

Art Advisory 101

Module 4 – Art Asset Management

Instructor: Annelien Bruins

Like in real estate, where regular maintenance schedules help the owners to protect their buildings, it pays off to set up a collection management protocol for an art collection, particularly when it's valuable.

In this module we will teach you about all aspects of art asset management, including appraisals and selling art.



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Learning Objectives

Participants will gain an understanding of:

1. The importance of collection management
2. Allocating responsibility for the collection
3. Cataloging 101 - tackling an inventory project
4. Choosing collection management software
5. Developing a collection management protocol
6. Understanding appraisals
7. Guide to selling art



1 The Importance of Collection Management

1.1 Collection vs art asset management

1.2 You can't do it without the data

1.3 The four components of art asset management



1.1 Collection vs Art Asset Management

- Traditionally collection management services were provided as a favor by dealers to their best clients.
- Due to sky-high art values and the notion that art is a financial asset, the realization that art should be protected has taken hold. Art asset management has grown into its own area of expertise.
- Art loses value as a result of physical deterioration as well as market fluctuations. Incorporating art into wealth strategies and estate planning makes sense for a collector.
- I'll use collection management and art asset management interchangeably throughout this Module.



1.2 You Can't do it Without the Data

- Wealth and estate planning is difficult if the client does not know what he owns or what it's worth. This scenario is not unusual.
- Many clients have bought art for decades but have not been able to maintain an inventory list, insurance schedules or their archives.
- These days, as a result of technology, art collections are easier to manage.
- Cataloging a collection, digitizing the archives and entering the resulting data into a collection management system will allow a collector to adequately protect his investment.



1.3 The Four Components of Art Asset Management

- **One:** Due diligence before acquisition reduces the risk of overpaying or buying problem works (title, authenticity, condition). Goal: avoid situations where an artwork cannot be sold for a profit or at all.
- **Two:** Appraisals allow a collector to understand the make-up of his collection and allow for adequate insurance coverage (risk management).
- **Three:** Well-managed art collections/ archives allow for smart wealth management strategies, estate and tax planning, and successful sales.
- **Four:** Monitoring maintenance costs allows a collector to take informed decisions about his collection and to manage it cost-effectively.



2 Allocating Responsibility for the Collection



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2 Allocating Responsibility for the Collection

- The administration of a large/ active art collection is time-consuming and in most cases a full-time job. It may make sense to hire a collection manager trained to deal with art-related issues.
- This includes the day to day management of the collection, maintaining the archives and ensuring the collection management system is up-to-date.
- If the collection is small or static, your client can allocate responsibility to a current staff member (or perhaps you).
- Key is that the responsibility for maintaining all data related to the collection is allocated to one person. If unclear who is responsible, it is easy to lose an invoice or forget to update an insurance schedule.



3 Cataloging 101 - Tackling an Inventory Project

3.1 Why do you need to catalog art?

3.2 Data components of an art collection

3.3 Develop a system and stick to it

3.4 Putting the information together



3.1 Why do You Need to Catalog Art?

- You need to know how to catalog an art collection because your clients can't plan adequately without knowing what they own or what it's worth.
- Cataloging a house full of art, antiques and collectibles can be daunting. Let's discuss how to tackle a project like this.
- In order to fill the information gaps in the collector's archives at the end of your project, you need to understand what you are dealing with.



3.2 Data Components of an Art Collection

Art Collection

1. Physical artworks (i.e. a painting, a sculpture, a photograph)
2. Artwork attributes (title, artist's name, year of production, edition, etc)

Art Archives

3. Paperwork (i.e. sales invoices, appraisals, insurance schedules)
4. Images (both digital and on paper)



3.3 Develop a System and Stick to it

- Your goal is to amalgamate the information from these four data sources into a complete and up-to-date inventory list.
- Start with the most complete data set: inventory of the physical objects. Cross-check the archives against your inventory list at a later point.
- The key to successfully cataloging an art collection is to set up a system and stick to it. Room by room, work your way around. Write down or dictate your notes into a voice recorder.

