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TRANSFORMATION OF THE GLOBAL ART MARKET

Abstract

This paper uncovers the new trends on the global art market influencing its further development. The main treats of its transformation in the post-crisis period are revealed. The global art market in the XXI century is shaped by the growing online art market transactions, changes in the global art map pointing out its multipolarity, transformation of the art market institutional structure. The research is based on data provided by the leading analytical agencies on this market (ArtTactic, Artprice, TEFAF, Deloitte, Skate's Art Market Research).

Key words: art market, emerging market, transformation, trends.

Introduction

One of the latest trends in the global economy, mainly driven by the economic crisis is the change of international investment priorities. Among the foreign investors, the art market is considered to be one of the most profitable. During the last decade, the global art market has changed its functions and main characteristics that has an influence on decisions, taken by investors and collectors on this market.

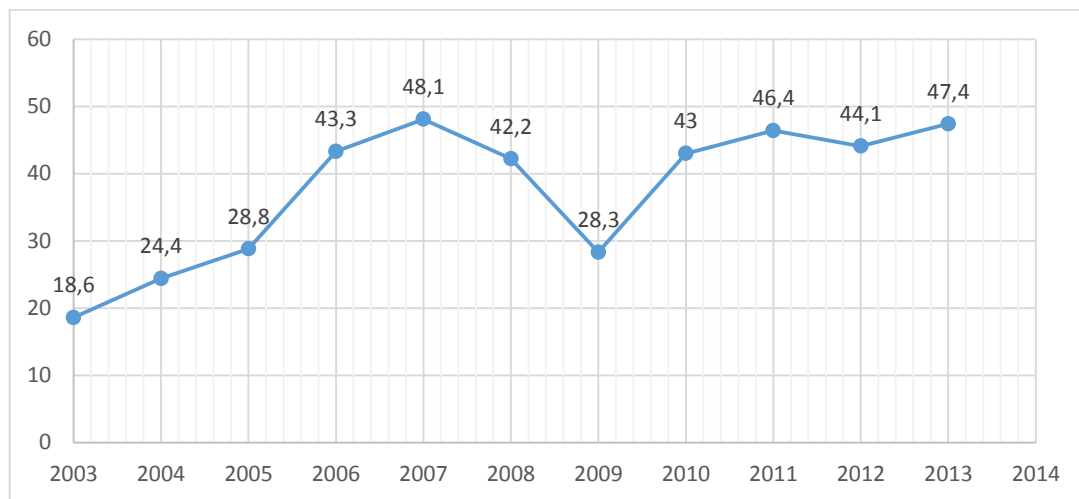
The research objective is to identify the main trends on the global art market in the post-crisis period leading to the transformation of its character.

This study relies on theoretical findings of B.Frey, who describes the economic issues of the art market, its behavioural aspects and investment opportunities (Frey 1997), M.Moses and J.Mei (Mei, Moses 2002), who have proven the law correlation between the art assets and traditional financial assets. Most of studies are addicted to certain trends on the global art markets, as the growing role of emerging markets (R. Kraeussl, R. Logher (Kraeussl, Logher 2008)). Previous studies have identified the main treats and characteristics of the art market, therefore largely ignored some phenomena, appearing in the last decade on the market in the global scale. The research is based on data and reports provided by main analytical agencies on the art market (Artprice, Skate's Art Market Research, Deloitte, TEFAF, ArtTactic, Hiscox).

a. The global economic crisis influence on the art market

At the beginning of the global economic crisis in 2007-2008, prices and number of transactions in the global art market have reached their peak (in particular, prices have doubled in comparison to 2000; in 2007, the market value was about 48.1 billion euros). While in the period from 2006 to 2007 the prices of works of art have risen by 18%, in 2007-2008 this growth amounted to 45% (Fig.1). The main reasons for this phenomenon were negative expectations of investors in traditional financial markets, the need for reliable selection of the object of investments giving the opportunity to protect and enhance the invested capital and diversification of the investment portfolio. Leading investors began to consider art assets as hedging instruments.

Figure 1. The value of transactions in the global art market, billion euros (2003-2013)



Source: The European Fine Art Foundation, 2014, <http://www.tefaf.com>.

In 2008-2009, the market has undergone a certain drop in the most volatile segment of contemporary art (in this segment the drop during the crisis was nearly 40%). In my opinion, it was primarily a market correction after the emergence of a "price bubble" on risky art assets, due to speculative activity of investment and hedge funds that dropped significantly during the financial crisis. During the crisis, buying paintings to acquire reliable investment has become more balanced and less impulsive. Therefore, prices of works of impressionism and modernism remained stable. For successful capital investment investors preferred works of art of the so-called group of "blue chips", i.e. the most liquid art assets (e.g. paintings of Monet, Picasso, Van Gogh, Cezanne, Renoir, Modigliani).

