

International Valuation Guidance Note No. 5

Valuation of Personal Property

1.0 Introduction

- 1.1 The objective of this Guidance Note (GN) is to improve the consistency and quality of personal property valuations for the benefit of users of personal property valuation services.
- 1.2 Personal property valuations are commonly sought and performed on the *Market Value* basis of valuation, applying the provisions of International Valuation Standard 1 (IVS 1). Where other bases of valuation are used, the provisions of IVS 2 are applied, subject to proper disclosure and explanation.
- 1.3 While certain terms may have alternative definitions, and the applicability of specific methods may diverge, the theory, concepts, and processes applied in the valuation of personal property are fundamentally the same as those for other types of valuations. Whenever terms that have different meanings are used, it is important that those differences be disclosed. This GN sets forth important definitions used in personal property valuations.
- 1.4 Care should be taken by Valuers and users of valuation services to distinguish among the market components and corresponding *Market Values* of personal properties. One example of such differentiation is the *Market Value* of properties sold at auction versus that of properties sold by or acquired from private dealers where the negotiated price is not publicly disclosed. Another example would be the *Market Value* of personal property sold wholesale versus the market value of the same item(s) sold retail.

2.0 Scope

- 2.1 This GN is provided to assist in the course of rendering or using personal property valuations.
- 2.2 In addition to the elements that are common to other Applications and Guidance Notes in the International Valuation Standards, this

International Valuation Standards, Sixth Edition

GN contains an expanded discussion of the Valuation Process for personal properties. This is included to typify what is commonly involved in personal property valuations and to provide a basis of comparison with other types of valuations.

- 2.3 Because other basic valuation principles and IVSC Standards, Applications, and Guidance Notes are also applicable to personal property valuations, this GN should be understood to incorporate all other relevant sections of the IVS.
- 2.4 Plant and equipment (P&E) is a category of personal property, but P&E valuation is dealt with under GN 3.

3.0 Definitions

- 3.1 *Auction Price*. The price that is the final accepted bid at a public auction; may or may not include any fees or commissions. See also Hammer Price, Private Treaty Sale.
- 3.2 *Collectibles*. Broad descriptive term for objects collected because of the interest they arouse owing to their rarity, novelty, or uniqueness. In some States, the term may be applied to fine art, antiques, gems and jewelry, musical instruments, numismatic and philatelic collections, rare books, and archival materials, among others. Elsewhere the term is normally used for these and a wide variety of other items not found in any other category.
- 3.3 *Cost Approach*. A comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay. The Valuer's estimate is based on the reproduction or replacement cost of the subject property or asset, less total (accrued) depreciation.
- 3.4 *Cost Approach for Valuing Fine Art*. A comparative approach to the value of fine art that considers as a substitute for the purchase of a given work of fine art the possibility of creating another work of fine art that replaces the original. The Valuer's estimate is based on the

reproduction or replacement cost of the subject work of fine art, and the nature of the replacement, i.e., whether it be *new for old*, *indemnity basis*, a *replica*, or a *facsimile*.

New for old refers to the cost of purchasing the same item or, if unavailable, an item similar in nature and condition in the retail market for new works of fine art.

Indemnity basis refers to the cost of replacing an item with a similar item in similar condition in the second-hand retail market for art and antiques.

A *replica* is a copy of the original item, as near as possible to the original in terms of nature, quality, and age of materials but created by means of modern construction methods.

A *facsimile* is an exact copy of the original item, created with materials of a closely similar nature, quality, and age and using construction methods of the original period.

- 3.5 *Fixtures and Fittings*. The totality of improvements integral to a property, valued collectively. See Trade Fixtures or Tenant's Fixtures.
- 3.6 *Furniture, Fixtures, and Equipment*. (FF&E) A term used in North America to refer to tangible personal property plus trade fixtures and leasehold improvements. See also Personal Property.
- 3.7 *Goods and Chattels Personal*. In certain States, a term used for identifiable, portable, and tangible objects considered by the public to be personal property. See also Personal Property.
- 3.8 *Hammer Price*. The accepted and announced bid, exclusive of any fees or commissions and, therefore, not necessarily the purchase price. See also Auction Price, Private Treaty Sale.
- 3.9 *Income Capitalisation Approach*. A comparative approach to value that considers income and expense data relating to the property being valued and estimates value through a capitalisation process.
- 3.10 *Intrinsic Value*. In some States, the amount considered, on the basis of an evaluation of available facts, to be the "true" or "real" worth of

International Valuation Standards, Sixth Edition

an item. A long-term, *Non-Market Value* concept that smoothes short-term price fluctuations.

