

TRENDS IN THE CHANGES ON THE INTERNATIONAL ART MARKET

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Abstract: *The main goal of the article is to present investing in art as contemporary financial innovation. Investing in artifacts, compared to traditional forms of capital allocation, is an alternative form of investment. The art market is an attractive form of investment, because it combines economic aspects of capital allocation with aesthetic sensations. Enrichment of the society significantly stimulates development of the art market. For nearly a decade, international art market has been characterized by a dynamic growth rate. Up until the outbreak of the financial crisis in 2008, the growth rate ranged from 30% to 60% annually. The value of the global art market in 2013 was 63 billion dollars, while the sale of artifacts between the years 2009 and 2013 increased by 60%. It indicates the prospects for further development of this segment of the international alternative investments market. As such, analysis of the changing trends on the international art market seems to be of interest. To lead such analysis, the method of induction and deduction have been use.*

Keywords: *Financial innovation, Art investment, Alternative investments, Analysis of the market, Wealth management.*

JEL Classification: *G11, G19, Z11.*

Introduction

Alternative investments belong to contemporary financial innovations. This category of investments has resulted from continuously evolving international financial market and is a consequence of the changes on that market [23]. Investing in artifacts, compared to traditional forms of capital allocation, is an alternative form of investment. For nearly a decade, international art market has been characterized by a dynamic growth rate. Up until the outbreak of the financial crisis in 2008, the growth rate ranged from 30% to 60% annually⁹. The value of the global art market in 2013 was 63 billion dollars, while the sale of artifacts between the years 2009 and 2013 increased by 60%. This indicates the prospects for further development of this segment of the international alternative investments market. As such, analysis of the changing trends on the international art market seems to be of interest.

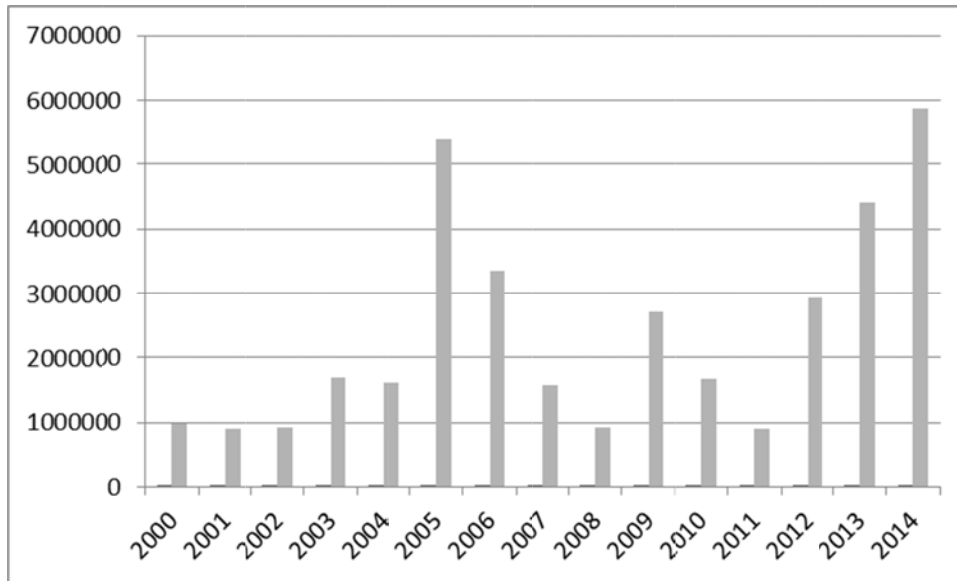
1 Statement of a problem

Worldwide enrichment of the society and the spread of knowledge regarding the markets of collectibles has resulted in more people being interested in collecting and/or investing in artifacts [20]. Specificity of the art market lies in its unique nature, which prevents creation of standardization patterns for the majority of artifacts. The art market is characterized by a high degree of decentralization. This means, that art markets in particular countries worldwide are characterized by different specificity, various magnitude as well as by varying impact of the factors affecting their functioning. Transactions on the art

