asking price.



# WATCH OUT SITUATIONS



- Replacement Value Appraisals or Claims of Loss
- Tax Preparation (Charitable Contributions and Trust or Estate Filings)
- Bankruptcy Filings
- Distribution of Property Among Heirs
- Dissolution of Marriage
- Corporate Tax Filings
- Loan Collateral
- If what you are putting on letterhead is going to be seen by “someone at a desk in a suit” you are at the gates of legal “Mordor”



# CONCLUDING GUIDANCE: PROVIDING SERVICE TO AN APPRAISER

- Tune the piano (do what you need so you know how a piano is doing).
- Pictures of the action (side view of the whippens, hammers in sections and back checks), damper tray, belly, bridges, rim, strings, bridges in sections and multiple views of the case.
- Take pictures of anything unusual (good or bad).
- Do a recording of the piano ensuring you attempt all dynamic ranges (ppp – forte).
- Have a check list of things to specifically look at (may be provided or create your own).





To get your piano appraised, you can consider the following options:

**Hire a professional appraiser:** You can hire a professional piano appraiser who has experience in evaluating pianos. They will assess the piano's condition, age, manufacturer, and other relevant factors to determine its value. To find a reputable appraiser, you can ask for recommendations from music stores, piano technicians, or check with professional appraiser organizations such as the American Society of Appraisers.

**Check online resources:** You can also check online resources such as classified ads, auction results, and online marketplaces to get an idea of how much pianos similar to yours are selling for. However, keep in mind that these values may vary depending on the piano's condition, age, and other factors.

**Consult with a music store:** Another option is to consult with a music store that specializes in pianos. They may be able to give you an estimate based on their knowledge and experience in the industry.

Remember that the appraisal value can vary depending on the condition, age, manufacturer, and other factors of your piano. It's important to get an accurate appraisal from a qualified appraiser to ensure that you get a fair value for your instrument.

# DEFINITIONS

Defined terms are intended to clarify the meaning of words or phrases in USPAP that differ from or are not found in popular English dictionaries and, in a few instances, to indicate which popular dictionary definition is meant to be used if there are multiple definitions. 58  
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For the purpose of the *Uniform Standards of Professional Appraisal Practice* (USPAP), the following definitions apply: 61

**APPRAISAL:** (noun) the act or process of developing an opinion of value; an opinion of value. 62  
(adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services. 63

Comment: An appraisal is numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value). 64  
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**APPRAISAL PRACTICE:** valuation services performed by an individual acting as an appraiser, including but not limited to appraisal and appraisal review. 67  
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Comment: *Appraisal practice* is provided only by appraisers, while *valuation services* are provided by a variety of professionals and others.<sup>1</sup> The terms *appraisal* and *appraisal review* are intentionally generic and are not mutually exclusive. For example, an opinion of value may be required as part of an appraisal review assignment. 69  
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**APPRAISAL REVIEW:** (noun) the act or process of developing an opinion about the quality of another appraiser's work (i.e., a report, part of a report, a workfile, or some combination of these), that was performed as part of an appraisal or appraisal review assignment; (adjective) of or pertaining to an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment. 73  
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**APPRAISER:** one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.<sup>2</sup> 77  
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**APPRAISER'S PEERS:** other appraisers who have expertise and competency in a similar type of assignment.<sup>3</sup> 79

**ASSIGNMENT:** a valuation service that is provided by an appraiser as a consequence of an agreement with a client. 80

**ASSIGNMENT CONDITIONS:** Assumptions, extraordinary assumptions, hypothetical conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the scope of work. 81  
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**ASSIGNMENT ELEMENTS:** Specific information needed to identify the appraisal or appraisal review problem: client and any other intended users; intended use of the appraiser's opinions and conclusions; type and definition of value; effective date of the appraiser's opinions and conclusions; subject of the assignment and its relevant characteristics; and assignment conditions. 83  
84  
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**ASSIGNMENT RESULTS:** An appraiser's opinions or conclusions, not limited to value, that were developed when performing an appraisal assignment, an appraisal review assignment, or a valuation service other than an appraisal or appraisal review. 87  
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Comment: Physical characteristics are not assignment results. 90

**BIAS:** a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an assignment. 91

**BUSINESS ENTERPRISE:** an entity pursuing an economic activity. 92

**BUSINESS EQUITY:** the interests, benefits, and rights inherent in the ownership of a business enterprise or a part thereof in any form (including, but not necessarily limited to, capital stock, partnership interests, cooperatives, sole proprietorships, options, and warrants). 93  
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<sup>1</sup> See Advisory Opinion 21, *USPAP Compliance*.

<sup>2</sup> See PREAMBLE and Advisory Opinion 21, *USPAP Compliance*.

<sup>3</sup> See Advisory Opinion 29, *An Acceptable Scope of Work*.



