

The Art Market and Art Fairs 1988-2007

By James Goodwin MA, MBA

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ART INSURANCE & AXA ART

'Making money is art and working is art and good business is the best art' according to Andy Warhol (1928-87).

Throughout recorded history, from Roman times to present day China and beyond, the art market has reflected economic development. As household wealth increases beyond a certain threshold, so do purchases of art. The present phase of globalisation which originated in the 1950s and proliferated in the 1980s has been of unparalleled benefit to the art market. Annual trade in 'works of art, collectors' pieces and antiques' has doubled since 1991 to over \$30bn, according to the United Nations. The top 2% of fine art works have tripled in value in the last ten years rising dramatically since 2005 even inflation adjusted.

Although the art market owes its success to wealth creation most art buyers prefer not to see it that way. In a survey by AXA Art Insurance in 2003, 73% bought art for enjoyment and only 3% for financial gain, with 24% mixing financial incentives with their collecting.

Nevertheless, returns for the well informed and lucky few, whether as collectors or investors, can be very respectable. For example, at the contemporary art auctions in London in June 2006, 44 of the 697 lots measured by repeat sales returned an annual average of 13.14% to their owners after the buyers' premium but excluding other smaller costs, according to research by this author and Dr Rachel Campbell of Maastricht University. In other studies, art re-auctioned in the USA since 1954 has outperformed bonds and even shares.

Alas there is a downside to this bonanza. With rising prices and greater knowledge, theft, fakes and forgeries have inevitably followed. Dick Ellis, a founder of Britain's Scotland Yard's art squad, once observed that 'The stolen art works market is very much a global market'.

Interpol's list of the six most wanted pieces of art includes works from as many countries in three continents. Their latest publicised theft is for two valuable paintings by the Spanish painter, Pablo Picasso, stolen from the Sao Paulo Museum of Art in Brazil. Worldwide, Interpol lists over 20,000 stolen works of art, 85% of which were taken from private homes. Art theft is estimated at about \$5-8bn a year despite a growing framework of bilateral and multilateral agreements. Interpol regards international art crime as among the largest challenges, third after drugs and the illegal arms trade.

Art theft is usually committed for the purpose of resale or ransom; with thieves sometimes commissioned by private collectors or unscrupulous dealers. Stolen art is also often used between criminals as collateral for drug and weapons deals, or to barter for those items. Art's criminal advantage is that it generally holds its value and is highly portable. Moreover, while no thief can hope to gain the actual value of the stolen work, even as little as 5% of the real value can be worthwhile.

However, the ownership of high profile art is now tracked more easily thanks to the internet, with thieves finding it harder to find buyers, compounded by the artworks losing their value outside the public gaze and beyond the reach of the art market. This is largely thanks to online lists like the Art Loss Register (www.artloss.com) or Trace Looted Art (www.tracelootedart.com) which make cross-checking easier, as well as Interpol, the FBI and other police agencies which have compiled comprehensive lists of stolen works. Moreover, many countries legally compel dealers and auction houses to register sales.

Thanks to these measures some of the better known stolen art has been returned to its rightful owners. One of most publicised was the theft of Leonardo da Vinci's *Madonna and the Yarnwinder* from Drumlanrig Castle, Scotland in 2003 retrieved in nearby Glasgow in October 2007 thanks to a joint operation involving various worldwide agencies.

Unfortunately, less than 10% of stolen art is ever recovered and some works have been stolen multiple times. Even so, a high proportion of the most important collections are not insured because the costs may be too high or the work might be regarded as priceless. The Leonardo from Drumlanrig was insured for under a 15th of its market value.

Overall, it is estimated that 50% of properties remain underinsured even though art works are among the cheapest kinds of assets to insure relative to other valuables. For example, insuring an equivalently priced painting can be ten times cheaper than a necklace.

Helping inform the public is a small number of dedicated international art insurers which play the dual role as a stabilising force in the art market, underpinning art's value and guaranteeing its authenticity.

Passionate about art, professional about insurance

Chief among these, AXA Art UK has been insuring all types of art from Cycladic statues to the Contemporary sculpture and from Baroque musical instruments to 1970s memorabilia for private collectors, dealers, corporate collections and museums in the UK since 1982 and internationally since 1991. This has extended the influence of its parent company founded in France over forty years ago whose offshoots now also operate in three continents including offices in New York and other parts of the USA, as well as Brussels, Cologne, Madrid, Milan, Paris and Zurich.

Beyond insurance AXA Art plays a proactive role in the art market through their marketing and research funding. This is generated by their unrivalled contacts in the art market from valuers to shippers, directed by a third of their staff being degree qualified art historians.

Three of AXA Art's current activities highlight their long term vision of the art market balanced as it is been between old and new art. The trend in the art market for the last ten years has been the growth of modern/contemporary art at the expense of the antiques market, from a trade ratio of 4:1 in 1997 to 6:1 in 2006. Yet history tells us that the trade in antiques and decorative art hold their value and can be highly profitable, especially during economic downturns.

Chief among their marketing activities, 2008 will be AXA Art's third year of sponsorship of the pre-eminent international art and antiques fair, TEFAF in Maastricht. In 2007 AXA Art announced that it will be a host sponsor of the foremost contemporary art show of the Americas, Art Basel Miami Beach. It is generally recognised that art fairs offer the widest opportunity and most efficient way to view and buy a wide range of art works from the past as well as the present. They thrive not only during buoyant economic times but when the market is looking for new artistic direction.

Last year was AXA Art and *The Art Newspaper's* sixth annual award for the best exhibition catalogue of the year published in the UK and Eire. The award was established to celebrate one of the most important, yet neglected, areas of art book publishing. In 2007 it was given to *Xanto: Pottery Painter, Poet, Man of the*

Italian Renaissance at The Wallace Collection and *The Real Thing: Contemporary Art from China*, by Simon Groom, Karen Smith and Xu Zhen, at the Tate Liverpool. An exhibition, monograph or *catalogue raisonne* can do much to increase the price of a new or neglected artist, as well as confirming the status of the better known, ever since art history was first recorded in 16th century Italy and now on an international scale.

In terms of research, in 2006, lasting three years, AXA Art started a new conservation project with The Tate Modern to find ways in which artworks containing modern paints can be conserved in the future before ageing appears. In another project AXA Art is carrying out extensive loss replacement and retouching of an important painting by the nineteenth century English painter William Etty, *The Siren and Ulysses*.

The painting was included in one of the most important exhibitions of Victorian England, the 'Art Treasures of the United Kingdom', held in Manchester in 1857 following the Great Exhibition in London in 1851. In four months a million people saw 18,000 artworks including old master and modern paintings, drawings, sculpture, decorative arts and photographs. The Manchester exhibition pioneered international art fairs as we know them today.

The following essay aims to provide a snapshot of the art market over the last twenty years. This is a prelude to my 'Guide to the Art Markets – for Collectors and Investors' which includes 43 country chapters co-written with 58 authors worldwide for publication in May 2008.

I would like to thank Frances Fogel and Anna Robertson of AXA Art UK for publishing the following research.

January 2008

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Old masters, 19th century painting, impressionist & post impressionist, modern, post war & contemporary

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DÉJÀ VU?

It has been a spectacular twenty years in the art market; saying much about the growing popularity of art, its mixed fortunes and the changing shape of the \$28bn art market.

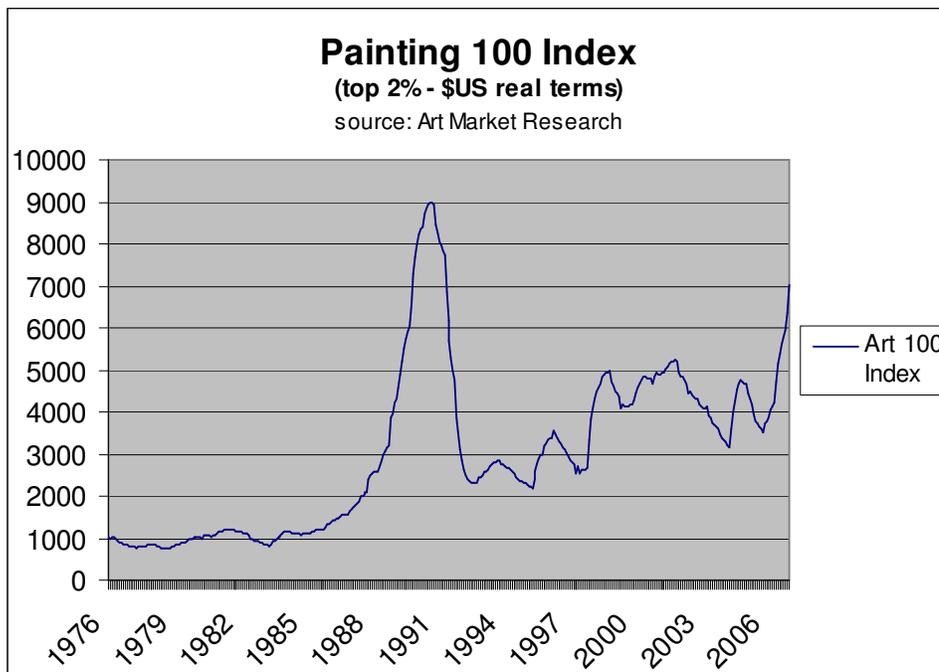
The current art boom is being led by private sales for paintings by Jasper Johns, Willem de Kooning, and Jackson Pollock. A painting by the last of these Post War artists, sold by an American to a Mexican for \$140m, is the highest price paid for any artwork. As significant is the total amount spent on these four art works was far more than the record \$240 million evening sale of contemporary art at Christie's New York on Nov. 15, 2006, which was the auctioneer's best ever.

It is less than twenty five years since the veteran art critic Robert Hughes observed that 'there is no historical precedent for the price structure of art in the late twentieth century'. Then a Pollock cost \$2m.

Broadly speaking, the period since is characterised as boom, bust and boom again.

Back in April 1990, New York witnessed the biggest auction season in its history, according to the *Los Angeles Times*. But, by the second quarter of 1991, sales by the auction house Sotheby's were 81% below the previous year. By summer 1992 the market had reached its first trough before recovering and finally bottoming out three years later. Today, after eleven years of stop start recovery the top 2% of western fine art remains 20% or more below its 1990 peak in real terms.

Even so, in 1988, \$500,000 may have bought you an average top quality painting. Now you would need \$1.5m.



Better still, many believe the economic circumstances driving the art market in the 21st century are more widespread than twenty years ago, mainly thanks to globalisation. Others are more cautious due to the world's growing wealth disparities. Susan Moore of the *Financial Times* observed that the \$1bn value of New York's autumn auctions of impressionist, modern and contemporary art was the equivalent to the GNP of the politically troubled African country of Chad.

The following summary and discussion of the art market aims to highlight the main events in the art market over the last twenty years. In particular, the development of fairs and the trade in fine art. The study will be concerned with the top 2% of art typically, sold at TEFAF and in the secondary market, representing nearly half the market by value. The research has been conducted in the English language with the confidence that the USA and Britain where most of this art is auctioned.

A UNIQUE MARKETPLACE

The art market has attained a certain resilience from history. East-West trade in art can be traced back to 2000 BC with auctions known in ancient Rome. However, the first reliable documentary evidence comes from 15th century Italy and Flanders, particularly Antwerp less than two hours from Maastricht.

The art market's aesthetic strength is its diversity and its financial weakness a mismatch with the economic cycle. The result is uneven supply and occasional excess. Nevertheless, a larger part of society remains interested in culture irrespective of economic trends and social and political events. In the last 125 years, the average holding period for art has been 30 years while the changing fashion for artistic movements is even longer.

In recent years, some observed that the art market has served as a refuge during hard times such as the October 1987 stock market crash and the 9/11 terrorist attacks. In November 1987, Van Gogh's *Irises* sold for \$53.5m and in July 2002, Ruben's *Massacre of the Innocents* became the most expensive old master ever sold.

Despite its long pedigree, the arena in which works of art can be bought for reasons of aesthetics, connoisseurship, social cache, investment or speculation has changed little down the centuries. Only the change in emphasis, reflected in the evolving shape of the art market.

