



# The International Art Market 2007-2009

Trends in the Art Trade during Global Recession

art  
market  
report

TEFAF MAASTRICHT



# **The International Art Market 2007-2009**

Trends in the Art Trade during Global Recession

**THE EUROPEAN FINE ART FOUNDATION**

Prepared by Dr Clare Mc Andrew

## Colophon

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## Table of Contents

Foreword	5	<b>CHAPTER 5</b>	
Acknowledgements	7	<b>Art Prices</b>	77
		5.1 Dealer Prices	
		5.2 Fine Art Prices at Auction	
		5.3 Prices by Sector	
		5.4 Conclusions	
<b>CHAPTER 1</b>		<b>CHAPTER 6</b>	
<b>Introduction and Key Findings</b>	9	<b>Art Buyers and Art as an Investment</b>	117
		6.1 Art as a Luxury Good	
		6.2 Art Collectors and Investors	
		6.3 Top Global Art Collector Research	
		6.4 Institutional Collectors	
		6.5 Art as an Investment Asset	
		6.6 Returns on Art Investment	
		6.7 Risk	
<b>CHAPTER 2</b>		<b>CHAPTER 7</b>	
<b>The Global Art Market Today</b>	17	<b>Economic Impact</b>	141
2.1 Art Market Overview		7.1 Employment	
2.2 International Market Share		7.2 Ancillary Economic Impact	
2.3 The Auction Market		7.3 Conclusions	
2.4 The Dealer Market			
<b>CHAPTER 3</b>		<b>APPENDIX 1</b>	
<b>The Global Cross Border Art Trade</b>	39	<b>Art Price Indices</b>	157
3.1 International Trade			
3.2 Imports			
3.3 Exports			
3.4 Trade by Sector			
3.5 Intra and Extra EU Trade			
3.6 Trade Regulation			
<b>CHAPTER 4</b>			
<b>Country Focus</b>	55		
4.1 The United Kingdom			
4.2 France			
4.3 Other European Markets			
4.4 The US			
4.5 China			

## Foreword

Ten years ago TEFAF initiated a programme of independent research into aspects of the international art market. The resulting studies, published annually since then, have become established as an authoritative source of information on a global sector of significance both for the economic and cultural contributions it makes.

Subjects examined have included the increased globalisation of the market, the Contemporary art market, VAT and the European market in the context of the international art market as a whole.

This new report, commissioned by TEFAF from Dr Clare McAndrew, an economist specialising in the art market, looks at the market in the

wake of the economic turmoil of 2008 and 2009. Dr McAndrew has not only drawn on the available statistical information, but she has also sought the views of dealers and collectors. She concludes that, although some sectors of the international art market have undoubtedly been affected by the economic recession, others have fared much better than might have been expected. Although total sales in 2009 were well down on the boom year of 2007, they still exceeded any year in the art market's history before 2006. The possible reasons why the market was affected less severely than anticipated are set out by Dr McAndrew.

We are grateful to Anthony Browne who inspired and oversaw this study and the ones that have gone before.

**Willem Baron van Dedem**  
**Ben Janssens**

President  
Chairman

## Acknowledgements

The information presented in this TEFAF study is based on data gathered and analysed directly by Arts Economics ([www.artseconomics.com](http://www.artseconomics.com)) from auction houses, dealers, art collectors, art and financial databases, industry experts and others involved in the art trade.

An important part of the research involved a global survey of art dealers. I would especially like to thank Erika Bochereau of CINOA (Confédération Internationale des Négociants en Oeuvres d'Art) for her continuing and most generous support in making this survey possible, along with the presidents of the dealer associations around the world. My sincerest thanks and appreciation to all of the individual dealers who took the time to take part in the survey. Thanks also to Petra Youngová and Maria Ryazanova for their help with translating the survey.

There are too many dealers to thank individually, but I am very grateful to all of the TEFAF dealers that helped with the research, and especially to Ben Janssens, Jorge Welsh and James Roundell.

This year, for the first time the research included a survey of some of the top global art collectors. I would very much like to thank all of those

individuals who took part and lent their most valuable time to offer invaluable insights into the art market.

Many thanks to all of the auction houses that took part in the survey and helped with the research. I would especially like to thank Jay Sun (China Guardian) for his great assistance on my research in China. Thanks also especially to Gerard Barrett and Francois Curiel (Christie's), James Salzman and Tom Christopherson (Sotheby's), and Chris Watson (Bonham's).

I am very grateful for the help and support of Jie Wan and Gloria from Artron Art Market Monitoring Centre, for their data on the Chinese art market. Many thanks also to Robin Duthy, Art Market Research, for the use of his average price indices.

I am most grateful once again to Anthony Browne for his generous time, encouragement and for the benefit of his knowledge and experience in the art market in assisting with all aspects of this study.

**Dr. Clare McAndrew**  
Arts Economics

CHAPTER 1

# Introduction and Key Findings

## Introduction and Key Findings

The aim of this TEFAF study is to examine the global art and antiques trade, focusing particularly on the period from 2007 to 2009. This research follows a major study sponsored by TEFAF in 2007/08, *The International Art Market: A Survey of Europe in a Global Context*, which analysed the global art trade from a macroeconomic perspective from 2002 through 2006.

The outline of the report is as follows: Chapter 2 provides an overview of the global art market in terms of size and geographic market share. It examines dealer and auction sales in terms of value, volume and market share. Chapter 3

looks at cross border trade flows in the global art market through the analysis of import and export data. Chapter 4 focuses on some of the major art markets in detail, namely the UK, France, China, the US, and other major European markets. Chapter 5 discusses prices in the art market and reviews the performance of some of the main sectors in the fine art auction market including Contemporary, Modern, Impressionist and Old Masters. Chapter 6 examines some of the factors that influence art buyers and discusses art as an investment. Chapter 7 concludes the study with a review of the economic impact and employment contribution of the global art market.

### Key Findings

- In 2008, total sales in the global market for fine and decorative art reached just over €42.2 billion, down over 12% from its peak in 2007 of €48.1 billion. In 2009, sales are estimated to have slipped further, dropping by about 26% to €31.3 billion as the effects of the global recession filtered down to some sectors of the art market.
- The fall in sales from 2007 to 2009 represents one of the biggest contractions in the art market since its previous recession in the early 1990s. However sales in 2009 are still well above any year of the arts market's history before 2006.
- Global sales of art and antiques are divided between auction houses and dealers, which shared approximately 45% and 55% of the market respectively. Global auction turnover in 2008 was approximately €19bn, down 21% from the previous year. Auction sales were particularly badly hit by the recession, falling 32% in 2009 to reach just under €13 billion. The dealer sector generated approximately €23.2 billion in sales in 2008, falling by 3% from a peak of €24 billion in 2007, but experienced a sharper fall of 21% in 2009 to €18.4 billion.
- Just under 50% of the value of all transactions in the global market took place in the EU in 2008, which achieved a total market turnover of €20.7 billion in 2008. The UK continues to dominate the EU art trade, with a majority share in 2008 of 69%.
- The US and UK continued to dominate the global art and antiques market in 2008, with a combined share of just over two thirds of the value of all transactions. The US has retained its leading share of the market over the last ten years, however its margin has declined, as its art market was one of the worst affected by the global recession. In Euro values, its global market share dropped 11% from 2006 to 2008 reaching a level of 35%, while the UK has made relative gains in share over the same period from 27% to 34%. In 2009, the market shares of the US and UK further declined to a combined 59% (with the UK at 29% and the US at 30%).

- China has continued to gain share in the global market. In 2007, it achieved the third largest sales worldwide, and in 2008 maintained that position with a share of 9% (ahead of France's 6%). The Chinese art market, including both Mainland China and Hong Kong, reached a total of €3.8 billion in 2008. The Chinese art market bucked the trend in the rest of the world and increased aggregate sales in 2009 by 12%, boosting its share of the global art market to 14%, and reaching a high of €4.2 billion.
- From 2007 to 2008, the number of transactions in the art market dropped by just over 12% to 44 million, and contracted further in 2009 with a drop in works of art sold of nearly 18% to 36 million.
- The EU was a net exporter of art in 2008, with exports of €5.5 billion exceeding imports of €4.9 billion. The US is the largest global trader of art and a net exporter in 2008 with €5.2 billion in exports and €4.9 in imports.
- Average prices in several sectors of the art market dropped during 2008 and 2009. Just as a small number of very high priced sales helped to inflate averages in 2006 and 2007, the reduced number of high value works sold over the next two years was reflected in a drop in average prices.
- Within the fine art market, different sectors of the market have different (and often independent) growth trajectories in terms of prices, volume of sales and sales values. Prices in most sectors however peaked in 2007, and have decreased in 2009.
- Despite multi-million dollar lots receiving most of the attention in the media, by far the majority of art trading takes place at the lower priced end of the market, regardless of the sector.
- The middle market (in terms of prices) appears to have been one of the worst hit by the global recession in 2008 and 2009, while the very high and very low ends of the market have fared better.

- The auction market for Contemporary art grew from €92 million in 2002 to €915 million in 2008, or just under a tenfold increase in value. Just as it had been a leader in the expansive phase of the art market, the Contemporary sector has also led its decline. It was hit worst by the fallout of the global financial crisis and dropped by nearly 60% to €378 million by the end of 2009 in terms of aggregate sales values (at auction), with a drop in both the number of lots sold and in prices.
- While the global economic recession has meant that outright global demand was weaker for luxury collectibles and consumables, there has also been a shift in luxury-purchasing habits, as many HNWI<sup>1</sup>s looked to secure their wealth in assets with long-term tangible value. This has worked strongly in favour of the art market and the share of art in HNWI's "investments of passion" actually rose from 20% in 2006 to 25% in 2008, as investors looked for assets with more enduring value.
- There are currently over 400,000 listed businesses in the art market worldwide. These businesses support close to 2 million jobs and also a substantial amount of indirect employment and revenue through links to a range of other industries associated with the art trade.

<sup>1</sup> High net worth individuals (HNWIs) refers to those individuals having investable assets of \$1 million or more, excluding their primary residence, collectibles, consumables and consumer durables.

CHAPTER 2

# The Global Art Market Today



In 2008, sales in the global art market reached €42.2 billion.

## The Global Art Market Today<sup>2</sup>

### 2.1 Art Market Overview

In 2008, total sales in the global market for fine and decorative art reached just over €42.2 billion, down over 12% from its peak in 2007 of €48.1 billion.<sup>3</sup> In 2009, sales are estimated to have slipped further, dropping by about 26% to €31.3 billion, as the effects of the global recession filtered down to some sectors of the art market. The fall from 2007 to 2009 represents one of the biggest contractions in the art market since its previous recession in the early 1990s. However it is important to note that sales in 2009 are still well above any year of the arts market's history before 2006. The size of the recent decline is due

to the heights reached in some sectors of the art market during 2006 and 2007.

Global sales of art are divided between auction houses and dealers, which shared approximately 45% and 55% of the market respectively. The dealers' share of the art market has increased marginally since 2006 (by 3%), however this breakdown varies widely between countries and sectors. Conservative estimates suggest that there were at least 400,000 fine and decorative art businesses operating directly in the art market, generating about 44 million transactions globally in 2008.

Table 2.1 The Global Art Market: Value and Volume of Transactions

Year	2002	2003	2004	2005	2006	2007	2008	2009 <sup>4</sup>
Value (€million)	€22,264	€18,631	€24,385	€28,833	€43,331	€48,065	€42,158	€31,332
No. transactions (million)	25.8	25.4	26.6	28.2	32.1	49.8	43.7	36.0

Source: Arts Economics (2010)

In 2008, sales in the art market were down 12% from its peak in 2007 of €48.1 billion.

<sup>2</sup> The analysis in this and subsequent chapters looks at sales in the global art and antiques market. It is important to note that the term "art market" is used to describe the market for fine and decorative art, dating from antiquity to the present time. This diverse market is far from being a single homogenous entity, but rather it is a combination of a series of distinct markets, each developing at its own individual rate. Each underlying segment of the market has its own experts, dedicated collectors, specialist dealers and sometimes auction houses, and importantly their own independently moving price trajectories and inherent risks.

<sup>3</sup> Aggregate sales here and throughout refer to total sales values in the art market rather than value-added or net incomes.

<sup>4</sup> Data for 2009 is made up of actual sales data up to the end of July 2009. Data provided for the second half of 2009 is based on actual sales data and some estimates.

Just under 50% of the value of all transactions in the global art market took place in the EU in 2008, which achieved a total market turnover of €20.7 billion. Its global share increased by 6% from 2006 when the market achieved €19.2 billion in sales. The EU maintained its share in 2009, although sales dropped to €15.8 billion. The UK continues to dominate the EU art trade, with a majority share in 2008 of 69%, up nearly 9% on 2006. The US dominates the global art trade, as it has throughout recent years, however its margin has declined, as its art market was one of the worst affected by the global recession. In Euro values, its global market share dropped 11% from 2006 to 2008 reaching a level of 35%, while the UK has made relative gains in share over the same period from 27% to 34%.

The fine art market has been the driver of the boom in the art market in recent years, and has gained significant share over the decorative sector particularly in the major auction houses, representing over 70% of the market by value up to 2008.<sup>5</sup> The dominance in value of fine art is due in part to a number of high value lots sold at auction over the last few years: in the fine art

auction market the number of paintings sold for over \$1 million in 2008 was 1,064, down slightly on the peak year of 2007, when 1,254 lots sold, but still significantly up on 2006 when 810 \$1 million lots were sold. However fine art has also been the leader of the decline in sales, and in 2009 there are indications that its share in the value of transactions is declining in the major auction houses by at least 5% (see below).

Table 2.2 Changes in the Value of Turnover of the Global Art Market 2002-2009

Year	Growth in value	Growth in volume
2002-2003	-16.3%	-1.5%
2003-2004	30.8%	5.0%
2004-2005	18.2%	5.8%
2005-2006	50.3%	13.8%
2006-2007	10.9%	55.1%
2007-2008	-12.3%	-12.2%
2008-2009	-25.7%	-17.6%

Source: Arts Economics (2010)

The global art market saw significant growth between 2003 and 2007. 2007 represented a peak year, with the market estimated to have reached a high of €48.1bn, its highest ever total. The fine art market was a key driver of expansion during this period, and certain categories within the fine art sector experienced phenomenal growth in value, including Contemporary, Impressionist and Modern art. Contemporary art in particular showed exceptional growth, and became the largest category of art by value at the major auction houses of Christie's and Sotheby's in 2007.

After four consecutive years of rapid price inflation, the art market experienced a change in its aggregate trend in late 2008, as the trickle down effects of the global financial crisis and economic recession were felt in some sectors. Just as it had been the leader in its expansive phase, the fine art market was also the key driver of the contraction of the art market over 2008, with sales at auction in this sector dropping by over 20% on 2007 values. The decline was concentrated in the final quarter of the year, making the annual decrease somewhat less than might have been expected, with global sales of both fine and decorative art and antiques estimated to have dropped to just under €42.2 billion by the end of 2008, with the Contemporary sector in particular showing a marked decline by the end of that year.

Although the contraction in prices over 2008/09 represented the sharpest fall in the market since 1991, the level of sales is still markedly above any years preceding 2006.

<sup>5</sup> For the purposes of this analysis, fine art includes paintings, sculptures and works on paper (including watercolours, prints, drawings and photographs), while decorative art includes furniture and decorations (in glass, wood, stone, ceramic, metal or other material), couture, jewellery, ephemera and textiles.

A notable feature of auction sales at the end of 2008 was a high rate of buy-ins or unsold works at auction, reflecting a degree of wariness on the part of buyers compared with previous years. The average buy-in rate at fine art auctions at the end of 2008 was approximately 45%, more than double the rate of the same time the previous year, reflecting the sudden effect of the international banking crisis on the last quarter.

After growth of 1% and 6% in 2007 and 2008, sales in the EU fell by 24% in 2009. The US also declined significantly over these two years, dropping by 19% in 2008 and by an estimated 35% over 2009.

2009 has seen a continued decline in total aggregate sales with dealer sales dropping by an estimated 21% and auction sales by 32%. Estimates for the year show that total sales fell by 26% to €31.3 billion. The volume of sales has also fallen quite dramatically: from a high of just under 50 million they have dropped by more than one third to 36 million transactions.

Although the contraction in prices over 2008 and 2009 represented the sharpest fall in the market since its previous downturn in 1991, it is important to remember that the rapid decline is due in part to the fact that 2007 was such a

boom year. It should be noted that the level of sales in 2009 is still markedly above any years preceding 2006.

Nonetheless, even though aggregate sales fell in 2009, there were high points in some sectors and some countries, with notable examples including the Yves Saint Laurent and Pierre Bergé auction in France, Old Master sales in December in the UK and strong autumn sales in Hong Kong and Beijing. While there may be some evidence that the markets in Europe are slowly bouncing back, it is very clear that the Chinese market has remained buoyant and relatively immune to the global recession thus far, with demand fuelled largely from an increasingly wealthy domestic market.

2010 is likely to show continued demand-driven growth in the Chinese art market as the economy remains buoyant. In some of the older art markets, signs of a turnaround have already been evidenced in 2010, with high quality supply of art at auction driving record prices. The sale of Alberto Giacometti's *L'Homme qui Marche 1* at Sotheby's in February for £65 million (€75 million), a new world record price at auction, was evidence that in this supply-driven market place, buyers are still more than willing to spend when the best quality pieces become available.

## 2.2 International Market Share

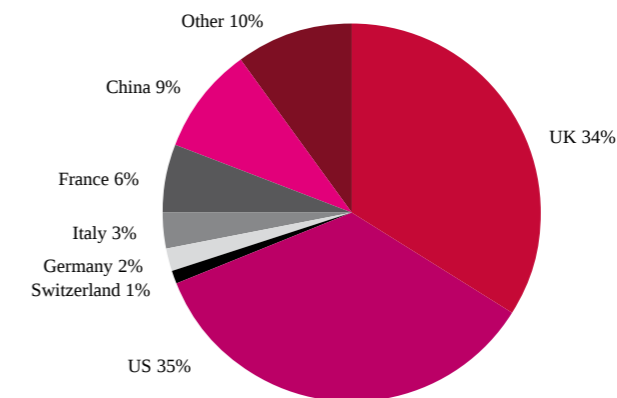
### Market Share By Value

The US and UK continued to dominate the global art market in 2008, with a combined share of just over two thirds of the value of global transactions, however their relative shares have changed. China has continued to gain share in the global market. In 2007, it achieved the third largest sales worldwide, and in 2008 maintained that position with a share of 9% ahead of France's 6%. This is a trend that has continued since 2006, when China made significant inroads in the global art

market for the first time, pushing Germany from its fourth position. The emergence of China as a global player in the art market highlights one of the biggest transformations in the art market over the last five years, namely the arrival of a number of new and thriving art centres around the world. China has become the most important of these emerging market in terms of both size and value of the market within China and for Chinese art globally.

In 2009, the market shares of the US and UK further declined to a combined 59% (with the

Figure 2.A Global Art Market Share in 2008



Source: Arts Economics (2010)

UK at 29% and the US at 30%). China further advanced its share to 14% as the market continued to grow. France also made gains, increasing its share to 11%. However this was greatly affected by auction sale at Christie's in February of the Yves Saint Laurent and Pierre Bergé Collection which realised €342.5 million, a world record for the most valuable private collection sold at auction and the highest total for any auction in Europe.

Table 2.3 shows the growth in sales in different markets between 1998 and 2008, reflecting the remarkable growth rates around the world in the period from 2002 to 2006. While the period from 2007 to 2008 marked a change in trend with most of the international art markets showing low or negative growth, the decade from 1998 has, overall, still been one of growth for most of the major art markets.

Table 2.3 Change in Art Market Turnover: Selected Countries 1998-2008

Country	1998-2001	2002-2006	2007-2008	1998-2008
Austria	-45.0%	47.5%	-5.2%	46.8%
Belgium	-25.0%	17.2%	-1.3%	-39.0%
Germany	-6.5%	93.5%	-2.2%	23.4%
Denmark	-33.0%	9.3%	34.6%	5.5%
Spain	12.5%	146.9%	-30.9%	-27.4%
France	-20.8%	36.5%	-11.3%	17.4%
UK	1.6%	81.0%	10.8%	52.4%
Ireland	na	112.8%	-36.2%	35.4%
Italy	0.0%	76.5%	11.0%	60.2%
Netherlands	-45.0%	61.6%	-25.0%	37.7%
Sweden	0.0%	89.6%	-5.2%	-8.1%
EU	na	70.3%	6.2%	45.2%
Switzerland	21.0%	100.9%	-13.0%	-3.1%
US	7.0%	105.4%	-18.8%	14.9%
China	na	112% (2004-2006)	-16.9%	144% (2004-2008)

Source: Arts Economics (2007), Arts Economics (2010), Artron (2010), Kusin & Company (2002)

#### Market Share by Volume of Transactions

While higher value sales led to the steep rise in the size of the art market up to 2007, with volumes remaining stable in most of the established art markets, there is some indication that the decline in the aggregate global art market was driven also by declining volumes. From 2007 through 2008, the number of global art transactions in the art market dropped by just over 12%, and this decline continued during 2009 with a contraction of nearly 18%.

Table 2.4 examines the annual growth per year of transactions in the global art market by country or region. In all of the major art markets, 2006 and particularly 2007 saw strong positive growth in the number of works sold. The volumes of works sold declined in 2008 though, which was due in part to the increased number of buy-ins at auction at the end of 2008 as well as reduced volumes in 2009, as both buyers and sellers became more selective.

Table 2.4 Changes in the Volume of Art Transactions 2002-2009

Country	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Austria	-1.1%	6.5%	-0.7%	-5.4%	66.1%	-14.8%	-11.0%
Belgium	2.6%	-4.3%	10.6%	12.2%	52.9%	-13.0%	-11.4%
Denmark	-13.4%	-37.8%	9.9%	-18.4%	29.1%	-14.3%	-35.6%
France	-10.7%	15.1%	1.8%	18.9%	99.6%	-19.7%	-19.5%
Germany	-6.4%	11.5%	5.6%	15.8%	83.9%	-17.0%	-18.2%
Ireland	9.3%	18.9%	-1.4%	20.2%	78.6%	-20.5%	-25.4%
Italy	2.7%	17.8%	16.8%	2.9%	62.0%	-8.9%	-13.2%
Netherlands	14.4%	-4.8%	4.8%	8.6%	43.0%	-7.5%	-25.0%
Spain	0.1%	6.9%	-1.5%	16.2%	79.9%	-20.3%	-20.1%
Sweden	-4.5%	3.8%	26.4%	20.2%	70.9%	-16.5%	-17.2%
UK	-2.4%	9.2%	8.6%	11.8%	59.4%	-15.6%	-22.0%
EU	-3.9%	7.2%	5.8%	13.7%	80.4%	-17.1%	-18.8%
Switzerland	2.8%	0.6%	4.4%	17.6%	71.9%	-13.4%	-17.4%
US	0.7%	3.2%	5.0%	13.8%	32.2%	-9.6%	-21.0%
Rest of World	0.9%	0.7%	7.9%	15.4%	58.9%	-0.1%	-15.1%
<b>Total</b>	<b>-1.6%</b>	<b>4.7%</b>	<b>6.0%</b>	<b>13.8%</b>	<b>55.1%</b>	<b>-12.1%</b>	<b>-17.7%</b>

Source: Arts Economics (2010)



Global art auction turnover in 2008 was approximately €19bn.

### 2.3 The Auction Market

The auction sector makes up about 45% of the art trade by value, and is the basis for much of the analysis of the art market, because auction sales data is publicly available. This sector appeared to have been slightly worse affected by the market downturn than the dealer sector, with sales dropping by 32% from 2008 to 2009, or a fall of 46% from the peak in 2007.

Global auction turnover of fine and decorative art and antiques in 2008 was approximately €19bn, down 21% from the previous year. The EU auction market accounted for just under €9.3bn in sales involving about 2.3 million transactions. The largest art auction markets within the EU were the UK with sales of €6.4bn, France with €1.1bn and Italy with €514m. Outside Europe, the US dominated with sales of €6.6bn, followed by China with €1.9bn.

Table 2.5 Changes in Auction Market Turnover 2002-2009

Year	Value	Volume
2002 through 2006	95.0%	44.4%
2006-2007	15.5%	-21.8%
2007-2008	-21.1%	20.9%
2008-2009	-31.8%	-11.8%

Source: Arts Economics (2010)

The biggest changes that occurred in the auction sector in 2009 were the significant gains made by France and China, which advanced their market shares to 19% and 18% respectively, with a concurrent drop in the combined auction share of the US and UK to a 46%. Again, while the advance in French auction sales can be explained by one exceptional auction, China appears to have displayed much more robust growth, with sales reaching their highest ever recorded total of just under €2.4 billion.

The auction sector makes up 45% of the art trade by value, with the largest markets being the US, UK, China and France.

Table 2.6 Auction Turnover and Global Share: Selected Countries 2008 and 2009

Country	Auction Sales 2008 (€m)	Global Share 2008	Auction Sales 2009 (€m)	Global Share 2009
Austria	€131.6	0.7%	€153.2	1.2%
Belgium	€53.8	0.3%	€55.2	0.4%
Germany	€454.5	2.4%	€360.6	2.8%
Denmark	€72.2	0.4%	€18.5	0.1%
Spain	€71.8	0.4%	€47.6	0.4%
France	€1,105.3	5.8%	€2,474.4	19.1%
Ireland	€48.9	0.3%	€17.2	0.1%
Italy	€514.1	2.7%	€468.6	3.6%
Netherlands	€126.7	0.7%	€83.4	0.6%
Sweden	€138.9	0.7%	€111.2	0.9%
UK	€6,391.1	33.7%	€2,869.0	22.2%
Rest of EU	€190.4	1.0%	€107.1	0.8%
<b>EU</b>	<b>€9,299.3</b>	<b>49.0%</b>	<b>€6,766.1</b>	<b>52.3%</b>
Switzerland	€272.8	1.4%	€124.1	1.0%
Other Extra-EU	€37.5	0.2%	€19.6	0.2%
US	€6,607.8	34.8%	€3,111.3	24.1%
China	€1,893.8	10.0%	€2,347.8	18.1%
Japan	€137.8	0.7%	€118.4	0.9%
Singapore	€67.7	0.4%	€19.8	0.2%
Taiwan	€93.5	0.5%	€45.1	0.3%
Other Asia	€168.0	0.9%	€48.3	0.4%
Rest of the World	€392.8	2.1%	€336.2	2.6%
<b>Total 2008</b>	<b>€18,970.9</b>	<b>100.0%</b>	<b>€12,936.7</b>	<b>100.0%</b>

Source: Arts Economics (2010), Artprice (2009), Artron (2010)

The structure of the auction sector continues to be relatively multi-layered and concentrated by value, with the two premier auction houses of Christie's and Sotheby's dominating many sectors and market centres. These two houses had a combined share of over 35% by value of the total global auction trade of fine and decorative art, and in the fine art auction market their share is closer to 55%. Phillips de Pury, Bonham's and China Guardian were the three next largest auction houses worldwide in 2008, with a combined share of just over 10%. The significance of these and many other second tier auction houses is increasing however, in both new and older markets and particularly in the decorative art sector.