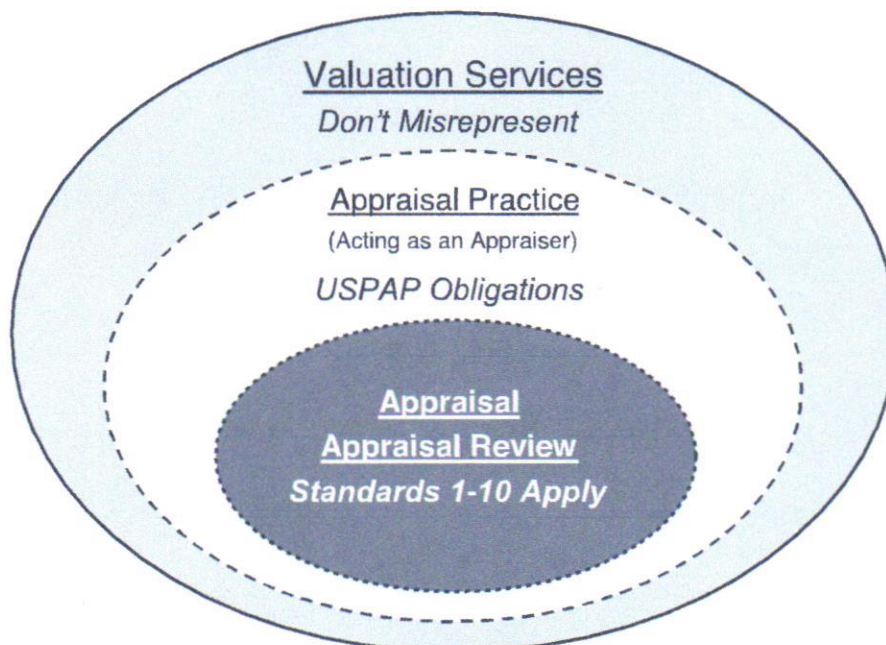


## Relationships and Application

The relationship between valuation services and appraisal practice can be illustrated as follows:

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Valuation Services (large light-shaded oval): When providing valuation services, the obligation for an individual recognized in some circumstances as an appraiser is not to misrepresent his or her role.

Appraisal Practice (dotted-line oval): Within valuation services is appraisal practice (i.e., valuation services provided by an individual acting as an appraiser). All services performed as part of appraisal practice must comply with USPAP. The portions of USPAP that apply generally to appraisal practice include the PREAMBLE, the DEFINITIONS, the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.

Appraisal and Appraisal Review (dark-shaded oval within Appraisal Practice oval): Within appraisal practice, there are requirements that apply to developing and reporting appraisal or appraisal review assignments in addition to those that apply to all appraisal practice. These requirements are described by the Standards, the SCOPE OF WORK RULE, and the RECORD KEEPING RULE.



## ← Valuation Services →

<b>Appraisal Practice</b> Valuation services performed by an individual acting as an appraiser Appraisal and Appraisal Review (Development and Reporting)		Valuation services when <b>not</b> acting as an appraiser
All Rules apply.  Standards apply. Which ones apply varies by assignment.	Other valuation services when acting as an appraiser  Three Rules apply: ETHICS RULE COMPETENCY RULE JURISDICTIONAL EXCEPTION RULE  No Standards apply in these assignments.  Compliance with the RECORD KEEPING RULE and SCOPE OF WORK RULE is not required in these assignments.	
		When performing these services, do not misrepresent your role: i.e., clearly communicate that you are <b>not</b> acting as an appraiser.

### Examples

Appraisal and Appraisal Review (Development and Reporting)	Other valuation services when acting as an appraiser	Valuation services when not acting as an appraiser
Appraisal with Appraisal Report	Researching market data (when acting as appraiser)	Brokerage
Appraisal with Restricted Appraisal Report	Teaching appraisal courses	Consulting (when acting as an advocate)
Appraisal with oral appraisal report	Analyzing specific elements of value (e.g., reproduction cost of functional utility)	Ad valorem tax consulting (when acting as an advocate)
Expert witness testimony		Auctioning
Appraisal Review with report	Consulting (when acting as an appraiser)	Litigation support (when acting as an advocate)
Selecting comparable sales data	Mechanical computation	Property management
*Calculation engagement	Developing educational texts	Mortgage underwriting
*Limited scope appraisal	Ad valorem tax consulting (when acting as an appraiser)	Leasing (agent)
*Evaluation		
Purchase price allocation	Providing raw sales data	
Valuation engagement	Litigation support (when acting as an appraiser)	

\* **Note:** These terms are commonly used by appraisers to describe appraisals with a narrow scope of work. Regardless of the label used in the assignment, these opinions of value are appraisals as defined in USPAP. An appraiser may perform these assignments under USPAP by complying with the Rules and applicable Standards.

