Art and antiques show solid long-term returns

Report suggests dealers perform particularly well, but auction houses less strong

Reuters/Toby Melville

Should these London traders turn to selling art?

LONDON. Despite the recent downturn, business has been better in the past few years for most sectors of the art market than it has been in other industries in the UK. The independent art market analyst James Goodwin measured the Return on Capital Employed (RoCE) for 56 UK-based contemporary and modern galleries and found an average return of 25% between 2007 and 2008, and of nearly 34% for the ten years between 1999 and 2009. RoCE is a frequently used measure of profitability that takes into account the amount invested into a company.

"I don't think many galleries would say that they hadn't been affected by the recession, but those who have survived are those who have the strongest programmes and the right strategy," said dealer Alison Jacques whose gallery is included in the data.

Returns in other segments of the market were also strong with antique dealers coming out the best at around 60%. Goodwin points out that, despite the relatively recent surge in enthusiasm for modern and contemporary art, this market "retracts more than the antiques market during recessions, as we have long believed but not proved".

Old master dealers also fared well in 2007-08, with a 36% return, although this fell to 4.4% in 2008-09 and showed a lower return than contemporary and modern galleries over ten years (an average 21%). Trading in jewellery, coins and medals most often resulted in a negative return on capital employed between 2007 and 2008, suggesting the market's appetite for such collectables continues to be tested.

Most sectors of the art market performed better than other industries. Wine merchants were at the lower end of the scale, turning in an average of 10% RoCE and—perhaps more surprisingly—the high volume auction house sector had an average return of 16% in 2007-08, and 17% for the ten years between 1999 and 2009. This reflects in part the high costs involved in major auctions, says Goodwin, as well as the range of works traded, some of which have lower margins. His analysis of eight auction houses included Sotheby's, Christie's and Phillips de Pury.

For the UK as a whole, RoCE in 2007-08 was lower than for most art market segments at around 9%. A recent survey by the accountancy firm BDO found that business optimism in the UK fell for the fifth month in a row in August with confidence dented by the prospect of government spending cuts.

Melanie Gerlis