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How the world of Fine Art gets Financing

by James Tarmy

Traffic on New York's Park Avenue came to a standstill for two nights in March of last year while a construction crew unloaded seven massive metal sculptures by Alice Aycock.

Alice Aycock's series of sculptures, "Park Avenue Paper Chase" were displayed along Park Avenue in New York in March 2014. Source: Alice Aycock via Bloomberg

"Park Avenue Paper Chase," a four-month long installation displaying Aycock's works, cost more than $1 million to produce, and it was up to Aycock's gallery Thomas Schulte to foot most of the bill. Rather than come up with the funds itself, the gallery turned to Fine Art Partners, a Berlin firm that provides financial services to the art world, to pay for the show in return for a slice of the proceeds.

"It's a long-term financial investment," said gallery owner Thomas Schulte, adding that he "very rarely" seeks external funding. "One work by Aycock cost $350,000 alone in production costs, and took over a year to make, and in that particular case we needed another year to sell it."

Aycock's installation highlights a trend in the art world toward outside financing, driven by a small group of collectors and investors chasing profits from surging prices for contemporary art. Auctions of postwar and contemporary art in 2014 reached 5.9 billion euros ($6.3 billion), up from 4.9 billion euros in the prior year, according to the European Fine Art Foundation.

The business can take many forms, including buying a selection of the art at a discount before a show opens or paying for the creation and exhibition of works. In return, these financiers take a chunk of the profit from the sales, have the right of first refusal for an artist's future work, or can select one or two works from an artist's future shows for several years, according to dealers.

'Grown Up'

External financing can be "a negative sign, pointing to a speculative market," said Loretta Würtenberger, a co-founder of Fine Art Partners. "But it's also a demonstration of the professionalization of the art market. It's a sign the industry's grown up."

The backing of art production is an old practice -- it used to simply be called patronage. In the 16th century, Michelangelo would receive money in advance for materials, though whoever was footing the bill expected the artwork that resulted from those materials, rather than a percentage of his future sales.

With prices for contemporary art rising fast, often reaching tens of millions, art financing today is more of a speculative type of investing.

High Risk

“That capital is very expensive, because it’s extremely high-risk,” gallery owner Schulte said. “You don’t know if the work is going to go over so well, you don’t know if it’s going to be ready in time. You don’t know when you’re going to get your money back if there aren’t sales.”

Würtenberger’s firm will loan as much as $2 million for an artist to create sculptures, and $250,000 to $10 million to dealers who want to buy works on the secondary market. In both instances, she receives a percentage of the sale. Fine Art Partners works with artists whose careers are already established.

“It’s always equity financing in that sense,” she said, declining to give the percentage. “Neither the artist nor the gallery is interested in paying interest rates.”

The prospect of profits is helping provide liquidity to often cash-strapped artists and galleries, enabling production of more art. At the same time, outside funding can put artists at the mercy of the investors, especially younger artists who don’t already have established a body of work.

Unloading Work

Almine Ruiz-Picasso, the owner of the Almine Rech Gallery in Paris, said some collectors unload an artist’s work at auction or in private sales, hoping to cash in on rising prices. Such speculation can result in bids of more than 1,000 percent than what was originally paid. When the hype fades, the artist’s prices -- and occasionally career -- can collapse.

“I know artists who’ve gone through that dollar-sign-in-your-eyes sort of explosion, where they fork over their entire studio’s art” to a collector, said Kathy Grayson, the director of The Hole, a Manhattan gallery credited with launching the careers of dozens of artists. “I don’t know anybody who would say that they enjoyed it, and are glad they benefited from that sort of speculative interaction.”

Another Avenue

Grayson has opted for another avenue, turning to sponsors who hope to cash in on The Hole’s downtown cool. A show by Friends With You, a Los Angeles art collective, was paid for by Native Shoes, a Vancouver- based retailer of lightweight shoes, Grayson said.

“We’ve never spent more than $20,000 for a single fabrication or framing,” she said. “I’m speculating with gallery money, and they’re speculating in the hopes of increased brand recognition or whatever it is they get out of it,” she said.

Native Shoes didn’t respond to a request for comment.

Some of the speculating is coming from young collectors themselves, said Allan Schwartzman, a founder of the advisory firm Art Agency, Partners.

“They often want to get more closely connected to artists, and to participate in financing the production of work, or prepaying by buying in large blocks,” he said.

If an artist is established, “the presence of money doesn’t change a work, it just allows it to be produced,” Schwartzman said. “That’s entirely different than financing the life, and entire production, of a young artist.”

In Aycock’s case, the project went better than expected, those involved said, declining to say how much her works sold for. Aycock’s medium-size sculptures are priced at about $250,000 and her large sculptures start at $650,000.

“Each side worked perfectly,” Schulte said. “People from Sotheby’s estimated that we would sell two large sculptures in a year, but we sold many more than that, though no one could have known.”

The project itself was a risk, he said, “but it was a very high return.”