The dominant share of fine art, even in the top tier houses, lessened in 2009 and now averages 65%. In the second tier and lower tier houses, however, decorative art dominates by both value and volume, accounting for 57% of sales in 2007. By 2009, its share had increased to 72% in these auction houses.

Although the decorative sector tends to have a greater volume of lower value transactions than does fine art, this is not true of all national markets. In China for example, there were 1.5 times as many fine art lots sold than decorative

art in 2009. Here, there were a few very high value items in the decorative sector, with a low number of lots. This is the reverse of many of the markets in Europe and the US where the decorative art sector tends to have high numbers of lots but lower prices and aggregate values. It is also interesting to note that outside China, the value of sales of decorative Chinese art are much higher than for fine art, with a share of about 56% by value in 2008. However, in this case, it is mainly due to the fact that there are a large number of sales of Chinese porcelain and other decorative arts, and relatively few fine art sales besides Chinese Contemporary art.

Table 2.7 examines fine art auction transactions only. It shows that in 2008 France had a higher share of lots sold than the UK and the US, despite being less than one fifth of the value of either market. Germany was also nearly on a par with the UK in terms of the number of fine art transactions. This reflects the fact that France and Germany, like other European markets, have relatively lower priced, high volume art sales. (The average price of fine art lots sold in France was about 12% of those sold in the US and 13% of those in the UK, while the average price in Germany was less than one tenth of the UK's average.)

Table 2.7 Share in Volume of Fine Art Auction Transactions<sup>6</sup>

Country	Share 2008	Share 2009
Austria	1.7%	2.2%
Belgium	3.8%	4.8%
Germany	12.2%	13.7%
Denmark	0.8%	0.3%
Spain	1.8%	1.6%
France	18.9%	20.1%
Ireland	0.9%	0.5%
Italy	7.3%	8.1%
Netherlands	2.4%	1.8%
Sweden	2.3%	2.9%
UK	12.9%	10.4%
Rest of EU	2.9%	3.0%
EU	68.0%	69.4%
Switzerland	4.0%	4.2%
Other Extra-EU	0.5%	0.5%
US	14.6%	12.8%
Other Asia	0.9%	0.7%
China	4.2%	5.0%
Japan	1.6%	2.1%
Singapore	0.6%	0.2%
Taiwan	0.2%	0.2%
Rest of the World	5.5%	4.9%
<b>Total 2007</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Artprice (2009)

2009 continued to be a difficult year for most major auction houses but in China, several houses had their best year ever.

<sup>6</sup> Table 2.7 is made exclusively from auction data from Artprice. This database records all of the main auction sales of fine art, but including only works that are signed by an artist or attributable to them. This will understate the total works sold at auction in some countries such as China, where there are many unsigned works of calligraphy and other non-attributed fine art. For example, Artprice reported 11,558 lots of fine art sold in China at auction in 2008, whereas the actual total of lots of Chinese painting and calligraphy, oil painting and Contemporary art was 64,291 according to Chinese art database Artron.net.

The leading auction houses of Christie's and Sotheby's both reported a drop in fine and decorative art sales over 2008. After a 25% increase in aggregate sales from 2006 to 2007, Christie's total sales dropped by 11% in 2008 (with a further contraction of 24% in 2009).<sup>7</sup> Although Contemporary art had become the largest department by value in 2007 at Christie's, it slipped to second place in 2008 with a share of 24% of sales versus 26% for Impressionist and Modern. Asian Art was the third largest with a 15% share of sales, up from 11% in 2007. In 2009, aggregate sales at Christie's dropped to £2.1 billion (€2.5 billion).

A similar picture emerged at Sotheby's with their consolidated sales slipping 15% from 2007, which had been a peak year for the auction house with sales rising more than 50% in US dollar values on 2006 to a reported high of \$6.2 billion (€4.6 billion). Sotheby's reported aggregate auction sales of \$4.9 billion (€3.2 billion) in 2008, however they estimate that around \$76 million of their \$500 million drop on the previous year was due to exchange rate changes over the period.<sup>8</sup>

2009 continued to be a difficult year for the major auction houses. Sotheby's first nine month and third quarter report showed revenues of just over half of the same time the previous year, while

Christie's figures for 2009 were down 24% on the previous year.

In China on the other hand, several auction houses had their best year ever in 2009, and auction sales on aggregate increased by 24% with sales of fine art increasing by 38% on 2008.

According to a survey of some of the leading national and international auction houses in late 2009, 38% felt that their sales would be the same in 2009 as in 2008, and a similar proportion reported that they would be somewhat lower. The forecasts improved for 2010 however, with exactly half reporting they felt sales would be stable and the remainder forecasting higher sales in 2010 than in the previous year. While around one third of the auction houses stated that they expected sales of fine art to be higher (and the remainder expected them to be stable), 57% expected an increase in decorative art sales.

#### 2.4 The Dealer Market

The highly fragmented dealers' market consists of a core of about 10,000 dealers worldwide who are responsible for at least 50% to 75% of the turnover by value of the dealer sector. Although it is difficult to determine the exact number of dealers worldwide as small galleries and

<sup>7</sup> The changes in sales are measured in GBP. Information is from *Christies Press Release, 12th February 2009*: "Christie's Global Art Sales Total £2.8 Billion/ \$5.1 Billion" and *Christies Press Release 18th January 2008* "Christie's Global Art Sales Total £3.1 Billion/ \$6.3 Billion". Information from January 2010 from Christie's reports of sales for 2009 at £2.1 billion.

<sup>8</sup> Information from *Sotheby's Annual Report 2008*.



In 2008, the dealer sector accounted for around 55% of the global art market, with €23.2 billion in sales.

businesses are often unlisted in directories and other sources, in 2009 there were in excess of 375,000 recorded dealers of fine and decorative art and antiques in the major global art markets worldwide.<sup>9</sup>

In 2008, the dealer sector accounted for around 55% of the global art market generating approximately €23.2 billion in sales. The aggregate value of the market fell by 3% from a peak of €24 billion in 2007, but experienced a sharper fall of 21% in 2009 to €18.4 billion.

Art and antique dealers around the world are often single-owner shops or small partnerships, with many built around the names and reputation of individuals or a history of art dealing through family businesses. The average size of a dealer business in 2009 was three to four people. Unlike their more diversified auction house counterparts, dealers typically focus on a few highly defined fields where they have a high level of expertise and develop a strong presence within one specific designation, building specialized knowledge in this area. Because of their specialized nature, the business model for individual dealerships is often highly dependent on the success of a small number of art disciplines, and hence subject at times to considerable risks, if that one sector of the market should experience a downfall. Therefore,

although, on aggregate, sales in the dealer market fell slightly less than auction houses and dealers gained relative share, it is clear that certain dealers (for example in the Contemporary market) may have experienced a much more difficult period, while others (for example in Oriental art) did relatively better.

Dealers have a number of distinct competitive advantages which have helped them to survive over time: their mark-ups can vary; they exert ultimate control over the price and other features surrounding a sale, and in the case of Contemporary art dealers can control the supply of an artist's work on to the market. They can also maintain confidentiality on all details of their transactions. While many of the new global buyers from emerging markets showed a distinct preference for the auction channel, the confidentiality afforded by dealer sales may have been preferable to some of the distressed sellers who have emerged during the financial crisis. This privacy has also made this side of the market one of the most difficult to measure and quantify, as there are little or no published records to indicate the total level of sales as exists in the auction sector. Comprehensive global data on this sector of the market is therefore more limited, and depends to a large extent on surveys.

<sup>9</sup> See Chapter 7 for further information on the number of businesses in the art market.

### 2009 Dealers' Survey

In 2009, Arts Economics polled approximately 5,000 dealers in Europe, the US and other art markets to ascertain both key quantitative information and qualitative views. Although the sample size relative to the wider pool of dealers limits the data on individual countries, some of the global aggregates and other results do provide a significant insight into the sector.

According to the survey, most dealers' businesses could be classed as small to medium enterprises (SMEs), and for the majority, their turnover fell into the classification of a "micro-enterprise" (i.e. less than €2 million). The breakdown of dealer turnover by company size is given in Table 2.8, which shows that in 2007 and 2008, the number of dealers in the lowest end and highest end of the market was relatively stable, but in the mid-tier of the market a number of dealers fell from "small" to "micro" size, due to a drop in their annual turnover. The majority of dealers polled (56%) expected sales to be either somewhat or significantly lower in 2009. It is worth noting that the 34% that expected significantly lower sales included all of the US dealers in the sample with the remainder from the UK. Dealers from other parts of the EU and the rest of the world expected either stable sales (24%) or higher sales (16%).

Table 2.8 Share of Dealers by Turnover

Annual Turnover	Company Size Classification	2007	2008
< €500,000	Micro (lower end)	43%	42%
€500,000 - €2m	Micro	39%	44%
€2m - €10m	Small	17%	12%
€10m - €50m	Medium	1%	1%
> €50m	Large	1%	1%

Source: Arts Economics (2009)

**Looking at 2010, most dealers are optimistic that the outlook for the art market will stabilise or improve.**

Looking ahead to 2010, most dealers were optimistic that the outlook for the art market would stabilise or improve: 42% expected similar turnover in 2010 as in 2009 whereas 32% expected somewhat or significantly higher sales.

In terms of the number of individual sales transactions, on average dealers saw a drop of 10% in volumes from 2007 to 2008. The average number of items sold by dealers per annum was reported at just over 400 in 2008, which represented a substantial increase from the previous global dealers poll in 2006, which reported an annual average of 250.<sup>10</sup> Average prices also fell by 7% over the same period, with the average price of an item sold by dealers in 2008 at about €16,500. About two thirds of dealers polled felt that average prices would be stable or would increase over 2009, and looking ahead to 2010 that proportion increased to 85%.

When asked which sectors would see the greatest deflation over the next few years, 60% reported fine art and 40% reported decorative sectors. Some 52% felt it would be the Contemporary and Modern sectors that might be the hardest hit, while the sectors that showed the most promise in terms of prices rises were Asian art, Old Master works and antique furniture.

Because of their high level of concentration by sector, many top-tier dealers tend to maintain an internationally focused business model, conducting sales both at a local level and in other countries. According to the dealer survey in 2009, the average dealer makes 70% of his sales locally (in the primary country where their business is located) and 30% elsewhere, including for example through participation in art fairs, with no significant differences between dealers in fine or decorative art. However, 30% of dealers polled stated that at least half of their sales were carried out overseas, and 12% said that overseas business transactions accounted for 75% of their sales or more.

Dealers in the major art centres of the UK and US tended to transact a higher proportion of their business locally with 69% and 68% local sales respectively (versus 55% for other EU dealers). This probably reflects the strength of their local markets and the buyers within them.

Dealers reported that their buyers were also a mix of foreign and local clients, with the average dealer having 71% local purchasers and 21% overseas buyers, and again, there were no significant differences between fine versus decorative art dealers. Dealers from the US reported that 81%

<sup>10</sup> The global dealer survey was distributed by CINOA (Confédération Internationale des Négociants en Oeuvres d'Art) to its international membership in both 2006 and 2009. Although this may mean that many of the same dealers responded, changes in membership and variations in responses mean that the two surveys can not be compared exactly like for like. The results on aggregate in both surveys however do represent a significant snapshot at the different points in time of the dealer population as a whole in the US, Europe and some other major art markets, and therefore general comparisons can be taken as a guide to some of the key changes in this sector of the art market.

of their buyers currently came from the US. Of the remaining 19% from overseas, the majority came from Europe, with 43% of overseas buyers from the UK, 24% from Germany and 19% from France. The UK averaged a slightly lower 66% local buyers. Of the remaining 34% of foreign buyers, these were primarily from the US (34% of the total), other EU states (40%), with 5% from Asia (primarily Japan and China) and 5% from the Middle East. When asked about the influence of new global art buyers on the art market, 75% of dealers thought that their influence had been positive on the art market and 15% thought it had been negative.

Art fairs remain an important force in bringing dealers and their buyers together, often from geographically diverse locations. Art fairs have become a vital part of many dealers' livelihoods, allowing otherwise prohibitively costly access to global buyers and each other. Although the proliferation of art fairs in recent years has brought about its own substantial expenses for dealers (in exhibiting, travel and other ancillary costs), when questioned on fairs, 62% of dealers responded that they agreed or strongly agreed that the continued growth of art fairs had been a positive development in the art market. Many also cited worries that the economic climate might force some fairs to close down.

When asked about the main issues facing the art market in 2010, many dealers cited the growing difficulties that they (and auction houses) are likely to face in finding and sourcing high quality works of art and antiques to sell. However when asked about whether new global art markets had made it any easier to source art, results were mixed: around half felt it was now easier, 24% said it had not made it easier, and 26% felt it had not made a difference either way. In terms of the new global art centres of the future, dealers were asked where they felt the most important global art centres would be located in ten years time. The US was chosen by 37% of respondents, Asia (and predominantly China) by a further 23%, and the UK by 27%, while 8% felt France might see a revival.

Although dealer and auction sales have been discussed separately, there has been some blurring of boundaries between the two sides of the market in recent years. Private sales at Christie's amounted to just under 10% of their total sales in 2008 at £268 million (€339 million), up over 95% in value from 2006. At Sotheby's, "dealer revenues" accounted for 2% of total revenues in 2006, but this had grown to 8% by 2008.<sup>11</sup> Some of the dealers polled voiced concerns that auction houses were encroaching on their share of the art market through private sales. However others

noted that poor access and availability for dealers to bank credit and other sources of financing had led some dealers to move away from their traditional roles as collectors or principles towards acting on a commission only basis, resembling to some degree the auction business model.

The online channel has also become important for both dealers and auction houses,<sup>12</sup> large and small. The majority of dealers polled (64%) felt that the internet and technology were having a positive influence on the art market. On the positive side, dealers commented that the internet continued to open up market possibilities and to help dealers to reach customers in different geographical locations. For small dealers especially, improvements in technology-enabled communications helped make it easier to find new markets and buyers, as well as to communicate with existing clients, while grouping individual dealer sites in portals and communal channels helped to overcome some of the fragmentation in the market and the high costs this can entail in search, communication and marketing. Some dealers (20% of those polled) did not feel that the internet was having a positive effect on their trade. Some complained that websites and tools that gave buyers greater insight into prices could negatively affect their bottom line, while others felt that it had become a means to bypass dealers

altogether in the market, for example via direct web-based sales by artists and other agents. Apart from these issues however, the rapid advance of efficiency yielding technology was generally seen to be a positive development by both dealers and auction houses.

62% of dealers agreed that the continued growth of art fairs was a positive development in the art market.

<sup>11</sup> Dealer revenues at Sotheby's refers to sales of Noortman Master Paintings; investment in and resale of art and other collectibles directly by Sotheby's; the investment in art through unsecured loans made by Sotheby's to unaffiliated art dealers; and the activities of certain equity investees, including Acquavella Modern Art.

<sup>12</sup> Many auction houses offer access to salesrooms and bidding via the internet. At Christie's for example in 2008, nearly 40,000 bids were accepted using Christie's Live with online sales and direct underbidding totalling approximately £57 million (€72 million) or 2% of sales. Besides transacting online, nearly all major auction houses now focus heavily on the use of web-based media for communication and marketing.

CHAPTER 3

# The Global Cross Border Art Trade

## The Global Cross Border Art Trade

### 3.1 International Trade

The movement of art across international boundaries is nothing new. Although some categories of art now have a restricted circulation, mainly due to considerations relating to the protection of national patrimony, others are more freely traded across international borders. The boom in the Contemporary market that occurred up to 2008 was due in part to the fact that there are virtually no restrictions on the flow of international trade in this sector. In other sectors however, restrictions and regulations have constrained international trade.

Import and export statistics illustrate the rapid increase in the globalisation of the art market and they demonstrate that art flows towards richer and more open economies.<sup>13</sup>

Import and export statistics illustrate the rapid increase in the globalisation of the art market and the flow of art towards richer and more open economies.

Table 3.1 Trade in Works of Art in 2008 (€ million)

Country	Exports	Imports	Net Exports
Austria	€81.1	€110.0	-€28.9
Belgium	€108.4	€131.1	-€22.6
Denmark	€28.3	€57.2	-€28.8
France	€1,009.9	€464.1	€545.7
Germany	€483.4	€285.7	€197.6
Ireland	€9.9	€13.9	-€4.0
Italy	€178.0	€125.7	€52.3
Netherlands	€69.7	€174.3	-€104.6
Spain*	€66.4	€97.2	-€30.8
Sweden	€34.3	€44.8	-€10.5
UK	€3,371.1	€3,000.1	€371.0
Rest of EU	€50.8	€377.8	-€326.9
<b>EU</b>	<b>€5,491.3</b>	<b>€4,881.9</b>	<b>€609.5</b>
China	€328.6	€498.9	-€170.3
India	€214.8	€18.4	€196.4
Russia	€2.3	€24.9	-€22.6
Singapore	€217.2	€272.1	-€54.9
Switzerland	€1,033.0	€1,132.1	-€99.1
UAE	€5.3	€62.0	-€56.7
US	€5,205.4	€4,874.0	€331.3

Source: Arts Economics (2009), United Nations (2009)

\* Data for Spain comes from Eurostat (2009)

<sup>13</sup> Trade statistics in this chapter are based on data reported by countries on imports and exports, which add or subtract from the stock of art within a country at a point in time. The most important component of these statistics is related to transactions involving actual or intended transfer of ownership against compensation. Nevertheless, external trade statistics also cover movements of goods without a transfer of ownership, such as works of art on permanent loan for exhibitions. Works simply being transported through a country in transit or on a temporary basis for any purpose are generally not recorded in these statistics, however the reporting methods vary between countries and occasionally, it may not be clear at the time of recording the transit of the work of art, what its exact status is. This can cause some unavoidable over-reporting of temporary trades as real imports and exports in national trade statistics. For all countries, the export statistics include exports of domestic goods and exports of foreign goods (i.e. those that were originally imported into the country at some point) or “re-exports”, and the same holds for imports.

The boom in the Contemporary market was due in part to the lack of restrictions on the flow of international trade in this sector.

The EU was a net exporter of art in 2008, with exports of €5.5 billion exceeding imports of €4.9 billion.

The balance of trade, or net exports, is the difference between the value of exports and imports in an economy, with a favourable balance known as a trade surplus (i.e. exporting more than is imported). The EU was a net exporter of art in 2008, with exports of €5.5 billion exceeding imports of €4.9 billion. The largest art markets in Europe (the UK, France, Italy and Germany) all show a positive trade balance, while the mid-sized markets such as Sweden, Austria and the Netherlands are net importers.

The US is the largest global trader of art and a net exporter in 2008 with €5.2 billion in exports and €4.9 in imports. China is a net importer of works of art, although this is due to the dominance of trade via Hong Kong. Mainland China exports nearly three times as much art as it imports, whereas in Hong Kong, where the bulk of trade takes place, imports dominate.

Although trade flows to and from the region remains relatively small in a global sense, the UAE imports far more art than it exports showing its reliance on art created outside the region to feed growing local market demand. Finally, although Switzerland's art market share has been eroded to some extent in recent years, it remains an important source and destination for trade

with over €1 billion in both exports and imports making it the third largest art trader in the world next to the US and the UK.

### 3.2 Imports

Imports of art into the EU grew in value by 46% in the five year period from 2003 to 2008, reaching €4.9 billion in total. The UK was the largest importer in the EU with 61% of imports. Imports of art to the UK grew 30% in the same five year period, averaging 7% growth per annum. This was reduced by a particularly poor year in 2008, when imports fell by 27% on the previous year (and 18% in the EU). Imports remained positive in several other markets in Europe however, notably France (with growth of 20% from 2007 to 2008) as well as Italy and the Netherlands (which both grew by 10%). France maintained a share of 10% of all EU imports in 2008, while Germany and Greece were the next largest importers with a share of 6% each.

In the US, imports fell in 2008 by 21% from 2007, the first year of negative growth since 2002/ 2003. This reflects the general decline in art market towards the end of 2008, and it is likely to have been influenced to some degree by a weak dollar making imports from Europe and elsewhere more expensive for US buyers.

(Some 71% of all US imports of works of art come from the top five art markets in the EU).

Imports also fell in Switzerland in 2008, dropping 17% on their 2007 values. In some of the smaller global art markets where demand dominates supply and there are relatively liberal trade regulations in place, imports have shown strong growth in recent years. Two good examples include Singapore and the UAE whose imports of art have increased nearly 10-fold in the five years to 2008. The increase in imports to Singapore since 2006 may also have been influenced by the launch of Singapore Freeport facilities for high-end fine and decorative art storage (modelled on similar facilities in Switzerland). Imports of art to India peaked in 2007 at just under €44 million, and despite a decline of 58% in 2008, growth still averaged over 300% in the five years up to 2008.

Table 3.2 Imports of Works of Art 2000-2008

Imports	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	€41.1	€54.0	€57.0	€47.8	€59.7	€80.5	€93.3	€394.8	€110.0
Belgium	€56.3	€77.6	€65.3	€63.1	€74.2	€72.6	€73.6	€109.5	€131.1
Denmark	€20.0	€26.1	€22.2	€16.3	€26.7	€33.8	€41.2	€59.5	€57.2
France	€239.7	€226.9	€237.6	€239.8	€327.9	€305.2	€354.3	€385.5	€464.1
Germany	€407.9	€543.7	€322.5	€191.2	€332.0	€311.7	€304.7	€282.3	€285.7
Ireland	€21.5	€28.4	€14.0	€9.5	€10.8	€11.3	€19.0	€20.4	€13.9
Italy	€45.5	€50.9	€159.3	€43.9	€65.5	€92.8	€78.8	€114.1	€125.7
Netherlands	€109.0	€119.4	€98.8	€97.4	€136.7	€141.5	€162.7	€158.5	€174.3
Spain	€154.3	€332.5	€183.0	€182.6	€288.5	€397.3	€175.2	€195.8	€97.2
Sweden	€43.4	€21.6	€44.0	€33.2	€39.0	€41.6	€29.3	€34.8	€44.8
UK	€2,593.6	€3,221.4	€3,374.7	€2,314.3	€2,741.4	€2,900.1	€3,492.3	€4,125.5	€3,000.1
<b>EU</b>	<b>€3,820.6</b>	<b>€4,864.2</b>	<b>€4,668.9</b>	<b>€3,344.1</b>	<b>€4,169.2</b>	<b>€4,464.2</b>	<b>€4,942.9</b>	<b>€5,982.9</b>	<b>€4,881.9</b>
Switzerland	€847.2	€1,096.1	€798.4	€742.1	€876.6	€1,258.2	€993.8	€1,361.5	€1,132.1
US	€6,154.2	€6,375.1	€5,531.9	€3,709.4	€4,430.7	€4,578.7	€5,353.6	€6,139.4	€4,874.0
Russia	€0.9	€0.9	€2.1	€3.1	€6.6	€12.1	€2.2	€8.9	€24.9
India	€0.4	€0.6	€1.3	€1.1	€0.8	€12.3	€12.3	€43.6	€18.4
China	€138.5	€169.1	€169.7	€147.5	€172.4	€228.5	€316.7	€489.7	€498.9
Singapore	€44.9	€24.0	€23.2	€29.0	€89.0	€60.5	€111.6	€204.6	€272.1
UAE	€4.2	€7.3	€4.1	€6.1	€9.3	€10.5	€16.1	€22.1	€62.0

Source: Arts Economics (2010), United Nations (2009)

### 3.3 Exports

Exports of art from the EU declined in both 2007 and 2008 from a peak of €8.2 billion in 2006, reaching €5.5 billion in 2008 and reverting to levels not seen since 2002. An important contributing factor in this decline was the weakening of the US dollar, which made both Sterling and Euro purchases more costly for US buyers, who are the main foreign buyers of art works from all of the larger markets in the EU. The UK was the largest exporter in the EU with 61% of exports. Exports of art from the UK fell by 27% in 2008, reaching €3.4 billion, the lowest point since 2001 after three years of contraction. France, the second largest exporter with an 18% share, bucked the trend however with a rise in exports of 22% in 2008 keeping their value to just over €1 billion. Germany was the third largest exporter with a 9% share, and also showed positive growth of 8% in 2008 with exports of €483 million.

From 2003 to 2008, growth in the value of sales in the EU art market has outpaced growth in exports, with averages of 16% versus less than 1% respectively. While both trajectories grew at similar rates in 2003/04 and 2004/05, growth in turnover far outpaced export growth in 2005/06 (38% versus 5%), and exports began to contract earlier than turnover in 2006. In the US on the

The UK is the largest trader of art in the EU, with over 60% of imports and exports.

## Exports of art from the EU declined in 2007 and 2008, reverting to levels not seen since 2002.

period, the decline was due primarily to the very sharp rise in the art market turnover in the EU, however in more recent years was caused by a drop in export performance due to unfavourable exchange rates and possibly weaker demand from US buyers. In the US, where the same ratio has remained below the EU in recent years, from 2007 to 2008 it rose from 0.27 to 0.35 due to more favourable exchange rates for US exports and the contraction in turnover in the domestic US market.

The US witnessed growth in exports each year from 2002 to 2006, reaching a peak of €5.8 billion. Exports of art from the US dropped 15% from 2006 to 2007, but then resumed growth over the next year to reach a high of €5.2 billion in 2008. Switzerland experienced marginal declines in 2007 and 2008, although exports remained over €1 billion in 2008. Exports of art from China have grown steadily since 2003, with growth of over 200% in the five year period to 2008. The level of exports is still relatively low compared to other major global markets with export to turnover ratios of 9% in 2008. The majority of exports of art from China have been paintings, and most of these have been Contemporary art and from Hong Kong (where 85% of total Chinese exports of art are from) rather than Mainland China where relatively strict export restrictions are in place.

other hand, the average growth in art market turnover is nearly identical to that of exports from 2003 to 2008 at 14%. Exports led the decline in this market, dropping in 2006 by 15% before the art market contracted in 2007 by 19%. Whereas exports returned to moderate growth of 6% in 2008, art market turnover continued to decline.