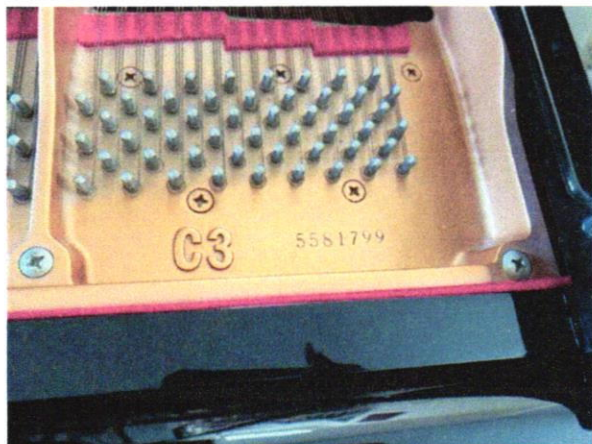
### 121 SUMMARY:

- 122 • An individual must comply with USPAP when required by law, regulation, or agreement.
- 123 • An individual should comply with USPAP when choosing to represent oneself as an appraiser.
- 124 • Appraisal practice is a subset of valuation services. Since USPAP obligations apply to those who act as appraisers, USPAP applies to appraisal practice.
- 125 • The definition of appraiser and need for public trust establish the factor of “expectation” as the basis for the obligation to comply with USPAP.
- 126 • An individual’s public identification as an appraiser establishes a justifiable expectation that valuation services
- 127 will be performed in compliance with USPAP. Because of the need to preserve public trust and confidence
- 128
- 129

Check List for a Virtual Appraisal (Grand Piano)

Pictures of the following:

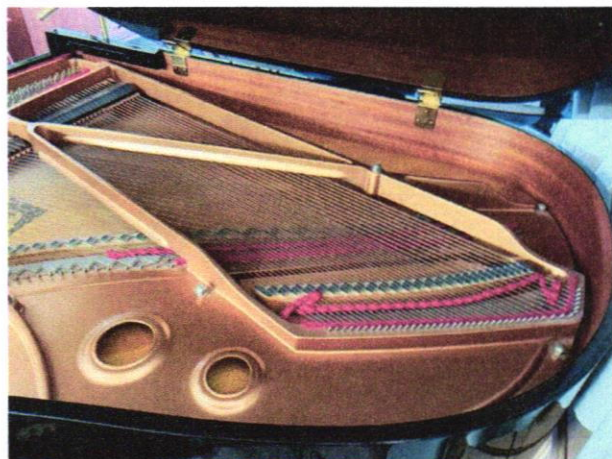
Serial Number and Model Number.



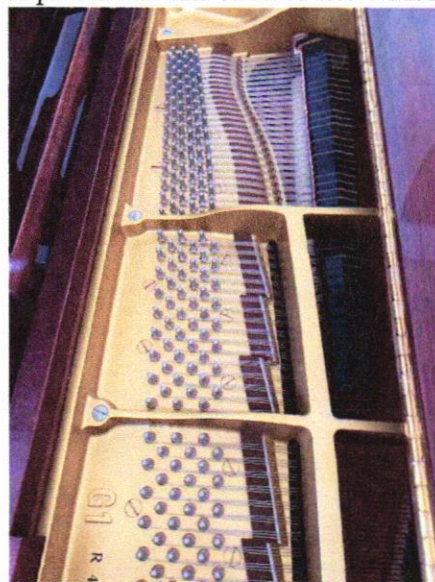
With the music desk removed and the lid raised, take a picture of the piano's interior.



Take a picture of the interior from the side.



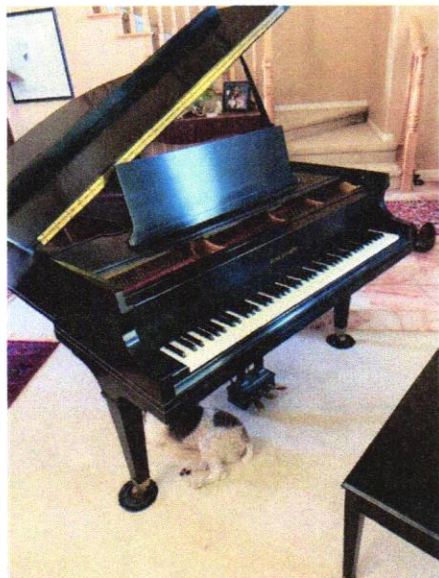
A picture of the area of the tuning pins.



A picture of the hammers through the strings.



A picture of the music desk and front of the piano.