⁹ The best investments in art, which allowed earnings in millions.

market are individual in character, while the prices of the artifacts being sold are known only the parties in a given transaction (excluding the data from auction listings)[4]. Assessment of the global art market's size is done through summarizing auction sales. There is not any official data on the sales of artifacts through galleries and private dealers. International art market is dominated by two major auction houses, that is, Christie's and Sotheby's. Their subsidiaries function in many countries worldwide. In this context, certain degree of integration of the auction market can be noticed, which is more a manifestation of the globalization process at the enterprise level [12]. The sales thorough auction houses constitute 70% of the overall global sales [2]. For many years, these houses have been trying to gain a leading position on the international auction market. In 2011, Christie's announced its annual sales at the level of 5.7 billion USD [28], while Sotheby's obtained a result of 5.8 billion USD [29]. Other auction houses, which also play a significant role on the international art market, include: Phillips de Pury, Bonhams & Butterfields, Dorotheum, Lyon & Turnbull as well as Freeman's. It is, however, difficult to determine the actual share of the sales conducted by auction houses in the total value of the global art market. R. Campbell states, that the share of auction sales in the overall global sales range from 40% to 60% [6]. M. Maneker, on the other hand, believes that the value of the global art market is much higher, while the share of the auction sales oscillates between 20% to 25% [14]. The report published annually by *The European Fine Art Foundation- TEFAF*, is a resource which contains data about artifact transactions conducted by private dealers in auction houses. TEFAF also organizes the annual art and antiques fair in Maastricht. The crisis on the international financial market also has caused a decrease in the value of artifacts. During the years 2008 – 2009, the value of the market fell to 20 billion EUR. In 2010, another increase in the number of transactions and their value occurred. According to the data in the report on participation in the public sector (auction houses) and in the private sector (including private dealers, galleries, art fairs), in 2010 it was equal to 49% and 51% [24]. The global art market reached its record value in 2013. In the first semester, the art market increased by about 17% in comparison to the same period in 2012, and exceeded 7 billion dollars [27]. During the first six months of 2013, the product of public artifacts auctions worldwide was equal to 7.12 billion dollars (5.22 billion euro), excluding the expenses, while during the same period of the previous year it was equal to 6.11 billion dollars (4.66 billion Euro) [27]. In the first mid-2014 the United States, the sale on art auctions (i.e. paintings, sculptures, drawings, photographs, engravings) was equal to 2.3 billion dollars (1.73 billion euro), which constitutes an increase of over 28%. Chronological progression of the art market turnover shows figure nr 1.