At the front of art's creation and sales process is patronage, in the form of wealthy individuals and galleries (primary dealers), and, to a lesser extent, governments. These patrons, whose education is important to the art produced, lie at the centre of a complex relationship with the artist based around wealth, knowledge and taste. Due to differing upbringing and ideology their paths often diverge. However, in the main, artists must produce what the system can and will accept.

The art market is no different to other markets in its need to promote itself. Though, over promotion may result in the devaluation of an artist or even an art type more than in most of the commercial world. Studies have also shown that prices which rise high during an artists' lifetime often fall for 10-30 years after their death. Examples in the 19th century included the now much sought after Alma-Tadema, Degas and Monet. In the last forty years, several artists and their promoters have learned to balanced creativity and promotion with the demands

of the market. For example, the living post war artist Jasper Johns's auction sales in 1970-2004 were estimated at \$151m.

For both artist and patron, the market ground is laid by critics and art historians who help establish reputations and provide the reasoning for (secondary) dealers and auction houses to trade in art. In the 16th century, Giorgio Vasari in his *Lives of the artists* was one of the first 'to distinguish between art's good, better and best' based on the principles of 'design, nature, grace, appropriateness, reason and style'. Since then, there has been a fifty percent art historical consensus based on the study of 250 artists, according to Professors Victor Ginsburgh and Sheila Weyers. Possibly because of this, critics' influence has slipped despite an increase in their numbers, according to *Art Review's* Power 100 survey of key art market players.

A higher reputation among dealers and auctioneers also often leads to a higher price for the art sold. Key to this promotion is the art fairs which offer the widest opportunity and most efficient way to view and buy a wide range of art works, past and present. *The Art Newspaper* recently listed nearly 150 art fairs worth visiting in the year ahead, from North America and Europe now to Russia, China and Japan.

The forces which hold the market system together and sustain art's value are collectors and museums. Art collectors have a direct bearing on the market value of art by influencing the way it is perceived and how it is exhibited. Being in a famous collection gives artworks a special aura. The market is intimately connected to museums which represent a kind of ritual to the art world, due to their more recession proof buying power and the positive effect their exhibitions have on art's value. As a result of their scholarly endorsement, museums curators can also rediscover and popularise art or art schools previously neglected. Moreover, the trustees of public museums, which grant each work the highest approval, also often belong to the wealthiest class of collectors.

In short, the art market is a loosely controlled operation of supply stimulating demand linked to aesthetics and economics, moving forward circular in a revolving motion leading to new artistic discovery and new art markets.

Today, the internet and art fairs are the growing force driving more of these activities and thereby lessening the distance between artist and buyer.

SUPPLIERS TO THE ART MARKET

The transformation in the secondary art market during the last twenty years is largely due to the activities of the two auction houses, Sotheby's (founded in 1744) and Christie's (1766).

In fact, the fortunes of the art market during the period are reflected in their company accounts, apart from the financial penalty imposed in 2001, show their rising efficiency. In 1987, Sotheby's recorded an 85% annual increase in auction sales reaching a record \$3bn in 1990. By then, Christie's was holding 1,400 sales per year. However, by 1991, Sotheby's sales had dropped to \$1bn recovering to \$2bn by 1999. In 2006, Christie's turnover was over \$4bn based on 600 sales, representing a 36% increase on the year before. Listed below are Sotheby's UK results for the last five years, according to Keynote.

Sotheby's	2002	2003	2004	2005	2006
Sales	78,115,000	81,683,000	78,721,000	100,128,000	111,812,000
Return on Capital %	-11.1	-305.9	0.1	30.2	56
Employees	660	649	579	568	573
Profit per Employee	-4,000	-29,000	0	11,000	22,000

Much of this success is due to the transparency and efficiency of the auction market and the confidence that creates, despite the dangers of auction rings and price fixing. The 19th century impressionist artist Renoir once said 'there's only one indicator for telling the value of paintings, and that is the saleroom'.

Further reason for the auctioneer's success is improved marketing in an increasingly retail direction, somewhat to the dealers' annoyance. By 1990, Sotheby's was doing as much as 60% of its business with private buyers compared to 30% in 1960. In a recent survey of TEFAF's 216 exhibitors, the auction houses were listed as the greatest threat to the trade alongside fakes.

During the last twenty years the most controversial element in auctioneer's activities was the development of auction loans and guarantees, and private sales, as a counter measure to the perceived uncertainty of auctions. These have been much criticised because auctioneers are supposed to give unbiased and equal advice to buyers as well as sellers. They can also be inflationary for auction prices, creating long term risks for the auctioneers and artistic reputations. Nevertheless, auctions still make up the bulk of auction house sales.

Guarantees are often used to bring attention to an auction house via a particular sale, or artist which is short of supply. Famously, in 1987, Sotheby's loaned Alan Bond almost half the \$54m he paid for Van Gogh's *Irises*. Disappointingly, Bond's collection bought at the height of the boom for \$150m was sold due to bankruptcy for \$60m in 1995. Typically guarantees for an amount similar to the low estimate which could be as much as 70-100% of the actual sale price. During the 1990s guarantees have spread from impressionist to modern and contemporary art and by the third quarter of 2006, *The Art Newspaper* estimated guarantees of \$172m by Sotheby's with a further \$85m added for the November impressionist and modern sales.

An even greater threat has been the growth in private buyer sales. The attraction is less publicity and competition between buyers and sellers at auction where a painting may go unsold and lose its reputation. For the long established auction houses with lengthy client databases matching buyers and sellers can be a very simple and profitable operation. By 1998 it was estimated that eight of eleven art deals with a value of \$30m were closed privately. In 2005, Christie's did \$181m in private sales and Sotheby's made nearly \$15m in commission from a similar amount, according to *The Wall Street Journal Europe*. At Christie's this amounted to just over 5% of their turnover in 2006.

However, antagonism between dealers and auction houses is nothing new. It can be traced to the late 19th century when Christie's was influential in the promotion of new artists such as Landseer, Rossetti and Sargent. Today it is amplified in a booming market due to the greater competition for supply. The fact is one could not survive without the other. Dealers, more than ever, often provide the bedrock

of scholarship that enables collectors, academics and the public to understand an artist or a style, as well as smoothing the market's natural inefficiencies.

In fact, the auctioneers haven't had it all their way. Today, further indication of suppliers having the upper hand is the recent increase in the 20% buyer's premium threshold from £100,000 to £250,000. This is also born out by financial performances. In general dealers' influence is felt at a later stage in the trading cycle and auctioneers' earlier. In the UK, on average in the last five years, the top dealers have been consistently more profitable than the main auctioneers, according to Keynote. In contrast, at the start of the recovery in 1996/97, the average sales of dealers and auctioneers rose 28% and 36% while their profits fell by 9% and rose 126%. As a consequence, there was a growth in art advisers and agents, which can offer an all encompassing consultancy role working on commission with less need for cash to finance stock.

According to a recent TEFAF survey the source of half dealers' buying is privately, a third from auction houses, less than 15% from other dealers and 5% from other sources. Most of this was sold privately and far less auctioned or sold through other channels. Over half of this business is conducted at fairs and in their shops with less than 10% via the internet. At least half their customers are collectors, followed by museums, investors and one offs gifts. More encouragingly, several dealers want to branch into new collecting areas in the next five years.

Heightening transparency and increasing everyone's customer base has been thanks to the growth of the internet and online auctioneering since 1999. Until recently, the web was considered less suitable for the auction of larger and more costly art because of the lack of specialist assistance to verify quality and authenticity.

Many dealers consult the online auctioneer eBay about prices and availability. However, improved technology and credibility has added to this. Attempts to sell expensive art works online, acting through an advisers charging 10-25% of the sale price, have met with success. In 2006, a painting by the well known Irish artist, Yeats, sold via eBay for £40,000, against an estimate of £12,000. The painting attracted 1,500 hits, according to the *Financial Times*.

Shadowing this development, following Sotheby's premature attempts in 2000/01, Christie's launched its live auction website in New York and London in July 2006. Since then, in 42 sales, accepting over 6,700 bids, it has sold over £1.5m online. Items sold include prints, jewellery, silver, clocks, sporting guns, arms and armour, old master pictures, sculpture and furniture. More significantly, twenty five per cent of the internet bidders were new to Christie's.

ART FAIRS

If the auction houses represented the recent past, then fairs seem to be the future. This maybe indicated by the 112m results on Google for art fairs, which far outnumber those for exhibitions, auctions and dealers.

Art fairs thrive not only during buoyant economic times but when the market is looking for new artistic direction like today. Above all, fairs offer the widest opportunity to physically view and buy art works from the past as well as the present, at a more efficient cost of time and money to both the consumer and exhibitor. They are the central plank in the symbiotic (sometimes antagonistic) relationship between artists, dealers, auction houses, academics, critics, museum curators and buyers. Unlike auctions they are a place of negotiation.

It remains a consistent fact that UK antique dealers make around a quarter of their annual sales at five to ten fairs worldwide and contemporary dealers do even more business. To museum curators the advantage of an art fair is discussion of future acquisitions in view of exhibition plans. Since museums have to consult with committees before buying, occasionally on annual basis, buying from auctions is often unsuitable.

The first art fairs operated at a local level in ancient Greece in the 4th century BC. In the modern age, the Manchester Art Treasures Exhibition of 1857, now being researched by TEFAF's main sponsor, AXA Art, pioneered the international art fair as we know them today. In four months a million people saw modern and old master paintings and drawings, sculpture, decorative arts and photographs dating from the early Italian and Netherlandish period. The exhibition initiated an intense interest in 18th English portraiture, which became popular and highly expensive until the 1920s. The alternative art fairs, prevalent since the 1950s, are those used as a counterpoint for artistic activity. Whereby artists rebel against what they saw as the elitist, commercial atmosphere of the exhibiting system.

Since then, to meet growing demand, mostly for new art, the number of fairs and their variety has proliferated. By the late 1980s *Apollo* viewed art fairs as too numerous and poorly marketed, due to lack of self examination and policing. The subsequent recession accelerated the change in quality of the art fair and their pecking order, resulting in some closing or losing their lustre, and others rising or being reformed.

Still their numbers continued to rise in the last decade mainly because of the growing number of dealers who need accommodating. *The Jakarta Post* quipped that in future the danger is that every town or city served by an airport may at some point open an art fair! In effect, a two tier system has developed between locally important fairs and international musts.

Because of this, the competition between the fairs for better exhibitors is high and audience ratings are intense. Yet, most of the fairs tend to be discreet about their volume of trading and other quantifiable activities. Instead, the only measures of their activities are the annually returning exhibitors and snippets of information about prestigious art sold together with general gossip.

Fairs therefore place themselves at the mercy of critical reputation and economic vulnerability. For example, Art Chicago had, as recently as 1996, registered a 20% rise in visitors. Yet by 2004, in terms of buzz and quality participation, it found itself face down in the shallow end according to the *New York Observer*, which feared the same for the city's Armory Fair.