The export propensity of the EU (or exports as a percentage of art market turnover) has experienced several years of decline from 0.59 in 2003 to 0.27 in 2008. In the earlier years of this

Table 3.3 Exports of Works of Art 2000-2008

Exports	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	€46.4	€62.1	€42.8	€57.6	€72.5	€89.4	€416.4	€122.1	€81.1
Belgium	€98.1	€82.4	€81.2	€78.0	€83.8	€102.1	€79.7	€91.5	€108.4
Denmark	€51.4	€46.5	€37.7	€44.6	€56.7	€56.7	€48.0	€34.9	€28.3
France	€782.7	€674.6	€627.4	€792.7	€858.1	€910.1	€1,188.4	€830.1	€1,009.9
Germany	€563.5	€543.4	€508.7	€513.0	€673.8	€538.6	€583.3	€446.3	€483.4
Ireland	€32.8	€15.2	€12.8	€19.2	€33.4	€12.3	€25.6	€8.0	€9.9
Italy	€90.5	€89.0	€79.0	€90.7	€122.3	€174.7	€170.9	€157.6	€178.0
Netherlands	€72.4	€69.0	€51.3	€64.6	€79.9	€83.4	€80.3	€139.5	€69.7
Spain	€54.9	€60.0	€105.6	€71.6	€68.8	€65.2	€56.1	€63.4	€66.4
Sweden	€30.1	€20.5	€34.3	€22.1	€29.8	€45.4	€44.5	€47.9	€34.3
UK	€3,390.6	€3,144.5	€3,895.7	€3,997.0	€4,759.7	€5,644.6	€5,376.1	€4,593.1	€3,371.1
<b>EU</b>	<b>€5,288.1</b>	<b>€4,909.8</b>	<b>€5,521.4</b>	<b>€5,805.2</b>	<b>€6,905.8</b>	<b>€7,772.2</b>	<b>€8,198.0</b>	<b>€6,570.6</b>	<b>€5,491.4</b>
Switzerland	€894.4	€678.9	€1,019.4	€899.8	€1,138.1	€917.1	€1,321.8	€1,270.9	€1,033.0
US	€3,562.0	€4,233.0	€2,659.8	€2,844.8	€3,655.2	€4,521.9	€5,793.6	€4,917.0	€5,205.4
Russia	€4.1	€1.3	€6.5	€1.3	€2.9	€1.6	€0.8	€1.5	€2.3
India	€2.6	€3.5	€5.0	€508.6	€376.5	€477.8	€477.8	€358.3	€214.8
China	€24.8	€136.7	€159.5	€108.3	€128.5	€214.9	€235.8	€307.2	€328.6
Singapore	€11.7	€16.4	€10.6	€12.1	€24.5	€51.3	€152.1	€101.5	€217.2
UAE	€0.8	€3.6	€1.6	€0.4	€0.7	€1.5	€4.0	€3.5	€5.3

Source: Arts Economics (2010), United Nations (2009)

### 3.4 Trade by Sector

Table 3.4 examines the data to see the division of trade between the different categories of art. For nearly all art markets, fine art dominates exports. It is interesting to note that in countries with strong export regulations such as Mainland

China, Russia, India and Italy, there are very low exports of decorative art, particularly antiques over 100 years.

In the major art markets in Europe and the US, the majority of imports are also fine art. In China on

the other hand, most of the items imported from their main trading partners of the UK and US have been in the decorative art sector, which is influenced by a strong drive to repatriate cultural treasures and antiques.

Table 3.4 Imports and Exports Share in Works of Art by Art Form (2008)

Country	Total (€m)	Exports		Total (€m)	Imports	
		Fine	Decorative		Fine	Decorative
Austria	€81.1	74%	26%	€110.0	75%	25%
Belgium	€108.4	44%	56%	€131.1	60%	40%
Denmark	€28.3	51%	49%	€57.2	23%	77%
France	€1,009.9	76%	24%	€464.1	73%	27%
Germany	€483.4	72%	28%	€285.7	71%	29%
Ireland	€9.9	35%	65%	€13.9	79%	21%
Italy	€178.0	82%	18%	€125.7	81%	19%
Netherlands	€69.7	68%	32%	€174.3	36%	64%
Spain	€66.4	89%	11%	€97.2	91%	9%
Sweden	€34.3	63%	37%	€44.8	28%	72%
UK	€3,371.1	77%	23%	€3,000.1	90%	10%
EU	€5,491.4	73%	27%	€4,881.9	63%	37%
Switzerland	€1,033.0	81%	19%	€1,132.1	83%	17%
US	€5,205.4	90%	10%	€4,874.0	76%	24%
China	€328.6	71%	29%	€498.9	44%	56%
Mainland China	€49.1	93%	7%	€14.3	34%	66%
Hong Kong	€279.5	49%	51%	€484.6	55%	45%
UAE	€5.3	77%	23%	€62.0	55%	45%
India	€214.8	91%	9%	€18.4	99%	1%
Russia	€2.3	89%	11%	€24.9	15%	85%
Singapore	€217.2	95%	5%	€272.1	95%	5%

Source: Arts Economics (2010), United Nations (2009)

### 3.5 Intra and Extra EU Trade

Trade in works of art in the EU is dominated in value terms by extra-EU trade. In 2008, 83% of all imports of works of art to countries in the EU were from countries outside the EU, and 88% of all art exported from countries in the EU went to non-EU destinations. This high level of extra-EU trade has been a stable feature of the art market for several years, with levels increasing in 2009 to 88% and 90% for imports and exports respectively.

Table 3.5 shows that while some of the smaller art markets in the EU rely more heavily on intra-EU trade, in larger markets such as France and the UK, extra-EU trade dominates, accounting for over 80% of the value of both imports and exports. In 2008, the main destinations for art exports from the UK and France were the US and Switzerland, with nearly three quarters of the total value of art destined for these two countries.

It is also interesting to note that in markets where import VAT rates levied on art from outside the EU are highest (such as Austria, Ireland and Italy), extra-EU trade is also relatively less dominant. Import VAT rates vary widely both between states and vis a vis extra-EU countries.<sup>14</sup> VAT rules within the EU with regard to the internal movement of art and antiques continue

to be quite complex and depend upon both the VAT status of the parties to the transaction as well as the chosen form of VAT used for the sale (i.e. either “margin” scheme or standard).

According to the data from Eurostat, exports from the EU contracted in both 2008 and 2009. The fall over 2009 was more significant, with exports dropping 36%, the result of a contraction of both trade in the internal market as well as extra-EU trade.

**Trade in art in the EU is heavily dominated by extra-EU trade, with over 80% imports and exports to non-EU destinations.**

Table 3.5. Value of Intra-EU Versus Extra-EU Art Trade (2008)

2008	Imports		Exports	
	Intra EU	Extra EU	Intra EU	Extra EU
Austria	68.6%	31.4%	43.9%	56.1%
Belgium	21.0%	79.0%	18.8%	81.2%
Bulgaria	81.7%	18.3%	66.7%	33.3%
Cyprus	69.6%	30.4%	6.3%	93.7%
Czech Republic	53.1%	46.9%	22.3%	77.7%
Denmark	23.1%	76.9%	33.7%	66.3%
Estonia	20.8%	79.2%	21.6%	78.4%
Finland	7.0%	93.0%	7.1%	92.9%
France	18.0%	82.0%	10.6%	89.4%
Germany	20.6%	79.4%	34.0%	66.0%
Greece	1.7%	98.3%	21.1%	78.9%
Hungary	44.5%	55.5%	23.9%	76.1%
Ireland	48.3%	51.7%	80.2%	19.8%
Italy	41.7%	58.3%	9.8%	90.2%
Latvia	66.1%	33.9%	0.0%	100.0%
Lithuania	79.0%	21.0%	21.5%	78.5%
Luxembourg	20.2%	79.8%	37.4%	62.6%
Malta	30.0%	70.0%	28.4%	71.6%
Netherlands	9.9%	90.1%	8.0%	92.0%
Poland	30.6%	69.4%	35.4%	64.6%
Portugal	9.3%	90.7%	44.9%	55.1%
Romania	-	-	-	-
Slovakia	50.0%	50.0%	44.2%	55.8%
Slovenia	49.7%	50.3%	95.3%	4.7%
Spain	14.5%	85.5%	19.5%	80.5%
Sweden	11.0%	89.0%	18.2%	81.8%
UK	11.3%	88.7%	7.5%	92.5%
<b>EU</b>	<b>16.6%</b>	<b>83.4%</b>	<b>12.1%</b>	<b>87.9%</b>

Source: Arts Economics (2010), Eurostat (2009)

<sup>14</sup> Within the EU, it is possible to delay or avoid payment of import VAT altogether if works are being imported temporarily, provided that they are intended for re-export within a specified time (usually a maximum of two years). When the item is sold, if the buyer exports it outside the EU, there is usually no VAT due. Similar temporary import reliefs are also available in Switzerland where a Freipass-Abfertigung can be obtained to transit through Switzerland without any obligation to pay import VAT.



### 3.6 Trade Regulation

The economic case for restricting trade in works of art is a moot point. Most countries encourage trade because of the value it adds to their domestic economies and for reasons related to cultural exchange, but, equally, nearly all art markets maintain some restrictions on art belonging to the national patrimony.

Trade in works of art is regulated in a variety of different ways including restrictions on both imports and exports, as well as tax and fiscal incentives for and against trade and domestic ownership and retention of art. The strictest regulations on trade are those imposed on the illicit trade in art, i.e. laws in place to prevent the international flow of stolen art works. Those covering the licit trade tend to centre on the control of trade in heritage art and other regulations covering certain protected species and the environment.<sup>15</sup>

The duty-free status of imported and exported works of art to and from the US has undoubtedly been one of the features that has added to its global importance. The UK, another important collecting and exporting nation, imposes relatively liberal controls on imports. These and other wealthy art markets are all major importers and, to maximize the range of acquisitions available, generally are opposed to import controls.

In some of the emerging art markets such as China and India, restrictions on the export of art over 100 years old has meant that the international art trade in Asian antiques and older art is limited to that which already exists outside these nations. With drives to repatriate many items viewed as important to the heritage of these nations, these markets are also likely to diminish in terms of their international trade to some extent in the future.

The role of the state in regulating the art trade has always been to some extent a double-edged sword: on the one hand regulating trade flows plays an important role in legitimately protecting works of art that are considered to form part of a country's national patrimony and in stimulating retention through tax and fiscal policies; on the other hand, regulations, taxes and levies imposed by governments can have a negative impact by adding layers of red tape and costs and causing disincentives to trade, investment and the creation of art. Differences in regulatory regimes between nations can also have distributional consequences for the global art market with regulatory arbitrage leading to trade diversions and often resulting in concentrations of art trade in global centres with the most liberal and conducive regimes such as the US.

<sup>15</sup> An example of the latter is CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora), which states that when signatories to the convention are importing certain objects, (particularly antiques), they need to have a CITES export permit to cover the departure from the source country and a separate CITES import permit for the arrival in the recipient.

CHAPTER 4

# Country Focus

## Country Focus

### 4.1 The United Kingdom

Auction Sales* 2008	Dealer Sales* 2008	Total Sales* 2008	Change in Sales 2007/09	Total Volume of Sales* 2008	Global Market Share 2008	No. of Businesses 2009	No. of Employees 2009
€6,391	€7,811	€14,202	-29%	4.6	34%	9,215	52,165

\* in millions

The UK remained the largest art market in the EU in 2008, with a market share of 69%, and 34% of the global art trade. Its share of the EU art market built steadily from a low of 53% in 2003. However in 2009, it is estimated to have slipped back to 57%, largely due to the fact that France gained share. It also reached its highest ever global share in 2008, having averaged around 27% in the five previous years, but again in 2009 this slipped to 29% at the expense of gains by China and France.

After a contraction in sales from 2002 to 2003 of 18%, the UK experienced steady and rapid growth averaging 23% per annum up to 2008. The market experienced a drop in sales in 2009 by an estimated 36% to reach just over €9 billion. Growth in the other EU markets (without the UK) averaged only 8% over the period from 2003 to 2008, indicating that the UK has been the engine for the growth in the European art trade. However, the recent

contraction has also been more marked in the UK and the fall in EU sales of 24% in 2009 is largely due to the poorer performance of the British art market that year, as sales in other parts of the EU on average actually grew 4% in 2009.

Turnover in the auction sector in the UK in 2008 reached €6.4 billion, almost stable on the previous year. The market experienced a marked drop in 2009 however with sales contracting 55% in Euro terms to €2.9 billion. There are around 1,255 auction companies in the UK which sell art and antiques either exclusively or as a regular part of their auction business.<sup>16</sup> Sotheby's and Christie's dominate the art market with a combined share 40% of all auction sales. Bonham's is in third place with a market share of just over 4%. In the fine art market, Christie's and Sotheby's share is closer to 90%, with Phillips de Pury and Company in third place with a 4% share.

<sup>16</sup> There are over 4,000 listed auction companies that include art, antiques or collectibles in their auction schedules, however this smaller subset are those that more regularly or exclusively conduct art and antiques sales as a primary part of their business.



The UK remained the largest art market in the EU with a share of 69%, and 34% of the global market.

There are also a number of important second-tier auction houses that have been growing in size, along with some consolidation in order to maintain competitiveness.

Turnover in the dealer sector of the market is estimated to have reached €7.8 billion in 2008, an increase of just over 22% on 2007. This increase was offset in 2009 however with sales dropping an estimated 21%. According to the dealers' survey, the bulk of dealers fall into the micro-company sector, with 46% of respondents turning over between €500,000 to €2 million per annum in sales. There were just 12% turning over more than €2 million (and 4% over €10 million). There are in the region of 8,000 fine and decorative art dealers currently operating in the UK, and of those surveyed, most employed three or four people. Despite being an international centre for the art market, these dealers tend to be local businesses, with the survey indicating that on average UK dealers make 69% of their sales locally.

Statistics on imports and exports demonstrate that the success of the British art market is built on cross-border trade, making it one of the two largest entrepôt markets in the world. London's success therefore is not built on sourcing business locally, but on sending works of art to and from London for sale. The UK is the largest importer

and exporter of art in Europe, and in 2008 was a net exporter of works of art. The main destination for the country's €3.4 billion in exports was the US with a 49% share followed by Switzerland with 26%. Other important export destinations included Russia, China and Germany with a combined share of 10%.

The UK also imported a substantial €3 billion in works of art in 2008, largely from the other major global art markets around the world such as the US (45%) and Switzerland (28%), and over 90% of these imports were fine art. The other main import sources were China, Germany, Japan and the Netherlands with a combined 10% share.

The UK's membership of the EU has meant that it has had to adopt certain legislation designed to harmonize taxation and other matters within Europe as a whole, which have had some impact on the art trade. These regulations vary from VAT rates and resale royalties which have an obvious and direct impact on the trade to environmental and conservation directives that often appear to have little relationship with the art market but can have unexpected consequences for a specialized sector. Three quarters of all the dealers' surveyed felt that these increasing regulations were having a negative effect on their businesses.

Trade statistics show that the British art market's success is built on cross-border trade, making it one of the largest entrepôt markets in the world.

A considerable threat to the future competitiveness of the UK art market, identified by dealers and auction houses, is the proposed extension of the artists' resale right to include the work of deceased artists within the 70 year period of copyright. Under the terms of the EU Directive 2001/84/EC, the UK and three other member states were allowed a derogation to limit the resale right to the work of living artists. This derogation is due to expire at the end of 2011. Most of the UK's global competitors have not so far introduced the resale right, and it is feared that extension of the tax in the UK to the Modern sector and 20th century art will lead to the loss of sales, particularly at the high end and especially for works currently sent from overseas for sale in the UK. The rise of China as a market for Contemporary art is seen as a sign that global competition is likely to increase, to the detriment of markets burdened with higher transaction costs.

The UK hosts hundreds of small and specialised art and antique fairs each year as well as some major international fairs such as Frieze, Zoo Art Fair and the Olympia International Art and Antiques Fair. In 2009, one of London's most traditional art fairs, the Grosvenor House Art and Antiques Fair, closed down after 75 years of operation as it was no longer financially viable in the difficult financial circumstances.

## 4.2 France

Auction Sales* 2008	Dealer Sales* 2008	Total Sales* 2008	Change in Sales 2007/09	Total Volume of Sales* 2008	Global Market Share 2008	No. of Businesses 2009	No. of Employees 2009
€1,105	€1,351	€2,456	28%	3.4	6%	9,680	43,370

\* in millions

France has the second largest art market in the EU with a 12% share by value. In 2008, it was the fourth largest market globally with a 6% share of the international art market and sales totalling €2.5 billion. Its share of the European art market had slipped 6% since 2003, mainly at the expense of gains to the UK. However, it gained back significant share during 2009, with sales totalling €3.5 billion, reaching an estimated 22% of the EU trade.

After a decline of 15% from 2002 to 2003, the French art market grew for the next three years, averaging 18% year on year growth. The market began to contract in 2007 (with sales dropping 1%), and this worsened to 11% in 2008. The market changed direction again in 2009, with positive and substantial growth returning of 44%.

Turnover in the French auction sector reached €1.1 billion in 2008, before climbing to a record year of €2.5 billion in 2009. The French auction system has been subject to a series of substantial reforms from 2000 under European law, which altered the status of the traditional French auctioneers and opened the market to foreign competition. Sotheby's held its first sale in Paris in November 2001, and Christie's entered the market one month later. In the fine art auction market, these two firms accounted for 34% of auction transactions by value, with Artcurial in third place with 10%. There are currently over 630 auction houses in France selling art and antiques as part of their business.<sup>17</sup>

The dealer sector in France is made up of over 9,000 dealers in fine and decorative art and antiques. Sales in the dealer sector in 2008 reached a total of just under €1.4 billion, increasing only

France has the second largest art market in the EU and the fourth largest market globally with sales totalling €2.5 billion.


marginally from 2007, but then showing a decline of 21% to under €1.1 billion in 2009. Although the dealer sector did suffer a contraction in sales, the market has shown relative resilience, as unlike some other international art centres, it is less dependent on Contemporary art sales.

In 2008, France was a net exporter of works of art, with exports more than doubling imports in value terms. The main destinations for the country's €1bn worth of exports of works of art were Switzerland (36%) and the US (32%). Other regular important destination countries for French art exports were the UK, China and Russia with a combined share of 9%.

The US is the source of half of the country's €464 million imports, and Switzerland is also an important source market with 20%. The UK, Germany, China and Italy have a combined share of 16%. Although most of the major art markets in Europe and the US saw a decline in imports from 2007 to 2008, France's imports of art rose 30% over the year.

France lost its position as the third largest global art market to China in 2007, when its global share dropped from 9% in 2003 to just under 6% that year. Historically, Paris was the centre of the art trade in Europe in the early part of the 20th century, but ceded this position to the UK

<sup>17</sup> This includes listings of around 465 auction houses registered under the Conseil de Ventes plus foreign auction houses and others that sell art and antiques as part of more general auction sales. The listings are per business rather than per company.



France has the second largest art market in the EU with a 12% share by value

as a result of increased taxes introduced in the 1950s. As the market has come under threat again from new art markets such as China, there have been some efforts to regain its competitiveness. The Minister of Culture announced a “Renewal Plan” to attempt to revive the French art market in 2008. This plan contained a number of suggested measures, the most important of which concentrate on making the art market more competitive and in particular the auction sector more modernised. A new law regulating the French Art Market at auction was voted at the French Senate in October 2009, but still has to be approved by Parliament and is hoped will improve sentiment and provide a better outlook for France in the global market.<sup>18</sup>

Like the UK, the French art market’s future growth is also likely to be hampered by added transaction charges resulting from EU harmonisation. Although the system of *Droit de Suite* (or artists’ resale rights) was originally introduced in France in the 1920s, the EU Directive harmonising the right is now seen by many as a drag on the potential for France to gain greater future market share in the global art market, unless an international agreement introduces the resale right in competing markets outside the EU. A report on the art market commissioned by the French Government identified both the EU

harmonised system of import VAT and the Resale Rights Directive as impediments to the future competitiveness of the art market.<sup>19</sup>

#### 4.3 Other European Markets

There are a number of other smaller but significant art markets in Europe. In 2008, Italy became the third largest market in the EU with sales of €1.1 billion, representing a 6% share and a 3% share of world trade. Italy overtook Germany into third place in the EU market as German sales reached €1 billion, and its share of the EU trade fell to 5% from a high of nearly 8% in 2005.

##### *Italy*

The Italian market experienced average growth of 16% per annum from 2002 through 2006. After a contraction in sales of 14% in 2007, the market resumed growth in 2008, however experienced another drop of 16% in 2009. Including all sellers of art and antiques, the Italian art market supports at least 5,775 businesses, and directly employs nearly 25,000 people. Italy has about 200 auction houses, and in the fine art sector Farsetti was the largest house in 2008 with a share of 26%, while Sotheby’s and Christie’s held a combined share of 28%.

In 2008, Italy was a net exporter of works of art. Due to highly restrictive export regulations,

<sup>18</sup> Once approved, the new law will authorize auction houses to give financial guarantees to vendors in a manner similar to other major art centres such as New York and London. It would also allow them to: conduct private sales as an agent of the vendor; sell new goods, such as jewels or works of art coming directly from a manufacturer or artists; select their own legal operating status; and conduct after-sales with no time limit after the auction (with the stipulation that the transaction cannot be executed for less than the last bid in the room).

<sup>19</sup> Bethenod, M. (2008) *Le Plan de Renouveau pour le Marché de l’Art Français*. Ministère de la Culture et de la Communication: Paris.

exports of art from Italy are relatively low, totalling just €178 million in 2008. About three quarters of these go to the US and Switzerland and 8% go to their main four trading partners in the EU (the UK, Spain, France and Germany). Exports have increased each year from 2006 however, and from 2006 though 2008 grew over 125%, while their destinations remained relatively similar.

Imports of art into Italy were also relatively low at €126 million and came mainly from the US (26%), Germany (24%) and Switzerland (20%). The UK, France and China are also important source markets with a combined share of 20%.

Given that Italy is an important market in the EU in terms of market share, the trade figures suggest that there is either a very strong domestic market for art or that the official trade figures may underestimate actual trade.

#### *Germany*

The years from 2003 to 2006 were particularly strong for the German art market with sales advancing 26% per annum on average. However the market had negative growth for the three years that followed, with the largest decline (-21%) in 2009.

The German art market is made up of over 4,110 businesses. There are 110 listed art auction houses, and these are widely spread geographically, while the 4,000 dealers are concentrated in hubs such as Berlin, Munich, Cologne and Dusseldorf. In the fine art market, the largest auction house with a 23% share is Villa Grisebach, with Lempertz and Hampel Kunstauktionen following with shares of 14% and 10% respectively.

In terms of trade, in 2008 Germany was a net exporter of art. Like the UK and France, the main destinations for German art exports are the US and Switzerland which respectively account for 33% and 28% of the country's total exports of €483 million. A further 18% of German art exports go to the UK, Russia and France.

Germany imported €286 million in works of art in 2008, with fine art accounting for over two thirds of the total. The US and Switzerland are the main sources for German imports of art with a share of 38% and 36% respectively. Other important markets include the UK (7%), China (4%) and France (2%).

#### *Switzerland*

Switzerland plays an important role in the international art market despite a relatively small global share of 1.4% with sales in 2008 of just

over €606 million. Switzerland is home to one of the major international art fairs, Art Basel, and Geneva is also an important centre for auctions of jewellery and watches. In the fine art market, just over half of the value of transactions in 2008 were carried out by the two Swiss houses of Koller and Kornfeld Gallery. Switzerland is also an important centre for private collectors (both Swiss nationals and those with domicile in Switzerland) and houses a number of art dealers.

Next to the UK, Switzerland is also one of the most important centres for exports and imports of art in Europe. Import and export statistics show that there is a high volume of trade via Switzerland that far exceeds its domestic trade. This may be explained by the existence of freeports in Basel, Chiasso, Zurich and Geneva which provide interim storage facilities for works of art, specifically catering for storage for foreign owners allowing them to store works of art free from VAT or customs duties.<sup>20</sup>

Switzerland's art exports totalled €1bn in 2008, down just under on third on the previous year. The main destinations for the country's exports of art were the US with 30%, the UK with 15%, France with 12% and Germany with 7%. Swiss imports of art dropped 12% from a peak of €1.5 billion in 2007 to €1.1 billion in 2008, with the

US and the UK as sources for 38% and 19% of imports respectively. A further 22% came from France and Germany.

There are virtually no (enforced) restrictions on the export of works of art and antiques from Switzerland, with the exception of CITES permits. For imports however, a number of measures have been put into place in recent years following the implementation of the Kultur-Güter-Transfer-Gesetz (Cultural Property Transfer Act) in 2005 which regulates the import of cultural goods into Switzerland, including a bilateral treaty with Italy in 2008, and similar agreements with Greece and Peru in 2006/07.

Other important art markets in Europe in terms of the size of turnover and employment include the Netherlands, Sweden and Austria, with a combined share of around 4.5% of the EU art trade. A summary of the main features of these selected art markets in Europe is given in Table 4.1.

<sup>20</sup> New legislation was introduced in Switzerland in 2009 that has meant that Geneva and other freeports are no longer considered "extra-territorial zones". The legislation introduced VAT for the first time on some on-site services, along with tighter regulations on inventory systems. VAT is still not applicable to the value of items stored, to storage fees or to insurance premiums so the duty-free status of goods stored in warehouses are virtually unaffected.

Table 4.1 Summary of Selected European Markets

Country	Auction Sales* 2008	Dealer Sales* 2008	Total Sales* 2008	Change in Sales 2007/09	Total Volume of Sales* 2008	Global Market Share 2008	No. of Businesses 2009	No. of Employees 2009
Italy	€514.1	€628.4	€1,142	-6%	0.3	2.7%	5,775	24,615
Germany	€454.5	€555.5	€1,010	-23%	1.1	2.4%	4,110	15,800
Switzerland	€272.8	€333.5	€606.3	-44%	1.0	1.4%	2,400	9,500
Sweden	€138.9	€169.7	€308.6	-25%	0.4	0.7%	1,280	4,915
Austria	€131.6	€160.8	€292.4	-9%	0.3	0.7%	2,535	9,200
Netherlands	€126.7	€154.9	€281.6	-45%	0.9	0.7%	3,265	14,338

\* in millions

Source: Arts Economics (2010)

The US retained its position as the largest art market in the world with sales of €14.7 million - a 35% global share.

#### 4.4 The United States

Auction Sales* 2008	Dealer Sales* 2008	Total Sales* 2008	Change in Sales 2007/09	Total Volume of Sales* 2008	Global Market Share 2008	No. of Businesses 2009	No. of Employees 2009
€6,608	€8,076	€14,684	-48%	16.0	35%	53,500	240,000

\* in millions

The US retained its position as the largest art market in the world in 2008 with aggregate art sales of €14.7 million, representing a 35% global share. This share has been eroded from a high of 46% in 2006, and slipped further in 2009 to 30%, with gains in the UK, Chinese and French art markets.

The US art market has been particularly badly hit by the global economic recession with total sales dropping to just €9.5 billion in 2009. After a dip in sales of nearly 21% over 2003, the US market showed strong growth over the next three years averaging a substantial 39% per annum. The market showed its first sign of weakening in 2007, when it contracted by 9% in Euro value. Over the next two years, the fall in sales was more substantial with declines of 19% and 35% in 2008 and 2009 respectively. One reason why the market in the US has been particularly badly hit

is that New York, like London, was an important world centre for Contemporary art sales. They had a combined share of two thirds of the total sales in this sector in 2008/09, and at the height of the boom in 2007, the US share was 40% (with the UK at 28%).