Fig. 1: Chronological progression of the art market turnover in 2000-2014

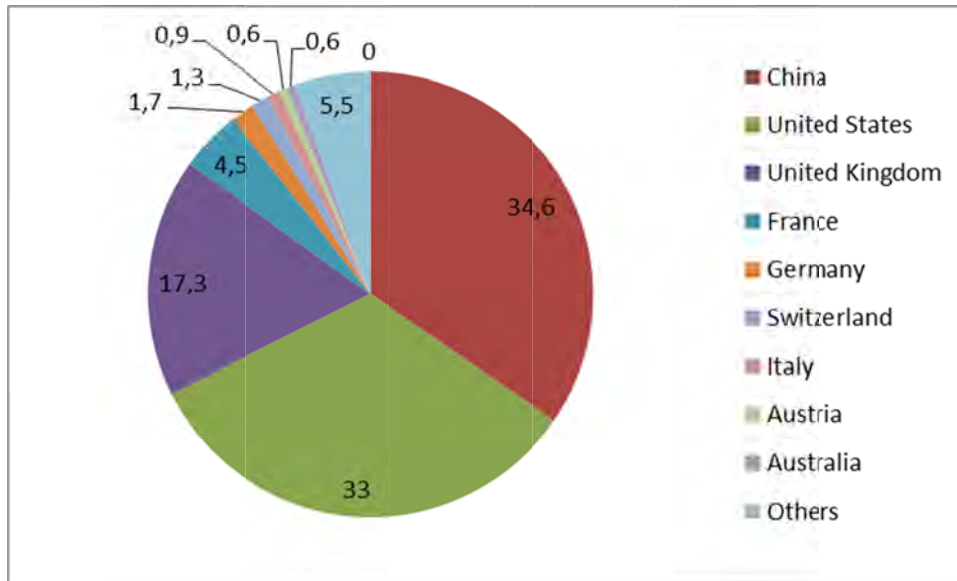


Source: own elaboration on the data of artprice.com

The US share in the global market was 33.4%. China reached sales at the level of 1.9 billion dollars (1.44 billion euro) and an increase of 6.9%. The share of China in the global art market was 27.7%. The market success of Asian artists, mostly Chinese, but also Hindu, is a 21st century phenomenon. The works of those artists massively began to appear at the beginning of the century, while in 2006 the demand for their works rapidly increased. In 2007, for the first time in history, China overtook France in the field of art trade and was ranked at the third place. This dynamically developing country, having the highest percentage of young millionaires (that is of the average age of 39 years old), needed only three years to become world leader in art trade, overtaking the United States and Great Britain. Currently, over one third of the global artifact transactions takes place in China, while 70% of the artifacts sold there have not left the Asian content. The year 2010 was considered as a symbolic transfer date of the art center to Hongkong. Western museum institutions, curators and critics have lost their absolute powers and currently have to seriously consider what is happening on the Asian continent, even if, as they often complain, the new art collectors lack taste and knowledge of contemporary art.

In 2013, the third place in artifacts trade belonged to Great Britain, where the sale of artifacts was equal 1.8 billion dollars (1.23 billion euro) and as such it increased by over 25%. A similar value obtained British participation in the art market – 25.2%. The art market in France obtained weaker results, with sales worth 284 billion dollars (207.8 billion euro), positioning France at the fourth place in the ranking, while its share in the market was 3.98%. The fifth place belonged to Switzerland, where the sale of artifacts was equal to 106 billion dollars (77.9 billion euro), that is 10% more than in the previous year. Germany took the sixth place with the sale of 103 billion dollars (76 billion euro) – 3.7% more. According to Artprice data (published in February), during 2013 the value of the global sale of artifacts exceeded 12.05 billion dollars (8.8 billion euro), while China was the major buyer, maintaining its position fourth year in the row. The figure 2 shows the distribution of the global fine art auction sales revenue by country in 2013. 34.6 percent of the total sales revenue was generated in China in 2013.

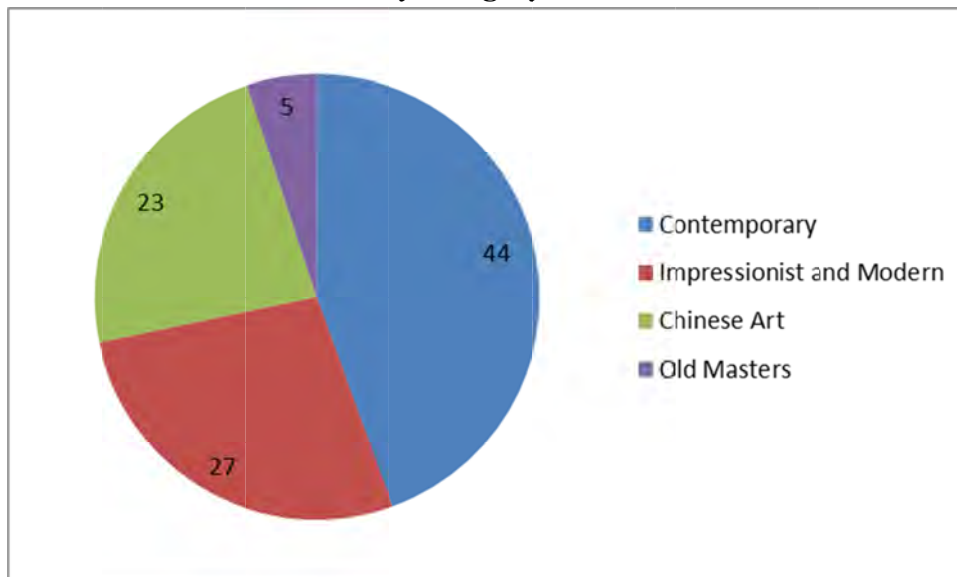
Fig. 2: Distribution of fine art auction sales revenue worldwide in 2013, by country



