



Art & Finance Report 2023
8th edition

INDUSTRY
INSIGHTS_

INTERVIEW

The "Great Art Mismatch"

By Sarah D. McDaniel, CFA, and Ferdousi Islam,
Art Resources Team (ART) at Morgan Stanley

Increased Velocity of Changing Tastes and Longer Lifespans

The intergenerational wealth transfer of US\$73 trillion in the coming decades¹ is challenging enough with new generations inheriting art for which they may not share the same appreciation. But there could still be another rude awakening from the restless slumber as next generations find themselves with collections that may have been more valuable in their parents' day.

Typically, collectors enjoy art during their lifetimes and then gift upon death. But as lifespans increase, the holding period for art in collections also extends. Art collected decades ago may initially increase in value, only to decline years later when tastes or social relevance have changed. The market for 19th-century Orientalist paintings, for example, has seen choppy waters in recent years, while the more current works of LGBTQ+ artist Salman Toor have glided to auction success.²

The predicament is acute, with financial advisors at Morgan Stanley noting that 84% of their clients own art and collectibles, according to a recent survey.³ At the same time, the conundrum is not new, with art museums bursting with aging collections that must position themselves for future generations. How does a family office preserve legacy integrity and still appeal to younger generations? And what, then,

Developing a governance system is critical to thoughtful planning, whereby a structure is created that establishes who makes decisions involving the legacy, succession and management of the art collection.

are some planning considerations for art collections on a multi-generational basis?

Family Offices: A Balancing Act of Old and New, Yours and Mine

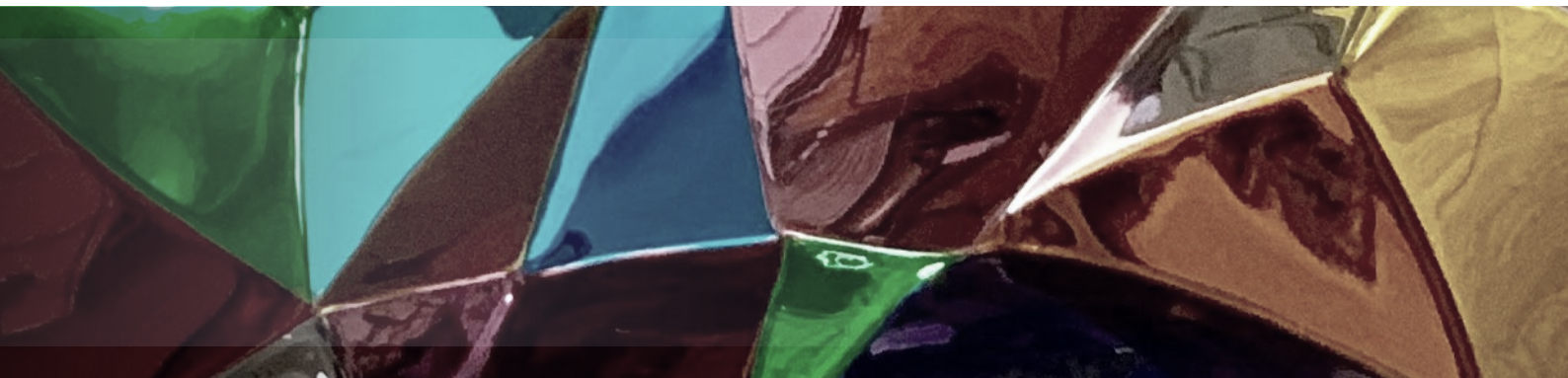
Buy, Build, Outsource

Developing a governance system is critical to thoughtful planning, whereby a structure is created that establishes who makes decisions involving the legacy, succession and management of the art collection. High-performing family offices choose models and legal structures that support their mission and key strategic decisions. Documentation is also required to memorialize how objective, scope, buying, selling, lending, borrowing and concentration decisions are made.

