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ART APPRAISALS

FOR WHAT IT'S WORTH

You loved it, you bought it and now it's proudly hanging on your wall. But do you really know what you have and what its value is?

By Margery Gordon

Savvy collectors have long had experts assess the value of their art holdings. But lately, as prices soar and more buyers enter the market, appraisals are becoming an increasingly common and complex part of owning art. "Clients are definitely more interested in knowing what their collections are worth now," says Paul Provost, director of the trusts, estates and appraisal department at Christie's New York. "With the market shifting so much, the value of people's art holdings can change. The wisdom is, know what you have and know what it's worth, so there are no surprises."

The heightened demand for appraisers' services comes in part from the growing ranks of first-generation art owners, says Jocelyn Thiery, director of the Munich office of the fine art consultancy and valuation agency Gurr Johns. "A larger number of people are collecting for themselves, and it's natural for them to want to know what they hold," she says.

What's more, the art market has assumed a higher public profile in recent years, with a decided emphasis on the staggering amounts of money involved.

Awareness of the appraisal profession is on the upswing, too, as popular television shows like *Antiques Roadshow* and *Treasures in Your Attic* on PBS bring the experts home. But these programs, while entertaining, can make the process of evaluating artworks seem overly simple. "People think we come up with answers off the top of our heads, but you have to do your research," says Gayle Skluzacek, an appraiser with Abigail Hartmann Associates in New York. She notes that the verbal estimates given to guests on *Antiques Roadshow* are not as thorough as written appraisals for paying clients, nor do they guarantee that the featured possessions will fetch similar prices at auction.

"It looks so easy on TV," confirms Helaine Fendelman, a board member of the Appraisers Association of America (AAA) and co-host of *Treasures in Your Attic.* Although she emphasizes the amount of research that goes into the appraisals on the show, Fendelman admits, "As appraisers, we almost haven't done our job well enough. We have to educate the public as to what we do."

Collectors may want to have their art holdings appraised for myriad reasons: to insure them, to donate them, to use them as collateral to secure loans, to sell them off or to manage their investment portfolios. Once owners decide to have their art professionally assessed, they can find independent appraisal firms with a variety of specialties through agencies like the AAA, the American Society of Appraisers (ASA) or the International Society of Appraisers (ISA). These associations have their own codes of ethics and certification requirements. In the U.S., they accredit most professional appraisers individually, and have tied their accreditation to the Uniform Standards of Professional Appraisal Practice (USPAP), which the congressionally authorized Appraisal Standards Board updates each year. Appraisals that are submitted to the Internal Revenue Service or wind up in court are held to those standards.

Collectors can also commission appraisals from the Art Dealers Association of America. The ADAA typically consults three of its members and then averages their valuations to arrive at a single figure. One advantage of hiring dealers to perform appraisals is their depth of knowledge. But they can also be vulnerable to charges of bias because of their vested interest in the market. And many dealers who do appraisals are not accredited. Nevertheless, says ADAA director Gil Edelson, "they have competence, and I would take that over certification every time."

Major auction houses such as Sotheby's and Christie's afford their clients access to their own experts and comprehensive records, including private-treaty sales that are not publicly disclosed. Auction houses may or may not charge a fee for this service. "We often look at appraisals as tools we use to get closer to our clients," says Provost. "In the end, we're interested in offering works for sale." As with dealers, however, the expertise of auction house appraisers must be weighed against their commercial interests.

The most common approach to appraising artworks is to consider the market performance of pieces that are comparable in such ways as authorship, medium, dimensions and subject matter. Of course this isn't a perfect formula, and two appraisers evaluating the same object are likely to consider some different data or may weigh the same information, referred to as "comparables," differently. "There is no set value for any work of art. The same piece will have one price when you're buying it and another if you're selling it," explains Vivian Ebersman, an art historian who heads AXA Art Insurance's department of fine arts. The department reviews appraisals that policyholders have commissioned from outside experts, as AXA recommends.

Appraisals are usually based on hypothetical scenarios because they are most frequently performed in advance of any transaction. The effective date of an appraisal should be explicitly indicated on the document to distinguish it from the date the appraisal was completed. The two rarely coincide, says Erica Hartman, a South Florida appraiser of contemporary art. For example, an appraisal of an estate for tax purposes would give the effective date as the day of an individual's death. A donation would be assessed as of the date the items were given to a charitable entity, while an insurance appraisal may be pegged to the date property was lost or damaged.

