

On the rise

People tend to buy contemporary art when they are confident about their economic future, and to remind them of the past when they are not. James Goodwin looks at contemporary art investment



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For many it may come as no surprise that confidence has outrun conservatism during the last ten years. International trade figures show that modern and contemporary art has increased its world market share from 76% to 83%. During the last decade the art market has tripled in size to \$41bn, recording a 25% rise in 2007.

With the world in financial turmoil, the question often asked is, what next for the art market, particularly contemporary art?

Opinions are divided. At one extreme, some are looking for any sign of the market's demise in the face of coming austerity, believing that much of this new art falls into the sub-prime mortgage category. Many were surprised at the success of the Damien Hirst auction on the day that one of the world's leading investment banks went bust. Others are reassured by the market's resilience in the face of such financial battering.

Nevertheless, results for 2007/8 show an overall negative trend. More art has been bought in (unsold), and auction turnover along with art fair attendance has fallen due to the credit crunch. According to the artprice.com confidence index, expectations have fallen at the fastest level since 1991-92, peaking in May 2008. Historically, art market prices tend to fall two years after major stock market crashes, and we are nearly 18 months into this one. But this doesn't necessarily mean a slump in the wider art market where collectors purchase over a 30-year period.

If art market history is used as a guide, a correction will lead to a long-term shakeout and new opportunities.

During the economic depression of the 1930s, as art market turnover fell, the worst affected sectors were those that had risen dramatically in the past. This included English 18th and 19th century paintings, especially portraits. During this slump, the most resilient proved to be Old Master pictures and decorative art. Meanwhile, interest in impressionist and modern art (the contemporary art of its day) continued to grow and flourish after WWII. With parallels closer to today's economies, the inflationary oil shock of October 1973 saw art market turnover fall then recover strongly within 18 months. For the next five years, the market spread beyond Britain and the US to the Middle and Far East.

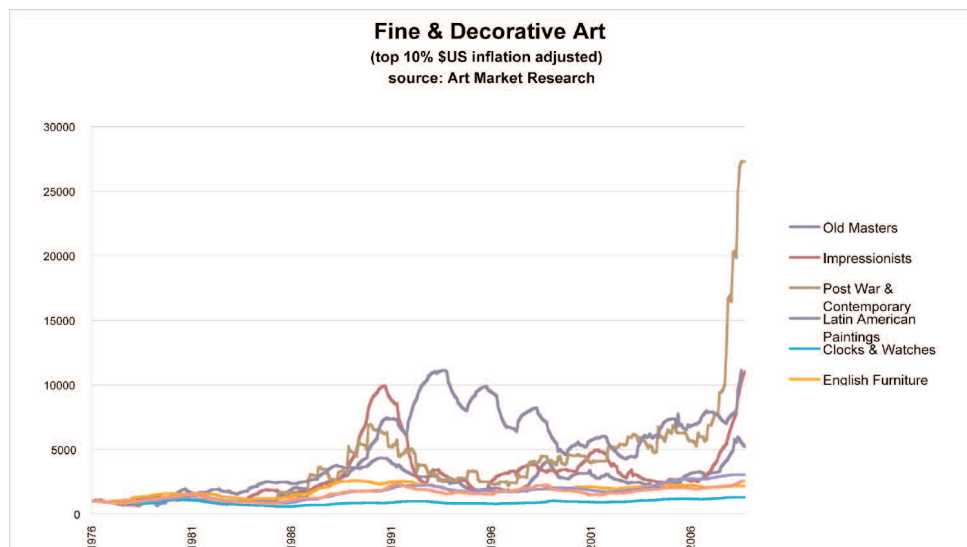
The contemporary art investor should therefore not be put off, just a little more discerning and aware of the opportunities. Underpinning any investment strategy is that the more you pay for art, the lower the

return. Also the greater your investment portfolio diversification, including art, risk is lower and returns are slightly higher.

However, over the last 30 years, most economists have had mixed perceptions. In the 1960s, it was estimated that one in 2,000 contemporary artists would ever achieve material prosperity (today most earn less than \$5,000 a year) and in the following 50 years, less than one in 10 of those would continue to do so. Today, a survey of 66 UK dealers found that the average return on capital in 1998-2007 was about the same for those selling contemporary art as it was for older artworks. At the post-war and contemporary art auctions in London during 2006, 44 of the 697 lots by 34 artists measured by repeat sales, returned an annual average of 13.14% after costs.