The family office should identify which services are most effectively provided

in-house and which should be outsourced. All service providers must be carefully vetted and seamlessly folded into the office's operations. Consideration of the art collection's size and value, cost-effective access to ongoing advisory, valuation and collection management services, and insurance and other costs should be factored into the blueprint. In particular, valuation and collection management bookend competent planning, with these services increasingly integrated through new technologies that provide art market analytics as well as the digitalization of provenance.

When hiring qualified art market professionals, the family office should recognize these roles are in high demand, and expectations should be clearly defined. Mounting pressures in the art world are requiring competitive pay structures in line with socio-economic developments,



including compensation benefit schemes. For example, per Sophie Macpherson Ltd's *2023 Art Market Salary Report*, art advisory directors can expect salaries of US\$85,000–200,000 in the US, depending on seniority.

Funding the Art Collection as a Going Concern

The family office should determine the source of funds to manage the art collection. Art is, after all, a negative cash flow asset with the potential for capital appreciation (and depreciation). Therefore, evaluating the relative cash outflows to maintain the collection vis-à-vis liquidity across the rest of the balance sheet is prudent.

The art-secured lending market grew to an estimated US\$31 billion in 2022⁴, while recently surveyed financial advisors at Morgan Stanley noted 44% of their clients are interested in art lending solutions.⁵ In consultation with a financial professional, the family office should weigh the potential benefits of art-secured lending against the risks.

On the one hand, proceeds from these loans may be deployed to diversify the art and/or investment portfolio, alleviate liquidity challenges inherent in the timing of purchases versus sales, or offset the expenses of owning art. However, on the other, there is risk the loan may be reduced or additional collateral required if the art

securing the loan decreases in value, and there is the potential to lose more money than invested in the work of art.

Families are proactively managing the sale of their art collections during their lifetimes to generate philanthropic currency aligned with their mission, or trading collections on an ongoing basis to potentially avoid a startling shift when addressing both current and future goals. For example, in 2022, Victor and Olena Pinchuk sold Jeff Koons' *Balloon Monkey (Magenta)* to raise funds for the RECOVERY project, which focuses on medical treatment and rehabilitation for the citizens of Ukraine.⁶

So Much Art, So Little Time (and Space)

One may assume museum donations are a possible solution for and mitigant to the "Great Art Mismatch." However, the days when museums courted collectors are over, with collectors more often courting the museums to secure even partial destinations for their artwork. Further, for museums whose collections are predominantly in storage, the donor may also be required to endow the donation so the museum has funds to insure and store the gift. In 2023, the Seattle Art Museum announced a US\$200 million gift of 48 Calder works from Jon and Kim Shirley, accompanied by a US\$10 million endowment and annual commitment of US\$250,000–500,000 for programming and research.⁷

Notably, while the number of new private art museums had been increasing for a time, this tendency seems to be waning.

Other collectors may create private art museums if their collections are sizable (i.e., hundreds or thousands of pieces) and would take decades to sell or place elsewhere. Notably, while the number of new private art museums had been increasing for a time, this tendency seems to be waning. Foundings declined from 24 in 2017 to 11 in 2021, while 74 private art museums closed between 2004 and 2021.⁸ It is reasonable to conclude that the cost of creating and running a private art museum with the subsequent generations may not be as effective or viable as with the founding family members.

Family Offices: Creating Impact in an Evolving Environment

A Sustainable Multi-Generational Road Map

Museums are meeting the sustainability challenge in a myriad of ways. They are demanding more diverse boards, curators, management and community engagement and seeking out more and diverse artwork and programming—i.e., shifting social values, recognition for the unrecognized, and new platforms giving rise to new voices.

The COVID-19 pandemic has also had the effect of rendering some museums introspective as they reexamine their past and recalibrate their present and future. Museums are re-curating their extant collections to include new scholarship or dust off works in storage, while the pursuit of carbon neutrality may shape the art they accept, from transportation challenges to the types of materials used.