Prices in the US art market are generally higher on average than in other markets, with average fine art prices at auction from four to nine times that of EU average from 2002 through 2008 and consistently higher than prices in the UK. However this trend reversed for the first time in recent history in 2008 and 2009, when average fine art prices at auction in the US were approximately 90% of those achieved in the UK, when measured in Euros.

The US art market was particularly badly hit by the global economic recession, with sales dropping by 19% and 35% in 2008 and 2009 respectively.

There are (conservatively estimated) around 58,500 art and antiques businesses in the US, providing employment to over 257,000 people. Auction sales in 2008 reached €6.6 billion in 2008, down nearly 27% on the previous year. Although there are over 10,000 listed auction houses which sell art and antiques at least occasionally, there is a core of 3,500 houses that exclusively or regularly conduct auctions of art and antiques. Christie's and Sotheby's dominate the fine art sector with transactions accounting for nearly 90% of the fine art auction market by value, and about 40% of the overall auction market for art and antiques.

The dealers' sector in the US reached €8.1 billion in 2008, down 11% on the previous year. This sector supports at least 55,000 listed businesses across the US. According to the dealer survey, like the UK, the average numbers employed were three to four and most companies also fell into the micro-company turnover bracket with annual turnover of less than €2 million. There were approximately 23% of art and antiques dealers in the US classified as small firms and 5% as large firms with turnover greater than €10 million. Despite being home to some of the most important international dealers worldwide, on average dealers in the US made 68% of their sales locally.

The US was a net exporter of art in 2008, and is the largest trading source country and destination for art. It was the largest single exporter of works of art with €5.2 billion in exports in 2008, up 12% on its 2007 total, as a continuing weak dollar encouraged foreign purchasers. The main destinations for these exports were the other major art markets around the globe including the UK (32%), Switzerland (18%) and France (15%). It also exports just under 4% by value of its exports to China.

Imports of art declined by 17% from their 2007 high, reaching €4.9 billion and reflecting an unfavourable exchange rate and weaker underlying market. France was the top source for imports to the US with a share of 27% followed by the UK with 23%. In the EU, Germany, Italy and the Netherlands were important also with a combined share of 20%, while China and Switzerland accounted for 5% each.

The duty-free status of imported and exported works of art to and from the US has undoubtedly been one of the features that has added to its global importance in recent history. Its policy on imports is as liberal as that on exports, with no restrictions on imports until recently, apart from some pre-Colombian sculptures and murals. Another exception to its free trade policies was

added in 2009, when the US and China entered into a bilateral agreement to protect certain categories of archaeological material.<sup>21</sup> The import restrictions are intended to reduce the incentive for pillage and illicit trafficking in cultural objects that are believed to be threatening China's ancient heritage.

<sup>21</sup> The archaeological materials covered by the import restrictions include objects made of ceramic, stone, metal, bone, ivory, horn, shell, silk, lacquer, wood, paper, and glass. The agreement also covers "monumental sculpture and other wall art that are at least 250 years old". The time period covered extends from the Paleolithic Era, about 75,000 BC, through the end of the Tang Dynasty, A.D. 907.

4.5 China

Auction Sales* 2008	Dealer Sales* 2008	Total Sales* 2008	Change in Sales 2007/09	Total Volume of Sales* 2008	Global Market Share 2008	No. of Businesses 2009	No. of Employees 2009
€1,894	€1,894	€3,788	-7%	1.8	9%	40,300	142,000

\* in millions

The Chinese art market, including Mainland China and Hong Kong, reached a total of €3.8 billion in 2008, the third largest art market worldwide with a global share of 9%. Aggregate sales were down by 17% on 2007. However the Chinese art market bucked the trend in the rest of the world and increased aggregate sales in 2009 by 12%, boosting their share of the global art market to 14% and reaching a high of €4.2 billion.

The art market has moved very much in tandem with the development and opening up of the Chinese economy. From the 1970s to 1992, China engaged in a series of preparatory efforts in view of their eventual move from a planned to a market economy. These largely centred on price reforms where pricing was set based on supply and demand rather than production costs. In 1992, when the 14th Party Congress made

the official decision to change from a centrally planned economy, the focus was primarily on property and company law, to ensure ownership rights and obligations were in place. China's entry into the WTO in 2000 marked the real start of the development of business in China, as well as the expansion of Chinese businesses abroad and foreign enterprises entering China.

The art market followed a similar multi-stage development path, lagging that of the economy, but growing at an even faster rate. Prior to the 1990s, the market was dominated by Hong Kong, with a commercial art market virtually non-existent in Mainland China. During the 1990s, the Mainland market slowly opened up and became active, but buying of any scale was primarily carried out by foreign collectors. During this period, the existing trade was mainly carried out by domestic Chinese collectors

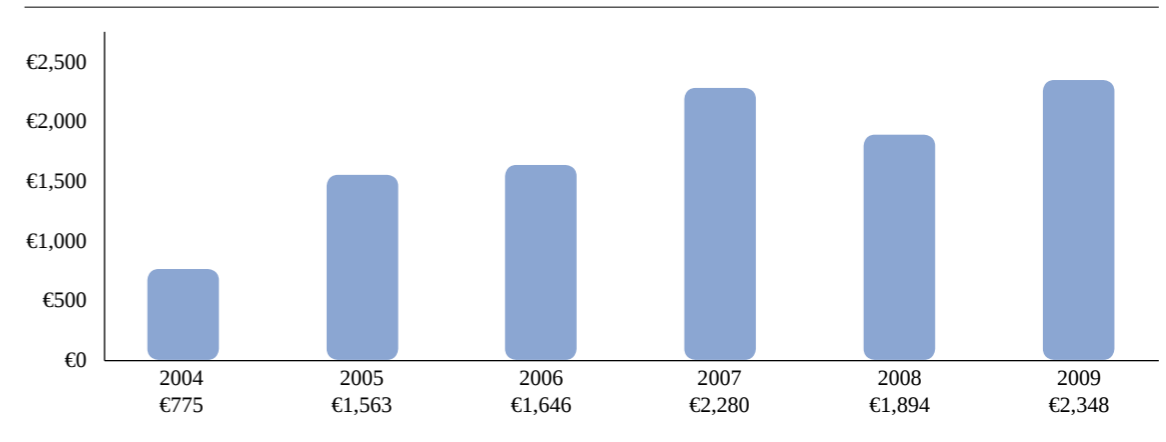
selling works to foreign collectors. This has seen a marked turn around in recent years and now the bulk of buyers are from Mainland China.

In 2008, the auction market reached a total of €1.9 billion, declining slightly on 2007 when Chinese Contemporary art had reached its peak. It picked up significantly in 2009 experiencing

its best year in the art market's history, with a sales total at year end of €2.4 billion.

Figure 4.A shows that the market has risen by over 200% from 2004 to 2009. The number of lots sold rose 38% over the same period, indicating that much of the increase in aggregate sales has been due to rising prices.

Figure 4.A Chinese Art Auction Sales (Million €) 2004 - 2009



Source: Arts Economics (2010), Artron (2010)

The Chinese art market bucked the trend in the rest of the world and increased sales in 2009 by 12%, boosting their global share to 14%.

The average price of fine and decorative art at auction in China over the same period has risen from around €7,600 to €16,600, or an increase of 118%. Fine art (including Chinese painting and calligraphy, oil painting and Contemporary art) dominated the market with a share of 60% in 2009. Its highest share was in 2005 when it accounted for 75%, and this dropped to a low point in 2007 of 54% when the Contemporary Chinese art market also started to contract.

A notable feature of the auction market in China is a relatively high number of buy-ins at auction. The average rate of buy-ins in 2008 was 49%, and although this dropped to 41% in 2009, the Chinese auction market has maintained an average of 43% in the six years from 2004 through 2009.

While there are several thousand auctioneers operating throughout Hong Kong and China which sell some art or antiques, currently in Mainland China there are approximately 245 authorised auction houses exclusively selling art and antiques and about 55 in Hong Kong. The number of auction houses in Mainland China has fluctuated considerably in recent years. In 2008, there were 260 auction houses and 25 were added in 2009, but an even greater amount had licences revoked, leaving the total at 245. China Guardian Auctions is currently the leading Chinese auction

house in Mainland China. The company was established in 1993, with headquarters in Beijing. Since 2002, sales values achieved at the auction house have grown by over 550%, and average prices by over 230%. Sotheby's and Christie's also have a significant presence in the market via their sales in Hong Kong.

One of the key problems confronting the Chinese auction market are fakes and forgeries at auction. A loophole in the 1996 Auction Law in China means that auction houses bear no responsibility for lots that are found not to be authentic. However there is increasing pressure from the Ministry of Culture to establish a system of guarantees in an attempt to address buyers' interests.

Hong Kong has dominated the Chinese art trade in terms of value in the past, but this trend is changing. In 2008, auction sales in Hong Kong represented 43% of total sales by value, with Beijing in close second with 40%.

Besides the domestic market, there are significant sales of Chinese art outside China. The demand for Chinese art from new Chinese collectors has had an impact on auction sales held in the leading international auction houses. In 2000 for example, about half of the sales of Chinese art

by Sotheby's and Christie's took place in Hong Kong and half elsewhere, mainly in London or New York. But every year since 2005, the share sold in Hong Kong has averaged over 70%. In 2009, Christie's and Sotheby's averaged a high of 75% of sales of Chinese art in Hong Kong, and 25% in other centres predominantly London, New York and Paris.

One of the sectors that has gained much international interest in recent years is Chinese Contemporary art. This sector reached a share of 24% of global Contemporary auction sales at the height of the boom in 2007. Since then, its share has slipped to 17%. However this is relative to less than 2% market share in 2002, and China remains the third largest global Contemporary art market. From 2003 to the end of 2008, turnover in the Contemporary auction market in China increased over 200 times, while average prices increased by over 300%. The peak for Chinese Contemporary prices came in January/ February 2008 and from the start of 2004 until then, the market grew 1,500%.

In terms of its international trade, Mainland China is subject to a number of regulations restricting the external trade in art. Under the current Chinese law, the export of most Chinese antiques are restricted, but works of art made after 1911 are



Chinese Contemporary art accounted for 24% of global Contemporary auction sales at the height of the boom in 2007, and remains the third largest global market in this sector.

generally free from restrictions but may require a licence and are banned from export if they are viewed to be of national importance. Works of Contemporary art and most Modern Chinese art are not subject to any export restrictions, which is one reason why this sector has experienced such phenomenal growth in recent years.

China was a net importer of art in 2008. In 2008, exports of art from China totalled just €280 million and 85% of these were via Hong Kong, with Mainland China exporting just €49 million. While still relatively low compared to other countries, this represents a more than ten-fold increase since 2003 when Chinese Mainland art exports were only €4.9 million. The peak year for exports of art works from China was in 2007, when Mainland China exported just under €57 million in art, 86% of which were paintings (mostly Contemporary). The main destination for Chinese exports of art was the US with 37%, the UK with 17% and Singapore with 7%. Switzerland and France were also important destinations with 6% each.

Imports of art into China totalled €485 million in 2008, up 9% on the previous year. This total represented an increase of nearly 180% in the three year period from 2005. This rapid advance reflects the interest by Chinese collectors in

Hong Kong has dominated the Chinese art trade in the past, but this trend is changing, with Beijing's share of sales at over 43% in 2008.

repatriating Chinese works in international circulation as well as a the general increased level of interest in the art market. The US and the UK were the main sources for imports with a combined share of 51%. Other important sources were Singapore (7%), Switzerland (6%) and France (6%).

According to forecasts from the Chinese Government, GDP per capita which in 2009 was around \$3,600, is expected to increase to \$10,000 by 2020, when a middle class in China is expected to become established and the urban population will have reached at least 60%. All of these features are expected to expand demand and with increased restructuring and regulation, the art market is expected to enter a period of more stable growth.

CHAPTER 5

# Art Prices

## Art Prices

Average prices in several sectors of the art market dropped during 2008 and 2009. Just as a small number of very high priced sales helped to inflate averages in 2006 and 2007, the reduced number of high value works sold over the last two years has been reflected in a drop in aggregate prices. Nonetheless, some sectors have fared well throughout the last few years, particularly in the more traditional categories such as Old Masters.

In both the dealer and auction sector, the bulk of the art trade in terms of volume continues to take place at the lower end of the market in different art centres around the world, while the highest priced sales take place in the key art centres such as the UK, France, the US and China.

### 5.1 Dealer Prices

#### *Average Prices*

Although there is little published information on prices in the dealer sector of the market, some insights can be gleaned by examining the Arts Economics dealers' survey which covered the period from 2007 to 2009.

In 2007, the average price for all respondents was €17,550, although averages ranged from as low as €50 to €300,000. The survey found that

average prices dropped 6% during 2008 to a reported €16,465. In 2009, just under one third of the dealers surveyed felt that their average prices would be lower or significantly lower than in 2008, 42% felt they would be stable and 25% thought average prices would rise. Given that these reports on prices are somewhat more pessimistic than their outlook for aggregate sales (as reported in Chapter 2), it appears some dealers expected not only to sell less, but also to sell at lower prices.

Expectations for prices in 2010 were more optimistic, however, with 85% of dealers responding that average prices would be stable or higher than in 2009, and only 14% expecting lower average prices.

#### *Volume of Sales*

Table 5.1 shows the volumes of works sold by dealers in the survey in different price brackets. It clearly indicates that the bulk of sales taking place by dealers is in the range of prices falling below €50,000. The US has slightly higher priced transactions on average with 1% of works sold in the range over €1m, and prices were also marginally higher in fine versus decorative art.

Dealers' expectations for prices in 2010 were optimistic, with 85% expecting stable or higher prices than in 2009.

Table 5.1 Volume of Dealer Sales by Price Range in 2009

Price Range	All	US	EU	Decorative	Fine	Mixed
€0-€5000	61%	55%	58%	61%	64%	68%
€5000-€50,000	33%	34%	36%	35%	29%	27%
€50,000-€150,000	5%	4%	6%	4%	5%	5%
€150,000-€500,000	1%	4%	0.6%	0.6%	1%	0%
€500,000-€1m	0.4%	2%	0.02%	0%	0.02%	0%
Greater than €1m	0.2%	1%	0.02%	0%	0.02%	0%

Source: Arts Economics (2010)

## 5.2 Fine Art Prices at Auction

From 2002 through the end of 2007, average prices at fine art auctions in the EU more than doubled, and in the US they increased by 79%. Table 5.2 shows that in most art markets globally, average prices were the highest ever experienced in the history of the art market in 2007.

The highest average prices at auction, by a considerable margin, have consistently been in the UK and the US. However in 2008, average prices in the UK were higher than the US for this first time in recent history. In 2009, average prices in China were also higher than in the US. Within the EU, the UK has the highest prices by far, with other large art markets such as France and Italy having average prices less than 15% of that of the market leader. In France, the average

fine art price at auction has remained consistently below the EU average prior to 2009, indicating that their position within the top three markets of the region was driven mainly by a high volume of sales. In 2009, prices in France were 1.8 times the EU average, but still less than half of those in the UK.

**The bulk of trading by dealers takes place at prices below €50,000.**

Table 5.2 Average Auction Hammer Prices for Fine Art by Country 2002-2009

Country	2002	2003	2004	2005	2006	2007	2008	2009
Austria	€4,380	€4,861	€5,304	€6,614	€6,840	€11,362	€8,993	€8,205
Belgium	€2,021	€2,045	€1,902	€1,810	€1,840	€2,111	€1,603	€1,334
Denmark	€2,533	€2,760	€5,092	€3,688	€6,193	€8,390	€9,852	€7,512
France	€6,180	€6,446	€5,083	€5,501	€6,378	€9,095	€6,629	€14,428
Germany	€2,963	€3,259	€3,216	€4,145	€4,127	€7,001	€4,249	€3,074
Ireland	€7,620	€5,160	€5,536	€6,792	€8,504	€8,230	€5,953	€4,109
Italy	€7,682	€7,486	€8,227	€7,837	€9,048	€9,539	€7,969	€6,736
Netherlands	€7,176	€5,605	€6,047	€6,052	€8,366	€12,280	€5,952	€5,499
Spain	€2,363	€2,940	€3,646	€3,598	€3,948	€5,976	€4,471	€3,434
Sweden	€5,136	€5,521	€6,334	€4,157	€5,239	€14,252	€6,954	€4,518
UK	€25,516	€21,656	€23,067	€25,772	€33,135	€59,990	€56,450	€32,153
Rest of EU	€4,508	€4,300	€3,871	€4,544	€4,251	€7,738	€8,916	€4,245
<b>EU</b>	<b>€5,432</b>	<b>€5,092</b>	<b>€5,231</b>	<b>€5,569</b>	<b>€6,190</b>	<b>€11,257</b>	<b>€9,540</b>	<b>€7,199</b>
Switzerland	€6,765	€4,245	€5,425	€7,584	€9,776	€13,808	€7,848	€3,471
Other extra-EU	€9,709	€7,014	€2,972	€5,428	€10,836	€25,438	€9,082	€4,933
US	€47,398	€35,410	€38,945	€35,505	€47,826	€84,683	€51,550	€28,485
China	-	-	-	-	-	€48,034	€38,567	€28,999
Japan	-	-	-	-	-	€19,505	€9,551	€6,487
Singapore	-	-	-	-	-	€17,695	€13,049	€10,036
Taiwan	-	-	-	-	-	€58,807	€48,621	€24,685
Rest of World	€7,922	€7,851	€9,041	€12,024	€17,310	€13,109	€8,167	€7,977

Source: Arts Economics (2010), Artprice (2009)

While the entire period from 2002 to 2006 was largely dominated by advancing prices, the largest per annum growth was from 2006 to 2007 in many art markets. In the EU, average prices advanced by 14% from 2002 to the end of 2006, but in the following year jumped up by 82%, as all of the larger art markets within the region experienced an increase in prices and sales. The US also saw a significant increase in average prices over 2007, with a 77% increase. This trend of escalating prices changed over 2008, and by year end most countries were showing negative growth in their art markets as prices and volumes at auction started to decline towards the end of the year. Prices in the EU dropped by 15%

**Advancing prices dominated from 2002 to 2006, but the largest per annum growth was from 2006 to 2007.**

while the US was harder hit with a fall in average prices of 39%. In contrast, some of the Asian art markets saw their strongest sales ever from 2007 to 2009, nonetheless average prices for fine art did decline in China by nearly 20% in 2008.

Table 5.3 also shows the change in prices from 2008 through 2009 based on the results at auction up to the end of July 2009. The table shows only fine art auction data, which may have fared worse than decorative art in terms of average price declines. For example, in China when all auction data is included for fine art and decorative art for the entire year, the drop in average prices over the year was only 4%.<sup>22</sup>

Table 5.3 Changes in Average Fine Art Auction Prices

Country	Change 02/06	Change 06/07	Change 07/08	Change 08/09
Austria	56.2%	66.1%	-20.8%	-8.8%
Belgium	-9.0%	14.7%	-24.1%	-16.8%
Denmark	144.5%	35.5%	17.4%	-23.8%
Finland	44.8%	14.2%	-10.5%	-20.2%
France	3.2%	42.6%	-27.1%	117.6%
Germany	39.3%	69.6%	-39.3%	-27.7%
Ireland	11.6%	-3.2%	-27.7%	-31.0%
Italy	17.8%	5.4%	-16.5%	-15.5%
Netherland	16.6%	46.8%	-51.5%	-7.6%
Spain	67.1%	51.4%	-25.2%	-23.2%
Sweden	2.0%	172.0%	-51.2%	-35.0%
UK	29.9%	81.0%	-5.9%	-43.0%
Rest of EU	-5.7%	82.0%	15.2%	-48.9%
<b>EU</b>	<b>14.0%</b>	<b>81.9%</b>	<b>-15.3%</b>	<b>-24.5%</b>
Switzerland	44.5%	41.2%	-43.2%	-55.8%
Other Extra-EU	11.6%	134.8%	-64.3%	-45.7%
US	0.9%	77.1%	-39.1%	-44.7%
Asia	-	-	-33.9%	-27.3%
China	-	-	-19.7%	-24.8%
Japan	-	-	-51.0%	-32.1%
Singapore	-	-	-26.3%	-23.1%
Taiwan	-	-	-17.3%	-49.2%
Rest of the World	118.5%	81.6%	-37.7%	-2.3%

Source: Arts Economics (2010), Artprice (2009)



The trend of escalating prices changed over 2008, and average prices fell 15% in the EU and 39% in the US.

While aggregate prices are useful indications of movements in the art market over time, they can present a distorted guide to the majority of individual transactions in different markets if they are skewed up or down by a small number of very high or low prices. The median price or middle price is therefore also a useful comparative measure between countries and is given in Table 5.4.<sup>23</sup> In every market shown, the median price is lower, and in many cases significantly lower, than the average, indicating that prices in the fine art auction market are not symmetrical but are heavily influenced by a few very high prices which pull averages upwards.

Another notable feature is the high median price achieved in Asian art markets, particularly China. While average prices of fine art sold at auction in China are around three quarters of those in the US and over a third less than the UK, the median price at auction is more than three times that of both countries. The fine art market in China has quite a different structure to its Western counterparts with a greater spread or range of prices at auction.

Finally, the Table also shows that like average prices, most median prices declined in 2008 and particularly in 2009. This indicates that the drop in average prices was not only brought about by less high value works being sold, but also by lower values sold in all market segments.

The largest proportion of works sold at fine art auctions are at the lower end of the market, with works selling for over €1 million accounting less than 1% of all global transactions.

<sup>23</sup> The median is a measure of central tendency used in skewed distributions. The median price is simply the price separating the higher half of a sample from the lower half, and is found by arranging all prices from lowest value to highest and picking the middle one. The median can differ from the average as the distribution of prices may not be evenly spread around the average. If the median is less than the average, it indicates that the average is being pulled upwards by a small proportion of higher values.

Table 5.4 Averages and Median Fine Art Auction Hammer Prices<sup>24</sup>

Country	2007		2008		2009	
	Average	Median	Average	Median	Average	Median
Austria	€11,362	€2,600	€8,993	€2,500	€8,205	€1,875
Belgium	€2,111	€460	€1,603	€380	€1,334	€300
Denmark	€8,390	€2,950	€9,852	€2,952	€7,512	€3,357
France	€9,095	€1,100	€6,629	€900	€14,428	€800
Germany	€7,001	€900	€4,249	€750	€3,074	€500
Ireland	€8,230	€2,400	€5,953	€2,000	€4,109	€1,800
Italy	€9,539	€2,000	€7,969	€1,600	€6,736	€1,400
Netherlands	€12,280	€2,800	€5,952	€1,000	€5,499	€1,300
Spain	€5,976	€1,200	€4,471	€1,000	€3,434	€855
Sweden	€14,252	€2,391	€6,954	€1,541	€4,518	€1,114
UK	€59,990	€3,912	€56,450	€2,260	€32,153	€1,333
Rest of EU	€6,369	€1,567	€7,404	€1,818	€4,229	€1,732
<b>EU</b>	<b>€11,257</b>	<b>€1,932</b>	<b>€9,540</b>	<b>€1,610</b>	<b>€7,199</b>	<b>€1,437</b>
Switzerland	€13,808	€1,202	€7,848	€803	€3,471	€497
Other Extra-EU	€25,438	€6,438	€9,082	€1,265	€4,933	€1,024
US	€84,683	€4,819	€51,550	€2,569	€28,485	€1,866
Asia	€43,194	€9,573	€28,560	€6,131	€20,771	€3,878
China	€48,034	€10,631	€38,567	€9,246	€28,999	€5,984
Japan	€19,505	€5,211	€9,551	€2,568	€6,487	€1,478
Singapore	€17,695	€6,770	€13,049	€5,273	€10,036	€3,889
Taiwan	€58,807	€15,879	€48,621	€15,337	€24,685	€10,454
Rest of the World	€13,109	€1,824	€8,167	€1,292	€7,977	€1,415

Source: Arts Economics (2010), Artprice (2009)

<sup>24</sup> The prices given in Table 5.3 for 2009 are based only on the results from January to July 2009.

To look further at the structure of prices in the art market in 2008, Table 5.5 divides transactions into various price brackets. The Table shows clearly that the largest proportion of works sold at fine art auction in the EU, Switzerland and the US is for less than €5,000.

Table 5.5 Auction Price Stratification in Selected Art Markets in 2008 (x €1,000)

Country	0 - 5	5 - 20	20 - 50	50 - 150	150 - 500	500 - 1,000	≥ 1,000
Austria	67.1%	23.5%	6.3%	2.6%	0.4%	0.0%	0.0%
Belgium	93.3%	5.7%	0.7%	0.2%	0.0%	0.0%	0.0%
Germany	86.3%	9.9%	2.5%	1.0%	0.2%	0.0%	0.0%
Denmark	65.1%	23.7%	7.8%	2.7%	0.6%	0.0%	0.0%
Spain	83.5%	11.6%	3.5%	1.1%	0.3%	0.0%	0.0%
France	82.8%	11.8%	3.4%	1.4%	0.5%	0.1%	0.0%
Ireland	74.1%	19.7%	4.4%	1.6%	0.3%	0.0%	0.0%
Italy	76.1%	16.1%	5.0%	2.1%	0.6%	0.1%	0.0%
Netherlands	78.1%	15.4%	4.4%	1.7%	0.3%	0.0%	0.0%
Sweden	80.7%	12.6%	4.5%	1.6%	0.5%	0.1%	0.0%
UK	62.3%	18.1%	8.3%	6.1%	3.3%	1.0%	1.0%
<b>EU</b>	<b>77.0%</b>	<b>16.0%</b>	<b>4.5%</b>	<b>1.8%</b>	<b>0.6%</b>	<b>0.1%</b>	<b>0.1%</b>
Switzerland	84.2%	10.4%	3.1%	1.6%	0.5%	0.2%	0.1%
Other Extra-EU	74.2%	17.7%	5.1%	2.0%	0.9%	0.2%	0.0%
US	62.8%	20.5%	7.8%	4.9%	2.6%	0.6%	0.8%
<b>Asia</b>	<b>44.8%</b>	<b>31.4%</b>	<b>13.1%</b>	<b>7.4%</b>	<b>2.8%</b>	<b>0.4%</b>	<b>0.2%</b>
China	33.5%	34.3%	17.2%	10.1%	4.0%	0.5%	0.3%
Japan	65.9%	24.4%	6.5%	2.3%	0.8%	0.1%	0.0%
Singapore	47.6%	36.9%	9.9%	5.0%	0.5%	0.0%	0.0%
Taiwan	13.5%	47.3%	19.4%	13.2%	4.7%	1.5%	0.3%
Rest of the World	76.6%	15.9%	4.6%	2.1%	0.7%	0.1%	0.0%
<b>Total 2007</b>	<b>70.1%</b>	<b>19.5%</b>	<b>6.1%</b>	<b>3.0%</b>	<b>1.0%</b>	<b>0.2%</b>	<b>0.1%</b>

Source: Arts Economics (2010), Artprice (2009)

The corollary of the dominance of the lower end of the market is that very few works are sold at the higher end, with works selling for over a €1 million accounting less than 1% of all global transactions. In 2008, on average, the proportion of works sold for over €1 million was only 0.1% globally, although this had declined marginally since 2006 and 2007 when it was 0.2%.