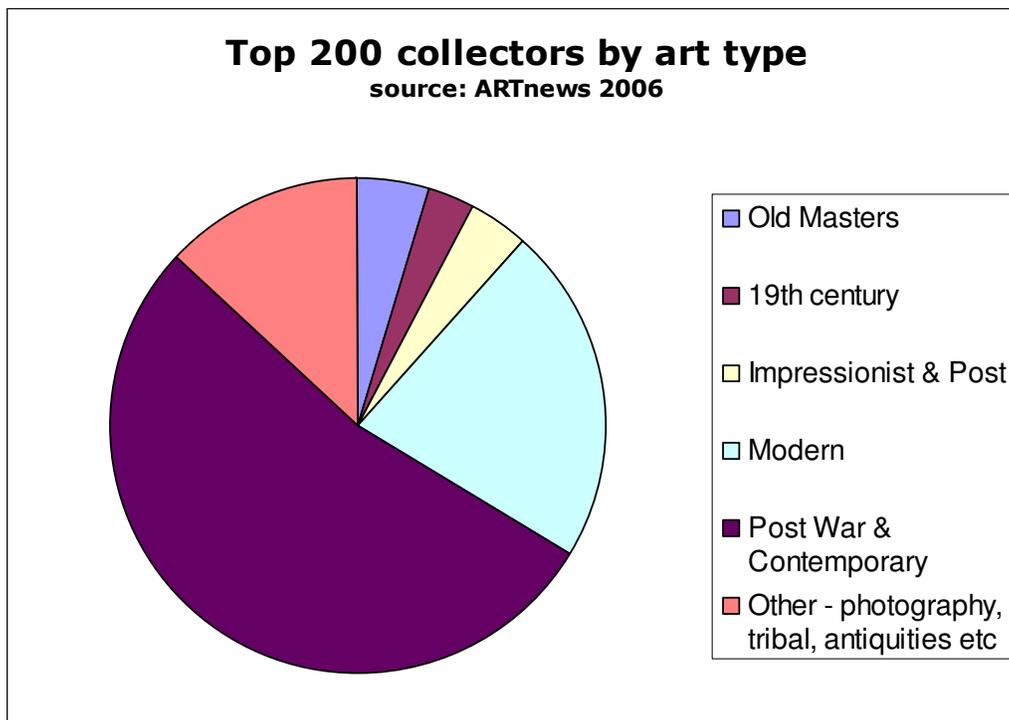
This sense of competitiveness has also raised the spirit of rival fairs which are often driven by a sense of national and historical pride. For example, the FIAC (18-22 October) in Paris has had makeovers in 2001 and 2005, claiming to be richer and denser than its new rivals

However, *The Art Newspaper's* list of 146 art fairs represents an increase on previous years, with twice as many fairs now making it into their top ranks. Today, apart from the Grosvenor House Art & Antiques Fair started in 1934, all the fairs date from after World War II. From the 1950s until the late 1970s 14 fairs were developed in similar markets and still exist today. The longstanding ones include New York's Winter Antiques Show (19-28 January), Brussel's Foire des Antiquaires de Belgique (19-28 January), London's Chelsea Antiques Fair (20-24 September 2007) and Munich's Kunst Messe (October).

However, the majority of existing fairs date from the last twenty five years. By the 1980s growth was mainly in Europe and the USA the following decade. By the 21st century the first fairs were started in developing countries, led by Argentina, Russia and China.

Leading the trend internationally, based on press coverage are TEFAF (9-18 March, 2007), Art Basel Miami Beach (6-9 December) and Frieze (11-14 October).

Among the shrinking traditional field the undoubted leader is TEFAF. However, like so much else in the art market despite its classic pedigree, TEFAF has increasingly moved in a modern and contemporary art direction, measured by the origins of half of its new exhibitors last year.



The key to the success of the Maastricht Fair, reformed twenty years ago as TEFAF (9-18 March, 2007), is its willingness to constantly refine its formula.

It is universally accepted as the master of its art and the focal point of traditional market activities it acts as the trade's barometer, offering a balance between the highest valued fine and decorative art, from antiquity to contemporary - a living museum offering quantity as well as quality.

After ten years it was described by Malaysia's *New Straits Times* as the 'grand daddy' of art fairs, when many have a longer pedigree. In the USA it was the only fair to be mentioned in the *Washington Post* list of events and places to visit during 2003.

To most the thrilling thing about TEFAF is that you never know what you will find. There are over 30,000 plus art works displayed, at an estimated value of over \$2bn, offered for sale by 218 dealers from 15 countries, whose stands take up to

two weeks to set up. Another measure of its reputation was the willingness of exhibitors to pay a one off membership fee of \$50,000 in 2004.

Most importantly, all objects are vetted by 140 experts whose procedures are explained in detail within the exhibition catalogue. TEFAF's vetting procedures have been praised for avoiding conflicts of interest and cronyism, which can result in second rate items being allowed or competitiveness that leads to a rival's sound stock being vetted off.

Another success factor may be TEFAF's location in a small city in the south east Netherlands where people make a special point of going there, unlike fairs in the major capitals. Moreover, because of this they stay for longer to see what it has to offer.

The challenge for TEFAF is resisting the temptation to grow too big. Since, visitors require a road map to find their way around some critics believe it could take a whole week to see every art work at TEFAF. The number of exhibitors has doubled from 106 in 1989 when there were 17,000 visitors to its present size which accommodates 84,000.

TEFAF's exhibitors are also more open about their activities. It is estimated that 37% of all TEFAF exhibitors' worldwide sales at fairs are made during those ten days, according to a recent independent study. In recent years sales have been reported for Rembrandt, Steen, Cranach the Elder, Ribera, Gabo and Van Dongen. In 2006, the following TEFAF dealers reported excellent sales: Robert Noortman sold 27 paintings; Johnny van Haften sold nine paintings; and Ben Janssens sold 28 pieces on the first day.

TEFAF is also not afraid to tackle the market's growing pains and help find solutions. In 2007, Sotheby's acquisition of the founding member of TEFAF, the Maastricht based dealer Noortman Master Paintings, will result in the auction house being indirectly represented at the Fair. The acquisition of dealers by auctioneers has been a feature of the art market during the 1990s. To balance Sotheby's appearance, in the best interest of the Fair, TEFAF has accepted Christie's as an exhibitor operating under strict private sale guidelines. Among other art fairs which are the main beneficiaries of the widening interest in contemporary art market are Art Basel Miami Beach and Frieze from London, founded in 2002 and 2003.

They follow a long line of modern and contemporary art fairs beginning with the pioneering Art Cologne (18-22 April), one hour from Maastricht, which is now in its 40th year and remains one of the biggest.

Art Miami owes its existence to Art Basel (13-17 June) which is in its 37th edition. Like its offspring it has a reputation for prestige and good management which prides itself on carefully vetted and returning exhibitors selling very high valued art works. Art Basel generates about 30-40% of its exhibitors annual business. However, from the beginning, Art Miami brought a new sense of carnival to the world of art fairs, with socialising and media attention allied to art sales. However, its first scheduled fair was cancelled in 2001 after the terrorist attacks.

At Art Miami the 40,000 visitors, 1,400 journalists and 100 museum curators tend to seek what is new, innovative and significant and view galleries they otherwise don't tend to visit in person. Proving the fairs cosmopolitanism, of the galleries, 41% come from the USA and Canada, 49% from Europe, 7% from Latin America, 3% from Asia and one from the African continent. Typically, its customers include

baby boomer collectors in their 50s and 60s, from wealthy Florida as well as from abroad helped by the cheaper dollar.

Art Miami offers a complete art selection, including both established figures and emerging talent. In recent years, notable art sales were for work by Pollock, Calder, Mitchell and Picasso, plus Torres-Garcia, Helg, Stella, Rauch, Furnas and Doig. In 2006 the theme was the grit of living showing unpretentious street, vernacular or raw art. The event has transformed South Florida into the prime destination on the globe for art in December, in contrast to the two decades ago when Miami was the poorest city of its size and the murder capital of the USA. Today the city's airport can hardly cope with the number of incoming flights.

At a similar time of year, the Frieze Art Fair has also become firmly established on the social calendar, putting London on the contemporary art map. It has been helped by a London art world that has changed dramatically in 15 years thanks mainly to the Young British Artists and a stable growing economy. In 2006, there were 42,000 visitors, an increase of 35% on 2005, to 150 galleries selected from 450 applicants. Moreover, there were £26m worth of sales including £450,000 for a sculpture by Jake and Dinos Chapman.

Like TEFAF, but in a more competitive market, the key to Frieze's future is the ability to reinvent itself and take risks. The organisers do this by not necessarily choosing the most obvious and safest exhibitors from the 450 applications but an eclectic mix including emerging talent. For example, in 2006 more than 12 of the stands displayed ceramic works. Less photography, more painting, especially abstraction, more sculpture and more installation was also noted. To maximise the timing of the event, in recent years the main auctioneers have held additional rounds of contemporary art auctions coinciding with Frieze.

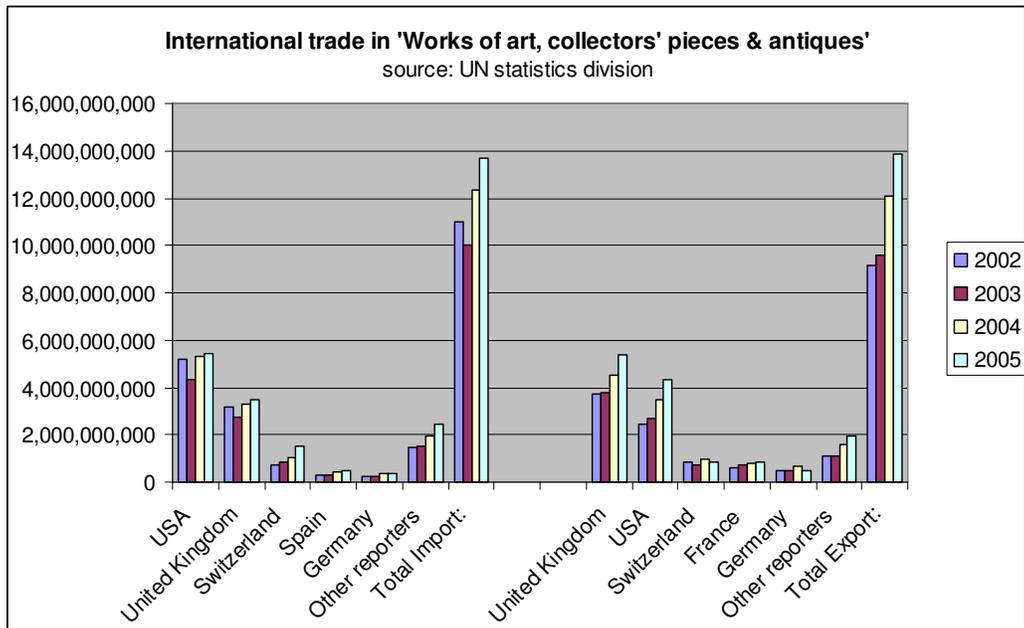
Today, a new form of competition from emerging markets is also joining the fray. These include Arte BA in Buenos Aires (18-22 May) Art Moscow (16-21 May) and the Shanghai Art Fair (16-20 November). In 2007, two further art fairs have emerged in Moscow and Shanghai, and another in Dubai. ShContemporary (6-9 September) is the brainchild of two prominent European contemporary figures where it is underwritten and will dovetail with the Shanghai Biennale in May. While the Gulf Art Fair (7-10 March) already includes forty leading modern and contemporary galleries.

Another key development in 2006 has been the re-emergence of the Japanese onto the world art stage with the founding of Art Fair Tokyo (10-12 April), which also exhibits modern and contemporary art.

WHO BUYS ART? - ART MARKET DEMAND

Determining who buys art is as challenging as the details of who sells it. Client confidentiality is paramount in the minds of dealers and auctioneers since art is often seen as a refuge for both good and bad money.

Broadly speaking the market follows a tradition that supply benefits from debt, divorce and death, while demand requires new money which tends to buy new art or the diminishing great old works available. In the last twenty five years, sales to meet tax bills have provided the market with the greatest flow of art works, while demand has benefited from greater prosperity due to globalisation.



In the past, burgeoning art markets were typified by economic booms and surplus money, notably in Japan in the 1980s. That decade also saw a vast expansion of individual, younger and more confident buyers of art thanks to the first wave of post war baby boomers (typically born 1946-64) entering their 40s.

Reflecting wealth creation, currency flows can have an effect on the sale of art. For example, the appreciation of the Japanese Yen following the 1985 Plaza Agreement showed up in the art market almost immediately because many art works appeared as bargains to many Japanese. By 1988, 53% of all worldwide auction sales were to Japan and the Aoyama gallery in Tokyo was estimated to account for 30% of the Impressionist market in 1990, according to Peter Watson in *From Manet to Manhattan*. However, in general, the art market is usually slower than most markets to react to financial shifts into stronger currencies. In recent years, despite the US dollar decline, the domestic American and New York art markets continued to grow.

Place of purchase also has a substantial influence on price mainly because of tax and regulation – see graph above. From 1998-2001, according to a TEFAF survey, the average price of a painting sold in the UK advanced 54%, 75% in the USA, while declining by 39% in the EU. More recently, *The Art Newspaper* found that a typical contemporary work sold from the USA would have no added taxation in that country and Canada, 5% in the UK and Dubai, and between 5.5%-10% in Europe, rising to 28% and 29% in Russia and China.

Indeed, American dominance over the French in modern and contemporary art today is partly due to *droit de suite*. The tax was introduced in France in the 1920s to help provide for the survivors of artists killed during WWI.