Therefore, family offices would do well to understand museums' evolving objectives as they balance engagement with future

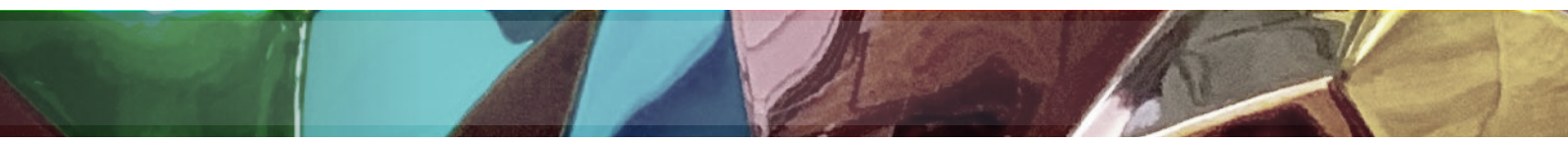
generations and historic preservation of the existing collection. For example, they should weigh the impact of the donation's composition for the museum that needs flexible liquidity against the donor's intent, and be aware of the US' revised Association of Art Museum Directors (AAMD) rules⁹ on the deaccessioning of artwork. The latter could help clear a path for new donations, but also provide a wider berth for removing artwork previously assumed to have a forever-home among the museum's holdings.

The Art of Donating Art

There are alternative non-profit recipients for artwork donation, such as universities and healthcare institutions, which may not have the challenges of a legacy collection nor the same restrictions around the use of donated property. In addition, engaging with the art may enhance educational programs or facilitate improved health. For example, non-profit institutions are commissioning leading artists such as Anish Kapoor and Tschabalala Self to produce artwork in aid of patient recovery in British psychiatric hospitals.¹⁰

An evolving donation landscape has also minted new solutions. Museums are now crowdsourcing fractionalized charitable donations to acquire works of art. Meanwhile, an innovative digital platform, Museum Exchange, aims to broaden non-profit institutions' access to donors and deliver fresh donation possibilities to formerly less obvious recipients, all with an emphasis on diversity.

Lastly, consider the selection of philanthropic strategies relevant to the family office's objectives. At Morgan Stanley, 56% of surveyed financial advisors indicated their clients are interested in



selling their art or collectibles.¹¹ If it is a donation, is the donor amenable to selling the art, and does the donor want to control the sale? Which is more beneficial to the donor or recipient—to sell the art then donate the proceeds, or donate the art and allow it to be sold, considering the latter may stigmatize the museum? In 2022, single-owner collections accounted for 31% of total auction sales by top auction houses globally.¹² Often with charitable intent, these single-owner sales, including Paul G. Allen, the Ann & Gordon Getty Collection and the Thomas and Doris Ammann Foundation were either sold by the estate or directly by the non-profit.

A Growing Age-Old Problem

Art's longevity is a blessing and a curse. While we frequently share a passion for art, it is with our own distinct preferences and as we enjoy new works and artists, we are increasingly tasked with preserving the burgeoning inventory of what has come before. A well-thought-out and documented plan can create an enduring family legacy and alleviate surprises as the next generation prepares to take its seat at the table.

Disclosures: This material is for informational purposes only and does not provide investment advice or any advice regarding the purchase and/or sale of any artwork. It is prepared without regard to the individual financial circumstances and objectives of persons who receive it. It is not a recommendation to purchase or sell artwork nor is it to be used to value any artwork. Investors must independently evaluate particular artwork, artwork investments and strategies, and should seek the advice of an appropriate third-party advisor for assistance in that regard as Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors do not provide advice on artwork. Morgan Stanley does not assist with buying or selling art in any way and merely provides information to investors interested learning more about the different types of art markets at a high level. Any investor interested in buying or selling art should consult with their own independent art advisor.

This material contains forward-looking statements and there can be no guarantee that they will come to pass. Information contained herein is based on data from multiple sources and Morgan Stanley makes no representation as to the accuracy or completeness of data from sources outside of Morgan Stanley. References to third parties contained herein should not be considered a solicitation on behalf of or an endorsement of those entities by Morgan Stanley. Neither the information provided nor any opinion expressed constitutes a solicitation by Morgan Stanley with respect to the purchase or sale of any security, investment, strategy or product that may be mentioned.

