Six Characteristics of NextGen Art Collectors

Study reveals cultural shift

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"Collectors aren't sellers." It's long been a maxim that's defined the philosophical relationship between a collector and their art. This motivation to acquire or commission great works of art has taken many forms since the advent of Renaissance patronage. For the royal courts, it was power and prestige; for the aristocracy, recreation and pleasure; for the great industrialists, cultural refinement; and for the avant-garde, social stratification. Only recently have collectors begun to acquire pictures with at least one eye judiciously fixed on the financial implications. Yet despite increasingly predictable media accounts of the financialization of art, collectors still tend to be quite nuanced in their drive to collect.

To better understand the nuanced and evolving relationship between collector and collection, a 2016 U.S. Trust study surveyed 684 wealthy individuals, 30 percent of whom had greater than $10 million in investable assets. The results revealed an interesting generational divide between more *traditional* collectors still driven by connoisseurship and aesthetic pleasure and *next-gen* collectors increasingly concerned with how art behaves as a capital asset.

Six Key Characteristics

We identified six key cultural characteristics of the new breed of collector, each carrying implications for art market and estate planning professionals.

1. An eye on investment: Perhaps because they grew up during one of the greatest art market expansions in history, younger collectors are significantly more financially driven in their collecting and are more likely to view collecting art as a way to build significant wealth. This will require their financial and estate planners to incorporate this asset class into financial modeling and to focus beyond basic estate planning specifically for this asset.

2. Heightened expectations: Younger collectors are less likely to view art as a risky investment and more likely to expect sustainable price appreciation in the future… likely because they haven't experienced large down-cycles like the early 1990s pullback.

3. More commercially minded: Perhaps because of the rapid expansion of the secondary market, the ubiquity of art advisors and access to lower-cost digital sales channels, millennials are much more comfortable selling their art as they build their collections. The downside is that as transactions increase, so do taxes and transaction costs. As a result, tax and financial advisors will need to be engaged earlier to help mitigate the impact of federal and state taxes.

4. Art as loan collateral: Younger collectors are more willing to use their collection as loan collateral to take advantage of strategic investment opportunities. Though proceeds of art loans may be used to acquire more art, often proceeds are used to accomplish other personal or financial goals.

5. More socially engaged: Millennial and Gen X collectors are very socially engaged within the art world's new globalized experience economy. Within this community, art collecting has become an important means for social and political advocacy on an international stage. Moving beyond the borders, though, presents additional regulatory issues which planners must be mindful of.

6. A philanthropic mindset: Younger collectors are more apt to gift their art to nonprofit entities, while older collectors are far more likely to gift their art to family.

Effect on Planning Professionals

Art (and other collectibles) are probably the most difficult assets to incorporate into an overall tax and financial plan. They're by their very nature illiquid, don't produce cash flow (absent a sale), but most of all, they're among the most "emotional" assets that a collector owns. Collectors, at least traditionally, are more passionate about their art than they are about their stocks, bonds, real estate and perhaps even a family business. In short, art hasn't historically been viewed as a financial asset.

As the U.S. Trust study suggests, this mindset may be changing for younger and newer collectors, who consider the financial and investment aspects of owning art much more so than in the past. For planners, this means that conversations about appropriate planning techniques and ownership structures need to take place earlier in the planning conversation. For example, an active collector, who will be both selling as well as buying, may wish to own their art through a family partnership or trust rather than outright. And although record keeping has always been important, it becomes even more important when the collector is viewing their art more as an investment than merely for its aesthetic value.

Both income taxes (federal and state) and transfer taxes become more important than ever, as younger collectors tend to conduct more transactions.

And as younger collectors focus more on this asset class, their advisors need also to broaden their knowledge of the rules unique to this area and to their clients' increased activity.