However, placing a future value on art, especially contemporary art, remains one of the most mystifying commercial and academic challenges. At any point, a range of factors contribute to the price paid for an artwork. In the broadest sense these may include economic factors like tax, along with aesthetic and sociological elements, such as art history and fashion. Since art is the ultimate symbol of individual and commercial success, as new economies develop and older economies prosper, their contemporary art markets seem likely to grow. Looking beyond today's high expectations for the economies of China, India, Russia and Brazil, art buyers may consider Goldman Sachs' investment recommendation in the so-called N11 (Next 11 – next set of developing countries). In order of projected income per capita in 2025, the focus is on South Korea, Mexico, Turkey, Iran, Vietnam, Egypt, Indonesia, Philippines, Pakistan, Nigeria and Bangladesh. In this instance, major art auction houses are already represented in five of the highlighted countries.

At an aesthetic level, factors affecting the supply and demand of art can be more perplexing. In their purest form these include materials used, quality, artistic merit, condition, subject matter and even size of the artwork. However, even here scientific study is providing some answers. Using an 18th century scientific methodology, resurrected in the 1970s as hedonic regression, some successful attempts have been made to place a future value on an artist's work. In a study of American artist Robert Rauschenberg and 33 other post-war artists, the criteria used to breakdown value found that artists who worked in several mediums had the most effect on prices. Another study on Picasso artworks sold between 1963-94 found that the number of publications



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on the artist rather than provenance, estimates or popular style, had a greater effect.

Along with more scientific valuation, technology that brings artists and their market closer to the consumer is likely to have the largest future impact. At the top end of the market, there is already a link between artists recognised on the internet and their auction turnover. The wider availability of art on the internet has the potential to bring it to a wider audience at a time when online auctions have placed a downward pressure on transaction costs. After 14 years' trading, eBay registers 250m users in 38 countries and just under half of their \$59bn turnover in 2007 was accredited to art and collectibles. Improved communications are also encouraging closer cultural ties between countries.

It seems to be business as usual in the contemporary art market as high prices attract a greater number of works fresh to the market. But the composition of auction sales and results is already pointing to a different future. In the year to July 2008, three of the highest prices fetched worldwide were for Chinese contemporary art sold in Hong Kong and Beijing. Seven international auction houses from China

dominate the top 10 worldwide. Moreover, three quarters of the top 50 artists first sold at auction were Chinese. Despite the current economic gloom, it seems the greatest long-term opportunities in the contemporary art market will be in those countries that sell emerging contemporary arts, such as Britain.

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The International Art Markets is available from RICS Books, priced at £55
www.ricsbooks.com



For more information on the RICS Arts and Antiques market survey, visit
www.rics.org/Newsroom/Economiccommentary

A thoroughly enjoyable day out

Arts and Antiques Faculty Conference 2008 review

For those unfortunate enough to miss it, we reveal some of the highlights from last year's conference

Scrumptious interiors, a haunted mansion and royal palace was on the agenda at last year's Arts and Antiques Annual Conference 2008.

Up to 50 delegates took part in the CPD event, which was held in the quaint, leafy suburb of Hampton in Surrey from 16 to 18 October.

The event included a visit to both Ham House and Dorich House, and also offered a guided tour of Kew Palace and the National Archives, also situated at Kew.

Delegates were surprised to learn that the National Archives centre is not just about family trees or genealogical records, but that it also holds a vast amount of information relevant to the art market appraisal industry. Delegates were taught how to trace and research an object's patent, and also to study an item's records.

Ham House was the main focus of the conference – this reportedly haunted 17th century Stuart mansion situated near the River Thames offers a lavish lavender-filled garden setting. With interiors filled with an impressive collection of textiles, furniture and paintings, delegates found this study day to be the main highlight.

The conference concluded with a visit to Dorich House where delegates were treated to a hearty buffet, and Kingston University unveiled its plans to introduce a BA Hons degree in Art Markets in 2009. The 1930s restored and renovated house is situated in Kingston University's grounds and boasts hoards of marvellous paintings, objects and textiles collected by former owner and sculptor Dora Gordine – a perfect end to a thoroughly enjoyable conference.

Prize winner announced

RH Laverack from John Taylors Auctioneers and Estate Agents in Lincolnshire has been named winner of the RICS Art Market Survey Prize Draw.

Mr Laverack won an unframed print by Japanese artist Emiko Aida entitled *Slow Jumps* (1997). The print was donated by AXA Art, who commissioned the work and acquired the entire edition.