

WeDigest: Wealth Management

Unlocking the Value of Art

3rd August 2022

The Value of Art

Art is special. It can provoke an artistic and emotional response in an art collector and foster a strong sense of connection to the piece. The cultural significance and aesthetic pleasure elicited by art is often why art collectors purchase them. But the perception of art has drastically shifted in recent years. Art collectors are no longer solely motivated by its sentimental and social value but also its potential to become a working asset as part of their global portfolio.

According to an Art Basel and UBS report, the art market saw aggregate sales of art and antiques worth \$65.1 billion in 2021. In addition to this figure, Ultra-High-Net-Worth individuals' wealth associated with art and collectables in 2020 was estimated at \$1,481 billion, as reported by the Art and Finance Report 2021. These numbers demonstrate the considerable capability for art to play a more active role in overall wealth planning.

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Aggregate sales of art and antiques
in 2021

\$1,481 billion

UHNWIs' wealth associated with art
and collectables in 2020

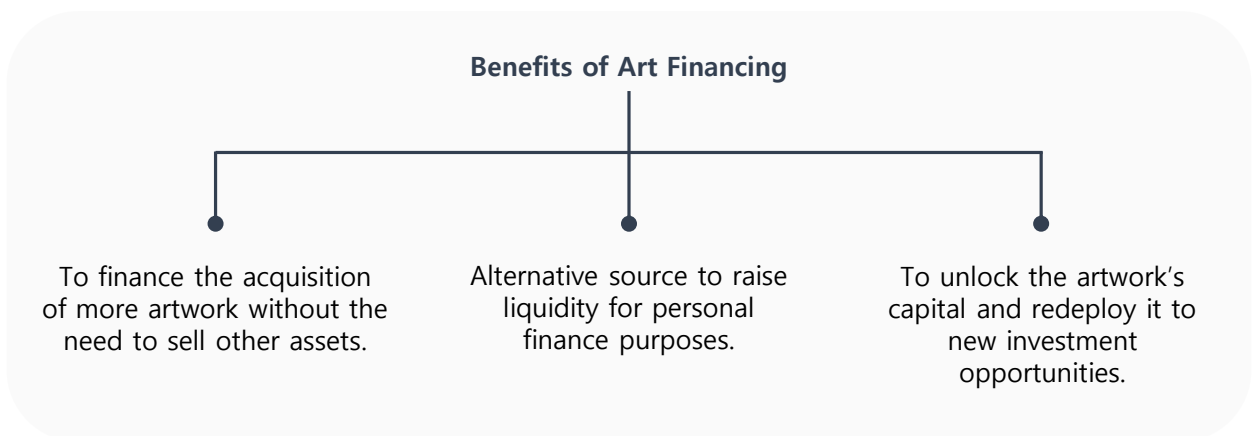
However, distinctively different from traditional financial instruments and markets, the art market can be illiquid, opaque and lacking a real-time marketplace. The value of art is broadly uncorrelated to traditional financial markets. Instead, there is a myriad of factors from which art derives its value, such as:

Authenticity Authenticity verification to mitigate forgery concerns	Provenance The history of the ownership of the artwork	Rarity A higher level of rareness often translates to a higher value	Condition Proper maintenance is paramount to maintaining its value
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This flags a unique opportunity for investors to tap into art's intrinsic value as a means to diversify portfolios. But it is meaningful to keep in mind that the objective of art investment lies in neither cash flow generation nor dividend pay-outs. In addition, the capital gain from selling art is not an immediate process and can involve high transaction costs. So, how can art collectors extract the value of their art efficiently and blend art into wealth management?