Since 2010, a renewed increase in the number of transactions in the art market can be observed, that is confirmed by the price trends at major auctions and the index reflecting

market expectations on the global art market (Art Market Confidence Index turning back to the price level of 2008). In 2010-2011, market growth amounted to 21% (throughout all market segments) (Artprice 2014).

b. The global art market trends

Examination of the leading analytical agencies' reports in the field of art markets made it possible to identify the main trends observed on the global art market in the last decade, pointing out a significant market transformation in the post-crisis period. One should be noted that all trends on the art market are connected with each other and are sources of future emerging trends.

The key trend in the global art market, indicating its transformation and radically changing nature of the market, is the emergence and growth of e-commerce in works of art (online sales, tab.1). The turnover of e-commerce in works of art amounted to 2.5 billion euros in 2013, or 5% of the art market. However, it has a very high rate of growth (about 25%), which implies that by 2020 the turnover of e-commerce could reach 10 billion euros. In particular, over the period 2010-2013 the art market in China has doubled and was estimated at over 200 million euros. The main reasons for that are the emergence of the group of wealthy collectors, increasing interest in art and the growth of e-commerce in general.

In this context, I would like to draw attention to the global nature of the art market. The point is that owing to the Internet technologies the share of the online art market is growing every year, so it is difficult to determine the territorial boundaries for the collector or investor who can buy works of art anywhere.

E-commerce on the art market has many advantages over the traditional auctions and galleries: 1) it accelerates the dissemination of information on the art market, its participants and artistic assets; 2) is a powerful tool for marketing communications (mostly by artistic social networks); 3) the possibility of establishing contacts between sellers and buyers of art in the transcontinental scale; 4) cheap and effective tool of art sellers' access to potential clients; 5) the ability to compare prices on artistic assets in various regions of the world through electronic databases of auction bidding.

The main advantage of this model of the art market organization is the solution of the information asymmetry problem between buyers and sellers of artworks, and the problem of low transparency of this market. This is due to the large amount of information concerning the assets of art in the internet and the possibility of direct contacts between artists and collectors

(it should be noted that this model could be applied only for Contemporary Art, created by living artists). Besides, the Internet market provides more liquidity and lower transaction costs. Without a doubt, the twenty-first century is shaping a virtual art market, with access to trade in works of art for individuals and companies from anywhere in the world.

Table 1. Online services on the art market

Function	Services	Overview	Companies
1. Data	Auction data; Primary market data	Subscription access to millions of past auction results; Pricing data for online sales	Artprice, Artnet, Artvalue, Mutualart, Artinfo; Online galleries, e-commerce platforms
2. Market analysis	Auction indices; Artist reputation rankings (exhibition, gallery, museum data); Market sentiment indices	Art market analysis and comparison to financial markets; Artist information and rankings determined by public exposure; Subscription access to sentiment data	Mei&Moses, Artnet, Artprice, Tutela Capital, AMR; Artfacts.net, ArtTactic; ArtTactic, Artprice
3. Market information	Digital print news; Art. news online	Limited access to print newspaper articles; Online art market information	Art. Trade Gazette, The Art. Newspaper Online; Art. Daily, Artinfo, Art. Market Monitor
4. Online sales	Licytacja na żywo; Aukcje online; Sprzedaż online; Rynki internetowe	Real time bidding while viewing a live stream of a physical auction; Dedicated online auctions; Websites acting as dealers between customers and galleries; Online portals and marketplace for transactions	Christies' LIVETM, Sotheby's Bid Now, LiveAuctioneers; Artnet Auctions, SafronArt; ArtSpace, Artsy, Paddle8, VIP Art. Fair, Artfinder, Exhibition A; 1 st dibs, EBay, ArtViatic, Artbanc, The COMPANY, Expertissim
5. Education	Online art business education; Museum apps	Online courses in art. business in finance; Educational tools for museums or exhibitions	Sotheby's Institute of Art; MOMA, Louvre, Tate i in.
6. Social networks	Artistic social media	Communication with potential and current customers	ArtStack, artween.com, artrise.com, Facebook, Twitter, Artsy, Artisho

Source: Deloitte 2013: 58.