3.3 Develop a System and Stick to it

- Describe and photograph the works. Record relevant artwork attributes: title, description, medium, artist name, etc. Measure the works and note damages.
- The back of paintings provide great clues: gallery or inventory labels, signatures and more. Bronze sculptures often have signatures and edition numbers close to the base.
- Don't lift or move art on your own and risk damaging the work. Ask for help or leave it in place.

3.4 Putting the Information Together

- Now you have an inventory list and images. Put the information straight into a collection management system but if that's not possible, store it in Excel for now.
- Each artwork should be given an unique inventory number. When using Excel, you'll have to do this manually. Most databases will generate inventory numbers automatically.
- Purpose of a unique inventory number: to tie up all data sources with the artwork it belongs to. Mark/ name the paper/ digital documentation with this unique inventory number.

3.4 Putting the Information Together

- If all goes well you now have an accurate list of the entire collection.
- When cross-checking your inventory list with the archives, you can identify missing information (i.e. a sales invoice that you may be able to retrieve from the gallery the work was bought at).
- By now you also know which art objects are incorrectly listed on the insurance schedule.
- Before updating important documents like an insurance schedule, run it by your clients first.



4 Choosing Collection Management Software



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4 Choosing a Collection Management System

- Spend some time with your clients and their staff on what their pain points are. What kind of reports do they want to generate?
- I have included a checklist in your Course Materials for choosing a collection management system.
- A database is only as good as the information it is being fed. If the system is not maintained, you can't trust it and it will be abandoned.
- The responsibility for maintaining the data will need to be allocated to **one person**: you, a registrar or a current member of staff.



5 Developing a Collection Management Protocol



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5 Developing a Collection Management Protocol

- Handling art is a specialized occupation. Basic guidelines will be helpful to your client's estate manager and their domestic staff.
- Write a one-pager with useful phone numbers (who to call in case of accidents {you?}, a list of pre-approved transport companies, etc).
- Create a simple "Object IN/OUT" form that can be filled out whenever an object leaves or enters your client's home.
- Do some research and compose a short collection care manual (i.e. don't put artworks in direct sunlight, avoid fluctuations of temperature).



6 Understanding Appraisals

6.1 Fair market value and other appraisals

6.2 Art and estate planning

6.3 USPAP compliant appraisals

6.4 Appraisals for insurance



6.1 Fair Market Value and Other Appraisals

- Appraisals are done for different reasons: for insurance purposes, for estate planning or for selling an artwork, for example. Appraisals for different purposes usually result in different values.
- Fair market value is generally used for tax purposes. The IRS generally considers the auction market, instead of the retail market (i.e. galleries) the most appropriate marketplace for determining fair market value.
- According to the IRS, fair market value is "the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts."



6.2 Art and Estate Planning

- If your client has a collection of art or collectibles that may be subject to estate tax, it may make sense for them to include the collection in their estate planning.
- Estate taxes, when due, usually have to be paid within 9 months of the date of death. This means that your client's art may have to be sold at a discount in order for their heirs to be able to pay the estate tax bill.
- There are a number of estate planning options but your client should seek advice from their T&E attorney or estate planner to find out what makes the most sense for them.



6.3 USPAP Compliant Appraisals

- For IRS purposes it is important to have a correctly prepared appraisal document from a USPAP compliant appraiser (The Uniform Standards of Professional Appraisal Practice sets guidelines for appraisals).
- A good starting point to find the right appraiser for your client and to read about appraisal requirements for IRS and other purposes, is to visit the website of the Appraisers' Association of America.
- I have included the link in your Course Materials.



6.4 Appraisals for Insurance

- The insurance value of an artwork is the amount of money that the insurance company pays out when they approve of a claim.
- The purpose of the insurance value is to replace the lost object with something similar, even if it's a bit more expensive.
- Therefore the insurance value is often the full retail value (i.e. gallery) plus extra to cover unforeseen costs (transport, advisory fees).
- Insurance appraisals are usually not required to be done by a USPAP compliant appraiser (i.e. your client can often insure for the purchase price of the artwork) but check with your client's insurance broker.