In the UK, 90% (up from 6% in 2002) of the Society of London Art Dealers' (SLAD) members claim to be 'seriously or slightly affected' by EU imposed import VAT as well as 65% (up from 51%) for *droit de Suite*. VAT rose from 2.5% to 5% in 1999 and to 17.5% in September 2006. There are further fears for the London contemporary art market because of *droit de suite*. The British Art Market Federation argues that it may put off those buying art in the £50,000-100,000

mark. The full effects of these are yet to be felt in the world's second largest art market which trades 10-20 times more outside than inside the EU.

Despite this, individual wealth which is expanding worldwide continues to be the art market's main driver. In the ten years to 2006, the number of high net worth individuals with more than \$1m in financial wealth rose 7.6% annually to 8.7m, according to the Cap Gemini/Merrill Lynch World Wealth Report. Last year, the highest number was in the USA, Germany, UK and China with the fastest rising in India, Russia and Brazil.

In 2006, Christie's New York had sales of approximately \$2.11 billion (up 49.5% on 2005), London \$1.38 billion (up 23.9%), Hong Kong US\$355 million (up 24.7%) and France \$248.9 million (up 77%).

More specifically, the amount invested by these wealthy individuals in alternative investments, including art, doubled in 2002-2005. It has therefore been the collector patronising their favourite galleries that have set fashionable artistic taste in the last twenty years. According to *Art Review's* Power 100, collectors are now the most important players in the art world whose choices become statements of future buying intention.

One of the most famous collections often cited as an example to art investors though not originally intended for that purpose belonged to the Ganz family. The collection which was acquired from 1941 and mostly sold by 1997 included works by Picasso, Johns, Hesse and Stella. The art works earned double digit real annual returns on more than half the works they sold, regularly beating the stock market. Such was the collection's reputation that buyers were willing subsequently to pay a premium for any works including prints from the Ganz collection.

Broadly speaking, these collectors are often distinguished by their tastes for old and new art as well as the turnover of their collections.

Among the USA's best known private and corporate collectors, mostly dealing in the secondary market is Steve Wynn. Twenty years ago, he unveiled his \$285m collection of impressionist and modern art in the gallery of his new Las Vegas hotel and casino complex. In 2000, most of his art along with his company were sold to another company. Continuing as a collector, many of Wynn's successful forays have become increasingly known to the international art press. The best known, is his 200% gross return in the three years to 2006 for a Cezanne painting.

Foremost in the contemporary art market since the late 1970s, especially in Europe, is Britain's Charles Saatchi. In the early days, Saatchi bulk purchased American neo expressionist artists, thereby improving their general standing in the art world only to sell them at a higher price some years later. He did the same in the 1980s for many of the 'School of London' artists and so on for other artists. In recent years it has been reported that he has bought Chinese contemporary art.

Moreover, the influence of Saatchi and others further narrowed the distinction between collector and dealer. In 2006, he was number 7 among the 100 most influential art players. A further measure of the market's shift in the last twenty years is the inclusion of three artists: Nauman, Koons and Hirst. A further measure of the market's direction is Saatchi's creation of a web based gallery

where unrepresented artists can post their work and other users can comment on it or buy it.

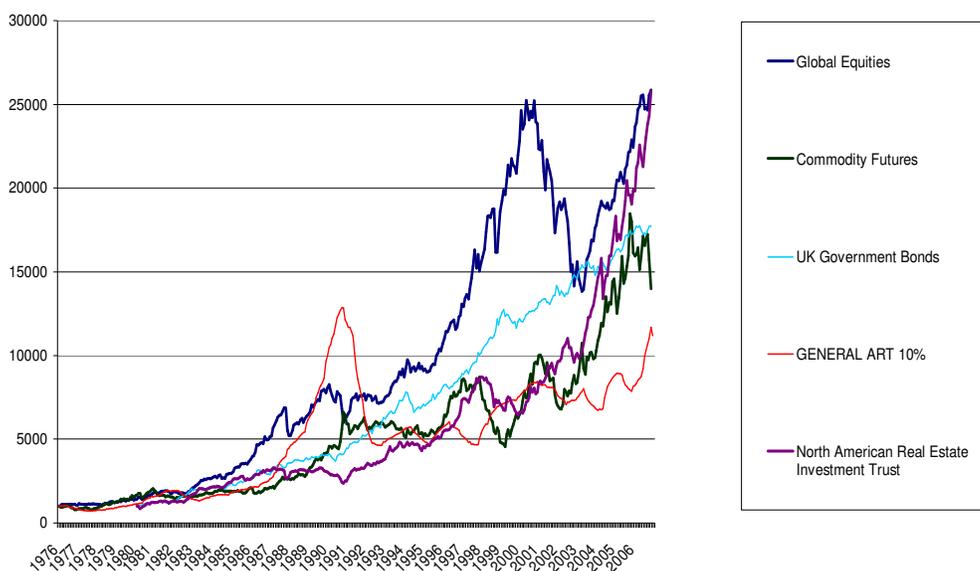
In the 1980s, corporations began to buy works more actively, renewing a trend which started in the 1930s. Banks, insurance companies and even department stores increasingly looked like art galleries. In 1990 there were over 1,000 corporate collections designed to improve company image and employee morale. As budgets have tightened in the 1990s companies have adapted to a new role as sponsors, particularly of exhibitions and artists, whose decisions have increasingly come under their influence. Today, many private banks, including UBS, Citibank and JP Morgan, consider art services a vital part of their operations. A newer development in the financial world is art buying by American hedge fund managers. Many bypass the traditional relationships within the art world and buy works directly from the most coveted and respected contemporary artists.

During the last twenty years many have questioned the motives of these buyers, with some believing that the boom and bust in 1988-91 was caused by art investment speculation.

Still, many are again intrigued by this proposition. A recent editorial in the Financial Times described art as both an investment and consumption good despite its drawbacks, concluding that even if the value falls it still looks good. While in 2004, the Wall Street Journal Europe examined price records for a number of artists over the last 15 years, making recommendations in the way an investment bank would advise share transactions.

To many economists, art is at worst a lacklustre and risky investment (see graph), though, at best, art returns can be very respectable. For example, at the contemporary art auctions in London last June, 44 of the 697 lots measured by repeat sales returned an annual average of 13.14% even after the buyers' premium, according to Dr Rachel Campbell of Maastricht University.

Asset Class Performance Jan 1976 - Dec 2006



The best known study of art returns by Professors Mei and Moses, found that in 1954-2005, excluding transaction costs, art returned slightly more than the USA's S&P 500 share index and far more than US Treasury Bonds. Based on this, in 2005, the Barclays Equity/Gilt study, for the first time since 1956, recommended a portfolio weighting over 10-20 years of 10 per cent in art.

Above all the important thing to remember is that the measured and reported art market is very narrow. An important finding of the Mei & Moses of NYU study, based on 5,000-8,000 repeat sales since 1875 was that each year an average of only two artists emerge whose work increases in value over time.

Beyond that, it remains the lack of information, heterogeneity, vagaries or excesses of supply, and low or no income, resulting in high transaction costs, low liquidity and long holding periods which prevents art from developing into an investment asset. Furthermore, the capital appreciation has to be much higher than most assets to make up for the cost of acquisition and disposal, valuation and provenance research fees, as well as tax, insurance, conservation and storage.

In the event that art were to emerge as an asset class, it seems unlikely that it can be sustained. After all its attraction lies in its unique nature and once qualified is sure to evolve into something else.

Added to this, is the problem of investment timing. The idea of art collecting specifically for investment purposes dates from 1904 France. More famously, in 1974 the British Rail Pension Fund invested £40m or 5 per cent of the fund in art. In 1989 a quarter of the art was sold, indicating a better return than property and a worse performance than equities. By 1997 the fund had yielded a real annual return of 4.3 per cent, including 11.9 per cent for Impressionist and Modern Art and 7.7 to 8.5 per cent for Chinese works of art. For example, Renoir's *Le Promenade* had been bought for £680,000 in 1976 and sold for £9.4m in 1989. Following this example, several attempts have been made since the late 1980s to establish art funds which resemble private equity closed end funds.

Museums are the central focus for all sections of the art world. Museum quality is a common phrase used by dealers to emphasise the importance of a piece. In the contemporary art world, museums are also profoundly important places for placing value on those objects which, otherwise, may not make sense.

In the last twenty years, museum exhibitions have become a high source of revenue and job creation. Following refurbishment, The Museum of Modern Art in New York is expected to generate \$2bn after only three years. Moreover, several studies have shown a correlation between exhibitions and art prices. Giving some indication of the market's future direction, in the last four years, the subject of the five most popular exhibitions was Japanese fine and decorative art, impressionism and old master painting, especially Spanish and Italian, as well as 19th century paintings, Russian art and Surrealism, according to *The Art Newspaper*.

Even so, museums have their own set of difficulties, particularly during art market booms. Mainly because they cannot afford to keep up with private sector expenditure on art. However, it was found that in the recent past they often overpaid for art works sold at auction.

During the last boom, the problem in the USA was exacerbated by a reduction in tax relief donations after 1986. By the early 1990s many of these tax laws were reversed allowing donors to give money to museums with a 100% tax break. As a

result, while art prices languished the 1990s turned out to be binge years for museum buying. In 1990-2000, US museums experienced a 113% growth in their endowments and, although the number of new acquisitions decreased by 16%, the number of works received through donation increased by 50%.

Below is the ten year spending audit from the largest USA museum, the Getty Museum in California.

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
\$54	\$47	\$69	\$80	\$110	\$78	\$56	\$30	\$85	\$77

In 2000, USA museums spent mostly on old masters, along with contemporary art and antiquities. Two years later contemporary art led the way. In 2005, the most sought after contemporary artists bought by museums, included Ruscha, Johns, Hockney, Prince, Ray, Rauschenberg, Walker and Bourgeois. Old masters, 19th century and modern included Guardi, Boucher (both bought by the Getty), Guercino, Rossetti and Matisse.

European policies, where governments have been strapped for cash burdened by unemployment and increasingly ageing populations, are similar but work less effectively. In France, where the Louvre spends £16.8m, companies which make donations can deduct 90% of that money from their corporation tax bill. While in the UK, where the biggest spender is the National Gallery at £6.3m, the Acceptance in Lieu scheme where public collections can acquire works in settlement of inheritance tax, has led to 70% of all works being given rather than purchased. To offset these financial constraints, by 2007 some UK museums are seeking to collect contemporary art, especially from emerging art markets, according to The Art Fund.

Owing to museums' depressed budgets and other government spending priorities, the selling of museum art works or de-accessioning continues to be a growing phenomenon among museums. It is widely believed that museums show only a fraction of what they own and such sales have the added bonus of replenishing the art market which many believe is starved of good supply.

However, the activity is not without controversy, even in the more liberal economic market of the USA. In 2004 the Museum of Modern Art, which offered nine works from its permanent collection including a Chagall, De Chirico, Leger, Magritte, Picasso and a Pollock, had to justify the sale, estimated at \$28m, by new acquisitions in under inflated art market areas at a time when the museum was expanding.

An emerging middle way between the public and private sectors has been the growth in rental income from art. In the UK, Southampton City Art Gallery earns more than £40,000 a year by renting some of its 300 paintings to local institutions. While, in the private sector, the world renowned collector Charles Saatchi recently published a catalogue of 600 works that might bring in £150,000 a year to defray the costs of running his gallery.

TRENDS IN THE ART MARKET 1988-2007

The most challenging aspect in the art market is the value of art itself.

From the outset, there is a wide range of intrinsic factors weighing upon art's value including quality, artistic merit, condition, subject matter and size. To these can be added secondary considerations, including authenticity, attribution, artists'

reputation, historical importance, familiarity, provenance, fashion, sale location and sale inducements.

Moreover, the relation between what we see and what we know (or pay for) is never settled. What one generation likes another may find unattractive or nonsensical.

In today's market, Karl Schweizer of UBS art banking in a recent interview in the *Financial Times* looked for three criteria in a work of art: emotionality, sustainability and innovation. He added that most art buyers are not especially interested in art history but want something that looks good on the wall in the leveraging of social acceptance.

