

# Hidden treasure

The demand for state-of-the-art warehouses to park art and other valuable collectibles is growing – due in no small part to their tax-free advantages. *Jessica Tasman-Jones* takes a look at the world of freeports and whether it makes sense for a family office to hide its art away



After an afternoon exploring the collections of the Metropolitan Museum of Art in New York, or London's National Gallery, you might be left overwhelmed with the vast collection on display. A Holbein around one corner, or a Vermeer around the next. But perhaps even more overwhelming is that typically the world's top museums keep upwards of 80% of their collections in storage. It might seem a shame to have such important cultural objects out of sight, but space is at a premium, and it's not just a problem for public institutions – private collectors too are seeking storage solutions for their overflowing collections.

Take for instance Le Freeport Luxembourg – a storage facility opened adjacent to the small European nation's airport in September. The four-storied facility with 22,000 sq m of storage space on offer was at over 60% capacity before the ribbon cutting ceremony had even taken

place. Managing director David Arendt says a "normal priced" painting measuring 60cm by 80cm can be stored for as little as €2 a day, but clients can also acquire a whole unit (averaging around €1,300 per month for a 20 sq m unit) if their needs are more substantial. Besides the controlled and secure environment the freeport offers, the facilities offer tax advantages – suspension of value-added tax (VAT) and customs duty.

Already a financial services centre, Luxembourg is trying to grow its art advisory offering, as wealth managers increasingly twig to the substantial wealth tied up in their clients' collections. The art and antiques market reached €47.4 billion in 2013, and that's just the transactions that take place in the light of day, at the likes of Sotheby's or Gagosian. Many sales go unrecorded, between private collectors, for example, or behind freeports' vaulted doors.



**Left:** Between museums, galleries and wealthy collectors, a vast number of artworks are kept hidden away in storage. Here Roy Lichtenstein's *Whaam!* emerges from storage to go on display at Tate Modern



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Photography: Press Association

Freeports are known for their discretion and the total value of collectibles stored in them worldwide is not known, but last year's European Fine Art Fair's annual report (the TEFAF report), cited an estimate that globally there was \$100 billion in storage in these facilities. In a *New York Times* article, art dealer Simon Studer described his first job completing inventory at a Swiss freeport – a stock take of thousands of drawings, paintings and sculptures by Picasso. The Nahmad family of Monaco is rumoured to have dozens of the artist stored away, and has been criticised in the past for keeping up to 90% of their 3,000-strong collection in freeports (by comparison, Britain's National Gallery houses 2,300 pieces).

It seems a shame to consider the work of some of art history's great figures locked behind vaulted doors, but Arendt says the purpose of Le Freeport Luxembourg is to "conserve the cultural integrity of works of art and the capital

value of the goods that are trusted to our care". He says there are two reasons art lovers may not be able to keep their masterpieces on their own walls, the first being that their collections are already overflowing and wall space is at a premium. "That's unfortunately the case for many collectors, including myself. Secondly, there are insurance reasons," Arendt says. "If you have one Van Gogh in your home that's probably okay, but when you bring the second one in the insurance company will say 'no, no, no, that's too risky'."

It's not just art housed in these big treasure troves, although Arendt estimates it accounts for around half of objects. Also in storage are gold, precious jewels, fine wines, and even collectible cars. However, not all artifacts housed have been above board in the past. In 2004, Italian art dealer Giacomo Medici (not to be confused with the renowned Renaissance family of collectors) was convicted for dealing stolen artifacts. A raid by Italian and Swiss police on a Geneva freeport had found thousands of illegally gained ancient vases, frescoes and other artifacts. One family office executive, who didn't want to be identified, confirms freeports have, in the past, been viewed as places where people could hide things. "They have definitely clamped down on that in Switzerland, and the Singapore Freeport has opened more recently, and likewise Luxembourg, so you have to be more transparent about what you're putting in there."

With the recent openings of the Singapore Freeport and Le Freeport Luxembourg, as well as the Beijing Freeport of Culture set to open by the end of the year, there seems to be a sudden proliferation of the facilities (Switzerland had previously been the only major player – a position it had enjoyed since the 1970s). This could be partly due to the changing motivations for buying collectibles. This year, the third annual *Art & Finance* report, released by Deloitte and art market analysis firm ArtTactic, revealed 76% of buyers are now acquiring art and collectibles with an investment view, compared to 53% in 2012. If they keep their investment in a freeport, they could save "pre-financing" upwards of 25% in VAT and customs taxes, depending on where the piece is bought.