According to Deloitte, 96% of specialists in the field of art and 83% of collectors consider that the most important functions of electronic platforms in the art market are data providing, information and research. Other important areas are increasing the transparency (51% and 59%) and the reduction of transaction costs (46% and 49%) (Deloitte 2013: 56). For instance, some art e-commerce platforms (ArtViatic, Paddle8 and Artnet Auctions) undercut the fee structure of leading auction houses, offering a commission of 6-12%, while the commission of traditional auction houses is about 25% for the lowest-priced artworks. It follows that with the increasing competition in the auction market (including online auctions) commissions of auction houses or transaction costs will be reduced.

However, e-commerce on the global art market has a number of drawbacks: the lack of direct contact with a potential customer before buying art, over-saturation of information, lower prices of artistic assets. That is why the online art sales should serve only as an addition to traditional auctions (including electronic catalogues, auction schedules, monitoring the dynamics of supply and demand at auctions, electronic databases of auction results and prices, etc.). Sotheby's and Christie's actively use such a practice together with bidding at the physical auction. Reputation and trust are critical issues in the online market and provide existing art galleries a potential advantage.

As can be expected, the main barriers for collectors buying art online, are the origin and authenticity of the artwork (according to 80% of those surveyed by Hiscox) and the reputation of the seller (65% of respondents (Hiscox 2013)). Therefore, traditional galleries and auction houses have a significant advantage in the capitalization of their reputation and knowledge.

One of the consequences of the global economic crisis was a change in the geographical structure and appearance of new players on the art market - investors from emerging economies and developing countries, such as China, India, Turkey, Brazil, Indonesia and others. According to Artprice, in the past five years, the growth in the Asian art market amounted to 120%. In 2003, the United States had the first place in the global art market with 41.6% share, the United Kingdom was on the second place with a share of 28%, and France 9.3%, in 2011; after the crisis, China turned out to be the market leader with a share of 41%, the U.S. reduced its stake to 27%, and the United Kingdom - to 18% (Artprice 2004-2012). The main reasons for this phenomenon are the growing number of wealthy collectors in Asia as a consequence of economic growth, a growing number of art funds, speculation on the art market in China.

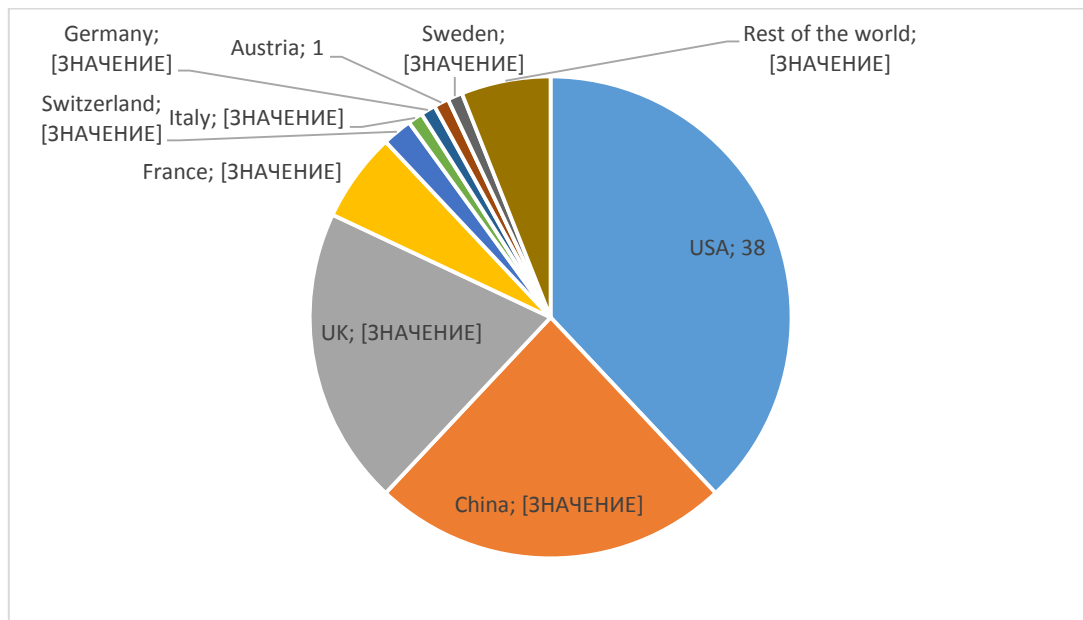
Moreover, in 2011-2012, 49% of the most expensive paintings from the ranking Top 500 have been prepared by Asian artists (Zeng Fanzhi, Takashi Murakami, Anish Kapoor et al.). However, the disadvantage of the Chinese art market is the lack of payment by winning bidders in auctions: only 56% of the objects have been paid in 2013 (TEFAF 2014).