Because of these uncertainties, the auction room remains the only reliable mechanism for conferring value on art at any given moment to any particular person or group of people, adhering to the prevailing social, cultural and economic circumstances. It is a barometer not a fixed standard, since it is impossible to predict with complete accuracy the price of any given object at auction; hence the convention of estimating the lower and upper range of prices based on similar objects sold previously. Moreover, Professors Mei and Moses argue that the price estimates for expensive paintings have had a consistent upward bias over the last 30 years because high estimates at the time of purchase are associated with adverse subsequent abnormal returns.

The auction room is also helpful for qualifying the art market since art historians, whose opinions lie behind much of art's value, barely agree among themselves in which category art or an artist's work should be placed. After all, the range and quality of an artist's output often changes throughout their lives, partly due to the influence of other artists and their need to make a living. Those discussed below accord with Christie's most recent auction categories: old masters until c1850, impressionist and modern up to 1945, and post-War and contemporary to the present.

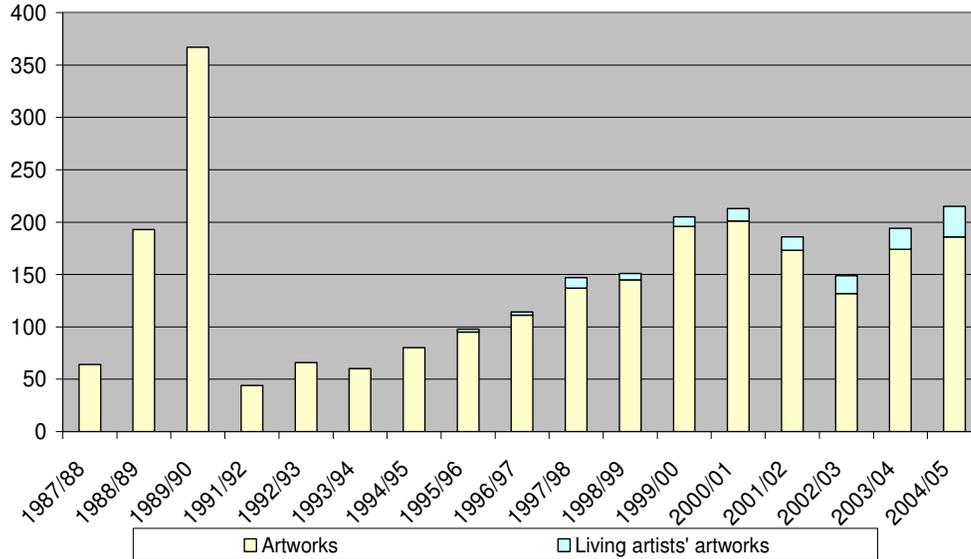
It may also be fair to say that the art market underwent a financial re-evaluation after Sotheby's and the UK's *The Times* newspaper first created an art index in 1966. Coincidental was the publication in the 1960s of Gerald Reitlinger's pioneering research of the fine and decorative art markets in *The Economics of Taste 1760-1970*.

The following market assessment will update some of this research based on Christopher Wood's study of *The Great Art Boom 1970-97*. Since then, according to the *Art Sales Index (ASI)* fine art auction turnover has risen from \$2bn in 1997 to over \$5bn.

Throughout the period, fine art (works on paper, oils, sculpture and miniatures) has mostly been sold by value in the over \$1m category. To a lesser extent they are popular in the \$100,000-250,000 range, except for prints which are popular in the \$10,000-25,000 price bracket.

Paintings sold for over £1 million

source: Art Sales Index

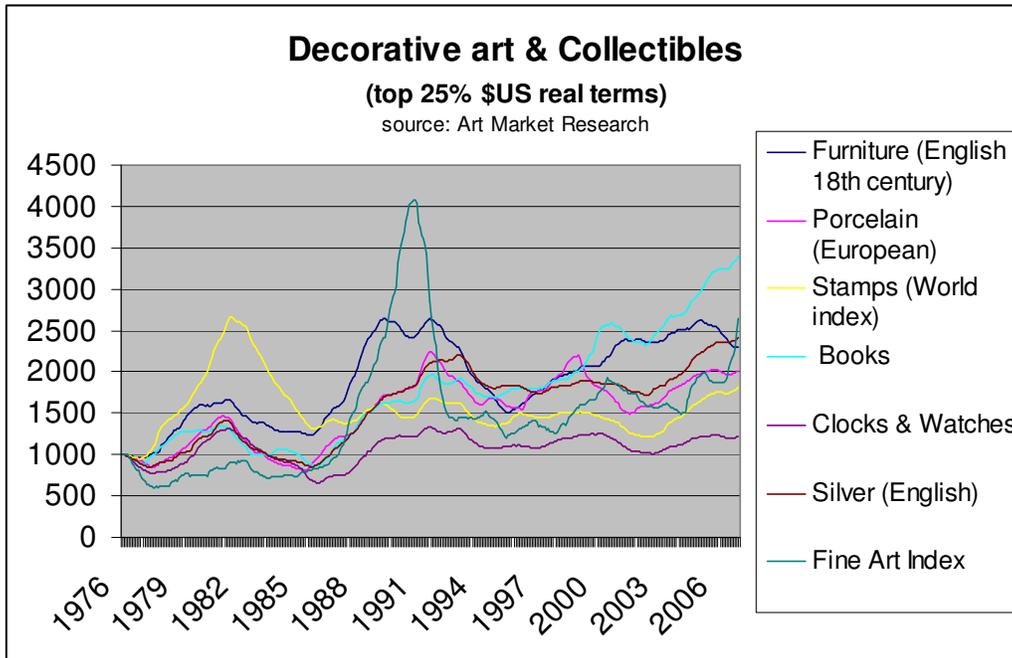


Within this, Wood's study included the names of the top 220 artists based on the ASI of prices compiled since 1968, approximating to the top 2% of the market in US dollars. It also took account of inflation and currency movements, which were volatile in the 1970s and 80s. For prices mentioned since 1997, when inflation was lower, this will not be the case, though those shown in *Art Market Research's* graph below to take account of this.

Although, the art to be discussed equates with that sold at TEFAF it ignores the decorative art market represented by nearly half the stands at the Fair.

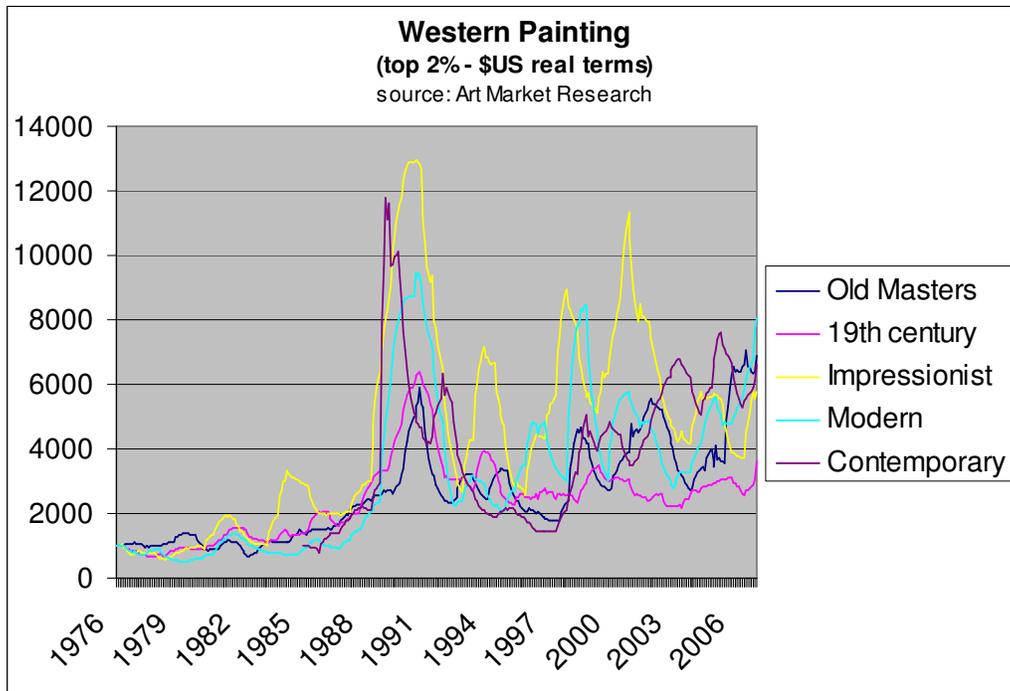
This is because measurement and coverage of the decorative and collectibles market remains mostly overlooked by the international press, with the exception of *Art Market Research* since 1976. This is surprising considering the current average prices for French 18th century furniture (\$45,498) and Chinese ceramics (\$86,589) rising strongly in recent years, but remaining below Modern European painting (\$173,051).

It is also worth remembering that decorative art has been a place of refuge during recession. During the 1991/92 downturn 56% of Sotheby's sales were for decorative art compared to 38% at the height of the 1990 boom. Similarly, during the same downturn the areas with the widest base of collectors such as old masters were the least affected by the changing economic climate. For example, the most expensive art work sold during 1991/92 was Canaletto's *Horseguards* – see below. Moreover, during the slump which followed, old masters suffered least (down by 16%) while impressionist and contemporary works fell by most (51% and 40% respectively). Though, it is worth remembering that impressionists and contemporary art appreciated the most during the boom.



Despite setbacks, art price appreciation for the last twenty five years has been spectacular. Painting prices since the 1960s have followed an exponential growth pattern per decade of four figures forty year ago to seven figures in the 1990s and possibly eight by the end of the first decade of the 21st century. Even today, twenty of the twenty seven most expensive artworks ever were sold during the boom of November 1988 to December 1989. For example, Van Gogh's *Irises* when sold in 1988 was ten times more expensive than any painting sold just a decade before.

Just as significant is the change in fashion for art in the last twenty years on account of its unavailability. A phenomenon once described in *The Economist* as an increase in the velocity of pictures. For example, the last time an art category held the world record price for an art work were as follows: old masters (1985), impressionist and post impressionist (1990), modern (2004), and Post War (2006). This is now more broadly reflected in Christie's sales in 2006: impressionist & modern Art \$1.23 billion (up 80.9% on 2005), Post-War and contemporary art \$822 million (up 46.8%) and old masters \$256 million (up 23.4%). In the 1989/90 season contemporary art totalled \$154m.



Old Masters

The last twenty years continue a trend of the best old masters departing the market.

Though, the range of prices for old masters remains wide (approximately 5,000 old masters are auctioned each year) the frequency of multi million pound valuations on individual pictures seems far lower than in more fashionable art fields.

This has been compounded by a connection between their absence from the market ratings and fashion for them. To a smaller extent it may also be the difficulty of contemporary viewers understanding or feeling comfortable with their religious and mythological subjects. Not helped by the absence of the most important factor behind their valuation which is scholarly opinion.

According to Alexander Hope writing in *Understanding International Art Markets*, condition is now the prevailing factor in the balance of supply and demand.

None of which is to say that if you put a great work back on the market it would not make a large sum today, on a par with the finest works of any period. Moreover, some believe that those fleeing the prices of more modern art types will propel continued growth in old masters.

This is just what happened in 2002, when Ruben's *Massacre of the Innocents* sold at Sotheby's, London for \$76m becoming the most expensive old master ever sold. Prior to this in 1995, the veteran art market journalist, Godfrey Barker, believed old masters were the main event, thinking their increase was a long overdue correction of their underrating since the mid 1960s. Others went further in their belief that the Rubens may have elevated the old master market to a new level, helped by increased knowledge and easier ways of making accurate attributions thanks to technology.

Today, according to *The Art Newspaper's* 2005 worldwide exhibition review, though only one old master show was included in the top 30, 22% of all attendances in the top ten exhibitions were for old masters, ahead of contemporary, modern and antiquities.

By the end of 2006, old masters are the only western fine art type to have exceeded their thirty year peaks among the top 2% of fine art. While in January 2007, Sotheby's two-day sale of Old Master Paintings in New York brought in a total of \$110m above the higher estimate, which is the highest ever for a sale in this category worldwide. The top selling lot was Rembrandt's, *Saint James the Greater*, which sold for \$25m to an anonymous buyer. Moreover, Rembrandt dominates the list of the top ten best selling Dutch and Flemish masters in since 1997. In 2000, Rembrandt's *Portrait of a lady, aged 63* made \$28m at Christie's in London, which was the second highest price ever paid for an old master painting.

