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Chevrolet and Monet: Floor (Wall) Planning for Fine Art Galleries
By Michael Cervino

How do galleries fund acquisitions and fill their walls with art? Automobile dealerships and other companies selling big-ticket items use floor planning (often called "inventory financing") to finance the purchase of high-cost inventory, with the inventory itself serving as collateral. But while most retail industries typically use 46% - 70% leverage, art dealers operate with a low debt-to-asset ratio of just 7%. Is this low leverage utilization due to absent demand for financing, or is there a lack of availability?

Most art dealers want access to financing, but many are unable to get it. Art dealers have instead relied on retained earnings, personal funds, and financial backers who take a proportional amount of the profits. In a TEFAF survey covering 142 top-tier art dealers and galleries, almost 90% of respondents stated they would like improved access to acquisition finance, and 31% are specifically interested in loans secured by art. 57% of these same dealers, however, consider their access to financing to be "poor" or "very poor." Notably, 28% of dealers claim poor credit availability has restricted their growth. A significant portion of dealers do not have access to adequate financing options, and many would use credit to grow their businesses if it were available.

Why can't dealers just go to a bank? Art galleries are typically individually-owned or family-owned businesses that do not have – or have a need for – audited and certified financial statements. Without these statements, traditional commercial banks are unable to make their bread-and-butter cash flow loans. Additionally, these banks are generally reluctant to do asset-based lending on a small scale. A "boutique" asset-based lender prepared to spend the time performing the necessary due diligence has an edge in this underserved market.

Commercial banks' unwillingness to support art dealers and galleries leaves the door open for specialized asset-based lenders, such as our Art Lending Fund ("ALF"), to step in and address unmet financing needs. ALF has several advantages over traditional commercial lenders, private banks, and auction house lending operations:

- Speed. ALF can complete the due diligence process and fund the loan faster than lumbering commercial lenders.
- Flexibility. ALF is more flexible than traditional commercial lenders and is able to work closely with art dealers to tailor each loan to their specific needs.

- Insights. ALF can leverage the experience of its advisory board and their relationships in the fine art market for market insights, valuation expertise, and advisory services.
- Independence. Working with ALF allows borrowers to avoid selling restrictions imposed by auction houses and remain independent from banking relationships.

We prefer to invest in areas that are "capital short." With few other lenders in the space and growing financing demand from art dealers, ALF can make loans with favorable terms and strong safeguards. If you are interested in learning more, please visit www.shinnecock.com for an introduction to ALF. For a deeper look, our online data room (access available upon request) contains numerous articles and studies on art-secured lending and the fine art market.

Data Source: The European Fine Art Foundation. *Art Dealer Finance 2018.*

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you'll be attending so we can look for you!

Upcoming Events

Shinnecock will be in attendance and/or speaking at the following events. We'd be happy to have you join us!

March 11 – Austin
IvyFON SXSW Family Office Forum
Location: Foley Gardere, downtown Austin
For information and registration: Contact Marty Secada at martysecada2008@gmail.com