"If I'm a UK resident and I buy a painting in the US or China and I export it straight to the

freeport, it will remain in suspension of tax until I import it into the UK,” says Adriano Picinati di Torcello, director in the art and finance division at Deloitte. He says suspension is the important word, because Le Freeport Luxembourg doesn’t allow an exoneration of tax, although pieces can be stored in these facilities indefinitely. Freeports aren’t meant to circumnavigate capital gains taxes, but the TEFAP report says in practice an object could change hands multiple times behind a freeport’s vaulted doors and authorities would be none the wiser.

Family office professionals, explains Picinati di Torcello, are typically very active in incorporating art into their offering compared to other wealth managers. “They have a very broad view on all the assets of the family, from insurance to real estate to corporate to art and collectibles.” According to the 2014 *Art & Finance* report, around half of family offices are buying art as a diversification strategy. “Some families are buying art, not as an investment per se, but to diversify their assets, so it’s a store of value. If they want storage, Le Luxembourg Freeport is the perfect facility to do that,” Picinati di Torcello says. According to the *Art & Finance* report, art-related tax, estate and succession planning issues will be a strategic focus for 88% of family offices in the next year.

Clients of multi family office Stonehage use freeports to varying degrees, says Georgina Hepburne Scott, head of the art management division. “They have high security, and the humidity and temperature control are constant, so it’s very beneficial for the artworks. When art is in someone’s home the environment can quite often fluctuate,” she says. “But the negative is it’s locked away and out of view. I do have clients who go to the freeport when they’re passing through, to look at their art.” As Picinati di Torcello points out, Luxembourg’s airport is a very convenient landing spot for private jets, and the tarmac is just 700m from Le Freeport Luxembourg.

Those that have been to a freeport describe them as something straight out of a *Mission Impossible* or *James Bond* film. Within one freeport, several logistics companies will act as operators. At Le Freeport Luxembourg there are six; some specialising in fine art, others in precious metals, and one even focusing on data storage. A client to such a facility would be met by multiple layers of security; think bolted doors one after the other,



fingerprint recognition technology, and cameras at all angles. Only then would they reach their prized collectibles. Hepburne Scott describes the first individual unit she visited as “a real treasure trove”. “I thought ‘this is one unit, in one storage company, in one freeport, and there are hundreds across the world.’”

Across the Atlantic, Suzanne Gyorgy, head of art advisory and finance at Citi Private Bank, says US clients are not put off by flying their artworks to freeports in Europe or Asia, because they use the facilities specifically for tax purposes. “So it’s not like people who live in New York and store at the warehouses around New York while they’re having the living room painted, it’s a different mind-set,” Gyorgy says, “That storage is good for convenience, like when we put our winter clothes in storage.”

There have, however, been some instances of water and fire damage in these regular art storage facilities. This could be devastating (for both art lovers and insurers alike) if it hit the high concentration of treasures stored in the world’s main freeports. Hurricane Sandy, the 2012 superstorm that battered the US and Caribbean, hit one of Christie’s storage warehouses in Brooklyn. The auction house’s storage arm is now being sued for negligence by



**Above:** Suzanne Gyorgy, head of art advisory and finance at Citi Private Bank, says their clients tend to use freeports for tax purposes

**Top:** Le Freeport Luxembourg – its state-of-the-art facility was already at 60% capacity when it opened in September



Axa Insurance over art owned by the Jacqueline Piatigorsky Foundation, which manages the collection of the late chess-playing Rothschild heir. In the UK, advertising mogul and prolific collector Charles Saatchi lost a significant number of artworks when part of London storage facility Momart went up in flames. The fire destroyed work by many from the Young British Artists movement, including Tracey Emin and Damien Hirst.

Hepburne Scott says despite the controlled storage environments of freeports, it's still important to regularly check the conditions of artworks. "A concern is that you think it's safe and then look at it in 10 years time and see that the condition has degenerated."

Collections under the care of Citi Family Office Art Advisory Group undergo a full inventory each year to check artworks' condition, explains Gyorgy. From this annual audit, recommendations are made about whether the time might be right to sell, or if a stored piece could be reinstalled in a home. She adds that many of her clients rotate their collections in and out of storage, just as a museum would do. "It's a fun thing to do because, whatever paintings you have on the walls, after a while you don't see it anymore. By rehangng or bringing together different works it creates different dialogues and keeps the collection interesting." At Stonehage, clients occasionally consider a museum-like location in which to store artwork, although Hepburne Scott says the reality of finding a secure and convenient space can prove challenging.

So if you are not able to enjoy your art yourself, is there anyone else who can? Picinati di Torcello says Deloitte promotes philanthropic activity, and there are many schemes that would allow a collector to loan from Le Freeport Luxembourg while still maintaining tax advantages. "If you take a foundation that is buying an artwork in Miami, bringing it to Le Freeport Luxembourg in suspension of VAT, and afterwards they want to show the artwork in London or South Africa or wherever in the world, they can benefit from the temporary suspension regime when it is going to these museums."