Back in the 1980s, the most important old master to appear at auction since Velazquez's *Juan de Pareja* sold for over £2m in 1970 (still number 47 of the 220 highest prices in 1997) was Mantegna's *Adoration of the Magi* sold to the Getty Museum for \$10m in 1985. In 2003, Mantegna's *Christ's descent into Limbo* sold for \$26m.

Overall, measured by top 2% price index, the price of old masters picked up from 1982. These took off in 1989 before peaking in September 1990. Then their prices descended to a low in mid 1997, last seen in late 1986. From there they recovered to a new peak in 2001 before falling towards 2003 and recovering again to their present highest ever peaks.

Not shown on the index is that in 1988, as today, the boom continued to be significant for Dutch, Flemish and French old masters, especially still life, flower and view pictures. Moreover, several sales in the 1980s often defied the old adage that pictures recently on the market are difficult to sell. But as Christopher Wood noted, the first boom was characterised by second rate old masters fetching first rate prices. A process he described as the bland leading the bland where anything decorative and pleasing can make far more. This was amply illustrated by the sale of Jacopo Carrucci's, known as *Il Pontormo*, portrait of Cosimo de Medici for \$32m in 1989.

By 1994, Sotheby's London sale of the late Peter Sharp's estate illustrated the continuing resilience of Old Masters. The 20 paintings reached a total of \$13 million with only two lots left unsold. However, the most expensive old master by the Venetian painter, Canaletto – see *Old Horse Guards* above sold for \$16m in 1991/92 – was not until in 2004/05 when his *Grand Canal near the Rialto Bridge* went for \$30m. In the same year a Vermeer sold for \$26m among other artist records for Dutch old masters.

By this time, according to the *Antiques Trade Gazette*, new buyers, including from other collecting areas, were entering this category at all levels of the market. Nevertheless, as always most interest was in those of excellent provenance and fresh to the market.

Another notable development in the old master market in the last twenty years has been the positive effect on prices of opening domestic art markets to international competition. In Spain, where this has happened, the price of paintings has risen especially for Goya, El Greco, and Murillo. For example, in May

1992, an El Greco sketch made a new record for a Spanish painting selling for \$3m and in 2004/05 a Sanchez Cotan sold for over \$6m.

For the opposite reason, the French, Italian and German markets have lagged behind. To demonstrate this two tier market Alexander Hope demonstrated that the highest priced Italian old master in 2003 sold in Italy for \$976,000 and \$28m internationally.

Lessons may be learned from a 2002 TEFAF study which noted a competitive advantage of the UK selling Dutch old master paintings. This grew from a global market share of 35% in 1989 to 67% in 2000, thanks to an open market combination of know how and low taxation.

Be that as it may, internationally Italy's Guardi, Guercino, Lippi, Piamontini, Susini and Carlevaris, Germany's Cranach and Messerschmidt, and France's Fragonard, Gerard, Gros all sold for over £1m during the 2004/05 season. Though, only Guardi exceeded Sanchez Cotan's \$6m that year. The year before, a 15th century Mantuan school painting sold for nearly \$11m.

For most of this period, the English 18th century had been a ghost market compared to the earlier part of the 20th century when the infamous art dealer Joseph Duveen ramped up their prices. Until recently, Constable's *The Lock* held the record of \$14m in 1990.

This was exceeded in May 2006 when Turner's *Guidicca, La Donna della Salute and San Giorgio* sold for \$36m. This also became the most expensive old master ever sold in the USA. The year before in Italy, the most popular 19th century exhibition was for Turner and Venice. After them, Stubbs is the third most expensive English artist owing to his *Royal Tiger* fetching \$4m in 1995. The period since the late 1980s also saw a return to fashion for other English artists including Zoffany, Wright of Derby, Lawrence, Reynolds, Romney, Ramsey, Beechey, Hoppner and Devis. In 2003/04 a Gainsborough sold for nearly \$3m and a Reynolds for over \$5m.

As with their other art, the Americans pay impressively high prices for their painters of this period. For example, in 2003/04, a Peale sold for over \$5m.

Of the Chinese 17th and 18th century artists, Kun and Shizheng sold for \$3m in 2003/04 and a 17th century Mexican School painting sold for nearly \$3m in 1999/2000.

The old master drawings market has also flourished during this time. The 1984 Chatsworth sale was considered a turning point in the market because the drawings went for ten to fifteen times estimate. For example, at the sale a Raphael sheet showing a *Study for the head and hand of an apostle* sold for \$4m, sold again for \$7m in 1996.

European and American 19th century art

19th century fine art is the market with the most supply, so selectivity is important. Howard Becker's in his book *Art Worlds* estimated that in 1863 there were 3,000 painters who produced 2,000,000 artworks every ten years.

This is reflected in the average price for 19th century painting in 2006 being nine times cheaper than the average impressionist and modern painting, and nearly five times less than old masters and contemporary art. It may also be the most

fragile during hard times. For example, during the 1991 recession, Sotheby's cancelled its sale of 19th century paintings.

Still, the market can still offer good value. It would have to rise in real terms, as it has for the last 3-4 years, by over 70% to re-attain its September 1990 peak. The revival of English 19th century art since World War II, especially the rare Pre Raphaelites, has been such an example of spectacular results.

In 1988, the list of the most expensive included Millet and the Barbizon School. This followed international demand in the 1970s for Netherlands 19th century and the Pre Raphaelite style of Waterhouse and Leighton. The change in taste was due to new international buyers rather than just Europeans. The first auction of 19th century paintings in New York was in 1977.

Other popular artists in the 1980s included Alma-Tadema, Courbet, Corot, Tissot and Bouguereau. Their scarcity led to the unveiling of new 19th art from Scandinavia, the Vienna Secession and Spain, as well as the Orientalists. In the 1990s these were joined by 19th century Russian, Greek and Jewish painting

Significantly, among the 19th century records during the last twenty years, most were set in the late 1980s or early 90s.

From Britain, Hunt is the most expensive Pre Raphaelite at \$2m. In mainland European are Gericault and Delacroix, sometimes described as old masters, with records of \$5m. Wood believed these romantic artists were the most in tune with late 20th century taste. Of German 19th century art, Friedrich, Nolde, and Kirchner established records in 1993. From Spain, a Sorolla sold for nearly \$6m in 2003/04. From Russia the most expensive are Aivazovsky at \$2m in 2004/05 and Jawlensky for over \$7m in 2003/04. From America, Sargent is considered their greatest portrait painter selling for \$21m in 2004/05. Two other celebrated artists are Eakins and Homer whose records also date from the mid 1990s. Wood had predicted a reappraisal of all the above artists because of increased American wealth.

AUGUST-JULY	HIGHEST PRICE (\$M)	ARTIST	ARTWORK
2006/07	78.5	Klimt	Adele Bloch-Bauer II
2005/06	85	Picasso	Dora Maar au Chat
2004/05	35	Gauguin	Maternite II
2003/04	93	Picasso	Garcon a la Pipe
2002/03	21	Renoir	Dans les Roses
2001/02	68	Rubens	Massacre of the Innocents
2000/01	50	Picasso	Femme aux Bras Croises
1999/00	45	Picasso	Femme Assise dans un Jardin
1998/99	65	Van Gogh	L'Artiste sans Barbe
1997/98	44	Picasso	Le Reve
1996/97	21	Cezanne	Madame Cezanne
1995/96	24.5	Van Gogh	Sous-Bois
1994/95	26.5	Picasso	Angel Fernandez de Soto
1993/94	12.5	Matisse	La Vis
1992/93	26	Cezanne	Nature Morte
1991/92	16	Canaletto	Old Horse Guards

1989/90	75	Van Gogh	Dr Gachet
1988/89	43.5	Picasso	Yo Picasso
1987/88	49	Van Gogh	Irises
			source: Art Sales Index 2008

Impressionist and Post Impressionists

At least the first half of the last twenty years will be remembered as those when French impressionist and post impressionists dominated the art market. From the eighteen annual records from 1987 to 2006, eight were filled by these artists.

The most prominent among them are Van Gogh, Cezanne, Renoir and Gauguin. While the highest prices for these first two artists were over fifteen years ago, these last two appeared in the last five years.

The 1980s was Van Gogh's decade. For example, Van Gogh's *Adeline Ravoux* sold for nearly \$1m in 1980 having been bought for \$441,000 in 1966. By 1987 it sold for over \$13m, making a 600% appreciation in eight years and 3,000% in just over twenty. Better known are the sale of *The Sunflowers* for \$36m in 1987, the *Irises* for \$49m and the highest price for a picture until 2004, *Dr Gachet* which sold for \$75m in 1990. However, this sale marked a turning point in the impressionist market in which prices which reached an all time peak in June 1990 and fell dramatically until October 1992.

For the impressionist market as a whole, the buying binge which began early in 1988 was marked by the increased supply of these art works at Dorrance sale in October 1989, according to Peter Watson. This included six Monets, four Pissarros, three Sisleys, three Bonnards, Renoirs, Cezannes, Fantin Latour and Gauguin as well as a number of modern paintings. The whole sale fetched \$131m which was the highest until then for a single collection.

By the late 1980s impressionist and modern art provided 40-50% of auction house income more than doubling the amount thirty years earlier. Today, this category consistently provides the highest number of sales.

By 1990, the important buying factor was the Japanese who bought up to 40% of the impressionist and modern art auctioned. At the height of the boom, a Japanese businessman was reported to own 20 Monet's and to be charging for a view of *The Sunflowers*.

This was not to last. In the long Japanese economic recession which followed, eighty of the country's museums closed, resulting in fire sales of art in 1997-2002. Most of the impressionist paintings were auctioned for a loss and many were sold privately to avoid adverse publicity. For example, Renoir's *Seated Nude* was sold for only \$3m having fallen from \$6m in 1990 and the whereabouts of Van Gogh's *Portrait of Dr Gachet*, is still unknown.

Because of this excess, as recently as 2001 most of the impressionist art records from this period remained. Two notable exceptions during this period were Monet's *Grand Canal* sold for \$12m in 1998 having been bought for \$9 in 1990 and, in particular, a Cezanne bought for \$9m by the Japanese in 1990 which was sold for \$11m in 1996 in the market where cheaper art went unsold. Moreover, having been the highest priced painting in 1992/93, Cezanne did so again in 1996/97.

As a whole, throughout the 1990s, impressionists had mixed fortunes. Because of the boom years, the market was recognisably volatile, in that every time impressionists sold in the late 1980s reappeared on the market it softens again for 2-3 years. These revivals were in 1992/93, 1995/97 and 1998/2000 when they reached their second highest post 1990 peak. The auctions were characterised by good sales only for the spectacular and the impressive. For example, in 1995/96 and 1998/99 works by Van Gogh sold for the highest prices.

In the 21st century, this volatility appears to have settled with impressionist prices below their trend of the last twenty years. Moreover, impressionists are now on average cheaper than modern art. However, they can fetch higher prices when available and produce above average returns for collectors. For example, a Renoir was the highest priced painting in 2002/03 and a Gauguin in 2004/05. At the November 2006 sales, a Cezanne sold for \$37m made the owner, Steve Wynn, a 200% gross return since May 2003.

Longer term, there are those who believe in a secondary market for impressionists. In 1997, Christopher Wood identified the records since the 1990 boom for Rousseau and Morisot as an indication of future development along with poorer performing artists at that time. While in 2006, Anthony Thorncroft re identified names such as Lebasque, Martin, Cross and Le Sidaner only costing between £50,000-250,000.

Modern art

Ten years ago modern artists were identified as beginning to dominate the art market, especially by volume. Of the 220 artists rated by Wood in 1997, just under a quarter was Modern. By 2005 that figure had risen to a third. Eight records in 1987-2006 belong to modern artists. Yet, today, despite a steep climb since fresh lows in 2003, the average price for modern art still remains below its long term trend.

Throughout the last twenty years, the consistently popular modern artists have been Picasso, Matisse, and Klimt, as well as Kandinsky, Leger, Modigliani and Chagall. Among the records, Matisse sold for the highest price during the recession in 1993/94 and the \$135m paid for Klimt's *Adele Bloch-Bauer* in 2005/06 is now the world auction record for a painting.