Source: own elaboration on the data of artprice.com

The year 2013 was also a record year for Christie’s auction house, which increased its sales income by 16%, due to an unprecedented increase of the buyers. The auction sales of artifacts at Christie’s in the previous year amounted to 7.48 billion dollars. It is an absolute record in the history of the art market and auction houses as well as the second record in the history of this company. During the last year Christie’s also broke the record in the sales of luxury articles and jewelry, which reached the total of 714 billion dollars – by 20% more than in 2012. Distribution of Christie's and Sotheby's auction sales worldwide in 2013, by category presents figure nr 3.

Fig. 3: Distribution of Christie's and Sotheby's auction sales worldwide in 2013, by category



Source: own elaboration on the data of artprice.com

While analyzing the trends on the international art market, it is worth to indicate the changes which took place during the years 2008 – 2009. The changes in the generic structure of the artifacts sold during the period of the financial crisis, between the years 2008 – 2009, provide important information for investors. It can be inferred that antique art constitutes good means of capital thesaurization during a downturn in the economic

situation. While planning an investment into art, it is worth to consider the conclusions drawn from the analysis of the structure changes on the market during a given time. Commonly, investing in antique art is treated as more stable and safer capital allocation. Investing in art often is compared to investing in bonds, because it entails works of the artists who are dead. Contemporary art constitutes more risky means of capital allocation. The supply of contemporary art is characterized by a tendency to increase, while the prices of the artifacts being sold often are lower [9].

Contemporary art, during recent years, has been a category characterized by growing interest of investors, which is confirmed by the data indicating that contemporary art auction turnover has increased almost tenfold during 2000 – 2008. Clearly, an increase of the sales of contemporary art can be noticed. Artifact sales during 2006 – 2008 was characterized by its high growth dynamics. The highest level of auction turnover was noted during the first half of 2008. Observation of the art market provides additional information. While the segment of contemporary art during the last years has been dominating in terms of the sale dynamics, the highest losses resultant from global recession were noted in this sector. During 2009 there was a decrease of the turnover in auction houses, in terms of quantity and quality, equal to almost 60%. Fairs is a market channel developing very rapidly during recent years and it has become a platform for promoting and exchanging information on the sales and purchases. For art galleries and private dealers art fairs are a chance of gaining potential buyers from all over the world as well as of finding new talents. Fairs foster international distribution of the artists' work. Participation in such events, although very expensive, is definitely profitable for the exhibitors, since it demonstrates their importance and influential position on the art market [1]. Growth tendency of this sort of events is also visible during recent years [25]. Most prestigious fairs, which present modern and contemporary art, take place in Basel. Art Bases Miami Beach Fair, which mainly presents art from American continents, also seems to be important. London FRIEZE Fair is another event, which mainly offer the latest art. It is also worth to mention Paris Art Fair FIAC, which mostly cares for participation of important galleries outside of Paris and maintain high artistic standards and appropriate proportions between contemporary art and modern art [22]. ARCO Fair in Madrid, the newly established Abu Dhabi fair or the fairs organized in the financial and geographic center of Asia, that is Hong Kong, cannot be forgotten either. It is worth noting that the Far East has huge financial potential and ambitions for creating an alternative to the world's greatest contemporary art fairs taking place in the United States and Europe [25].