- 3.11 *Leasehold Improvements* or *Tenant's Improvements*. Fixed improvements or additions to land or buildings, installed by and paid for by the tenant to meet the tenant's needs; typically removable by the tenant upon expiration of the lease; removal causes no material damage to the real estate. See also Personal Property, Trade Fixtures or Tenant's Fixtures.
- 3.12 *Sales Comparison Approach*. A general way of estimating a value indication for personal property or an ownership interest in personal property, using one or more methods that compare the subject to similar properties or to ownership interests in similar properties. This approach to the valuation of personal property is dependent upon the Valuer's market knowledge and experience as well as recorded data on comparable items.
- 3.13 *Market Value*. See IVS 1, para. 3.1.
- 3.14 *Personal Property*. A legal concept referring to all rights, interests, and benefits related to ownership of items other than real estate. In certain States, items of personal property are legally designated as personalty in distinction to realty, which may either refer to real property or real estate. Items of personal property can be tangible, such as a chattel, or intangible, such as a debt or patent. Items of tangible personal property typically are not permanently affixed to real estate and are generally characterized by their movability. See also Collectibles; Fixtures and Fittings; Furniture, Fixtures and Equipment (FF&E); Goods and Chattels Personal; Leasehold Improvements or Tenant's Improvements; Plant and Equipment; Trade Fixtures or Tenant's Fixtures.
- 3.15 *Personalty*. A legal term used in certain States to designate items of personal property in distinction to realty, which may either refer to real property or real estate. Personalty includes tangible and intangible items that are not real estate. See also Personal Property.

3.16 *Plant and Equipment*

- (i) Assets intended for use on a continuing basis in the activities of an enterprise/entity including specialised, non-permanent buildings; machinery (individual machines or collections of machines, trade fixtures, and leasehold improvements); and other categories of assets, suitably identified.
- (ii) Tangible assets that:
 - (a) are held by an enterprise/entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - (b) are expected to be used over a period of time.

3.17 *Private Treaty Sale*. A sale negotiated and transacted between persons rather than by public auction or another method. The sale price paid in a private treaty sale is generally not known except by the parties to the transaction. See also Auction Price, Hammer Price.

3.18 *Professional Property Valuer*. A person who possesses necessary qualifications, ability, and experience to estimate property value for a diversity of purposes including transactions involving transfers of property ownership, property considered as collateral to secure loans and mortgages, property subject to litigation or pending settlement on taxes, and property treated as fixed assets in financial reporting.

3.19 *Trade Fixtures* or *Tenant's Fixtures*. Non-realty fixtures attached to property by the tenant and used in conducting the trade or business. See also Leasehold Improvements or Tenant's Improvements, Personal Property.

3.20 *Valuation Approach*. In general, a way of estimating value that employs one or more specific valuation methods. Depending on the nature and purpose of the property, three valuation approaches may be applied. These are the *sales comparison*, *cost*, and *income capitalisation approaches*. Their application will enable the Valuer to determine *Market Value* or a value other than *Market Value*.

International Valuation Standards, Sixth Edition

- 3.21 *Valuation Method.* Within the valuation approaches, a specific way to estimate value.
- 3.22 *Valuation Procedure.* The act, manner, and technique of performing the steps of a valuation method.

4.0 Relationship to Accounting Standards

- 4.1 In some instances the valuation of personal property undertaken in conjunction with the valuation of real property and/or a business provides a basis for determining the extent of depreciation or obsolescence of certain fixed assets. In this application, the personal property valuation *per se* may or may not be the principal reason for the valuation, but the combination of services by a Personal Property Valuer, a Business Valuer, and/or a Real Property Valuer, is necessary to properly allocate and reflect the *Market Value* of assets to be included in a financial statement.

5.0 Guidance

- 5.1 **Personal property valuations may be required for a number of possible uses including financial reporting, acquisitions and disposals/dispositions, insurance, and taxation.**
- 5.1.1 Where the purpose of the valuation requires a **Market Value estimate**, the Valuer shall apply definitions, processes, and methodologies consistent with their provision in IVS 1.
- 5.1.2 When an engagement calls for a value basis **other than Market Value**, e.g., insurable value or salvage value, the Valuer shall clearly identify the type of value involved, define such value, and take steps necessary to distinguish the value estimate from a *Market Value* estimate as consistent with IVS 2.
- 5.2 **Steps shall be taken by the Valuer to assure that all data sources relied upon are reliable and appropriate to the valuation undertaking.** In many instances, it will be beyond the scope of the Valuer's services to perform a complete verification of secondary or tertiary data sources. Accordingly, the Valuer shall take reasonable steps to verify the accuracy and reasonableness of data sources as is customary in the market(s) and locale of the valuation.