Past performance is not a guarantee or indicative of future performance. Any securities mentioned are provided for informational purposes only and should not be deemed as a recommendation to buy or sell. Securities discussed in this report may not be appropriate for all investors. It should not be assumed that the securities transactions or holdings discussed were or will be profitable. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Investing in the market entails the risk of market volatility. The value of all types of investments, including mutual funds may increase or decrease over varying time periods.

Tax laws are complex and subject to change. Morgan Stanley, its affiliates, and Morgan Stanley Financial Advisors, Private Wealth Advisors, and International Client Advisors do not provide tax or legal advice. Individuals are urged to consult their personal tax or legal advisors to understand the tax and legal consequences of any actions, including any implementation of any strategies or investments described herein. Clients should also consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning, charitable giving, philanthropic planning and other legal matters.

This material may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the material refers to website material of Morgan Stanley, the firm has not reviewed the linked site. Equally, except to the extent to which the material refers to website material of Morgan Stanley, the firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Nor do we guarantee their accuracy and completeness. Such address or hyperlink (including addresses or hyperlinks to website material of Morgan Stanley) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through the material or the website of the firm shall be at your own risk and we shall have no liability arising out of, or in connection with, any such referenced website. By providing the third-party publication(s) and/or links to a third-party website(s), we are not implying that Morgan Stanley has an affiliation, sponsorship, endorsement, etc. with the third party or that any monitoring is being done by Morgan Stanley or its affiliates of any information contained within the publication(s) or website(s). The opinions expressed by the author(s) are solely their own and do not necessarily reflect those of Morgan Stanley.



Endnotes

- 1 Cerulli Associates, "[Cerulli Anticipates \\$84 Trillion in Wealth Transfers Through 2045](#)," press release, January 20, 2022. Cerulli projects that wealth transferred through 2045 will total US\$84.4 trillion, with US\$72.6 trillion in assets transferred to heirs and US\$11.9 trillion donated to charities.
- 2 Nasser Rabbat, "[Occidental Tourists](#)," Artforum, July/August 2020; Alexandra Bregman, "[Pakistani Artist Salman Toor Sells Four Friends \(2019\) For \\$1.2 Million](#)," Forbes, November 23, 2022.
- 3 Morgan Stanley Smith Barney LLC analysts conducted a web-based survey of approximately 2,500 financial advisors concentrated in New York, California, Illinois and Texas from 1 March 2023 to 14 March 2023. Advisors were selected by isolating major metropolitan areas where significant sales and activity related to art and collectibles occur. Data collected included, but was not limited to, the following: identifying the percentage of financial advisors at Morgan Stanley with (a) clients that own art and collectibles; with (b) clients that are interested in art lending solutions; and with (c) clients that are interested in selling their art or collectibles.
- 4 Deloitte, [Art & Finance Report 2021](#), 2021, p.193.
- 5 See endnote 3.
- 6 Christie's, [Jeff Koons on the sale of his sculpture to aid Ukraine: 'Art's true value is to be of service to humanity'](#), June 2022.
- 7 Maximiliano Durón, "[Seattle Art Museum Gets Major 48-Work Gift of Alexander Calder Works and \\$10 M. Endowment from Former Microsoft President](#)," ARTnews, April 4, 2023.
- 8 University of Amsterdam, [Beyond the Global Boom: Private Art Museums in the 21st Century](#), April 2023, see p. 11 on declining new foundings as well as pp. 43-53 on private museum closures; Melanie Gerlis, "[Flock of bidders expected for \\$30mn Rousseau flamingos](#)", Financial Times, April 22, 2023.
- 9 Caroline Goldstein, "[In a Major Shift, Museums Can Now Use the Proceeds From Deaccessioning for More Than Just Buying Art](#)," Artnet, October 3, 2022.
- 10 Marshall, Alex, "[Bringing World-Class Art, and Wonder, to Mental Health Patients](#)," The New York Times, November 17, 2022.
- 11 See endnote 3.
- 12 ArtTactic, [Single Owner Collection Auction Analysis 2016 – 2022](#), November 2022, p. 3