7 Guide to Selling Art

7.1 Not as easy as it seems

7.2 How realistic is the asking price

7.3 Private sales vs selling at auction

7.4 Choosing the right auction house

7.5 Sales estimates and reserves

7.6 Minimizing transaction costs



7.1 Not as Easy as it Seems

- There are three components to selling an artwork: finding the right sales channel, determining the right price, and minimizing your client's sales cost.
- Ask your clients what the reason is for the sale, and ask them for their time frame and their asking price.
- Selling art can be stressful, particularly for clients who have simply inherited art and who don't know the art market well.



7.2 How Realistic is the Asking Price

- Like when selling a home, it is common for a collector to get stuck on an asking price that's too high.
- They don't realize that the insurance value is not necessarily what the market will pay. Perhaps they overpaid for the artwork when they bought it.
- Or they are emotionally attached to the work and don't really want to sell.
- If you decide to move forward, your first decision is to determine the best sales channel for the work.



7.3 Private Sales vs Selling at Auction

- Private transactions are popular. Firstly, they are discrete. Many collectors don't want everybody to know their business.
- Secondly, there is less risk of burning the work in a private transaction than at auction. Artworks that don't have a wide appeal may have a better chance at selling privately.
- Side Note: Burning an artwork means that if an artwork goes unsold at auction (publicly recorded) this will taint its future sales potential.



7.3 Private Sales vs Selling at Auction

- Thirdly, selling privately may be less expensive than selling at auction or consigning to a gallery.
- Side Note: Even if the work does not sell at auction, your client may still be liable to the auction house for unsold fees, transport and other costs.
- In a private transaction there is a more flexibility in pricing because you can assess each opportunity on a case by case basis.



7.3 Private Sales vs Selling at Auction

- However, lower valued works are generally more difficult to sell privately. Their value may not justify the effort to find a buyer.
- At the same time, exceptional artworks, artworks with a wide appeal or artworks that have not been on the market for generations may benefit from selling at auction.
- Particularly the larger houses have marketing machines that can be used to promote such works to their worldwide audiences: increasing the potential for upside.

7.4 Choosing the Right Auction House

- There are many international, national and regional auction houses so your client has options.
- Big ticket items will likely end up at Christie's, Sotheby's or Phillips but lower value or less important artworks may be better off at a regional or national auction house. You may be able to get your client better terms.
- Many auction houses have one or two areas that they specialize in. Freeman's in Philadelphia, for example, has a deep expertise in Pennsylvania Impressionists.



7.5 Sales Estimates and Reserves

- When selling at auction, the reserve price is the lowest value your client is willing to sell at. The reserve price can never be higher than the lower end of the sales estimate.
- Sales estimates are the numbers you see in the catalog: the range of values within which the object is, more or less, expected to sell.
- The height of the estimates also depend on how much the consignor wants to receive for the work. They are a financial agreement between your client and the auction house (like the guarantee we discussed in Module 2).
- Sales estimates are also flexible, however. They are a marketing tool to entice buyers to place a bid.



7.5 Sales Estimates and Reserves

- Buyers at auction like to be able to get into the bidding process at a reasonable price. They are more likely to continue bidding when they are in the race already. Aggressive (high) estimates can result in unsold works.
- Therefore, counter-intuitively, in some cases it may make sense for your client to accept lower sales estimates, provided that your client understands they run the risk of having to sell at this lower price point.
- Determine which auction house gives your client the best sales terms (depending on the artwork's value there may be room for negotiation) but also what estimates are most likely to get the works sold.



7.6 Minimizing Transaction Costs

- Selling art is about finding the right sales channel and determining the right asking price (or sales estimates) but also minimizing costs.
- Selling privately can be cheaper than selling through auction or consigning to a gallery. In the latter case, depending on the value of the work, your client's sales cost may be as much as 25%.
- Transport costs can be substantial so they should be included in your calculations of what is the most advantageous sales option for your client.



7.6 Minimizing Transaction Costs

- Selling art can take a long time; when choosing the right auction and when selling privately. Your client may have to put the work in storage which can be costly.
- Artworks are considered capital assets by the IRS. When your client sells, capital gains taxes may be due.
- Advise your client that before proceeding with a sale, they should seek advice from their CPA, tax attorney or estate planner to ensure that selling is the best option for them.



End of Module 4

That concludes Module 4 of Art Advisory 101.

Up next is Module 5 - How to Set Up Your Own Art Advisory Business

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