- 5.3 It is not uncommon for personal property valuations to require that the Personal Property Valuer call for and rely upon the services of other Professional Property Valuers and/or other professionals. Thus, **the parameters of responsibility relating to the classification of property items must be established between Valuers of different disciplines to ensure that nothing has been omitted or double entered.** A common example is reliance upon a Real Property Valuer to value the real estate components of a property. **Where the services of other experts are relied upon, the Personal Property Valuer shall**
- 5.3.1 **take verification steps as are reasonably necessary to ensure that such services are competently performed and that the conclusions relied upon are reasonable and credible, or**
 - 5.3.2 **disclose the fact that no such verification steps were taken.**
- 5.4 **Personal Property Valuers must frequently rely upon information received from a client or from a client’s representatives. The source of any such data relied upon shall be cited by the Valuer in oral or written reports, and the data shall be reasonably verified wherever possible.**
- 5.5 Although many of the principles, methods, and techniques of personal property valuation are similar to those in other fields of valuation, **personal property valuations require special education, training, skill, and experience.**
- 5.6 **Requirements for Valuation Reports are addressed in the International Valuation Standards Code of Conduct and IVS 3, Valuation Reporting. For personal property the Valuation Report must include**
- 5.6.1 **Identification of the property and owner or ownership interest to be valued (location of the object of personal property and address of the owner);**
 - 5.6.2 **The effective date of the valuation;**
 - 5.6.3 **The basis or definition of value;**

International Valuation Standards, Sixth Edition

- 5.6.4 **Identification of the owner of interest or instructing party**
(n.b., in some States, the identity of the owner of interest may not be made known for reason of confidentiality);
- 5.6.5 **The purpose and use of the valuation;**
- 5.6.6 **The conditions of the valuation;**
- 5.6.7 **Liens and encumbrances on the property; and**
- 5.6.8 **A Compliance Statement (signed and dated).**
- 5.7 **Factors to be considered (but not necessarily reported) by the Personal Property Valuer include:**
 - 5.7.1 **Rights, privileges, or conditions that attach to the ownership of the subject property**
 - 5.7.1.1 Ownership rights are set forth in various legal documents
 - 5.7.1.2 Rights and conditions contained in an owner's agreement or exchange of correspondence; these rights may or may not be transferable to a new owner of the subject property.
 - 5.7.1.3 The documents may contain restrictions on the transfer of the property and may contain provisions governing the basis of valuation that has to be adopted in the event of transfer of the property.
 - 5.7.2 **The nature of the property and history of its ownership (provenance)**
 - 5.7.2.1 Previous sales or transfers of the property
 - 5.7.3 **The economic outlook that may affect the subject property, including political outlook and government policy**
 - 5.7.4 **The condition and outlook of a market specific to the trade of personal properties that may affect the subject property**

5.7.5 Whether or not the subject property has intangible value

5.7.5.1 If intangible value is inherent in the personal property, the Valuer must ensure that the intangible value is fully reflected, whether the identifiable intangible has been valued separately or not.

5.7.5.1.1 Intangible value, insofar as can be reasoned, should be distinguished from the value of the tangible property.

5.7.5.2 It is essential that the Valuer be aware of the legal restrictions and conditions that arise through the laws of the State in which the property exists.

5.7.5.3 Often, particularly in the use of acquisition transactions, adequate information is difficult to obtain. While the actual transaction price may be known, the Valuer may not know what warranties and indemnities were given by the seller, whether cash or other assets were taken from the seller prior to acquisition, how value should be allocated among the assets acquired, or what impact taxation planning had on the transaction.

5.7.5.4 For the reasons explained in para. 5.7.5.3, comparable data should always be used with care, and adjustments may need to be made. When using published auction results, it must be borne in mind that those results may represent transactions for a small market sector. Adjustments may be needed for differences due to differing market levels.

5.7.6 Any other information the Valuer believes is relevant.

5.8 Personal property valuations performed by means of the *sales comparison approach*

5.8.1 The *sales comparison approach* compares the subject property to similar properties and/or property ownership interests that have been sold in open markets.