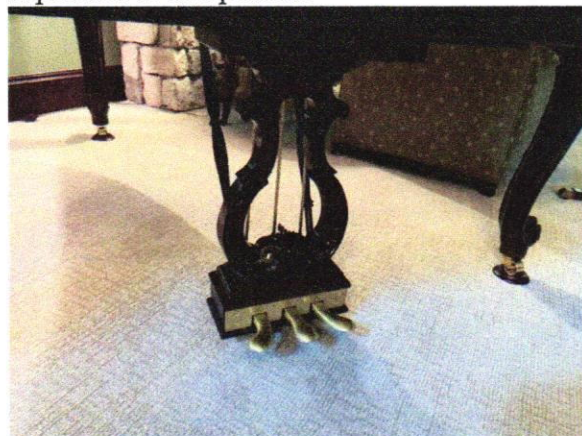
A photo of all the legs.



A photo of the player piano system (if installed – the controller box on the front and the system under the piano).



A picture of the pedals.



A picture of the bench.



A photo of the piano closed up.



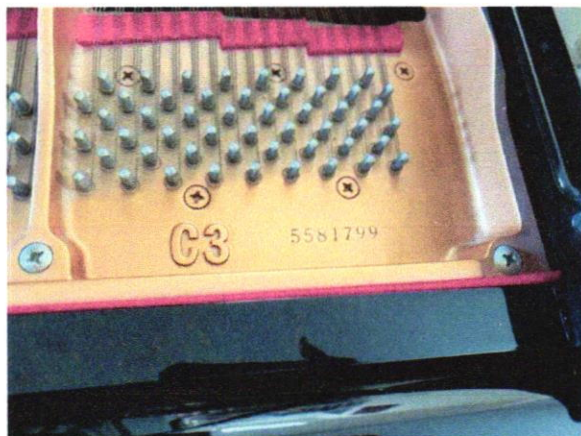
A photo of any signatures or other unusual markings or features.



**Check List for Appraisal Evaluation**

**Photos** (Grand Piano) To be performed with an up-to-date camera or a phone. Please do not text photos, email only.

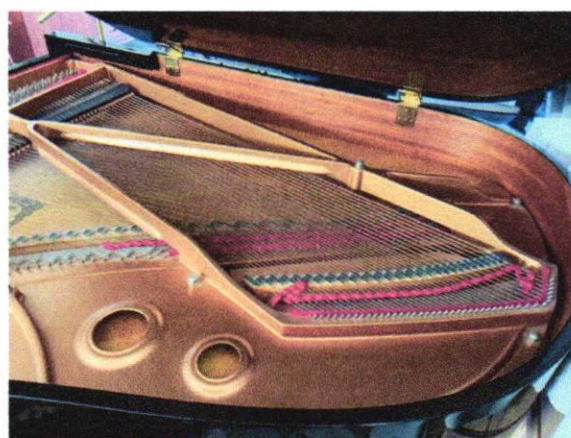
Serial Number and Model Number:



With the music desk removed and the lid raised, take a picture of the piano's interior:



Take a picture of the interior from the side.



A picture of the area of the tuning pin area.



A picture of the action from both ends and overhead shots of the hammers in sections to display wear.



A photo of the piano closed up.



A picture of the music desk and front of the piano.



A photo of all legs:



A photo of the player piano system (if installed - the controller box on the front and the system under the piano).



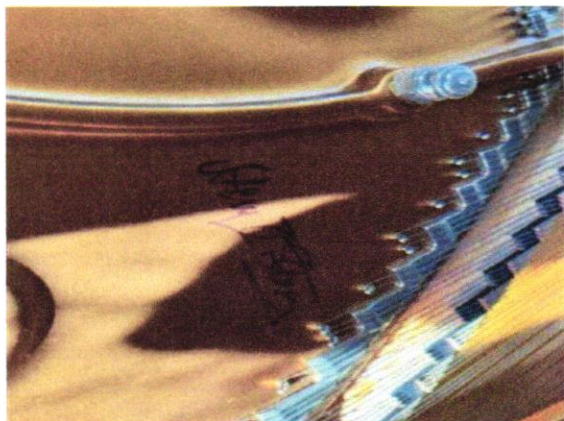
A picture of the pedals:



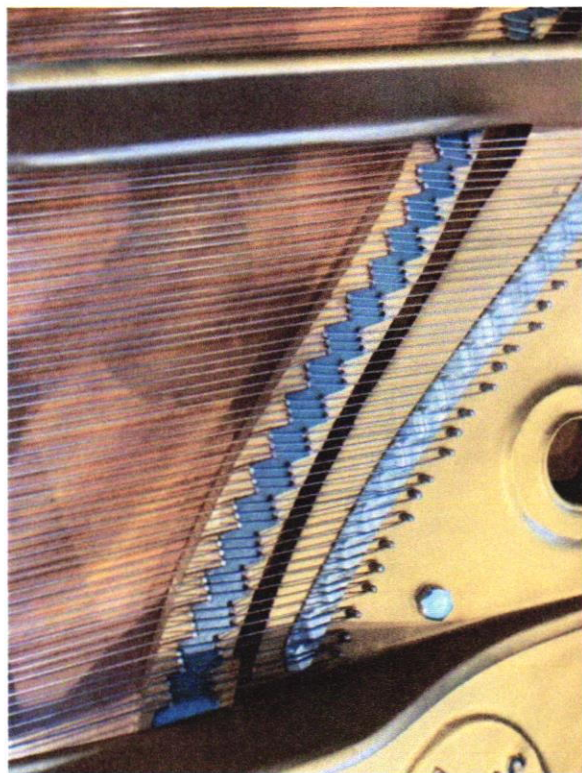
A picture of the bench.