Unlocking the Value of Art

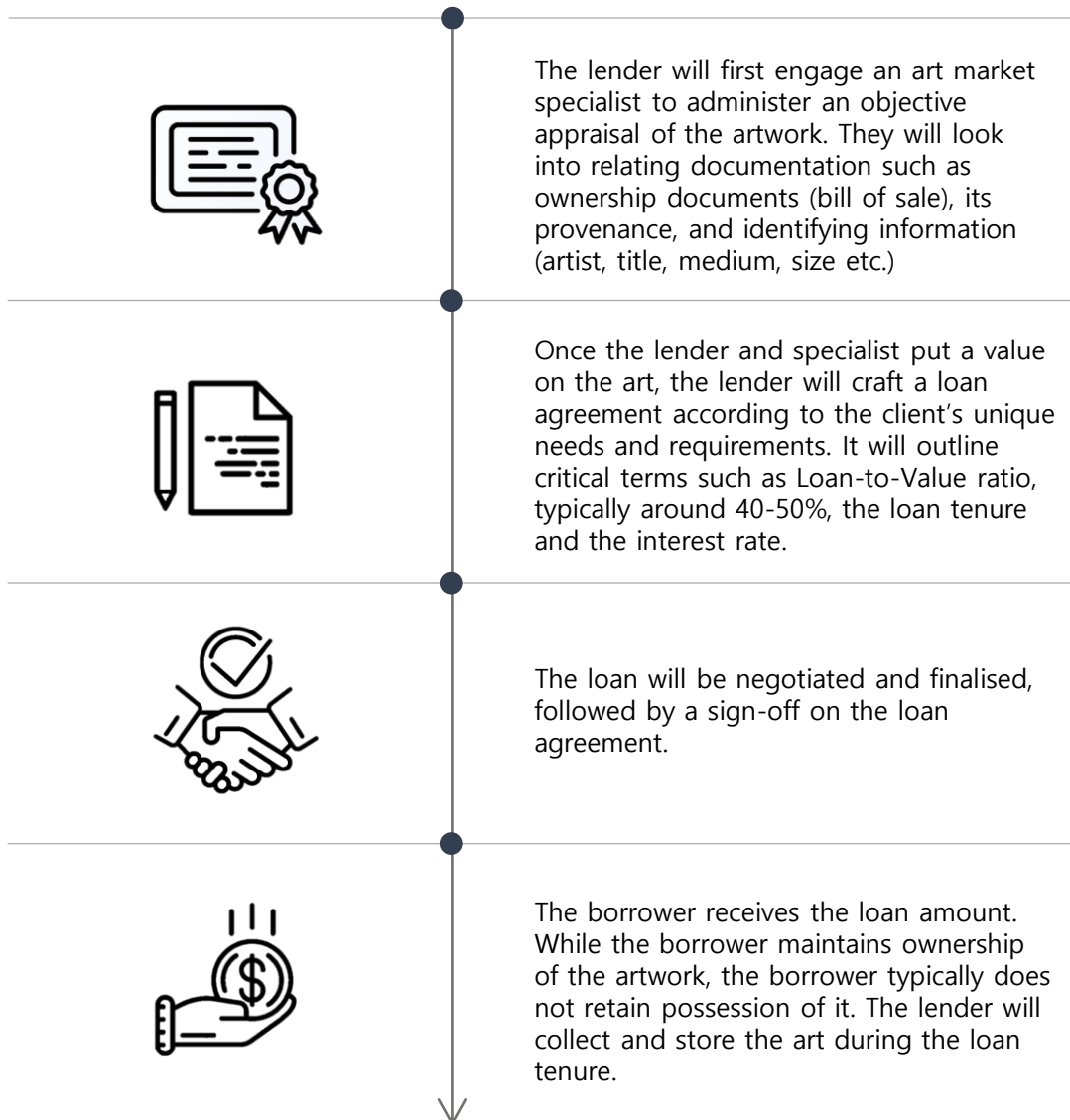
Art financing provides a unique opportunity to unlock the capital of the art you love. Art finance lenders offer loans to private art collectors using their art collection as collateral. According to the Art and Finance Report 2021, the projected market size of outstanding loans against art in 2022 will be worth \$31.3 billion. The burgeoning demand for art-secured loans is a testament to its potential to become a promising tool in optimising your wealth strategy. It offers various benefits, serving as a stepping stone to help you achieve your financial goals.



Lenders offer different types of loans, but we can typically distinguish between a recourse loan and a non-recourse loan. Historically, lenders offer art loans on a recourse basis, but we are seeing a growing demand for non-recourse loans.

Recourse	Non-Recourse
<p>While the art serves as the primary collateral, the borrower must offer a personal guarantee of repayment. If the lender cannot recover the complete amount of the loan, the lender can make a claim on the borrower's other assets.</p>	<p>The artwork is the sole collateral. If the borrower cannot repay the loan, the lender can take possession of the art but cannot pursue any of the borrower's other assets.</p>

Art Financing Process



How We Can Support You

As the value of art rises and as the art market continues to expand, art will become an increasingly important part of an art collector's wealth. With investors progressively beginning to view art with an economic eye, the demand for art-secured loans will flourish in tangent. It is an effective tool to release the locked-up liquidity of treasured artworks and become a crucial player in your overall wealth management. With a lean number of specialised lenders in the art finance space, it can be complex to navigate the initial process. Art financing remains a service that is largely reserved for high-value art collection, and it is therefore critical to approach art finance with the guidance of trusted experts to fully leverage this fledging financing tool.

SingAlliance is an independent wealth manager with a presence in Singapore, Switzerland, Hong Kong and Dubai. Leveraging our unrivalled global network, we can open the right doors for you - to guide and refer you to professional and trusted art financing specialists to capitalise on the hidden value of your art and enhance your wealth management strategy. For further information, please get in touch with us.

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