

# Introduction

Welcome to the 5<sup>th</sup> Edition of *Appraising Personal Property: Principles and Methodology*—the only comprehensive, well-organized, practical, easy-to-understand, and fully-indexed definitive work on personal property appraising.

This 5<sup>th</sup> Edition incorporates many significant changes, improvements and additions—perhaps the most important of which were brought about by the recent biennial update to the *Uniform Standards of Professional Appraisal Practice* (USPAP) which forms the foundation of this book. The resulting changes that were incorporated by the Appraisal Standards Board into the 2012-2013 edition of USPAP are mirrored throughout this work. Continuing the tradition of past editions, other improvements have also been made including scores of new topics as well as enhanced discussions. All major changes made since the preceding edition are highlighted and easy to locate by use of the “Updated!” icon as shown here:



No other book provides such a thorough grounding in the fundamentals of personal property appraising. This book will teach you the appraisal theory, principles, practices, standards, ethics, methodology and report writing skills associated with preparing professional personal property appraisal reports. And, being fully-indexed, you will be able to quickly and easily find the appraisal-related information you are seeking.

A growing number of people are entering the personal property appraisal profession. Of utmost importance is that they understand the techniques, methodology and standards that lay the foundation for ethical, unbiased, competent, complete, reasoned, and well-communicated value opinions, conclusions and analyses. Toward this goal, this work has at its core the appraisal performance requirements and ethical standards of the widely accepted *Uniform Standards of Professional Appraisal Practice* as promulgated by The Appraisal Foundation of Washington, DC.

*Appraising Personal Property: Principles and Methodology – 5<sup>th</sup> Edition* provides the most comprehensive yet practical course of instruction available today in the field of personal property appraising. From basic appraisal theory and USPAP to examples of item descriptions and even sample appraisal reports—this book covers it all. The reader will become knowledgeable in the principles and methodology of professional personal property appraising including terminology, tasks of an appraiser, objectives and intended uses of appraisals, value types and their definitions, IRS regulations, the three approaches to value, the Appraisal Process, problem identification, scope of work, value enhancers and detractors, depreciation, market principles, ethics, identification and authentication, USPAP, market research, describing property, sample appraisals, legal issues impacting the appraiser and much, much more. This book also teaches the reader basic appraisal techniques to facilitate beginning a professional appraisal business or improving an existing one. In short, the reader will be taught the skills necessary to write a complete, clear, concise, well-developed assignment report in conformance with today’s generally accepted standards, USPAP.

*Appraising Personal Property: Principles and Methodology - 5<sup>th</sup> Edition* is for those who wish to build a personal property appraisal business and/or add appraisal services as an adjunct to an ongoing related line of work. Many personal property appraisers were first antique dealers, jewelry store owners, auctioneers, restoration and repair specialists, estate liquidators, brokers, insurance adjusters or collectors. Their original lines of business are enhanced when professional personal property appraisals are added to the list of services they offer to the public.

Note that this book focuses on appraisal principles and methodology and is not intended to provide product knowledge, i.e., knowledge about the type of property in which the appraiser will be specializing as an appraiser. This book does not teach about furniture, silver, jewelry, machinery and equipment, etc. Such in-depth product knowledge can only be gained through extensive personal experience and study, and through continued observations of the marketplace and relevant value-related market activity. The gaining of product knowledge is a lifelong-learning experience and is not a focus of this book.

-Dave Maloney

# Chapter Synopses

## Appraisal Terminology

- **Chapter 1:** The use of specific nomenclature within the field of personal property appraising is critical to presenting as well as understanding the information contained within assignment reports that are developed by the appraiser. Chapter 1 covers terms commonly used by appraisers including many of those important terms emphasized within the *Uniform Standards of Professional Appraisal Practice* (USPAP). A brief introduction to each term is provided at the beginning of this work so that the reader becomes immediately familiar with the basic terms which form the foundation of what follows. Finally, the seven steps of the “Appraisal Process” are briefly analyzed (from initially “defining the appraisal problem” to preparing the final appraisal report). The Appraisal Process will be covered in greater detail in Chapter 7.