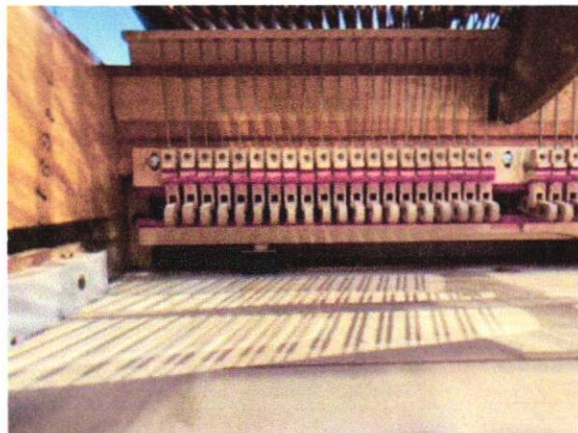
A photo of any signatures or other unusual markings or features.



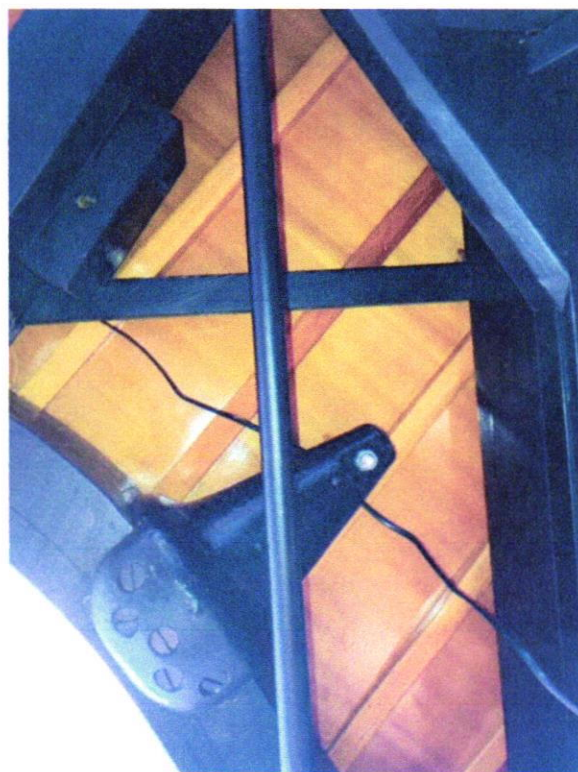
Pictures of all portions of the bridges to display condition.



A picture of the back action in its entirety.



A picture of the underbelly noting anything that looks unusual in regards to the condition of the soundboard.



A picture of the entire keyboard to understand the condition of the keys.



Pictures of any unusual wear or other signs of deterioration on the case, plate, underbelly, action, strings or ***anywhere else.***



Additional tasks:

- Tune the piano to understand the condition of the entire pinblock, strings, and sustain.
- Determine the health of the action and how close it is to appropriate regulation specs.
- Make a brief video recording of you playing the piano up and down the scale and some minor tune using the pedals to determine their proper function.

During the inspection write down the following:

- Name of person present at the time of inspection and their title, if applicable.
- Date and time of inspection.





## *MONOGRAPH 2: TYPES OF VALUE FOR VARIED INTENDED USES*

An appraiser who accepts an appraisal assignment needs to identify the intended use of the appraisal through consultation with the client. Possible intended uses or reasons for the appraisal assignment include insurance coverage, calculation of estate tax, equitable property distribution, and purchase or sale of property. Based on the intended use of the appraisal, together with the client, the appraiser determines which type of value is to be sought. The definition of the type of value provides a specific description of the circumstances and conditions for the value conclusion or opinion.

The intended use and the type and definition of value are important considerations for the appraiser when deciding on the scope of work required to complete the assignment and conclude credible results or opinions. The personal property appraiser must therefore know the various types of value and be aware of how they are employed in appraisal practice. Some of the terms below are from federal government regulations. Others are terms that have been endorsed and adopted by the Personal Property Committee of the American Society of Appraisers. It is the responsibility of the appraiser to be aware of and utilize the correct definition of all types of value in their assignments. This monograph provides many of the types of value that the personal property appraiser will find useful in daily practice.

