ART APPRAISALS

Art Appraisals: What is Fair Market Value?

In simple terms, fair market value is the price an object could be sold for if it were put up for sale on the open market.

For example, if you offered it for sale on a website and you and a knowledgeable, willing buyer agreed on a price. The key phrase in the last sentence is knowledgeable. To get fair market value, it's important that the buyer and seller both understand the intrinsic value of an appraised piece.

Otherwise, one may feel taken advantage of, and could be cause for legal action. This is why an independent art appraisal is of utmost importance.

Art Appraisals: What is Replacement Value?

Insurance appraisals are generally based on replacement value, which is defined by the Appraisers Association of America as: The amount it would cost to replace an item with one of similar and like quality purchased in the most appropriate marketplace within a limited amount of time. Although an insurance appraisal is written as of a specific date, the valuation is generally expected to be broad enough to last for several years, depending on the volatility of the market for a particular work of art or collection.

There are various kinds of replacement value, i.e.: (i) new; (ii) second-hand; (iii) facsimile; and (iv) liquidation. Each is described briefly below:

New Replacement Value: This value is based on an item still being available elsewhere new.

Second-hand Replacement Value: Value that reflects the current cost to replace a similar item in roughly the same condition.

Facsimile Replacement Value: Value that reflects the cost of recreating an item in the likeness of the original, adhering to the same quality standards and using roughly the same materials.

Liquidation Replacement Value: Value that reflects the price garnered when an item is forced to be sold under unusual circumstances - e.g., time constraints or other limiting conditions.

The Value of a Professional Art Appraiser

Estate appraisals, on the other hand are required by federal and state regulations to be calculated as of the date of death. Federal regulations require appraised values to be calculated at fair market value, which is defined as: the price that property would sell for on the open market between a willing buyer and a willing seller, with neither being required to act and both having reasonable knowledge of the relevant facts.
Fair market value is generally lower than replacement value because the seller of a work of art will normally sell the art to a dealer. Dealers are the most frequent and dependable buyers at auctions and are the most readily available candidates to purchase a work of art through a private sale from an estate.

Since dealers are expected to mark up the price of an object once it is offered for sale it is logical that the price the dealer would pay to purchase the art would be lower than the price the dealer would put on it in a shop or gallery. Consequently the full retail price used for replacement value on insurance policies, in most cases, is considerably higher than the projected fair market value used in estate appraisals.

A knowledgeable art appraiser will know not only the specifics and history of your collection or piece, he or she will also know details about the recent market demand as it relates to your item. For example, how it has performed in the market recently and if there is growing or subsiding demand and any interested collectors, etc.

Considering all of this, the value of a reputable art appraiser can't be understated.