Nevertheless, the towering figure throughout the period is Picasso who has been described as the greatest artistic phenomenon of the 20th century. In 1980 his prices passed £1m for the first time and within nine years had multiplied 33 times. In fact, by 1989 there were more Picasso's than Van Gogh's in the top twenty seven most expensive art works. In 1988/89, his *Yo Picasso* sold for nearly \$44m and was the highest price that season. He has gone on to hold five other annual records including the \$93m world auction record in 2003/04 for *Garcon a la Pipe*. More recently, he continues to be popular with new buyers. In May 2006, Picasso's *Dora Maar* sold for \$95m to a Russian. In investment terms, based on Picasso 111 repeat sales from 1945-2002 he returned over 9% annually including over 20% for *Le Repos* which was bought in 1993 and sold in 2000.

However, his occasional lack of success may have sustained interest in the artist. In 1994, a Picasso painting bought at the height of the boom for \$2m sold for only \$827,000 and his *Les Noces de Pierette* was sold in Tokyo at a 25% discount to the \$40m paid in 1989.

Just prior to the modern art price spike of 1997/98, Klimt became the first symbolist, figurative painter to enter the big league, then recognised as a sign of changing taste. That year a Klimt sold for \$13m over \$21m, rising to \$26m in 2003/04 before the current record. His success has been followed by Schiele and Kirchner who sold for \$11m and \$38m in November 2006. Another on the up ten years ago was Modigliani who in the last two years has sold for \$24m and \$28m. Similarly during the 2001/04 period Leger sold for \$15m and \$20m.

Other popular modern styles during the last twenty years include the Fauve painters of Vlaminck, Derain, Mondrian and Miro. Vlaminck paintings never surpassed \$500,000 until 1988 when *Le pont de Chatous* sold for \$4m. However, in 2004/05 a Mondrian sold for \$18m far outpaced Vlaminck and Miro. Added to these are Klee, Delaunay, Braque and Gris. During the recession, at the May 1991 auctions Braque's *Atelier VIII* at \$8m was the highest price paid. In the last three years, Gris has fetched between \$5-8m.

According to an article in 1988 in *Art News*, the Surrealists of de Chirico, Dali, Magritte and Delvaux and the Expressionists of Beckmann, Munch, Kokoschka, Schmidt-Rottluff, Marc, Nolde, Soutine and Rouault were considered undervalued. By 1997 they were one of the hottest areas of the market in 1997 especially the German Expressionist which had held up well during the 1991 recession. For example, Munch's *Girls on a bridge* which had been sold for \$3m in 1990 was sold for \$7m in 1996. Ten years after the recession, in 2001 Beckmann's *Self-portrait with horn, 1938*, soared to \$22m at auction. Other artists recommended by Wood, included Ernst who sold for more than \$2m in 2002/03, and Lempicka and Van Dongen sold for \$4m and \$5m in 2003/04.

Throughout the 1990s, another phenomenon has been the popularity of modern sculpture led by Brancusi and Giacometti.

By 2002, two works of sculpture appeared in the top ten art prices for the first time. The greatest surprise was the \$24m paid in 2004/05 for Brancusi's *Oiseau dans l'espace*. This was the second highest price paid for any artwork in 2005. In 2001/02 his *Danaide* fetched nearly \$17m which was the third highest price that year and until then the world auction record for any sculpture. In 1988, Giacometti's *Trois homes qui marchent* brought an auction record for 20th century sculpture of nearly \$4m. Despite questions about authenticity in 1992 for his works since 1986, a Giacometti sold for more than \$7m in 2004/05. Moreover many of his other works have sold for more than \$6m during the last ten years.

Ten years ago, it was also predicted that the balance between European modern artists and their American counterparts would be redressed. Typically, the richest nation has paid the highest prices for its own art, with most art buying biased towards its country of origin. At the time, 45 of the 229 top selling artists were American, though half of the top 20 were French.

Many of the high prices paid for American art were for works produced in the 50s, 60s and 70s, led by Abstract Expressionism. High prices have also now been paid for early 20th century artists. In 2004/05, over £1m was given for Bellows, Benson, Calder, Cornell, Feininger, Gorky, Hassam, Henri, Motherwell, O'Keeffe, Prendergast and Shinn, while Hopper and Rothko fetched over \$12m. In 2006 this has gone further with records set for Rockwell, Wyeth, Dewing, Benton and Silva. In particular, Hopper's *Hotel Window* last sold at Sotheby's in 1987 for \$1m fetched nearly \$27m.

Other country artists to have come to light thanks to the boom, bust and boom are modern British, Scottish, Irish, Australian and Russian artists. From Britain, Munnings, Flint and Dawson have sold well as part of a transformed international market, along with Seago, Lowry, Spencer and Nicholson. In 2003/04 Munnings's *The Red Prince Mare* fetched \$7m. Along with their economy, Irish art was also one of the booming areas of the 1990s. These included artists such as Yeats, Orpen, Lavery, Osborne, Luke, O'Connor, Henry and Swanzy. Yeats *Farewell to Mayo* was the first to sell above \$1m in 1994. Prices for Australian artists are even more nationally oriented and therefore more liable to its economy's fluctuations. Having risen in the 1970s and 80s, many of these were badly affected by the 1991/92 recession. By 2003, a solid collecting base for Russian art had been established. In the 1990s important Soviet paintings could fetch \$100,000 and by 2004/05, Archipenko and Makovsky each raised about \$2m.

Post War and Contemporary art

Today's, contemporary art has been traded consistently since the Scull auction in 1973. After a false start in the late 1980s it has become very much the thing of the moment during the last ten years.

In the two years before 1988 its value more than tripled at the main contemporary auctions before peaking in January 1989 at an index level then higher than impressionists. Over the next two years it crashed spectacularly, finding its twenty year low in April 1996. Since then its ascent has been the most remarkable of all art types peaking in April 2005. Only since then has it appeared to draw for breath.

Back in May 1987 Christie's set 38 contemporary artist records. Among the buyers was a Japanese dealer who bought Pollock's *Search* for nearly \$5m, which was the highest post war price to that date. Pollock is considered the most important post war artist as demonstrated in April 2005.

The boom in contemporary art went even further in 1988 at the Tremaine sale in New York, confirming that it could take less than a generation for artists to transfer from primary dealers to auction. At this point, the record for a living artist was John's *The Diver* priced at \$4m which had displaced the artist's \$1m record for *Three Flags* set only eight years earlier.

Though many of the buyers at the time were considered speculators rather than true art lovers, by 1990 the three greatest collectors of American contemporary art, Saatchi, Ludwig and de Biunio, were non Americans.

After that the rot really set into the market. In May 1990 a contemporary auction fell below the worst expectations. Works that went unsold included Dubuffet, Warhol, Schnabel and Stella. Negative views among art critics, questioned whether the 70s, 80s and 90s had produced any great painter or school of painters. Moreover, by 1992 Christie's had to sell contemporary art at distress levels to move 58 paintings and in May 1993, at the New York contemporary sales Sotheby's raised just \$8 million which was a tenth of the November 1989 peak.

Amidst more realistic expectations, by November 1993, a Christie's sale was the first time contemporary art had met its sale goals since 1989. The following year with premature vision *The Wall Street Journal Europe* suggesting this was a time to buy. In November, Christie's contemporary sale was 99% sold by value and 95% by lot, including Warhol's *Shot Red Marilyn* for \$4m.

Still, pessimism about contemporary art continued with *Barron's* newspaper predicting in 1995 that there wouldn't be a \$100 single evening contemporary sale anytime soon and it would never rival impressionist and modern art. In fact, in November 2006, Christie's, New York set a new contemporary record of almost \$250m. Moreover, in the calendar year 1996 at Christie's it was the first time in any year that century a picture by a living artist - de Kooning's *Woman* for \$15m - was the most expensive sold.

Confirming contemporary art's new status, in 1997, New York's Museum of Modern Art bought 32 Warhol works for \$12-15m. Amazingly, the price of Warhols has quadrupled since 1977 despite 12,000 sales since the mid 1980s. By 2000, the museums were joined by banks as buyers of contemporary art. Still, the warnings continued in the press. Indeed, John's *Two Flags*, which had sold for \$12m in 1989 was resold in May 1999 for \$7m.

Now on a regular basis, works by Warhol's and John's appear in the ASI plus £1m category. In 2004/05, eight Warhol's were sold at this level including one for \$13m and five John's for more than \$3m including one near \$10m.

The main highlight of 2005 was the contemporary art sale record of \$21m for David Smith's *Cubi XXVIII* created in 1965. Moreover, typically, the following February, ten new world artist records were set at one Christie's sale in London followed in June including Hockney's *The Splash* for \$5m.

Also from England, Bacon became the country's most expensive 20th century artist in 1989 by selling his *Triptych May-June* for \$5m. This was a record that remained in 2004/05 when a painting sold for \$8m. Other popular British artists from the Post War era 'School of London' include Freud, Auerbach, Kitaj and Hodgkin. Continuing a trend since the late 1990s, Freud sold four paintings above \$5m in 2004/05. In February 2007 this went to much higher level when his *Study for Portrait II* sold for \$27m, becoming the second highest ever price for a post-war work of art at auction.

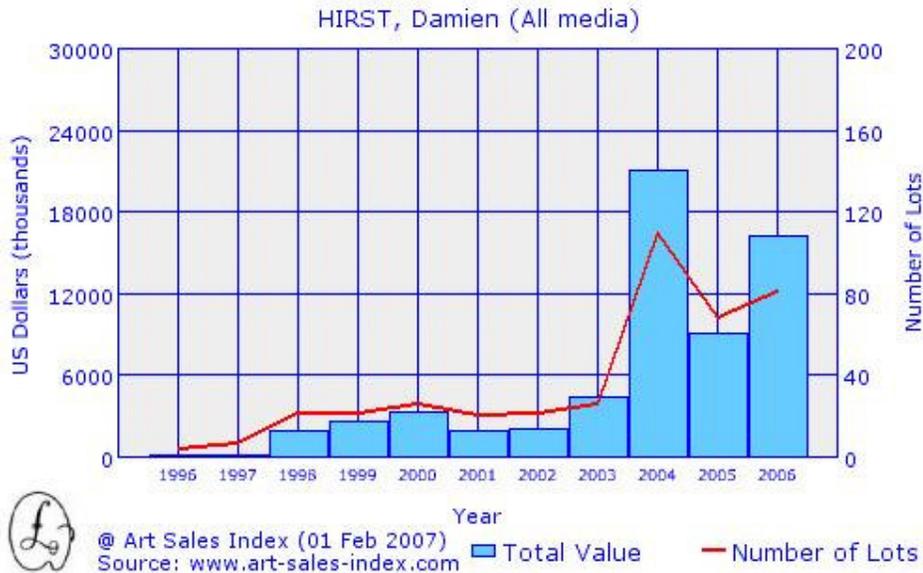
Many other artists, especially from Europe, and in particular Germany, have followed the American pattern. As early as 1989, Beuys' work had delivered good returns along with Richter who became well known in the USA after 1986. In 2004/05 a Richter sold for nearly \$2m.

Above all these is the Dutchman de Kooning whose *Interchange* sold for \$18m in 1989, becoming the next most expensive contemporary work by a living artist. de Kooning had also been the first the contemporary artist to reach the \$1m mark for *Two Women* sold in 1983. Tragically, de Kooning died in 1997 following many years suffering from Alzheimer's disease since 1984 which caused his subsequent work to be questioned. In fact, the 1989 price was not surpassed until his *Untitled XXV* made \$27m in 2006. Another recently deceased artist to make an impression is Basquiat, who died in 1988. In 1998 he set a record of \$3m for his *self portrait*, surpassing his own \$596,500 record set as recently as 1996.

Overall, the contribution of living artists to auctions doubled to 17.6% in the five years to 2005 with prices climbing 12.5%, according to artprice.com. For example, living American artists receiving hefty prices today include Rauschenberg, Twombly and Stella. Twombly is widely considered the most important Abstract Painter after the New York School, fetching nearly \$5m in 2002/03. Other living artists who have been raising high sums in recent years include Close, Dumas, Koons, Wyeth, Cattelan and Hirst. Hirst first came to

prominence in 2000, when his butterfly painting *In love, out of love* made \$680,000 at Phillips.