### **Fair Market Value**

One of the most utilized types of value in personal property appraisal practice is Fair Market Value (FMV). It is prescribed by the Internal Revenue Service (IRS) for specified intended uses for tax-related issues. The term is also used throughout the federal government as well as by many state and local governments. Appraisal assignments that seek Fair Market Value include valuation for non-cash charitable contribution, calculation of estate tax and calculation of gift tax. The appraiser preparing an appraisal for Fair Market Value for an intended use that involves a state or local government should always check the definition for Fair Market Value in that state.

Fair Market value is a concept developed through courtroom decisions and federal government regulations. The properties that are being taxed are not being sold but are taxed on their value as if a sale had occurred on a specific date.

The IRS definition is generally recognized and accepted by the judicial system, although there may be insular variations requiring other forms of value such as market value, net market value or another defined value. Assignments that can require the use of Fair Market Value can include the division of property for divorce or dissolution of a business entity, bankruptcy, calculation of property losses for tax reasons, and insurance (per some state laws when property is not "scheduled.") Note that other intended uses of Fair Market Value are included on the Intended Use and Type of Value Chart at the end of this monograph.

***Fair Market Value is generally 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 sell, and both having reasonable knowledge of relevant facts.***

The components of the Fair Market valuation concept:

- price at which property would change hands
- a willing buyer and willing seller
- neither party under compulsion to buy or sell
- both parties having reasonable knowledge of all relevant facts as of the valuation date
- sale made to the ultimate consumer in the relevant market

The Internal Revenue Service uses expanded definitions for several intended uses. Below are the expanded definitions for use in the preparation of appraisal reports for the intended uses of calculation of non-cash charitable contributions, gift taxes and estate taxes:

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*[Fair Market Value Definitions for IRS-Related Appraisals Per the Code of Federal Regulations (CFR)]*

*Fair Market Value for Charitable Contributions*

*The Fair Market Value is 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.*

- *If the contribution is made in a property that of a type which the taxpayer sells in the course of his business, the fair market value is the price which the taxpayer would have received if he had sold the contributed property in the usual market in which he commonly sells, at the time and place of the contribution and, in the case of a contribution of goods in quantity, in the quantity contributed.*
- *The usual market of a manufacturer or other producer consists of the wholesalers or other distributors to or through whom he customarily sells, but if he sell only at retail the usual market consists of his retail customers. If the donor makes a charitable contribution of property, such as stock in trade, at a time when he could not reasonably have been expected to realize its usual*

MONOGRAPH 2: TYPES OF VALUE FOR VARIED INTENDED USES

*selling price but is the amount for which the quantity of property contributed would have been sold by the donor at the time of its contribution. 26 CFR §1.170A - 1 (c) (2)*

Fair Market Value for Gift Taxes

*The Fair Market Value is the price at which property would change hands between a willing buyer and a willing seller, when neither is forced to buy or sell, and when both have reasonable knowledge of all relevant facts. Fair Market Value may not be determined by a forced sale price, nor by the sale price of the item in a market other than that in which the item is most commonly sold to the public. The location of the item must be taken into account wherever appropriate. 26 CFR §25.2512-1*

Fair Market Value for calculating Estate Taxes

*The Fair Market Value is 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. The fair market value of a particular item of property includible in the decedent's gross estate 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 includible in the decedent's gross estate, 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. For example, the fair market value of an automobile (an article generally obtained by the public in the retail market) includible in the decedent's gross estate is the price for which a automobile of the same or approximately the same description, make, model, age, condition, etc., could be purchased by a member of the general public and not the price for which the particular automobile of the decedent would be purchased by a dealer in used automobiles. 26 CFR §20.2031-1(b)*

### **Market Value**

Assignments where market value is sought often involve the purchase or sale of a property. The appraiser that accepts such assignments must be aware of the many markets where the property is regularly traded; conclusions and opinions in the appraisal are based on the evidence found in the relevant market. (For more on markets and selecting the relevant market, see Monograph 4.)

Like many definitions in the appraisal profession, the definition used for market value comes from the real estate discipline. This definition is found in Title 12 (Banks and Banking) of the Code of Federal Regulations.

*Market Value: the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

- 1. Buyer and seller are typically motivated;*
- 2. Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- 3. A reasonable time is allowed for exposure in the open market;*
- 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

*CFR Title 12, Chapter 5, §564.2(g)*

## MONOGRAPH 2: TYPES OF VALUE FOR VARIED INTENDED USES

Market Value is similar to Fair Market Value except that Market Value is used when a sale is anticipated within a specific time frame. The Fair Market Value definition states that the value is what the property would sell for and assumes that the property is not going to sell—contrary to the instance of the intended use of Market Value.