This phenomenon proves that the Chinese art market has become a driving force in the global art market and confirms the economic *multipolarity* of the world. 10 years ago, 80% of sales in the art market were concentrated in London and New York, instead, contemporary global art centres are Seoul, Berlin, Singapore, Brussels, Jakarta, Amsterdam, Melbourne, Taipei, Tokyo, and Guangzhou. The traditional market duopoly actually doesn't exist

anymore. In 2002, the auction houses Sotheby's and Christie's' comprised 72% of trade in the auction trade of artworks; in the past three years, their share fell to 50%.

In 2013, the global art market had the following structure. According to Arts Economics, the United States accounted for 38% of the global market in terms of value, meanwhile the share of Chinese market, leader in 2011, fell to 24%, while the UK was in third place with 20% market share. EU has lost 3% of the global art market and amounted to 32% in 2013, however, in European Union the ranking of countries according to sales volume remained stable over the past ten years, with major amount on auctions by the UK (20% market share) (Fig.2).

Figure 2. The geographical structure of the global art market. Global art market share by value, % (2013)



Source: Caines 2014.

The main causes of decline in the share of Western Europe in the art market are:

1) impact of the crisis (crisis in the euro zone, debt crisis in Greece, Italy, Spain, Portugal and the UK). In particular, according to research carried out within the Global Wealth Report, in 2010-2011 the "cultural costs" in the UK were reduced by 30%, that was the so-called "amputation" of cultural budgets;

2) changes in legislation, in particular, the implementation in many countries legislation on property right, the so-called droit de suite (France, UK), according to which in case of purchasing a work of art a certain percentage of its value must be paid to the living author or his descendants;

3) taxes on property.

The third trend in the global art market is the development and change of its market institutions (institutional support). There are the following trends in the development of institutions in this market: the rise and the development of art funds, cultural asset exchanges, increased interest in art banking and consulting on the art market and alternative investment portfolio management including art assets within the programs of wealth management. With the recognition of art as an alternative investment, the market created a need for specialized consulting services targeted to current and potential investors in the art market.

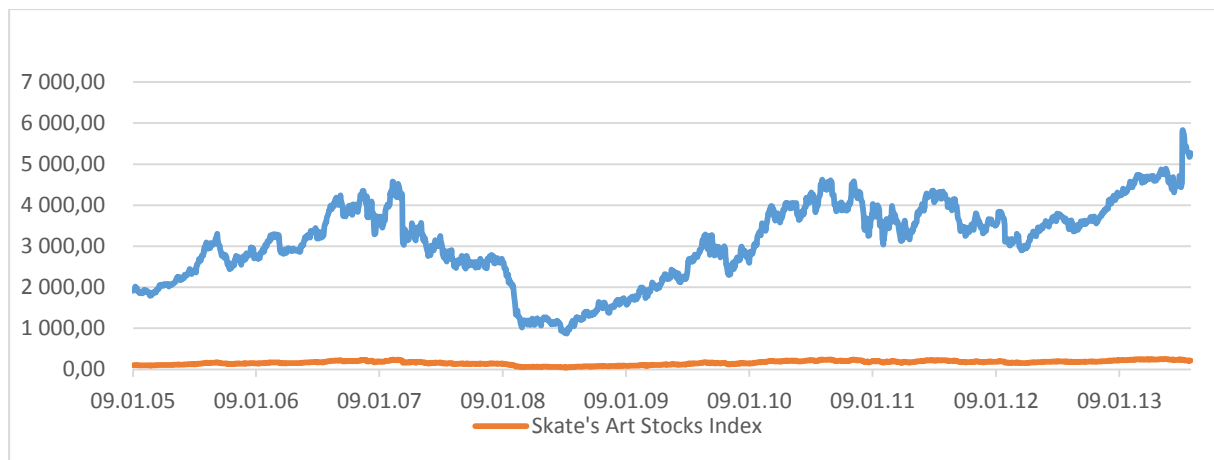
The art market growth is followed by the enlargement of the range of services and the emergence of new trends in their development. Art banking can be defined as a complex service, offered to wealthy clients interested in art and the diversification of their investment portfolio by investment in art assets. According to Deloitte research, the majority of surveyed banks offer to their clients services on the art market, at the European level - 71%, and in Poland - 2/3. These are primarily entertainment of clients (63%), the valuation of works of art (47%) and art market consulting (57%) (Deloitte Polska 2013: 6) A major trend in art banking is the use of art collection in order to secure loans. According to survey, 41% of collectors stated that will be happy to benefit from such opportunities, in Poland this share amounted to 79% of respondents. It is worth noticing that the role of art in asset management changes in recent years: the financial nature of art-related services is being increased.

