

ART IS NO LONGER FOR PLEASURE. IT'S AN ATTRACTIVE INVESTMENT THAT YIELDS EXCEPTIONAL RETURNS

FOR most Indians a piece of art is an object of pleasure and is used to adorn their homes.

The development of a strong art market is making artwork a tangible asset too. Art is an investment class which has seen a sharp rise in demand from not only corporate houses, but also homemakers, decorators and collectors.

What is also drawing investors is the exceptional returns. Some fortunate investors have seen their art investments appreciate by 1200% in five years — a return unmatched by mutual funds or equity. Funds are estimated to have given a return of 600% over the last five years compared with the Sensex which has appreciated by only 100% and property, which has given a return of 110%.

Those advocating art as an investment do so because of the need to diversify investments, especially at a time when most markets are witnessing extreme volatility. People typically have viewed art as an asset class where prices do not fall in tandem with alternative asset classes. The total size of the domestic art market is estimated to be around Rs 1,000 crore.

The Right Choice

A number of factors have to be kept in mind while buying art as an investment. According to wealth managers, the key areas that one needs to look out for are liquidity, the track record of the artist and the commission charged by agents. The biggest differentiator is the artist himself as the valuation of art is governed by his brand equity. It has been observed that the value of the works of the artist multiplies manifold after his death, as

supply comes to a standstill.

Oslan chairman Neville Tulli points out that all the provenance documentation, including the full title and ownership checks, needs to be in place for ensuring the authenticity of an artwork. Further, most galleries or auction houses provide legal contracts and invoices and the full payment is accepted through cheques. "Also, in case of living artists it is advisable to have a document from them confirming the authenticity of the work," says Tulli. Himanshu Kohli, partner, Client Associates, a wealth management firm based in Gurgaon, explains that to avoid purchasing duplicate artworks, one must always insist upon a signature of the artist on the painting or else, ask the art gallery to issue a certificate of valuation.

Art funds, experts suggest, could be a better proposition than individual investments in art given the high commission structure. Commission is charged both on purchase as well as sale of artworks. The commission for sale is in the range of 10-25% whereas in the case of purchase, buyer's premium is charged depending upon the rarity of work which is between 15-25%.

The prices of paintings vary from anywhere between Rs 1-2 lakh for a beginner's work to more than Rs 1 crore for works of artists of high repute such as MF Hussain.

According to a senior official from a multinational bank, an investor must earmark up to 15% of his total portfolio to alternate asset classes such as commodities, real estate and art. Of this, 1-5

percentage points must be apportioned towards art investments. Only in cases where the investors are extremely comfortable with the purchases made is an investment up to 10% of the total portfolio advised. However, wealth management experts suggest that investors must build up their holdings in artworks by making small ticket investments of Rs 10-20 lakh, over a vast period of time rather than making a one-time investment of a huge sum of say Rs 1 crore.

Road Ahead

HDFC Bank head (private banking) Abhay Aima said, "Going forward the evolution of regulatory standards and credible organisations to verify credentials of artists will help in making art a more structured asset class."

Tulli feels that over the next six to 10 years the development of infrastructure could give an impetus to the role of the arts in India's socio-economic-political framework. Also, financial institutions providing credit to the art market and corporate policies including purchase of art in a systematic manner could boost the market. Further, there is a likelihood of emergence of a full-fledged mutual fund industry for art.

PREETI R IYER

The Art of Investment