Note that USPAP uses the term “market value”, not as a specific type of value, but as any type of value that presumes a sale. The appraiser seeking a definition for market value should not use the one in the USPAP glossary in the preparation and communication of their appraisal. Instead, USPAP states that appraisers should identify the specific type of value that is sought in the appraisal and provide its definition and source.

### Appraisal Insights

*Appraiser Ted Riley is hired to prepare an appraisal of the property in an estate. The executor of the will has told Ted that the appraisal will be used for both preparations of taxes for both the state and federal governments. In addition the executor wants to use the appraisal to distribute the property among heirs.*

*Ted is aware that he needs to state the intended uses in the appraisal report and notes this conversation and the client's wishes in his workfile. He also notes that the use of Fair Market Value is appropriate for the different intended uses. He notes the effective date of the appraisal is the date of the death. He checks on the definition of Fair Market Value in the State and finds it is the same as the federal definition. Ted is able to complete the appraisal in several months, well within the nine months allowed for the executor to file the appropriate estate paperwork with the IRS.*

### Marketable Cash Value

Marketable Cash Value is most commonly used where the sale of the property is contemplated or desired. The appraiser is hired by a client who is interested in knowing what will be in his or her pocket after the property is sold. The appraiser therefore must know what the costs of the sale will be. Clearly, costs vary depending on the market in which the property will be sold.

If the property is sold at auction, the costs that will be subtracted from the hammer price include the seller's premium (often negotiated, established by contract), catalog and photography costs, transportation to the auction house and insurance. If the property is sold in a private treaty sale, the costs might include advertising and commissions to the agent or seller.

*Marketable Cash Value: the anticipated net proceeds or cash in hand that would be yielded from the sale of a property once all costs of sale were subtracted. It is the net received by the seller.*

#### Appraisal Insights

*Karen Murphy is hired by an attorney (who is the executor of a will) to prepare an appraisal for the sale of property owned by the decedent. The estate is small, there is little personal property and there are no heirs. The will calls for the property to be sold and the proceeds donated to a charity.*

*Karen inspects the property and concludes which markets are most appropriate to sell the household contents. In her appraisal report, she concludes the market value for the property based on the sales of comparable properties that she locates in the relevant market.*

*Karen then receives a call from another client who wants to "downsize." The client is planning to sell antique furniture and rugs and wants to know how much they will have in pocket after they sell these items. They ask Karen to help them decide where the property can be sold.*

*In this assignment, Karen also investigates the various markets where the property can be sold. She considers the costs that the property owners will have to pay to sell the property (fees to the auction house, a percentage to an estate sale dealer including advertising costs). Her conclusions of value are the Marketable Cash Value for the property (the cash in hand after all the expenses are paid).*

#### Liquidation Values

In economic and financial arenas, the term liquidation refers to the conversion of assets into cash. Generally in the appraisal field, the term specifically applies to the sale of assets of a bankrupt individual or company to pay debts and other liabilities. Forced liquidation assumes that the sale takes place more quickly and sellers do not have the time to connect with knowledgeable and willing buyers. There are two types of liquidation values:

- Orderly liquidation value
- Forced liquidation value

***Orderly Liquidation Value: the most probable price in terms of cash or precisely revealed terms, for which a property changes hands under required and/or limiting conditions in an orderly manner, generally advertised with reasonable time constraints in an appropriate and relevant marketplace, with knowledgeable buyers.***

While both value assets that are being turned into cash, an orderly liquidation assumes that there will be time for the seller to find buyers through advertising.

***Forced Liquidation Value: the most probable price in terms of cash or precisely revealed terms for which a property will change hands if sold immediately without regard to relevant marketplace.***

There is no time to advertise to locate knowledgeable and willing buyers.

#### **Appraisal Insights**

***Robert Green receives a telephone call from a client explaining that his firm has declared bankruptcy and the inventory in his warehouse must be sold. Robert prepares an appraisal for liquidating the firm's assets over the next six months. Because the client pre-paid the rent on the warehouse for the year, Robert knows there will be a sufficient amount of time to advertise the contents of the warehouse, find buyers for the inventory and sell the inventory in a large well-publicized auction. Robert will conclude Orderly Liquidation Value for this assignment.***

When a bankruptcy occurs, when a business is being liquidated, or for an insurance claim, properties included in an appraisal assignment may be valued for their salvage or scrap value.

***Salvage Value: the value of recoverable parts that can be re-used in their current form.***

***Scrap Value: the value of recoverable materials whose form must be altered to be of use. The component no longer has any further benefits of ownership other than the value of its actual materials.***



### **Appraisal Insights**

*Jewelry appraiser Mary Dole has an assignment to appraise the contents of a box filled with jewelry that a client found when cleaning out his home. Besides old watches, costume jewelry and beaded necklaces, the box held many damaged pieces of gold and silver.*

*To conclude the value of the damaged property, Mary sought scrap value as the type of value for the gold and silver as the value of the materials is higher than that of damaged items which were not repairable and had little value as jewelry. The beads however, were valued using scrap value as the antique and painted beads can be used as parts for jewelry makers.*

### **Replacement Value**

Replacement Value is usually sought in appraisals completed for reasons associated with insurance. The appraiser may conclude the replacement value of a property so that the owner can “schedule” or list it on their insurance policy. The property is singled out for coverage or may not be covered under the owner’s regular policy. The assignment may also be for a damage and loss claim when the property owner has the type of insurance coverage that results in payment of the full amount to replace that property.

