

Fine art collections are often acquired over decades and may represent a family history or a personal passion. It should not be overlooked, however, that as well as being beautiful objects, art and collectibles also represent a US\$3 trillion global asset class that might unlock investing potential and new opportunities.

Art finance, since its emergence in the 1970s, is now a highly sophisticated market with lending available from a variety of sources, including debt funds, specialist lenders, private banks and auction houses. These lenders have unlocked ways to monetize art assets such that they complement a more traditional investment portfolio, for example, providing cash to enable payment of a margin call on an equities portfolio, settling an inheritance tax bill, or freeing up cash to make further investments.

The flexibility that this type of financing provides allows the traditionally illiquid work of fine art to become a key part of an investment portfolio, allowing investors to benefit from the market's typically low level of volatility.

This type of finance, although referred to as "fine art finance," extends to financing a huge variety of "passion assets" from vintage wine collections, rare violins, classic cars, jewelry and watches, to antique and contemporary furniture and innumerable other niche classes of assets. Any collectible that regularly trades at auction has the potential to be used as collateral for specialized art financing.

Art Finance at a Glance

Art finance loans are, by their nature, bespoke, and their terms will depend on the collateral being offered and the individual requirements of the borrower. However, in general, these types of financings do share some common features – lenders are accustomed to working to fast turnaround times and funding quickly; borrowers can expect freedom in how they use the funds once received; and terms and structures are flexible.

Loans are generally sized based on a loan to value calculation, with LTV not generally exceeding 50%. When appraising the value of the collection being provided as collateral provenance, sales history, marketability and condition of the collection will all be considered.

Finance is provided either on a recourse or a nonrecourse basis. Lenders with nonrecourse loans will have access only to the artwork provided as collateral in the event of a default, whereas lenders with recourse facilities will also be able to look to the wider assets of the borrower. Where a recourse loan is being provided, the creditworthiness of the borrower and the extent of any wider assets will be factored into the terms of the loan, often reducing overall price of the lending.

What Happens to the Art?

Given the moveable nature of artworks, and the potential impact on their value of any damage or wear and tear, the majority of lenders will require physical possession of the artworks being provided as collateral. In practical terms, this will generally mean that the artwork is stored at a secure third-party warehouse for the duration of the term of the loan.

That said, it is recognized that artwork is not a typical asset class and that a borrower may wish to retain certain pieces for sentimental reasons, and this can certainly be negotiated; it is not unheard of for whole collections to remain with the borrower. Likewise, if a collection is currently loaned to or displayed at a museum or gallery, it can often be agreed that such arrangements may continue, with the cooperation of the institution holding the pieces.

Art and the Investment Portfolio

Traditionally, art has sat outside of what most would consider their "investment portfolio," and collections have grown in response to individuals' interests and passions. Art is still an unusual asset and incorporating it into a wider formal investment strategy can be challenging, not least due to art's inherent illiquidity. Art finance can provide assistance in this respect, and the relative stability of the art market can provide a welcome addition to an overall portfolio that includes more volatile assets, as well as providing some innovative solutions when estate planning.

Lawyers at our firm have the skills and experience to discuss how art financing might complement your current situation, and to guide you through the whole loan process, from an introduction to lenders through to receipt of funds. For any queries in relation to art finance, please talk to your usual contact or email [Helena Clarke](mailto:Helena.Clarke@squirepb.com).

Contacts

Helena Clarke

Director
T +44 20 7655 1258
E helena.clarke@squirepb.com

Daniel G. Berick

Partner
T +1 216 479 8374
E daniel.berick@squirepb.com

Radek Janeček

Partner
T + 420 221 662 275
E radek.janecek@squirepb.com

Patricia Woo

Partner
T + 852 2103 0322
E patricia.woo@squirepb.com