There was a significant increase in the very lowest price bracket of the market over the last few years. In 2007, the volume of works sold for under €5,000 totalled 64%, and this grew 11% to just over 75% in 2009.

In 2009, the value of works sold for less than €50,000 reached 97%, while the market activity between the values of €50,000 through €500,000 appeared to have decreased the most, halving its volume of transactions. This pressure on the middle market at auction confirms the anecdotal evidence from the dealers' market, where many commented that since the end of 2008 it has been relatively easy to sell very low value items, and high prices will still be paid for the best quality works, but that works in the "middle" of the market are in the most difficult sales position.

### 5.3 Prices by Sector

The focus of the previous sections has been on the fine art sector at auction as this has been the main driver of both the rise and contraction in prices in the art market over the past five years. The following sections examine a selection of some of the main sectors in the fine art market, namely Contemporary, Modern, Impressionism and Old Masters. While this is not an exhaustive list of the sectors in fine art, it helps to illustrate, that even within this one part of the market, different sectors have been developing at different rates.

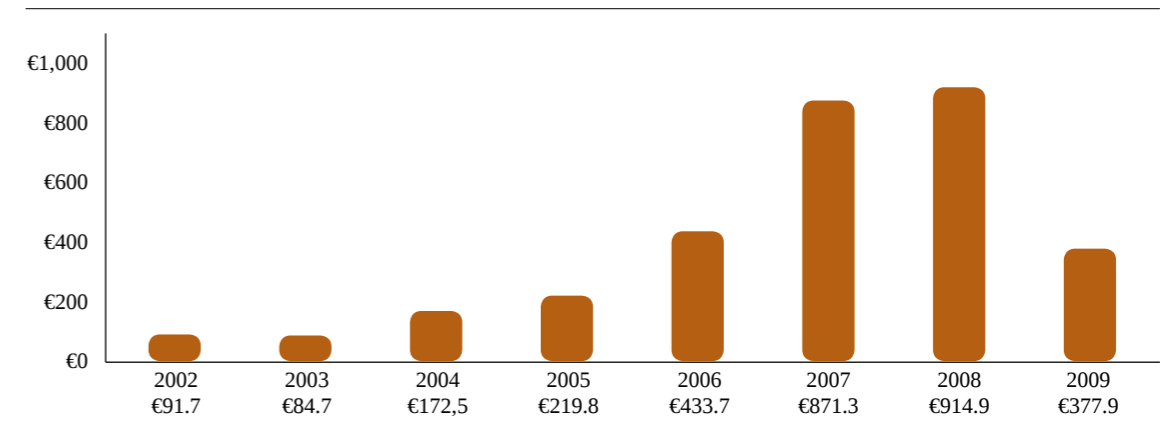
#### Contemporary Art

The driver of the art boom up to 2008 was fine art, and the sector of the fine art market, which received the most attention due to its phenomenal growth in prices, was Contemporary art.<sup>25</sup> While in previous years the Impressionist and Modern sector usually dominated auction sales in terms of absolute size, in 2007 Contemporary art became the largest category by value in the major auction houses. The auction market for Contemporary art grew from €92 million in 2002 to €915 million in 2008, or just under a tenfold increase in value. Lots sold also increased by 226% in the same six year period, and average prices peaked in 2007 at €35,845, up 281% on 2002 when they were approximately €9,400.

From the start of 2002 to the beginning of 2008, the number of Contemporary works that sold for greater than €1 million increased by over 600%, and the number of artists creating these top selling lots also increased: in 2005/06 the work of just seven artists accounted for the 18 lots sold

for over €1 million, while in 2007/08 this had increased to 25 artists and 120 lots. In 2008/09, despite the drop in the market, there were still a substantial 72 lots sold for over €1 million by 19 Contemporary artists.<sup>26</sup>

Figure 5.A Contemporary Auction Turnover (Million €)



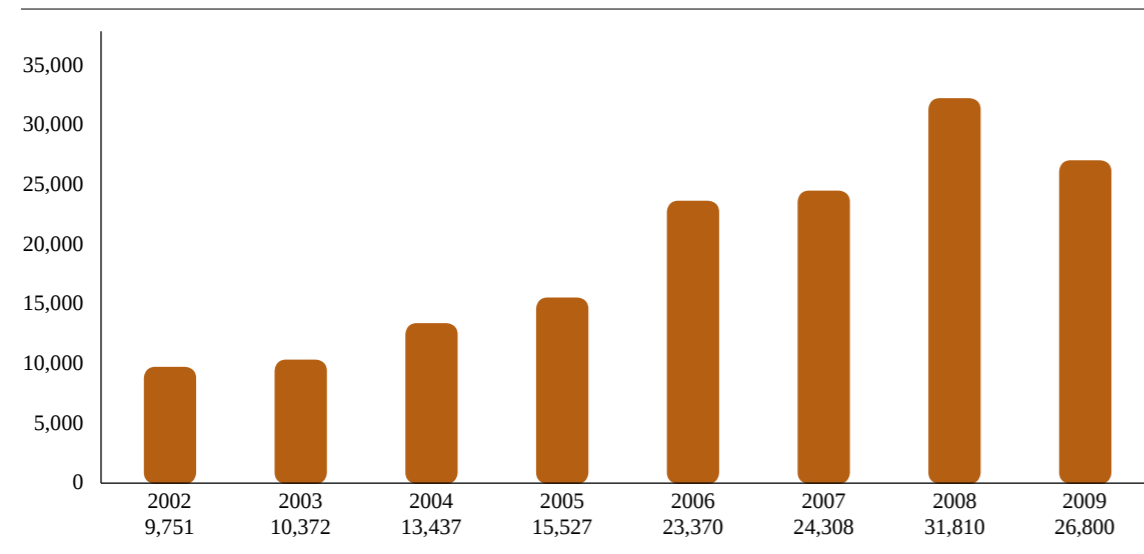
Source: Arts Economics (2010) Artprice<sup>27</sup> (2009)

<sup>25</sup> Although definitions vary, for the purpose of this section, Contemporary art is defined as all works of fine art created by artists born after 1945.

<sup>26</sup> Artprice (2009) *Le Marché De L'Art Contemporain 2008/2009*. Paris: Artprice.

<sup>27</sup> Note that here and throughout, data from Artprice is the hammer prices at the main fine art auctions only (excluding premium and excluding some unattributed works, unsigned works, smaller auction sales). Data for 2009 is based on both actual sales results and some estimates.

Figure 5.B Contemporary Auction Volume (Number of Lots Sold)



Source: Arts Economics (2010), Artprice (2009)

Contemporary art auction sales grew from €92 million in 2002 to €915 million in 2008, or just under a tenfold increase.

A notable feature of the growth in the Contemporary sector was the emergence of new or previously little known markets, such as Chinese Contemporary art, as well as new wealthy collectors from China, India, Russia and the Middle East. Some of these new buyers have shown distinct preferences for Contemporary art. From 2003 until the end of 2007, the aggregate art auction market grew by over 150%, and the Contemporary art market grew by over 900%. Although this growth has been a global phenomenon, with Contemporary markets such as the US advancing 450% over the period, the growth in Chinese Contemporary has been staggering, growing by several thousand percentage points. These rapidly rising prices and expanding sales have been supported by both Western buyers and an increase in the number of Chinese buyers with the purchasing power for the first time to participate actively in the market.

According to information supplied by the major auction houses to Arts Economics in 2009, although European and US buyers dominated in terms of the amount spent at auction in 2008, spending by Chinese and other Asian buyers as a total share of Contemporary expenditure ranged from 2% to 5%, and the numbers of buyers has more than doubled in the last three

years. At Contemporary Chinese art auctions they accounted for 70% or more of spending in 2008.<sup>28</sup>

Table 5.6 Changes in the Contemporary Auction Market 2002 - 2009

Years	Change in Value	Change in Volume	Change in Average Price
2002/03	-7.7%	6.4%	-13.2%
2003/04	103.8%	29.6%	57.3%
2004/05	27.4%	15.6%	10.2%
2005/06	97.3%	50.5%	31.1%
2006/07	100.9%	4.0%	93.1%
2007/08	5.0%	30.9%	-19.8%
2008/09	-58.7%	-15.7%	-51.0%

Source: Arts Economics (2010)

Table 5.6 shows that after five consecutive years of rapid price inflation, the Contemporary art market experienced a change in its aggregate trend in late 2008, as the trickle down effects of the global financial crisis and economic recession started to affect both buyers and sellers. Just as it had been a leader in its expansive phase of the art market, the Contemporary sector also notably

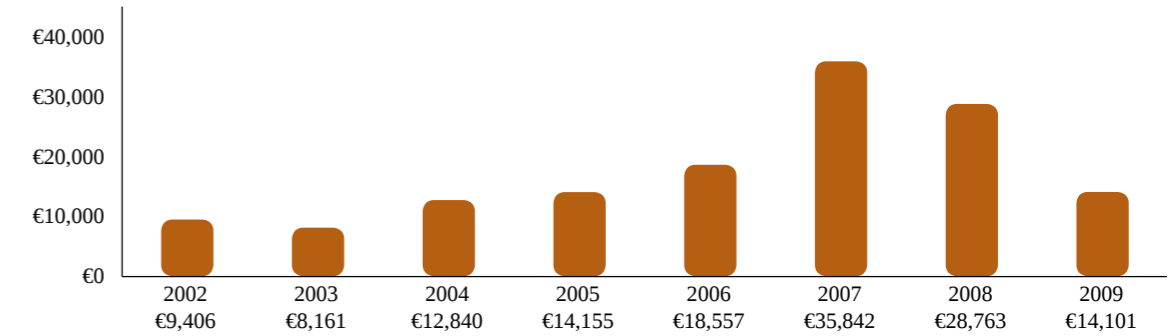
<sup>28</sup> It is important to note that these percentages are based on auction houses reporting of the nationality of the buyers registered for bidding at a particular auction. The nationality of the final buyer may not be the same as the purchaser at auction, for example a UK dealer may be purchasing a work of art for a Chinese client, but this would be registered as a buyer from the UK.



led its decline. As one of the most volatile and speculative sectors of the international art market, Contemporary art was most susceptible to the deterioration of wealth and breakdown in global economies around the world over 2008 and 2009. Estimates are that the market dropped by nearly

60% to €378 million by the end of 2009 in terms of aggregate sales values (at auction), with a drop in both lots sold and prices. At the end of 2008, buy-in rates in the Contemporary sector had reached up to nearly half the lots sold at many auctions versus less than one third a year before.

Figure 5.C Average Hammer Prices at Contemporary Art Auctions



Source: Arts Economics (2010), Artprice (2009)

2007 was the peak year for average prices, which nearly doubled from the previous year and had an average growth rate of 36% per annum from 2002 through 2007. After two years of decline in 2008 and 2009 however, average prices in the Contemporary market returned to around levels seen in 2005.

Although like other sectors of the market, the majority of lots sold at auction are within the lower price ranges, lots sold in the lowest price bracket (under €5,000) dropped from over 80% to 54% in the five-year period up to 2007, and

those selling for over €1 million increased over sevenfold.

It is worth noting however that even in the peak of the boom in 2007, the proportion of lots that sold for greater than €500,000 remained at just over 1%, indicating that the large increase in values and averages was driven by a relatively small number of high priced lots. Table 5.7 also shows that in the first half of 2009 at least, nearly three quarters of the lots sold at auction were less than €5,000 with the middle market and the high end particularly badly hit.

Table 5.7 Volume of Contemporary Lots Sold by Price Range

Year	0 - €5,000	€5,000 - €50,000	€50,000 - €500,000	€500,000 - €1m	≥ €1m
2002	80.2%	16.9%	2.6%	0.2%	0.1%
2003	80.1%	17.1%	2.6%	0.1%	0.03%
2004	76.1%	19.7%	3.9%	0.2%	0.2%
2005	73.1%	22.1%	4.4%	0.3%	0.1%
2006	64.6%	28.6%	6.4%	0.3%	0.2%
2007	54.1%	35.1%	9.7%	0.7%	0.4%
2008	61.5%	30.2%	7.5%	0.5%	0.4%
H1-2009	74.0%	22.2%	3.5%	0.1%	0.1%

Source: Arts Economics (2010), Artprice (2009)

2007 was the peak for Contemporary art prices, with averages doubling from the previous year, but after two subsequent years of decline they have returned to 2005 levels.

The decline in sales of Contemporary art in 2009 is evident in the art sales of the two major art auction houses of Christie’s and Sotheby’s. Annual sales of Contemporary art at Sotheby’s and Christie’s dropped by 74% and 62% respectively over 2009. Sotheby’s regular sales entitled “Contemporary Art” had peaked in 2008 at \$1.2 billion (around €780 million), a rise of 11% on 2007. Including Damian Hirst’s famous “Beautiful Inside My Head Forever” sale adds a further £111.5 million (or around €141 million) to the aggregate figure, bringing the total at €921 million.<sup>29</sup> Christie’s “Post-War and Contemporary” sales peaked earlier (in 2007) at £722 million (€1.1 billion) up 75% on 2006, but then dropped 23% over 2008.<sup>30</sup>

In an effort to adjust to new lower level market conditions, many auction houses have reduced the number of lots on offer and also recalibrated reserve prices and pre-sales estimates.<sup>31</sup> These strategies may have contributed to some of the improvements in Contemporary sales in the second half of 2009. Buy-in rates at Sotheby’s and Christie’s evening sales of Contemporary art in November 2009 averaged 20% (up from 32% in 2008), however both houses significantly reduced the number of lots on sale from previous years.

<sup>29</sup> This still excludes other Contemporary lots sold in all Sotheby’s Asian sales and any mixed sales.

<sup>30</sup> All sales information for Sotheby’s and Christie’s includes premiums.

<sup>31</sup> In an attempt to reduce losses, most of the major auction houses also abandoned the practice of offering price guarantees to sellers (Contemporary or otherwise). Price guarantees are used by auction houses to attract sellers and involve pre-determining a price that will be paid to the seller regardless of the auction result. If a work does not meet its reserve price, the auction house has to buy it from the seller at this price. The removal of these guarantees is a product of the falling market generally, and although it was a relatively rare practice, it may act to discourage some high-end sellers from participating in art auctions, preferring either to attempt to sell privately or defer sales.



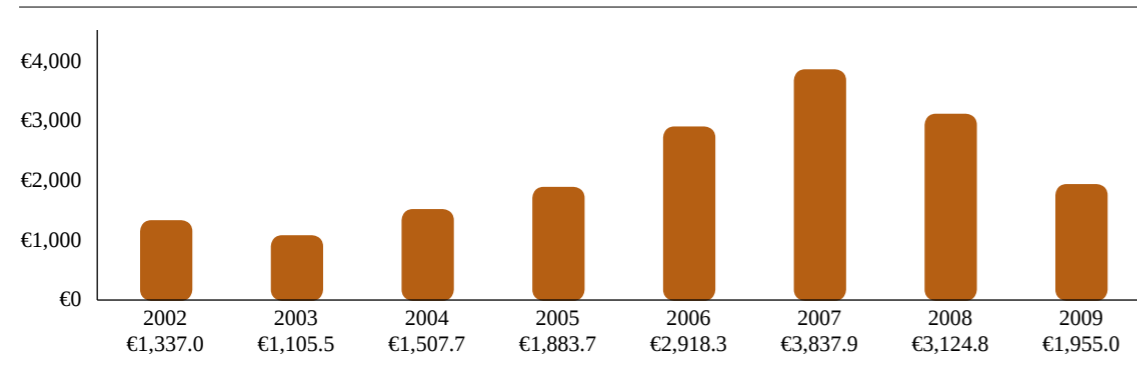
Outside the auction sector there have also been reports of improved levels of business at Contemporary art fairs in 2009 such as Art Basel in June and Frieze in London in October, and it is clear from the dealers' survey that looking ahead to 2010 the majority of dealers expect stable or improved sales. Although the sector was undoubtedly one of the worst hit within the art market in the fallout of the economic crisis, its expanded base of global buyers has saved it to some degree from a prolonged recessive period like the one seen in 1991/1992.

#### *Modern Art*

Although categorisations vary within the art trade, the category of Modern artists includes, for the purposes of this discussion, all artists born between 1875 and 1945. The sector includes some of the most valuable artists at auction in recent years including Pablo Picasso, Francis Bacon and Andy Warhol. These three artists were the top selling artists in 2008 in terms of aggregate values, generating aggregate sales totals at auction of around €648 million in 3,028 lots. This sector is one of the largest in terms of aggregate turnover at auction, and in 2008 it reached €3.1 billion at the main fine art auctions, over three times the size of the aggregate Contemporary market.

Modern paintings  
is one of the largest  
auction sectors,  
reaching €3.1 billion  
in 2008, over three  
times the size of the  
Contemporary market.

Figure 5.D Modern Art Auction Turnover (Million €)

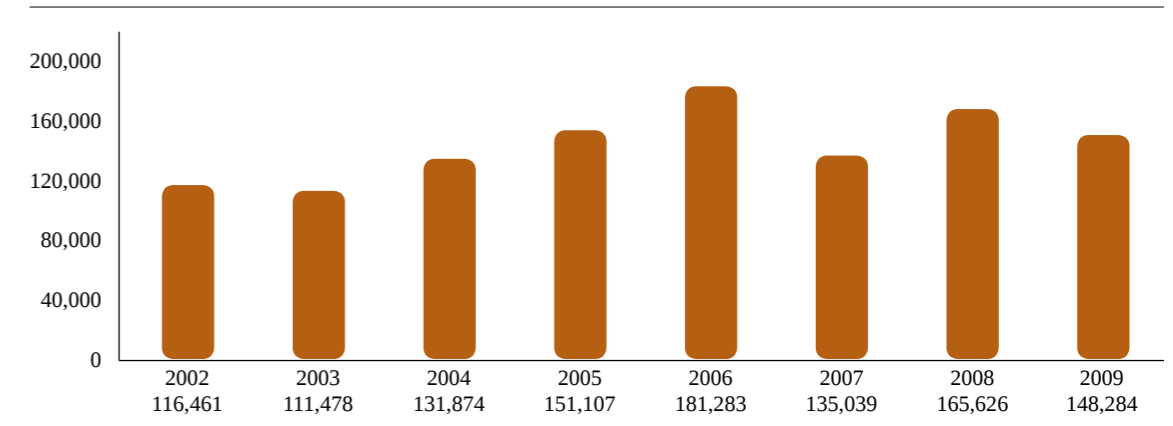


Source: Arts Economics (2010), Artprice (2009)

Sales in 2008 were down 19% on their 2007 peak of €3.8 billion, despite there having been 23% more lots sold. The market fell again in 2009 by 37% in value to just under €2 billion and 10% in volume, however the value of sales still remains above levels achieved in 2005. The number of lots sold in the Modern sector at auction was over five times that of Contemporary art in 2008, and average prices were 65% of their Contemporary counterparts.

**Sales in 2008 were down 19% on their 2007 peak of €3.8 billion, despite more lots sold.**

Figure 5.E Modern Art Auction Volume (Number of Lots Sold)



Source: Arts Economics (2010), Artprice (2009)

The volume of lots has altered in a less predictable manner, peaking in 2006 when some 181,283 works were sold at auction. Although less lots were sold in 2007, those selling for less than €5,000 dropped below 70% for the first time since 2002 (and subsequently) and the lots selling for over €1 million grew from 395 to 522. Aggregate lots sold fell by 11% over 2009 and the proportion in the lower end of the market (less than €5,000) rose to 2004 levels of around 81%.

**The market fell again in 2009 by 37%, however the value of sales still remains above levels achieved in 2005.**

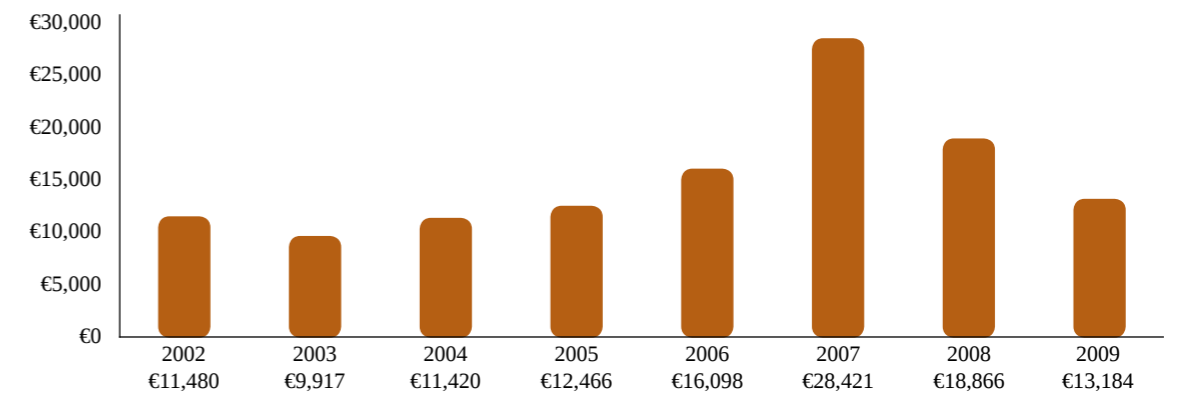


Table 5.8 Volume of Modern Lots Sold by Price Range (x €1,000)

Year	0 - 5	5 - 50	50 - 500	500 - 1,000	≥ 1,000
2002	82.7%	14.7%	2.3%	0.2%	0.1%
2003	81.1%	16.3%	2.4%	0.1%	0.1%
2004	81.8%	15.5%	2.4%	0.1%	0.1%
2005	80.0%	16.8%	2.9%	0.2%	0.1%
2006	78.2%	17.9%	3.5%	0.2%	0.2%
2007	69.8%	23.7%	5.8%	0.4%	0.4%
2008	76.5%	19.4%	3.6%	0.2%	0.2%
H1-2009	80.7%	16.3%	2.7%	0.2%	0.1%

Source: Arts Economics (2010), Artprice (2009)

Figure 5.F Average Prices at Modern Auctions



Source: Arts Economics (2010), Artprice (2009)

Average prices in this market reached a high of around €28,420 in 2007, up a substantial 76% on the previous year. Prices fell by just over one third in value in the two years since 2007, and in 2009 were just over levels seen in 2005 at €13,184.

The top auction houses of Christie's and Sotheby's combine the fine art sectors of Impressionist and Modern into one department encompassing mainly European masterpieces from the late 19th century to beyond the post Second World War period. This combined sector of the market has been one of the largest in terms of aggregate value, until its top position was (temporarily) taken by the Contemporary sector in 2007.

At Sotheby's, the Impressionist and Modern Sector reached just over €838 million in 2007, but then declined by 16% to €722 million in 2008 and dropped by more than half in 2009 to just under €342 million. Sales at Christie's followed a similar but less steep descent from £714 million (€813 million) in 2007, to £660 million (€835 million) in 2008 and then a fall of 58% (in Sterling values) to approximately £279 million (or €327 million) in 2009.<sup>32</sup>

After these declines however, 2010 got off to a more positive start with the evening sale of Impressionist and Modern art in February at

Sotheby's realising £146.8 million (€227 million), the highest total for an auction in London. The auction heralded a new world record price for a work at auction for a Giacometti Bronze (€75 million), surpassing the previous auction record for a work of art – Picasso's *Garçon à la Pipe* (which was sold at Sotheby's New York in May 2004 for \$104.1 million/ €87.6 million).

Table 5.9 Growth in the Modern Paintings Auction Market: 2002 - 2009

Years	Change in Value	Change in Volume	Change in Average Price
2002/03	-17.3%	-4.3%	-13.6%
2003/04	36.2%	18.3%	15.2%
2004/05	25.1%	14.6%	9.2%
2005/06	54.9%	20.0%	29.1%
2006/07	31.5%	-25.5%	76.5%
2007/08	-18.6%	22.7%	-33.6%
2008/09	-37.4%	-10.5%	-36.5%

Source: Arts Economics (2010)

Auction sales in the Impressionist sector grew by 80% from 2002 to its peak in 2007 of €655 million.

*Impressionist and Post-Impressionist*  
Another important and highly valuable segment of the fine art market is works by Impressionist painters. The Impressionist movement began in the 19th century, born out of a group of loosely associated Paris-based artists that formed the core of the movement and some of its most famous names, including Claude Monet, Édouard Manet, Edgar Degas and Pierre-Auguste Renoir. The smaller cohort of French Impressionist painters dominate the market in terms of value.<sup>33</sup> In the years from 2002 to 2009, this group of about 20 artists was responsible for at least half of the value of sales at auction in the sector. The remaining so-called Impressionist artists is made up of around 120 lesser-known American, European and other Impressionist painters. However their value is considerably lower, with a share of about 15% during the period. The final group of artists included here is often termed Post-Impressionists, and includes some 40 artists such as Paul Cézanne, Paul Gauguin and Vincent Van Gogh and accounts for 35% of the sector's value.

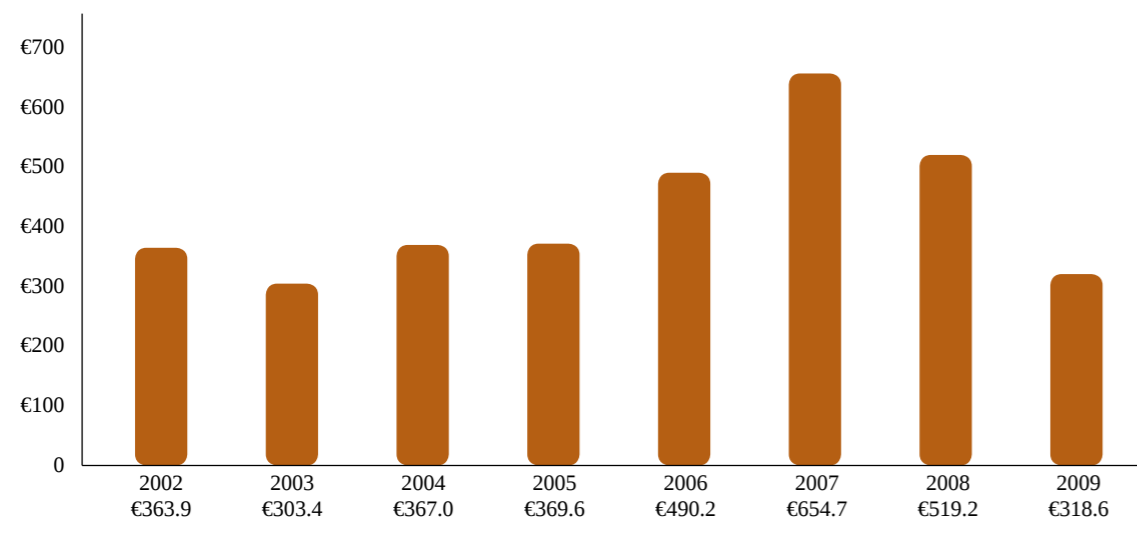
<sup>32</sup> Figures for Christie's for 2007 and 2008 are taken from Christie's annual sales press releases. Figures for 2009 are compiled from Christie's auction results for all sales called "Impressionist and Modern". If Impressionist or Modern works appear in other mixed sales, they are not included in the 2009 figures.