*Replacement Value: the price in terms of cash or other precisely revealed terms that would be required to replace a property with another.*

The appraiser must use the appropriate type of Replacement Value, depending on the nature of the property and circumstances of the appraisal assignment. There are three options for concluding value for replacement and each has its own definition:

- Replacement Value-Comparable
- Replacement Value-New
- Replacement value-Reproduction

### **Replacement Value-Comparable**

Replacement Value-comparable refers to the price in terms of cash or other precisely revealed terms that would be required to replace a property with another of similar age, quality, origin, appearance and condition within a reasonable length of time in an appropriate and relevant market.

### **Replacement Value-New**

Replacement Value-new is the cost to replace a property with an equivalent, or substitute which is new, using modern materials, techniques and standards that satisfy the description or use of the replaced property. It is the present cost of replacing the property with one having the same quality and utility, but in new condition.

### **Replacement Value-Reproduction**

Replacement Value-reproduction is the total cost to reproduce an exact replica of property at current costs, by the same artist, craftsperson or another of equal skill, using the same materials and techniques.

#### **Appraisal Insights**

*Appraiser Robert Green has an appraisal assignment to conclude replacement values for a client who had a fire in the study of his home which destroyed personal property. Included in the loss is a collection of first edition Agatha Christie mysteries and pastel drawings of his family members by a local artist. In addition, one wooden chair from a suite of four that had been made for his grandfather was damaged.*

*Robert concludes the Replacement Value-Comparable for the books, the Replacement Value-New for the family portraits and the Replacement Value-Reproduction for the chair.*

### **Fair Value**

Fair Value is the method of valuing property for corporate financial reporting and accounting purposes for such intended uses as:

- annual reports of corporations
- mergers & acquisitions
- purchases of businesses
- sales of businesses
- profit and loss statements (balance sheets)

The Financial Accounting Standards Board (FASB) and the International Valuation Standards Council (IVSC) have defined the term with slight variations. It is unusual for a personal property appraiser to work on a Fair Value appraisal on their own. The Personal Property appraiser normally works with appraisers from other disciplines for such a report. Real property appraisers, machinery and equipment appraisers and personal property appraisers usually coordinate their efforts with a business valuer to prepare an appraisal for Fair Value.

*MONOGRAPH 5: APPRAISAL DEVELOPMENT*

client regarding pertinent contracts (such as an insurance policy or a separation agreement) or from an attorney to identify the applicable type and definition of value.

Some common guidelines are indicated in the *Intended Use and Type of Value Chart* below.

**Intended Use and Type of Value Chart**

<b>Intended Use</b>	<b>Type of Value</b>	<b>Determined by</b>
Insurance coverage	Replacement Value	Insurance policy/contract
Insurance claim settlement	Replacement Value or Fair Market Value or Salvage Value or Scrap Value	Insurance policy/contract and/or jurisdiction
Loss claim – (claimant uninsured or insurance company not involved)	Variable	Jurisdiction or by contract
Casualty loss	Fair Market Value	U.S. Tax Code
Charitable contribution	Fair Market Value	U.S. Tax Code
Gift tax	Fair Market Value	U.S. Tax Code
Estate tax	Fair Market Value	U.S. Tax Code
Cost basis	Fair Market Value	U.S. Tax Code
Probate	Usually Fair Market Value	Jurisdiction
Estate planning and equitable distribution for estates	Usually Fair Market Value	Varies with intended use
Pre-nuptial agreement	Variable	Varies by agreement
Dissolution of marriage or dissolution of business	Variable, frequently Fair Market Value	Jurisdiction and/or agreement
Consultation for acquisition or disposition	Market Value, Fair Market Value, Marketable Cash Value or Replacement Value	Intended use, property involved, market conditions, market level
Loan collateral	Usually Liquidation Value	Lender's own policy
Bankruptcy	Fair Market Value Forced Liquidation Value Orderly Liquidation Value Salvage Value Scrap Value	Jurisdictional requirements, prior contractual agreement, time constraints, property involved, location
Financial reporting and profits and loss statements for businesses; mergers, sales, purchases, acquisitions of businesses	Fair Value	Financial Accounting Standards Board (FASB); International Valuation Standards Council (IVSC)

**Appropriate market level and jurisdictional requirements must always be considered.**