## Appraisal Principles

- **Chapter 2:** Chapter 2 introduces the various types of appraisal tasks the appraiser is likely to encounter. The appraiser is often asked to determine value (monetary worth) such as fair market value, fair value (for business assets and liabilities), orderly liquidation value, or perhaps investment value, i.e., the present worth of monies that are anticipated to be received in the future from an investment property. The concept of value, the different types and definitions of value, and the importance of identifying the type and definition of value used in an appraisal are discussed. Chapter 2 also focuses on another important appraisal task—estimating costs. Specifically, terms such as replacement cost (new), replacement cost (comparable), replacement cost (new reproduction), replacement cost (new production), and replacement cost (new) less depreciation will be discussed. (Though not covered in Chapter 2, appraisers are at times also requested to perform “appraisal reviews,” i.e., a review of another appraiser’s work product. The subject of appraisal reviews is covered in the Chapter 7 discussion of USPAP.) Chapter 2 also introduces the reader to “walk-throughs”—an oral appraisal service some appraisers provide.
- **Chapter 3:** Chapter 3 focuses primarily on the all-important issue of scope of work. In basic terms, scope of work is the degree or amount of work an appraiser performs to arrive at credible assignment results. The options for the appraiser to personally inspect the property or not to inspect the property are discussed. Appraisal objectives and intended uses of appraisals are explained. The chapter familiarizes the reader with the concept of ownership rights and with different kinds of property including investment property, marketable non-investment property, and service property. Contraband property is also discussed. This chapter describes the three kinds of values including investment value, market value, and owner value. The reader will also learn about the three approaches to value (sales comparison, cost, and income approaches) as they are used to determine the monetary worth of various types of personal property.
- **Chapter 4:** Chapter 4 focuses on the various “intended uses” of appraisals, i.e., the various manner in which appraisals are used by a client and other intended users. Examples are for acquiring insurance or for making a noncash charitable contribution to a local museum or for litigation purposes. In the discussion of federally-related uses, the reader is introduced to IRS appraisal-related regulations including requirements for what

constitutes a “qualified appraiser” as well as what constitutes a “qualified appraisal.”

- **Chapter 5:** All items of personal property exhibit characteristics which render them relatively more desirable or less desirable to marketplace participants. Chapter 5 explains value-relevant property characteristics, value creators, and depreciation caused by obsolescence and/or physical deterioration. Chapter 5 also discusses the critical dates which are important to understand and document such as effective date of the appraisal and date of the report. The relationship of those two dates determines whether an appraisal is “current,” “retrospective,” or “prospective.” Fractional, contingent, hypothetical and draft appraisals are also discussed as are making use of specialist appraisers, team assignments, using photographs in lieu of a personal inspection, online appraisals, limiting conditions, hypothetical conditions and extraordinary assumptions. Three types of value discounts are discussed: after death discounts, fractional interest discounts and blockage discounts. Making use of photographs and other client-provided information when a personal, on-site inspection is not possible is also covered as is the related topic of online Internet appraisals.
- **Chapter 6:** Appraisers rely on several marketplace principles as well as principles relating to property itself as a basis for the appraisal process in which value opinions are developed. Chapter 6 introduces the reader to such principles as most appropriate market, highest and best use, supply and demand, and the principles of substitution, qualitative ranking, marginal utility, sampling, contribution and more. The reader will also learn the difference between identification and authentication, about due diligence in authenticating property, and when the appraiser is permitted to make use of the concept of readily apparent identity in lieu of a formal authentication. Appraisal report disclaimers and terms of use that limit the appraiser’s liability and that stipulate limitations as to how and by whom the appraisal report can be used are also discussed.

### **Uniform Standards of Professional Appraisal Practice (USPAP)**

- **Chapter 7:** The goal of USPAP is to preserve the public’s trust in the appraisal profession. Chapter 7 is a mini-course in USPAP. It’s a course-within-a course. Chapter 7 will teach the reader the importance of USPAP standards for performing competently and ethically when acting in the role of an appraiser. This chapter will introduce the reader to the history and structure of The Appraisal Foundation (TAF) and to the TAF’s *Uniform Standards of Professional Appraisal Practice* including USPAP’s PREAMBLE, DEFINITIONS, five RULES (ETHICS RULE, COMPETENCY RULE, RECORD KEEPING RULE, SCOPE OF WORK RULE, and the JURISDICTIONAL EXCEPTION RULE), ten (10) STANDARDS, Comments, and ASB-issued Statements on Appraisal Standards (SMTs). The reader is also introduced to what TAF refers to as “other communications” which include Advisory Opinions (AO) and Frequently Asked Questions (FAQ). Also discussed is the individual’s responsibility to comply with USPAP when performing as an appraiser as opposed to when providing a service while performing outside the role of an appraiser (such as performing as an auctioneer or estate liquidator). The differences between Valuation Services and Appraisal Practice, the three USPAP appraisal report options, and the Appraisal Qualification Board’s (AQB) *Personal Property Appraiser Minimum Qualification Criteria* are also covered.

Chapter 7 also describes what USPAP refers to as the “Appraisal Process” including the specific steps appraisers must take to help ensure that their reports conform to the

requirements of USPAP. Chapter 7 also focuses on when USPAP applies to the individual while performing as an appraiser as well as while performing as a non-appraiser.

Though thorough, Chapter 7 is not a substitute for taking and passing the 15-hour National USPAP Course which, by state law, is required of every real property appraiser, but is not required for personal property appraisers. While passing such a course is not required by the states for personal property appraisers, all major professional personal property appraisal societies do require that their members take the 15-hour National USPAP Course and pass the exam. (There are two versions of the 15-hour National USPAP Course—one for real property appraisers and one for personal property appraisers. Personal property appraisers should take the personal property version taught by a personal property appraiser who must be certified to teach by the AQB.)