When commissioning an appraisal, collectors need to be clear about its intended purpose, and the report should specify that its use be limited to that context. The reason for the assessment will determine not only the prices arrived at but also the method used to validate those figures. An appraisal for an insurance policy would put a higher value on artworks than one prepared for a tax assessment, a divorce settlement or a liquidation.

There isn't a single formula for evaluating a work of art, explains Vivian Ebersman, above, of AXA Art Insurance. Appraiser Gayle Skluzacek says the key to a valid assessment is research

When a claim is made for lost or damaged works, insurance companies base compensation on "replacement value," or the amount needed to purchase similar property. Of course, unlike other types of personal property, artworks are unique and cannot be duplicated, so an "agreed value" for monetary compensation may be stipulated in the policy. Even if the original item was acquired at auction, a similar piece may not come up for a long time, if ever, so the prices that galleries charge for such works would form the basis for an appraisal at retail cost—the highest possible value for most objects.

The IRS holds taxpayers to a different standard, defining "fair market value" 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 the relevant facts." In practice, this means the price paid by the purchaser is used, although it is not necessarily the initial price of the item (the dealer may have discounted it) or the amount the seller actually received (he may have had to pay an auction house commission).

"The person selling the object would never get the fair market value. It's an unrealistic, artificial term," says Victor Wiener, a former executive director of the AAA, who teaches a course in appraisal methodology at New York University. "It's a gross amount and includes transaction costs, so they're going to get much less."

What they get comes closer to a "marketable cash value," the sum that remains after the deduction of sale-related expenses. These can range from transportation and documentation costs to the seller's commission and buyer's premium. This figure represents the net proceeds the property would generate if sold and is typically used in divorce settlements involving the division of joint assets. As art collections increase in value, negotiations for such "equitable distribution" settlements are becoming more contentious. "Things that were once considered filler in a household are viewed now as marketable assets," Wiener observes. In the past, divorcing parties might have apportioned their artworks based on personal preferences, but today they're more likely to size up the income certain pieces could generate if sold, he says. "The stakes are higher."

Others up the ante by borrowing money against their holdings, particularly at times when the art market is stronger than the stock market. To compensate for fluctuations in art prices, loan documents often require such collateral to be reappraised periodically at fair market value, says New York art and estate lawyer Ralph Lerner, general counsel for the AAA. If the collateral must be converted into cash, "lending institutions have to act in a reasonable commercial manner," Lerner says. "They don't want property dumped on the market—they want the debt paid off."

But an orderly sale is not always feasible. When assets must be liquidated quickly to settle debts, as in bankruptcy proceedings, individuals or corporations have to accept whatever they can get for valuables that might otherwise fetch a much higher price. Appraisers should account for these unfavorable terms in assessing the "liquidation value" of a piece, which tends to be significantly lower than the figures used in other kinds of appraisals.

Extenuating circumstances are taken into consideration when assessing a large number of works by a single artist in a dealer's inventory, a specialized collection or the artist's estate. Wiener says the appraisal must value the entire holdings as of the same date whether or not all the works are intended for sale. These situations might call for a "blockage discount," a concept adapted from the financial markets to induce buyers when a large amount of stocks or other securities floods the market. In these cases,

New buyers want to know what they have, says Gurr Johns' Jocelyn Thiery

BECAUSE ART PRICES CAN FLUCTUATE, COLLECTORS NEED TO REMEMBER THAT IT'S THE MARKETPLACE THAT CREATES VALUE, NOT THE APPRAISER

Wiener advises appraisers to divide the works by characteristics like medium or period that have affected sales for the artist, and with an economist's assistance, calculate a discount for each category.

Even appraisals sometimes get appraised. When the IRS audits tax filings that include artworks or cultural property with a claimed value of $20,000 or more, it refers them to the commissioner's Art Advisory Panel for review. The panel, which includes dealers, curators and related professionals, recommends adjustments of valuations that the IRS enforces.

While the percentage of adjustments has remained fairly constant in recent years, the number of objects reviewed has risen sharply and dollar amounts have increased with the market. In 2004 the panel recommended $89.5 million in adjustments on 1,186 items with an aggregate taxpayer valuation of $314.3 million. By contrast, the 2001 panel recommended $73.1 million in adjustments for just 687 items, valued by taxpayers at almost $115 million.

