# Culture

ART BOOKS

# Riding on the back of high-value art

LONDON

## Specialist advisers seek new ways to make money out of collections

BY SCOTT REYBURN

If today's art market had to be summed up by a visual metaphor, a watering hole packed with buffaloes might come to mind. Water buffaloes are the big collectors who dominate the art world, surrounded by a highly competitive ecosystem of smaller creatures who depend on them for their survival.

Art financiers are the latest species hoping to survive and thrive on the backs of the world's richest collectors. Last year, the planet was estimated to have a population of 211,275 so-called ultrahigh-net-worth individuals with a combined wealth of $29.7 trillion, of which some $26 billion was spent on art, according to a report published last month by the European Fine Art Foundation.

Before the economic crisis of 2008, managing art was viewed by many investment banks as a way of gaining access to these individuals, those with at least $30 million of disposable income, to win the more lucrative business of managing their wealth.

"It was easier to engage their interest by talking about art," said Luke Dugdale, a former head of art in wealth management at the Royal Bank of Canada. "Once you got them talking about something they were passionate about, then you could go on to talk about other things."

Mr. Dugdale is now co-founder and chief executive of Cadell & Co., a London company that says it offers portfolio management expertise for art held in private trusts. Cadell, which started its business in February, is one of a flock of specialist companies that present art-collection management services and loans to owners of high-value art and that have emerged since 2009. Before the crisis, art funds were all the talk of "art and finance" conferences. Now that individuals from the hedge fund and private equity industries have become adept at making money out of their own collections, finance itself is viewed as a better way to make a margin out of the art-owning 1 percent. More and more individuals and families are using their art as collateral and then reinvesting the cash in either more art or other assets.

"When I first started 15 years ago, I thought a loan was a painting you lent to a museum," said Suzanne Gyorgy, head of art advisory and finance at Citi Private Bank in New York. Although Citi has been providing wealthy clients with art advisory services since 1979, she added, the bank has significantly increased its art-based finance within the past five years. Ultrahigh-net-worth people, Ms. Gyorgy said, are "using art to generate liquidity, and typically they're not using the loan to buy more art."

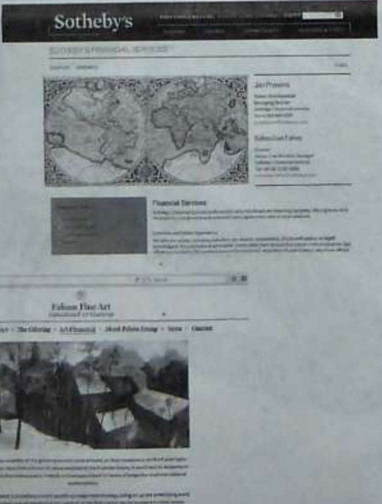
"For example," she added, "collectors who are hedge fund or private equity principles will often reinvest in their own funds."

She said Citi's art-based loans ranged from $5 million to hundreds of millions but would not divulge the number of these loans or their interest rates.

JPMorgan Chase is also active in art-related finance, as are the New York-based specialist lenders Art Capital Group and Emigrant Bank Fine Art Finance. Last year, Sotheby's finance division generated $42 million in interest and fee income from art-related loans, a 35 percent increase from 2013, according to a filing with the Securities and Exchange Commission. Jan Prasens, the managing director of Sotheby's Financial Services, said about two-thirds of these loans were secured on works not earmarked for auction.

Thomas Gonzáles, a Berlin boutique lender who has been in the art finance business since 2009, typically charges about 9 percent on loans to collectors and dealers, mainly from London and Switzerland.

JACK VETTRIANO, VIA BONHAMS



"Waltzers," by Jack Vettriano. Sotheby's finance division has reported a sharp increase in interest and fee income from art-related loans. Falcon Fine Art is among the recently opened specialist finance companies in London.

"These days, there's not such a difference between dealers and collectors," Mr. Gonzáles said. "They're buying and selling all the time."

His loans usually range from 1 million euros to 15 million euros, secured with 20th-century works by artists that have traded in the market for at least 20 years.

Falcon Fine Art, founded in London in October, also lends at single-digit rates and, as with Mr. Gonzáles, loans never exceed more than 50 percent of the value of the secured artworks. Right Capital, also in London, offers a mix of art-based loans and advisory services. Stonehage, with 15 locations worldwide, is part of a new wave of "multifamily offices," companies that manage the financial affairs and inheritance strategies of several ultrawealthy families, though with a dedicated London-based art management service.

"Art finance is a smart way to use your capital," said Tim Hunter, vice president of Falcon Fine Art. "You leverage your art, but you can keep it on your wall. It creates greater liquidity among collectors, and the number of loans is relatively small, so it isn't going to create a bubble."

There's no question that art collecting has become financialized. A 2014 "Art & Finance Report" by Deloitte and ArtTactic found that 76 percent of surveyed collectors acquired art and collectibles as an investment strategy in 2013, up from 53 percent in 2012.

If the art market is booming, what's the problem?

There might be at least one. As the European Fine Art report pointed out, postwar and contemporary art is the dominant force in the market. In 2014, auction sales in that sector reached €5.9 billion, or about $6.4 billion at current exchange rates, more than four times the total in 2009. Yet just 20 artists accounted for 42 percent of those sales.

Once adding value to an investment portfolio becomes the primary reason for acquiring art, buyers tend to focus on a narrow range of proven artists. For other names, buyers and values can drop away alarmingly.

Take the case of Jack Vettriano, the self-taught Scottish painter who was an auction sensation when his "Singing Butler" sold for 744,800 pounds, or about $1.1 million at current exchange rates, at an auction in Edinburgh in 2004. Since then, Mr. Vettriano's brand of nostalgic fantasy has fallen out of favor. On Tuesday, Bonhams Edinburgh offered 12 of his paintings from a Scottish private collection. Just seven of them were sold, the most expensive being a 1992 canvas, "Waltzers," which sold toward the low end of its estimate for £236,500, including fees, or about $350,000.

Or what about the once-mighty Damien Hirst? The artist's 2002 virtuoso vitrine piece, "Lullaby Winter," had sold for $7.4 million at Christie's in New York in 2007. The successful bidder never paid, and since the auction house had guaranteed the work, it then owned it. On Feb. 11, Christie's sold it for £3.1 million, or about $4.6 million — again, at the low end of the estimate — at its auction of postwar and contemporary art in London.

**"These days, there's not such a difference between dealers and collectors."**

During the last art boom, Mr. Hirst and Mr. Vettriano, in different ways, were brand artists whose auction prices seemed to validate notions that they were good investments. Now bidders are worried about seeing a loss on them. Mr. Hirst's average auction price in 2007 was $930,656; Mr. Vettriano's $169,602. In 2014, the equivalent figures had slumped to $239,697 and $31,272, respectively, according to Artnet data.

Artists always fall in and out of fashion, of course. But the more the art market becomes financialized, the greater the risk that demand will become concentrated on an ever smaller, ever more expensive group of names such as Andy Warhol, Jean-Michel Basquiat, Gerhard Richter.

That watering hole could get very crowded, and the surrounding countryside pretty arid.