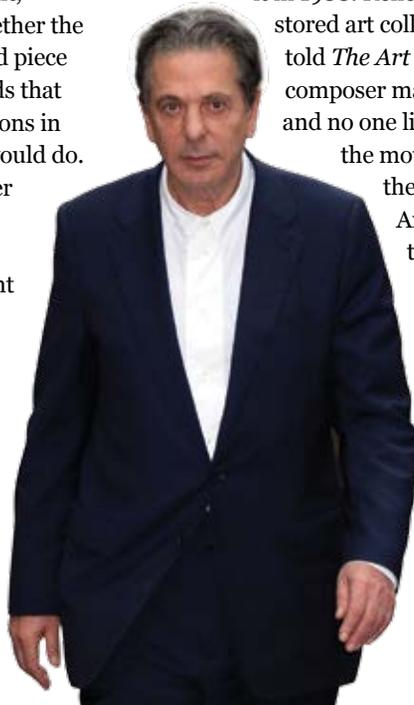
For the Nahmads, an approach by Swiss art gallery Kunsthaus Zürich prompted the family to display a selection of 100-plus works from its collection, including an important Picasso, *Harlequin with Flowers* (1923/1924), that had been out of the public eye since they purchased it in 1988. Reflecting on his family's stored art collection, Helly Nahmad told *The Art Newspaper*: "It is like a composer making a piece of music, and no one listens to it. That is one of

the motivating factors behind the Kunsthaus exhibition.

After that, we'll have to think about future plans for the collection."

Collectors that want to connect with the curators of non-profit museums seeking works for exhibition, can do so through organisations such as Vastari. The

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**Top (from left):** Artist Tracey Emin with her installation *The last thing I said to you is don't leave me here*, which was destroyed at a fire at London storage facility Momart in 2004. Damage at the facility (pictured top right) cost art insurers tens of millions of pounds, and prominent collector Charles Saatchi (left) lost more than 100 paintings

Photography: Press Association, Max Chivers/The Independent/REX, Invicta Kent-Medial/REX



**Left:** The Nahmad family's collection on display at the Kunsthaus Museum – many of the paintings on display had been in freeports before the Zurich exhibition

**Below:** Fine art dealer and billionaire David Nahmad in front of a Picasso at the Kunsthaus Museum exhibition – the family is believed to have dozens of works by the artist in storage

organisation, headquartered in London, lets collectors alert curators to what works they have in their collection or in storage, something that can be done anonymously, or browse calls for entries from curators. Vastari's Francesca Polo says many of their top clients are avid collectors who end up with at least part of their collection in freeports, but also want to share their collections when they can.

Motivations for loaning artworks are primarily the pleasure a collector gets from sharing what they own, Polo says, but she adds that there are also financial benefits. These include maintenance costs savings, such as storage and insurance. The museum may be willing to perform conservation or academic research into any piece loaned. Furthermore, an artwork's appearance in an important exhibition can directly impact its market value. Polo says this is hard to quantify, but could be 20-30% depending on the exhibition or the piece.

Digitising collections could be another option for family offices that want to enjoy their artworks but still want to use the tax advantages of the freeport. The UK's Public Catalogue Foundation, a charitable organisation, creates high-resolution catalogues for public museums such as Tate Modern and the National Portrait Gallery. This is to help public galleries fulfill their remit to have accessible collections by sharing their artworks online (their website Your Paintings is hosted by the BBC). Private collections can pay to use the organisation's services too. Privately-owned artworks don't necessarily have to be shared online (although the organisation would welcome that), but do provide collectors with a pictorial audit of what they have.

To counter some of the cultural disadvantages of keeping precious artworks stored away, Le



Freeport Luxembourg is encouraging clients to loan works to local museums to improve the small country's cultural offering. Some of the country's prominent institutions include Musée d'Art Moderne for contemporary art, or the more traditional National Museum of History and Art. "In Luxembourg we are a young country, we don't have too many private and public collections, so we will certainly encourage those who have collections stored with us to lend them to our museums," says Arendt.

As an art collector himself, Arendt hopes people buy art or collectibles because of the emotion triggered by a particular object. "Nevertheless it is clear many people see capital appreciation in art," he concedes. "I think the trigger should be the emotion and if there is a financial benefit so much the better. But it should not be the prime motivation to buy art or any collectible." So is art something to be displayed or stored? With the proliferation, and popularity, of freeports the answer seems slightly less clear. 

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making  
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