### **Ethical Standards of Professional Conduct**

- **Chapter 8:** In a way, Chapter 8 is an extension of the topic of ethics that, as was noted in Chapter 7, is central to USPAP. Chapter 8 provides a more general overview of the need for ethical behavior and how personal values, societal codes of ethics and USPAP combine to provide the appraiser with the guidance needed to perform in a manner that will preserve the public's trust in the profession of appraising. Chapter 8 addresses several real world appraiser obligations such as specific obligations to the client (including the appraiser-client relationship), to intended users, to colleagues and the appraisal profession as a whole, and while giving testimony. This chapter will also provide the appraiser with an understanding of additional ethics-related issues such as conflicts of interest, unconsidered opinions, ethical and unethical fee structures, and the prohibition against misrepresentation of one's appraisal qualifications or professional designations.

### **Research**

- **Chapter 9:** Chapter 9 focuses on market and value research and analysis and covers the research process as well as research resources that are typically used by the personal property appraiser. Chapter 9 demonstrates how appraisers objectively develop the bases for their opinions, analyses and conclusions, including how much research to do and when research might not even be required! Usually, opinions of value are based on an analysis of comparable properties that have been sold or are being offered for sale within the relevant marketplace. Specific value resources such as retail outlets, Internet websites, and auctions will be discussed. Product knowledge resources such as authenticators, museum curators, appraiser colleagues, experts, dealers, collectors and collector clubs, authors, restorers, trade periodical editors, etc. will also be covered. Documenting (in accordance with the requirements of USPAP) those other appraisers who have provided significant personal property appraisal assistance with an assignment is also discussed in this chapter.

### **Describing Property**

- **Chapter 10:** Chapter 10 emphasizes the important issues of property description including identifying the property or property type and describing the property's relevant value-related characteristics including quality characteristics and value-related attributes

in a meaningful manner that is dependent on the intended use of the appraisal as well as on the needs of the client and other intended users. Description examples of various categories of property are provided as are tips for describing groupings, collections and accumulations of property. This chapter explains how the intended use of an appraisal and the USPAP report option employed (Self-Contained, Summary or Restricted Use) impacts the extent and detail of information that must be contained in a report, including how the subject property is described.

### **Writing an Appraisal Report**

- **Chapter 11:** For the novice, putting together an actual appraisal report based strictly on theory and principles and without examples is difficult, to say the least. Chapter 11 overcomes that challenge by listing the USPAP-required elements of appraisal reports and by giving examples of how those elements of information might actually be worded. In addition to the USPAP-required elements of information, the reader will also learn of several optional elements which experience has taught us would be beneficial to add to the appraisal report as well.

### **The Professional Appraiser**

- **Chapter 12:** This chapter focuses on the more basic of those issues and strategies which are unique or particularly applicable to the personal property appraisal profession including business development, preparing a curriculum vitae (professional profile), professional development, office equipment, tools of the appraiser and basic appraiser techniques such as communication with the client, what to do while on site, using caution during the inspection to avoid damaging the subject property, making use of photographs in lieu of a personal inspection, delivering the assignment report, getting paid, appraisal updates, the requirements for maintaining assignment workfiles and keeping other business-related records. In addition, the reader will learn about issues relating to expert witness testimony including working with attorneys, preparing for trial, and tips on giving testimony either at a deposition or at trial.

### **Legal Issues Affecting the Appraiser**

- **Chapter 13:** As with any profession, it's good for the personal property appraiser to be conversant in legal issues that have impacted on the profession in the past and/or which act as guideposts to help the individual avoid legal pitfalls as they practice their profession. Having said that, appraisers are not attorneys or paralegals. Nor are they legal researchers or law consultants. Just as it is not the appraiser's responsibility to advise clients on legal matters, draft legal documents, or represent clients in court, neither is it the appraiser's responsibility to spend excessive time conducting legal research in law libraries or on Internet law websites. But being familiar with landmark cases which have impacted our profession and understanding the issues raised and the decisions concluded does make for a better, all-around professional.

Supplemented by reviews of relevant case law, Lesson 13 briefly introduces the appraiser to legal issues which impact the individual who is acting in the role of an appraiser. But appraisers also perform in other roles outside that of an appraiser. As examples, many appraisers are also dealers, auctioneers, downsizing experts, restoration specialists, and estate liquidators. When wearing those other hats, appraisers may be faced with legal

issues which do not normally attach when performing strictly as an appraiser.

We will not spend time discussing legal matters which normally do not apply to the personal property appraiser, regardless of how significant they may be to other types of personal property related endeavors. For instance, there are issues of contract, commercial and agency law with which other professions must be aware but which do not normally impact the appraiser. Included are commercial transactions, consignment sales, auction sales, warranties, fraud, disparagement, and performing as an agent on a principal's behalf.

Instead, we will limit our discussion to the legal issues with which the appraiser might become involved. These most commonly include issues relating to bailment, title, negligence and malpractice, fraud by a dealer/appraiser, appraiser liability to third parties, and, albeit extremely rarely, negligent referrals. Several tax court cases will also be summarized to help us better understand issues to which the IRS is sensitive such as choice of appropriate market, fair market value, and valuation discounts.