<sup>33</sup> These include Bazille, Boudin, (Felix and Marie) Bracquemond, Cassatt, Caillebotte, Colin, Degas, Forain, Gonzalès, Guillaumin, Lépine, Manet, Mauffra, Monet, Montezin, Morisot, Pissarro, Renoir, Schuffenecker, Seurat, Signac, and Sisley. Although some of these artists were not French (such as American-born artist Mary Cassatt), these artists are considered by most art historic references to make up the core of the sector.

Figure 5.G shows that auction sales in the Impressionist sector grew in value by 80% from 2002, where total sales amounted to €364 million, to its peak in 2007 with sales of €655 million. From there, the market fell by 21% in 2008 to €519 million and a further 39% in 2009 to €319 million. In 2008, just over 61% of

the value of sales came from works by French Impressionist painters, although they accounted for less than one third of lots sold. That year, Post-Impressionist artists sold more lots (38% of the total), but were somewhat less valuable in terms of aggregate sales (with a share of 26% by value).

Figure 5.G Impressionist Paintings Auction Turnover (Million €)

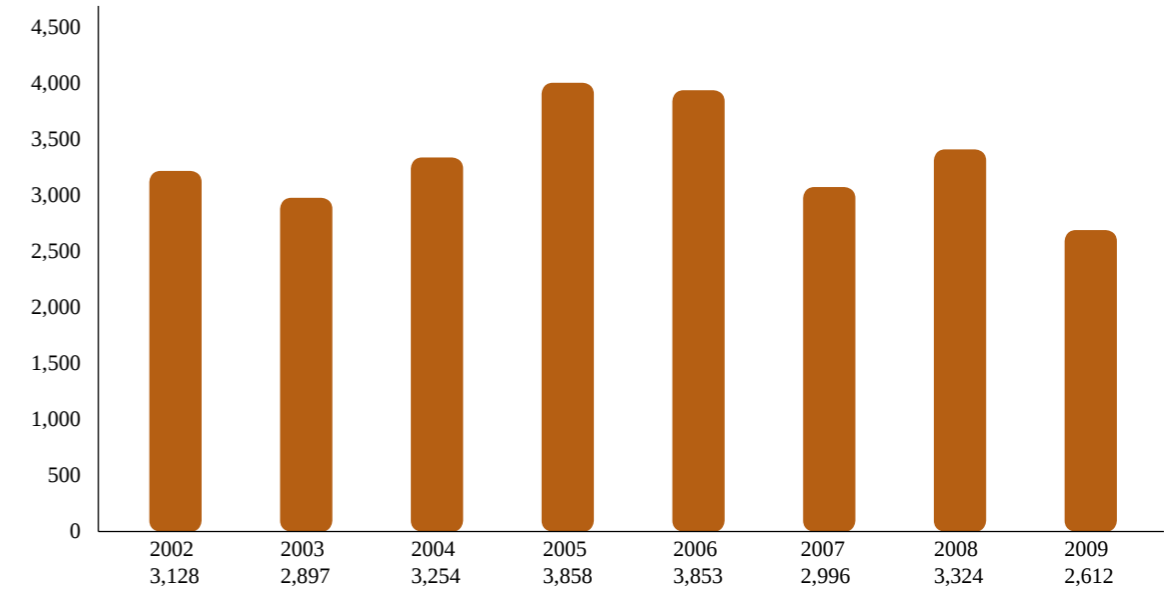


Source: Arts Economics (2010), Artprice (2009)

The volume of works sold also varied throughout the period, but has not necessarily driven value in a straightforward manner. In 2007, the number of lots sold actually fell by 22% with values driven by a small number of higher value works, while

in 2009 lots also fell by 21% as values dropped. Post-Impressionist works made up the largest number of lots in each year, averaging 39% over the entire period, followed by other Impressionists (31%) and French Impressionists (30%).

Figure 5.H Impressionist Paintings Auction Turnover (Volume of Lots Sold)



Source: Arts Economics (2010), Artprice (2009)

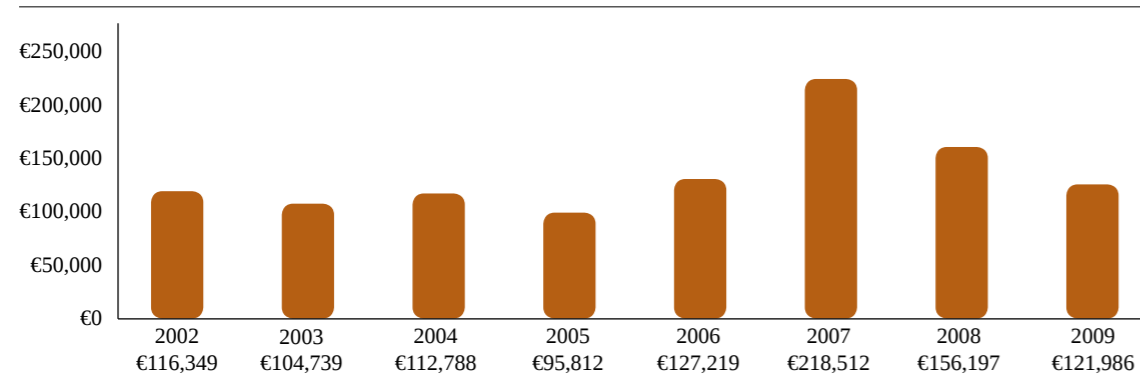
Average prices in the Impressionist market also peaked in 2007, rising 72% from the previous year to reach a level of just over €218,500. The next two years were marked by steady declines in average prices, with prices in 2009 reaching a level of €122,000 - just below that achieved in 2006. The greatest rise in prices was seen in the French Impressionist sector, where prices increased by 110% from 2006 to 2007 to reach €346,000,<sup>34</sup> while Post-Impressionists achieved an average of around €204,000 at auction that year. Average price in the Impressionist sector in 2007 (and other years) are more than six times those in the Contemporary or Modern sector.

Table 5.10 Growth in the Impressionist Market 2002-2009

Years	Change in Value	Change in Volume	Change in Average Price
2002/03	-17%	-7%	-10%
2003/04	21%	12%	8%
2004/05	1%	19%	-15%
2005/06	33%	0%	33%
2006/07	34%	-22%	72%
2007/08	-21%	11%	-29%
2008/09	-39%	-21%	-22%

Source: Arts Economics (2010)

Figure 5.I Average Hammer Prices at Auction in the Impressionist Sector



Source: Arts Economics (2010), Artprice (2009)

<sup>34</sup> Average prices for French Impressionist works were influenced by a few very high level sales in 2007. For example, French painter Claude Monet's *Nymphéas* sold at Sotheby's in June for a hammer price of €24.4 million and *Waterloo Bridge, Temps Couvert* which also sold in June at Christie's for a hammer price of €23.6 million, along with 25 other works that sold for over \$1 million that year.

Average prices for Impressionist works are more than six times those in the Contemporary or Modern sectors.

Although in 2008 nearly 80% of the lots sold in this sector were for under €50,000, it is notable that 4.5% sold for over €1 million in 2008, down from 5.7% in 2007. In the French Impressionist sector in the boom year of 2007, 7.5% of the lots sold were for over €1 million. This is the highest share by far of lots sold in this price bracket of all the fine art sectors (including Old Masters), and results from the combination of relatively fewer lots than Modern or Contemporary and a concentration of very high prices for some artists.

Table 5.11 Volume of Impressionist Lots Sold by Price Range (x €1,000)

Year	0 - 5	5 - 50	50 - 500	500 - 1,000	≥ 1,000
2002	48.3%	34.2%	13.2%	2.2%	2.1%
2003	49.5%	33.9%	12.7%	1.5%	2.3%
2004	47.2%	33.5%	14.8%	2.1%	2.3%
2005	44.6%	36.1%	14.5%	2.4%	2.4%
2006	43.3%	36.1%	14.7%	2.5%	3.3%
2007	33.1%	37.1%	20.7%	3.3%	5.7%
2008	46.4%	33.3%	13.7%	2.1%	4.5%
2009	50.4%	29.9%	14.5%	2.1%	3.0%

Source: Arts Economics (2010), Artprice (2009)

The Old Master sector has been regarded as a more conservative, out of fashion category of art, but is receiving renewed interest as a potentially less volatile sector in which to invest.

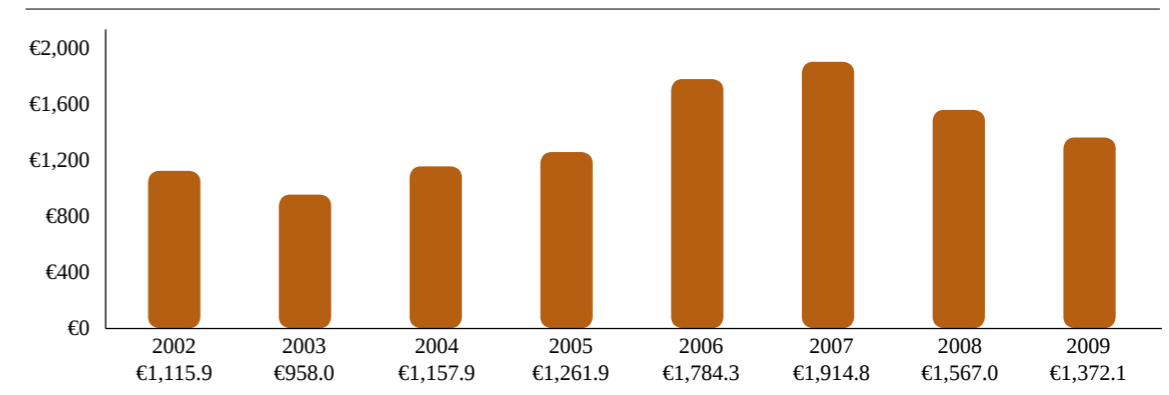
*Old Masters*

The Old Master sector of the market has been regarded as a more conservative category of art with more long-term collectors, and while it has been to some extent out of fashion compared with Contemporary art in recent years, it is now receiving renewed interest as a potentially less volatile sector in which to collect and invest.<sup>35</sup> Although, like Contemporary and other sectors, prices in the market are driven by individual artists and by the quality of particular works, values are also much more dependent on condition (especially given their age) and rarity. Furthermore, unlike the Contemporary sector which has a continuously replenishable supply of new works, the supply of Old Master (and Impressionist and Modern) paintings is finite, causing a degree of scarcity which has a positive influence on prices.

The Old Masters market grew by 40% from €1.1 billion in 2002 to €1.6 billion in 2008, but experienced a contraction of 12% in 2009 to reach €1.4 billion. The peak of the market in terms of aggregate value was reached in 2007 when this sector achieved €1.9 billion in auction sales. The number of lots sold has not shown a consistent path of growth or decline but fluctuated around an average of approximately 59,000 per annum.

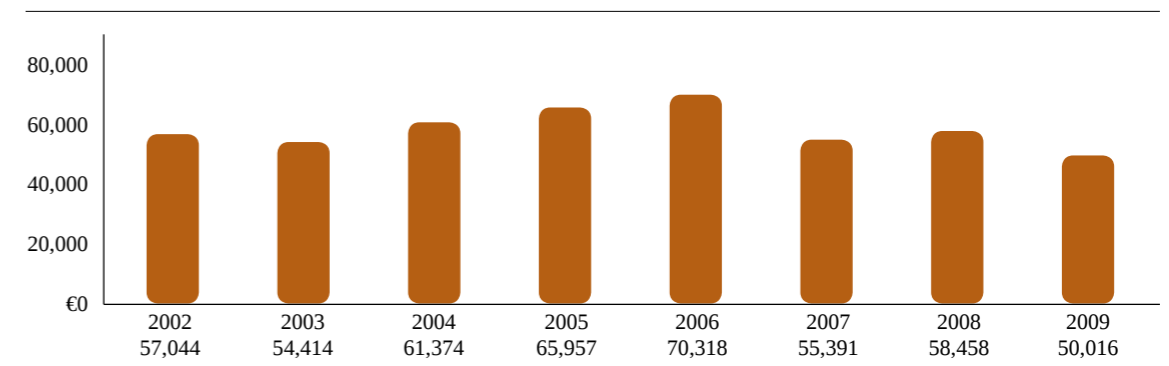
<sup>35</sup> Definitions of Old Masters vary but the data on turnover and prices in the category of “Old Master Paintings and Drawings” given in this section refers to works sold at auction by artists born between 1275 and 1875.

Figure 5.J Old Master Paintings and Drawings: Auction Turnover (Million €)



Source: Arts Economics (2010), Artprice (2009)

Figure 5.K Old Master Paintings and Drawings: Auction Volume (Lots Sold)



Source: Arts Economics (2010), Artprice (2009)



The Old Masters sector grew by 40% 2002 to 2008, with a peak in 2007 of €1.9 billion in auction sales.

Table 5.12 shows that although the market has seen significant rises and falls in value and prices, the extent of the fluctuations have been less volatile with variations, both positive and negative, significantly less than the Contemporary sector. For example, the market saw its most significant rise in value from 2005 through 2006 when it rose by 41% (versus a maximum per annum increase of over 104% for Contemporary), and its greatest drop has been from 2007 to 2008 at 18% (versus a 59% contraction in the Contemporary sector over 2009). Similarly, while average prices rose by a substantial 36% in 2007, this was much more moderate than the 93% increase in prices in the Contemporary sector that year.

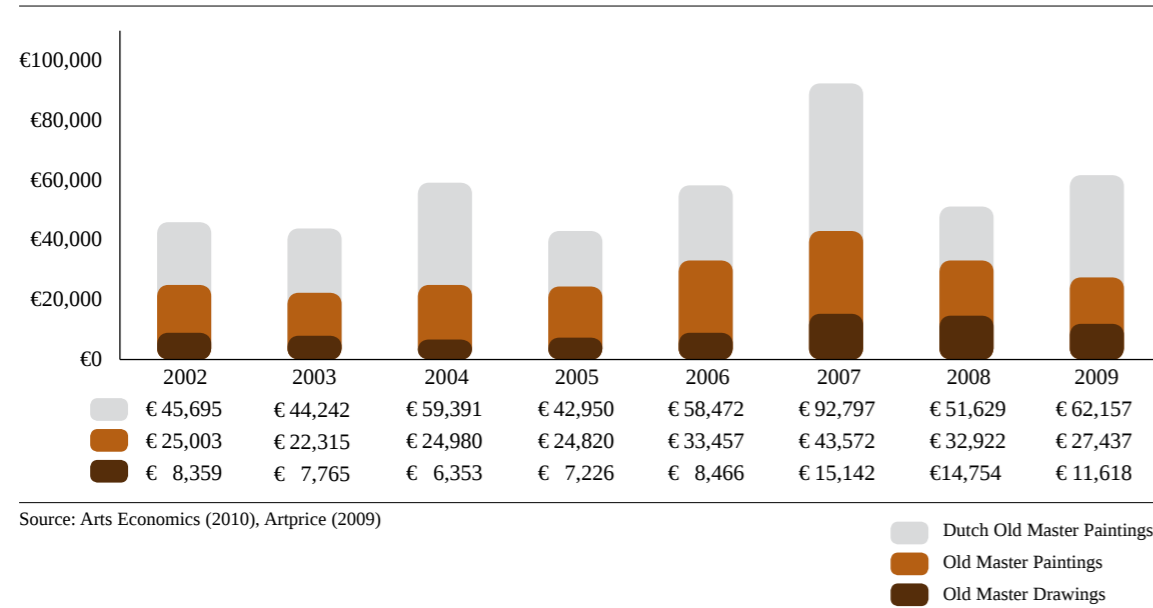
Table 5.12 Growth in Old Master Auction Market: 2002 - 2009

Years	Change in Value	Change in Volume	Change in Average Price
2002/03	-14.2%	-4.6%	-10. %
2003/04	20.9%	12.8%	7.2%
2004/05	9.0%	7.5%	1.4%
2005/06	41.4%	6.6%	32.6%
2007/07	7.3%	-21.2%	36.2%
2007/08	-18.2%	5.5%	-22.5%
2008/09	-12.4%	-14.4%	2.3%

Source: Arts Economics (2010)

Although the market has seen significant rises and falls in value, fluctuations have been significantly less volatile than the Contemporary sector.

Figure 5.L Average Prices of Old Master Paintings and Drawings



Source: Arts Economics (2010), Artprice (2009)

To offer an example of some of the sub-divisions within this sector, Figure 5.L separates out Dutch Old Master paintings from the general category of Old Master paintings. This is one of the higher priced segments of the Old Master market with average prices often double that of the market as a whole. The average prices of Dutch Old Master paintings rose in value between 2002 and 2009,

increasing by a total of 36% (as opposed to 10% for the Old Masters market as a whole). The Figure also divides out paintings and drawings in the general Old Master sector. Although the average price of drawings fell by 23% from 2007 through 2009, their advance of 39% over the entire period from 2002 to 2009 was the highest of all three segments.

Table 5.13 Volume of Old Masters Paintings Sold by Price Range (x €1,000)

Year	0 - 5	5 - 50	50 - 500	500 - 1,000	≥ 1,000
2002	63.6%	30.5%	5.2%	0.4%	0.3%
2003	64.6%	29.8%	5.1%	0.3%	0.2%
2004	64.4%	29.6%	5.4%	0.3%	0.3%
2005	63.3%	29.8%	6.2%	0.4%	0.3%
2006	63.3%	29.3%	6.5%	0.5%	0.4%
2007	57.2%	32.8%	8.7%	0.6%	0.7%
2008	63.6%	29.2%	6.2%	0.5%	0.5%
H1- 2009	68.6%	25.8%	5.0%	0.3%	0.4%

Source: Arts Economics (2010), Artprice (2009)

Table 5.13 shows that within the sector of Old Master Paintings, there are a large number of lots sold at the lower end of the market, with nearly 93% of transactions under €50,000. It is interesting to note that the share in the very lower end increased in 2009, as did works selling at greater than €500,000. This again backs up the fact that the very high and very low ends of the market have tended to weather the conditions in 2009 somewhat better than the middle market. Looking at the two largest auction houses, the Old Master pictures department at Christie's reached £151 million (€224 million) in 2007, but fell back 21% over 2008 to just under £119

million (€151 million). However, sales grew 7% (when measured in British Pound terms) in 2009 to reach a total of £127 million (€148 million, a 2% fall in Euros), with over half of that value coming from one sale in London in December which realised €75 million, the highest ever total for an auction of Old Masters. Sotheby's Old Master Department reached approximately €238 million in 2007, but like Christie's fell back by 29% over 2008 to €184m.<sup>36</sup> 2009 saw another fall of 23% as some of the sales at the end of the year experienced relative high buy-in rates.

<sup>36</sup> Figures include only sales entitled "Old Master" sales, therefore may exclude some Old Masters in mixed sales. All figures are converted from base currency to Euros each year.

Although Europe has been regarded as the traditional home for the most expensive and high quality Old Master paintings and drawings, it should be noted that there have been some major sales from Russian, Latin American and increasingly Chinese artists from this era. In October 2008 a hand drawn scroll from Kun & Shining Jin & Lang, entitled *The Emperor Qianlong's review of the Grand Parade of Troops* reached €5.7 million at Sotheby's in Hong Kong. Chinese landscape artist, Wu Bin (Ming Dynasty), achieved a record price of RMB151 million (€14.8 million) at Poly International Auction Company in Beijing in December 2009 for a large six-metre scroll entitled *Eighteen Arhats*.

In China Guardian's Autumn Auction in November 2009 (which achieved a record total for the company at RMB1.53 billion or €157 million), around 72% of the value of the sale came from Chinese Old Master paintings and calligraphy.

#### 5.4 Conclusions

The analysis of these few sectors of the art market indicates some key points about the art market as a whole:

- Within the fine art market, different sectors of the market have different (and often independent) growth trajectories in terms of prices, volume of sales and sales values.
- Prices in most sectors peaked in 2007, and have decreased in 2009.
- Despite multi-million dollar lots getting most of the attention in the media, the majority of art trading takes place at the lower end of the market below €5,000, regardless of the sector.
- The middle market (in terms of prices) appears to have been one of the worst hit by the global recession in 2008 and 2009, while the very high and very low ends of the market have fared better.

Although Europe has been the traditional home for the most expensive and high quality Old Master works, there have been some major sales from Russian, Latin American and Chinese artists from this era.

CHAPTER 6

# Art Buyers and Art as an Investment



## Art Buyers and Art as an Investment

The primary focus of this study is to determine trends in the value and volume of transactions of the international art market. But in order to understand the forces that affect art prices, it is relevant to examine the factors that influence art buyers. Buyers in the art market are made up of a number of different participants: collectors, investors (individuals and funds), museums, corporate collectors, dealers and others, each with their own particular motivations, interests and buying power.

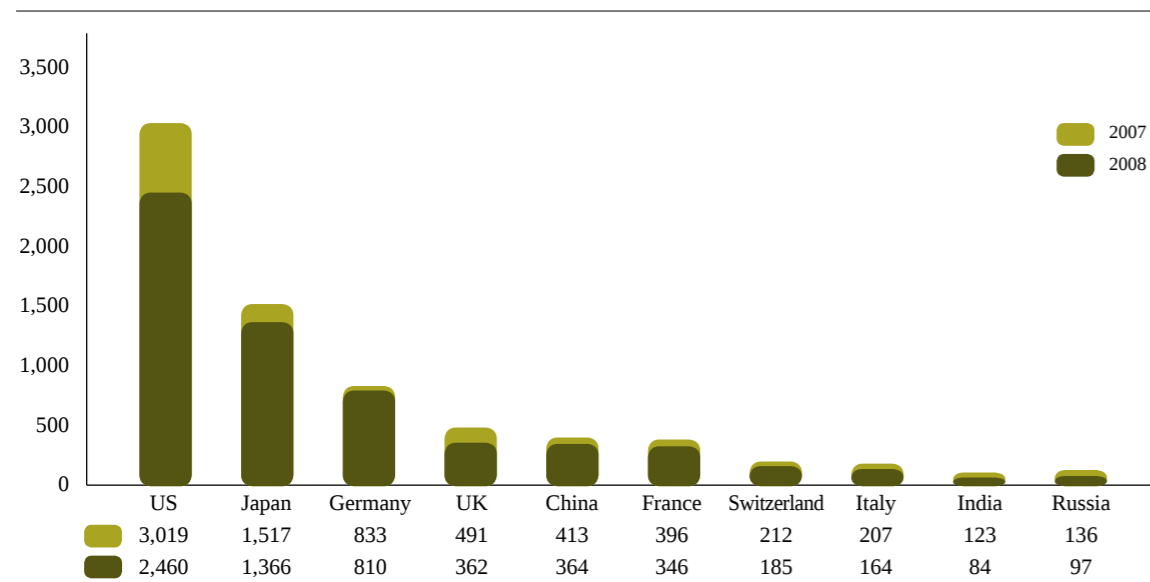
### 6.1 Art as a Luxury Good

Art is a luxury good. In economic terms, luxury goods have a high income elasticity of demand, meaning that people demand proportionally more of them as their income rises. As economically recessive conditions in many countries have led to a reduction in incomes, demand for and consumption of many luxury goods has also contracted. The financial crisis and economic uncertainty of 2008 and 2009 has had a significant impact on the spending and investment patterns of HNWI's. At the end of 2008, the global population of HNWI's had declined by 15% from the year before, while their combined wealth had dropped 20%. According to the Cap Gemini/Merrill Lynch *World Wealth Report 2009*, these unprecedented declines wiped out two robust

years of growth in 2006 and 2007, reducing both the HNWI population and its wealth to below levels seen at the close of 2005.

It is interesting to note that the drop in numbers in the HNWI bracket was particularly marked in specific countries. The UK, as a mature market with a heavy dependence on financial services, saw a fall of 26%, higher than the US (at 18%), and considerably more than its European counterparts such as Germany (which fell 3%) and France (which dropped 13%). Hong Kong and India were also very badly affected with a fall in their HNWI populations of 61% and 32% respectively. Hong Kong had a very large proportion of its HNWI's in the \$1 million to \$5 million wealth bracket, and many of these dropped below the threshold in 2008 due to market losses. Russia's HNWI population declined 28% to 97,000 in 2008 after growing at the tenth fastest rate (14%) in 2007. Russia's equity markets dropped by over 70% in 2008, one of the largest falls worldwide, and their heavy dependence on oil and gas also took its toll as those commodities experienced a sharp reduction in demand.

Figure 6.A Selected Global HNWI Populations: 2007 to 2008



Source: CapGemini/Merrill Lynch (2009)

Luxury goods sellers on aggregate (including art dealers and auction houses) have reported significantly reduced demand worldwide. In the first half of 2009, sales of luxury goods dropped by more than 20%, although some stabilisation in the second half of the year meant that the overall annual decline was closer to 10%. The US luxury market contracted by 15%, with 10% declines

in Europe and Japan. The major luxury markets account for a combined share of over 80% of worldwide sales. Some of the smaller luxury markets fared better, however, with growth of 7% in China and 2% in the Middle East during 2009, but these gains provided only a small offset against the steep declines in major markets.<sup>37</sup>

<sup>37</sup> Bain and Company (2009) *Luxury Goods Worldwide Market*. From [www.bain.com](http://www.bain.com).

Although this negative income effect of the recession has had some adverse consequences for the art market, there are some counterbalancing forces which worked in its favour. While outright global demand was weaker for luxury collectibles and consumables, there has also been a shift in luxury-purchasing habits, as many HNWI's looked to secure their wealth in assets with long-term tangible value. This has worked strongly in favour of the art market, with art now recognised as a viable alternative investment asset. Although purchases of luxury cars, jets, yachts and other collectibles fell sharply, the share of art in HNWI's "investments of passion" actually rose from 20% in 2006 to 25% in 2008, as investors looked to find assets that had a more enduring value.<sup>38</sup>

According to research on high net worth luxury shoppers by Bain and Company in 2009, there was a major shift in the purchasing behaviour of the most affluent buyers as many began focusing on intrinsic quality and on the durability of

luxury items instead of fashion content. Luxury buyers are also spending much more discreetly. Ostentation is "out" with regard to what they buy and how they shop. These trends may be working against certain sectors of the market, for example auction sales as opposed to private sales and the more fashion-driven Contemporary market as compared with more traditional sectors. A trend affecting all sectors is the flight to value, with buyers looking for deeper discounts and becoming generally more price conscious.

The geographical distribution of wealth has also worked in favour of the art market. The emergence of new global buyers in the international art market has been driven primarily by economic factors, specifically by the increasing wealth of their populations. While most of the older Western economies are currently in recession, many of the new art markets are still showing positive growth, with China and India at rates of 9% and 6% respectively in 2009.