International Valuation Standards, Sixth Edition

- 5.8.2 The two most common sources of data used in the *sales comparison approach* are published auction results and transactions reported by firms regularly engaged in the trade of similar properties.
- 5.8.3 There must be a reasonable basis for comparison with and reliance upon the similar properties in the *sales comparison approach*. These similar properties should be regularly traded in the same market as the subject or in a market that responds to the same economic variables. The comparison must be made in a meaningful manner and must not be misleading. Factors to be considered in whether a reasonable basis for comparison exists include:
- 5.8.3.1 Similarity to the subject property in terms of qualitative and quantitative descriptive characteristics
 - 5.8.3.2 Amount and verifiability of data on the similar property
 - 5.8.3.3 Whether the price of the similar property represents an arm's-length transaction
 - 5.8.3.4 A thorough, unbiased search for similar properties is necessary to establish the independence and reliability of the valuation. The search should include simple, objective criteria for selecting similar properties
 - 5.8.3.5 A comparative analysis of qualitative and quantitative similarities and differences between similar properties and the subject property must be made
 - 5.8.3.6 Where appropriate, adjustments may need to be made to render the value of the similar properties more comparable to the subject property. Adjustments may need to be made for unusual, non-recurring, and unique items.
 - 5.8.3.7 Appropriate adjustments for differences in the subject property's ownership and the ownership of similar properties with regard to the character and influence of such provenance or marketability/saleability or lack thereof, must be made, if applicable.

5.8.4 When prior transactions of the subject property are used to provide valuation guidance, adjustments may need to be made for the passage of time, for changes in the subject property, and for changed circumstances in the economy, industry, scholarly appreciation, and the business in which such properties are traded.

5.8.5 Anecdotal valuation rules, or rules of thumb, may be useful in the valuation of a property or ownership interest in an item of personal property. However, value indications derived from the use of such rules should not be given substantial weight unless it can be shown that buyers and sellers place substantial reliance on them.

5.9 Personal property valuations performed by means of the *cost approach*

5.9.1 The *cost approach* considers as a substitute for the purchase of a given item of personal property, the possibility of creating another item equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay.

5.9.2 The Valuer's estimate is based on the reproduction or replacement cost of the subject property or asset.

5.9.2.1 Replacement cost refers to what one might expect to pay for an object of similar age, size, color, and condition. Generally, it seeks to establish the cost of an alternative example or of a *replica*, or copy, of the original item, as near as possible to the original in terms of nature, quality, and age of materials but created by means of modern construction methods.

5.9.2.1.1 In the case of assets such as valuable antiques or paintings, replacement may be impractical regardless of the cost.

5.9.2.1.2 Reproduction cost refers to what one might expect to pay for a *facsimile*, or exact copy, of the original item, created with materials of a

closely similar nature, quality, and age and using construction methods of the original period.

5.9.2.1.3 Over time some items of personal property that do not suffer physical depreciation may appreciate since current cost to replace or reproduce such items typically outpaces increases in their current price.

5.9.3 The application of the *cost approach* is especially appropriate in valuations of personal property such as manufactured products or items for which multiple copies exist, e.g., prints, porcelain figurines, or products turned out by a mint.

5.10 Personal property valuations performed by means of the *income capitalisation approach*

5.10.1 The *income capitalisation approach* to value considers income and expense data relating to the property being valued and estimates value through a capitalisation process.

5.10.2 The application of the *income capitalisation approach* may be appropriate in the valuation of furniture, fixtures, and equipment (FF&E) essential to the operation of properties such as hotels, furnished apartments, and care facilities.

5.10.2.1 FF&E may be subject to heavy use and, therefore, require periodic replacement to maintain the attractiveness and utility of the facility.

5.10.2.2 The useful lives of items of FF&E are estimated on the basis of their quality, durability, and the amount of use they receive. A weighted average for the useful lives of items of FF&E may then be calculated.

5.10.2.3 An estimate of the future replacement cost of the items of FF&E is divided by this figure to arrive at an annual replacement allowance/renewal fund. The replacement allowance/renewal fund is included among the entity's operating expenses/outgoings.

5.11 Reconciliation processes

- 5.11.1 The value conclusion shall be based upon
 - 5.11.1.1 the definition of value;
 - 5.11.1.2 the purpose and intended use of the valuation; and
 - 5.11.1.3 all relevant information as of the valuation date necessary in view of the scope of the assignment.
- 5.11.2 The value conclusion shall also be based on value estimates from the valuation methods performed.
 - 5.11.2.1 The selection of and reliance on the appropriate approaches, methods, and procedures depend on the judgement of the Valuer.
 - 5.11.2.2 The Valuer must use judgement when determining the relative weight to be given to each of the value estimates during the Valuation Process. The Valuer should provide the rationale and justification for the valuation methods used and for the weighting of the methods relied on in reaching the value reconciliation when requested.

6.0 Effective Date

- 6.1 This International Valuation Guidance Note became effective 30 April 2003.

