

# Conventional Wisdom...Values

A new idea: From time to time, *The Exchange* will be talking to veteran surveyors about a specific topic—in this case, Values. What approach does he or she use? What are some of the problems and solutions? There may be a recent example, some nugget of wisdom the surveyor has eked out over the years, or maybe a recent experience that warrants comment.

If you have a unique approach, a good source, or if you think someone else's approach is misguided or fatuous, write to *The Exchange*, 880 South Pickett St., Alexandria, VA 22304.

## IRS Valuations

• *Todd Schwede, Todd and Associates:* Todd got a contract a few years ago to develop a valuation approach for donated boats that would stand up in federal court. The IRS was questioning tax deductions taken on a total of 49 donated boats from around the country that it suspected were grossly overvalued.

The instructions to Schwede were to find an approach that would give the taxpayers every possible benefit of the doubt. He said the IRS wanted to bend over backwards to make sure it was fair. Schwede wound up putting together, in Omni form, an appraisal worksheet that included several of the mainstream appraisal techniques.

The first section was for the original pur-

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chase date and price—the price when the boat was new. Schwede got some of these prices from the original owners and others were taken from magazine ads, promotions, etc. Another source was the PowerBoat Guide, which sometimes lists the manufacturer's suggested retail price (MSRP).

The second section was the last survey and value done on the boat before it was donated. This survey could have been a year old or ten years old. Schwede incorporated the numbers in the survey report with some comment about the surveyor's

credentials. The last survey was used to get the general condition of the boat when it was donated.

The next section was published values. Schwede took the low and high values in the BUC Book and made adjustment for the boat's condition and region of the country. He said it was critical to use the then-current addition of BUC, since he was doing retro-appraisals. (Schwede keeps all of his old BUC books.) The boat's condition adjustment was based on a review of the survey (section two), an inspection of the boat, and/or photographs. This put the condition of the boat somewhere in the BUC scale—high end or low end and was done like any other appraisal.

The next section was the NADA Guide. He did the same thing he did with BUC—found the value as outlined by the NADA Guide.

The fifth section was to arrive at a valuation based on the ABOS Guide.

Schwede then took those three numbers and averaged them to arrive at a single value.

The sixth section used the Cost Approach. He used the boat's original (new) selling price and depreciated it using three scales: the BoatU.S. scale for claims adjusting, the old INA scale, and the Martin scale. He took all three and

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engine for damage. Volvo added an additional two years of extended warranty to both engines. At 47 hrs same hose again came off barbed nipple.

*Mike Townsly, national service manager for gas products acknowledged there was a problem and told Exchange that Volvo has initiated a*

*campaign (bulletin # 22-1 #17) to replace defective hoses. Engines affected are all multi-point fuel injected engines (4.3, 5.0, 5.7, 8.1) produced from September 1, 2003 to February 16, 2004. Carbureted engines were not factory equipped with remote oil filters and are not a part of the campaign. Townsly explained that the hose vendor had problems with their crimping dies, which allowed the hoses to gradually work loose. Volvo has replaced hoses on some boats before they left the manufacturers' facility and is sending letters to all registered owners. All repairs will be covered under warranty. Some engines have also been replaced after they were damaged by lack of oil.*

*A repair kit will be used to fix the problem in the field. Townsly said that the kit uses a Parker Pushlock fit-*

*ting and a hose clamp.*

**YAMAHA MOTOR CORP/ MERCURY MARINE, 200-225 HP OUTBOARDS, 2002 - 2004.** Yamaha recalled its F225, LF225, F200 and LF200 four-stroke outboards due to reports of excessive drag on the linkage bushings that may cause the throttle to jam.