**The global recession has led to reduced demand for luxury goods, but also shifts in luxury-purchasing habits as many HNWI's looked to secure their wealth in assets with long-term tangible value, working strongly in favour of the art market.**

<sup>38</sup> CapGemini/ Merrill Lynch (2009) *World Wealth Report 2009*. Jewellery, gems and watches also increased share from 18% to 22% suggesting HNWI's also saw these as safer and more tangible investments that might retain longer term value. The report points out that the quality and rarity of a piece – whether a piece of art, an antique, or jewellery – could still quickly drive activity, as many serious collectors and connoisseurs still appear willing to pay high sums for a unique piece, whereas the more "affordable" (and aspirational) luxury goods that are more widely accessible to the "mass-affluent" may suffer greater losses with perceptions that such purchases are needless extravagances in tough times.



Table 6.1 GDP in Selected Art Markets 2002 to 2013

Country	2002	2003	2004	2005	2006	2007	2008	2009*	2010*	2011*	2012*
China	9.1%	10.0%	10.1%	10.4%	11.6%	13.0%	9.0%	8.5%	9.0%	9.7%	9.8%
France	1.1%	1.1%	2.3%	1.9%	2.4%	2.3%	0.3%	-2.4%	0.9%	1.8%	1.9%
Germany	0.0%	-0.2%	1.2%	0.7%	3.2%	2.5%	1.2%	-5.3%	0.3%	1.5%	1.7%
Hong Kong	1.8%	3.0%	8.5%	7.1%	7.0%	6.4%	2.4%	-3.6%	3.5%	4.0%	4.3%
India	4.6%	6.9%	7.9%	9.2%	9.8%	9.4%	7.3%	5.4%	6.4%	7.3%	7.6%
Russia	4.7%	7.3%	7.2%	6.4%	7.7%	8.1%	5.6%	-7.5%	1.5%	3.0%	3.7%
Switzerland	0.4%	-0.2%	2.5%	2.6%	3.6%	3.6%	1.8%	-2.0%	0.5%	1.0%	1.3%
UAE	2.6%	11.9%	9.7%	8.2%	9.4%	6.3%	7.4%	-0.2%	2.4%	3.4%	4.3%
UK	2.1%	2.8%	3.0%	2.2%	2.9%	2.6%	0.7%	-4.4%	0.9%	2.5%	2.9%
US	1.8%	2.5%	3.6%	3.1%	2.7%	2.1%	0.4%	-2.7%	1.5%	2.8%	2.6%

Source: IMF (2009)\* Estimates at October 2009

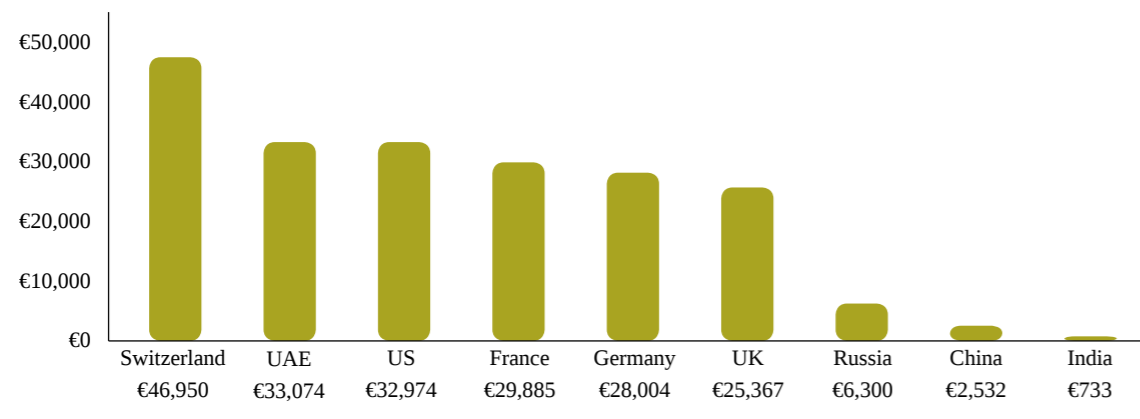
While the international HNWI population is still relatively concentrated with 54% in the US, Japan and Germany, China's HNWI population surpassed that of the UK in 2008 to become the fourth largest in the world, and by 2013 it is forecast that Asia-Pacific will overtake North America as the largest region for HNWI financial wealth. The geographically broader base of buyers has helped to sustain some sectors of the art market, and it is likely to help it avoid a protracted decline, as was experienced in the early 1990s.

According to the results of a poll of major auction houses by Arts Economics, although the major proportion of spending at the main auction houses was by European buyers (44%) and those from the US (37%), Chinese and other Asian buyers were responsible for around 11% of expenditure on average, with Mainland Chinese buyers accounting for just under half of that share. The aggregate number of Chinese buyers at auctions worldwide has also doubled from around 4% in 2005 to 8% in 2008. Buyers from the Middle East also rose from 1% to 3% from 2005 to 2008.

Another positive factor for the future of the art market is the fact that much of the increase in prices for art in India, China and Russia, is being driven by a relatively small proportion of these countries' populations. Besides the Middle East, these new art markets have relatively low average incomes, with more concentrated wealth by comparison with the older art markets. This signals the possibility of a favourable outlook for

future growth in these art markets, as the middle classes who are perhaps not yet buying art to any large extent, will create new customers over the next decade. There are expectations within China for example that GDP per capita will rise to \$10,000 and a middle class will be formed by 2010, all of which is expected to further buoy the art market there, as art begins to be bought by a wider spread of the population.

Figure 6.B GDP per Capita in 2009: Selected Countries



Source: IMF (2009)

### 6.2 Art Collectors and Investors

Most single-minded collectors are driven by a desire to collect art for its own sake and they are little interested in investment gains, and are usually averse to selling on works once they have been purchased. However, at the other end of the scale, there are some who buy art purely for investment and are generally happy to divest and re-purchase over time in order to help make their collections work for them financially. Considerations of investment go some way towards explaining why art buyers increasingly make purchases across a range of sectors as a hedge against the risks of market declines for a particular artist or category within their art portfolio.

Art buyers can therefore be classified as operating along a spectrum from pure collectors to pure speculators, but most collectors recognise at least that art can be a better store of value than other luxury goods. Those at the speculative end will tend to be highly sensitive to price variations or their financial risk. Changes in the costs associated with buying, selling, storing or insuring art, as well as changes in regulations affecting the art market, such as taxation or export restrictions, may also significantly shift their investment outlook and even drive speculators out of the market into alternative asset classes. Pure collectors, on the other hand, are (in theory) less concerned with

Art buyers operate along a spectrum from pure collectors to pure speculators, but nearly all recognise that art can be a better store of value than other luxury goods.

Collectors reported that their main motivations for collecting art centred on aesthetic, decorative, intellectual or historical reasons, with many describing it as a “passion”, however most concurred that art was an excellent long-term investment.

changes in the value of art or risks related to its price and are less sensitive to selling costs and regulations, as their primary motivations are to buy and hold their collections regardless of the cost or value of doing so.

The marginal choice between buying art as an investment or purely for collecting will depend on an individual’s preferences and financial means. However, arguably neither extreme is an optimal position. Liquidity in the art market is too low to enable the necessary investment tactics to make pure speculation profitable, while even collectors with the purist of aesthetic motivations would be highly imprudent not to consider some of the financial implications of their investment in art, at least to the extent that they might affect the value or tax treatment of other assets in their portfolio of wealth, or even what they can bequeath to the next generation.

### 6.3 Top Global Art Collector Research

To understand better the motivations of art collectors and the processes by which they engage in the market, a number of in depth interviews were conducted by Arts Economics in 2009 with a group of the world’s top art collectors with interests in a number of different fine and decorative sectors.<sup>39</sup> Some common

themes emerged through the research and these are summarised below.

#### 1. Collectors’ Backgrounds

- All of the collectors interviewed were well-educated, successful professionals with backgrounds in finance, medicine, law, engineering and other areas, but all unrelated to art.
- Many had professional lives that involved a great deal of international travel which helped to spur their interests in new art markets such as Chinese art or Latin American art, while for others working abroad created an increased importance for art from their nation of origin.
- Although a small number of collectors had engaged in some short-term formal or semi-formal education on art, most learned informally over time about the market and their areas of interest through attending art fairs, museums, auctions and related events, through a family history of collecting, or via their own personal research and contacts in the art market.
- Most described collecting as a gradual process which had been built up over several years, often starting at low price points and increasing as their own wealth built over time.

Several distinguished a particular event, such as an exhibition or fair, which gave them the “collecting bug”, while others pointed out that there was a distinct difference between buying their first pieces of art for decoration and the more gradual process of developing their interest and knowledge to collect seriously in a particular field.

- All of the collectors interviewed collected art in more than one sector. Although the majority concentrated on about three, some had collections that spanned at least five distinct areas of the market.
- #### 2. Motivations and Process of Collecting
- In nearly all cases, collectors reported that their main motivations for collecting art centred on aesthetic, decorative, intellectual or historical reasons, with many describing it as a “passion”.
  - Monetary or financial motives were not primary for any of the collectors interviewed, however more than half qualified their primary motivations by saying that they must stick within a price range, or some had quite strict criteria such as not spending more than one third of their discretionary income on art.
  - The main motivation for individual purchases

<sup>39</sup> The sample of collectors interviewed was supplied by some of the leading dealers that attend TEFAF, the Maastricht Fair.

was usually sparked through searching auction catalogues, being notified by a dealer of a work of interest, or through other private research.

- All of the collectors interviewed used art dealers to purchase from and they attended some of the main art fairs and made purchases there. Many used dealer services to validate quality and provenance before making a purchase at auction. Most collectors also bought directly at auction, although a small number did not use auctions, primarily due to concern over authenticity and overpaying. One collector from the sample also purchased Contemporary art directly from artists and their studios.
- Less than half of the collectors interviewed followed a distinct plan or schedule, with the majority buying haphazardly or “whenever something of interest appeared on the market”.
- Collectors ranged from those who bought a work of art every month (although not always a major work), to those who described themselves as “rare buyers”, with one of the latter group explaining that although his collecting “never ended”, considerations of remaining physical space as well as there being fewer gaps to complete his collection,

leading to a natural decline in purchases. Some collectors commented that the frequency of purchases is price determined: if prices are too high they will tend to buy less.

- Many of the collectors do their own research into prices via internet databases, previous auction catalogues and other sources. While some stated that price was unimportant when focused on buying a particular piece, most kept purchases within certain price ranges and many felt that they had overpaid in the past.
- Just under half of the collectors had never sold works from their collection for a variety of emotional or family/inheritance reasons. A majority had sold works, with around half selling pieces that they had bought that no longer fitted with their main collecting interests, others to upgrade their collection, and some to realise an increase in value (which they reported often to have been between five and ten times its initial cost).
- Nearly all of the collectors interviewed had their collections valued every one to three years for insurance, and they viewed insurance as the largest indirect cost of collecting. None of the collectors reported that a change in value of their collection would influence their

buying or selling decisions, and all who had had it valued reported that it had increased in value over time.

- While many of the collectors were proactive lenders to museums and exhibitions, many did not donate outright to museums and some reported being reluctant to do so due to the amount museums already had that was not on display, while others would consider making donations in their wills.

### 3. *Art as an Investment*

- All of the collectors interviewed stated that buying art as an investment was not their primary motivation for purchasing art.
- Most felt that their investment in art had outperformed inflation and in many cases had done better than their investments in financial and property markets. Most concurred that art was an excellent long-term investment, store of value and means of transfer wealth between generations.
- The main pitfalls collectors saw in investing in art were: liquidity (or trying to invest only for the short-term); requirements to study and research the market more than for other assets; high ancillary costs such as insurance; changes

in sectors of the market as a result of fashion and tastes which were difficult to predict; the poor odds on the success of individual living artists; and a dwindling collector base (and hence future buyers) in some segments.

- Most felt that currently the best investment sectors were found in traditional, older sectors of the art market, rather than Modern or Contemporary sectors.



In 2009, there were estimated to be more than 50 established art funds globally at various stages of development

In terms of their outlook for the market, many felt that the market would hold its own as the fundamentals of a dwindling supply and increased interest and awareness from new global buyers would drive prices. Some felt that as confidence and trust in financial markets had plummeted, people would start to diversify into art more. While most collectors interviewed referred to the fact that Modern and Contemporary might take a greater hit than other sectors, they also commented that the market in those sectors and as a whole had become much more of a buyers' market than it had been, with discounts on private sales doubling over the last year. Many viewed the market as becoming increasingly globalised, with several noting that it was moving towards Asia. A number commented however that language was key in their buying process, so they would continue to buy from vendors with whom they could communicate easily.

#### 6.4 Institutional Collectors

Apart from individual collectors, there are also a number of institutional and corporate collectors including museums, libraries and other large-scale private and public institutions. Like individuals, these collectors will have varied motives, policies and methods for collecting art,

In 2009, there were more than 50 art funds globally, although it is likely that only around half of those are formally structured investment vehicles.

Some funds offer access to a range of market sectors as a means of spreading risk and are also often structured to provide investors with a tax efficient means of investing in art.

and many public institutions may have certain political, social or cultural policy agendas that they are simultaneously pursuing.

Corporate collectors such as banks and other private institutions will often have a number of different reasons for purchasing art. Companies may build a collection as a means of supporting the arts or to pursue a philanthropic motive. They may simultaneously see their collection as a tool for marketing and promotion or to stand as a testament to the success of a company or to create a corporate image associated with culture, high quality or other art or wealth related branding.

Some private institutional collectors, often operating through some of the art funds, buy opportunistically from the market with the hopes of making a capital gain in the medium or long term with pooled investor funds. In 2009, there were estimated to be more than 50 established art funds globally at various stages of development, although as many of these funds are not required to register, it is difficult to determine the exact number, and it is likely that only around half of those are formally structured investment vehicles. The greatest number of art funds are in India, followed closely by Europe, the US, Asia, and the Middle East.

Using the expertise and market intelligence of a fund manager, art funds have sought to provide investors with access to opportunities that would typically have only been available to top international art collectors and dealers. Although their objectives differ, some offer access to a range of market sectors within the fund's portfolio as a means of spreading the risk of the investment. Depending on their structure, they may also reduce the costs associated with buying, selling and holding art by investing on a pooled basis, because, with their greater cash resources, funds are often able to negotiate more advantageous fees and conditions with appraisers, auction houses, insurers and other service providers than would not normally be available to individual buyers. Art funds are also often structured to provide investors with a tax efficient means of investing in art, including advantages regarding estate, sales, value-added, and capital gains taxes.

Most of the art funds that have been established have been closed-end funds (i.e. funds that will not let investors redeem their shares until a set maturity date), since an open-end structure can be problematic in this market, with liquidity issues making it difficult to offer regular or short-term rights to redeem.

The main fund structures currently in operation are either a pooled funds approach (which is used by some private banks that buy art as an investment for high net worth clients) or an art adviser approach, where the investors are offered the guidance and services of an art expert to guide collective purchases of art. Art funds have also been established since 2007 using a hedge fund structure.

Art funds have had mixed success, and those focused on the Contemporary sector have struggled in the current market conditions. In an increasingly cautious investor market, tangible hard assets such as art are appealing to some investors, especially given the low correlation of some sectors of the art market with other asset classes. However, working against art funds is the art market's significantly lagging status, relative to other asset markets, in transparency, the publishing of regular market information, and in the length of any successful track records of art fund managers in this specialised area of portfolio management.

#### **6.5 Art as an Investment Asset**

In common with other financial assets, the value of works of art tends to increase over time, as their use does not depend on any degenerative practical

function, making them both a store of value and a potential source of capital gain. Their uniqueness and durability make them “collectibles”, which are both sought after and scarce. The greatest value of trade in art takes place between art buyers on secondary markets rather than primary sales, unlike many other consumer assets.

All of these features make art a desirable asset for investment purposes, but art also has two very important and distinct characteristics which differentiate it from other financial assets. First, most works of art are unique and have no close substitutes. This will always bring a measure of subjectivity into valuations. Secondly, because art trades very infrequently or trades on very thin markets, it is a relatively illiquid asset, by comparison with stocks, bonds and other financial instruments. The issue of liquidity has been a critical one in financial evaluations of art as an asset class.<sup>40</sup> Works of art are obviously much less liquid than most money market assets, which makes speculative investing in art with short time horizons, a high risk and less attractive strategy.

### 6.6 Returns on Art Investment

Like any other investment, when analyzing investment potential, one of the starting points is

assessing financial returns over time, measured by the change in net monetary value.

When examining returns on investment in art as opposed to other assets, there are a number of additional issues that must be addressed. Holding costs for example are the various costs incurred to maintain, store, restore and insure a work of art, and arise with all physical, tangible assets, including property. The costs will vary depending on the work and the context of the investment, but could run at anything between 1% and 5% of the net asset value.

Transaction costs in the art market can also be materially higher than for other asset markets, for example, up to ten times more than commercial property sales. Auction fees and commissions imposed on buyers for example can vary, but often amount to up to 25% for both parties (buyers and sellers), and they may also include mandatory insurance and shipping charges.

On the positive side, there are also a number of taxation advantages to investing in art. In many countries, investment in art is used as a vehicle to escape or reduce the burden of tax, and hence the tax advantages of owning art can be an important part of an investor’s final return.

Works of art are much less liquid than money market assets, making speculative investing with short time horizons a high risk strategy.

Quantitatively assessing financial returns over a given period is problematic for this asset class because of art’s uniqueness and extremely slow turnover. When examining the equity market for example, it is simple to track returns by looking directly at what other identical shares in the market are trading at. However, to see how the prices of a particular work or artist are performing, there is no comparable mechanism to check the daily or even monthly closing or opening prices. Economists have developed some methods to try to overcome these two major problems of heterogeneity and infrequency of trading, and various indices have been developed to measure prices and returns over time, each with their own advantages and all with certain drawbacks. The three most commonly used price indices in the art market are discussed in APPENDIX 1. In practice, the assessment of the annual returns on art investment have varied widely depending on the period under examination, the category of art and methods used.<sup>41</sup>

### 6.7 Risk

The flipside of investment returns is risk. The basic financial risk of any investment is the uncertainty concerning the rate of return. The risk of returns on an investment in art (or any asset) arise from fluctuations in the rate of price

<sup>40</sup> Liquidity refers to the ease at which an asset can be converted to cash or bought and sold on a secondary market without affecting the asset’s value.

<sup>41</sup> In McAndrew (2007), a review of returns found in the art price literature shows results from -3% per annum to +30%. See McAndrew, C. (2007) *The Art Economy*. Liffey Press: Dublin. Kraussl, R. in McAndrew (2010) also showed a variation of nominal returns ranging from 1% to 53%, with the latter result for Modern Chinese Paintings. See McAndrew, C. (ed.) (2010) *Fine Art and High Finance*. Bloomberg Press: New York.



changes between purchase and sale. As with all assets, the objective of investing is to minimize the downside risk for a given level of return, or to maximise the returns for a given level of risk. Another aim for an investor is to hold a balanced portfolio of assets such that, when considered as a whole, the constituent parts taken together minimise the overall portfolio risk. While the returns on art investment can vary considerably between different genres and artists and across time, the potential to use art for risk diversification in an investment portfolio is undoubtedly its most attractive feature as an asset class.

There are a number of risks associated with an investment in art which do not exist for other financial asset classes. Because art is a material asset, there are risks related to the physicality, such as risk of damage, theft or wear and tear over time. As with other material assets, an insurance market exists to help mitigate some of the risks.

Other risks specific to this asset class concern those surrounding questions of work's authenticity. For example, is it a fake or a copy? Or, how certain is its title and provenance? All of these risks are peculiar to this asset class and relate to the reliance on expert opinion for valuation and validation. The human judgment element that is inevitable in the assessment of the

value of art adds a layer of risk, as it comes with the ensuing possibility of human error and bias. These risks can of course be reduced by vetting the particular vendor used (and the experience, reputation and qualifications of their experts) and by ensuring adequate research of provenance and authenticity; however, there are no guarantees that mistakes cannot be made even by the most reputable auction houses and dealers.

There are a number of statistical methods used to measure risk both for individual art assets (such as standard deviation or variance) and their risk relative to other investments.<sup>42</sup>

The main principle of portfolio management is efficient diversification. Diversification is simply a strategy designed to reduce exposure to risk by combining a variety of investments, for example different types of equities, bonds, property and alternative assets such as art and commodities, which are unlikely all to move in the same direction at the same time (or to have low correlation with each other).

Art has been shown to have low and negative correlation with many other asset classes over different periods, and the diversification benefits from investing in art are among its strongest attraction. Figure 6.C below shows a combination

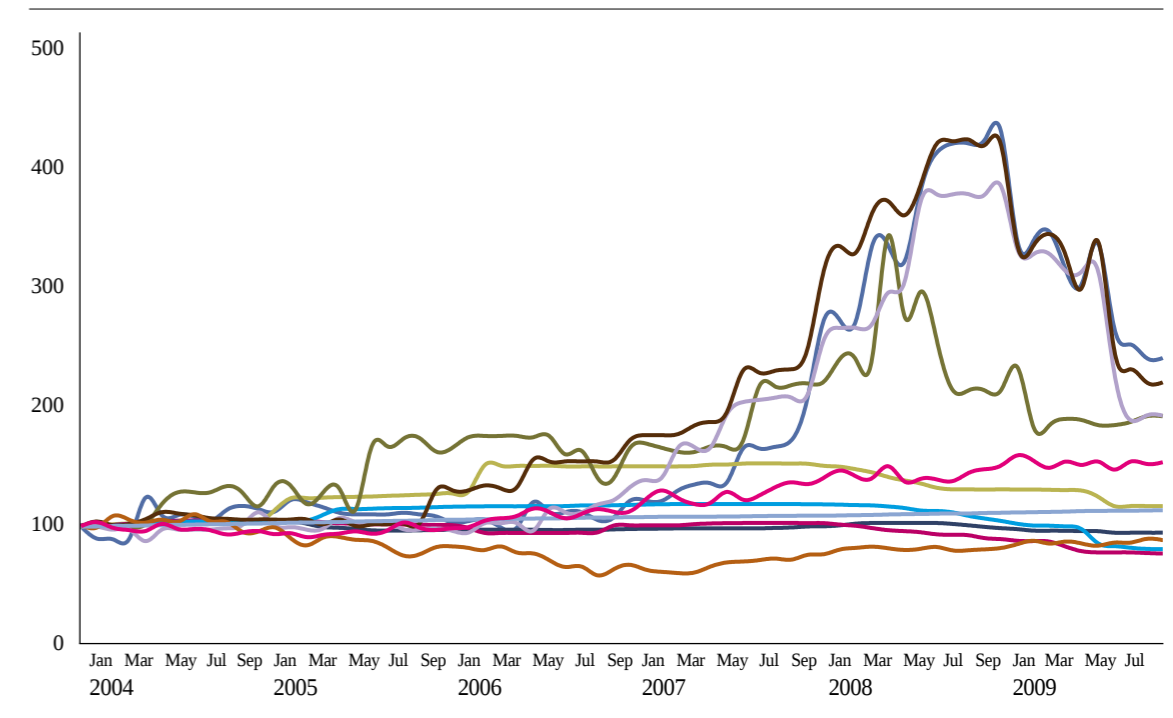
<sup>42</sup> For a full discussion of art and financial risk see Campbell, R. and Mc Andrew, C. Art Risk in Mc Andrew, C. (2010) *ibid*.

As the financial crisis has created a much more cautious investment climate, assets such as art which offer long-term stability and risk diversification possibilities will continue to gain more mainstream interest.

of price indices for different sectors of the top end of the fine and decorative art market, a stock index (the S&P 500), a gold spot price index and the US Consumer Price Index (a measure of inflation).

It is clear from Figure 6.C that some of the different sectors of the art market do not always move in tandem with each other or with other asset markets. Further investigations reveal that over the period shown, Contemporary art and Furniture for example had a negative correlation, as did German porcelain and the gold market. These indices demonstrate at a very basic level that useful statistical tools can be applied to the art market. The mainstream application of risk analysis to the art market is still in its infancy but it shows great potential, with theory significantly outpacing practice. It seems likely that as the financial crisis has created a much more cautious investment climate, assets such as art which offer long-term stability with potential for risk diversification will continue to gain more mainstream interest in the investment community.

Figure 6.C Prices Indices for Art, Stocks and Gold (Base=100=January 2004)



Source: Arts Economics, Art Indices ©Art Market Research 2010

- Contemporary Art
- Chinese Ceramics
- German 18th C Porcelain
- French 18th C Furniture
- Early to Mid 20th C Furniture
- Old Master
- European Impressionists
- Modern
- SP500
- CPI US
- Gold SPOT

CHAPTER 7

# Economic Impact



## Economic Impact

The global economic recession of 2007 to 2009 has had a serious impact on the major economies, which has resulted in losses in employment throughout the world.<sup>43</sup>

Although the art market is by no means recession proof, it has fared better than many other sectors, and it continues to be an important source of employment and income in the global economy. There are currently over 400,000 listed business in the market worldwide, and these businesses support close to 2 million jobs and a substantial amount of indirect employment and revenue through links to a range of other industries associated with the art trade.

Table 7.1 Numbers of Businesses in Selected Art Market in 2009<sup>44</sup>

Country	Auction	Dealer	Total
Austria	35	2,500	2,535
Belgium	150	4,000	4,150
Denmark	60	1,250	1,310
France	630	9,050	9,680
Germany	110	4,000	4,110
Ireland	25	650	675
Italy	300	5,475	5,775
Netherlands	195	3,070	3,265
Spain	135	3,200	3,335
Sweden	34	1,245	1,279
UK	1,255	7,960	9,215
EU Total	4,000	55,000	59,000
Switzerland	80	2,320	2,400
US	3,500	55,000	58,500
China	300	40,000	40,300
<b>Estimated Total</b>	<b>25,000</b>	<b>375,000</b>	<b>400,000</b>

Source: Arts Economics (2010)

<sup>43</sup> In the US, the numbers unemployed from the start of the recession in December 2007 to December 2009 increased from 7.7 million to over 15.3 million, while in Europe the unemployment rate reached that of the US (10%) at the end of November, its highest rate since 1998.

<sup>44</sup> Lists of businesses were compiled through listings and directories of art galleries, antique dealers and auction houses that sell fine and decorative art and antiques. The figures are likely to underestimate the totals in some countries and overall, given a number of small businesses that may not feature in directories or certain regions or nations that are not well covered by directories. The figures in the Table are recorded per business outlet rather than by company.

In the EU in 2009  
there were over 59,000  
businesses in the art  
trade directly employing  
270,000 people.

### 7.1 Employment

In the EU in 2009 there were over 59,000 businesses in the art trade which directly employed close to 270,000 people. These workers make up a significant part of the high value-added cultural sector in the European economy. According to the latest figures from Eurostat, cultural employment in Europe, meaning both employment in cultural occupations in the whole economy and any employment in cultural economic activities, was estimated at 4.9 million people in EU-27 and accounted for 2.4% of total employment.<sup>45</sup>

In the US, there are 58,500 listed businesses in the art market employing an estimated 257,000 people, while China's 40,300 art businesses provide over 142,000 jobs.

