Money

Leveraging Luxury

Posh pawnshops turn conspicuous consumption into cold hard cash.

By Anthony Effinger

Photograph by **JAMIE CHUNG**

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> Last year, Marc Kaye suffered a cash shortage. He had tuition to pay at three colleges—including Harvard and Columbia—and his insurance business wasn't generating enough commissions to cover the bills. Then Kaye remembered a friend in London who had pawned his Patek Philippe watch with a company called Borro Ltd. to cover a similar gap. Unlike traditional pawnshops, filled with guns and personal computers, Borro lends against luxury items. It's the pawnbroker to the 1 percent.

So Kaye, an art collector, took a Picasso etching—*Three Nude Women Near a*

Window—off the wall of his house in Long Beach, New York, and jumped on the Long Island Rail Road to Borro's offices in Manhattan. The next day, he had $39,500 in his bank account, and Borro had his Picasso in a secure art storage facility.

"I paid the loan back in six months, and I'm looking at the Picasso now," Kaye, 61, says in a telephone interview from his second home in Delray Beach, Florida. "People who own their own business are often cash poor."

London-based Borro is the creation of British technology entrepreneur Paul Aitken, who got the idea for an upscale pawnshop after depositors staged a run on Northern Rock Plc, concerned it would collapse. Until then, the world's wealthy had been snapping up Bentleys, pink diamonds and loads of expensive watches, often on easy credit. Soon, Aitken figured, folks would be looking to turn those assets back into cash.

His timing was perfect. Aitken launched Borro in August 2008—a month before Lehman Brothers Holdings Inc. went bankrupt. World markets swooned, and thousands of workers in the City of London stopped buying BMWs and started pinching pounds. He expanded into the U.S. in January 2012.

Since then, Aitken has made loans—the standard term is six months, but borrowers can request an extension—against Harry Winston diamond-and-ruby earrings ($315,000), a 2013 BMW M5 ($82,500), a Patek Philippe 5960P ($30,000) and a Salvador Dali watercolor ($20,000). He anticipates revenue of $17 million this year—almost double 2012's take—and expects to be profitable next year. In September, he opened a sleek new office in midtown Manhattan, nine floors down from a smaller, outdated one.

To most people, pawnshops imply desperation. Aitken says it's different at the upper end. Many of his clients are entrepreneurs, entertainers and sports stars. They're accustomed to booms, busts and—even more likely—temporary cash shortages. "People who consume luxury goods are risk takers," Aitken says.

Besides, if his clients were desperate, they wouldn't repay the way they do, he says. About 90 percent of borrowers make good on their loans and get their stuff back. Rarely does Borro have to take an item out of a safe or a secure parking garage and sell it.

Borro is part of a growing industry looking to turn consumables into cash and back again. Like Borro, many are online: Ipawn, Pawngo, Pawntique, PawnQ, UltraPawn and Zillidy. They've sprung up because banks remain reluctant to lend to individuals and small businesses, says Stephen Krupnik, a pawn-industry consultant and author of the book *Pawnonomics*.

An Andy Warhol Mao print and Fender Telecaster guitar are among the high-priced pawn at Borro's London storage facility.

COURTESY OF BORRO

Borrowing from Borro, or any pawnshop, isn't cheap. In New York, for example, the maximum rate is 4 percent a month, for an annual rate of 48 percent. Borro's max is 3.99 percent. On a $20,000 loan, that's $798 a month. Hold the loan for six months, and you'll pay $5,788—including a $1,000 setup fee that covers appraisal and other costs.

Like Borro, Flexborrow in Jericho, New York, is going after high-end hockers. Not surprisingly, co-founder Gary Brustein—once the biggest Bentley dealer in America—and his partner, Paul Greco, plan to focus mostly on cars. "We're here to loan against excess luxury," says Ron Phillips, a former hedge-fund manager and an investor in Flexborrow.

In September, Greco headed to Palm Beach, Florida, to inspect a 63-foot (19-meter) motor yacht before lending $300,000 and sailing it to a Flexborrow storage facility in Pompano Beach, 40 miles (64 kilometers) away. Ideally, people should borrow against boats in the autumn, Greco says, when most owners take them out of the water anyway.

Another company, Trov Inc., takes the notion of leveraging your luxury goods a step further. Based in San Ramon, California, Trov uses its proprietary software system to catalog all of your art, jewelry, wine and other high-priced possessions. It keeps track of whether your Anselm Kiefer is going up in value (probably) or your 2009 Chateau Lafite Rothschild is going down (yes, to an eight-month low in September on London-based electronic wine-trading exchange Liv-ex).

Trov's knowledge about your stuff is power. Case in point: A client inherited an art collection in the 1980s. He had one piece insured for $350,000. Today, that piece is worth more than $50 million, according to Trov founder and chief executive officer Scott Walchek, who values the collection as a whole at half a billion. At the very least, the owner needs more insurance. What's more, Trov has a partnership with Borro, so if the client wants to raise cash quickly, he'll be far more knowledgeable about which pieces to proffer.

Kaye chose his Picasso because he didn't want to haggle over something less recognizable, like, say, his Alexander Calder lithographs. Kaye bet right and got his money in less than a day. He paid his three kids' tuitions, then went out for a $200 sushi dinner. Kaye says he's been collecting art for most of his adult life and has never before had to part with a single piece. Because of Borro, he still hasn't.