

Expanding Your Personal Investments Options: Trading and Borrowing Against Fine Art



Ruth Kleis,
Senior Appraiser & Owner,
Appraisers of Fine Arts
www.appraisersoffinearts.com

The uncertainty in today's market has caused many investors to look outside the box. The stock market's volatility has had many investors looking elsewhere for investment options. Many grandfather companies that have been our staple, reliable investments have crumbled. This ongoing phenomenon had leveled the playing field for investments. Commodities that were not considered viable investment alternatives in our past are having a new lease on life. This is where art enters the playing field. Many of today's investment portfolios look more like this: stock, real estate, and, an Early American artist painting my grand ma gave me.

Trade Market Options

This is the first time that art has been viewed so prominently as a viable investment, like real estate. "Art now is seen as a definite asset class which is traded," Christie's international commercial director, Caroline Sayan states. "People are looking at their complete portfolios and thinking about how they can leverage what they have more effectively." (New York Sun Newspaper, "Borrowing With Fine Art as Collateral", by Katie Taylor, July 22, 2008.) In our recent economic standing, not only has art been competing with, but many times beating stock market turns. (www.artmarketblog.com, "Art and Capital- Art Banking, Art Loans and Art Finance" by Art Analyst, Nicholas Forrest) Some asset advisors even recommend to some of their clients spreading up to a tenth of one's assets in works of art. This may seem excessive, but a shrewd choice of a work of art can be a good and safe investment (Armagazine Arcadja, "The Art Market: An Analysis of the Crisis" by Elena Lanzanova & Silvia Bosi, page 18-19).

Now is the time to buy. There has been an increase in inventory available at public art auctions, in retail stores and private party sales in a market that usually cannot keep up with demand. There are values to be had in many categories of art, such as photography, art deco, early American works, and more. Another area we are seeing healthy increases in value are select big names and time-honored artists. In the art market today, the auction houses are becoming more accessible for medium wealth investors to purchase great masterpieces that may not have been accessible to the buyer in the past due to high price points and a lack of inventory. Proceed with caution, however. It is not easy for some to navigate through the auction houses and realize a good value that is for sale at a great price, so it is always a good idea to bring along someone who specializes in this field when looking into higher priced art investments.

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Art Loan Options

Finding alternative ways to borrow money for working capital is on the rise. For some, art loans are the answer. “We are seeing increased activity in art financing transactions,” says John Arena, Sr. VP at U.S. Trust. Art financing is available through companies that have established a niche market specializing in art loans. “The benefit to an owner of these works of art is that the borrower is allowed to keep possession of the collateral pieces and can display them where they wish after they are registered and appraised.” Ms. Chu, Emigrant Bank Fine Art Finance, states. To reduce the risk to the lender, the appraiser must be a USPAP certified (Uniform Standards of Professional Appraisal Practice) fine art appraiser. Lenders like Sotheby’s and Christie’s will usually advance 45%-60% of the appraised value of the art to the borrower. Interest rates on these types of loans range from 8% to as high as 18%.

This form of financing can eliminate the significant transaction costs and taxes associated with the sale of works of art. Transaction costs can be as high as 30% of the value of the assets sold. The federal long-term capital gains tax of arts and antiques is 28% (versus 15% for stocks, bonds and real estate.) Adding state and local taxes, a sale can trigger a total tax bill of 40% or more on the gain, depending on the seller’s domicile (consult your tax advisor). Utilizing a financing option is a viable alternative for those who find their assets heavily weighted in fine arts.

Although there are negatives to this economic downturn, there are opportunities in the art world that are viable and more user friendly for the everyday investor. Looking into these can be beneficial if applied to the right situation and researched wisely.