*Claude Vonplato, manager of marine parts and accessories, said there have been "a handful of occurrences of people running into docks, but no serious injuries." Lack of lubrication on the throttle mechanism's plastic bushings can cause binding in the throttle. Yamaha advises owners to spray silicone lubricant on the throttle mechanism, which will prevent the problem, according to Vonplato. The recall includes the Mercury 225 EFI four-stroke engines as well. Mercury will replace the entire throttle control assembly on affected engines. □*

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averaged them out. There are provisions in these scales for boats in saltwater, freshwater etc. as well as a varying depreciation scale for the first few years of ownership. This gave him a percent figure for each year of ownership. Schwede put these on an Excel spread sheet so he could apply the original cost of the boat to arrive at a current value.

The seventh and final section was a valuation based on comparable vessels. There were lines for five comparable boats. Schwede used the Internet and boating magazines to get prices on comparable boats. He averaged the valuations on the five boats to get a single valuation.

He then had original cost, surveyor evaluation, BUC, NADA and ABOS values, Cost Approach /Depreciation, and a Comparable Vessel values. He took all seven of these values, and arrived at a single value that was comprehensive and fair.

Of the 49 boats that were being investigated, two went to trial and the rest were negotiated. Using Schwede's broad valuation approach, the IRS won the two trials. The remaining 47 appraisals also stood up; the valuations were used to negotiate with the taxpayers. In some cases, the owners had to pay hundreds of thousands of dollars in back taxes.

### Follow Up Valuations

• *Jack Horner, Marine Survey and Design:* Horner is investigating a value that had been placed on a large older boat that sank. Prior to the sinking, the boat's owner had invested over \$600,000 in upgrade and repairs (verified with receipts). The purchase price had been

slightly over \$600,000. A surveyor subsequently placed a value on the boat of \$1.2M—the cost of repairs plus the purchase price.

After the boat sank, an insurance company argued that the price was grossly inflated and the case went to court.

After first verifying that the work had actually been done, Horner went to Sol-dboats.com and found that the selling prices for two sisterships had been around \$600,000. Eight other sisterships were for sale at prices ranging from \$499,000 to \$725,000. Before it sank, the upgraded boat had been listed at \$795,000 for two years. The highest offer the owner had received was \$500,000. The offer was declined.

Horner wound up putting a value on the boat of slightly over \$600,000. His rationale was that the previous owner had put a lot of money into an aging "Chevrolet." This didn't mean he had a new Cadillac, however, what he had was an aging Chevrolet that was in A-1 condition. This was reinforced by the fact that the boat clearly hadn't been able to attract a serious offer, even at an asking price that was far below \$1.2M.

As of now, the case is in litigation and is likely to drag on for another year or two. Horner says he expects to prevail.

### Pre-Purchase Valuations

• *Tom Laskey, Laskey Marine Services:* Laskey looks in the usual places for values, including BUC and YachtWorld. Another source he has used for values is a knowledgeable buyer; he or she sometimes has spent months researching a particular make and model. These buyers can be a

good source in a valuation. Clearly, however, you have to be careful; some buyers have done their homework and others haven't.

Laskey thinks surveyors must also be cognizant of personal feelings and opinions that could influence a valuation—whether a surveyor is attracted or repelled by a particular make and model boat. Valuations must be completely objective.

• *Kim MacCartney, Inamar Marine:* Likes what he's seen of BUCValu Pro, which gives subscribers individual prices from recent sales. MacCartney has found that these are typically about 20% lower than those published in the BUC book. He calls this a starting point, since you must also take into account the survey report of the boat's condition.

Being an engineer, MacCartney says he tends to retain numbers. He looks through *Soundings* at asking prices. If he sees a boat with a high listing, he'll call the broker to find out way. He usually takes 15% off the asking price—5% to knock it down and 10% for the broker's commission. He's found that location is a big factor: boats in freshwater areas like the Great Lakes command a premium. Boats in the Pacific Northwest and New England are more expensive than boats further south. BUC also has that.

As for spending money on older boats, the question is where did the money go? All too often, it didn't go into the structure or systems. Owners spend money on cosmetics but don't do the structural jobs. Keep in mind that you don't necessarily want to restore a boat to "original" condition because the standards may have changed dramatically since the boat was first constructed. □