#### *Auction Sector Employment*

In the auction sector of the art market, the largest top tier auction houses employ between 600 to 2,000 people in businesses worldwide. On average however, the greatest density of employment in the top tier auction trade is in New York and London with a combined average of over 80% of employees in the two cities. According to the auction survey of important second tier houses, on average the number of employees is around 20 people, and these are much more regionally and nationally diverse. As such, the majority of

auction businesses worldwide would be classified as "small businesses" in terms of employee numbers.

The art market has suffered job losses in some sectors in the fallout from the global economic recession: all of the top tier auction houses surveyed reported that the numbers employed in 2009 had declined from 2008. The major houses of Christie's and Sotheby's both publicly announced major cost-reducing strategies in 2009, which included significant job cuts, salary reductions and other employment reorganisation and downsizing. The second tier houses fared better, with most reporting stable employment numbers with only 11% declining on 2008, and 22% actually reported an increase in their employee numbers. Respondents from China also reported generally stable employment over 2009.

Employment in the top tier auction houses tends to be predominantly full-time, with only 15% of workers in part-time or temporary positions. This number is significantly higher in the second tier auction houses which showed on average 47% of workers in part-time and temporary employment. Cultural employment generally tends to have more "flexible" employment arrangements. In Europe for example, 42% of cultural workers are in part-time or temporary contracts versus

31% of the general labour force. The high share of part-time workers in the second tier auction sector may be for a variety of reasons, however it is likely that at least some of these individuals were working part time because their hours had been cut back or because they were unable to find a full-time job. To the extent that this is the case, the high part-time numbers may mask employment declines and account for the high stability and reported increased employment in some companies.

In the cultural sector generally in Europe, the gender balance reflects that of total employment in Europe with a rate of 46% female labour force participation. This is almost identical to other major economies such as the US, which had a female participation rate of 46.5% in 2008. The art trade however seems to be balanced in favour of female participation in the auction sector, with an average female share of employment in the top tier auction sector of 57%. In the second tier houses, the share of male and female employment was exactly 50:50 according to survey respondents.

Cultural workers tend to be more highly educated than the wider labour force. In Europe, 48% of workers in this sector have third level/university education versus 26% of the general



labour force (and 35% in the US). In the top tier auction houses, the share of employees with a university qualification averaged 88%. However, in the second tier houses there was much more variation, and on average the share of those with university degrees was 33%.

#### *Dealer Sector Employment*

Most fine and decorative art dealers tend to be very small businesses, with a few notable exceptions. According to the dealers' survey, on average most businesses tend to employ three to four people, including the owner, although the full range is from one to 50. Just over 20% of the dealers who responded were sole traders, and 18% of those had dropped to just one person in 2009. The majority of dealers in the survey (77%) reported that they had kept staffing levels stable over 2009 despite the recession, with a total of 17% reporting a decline in staff numbers for the year.

In terms of employment status, the dealer sector is similar to the workforce overall. According to the survey, 69% of those employed in this sector work full-time, with 27% part-time and just 4% in temporary positions. Like other workers in the cultural sector, art dealers on average are better educated than the general labour force with just under 60% with university or third level

degrees. Unlike the auction sector however, the dealer sector is more male dominated with an average gender breakdown of 57% male and 43% female.

Table 7.2 Estimated Employees in the Art Market (2009)

Country	Auction	Dealer	Total
Austria	700	8,500	9,200
Belgium	3,000	13,600	16,600
Denmark	1,200	4,250	5,450
France	12,600	30,770	43,370
Germany	2,200	13,600	15,800
Ireland	500	2,210	2,710
Italy	6,000	18,615	24,615
Netherlands	3,900	10,438	14,338
Spain	2,700	10,880	13,580
Sweden	680	4,233	4,913
UK	25,100	27,064	52,164
EU Total	80,000	187,000	267,000
Switzerland	1,600	7,888	9,488
US	70,000	187,000	257,000
China	6,000	136,000	142,000
<b>Total</b>	<b>500,000</b>	<b>1,275,000</b>	<b>1,775,000</b>

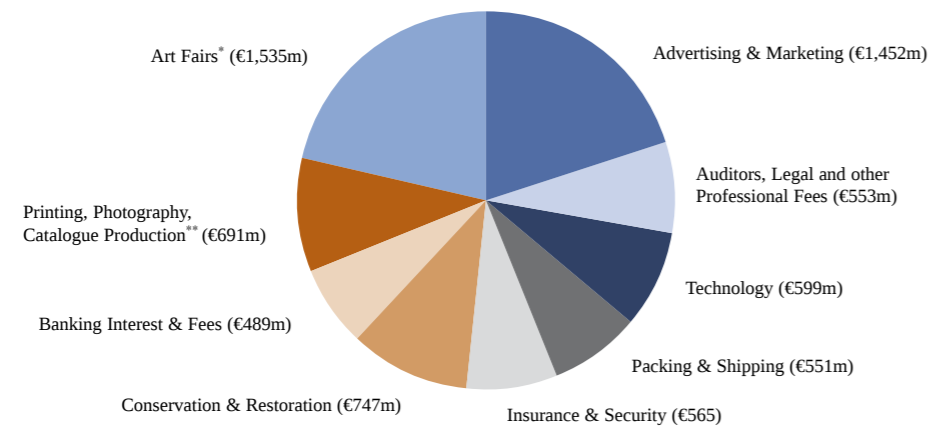
Source: Arts Economics (2010)

### 7.2 Ancillary Economic Impact

Apart from directly employing close to 2 million people, the art market also creates substantial revenue and jobs through a number of ancillary businesses and support services used by dealers and auction houses. It is estimated that in 2009, the global art trade spent about €7.2 billion on a range of different support services. Figure 7.A shows the breakdown in global spending in 2009, indicating that the highest expenditure overall by

the trade, even though only incurred by dealers, was on art fairs at €1.5 billion. The second highest was on advertising and marketing at €1.4 billion, which was the highest item of ancillary spending for the auction houses surveyed, with printing, photography and catalogue production in second place. For dealers, the next largest item to art fair spending was on conservation and restoration. Despite being a high cost element for many dealers, most of the dealers surveyed (62%)

Figure 7.A Spending by the Global Art Trade on Ancillary Services (2009)



Source: Arts Economics (2010) \*Spending by dealers only \*\* Spending by auction houses only

In 2009, the global art trade spent €7.2 billion on a range of support services.

agreed or strongly agreed that the continued growth of art fairs was a positive development, 11% were neutral and 25% disagreed.

Looking at the EU art trade, Table 7.3 shows that in 2008, spending on ancillary services totalled €4.7 billion. In 2009 this dropped to €3.6 billion as some sectors of the art market attempted to cut costs, however this still represents some 45% growth in the total expenditure on ancillary services estimated in 2006 of just under €2.5 billion.

The Table also shows the estimated employment generated through these ancillary services (with calculations based on the average EU wage in 2008 and 2009). According to these estimates, just under 139,000 people were employed in services used directly by the EU art trade in 2008. This total is estimated to have fallen to about 107,530 in 2009, but again this has expanded substantially over the last few years, with employee numbers up by about 50% on those estimated in 2006.



The art market also supports revenues and employment indirectly

Table 7.3 Ancillary Expenditure and Employment Generated by the EU Art Trade in 2008 and 2009

Service	Expenditure 2008 (€m)	Expenditure 2009 (€m)	Numbers Employed 2008	Numbers Employed 2009
Art fairs*	€1,012	€800	29,686	23,748
Advertising and marketing	€958	€730	28,089	21,665
Conservation and restoration	€493	€376	14,450	11,145
Printing, photography, catalogue production**	€456	€332	13,363	9,838
Technology	€395	€301	11,582	8,933
Insurance and security	€372	€284	10,919	8,421
Auditors, legal and other professional fees	€365	€278	10,700	8,252
Packing and shipping	€364	€277	10,667	8,227
Banking interest and fees	€323	€246	9,464	7,299
Total	€4,737	€3,624	138,919	107,529

Source: Arts Economics (2010) \*Spending by dealers only \*\* Spending by auction houses only

The EU art market supports over 107,500 jobs in ancillary services used by the art trade, as well helping to sustain over 3 million jobs in cultural tourism.

Besides the services that are used directly by the art trade, the art market also supports revenues and employment indirectly through adding to the cultural and historical attractiveness of various cities and art centres. Cultural tourism is one of the largest and fastest growing global tourism markets, and art, culture and creative industries are increasingly being used to promote destinations and enhance their competitiveness and attractiveness. Many countries and regions have begun actively developing their tangible and intangible cultural assets as a means of

developing comparative advantages in an increasingly competitive tourism marketplace, while trying to create local distinctiveness in the face of globalisation. The UN World Tourism Organisation (UNWTO) estimates that cultural tourism accounts for at least 40% of all tourism. According to their figures, the number of “cultural trips” made by international tourists increased 80% over the last decade reaching close to 360 million.

The EU tourism industry as a whole generates more than 4% of the EU’s GDP, with about 2 million enterprises employing about 4% of the total labour force (approximately 8 million jobs). When related sectors are taken into account, the estimated contribution of tourism to GDP creation is much higher: tourism indirectly generates about 11% of the EU’s GDP and provides about 12% of the labour force (or 24 million jobs).<sup>46</sup> Although it is not clear exactly how much of this tourism is cultural in nature, applying the UNWTO’s 40% estimate gives estimated direct employment of 3.2 million in cultural tourism, with a high of 9.6 million jobs when related industries are taken into account.

In summary therefore, the following can be said about the EU art market alone in 2009:

- The market directly employs around 270,000 people in auction houses and dealer businesses.
- The market supports over 107,500 jobs in ancillary and support services used by the art trade.
- The market helps to support over 3 million jobs in cultural tourism, or 9.6 million jobs when related industries are taken into account.
- Without even taking account of cultural tourism and only considering direct and indirect employment generation which can be specifically assigned to the art trade, the employment impact of the sector in the labour market is at least 377,500 in 2009.

Globally, using similar calculations, the direct and indirect employment generated by the art trade amounts to 2.04 million (including 1.8 million direct jobs and 268,000 jobs in ancillary sectors, with both components being very conservative estimates of the actual employment).

The art trade is made up of a number of small, knowledge intensive businesses, employing a gender balanced mix of highly educated people, that are not only important generators of income themselves, but also indirectly through a range of ancillary industries.

### 7.3 Conclusions

Experience from previous recessions has shown that periods of economic contraction have uneven impacts across industries, regions and people. Within a nation, knowledge intensive services will be much less affected than the rest of the economy, and some will continue to grow. Within industries, graduates will be less badly affected than non-graduates. While the current recession is more services-based than in the 1990s the knowledge-based services sector is expected to emerge relatively unscathed, apart from some specific areas, and to provide the basis for a sustained recovery.

**It is clear that the art trade is made up of a number of small, knowledge intensive businesses, employing a gender balanced mix of highly educated people in a market that is not only an important generator of income itself, but also indirectly through a range of ancillary industries.**

**Auction houses, dealers, museums, exhibitions, art fairs and other arts-related events are very important in adding to the desirability of many of the major cities around the world as destinations for cultural tourism. Cultural tourists are not only a major portion of overall tourism, but are among the highest spenders**

**of different tourist groups, adding significant value to their visits.**

**Given the high value added by this sector to the global economy, it should continue to be the focus of attention of mainstream economists and policy makers in the current climate, as they try to find ways to reconstruct economic growth and prosperity.**

In countries such as China, which are not currently in recession, the market has been identified by governments as a critical sector in the economy, with moves to assist restructuring and other policies to encourage and stabilise growth.

**One of the lessons that can be gleaned from past recessions is that the art trade tends to emerge from a downturn with a different focus from the one it had when entering it.**

Before the recession of the early 1990s, much of the focus at the high end of the global market was on the Impressionist sector. Once the market recovered however, this began slowly to shift towards the Contemporary sector which was the engine for growth over the following decade. Many of the buyers in the Contemporary market were wealthy individuals with fortunes built up in several industries, but often with some links to finance and banking. Within this group, a

small but significant portion of buyers entered the Contemporary market pursuing speculative goals, which helped to buoy prices up to the unprecedented levels in 2007 and 2008. However, many of these collectors were also those most affected by the credit crunch and global financial crisis, which undoubtedly damaged some of their spending potential with some negative fallout in the art market as well as for other luxury goods. Some speculative investors also attempted to cash in on their art investments at a poor time for buyers, which also had some dampening affect on prices in this sector.

As the market emerges from this phase, it is clear that the Contemporary sector has been one of the most poorly affected, while many other sectors such as Old Masters and decorative sectors have continued on a more steady, albeit less spectacular, trajectory of growth.

The increased globalisation of buyers in the market has not only protected the market from a significant amount of downside risk, but is also likely to affect which sectors of the market will see the greatest growth in future as wealth expands in emerging economies and their collecting tastes begin to dominate.

The increased globalisation of buyers in the market has not only protected the market from a significant amount of downside risk, but is also likely to affect which sectors of the market will see the greatest growth in future.

APPENDIX 1

# Art Price Indices



## Art Price Indices

The aim of constructing a price index for art or any asset is to measure the appreciation in prices over a given period of time. Three of the main methods for indexing art prices are average price indices, repeat sales indices and hedonic indices. Each have their benefits and disadvantages, all rely on a number of assumptions, and they all have to be used with considerable caution when trying to analyse the art market.

### 1. Average Price Indices

The most straightforward method to calculate a price change is to calculate an average sale price of a sample of assets in at least two subsequent periods. Indexing by means of average prices in the overall market (for example, the average price of paintings at auction) is of little practical value in assisting potential investors to choose forms of art to add or delete from their portfolios. There is also little guidance to be found in trying to construct an “all art index” since there is a great deal of subjectivity involved in selecting which artists and transactions can be included. Creating such a composite index often masks the micro-trends occurring within different segments of the art market.

The commonest solution therefore is to define as narrowly as possible the artist, country or

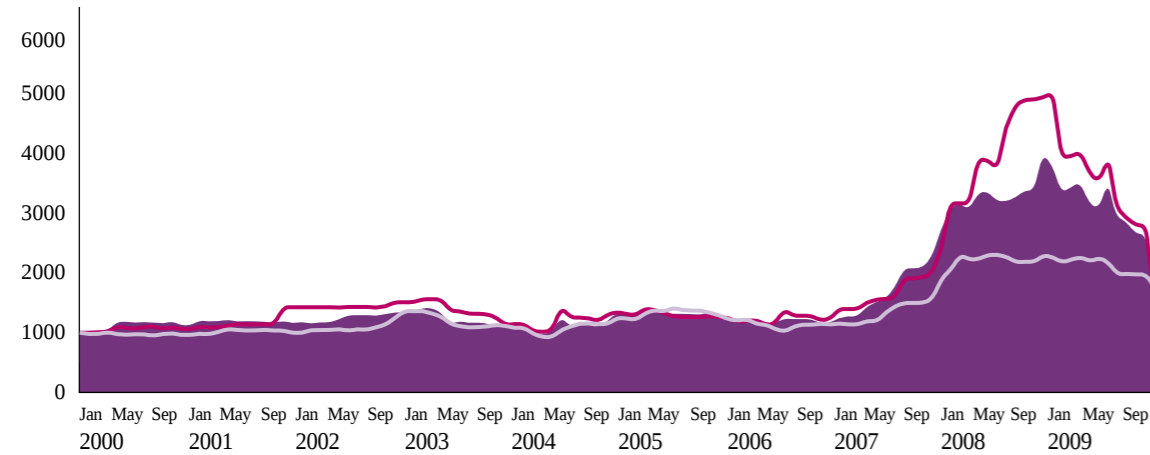
sector of interest, determine the relevant peer group or transactions that define that segment (be it a representative random sample or the entire cohort) and use this narrowly defined portion as a proxy for the fair valuation range for the underlying market. The decision of the level of the market to measure (for example by artist versus by category) is a balance between the number of data points versus the introduction of greater price (and quality) variability. The alternative chosen will depend on the purposes and aims of the analysis and it can be instructive to construct more than one index. It is also possible to divide individual segments of the markets by value (for example, top 20% or middle tier) or even by place of sale or nationality of the artist. All of these decisions bring some degree of subjectivity but once this is acknowledged, indexing prices can provide a very useful first step in analyzing trends in different segments of the art market.

Figure 1 below shows an example of average price indices for the Contemporary sector of the art market. These indices show how average prices fared in the various value tiers of the market from January 2000 through September 2009. The chart shows three average price indices for a selection of the top selling Contemporary artists at auction. The index breaks down the market into three price brackets: the top 25%, the central 80% and

the bottom 25%. While it is clear that all sections of this market followed a similar path, especially of sharp ascent from 2007, the top 25% of the market saw the greatest price inflation. From January 2000, average prices rose 395% in this top tier of the market to its peak in October 2008,

while in the middle tier the rise was 295% and the bottom of the market grew 130%. The top tier also showed the greatest price deflation however, dropping 66% from its peak to September 2009 (whereas the middle and bottom tiers dropped 56% and 24% respectively).

Figure 1. Contemporary 100 Average Price Indices (Base=1000=Jan 2000)



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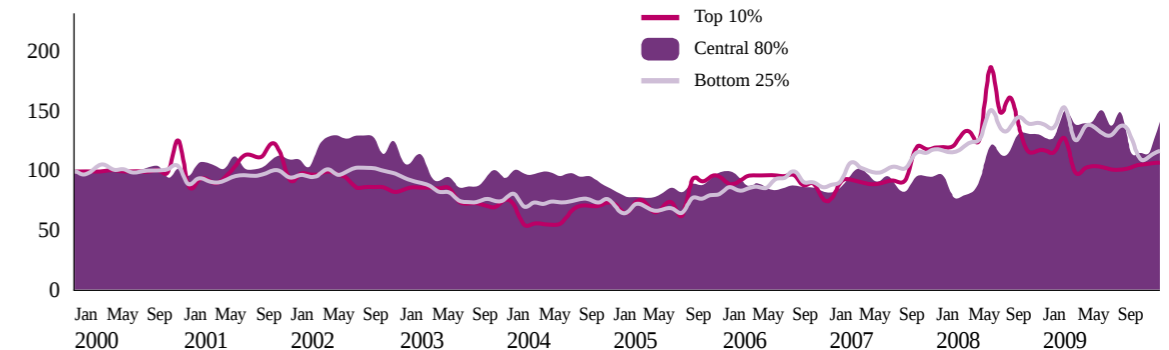
— Top 25%  
 — Central 80%  
 — Bottom 25%

These indices are constructed as 12-month moving averages of prices from the top selling (in terms of volume) and representative artists from this sector.<sup>47</sup> Using moving averages as opposed to simple average prices helps to filter out very short-term random fluctuations and helps to produce a better representation of the longer-term trend.

For contrast, Figure 2 shows average price indices for a selection of the top selling Old Master painters. As in Figure 1, the indices break down the market into three price brackets. Over the period from January 2000 to September 2009, the top tier of Old Masters peaked in March

2008, with prices growing by nearly 90%, while the middle and lower tiers peaked in late 2008/early 2009 and less dynamically with about 55% growth. The bottom of the market in all three sectors came in early to mid 2004. It is clear again from these indices that despite some turbulence over the period, the Old Masters price indices are generally more stable than the Contemporary ones. Like its Contemporary counterpart though, the top tier of the Old Master segment does show more marked deflation also towards the end of 2009 (although nowhere approaching its bottoming out in 2004 and most likely caused by lower volumes as well as prices).

Figure 2. Old Master 100 Average Price Indices (Base=100=Jan 2000)



© Art Market Research 2010

<sup>47</sup> The data for these indices is from Art Market Research. Art Market Research collects price information from the top 20 auction houses to construct average price indices.

A concern about using averages, particularly wide-ranging averages, is that price rises may be magnified during booms as better quality paintings may come up for sale (and vice versa for contractions), so movements in an index of average prices may be based around movements in the quality of items offered rather than movements in prices for similar objects. Also, if there is a progressive change in the quality of works of art sold at different times, an index that tracks them will be biased over time. Because of these issues, average-price indices are most useful when examining a very narrow category of works and even then they do not overcome these issues entirely and can only serve as an indicative measure of past trends in the market.

## 2. Repeat Sales Indices

The “Repeat Sales” approach, is based on using sales data for the same works of art that have sold more than once over period.

When using this method, which measures the price change of the same art objects between two periods, none of the attributes of the work are assumed to have changed between transactions, hence there is no need to include the assets’ characteristics in the model. In other words, the repeat sales method measures the sales price

difference of exactly the same work of art sold at one time and then resold later.

The main advantages of this approach is that the indices are easy to understand as returns are based on relative prices of the same work of art so the index produced controls for the quality of the work (given strict assumptions that condition or other factors have not lead to any deterioration in value).

The technique, which has been used frequently to index property prices, unfortunately produces a number of problems when it is applied to the art market. First, the method is clearly inappropriate if the bundle of characteristics which produce a sale offering changes between sales, which is often the case with art markets. Characteristics of potential buyers and sellers frequently change between sales, and the work of art itself can also change between sales dates, for example if the physical condition of the work or the perception of its relative quality is altered by changes in its physical surroundings or scholarly assessment, or simply by the fact that it is not fresh to the market. Second, the technique ignores all of the information in single sales transactions, making it a biased sample of the market it is representing. Resales are likely to have very different characteristics than single sales, and this

method discards a large part of actual sales being made in the marketplace, which often makes it unrepresentative or requires coverage for such a long period to boost the number of resales, that using it for any practical current purpose is invalidated. Using matched sales only, the available data that can be included in the index is dramatically reduced and time effects in the index also become difficult or impossible to identify.

## 3. Hedonic Indices

Another method to overcome heterogeneity is to attempt to standardise art as an asset class by stripping away some of its distinct characteristics and then generating various indices that attempt to control for the different quality of works of art. This is known as “Hedonic Modelling”.

The hedonic technique seeks to homogenise the data to account for changes in the quality of works sold over many years or periods by subtracting from their price, the implicit price of as many of the heterogeneous characteristics as possible. This method identifies all of the measurable and identifiable characteristics of the work that contribute to its valuation, such as size, location of sale or artist’s name, and then extracts these from the price so that what is left is the pure time trend (and the influence

of random elements) or a “characteristic-free” index of art prices. In doing so, it homogenises heterogeneous sales of works of art to produce an index of average prices.

Its advantages over the resales method is that, like the simple average price index, it uses all of the data available (sales and resales), which is particularly important for the art market given that it is characterised by infrequent trades and often poor recording of data. It also has the advantage of allowing for quality differences in the various items comprising the index.

One of the main downsides of the hedonic method, however, lies in the strong assumption that a rather arbitrary and small selection of character variables captures all of the variability in the fixed components of price. It is up to the particular researcher to define and estimate the entire set of characteristics that will affect prices over time which can result in inconsistent estimates of the implicit prices of the attributes, which can have a strong influence on predictions formed using this method. The obvious danger here is that some important characteristics may be omitted from the model, or even that importance is attributed to possibly irrelevant characteristics that have thrown up some spurious significance in the equation.

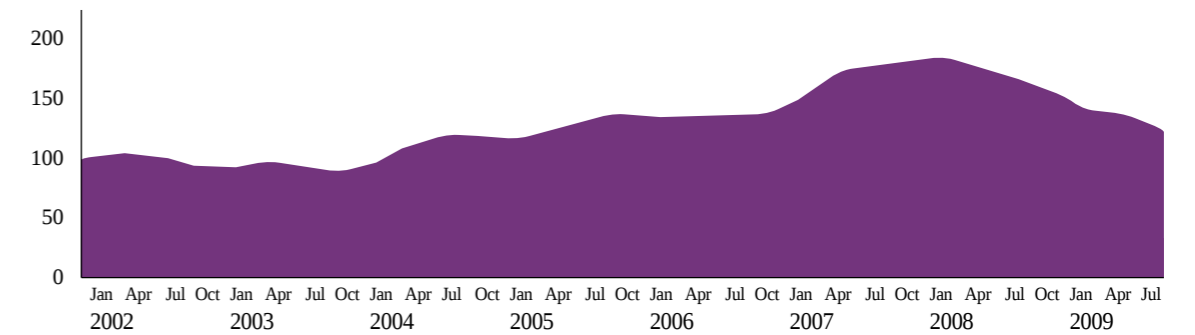


Another significant drawback is that it also assumes, often unrealistically, that this set of characteristics themselves along with their influences on prices do not vary significantly over time, so that the time trend being measured is an unbiased measure and not influenced unduly by any of these changes.

Figure 3 shows an example of a hedonic index construct for the Contemporary market from 2002 through 2009. It is clear from this chart that much of the more dramatic swings in the market are taken out versus the average price index. For

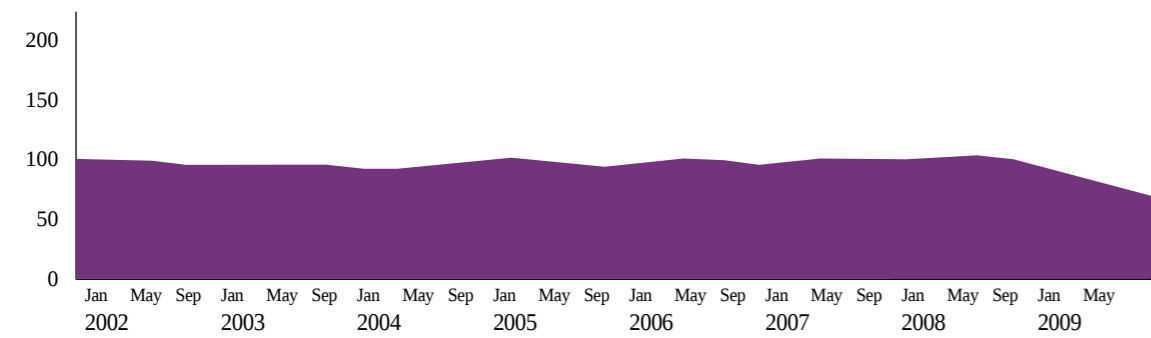
example, the peak in the hedonic Contemporary index occurs in January 2008 where the index has risen 83% from its base in January 2002. Looking at the previous Contemporary Art Top 100 average price index and considering the data only from January 2002, the peak is later (in October 2008) and the rise in all three value segments is nearly three times that amount. As a further example, Figure 4 shows an Old Master paintings index constructed using the Hedonic method, which again clearly shows much of the variability of prices is removed versus the average price method.

Figure 3. Hedonic Index of the Contemporary Market (Base=100=January 2002)



Source: Artprice (2009)

Figure 4. Hedonic Index for Old Master Paintings (Base=100=January 2002)



Source: Artprice (2009)

All three of the methods described above can produce indices that can help to visualise patterns of what has taken place in the art market, but all need considerable assumptions and qualifications to be made in each case. Even once these are understood and the often unrealistic caveats

accepted for the purpose of analysis, it is critical to remember that none are able to track or forecast the timing or pattern of future changes in the market, so they are all tools for looking back at historical price data only.

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Pages 110, 158

### **Joe Schildhorn / Patrick McMullan**

Page 118

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