

EXPOSURE DRAFT OF PROPOSED INTERNATIONAL VALUATION GUIDANCE NOTE – PERSONAL PROPERTY VALUATION

Comments to be received by 31 December 2002

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Exposure Draft of Proposed International Valuation Guidance Note

Personal Property Valuation

1.0 Introduction

- 1.1 The objective of this Guidance Note 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 IVSC Standard 1. Where other bases of valuation are used, the provisions of IVSC Standard 2 are applied, subject to proper explanation and disclosure.
- 1.3 In general, the concepts, processes, and methods applied in the valuation of personal property are the same as those for other types of valuations. Certain terms may have different meanings or uses. Those differences become important disclosures wherever such terms are used. This Guidance Note 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 vs 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 vs the market value of the same item(s) sold retail.

2.0 Scope

- 2.1 This Guidance 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 Guidance Note 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, IVSC Standards, Applications and Guidance Notes are also applicable to personal property valuations, this Guidance Note should be understood to incorporate all other relevant sections of the IVSC Standards.

3.0 Definitions

- 3.1 **AUCTION PRICE** The price reflecting 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** Objects collected because of the interest they arouse owing to their rarity, novelty, or uniqueness. Collectibles include fine art, antiques, gems and jewelry, musical instruments, numismatic and philatelic collections, rare books and archival materials.
- 3.3 **COST APPROACH** A comparative approach to the value of property that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of the original or one that could furnish equal utility with no undue cost due to 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 **FIXTURES AND FITTINGS** The totality of improvements integral to a property, valued collectively. See Trade Fixtures or Tenant's Fixtures.
- 3.5 **FURNITURE, FIXTURES AND EQUIPMENT** A term used in North America to refer to tangible personal property plus trade fixtures and leasehold improvements. See also Personal Property.
- 3.6 **GOODS AND CHATTELS PERSONAL** In certain States, the term used for identifiable, portable, and tangible objects considered by the public to be personal property. See also Personal Property.
- 3.7 **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.
- 3.8 **INTRINSIC VALUE** The amount considered, on the basis of an evaluation of available facts, to be the "true" or "real" worth of an item. A long-term, non-Market Value concept that smoothes short-term price fluctuations.
- 3.9 **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; removable by the tenant upon expiration of the lease; removal causes no serious damage to the real estate. See also Personal Property, Trade Fixtures or Tenant's Fixtures.
- 3.10 **SALES COMPARISON APPROACH** A general way of estimating a value indication of personal property, or an ownership interest in personal property, using one or more methods that compare the subject to similar properties, or ownership interests in similar properties. The valuation of personal property is dependent upon the Valuer's market knowledge and experience as well as recorded data on comparable items.
- 3.11 **MARKET VALUE** See IVSC Standard 1.

- 3.12 **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 are not permanently affixed to real estate and are generally characterized by their movability. Personal property may be valued according to its market value, salvage value, or liquidation value. Collectibles, one category of personal property, may have a national or regional value, reflecting particularly restrictive export rules and differing from the international value of the same item(s). The techniques used in the three valuation approaches may be applied to the valuation of personal property. 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.
- 3.13 **PERSONALTY** A legal term used in the US 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, which are not real estate. See also Personal Property.
- 3.14 **PLANT AND EQUIPMENT** (i) Assets intended for use on a continuing basis in the activities of an enterprise including specialised non-permanent buildings, machinery (individual machines or collections of machines, trade fixtures and leasehold improvements), accumulated depreciation, and other categories of assets, suitably identified.
(ii) Tangible assets that:
(a) are held by an enterprise 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 during more than one period.
- 3.15 **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.
- 3.16 **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. A Professional Property Valuer may also possess the specific expertise to perform valuations of other categories of property, i.e., personal property, businesses, and financial interests.
- 3.17 **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.

- 3.18 **VALUATION APPROACH** In general, a way of estimating value that employs one or more specific valuation methods. The three valuation approaches applied to the appraisal of real property may also be applied to the appraisal of personal property. These are the sales comparison, cost, and income capitalisation approaches.
- 3.19 **VALUATION METHOD** Within a valuation approach, a specific way to estimate value.
- 3.20 **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 the Personal Property Valuer, the Business Valuer and/or for example, a Real Property Valuer, is necessary to properly allocate and reflect the Market Value of assets to be reflected in a financial statement.

5.0 Guidance

5.1 Personal property valuations may be required for a number of possible uses including acquisitions and dispositions, insurance, taxation and the like.

5.1.1 Where the purpose of the valuation requires a Market Value estimate, the Valuer shall apply Market Value definitions, processes, and methodologies consistent with their provision in IVSC Standard 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.

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 such 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 **A description of the valuation assignment must include:**
- 5.6.1 **The property and ownership interest to be valued;**
 - 5.6.2 **The effective date of the valuation;**
 - 5.6.3 **The definition of value;**
 - 5.6.4 **Owner of the interest** (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.**
- 5.7 **Factors to be considered by the personal property valuer include:**
- 5.7.1 **The 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).**
 - 5.7.3 **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 inheres 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.
- 5.7.5.2 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, or impossible, 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, or what impact taxation planning had on the transaction.
- 5.7.5.4 For the reasons explained in para. 5.2.5.3, comparable data should always be used with care and inevitably numerous 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 must be made for differences arising due to differing market levels.

5.7.6 Any other information the Valuer believes is relevant.

5.7.7 Sales comparison approach to personal property valuation

- 5.7.7.1 The sales comparison approach compares the subject property to similar properties and/or property ownership interests that have been sold in open markets.
- 5.7.7.2 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.
- 5.7.7.3 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:
 - 5.7.7.3.1 Similarity to the subject property in terms of qualitative and quantitative descriptive characteristics.
 - 5.7.7.3.2 Amount and verifiability of data on the similar property.
 - 5.7.7.3.3 Whether the price of the similar property represents an arms-length transaction.
 - 5.7.7.3.4 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.

- 5.7.7.3.5 A comparative analysis of qualitative and quantitative similarities and differences between similar properties and the subject property must be made.
- 5.7.7.3.6 Where appropriate, adjustments may need to be made to render valuation guidance from the similar properties and the subject property more comparable. Adjustments may need to be made for unusual, non-recurring and unique items.
- 5.7.7.3.7 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 or lack of marketability, must be made, if applicable.
- 5.7.7.4 When prior transactions of the subject property are used to provide valuation guidance, adjustments may need to be made for the passage of time, and for changed circumstances in the economy, industry, scholarly appreciation, and the business in which such properties are traded.
- 5.7.7.5 Anecdotal valuation rules, or rules of thumb, may be useful in the valuation of a property, or ownership interest in a 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.

5.8 Reconciliation processes

5.8.1 The value conclusion shall be based upon:

- 5.8.1.1 The definition of value;
- 5.8.1.2 The purpose and intended use of the valuation; and
- 5.8.1.3 All relevant information as of the valuation date necessary in view of the scope of the assignment.

5.8.2 The value conclusion will also be based on value estimates from the valuation methods performed.

- 5.8.2.1 The selection of and reliance on the appropriate approaches, methods and calculations depend on the judgment of the Valuer.
- 5.8.2.2 The Valuer must use judgment when determining the relative weight to be given to each of the value estimates reached 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.

6.0 Effective Date

- 6.1 This International Valuation Guidance Note became effective (date).