International fairs undoubtedly are professionally organized events with financial participation of such organizations as: UBS Bank or Art Basel and Art Basel Miami Beach. Deutsche Bank, in turn, financially supports the London Frieze Fair and the Hong Kong fair [25]. The virtual VIP (viewing in private) art fair initiated in January 2011 by two art dealers from New York is a novelty. During its first edition almost 140 galleries from over 30 countries worldwide participated in this fair. Virtual fair was very popular, therefore its organizers intend to continue organization of this event in the following years, despite some technical errors they encountered [3].

2 Tendencies in the changes on the international art market

Development of the art market is largely conditioned by macroeconomic changes. Analysis of the global art market's evolution also indicates impact of other social and technological factors. A global increase in prosperity, especially in the countries

described as the emerging markets, is the most important factor impacting the growth of the demand for artifacts. This demand for artifacts has been increasing along with population growth in the high-net-worth individual sector. It should be noted, that in 2003, the biggest buyers in Sotheby's auction house came from 36 different countries. Four years later, the wealthiest buyers entailed 54 countries. The fact that the total number of those purchasing artifacts tripled in just four years is also significant [20]. This tendency can be explained by the argument, that during the times of economic uncertainty, investors seek such assets, which will maintain their value over long term. It thus can be assumed, that the share of the spendings on art in the expenses associated with luxury goods will keep increasing. Research and studies conducted on the field of the finances related to art market have increased transparency and popularized knowledge on this category of investments. It should also be underlined that the supply of the best artifacts is limited, while their value generally increases over time. This increasing tendency refers to art of deceased artists. Their paintings often are missing or are bought by museums and collectors. Art markets stay efficient, despite the changing market conditions. It is worth noting that about 80% of auction transactions are below 10000 EUR. This means, that the art market is becoming more accessible for a wider range of investors. Development of the art market has also been influenced by social factors. Currently, cultural life is strongly marked by globalization, while numerous international art fairs draw the interest of collectors and investors. The current state on the art market has also been influenced by technological factors. Highly progressive technical and technological development have caused the investments in art to be perceived as the means of cash allocation in a separate category of assets. What is more, emergence of auction houses and of Internet databases has caused the market to become more transparent and widely available for the investors worldwide. Considering the tendencies occurring on the international market as well as the increase in the number of wealthy investors in the private banking sector, it is worthwhile to determine the perspectives for the development of this segment of alternative investments. Currently, more and more people are becoming interested in investing in art.

Investing in artifacts, particularly in those of deceased artists, is associated with a risk purchasing a forgery. Development on the art investment market also requires overcoming many obstacles associated with its development. W. Niewiarowski believes that the factors which can limit the demand of potential artifact buyers include [19]:

1. Lack of legal regulations concerning appointment and the operating mode of an expert in the field of art. The role of an expert usually is undertaken by an incompetent person, often the artist's relative. As family members, such experts want to have the priority in the judgment on authenticity of the work by a given artist. This raises uncertainty of the collectors on the Polish art market.
2. Obligation for the galleries and auction houses to report all transactions over 15 thousand EUR to the Chief Inspector of Financial Information. In practice, this means transfer of private data of the person making a given purchase to an institution, where this data can easily leak from, reduce confidence and trust of the investors.
3. High taxes: VAT and *droit de suite*. *Droit de suite* is the right of the artist and his/her heirs to receive a percentage from the price of a given artifact being sold to another owner.

Conclusion

The art market is an attractive form of alternative investment. Investing in art combines economic aspects of capital allocation with aesthetic sensations. Enrichment of the society significantly stimulates development of the art market. Both, the prices and the supply of artifacts during the times of economic crisis decrease, similarly as in the case of the prices of stocks. In contrast, investments in artifacts are an alternative for stock market investments, similarly as raw materials or real estate. As history has shown, artifacts are one of the best media of material value, while investments in them belong to the most reliable ones, particularly during the time of financial crashes and insecurity. Historically, an increasing trend can be observed on the art market, while appearance of a new group of wealthy people in the countries with large populations, such as China, allows an assumption that the market will continue to increase.

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