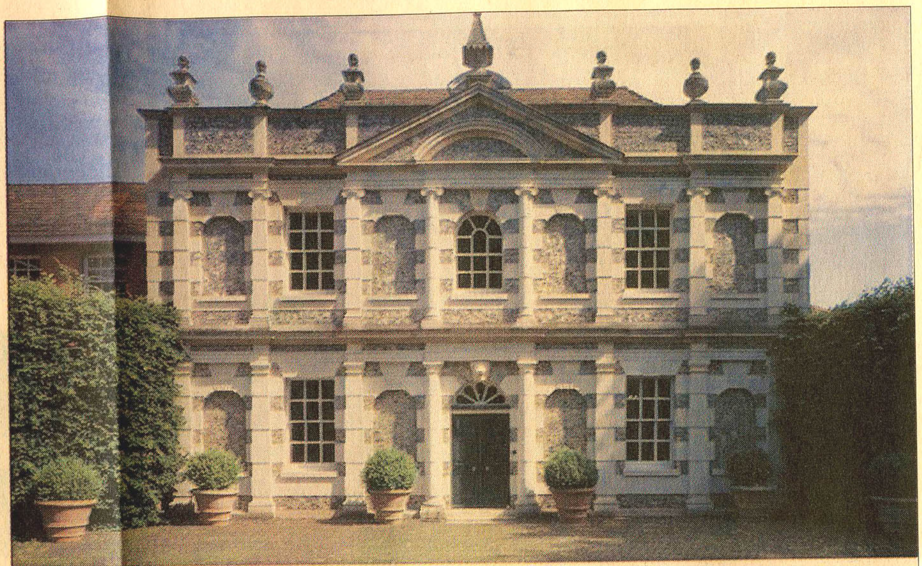
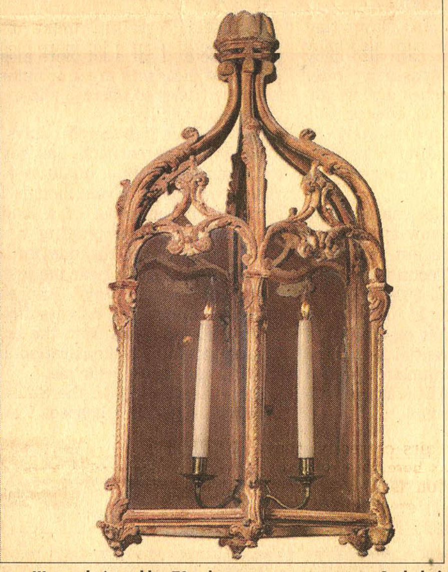
When it's what's inside that counts





Fawley House: its dining room and drawing room, and lot 72, a George III armchair and lot 79, a lantern Sotheby's

James Goodwin assesses why the contents of a fine mansion might generate better returns than the house

Perhaps it was the autumnal charm of the English countryside, or the calm of the 18th-century rectory. But when the art world was ushered into Fawley House near Henley-on-Thames last October, emotion got the better of it.

From this Grade II mid-Georgian house, currently on the market for £4.5m ($7.6m) from FPD Savills, 703 lots typifying English country house style were sold for an impressive £3.1m – more than £1m above the expected value.

Although prime country house sales, particularly in the £1m-plus price band, have been subdued for three years, "the contents sale saw staggering prices throughout", according to James Miller of Sotheby's, the auctioneers.

The sale's success, experts believe, reinforced a trend that has recently emerged in the world of decorative art: as an investment, the contents of a house, especially high-quality antique furniture, may be performing better than the house itself. This is especially true when, as in the case of Fawley, the contents are displayed and auctioned in a stunning setting.

Fawley's highlights were mid-Georgian furniture and paintings by Arthur Devis (1711-87), as well as an eclectic range of works including Chinese porcelain, Picasso ceramics and an Elizabeth Frink watercolour. Chief among the furniture, sold at a substantial premium to estimate, was a mahogany library chair purchased for £300 before the second world war on the advice of the leading furniture historian, RW Symonds. In October it went to the US for £386,000, or twice the estimate – an auction record for a single English armchair.

In the world of art and antiques, the sale was a most refreshing filip. According to indices compiled by John Andrews of the Antique Collectors Club, the price of good quality but unexceptional antique furniture fell 3 per cent last year. It fell the previous year as well. The exceptions, says Andrews, are oak and country furniture, or pieces with particularly good provenance such as those at Fawley.

"While pieces brought into the hurly burly of the auction room languish for want of presentation, the right setting and tone changes aspirations enormously," he says.

According to Robin Duthy of Art Market Research, who, like Andrews, has tracked the market for more than a quarter of a century, higher quality fine and decorative art – especially from the 18th century – has continued to perform well, even as prices of country houses have cooled.