Hirst's group of Young British Artists came to the fore with Christie's promotion and sale in 2001. Hirst established his own credentials with his own publication in 2002 and in December 2004 at the Pharmacy sale when Sotheby's raised an amazing £11m selling fixtures and fittings from an ill fated restaurant. Amazingly, nearly a third of the objects had been modified or remade that year including a group of surgical instruments sold for £24,000 or eight times estimate.



Contemporary photography has performed exceptionally well since 2000, having risen by 575% from 1975 to 1995 – see graph below. The first modern and contemporary photography auction to exceed \$1m was held in 1988. This included a \$82,500 record for Steichen. The following year many prices exceeded \$50,000 and the market became flooded, mostly including photos from the 1940s and 50s. By 1992, the record was \$181,000 for a Russian photo by Rodchenko. Since 1994, the market has returned more per year than paintings, with the USA accounting for a third of the sales volume, according to artprice.com. The record for a vintage photo remains by Steichen's *The Pond* sold for nearly \$3m or three times estimate in February 2006. The price more than doubled the previous \$1m record for Prince's 1989 *Untitled (cowboy)* sold in November 2005. Overall, the auction raised a record \$15m and included two lots for more than \$1m.

Another run away contemporary market has been for emerging contemporary art.

In a recent book, Iain Robertson, suggested there was an arbitrage opportunity between western and eastern contemporary art based on auction results in 1993-99. During that period, the best selling Chinese artist, Chen Yifei, whose canvasses sold for about \$200,000, was 30 times cheaper than Jasper Johns and 200 times less than Pablo Picasso! Unsurprisingly, helped by renewed economic growth, the Far Eastern market was one of the biggest growth areas in the 1990s due to regular sales in Hong Kong, Taipei and Singapore.

As a result, Chinese modern and contemporary art has been the main arena for art speculation in the last three years. By 2004/05 the living Chinese artist Zao-Wou-Ki was the first Far Eastern artist to sell for more than £1m. At the inaugural sale of Chinese contemporary art at Sotheby's, New York in March 2006, \$13m was sold, which was 50% above the upper estimate, in a market increasingly dominated by western buyers. Today, Xiaogang's *Big family series No 15* is the highest price paid for a Chinese contemporary art work at over \$2m against an estimate of only \$320,000-400,000. By this point buyers were thought to be split between Asia and Europe. Moreover, the market is now growing on the Chinese mainland where corporations are beginning to invest in art, according to *China Business Weekly*. Today, as some worry about high prices for Chinese contemporary, some leading newspapers, including *Newsweek*, are recommending art from Burma, Vietnam, Indonesia and Taiwan.

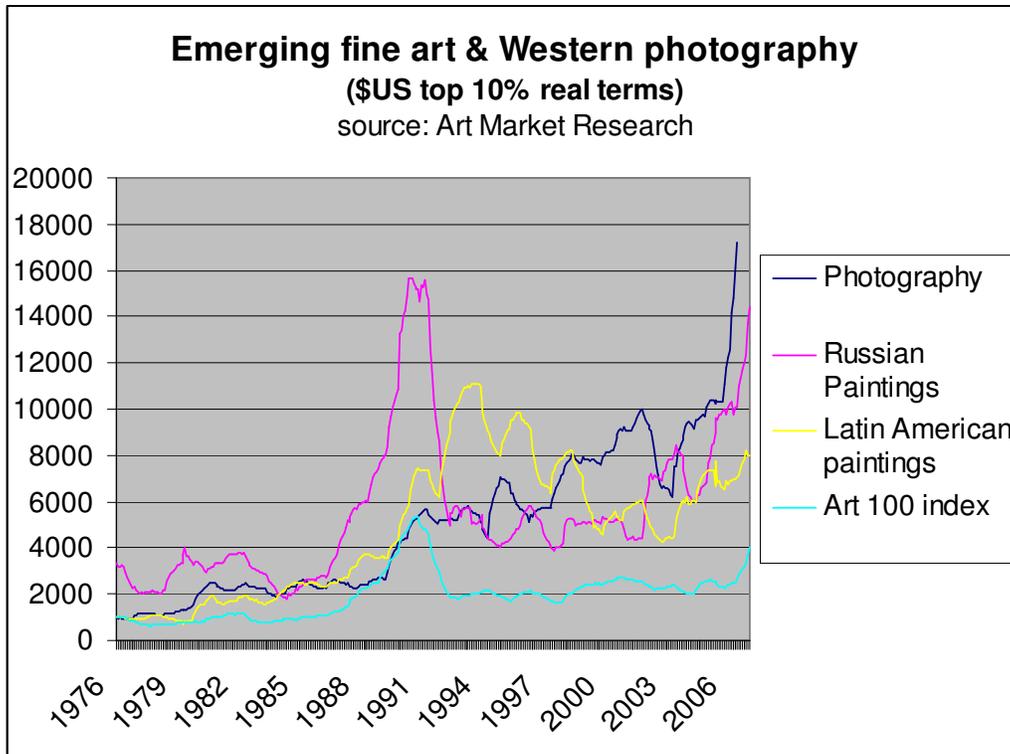
The Indian modern and contemporary art boom is now also household talk in New Delhi and Mumbai, according to *Hindustan Times*. Typically, many of the Indian buyers are the new wealthy risk taking middle class, sometimes paying for art by instalment or as a cartel. In fact, during the last year, more individual newspaper articles written in English worldwide discuss this market than any other.

Despite origins in the 1960s, in 1990 it was seen as a fast and un-established market. Increasingly popular since 1998, Christie's and Sotheby's are now also represented there. Today, many of the artworks are beginning to sell for more than \$1m following the American purchase of Mehta's *Mahisasura* in 2005. Artists to watch include Souza, Raza, Kumar, Gaitonde, Kallat and Dodiya. However, in May 2006 there was fear of Souza fakes entering the market. Nearby in the Middle East, Christie's made over \$8m sales in Dubai at its first auction in May 2006, including Indian contemporary art sales of \$6m which set over eight new artist records.

Latin American modern art sales also boomed in the 1990s and were one of the hottest areas of the market in 1993 and 1995. Significantly, it performed better than other markets at that time, thereby providing an alternative the western art market cycle despite its greater volatility. In 1991, five Latin paintings broke the \$1m mark, including a Rivera's *portrait of a Mexican woman* for nearly \$3m. Earlier that year, Sotheby's had cancelled sales of Latin paintings and after 1993 the boom came to a halt following the appearance of a fake Botero.

Overall, the Mexicans lead the Latin field with Kahlo and Rivera achieving records since 1995. In May 2006, a new record for a Latin American artist was set with Kahlo's *Roots* selling for over \$5m in a two day sale that brought in \$23m. The Christie's sale in November 2006 brought in nearly \$22m with the strongest sales for Martinez and Botero. Other records were set for Cardenas, Sanchez, Gerzo and Castaneda. The Museum of Modern Art, New York recently announced that it is aiming to buy more Latin American art.

Russian contemporary art from the 1960s and 70s, especially conceptualist, has also been in the ascendant among Russians and Russian émigrés. Artists to watch include Komar, Melamid, Nesterova, Brushkin and Dlugy.



A LITTLE BIT OF HISTORY REPEATING?

If the art market follows money: where could it be heading and where might the art come from in future? The two are not necessarily connected and for the long term success of the art market it makes sense that they shouldn't be.

For centuries the western world's art has been heading west from Greece to Japan, following strong economies and their currencies, but with a lag between supply and demand.

In the medium term this maybe because art, like other consumer goods, is mostly bought towards the end of an economic cycle, in which it is loosely connected to property and commodity prices. Another longer term reason maybe that periods of artistic creation rarely coincide with economic prosperity. In the last two decades of globalisation, it has often been said that the high price for the best known contemporary art pays decreasing attention to artistic achievement. This is a situation which may have been exacerbated by the narrowness of the market for this art.

Historically, creativity has been more likely to flourish during periods of economic and social upheaval since necessity is often the mother of invention. As a result, financially successful artists have been rare and often the cause of much sympathy through the ages. Their success may be due to being born and trained just preceding the periods of prosperity which could afford their patronage. For example, the origins of the prosperous Italian Renaissance came about during the great depression of the later middle ages. While in modern times, the Young British Artist's success maybe linked to London's changing status as a cultural capital based on its position as a leading financial centre.

Similarly, the theories of international trade may increasingly apply to the art market as to all business, thereby diminishing the tendency for art to be bought on a national basis or mostly from developing countries. For example, Japanese buying of French impressionists in the late 1980s may have been born a century before during well documented artistic exchanges between the two countries. It is well known that Van Gogh owed a great deal too Japanese artistic techniques, just as other artists have often shared international artistic innovation.

Broadly speaking, there are five main factors to consider when buying art in future: 19th century globalisation, demographics and reappearance, artistic tradition and innovation, tax and regulation, and exchange rates.

If history is a guide to the art market's future, parallels with that other great period of globalisation, the century leading to the First World War, maybe significant. Then, the reasons for the art boom were much the same as today: new money, favourable tax, investment potential, private collectors, innovative and high profile artworks, and status and publicity. In the 1840s, like twenty years ago, many art buyers became disenchanted with mainstream traditional art and favoured contemporary art and forty years later decorative art was as highly prized as fine art. In 1878 a French furniture commode cost more than any old master painting ever sold, according to the art market historian Gerald Reitlinger. This was also a time when fascination with the Orient began to permeate many areas of western art and design.

Due to ageing populations, this next century may also be a time when art sold in the past reappears on the market and is sold or bequeathed to a younger generation, bypassing increasingly cash strapped museums. It may also be a time when much recently neglected historical art is reappraised by the market and sold to a new upwardly mobile generation. For instance, *The Art Sales Index* publishes a *Dictionary of Neglected Artists* which includes 1,500 biographies of artists who lived in 1880-1950 and have not been researched or even mentioned in standard reference books. For example, after 1895 the price of symbolist and impressionist painting began to diverge until 1950, with the former revived by exhibitions and publications from the 1960s.

Meanwhile, the art market is also sure to uncover a few surprises. This is just what happened unexpectedly at an English 'Public School' which discovered an unknown Assyrian Relief from Nimrud and sold it in July 1994 for \$11m, setting a new record for an antiquity.

For those seeking something new, in future, artistic creation may originate in unlikely places and due to technology be spread at greater distance with increasing rapidity. For reasons of artistic tradition, cultural, economic and political tension, five years ago *Art Review* suggested the following cities as sources of creativity: Antwerp, Beijing, Cleveland, Copenhagen, Istanbul, Kassel, Liverpool, Montreal, Newcastle, Nice, Valencia and Zagreb.

The countries or regions which benefit most will be those which invest well in art schools and are open to international students, located in a low cost environment linked by networks of the like minded. For example, just over the border from TEFAF, Germany's art scene operates in a 50 mile radius around Cologne and Dusseldorf where there are 70 museums, 60 temporary exhibition spaces and 200 private galleries mostly devoted to contemporary art. Moreover, reporting on the death of the local art scene, last year *The New York Times* noted that rents for art galleries in Leipzig were only 40 cents per square foot per month compared to \$75 in Chelsea, New York.

In future, where the art is sold will continue to depend on the lightness of tax and regulation, the level of transparency and range of services as much as its own economic growth. Today, the challenge for the uninitiated collector is choosing from the bewildering range of art now available, as more familiar art, once used as a benchmark, becomes scarcer because of its own popularity. It seems likely that ever more attention will be paid to providing this thoroughgoing service.

In the short term, if the competitiveness of exchange rates is used as a guide, perhaps we should consider buying Japanese and Chinese art whose currencies may be 28% and 56% under valued, along with several other Asian currencies, against the US dollar, according to *The Economist's* latest calculations. Moreover, the recent growth in art fairs in those countries may provide further reason for confidence in their domestic interests.

Whatever the future, art and its market are sure to educate, surprise and fascinate as it have since ancient times; hopefully to the benefit of a wider audience.

James Goodwin MA, MBA lectures on the art market at Maastricht University and City University, London. His research and writing has appeared in *The Economist*, *Financial Times*, *Wall Street Journal Europe*, and several art and antique magazines. He also specialises in the study of ancient furniture, lecturing at Christie's Education and the Furniture History Society. Currently, he is editing and co-writing a guide to 'The International Art Markets' which includes 43 countries written by 58 authors worldwide and will be published in May 2008. He can be contacted on arts.research@gmail.com.

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