The growing interest in art investment has led to the creation of art funds related to art banking services. Art funds are usually private investment funds, focused on generation of investment returns through acquisition and disposition of works of art. According to Art and Finance Report 2013, 59% of the art market experts have confirmed that their clients diversify their portfolios with alternative investments in art (Grzemska 2014). The main problem of investing in the art market is the high access threshold to that market, in relation to the asset value of art. With the creation art funds, even people without significant initial capital for the purchase of works of art can participate in art investment, similarly to traditional mutual funds.

Nowadays, 83 investment funds of this type have been created in the world. The largest of them are The Fine Art Fund, Elite Advisers, Atlanta Art, China Investment Fund, American Art Fund, American Master Collection. Moreover, the international art fund market is growing year by year. At the end of 2012 it amounted to 1.6 billion, or 8% of the global art market (Grzemska 2014). It should be noted that the new art funds come not only from traditional to this area countries (United States, Luxembourg), but also the countries where the art market is still developing (Poland, Gibraltar).

One of the phenomena on the art market and the result of increased investment in this area was the transfer of the exchange trade on the art market, where previously auction houses and galleries had leading positions. The exchange trade on the international art market exists in two forms: 1) as a trade in shares of auction houses and other participants in the art market on stock exchanges. The situation on the market is reflected by the Skate's Art Stocks Index (SASI), based on two factors: the average value of the shares of the listed company and market capitalization of the company (Fig.3).

Figure 3. Market capitalization of art companies and Skate's Art Stocks Index, 2005-2014



Source: own study based on Skate's Art Indices, <http://www.skatepress.com/?cat=19#>.

According to chart, market capitalization of art companies increased in March 2014 compared to January 2005 by 275%, and the index of Skate's Art Stocks - by 111.95%.

2) as art exchanges where the shares of certain works of art are being sold (Art Exchange in Paris, Split Art in Luxembourg). The mechanism is similar to investing in the stock market - the investor can make an offer on the exchange for the purchase or sale of shares, the commission is about 0.5% for each transaction, and the profit is based on differences in prices.

Analysing the art market in the post-crisis period, I would like to note the increasing role of the market-related industries (advertising and marketing, art fairs, insurance, packing and delivery, IT, tourism etc.). Over the past 10 years, the essential part of the art market development are advertising and marketing, in particular, in 2013 the total revenue from advertising services and marketing on the art market amounted to 3,181 million euros. According to experts, it is about the emergence of a new market segment - PaRt, that is art, supported by marketing tools.

In the background of the growing art market, related industries promote new initiatives to support the further development of art investments. A new phenomenon is the emergence of so-called *freeports* - very secure, tax-free places for storage and insurance of works of art and antiques. An important event in the European art market is the opening in the third quarter of 2014, of Luxembourg Freeport – a duty-free and tax-free warehouse with an area of 20,000 square meters, where valuable assets, such as works of art, expensive wines, noble metals (alternative investment assets) may be stored in a contemporary environment for an unlimited period.

So it is rather the integration of art market-related industries and providing to investors and collectors in this market specialized services "in package" - one of the most important trends in the market.

c. Prospects for further development of the global art market

The trends and art market changes identified in the article seem to be continued in the nearest future. The growth of online trading, accompanied by problems such as lack of transparency of transactions, requires the need to develop mechanisms to protect the authenticity and value of art assets (guarantees), primarily by law regulations in all the countries of the world. Taking into account the growing interest in art investment during the last decade and the instable character of financial markets, one should expect the growth of art assets share in investment portfolios, not only developed, but also developing countries. It will be followed by close cooperation between asset managers and specialists of the art market.

Summary

This research has uncovered a number of main trends influencing the global art market in the post-crisis period. They are the following: the growth of electronic commerce on the art market (art e-commerce), changes in the geographical structure of the global art market, transformation of the art market institutions. The determined trends point not only to the development of the art market, but also to the changes of its character, and a significant transformation. Instead of a traditional exchange of masterpieces, it becomes an online trading platform with a developed infrastructure, analytical tools, customized service package facilitating the capability and efficiency of investment in artistic assets. However, there are still issues in the global art market transformation to be covered by further detailed research.

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