In deciding whether to recommend adjustments, the panel closely scrutinizes the evidence used to substantiate appraisals. "A value is only as good as the facts upon which it was based," says Karen Carolan, chief of art appraisal services for the IRS and chairman of the advisory panel. "You want to make sure the comparables you're citing are really relevant," she adds. "Picasso has a wide range of values, so you would not use an early work to support a late one."

The appraiser should anticipate any questions that might arise about the comparables used and marshal explanations to justify their relevance. "An appraisal tells a story," explains Frances Zeman, director of Appraisal Resource Associates in New York. "It takes the reader step-by-step through the valuation process."

Along the way, appraisers may need to frame certain transactions in the context of historical events, economic cycles, seasonal factors and art market trends that might have inflated or deflated values, says Harmer Johnson, a New York–based appraiser of tribal art and antiquities. Appraisers maintain that their methods of interpreting data cannot be easily substituted with Web sites like Artnet.com, Artfact.com or Artprice.com, which provide auction price histories. "A consumer might use that information, but it's not the whole picture," cautions Skluzacek. Appraisers supplement online research with reference materials not as readily available, such as catalogues raisonnés and art price indexes, in addition to private inquiries to dealers and scholars.

But gaining access to personal archives may require a little pull by appraisers on good terms with the experts, who sometimes charge a fee, says Véronique Steengracht, general director of Gurr Johns's newest office, in Paris. Dealers can also be reluctant to disclose information about private sales to appraisers who haven't established relationships with them and gained their trust. "They don't often talk with appraisers about the value of the artists in their stable because that value fluctuates," says Joan Seifried, founder of Angel Appraisers in San Diego and Atlanta and a board member of the ISA.

Seifried likens her quest to find comparables for living artists to a detective's search for evidence. The process can be especially challenging with emerging artists, who don't have a presence on the secondary market or sometimes even gallery representation. A recent insurance appraisal for a contemporary collection in San Diego required her to track down an artist who sells work out of his studio. "I asked him for receipts of works with similar characteristics," she recounts. "So he pulls open his underwear drawer and there are sales receipts written on cocktail napkins."

A client's sales receipts alone do not establish value, though the closer a purchase is to the appraisal's effective date, the more relevant it is. Still, accelerated market cycles for certain types of work can quickly make any previous sale price immaterial. "Especially in the contemporary market, value is fairly changeable," Seifried says. One of her clients was surprised to learn that in the 10 years since he last had his collection appraised, its value had risen from just under $40,000 to nearly $1 million.

Fluctuations in value, in fact, are one of the trickiest aspects of appraisals. "It's the marketplace that creates value, not the appraiser," says Alex Rosenberg, a former AAA president. Some economists who analyze the art market contend that volatility and inadequate comparables render most appraisals incomplete or inaccurate. "The typical appraiser has no way of truly identifying similar items that have been sold," says David Kusin, director of the Dallas–based economic research firm Kusin & Company. "The typical appraisal of a work of art has 5 or 10 of what the appraiser deems comparables, but such a small amount is utterly insufficient."

To gauge the reliability of estate valuations used by a client, Kusin's team recently drew on 100 to 150 transactions involving Impressionist works over an eight-year period—a quantity of data that would be impractical if not impossible for most appraisers to gather for an assignment.

The difficulty of assembling enough details to paint an accurate financial picture of the market led economists Michael Moses and Jianping Mei of New York University to take a different tack: create an art index by pairing repeat sales of the same 8,000 objects at auction. "Similar doesn't cut it," says Moses, who is also the principal of the New York firm Beautiful Asset Advisors. "The only thing you can use is information on the same work, so you get an idea of what the market is doing on a return basis." By tracking market movements in the aggregate as securities indexes do, the Mei Moses Annual All Art Index provides a general reading of the market's performance at any point in time. In addition to the general index, they have created separate indexes for major collecting categories and recently completed one covering contemporary art.

The information used in building a proper appraisal should tell a story, says Frances Zeman, above. For Joan Seifried, gathering such data can be like detective work

Such innovative resources for economic data on the art market may ultimately revolutionize the appraisal process. Moses proposes that his index could simplify valuation by having both insurer and insured agree to let coverage of artworks "go up and down with the index, just like a house." This variability is favorable because the notion that the value of a work of art can be boiled down to "any particular number is bogus," Moses contends. But that doesn't mean those dollar figures don't have any significance. After all, as he points out, "over the centuries there has never been a time when the highest end of the populace didn't want to own art, and wasn't willing to pay for it." ⊞

MARGERY GORDON WRITES ABOUT ART, LEGAL AND BUSINESS ISSUES