That may be because such furniture is mobile – and hence increasingly attractive to wealthy individuals with the financial freedom to pick and choose around the globe. It has also been helped by increasingly sophisticated websites and indices tracking art and antiques markets.

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specialises in the subject at Dresdner Bank, art prices may be on the verge of a two-decade run-up in prices. That is more, he believes, because of a revival of interest in culture than for more hard-nosed speculative reasons.

But art is a high-risk investment asset, and to reduce the risk it is necessary to increase the holding period – even if that waters down the returns. For diversification, Wilke suggests 5-10 per cent of a portfolio should be invested in works of art. He concedes, however, that the three-year investment timescale of most asset managers makes this unlikely to be taken up on a broad scale.

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one of the last examples of almost unregulated *laissez-faire* capitalism; where supply tends to stimulate demand and objects tend to become more valued as their original purpose is lost. It is claimed, rather grimly, that supply to the art market benefits from death, debt and divorce, while demand is driven by new money whose motives are often social. Like most markets, the driving forces behind these are economic prosperity, demographics and currency movements, as well as taxation.

Though it is difficult to make a clear distinction between the collector and the investor, the number of people who buy solely as investment is limited. To the collector works of art are not substitutes for money. The repeated advice given by art dealers is to buy an item because it touches your heart; it should be an emotional investment.

The drawbacks of art and antiques as an investment are their heterogeneous nature, high transaction costs, the difficulties of applying standard financial measurements and lack of liquidity. The intrinsic value is barely quantifiable, based as it is on scarcity, fashion, quality, condition, provenance, association and art history. There is no dividend from art beyond aesthetic pleasure.

In spite of the headline prices paid for works of art (149 paintings were sold for over £1m in 2002-03), it is a sobering thought that the UK art industry turnover is less than any FTSE 100 company.

For investors in art and antiques the focus is capital gain less opportunity cost and inflation. Comparison with other assets is best presented using historical price trends. For these there is no shortage of data, thanks to sale records dating back to the 18th century.

The art historian Lord Clark wrote in the 1960s that "art is the only escape from materialism which is not subject to the laws of diminishing returns". The art-buying excesses of late 1980s Japan have disproved these noble sentiments. When Van Gogh's "Irises" was sold for $53.9m in 1987 its real rate of return since 1948 had been 12 per cent. By association, reports have indicated that Van Gogh's "Dr Gachet" was recently offered to private buyers for less than half its $82.5m sale value in 1990.

The problem for the art market during the 1990s has been lack of supply and faltering demand.

Today, comparative figures from 108 UK dealers and auctioneers for the past three years (the UK represents just over a quarter of the world's art market) indicate barely growing sales and falling returns. The exceptions are a number of upmarket dealers and

HOW OLD MASTERS PAID FOR OLD AGE PENSIONS

Marcus Linell of Sotheby's vividly remembers the partially successful attempts by the British Rail Pension Fund, then in the public sector, to invest in fine art between 1974 and 1997. It is still something of an art world cause célèbre – the first time a collection was formed specifically for that purpose.

At the end of 1974 economic conditions in the UK were less than favourable: inflation and tax were high, stock and property markets had fallen heavily, the pound was weak, exchange controls were in operation and index-linked gilts were unavailable. For BR's pension fund, which was cash-rich, art was an investment offering fund diversification, international marketability and a real rate of return.

Sotheby's, which was the main adviser, provided justification for the investment based on their own art index trends and

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1978. By 1979, 1,600 of the 2,525 art investment purchases across a wide range of sectors had been made. Their values were to be reappraised every three years. From the start the fund attracted criticism about the use of public money from politicians, unions and art professionals. Helping assuage this criticism were loans of art by the fund to museums, which helped defray storage costs to the benefit of the public – as well as attracting the attention of potential purchasers.

Nevertheless, political pressure, along with 1980s financial deregulation, a booming stock market, high costs and no accurate measure for art precipitated the fund's gradual art sales decline after 1987.

By 1989 Sotheby's assessment of the fund, which had sold a quarter of the art, indicated a better return than property and a worse performance than equities

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works of art and antiquities, accounted for 66 per cent by value of the portfolio. The star performer had been Impressionist and modern art, which returned an annual 11.9 per cent after inflation, compared to 7.5 per cent for shares. By 1997 other notable investments had been Chinese works of art (7.7 per cent to 8.5 per cent real return), English silver (7.5 per cent), 19th century paintings (6.6 per cent) and Old Master paintings (5 per cent).

A painting by Arthur Devis purchased for £26,000 in 1975 sold for £280,000 against an estimate of £90,000 (see above). By October 1997 only 63 items at a value of £3.2m remained to be sold. Total income from sales had reached £165m and had returned an annual real rate of 4.3 per cent. It was concluded that the fund had met the primary objective of safeguarding pensions by matching inflation over time.