TEFAF Art Market Report 2014

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The Global Art Market, with a focus on the US and China

Prepared by Dr. Clare Mc Andrew

TEFAF ART MARKET REPORT 2014

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THE EUROPEAN FINE ART FOUNDATION

Prepared by Dr Clare Mc Andrew
Arts Economics

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FOREWORD

In this, the latest TEFAF report on the international art and antiques market, Dr Clare McAndrew of Arts Economics analyses the €47.4 billion global art trade in 2013. This annual survey has become the established source of data on an increasingly important economic sector, which now supports 2.5 million jobs worldwide in over 308,000 businesses.

This year the emphasis is on the US, the world's largest art market, and on China, its fastest growing rival in recent years.

The report draws attention to the part played by art fairs in attracting international collectors to a single location. TEFAF Maastricht, which last year drew over 70,000 visitors from sixty one countries, is a leading example of the economic benefits of such events.

We are again grateful to Anthony Browne for organizing this annual research programme for TEFAF.

Willem Baron van Dedem President
Ben Janssens Chairman

ACKNOWLEDGEMENTS

The information presented in this study is based on data gathered and analysed directly by **Arts Economics** (www.artseconomics.com) from dealers, auction houses, collectors, art and financial databases, industry experts and others involved in the art trade. (Please see the Appendix for a note on the data sources.)

A critical part of the research involved a global survey of art and antique dealers. I would especially like to thank Erika Bochereau of CINOA (Confédération Internationale des Négociants en Oeuvres d'Art) for her untiring and generous support in making this survey possible, along with the presidents of the dealer associations around the world. My sincerest thanks to all of the individual dealers who took the time to support this research by taking part in the surveys. I would also like to especially thank those dealers, collectors and auction house experts who gave up considerable time for interviews in person and by phone in the US.

Many thanks to all of the auction houses who also took part in the auction survey. Thanks especially to Laure Camboulives (Christie's) and Vicky Hurst (Sotheby's).

The fine art auction data supplier for this report was Artnet, and my sincerest thanks and appreciation to Katharine Markley for her diligent efforts and meticulous attention to detail in helping to put together this complex set of market information. Auction data on China is supplied by AMMA (Art Market Monitor of Artron) and my utmost appreciation to Gloria Guan and Tracy Xu for their continued support of this research on the Chinese Auction Market.

Zhang Yi worked as a consultant to Arts Economics on the Chinese art market, and his insight, academic rigour and utmost professionalism were an asset to the company and this report.

Finally, my very special thanks to Anthony Browne for his time and encouragement in coordinating the research, and, as always, for his most valuable insights into the art trade.

Dr Clare Mc Andrew
Arts Economics

CHAPTER 1

SUMMARY OF PRINCIPAL FINDINGS

KEY FINDINGS

- The international art market reached €47.4 billion in total sales of art and antiques in 2013, close to its highest ever recorded total, and advancing 8% year-on-year.
- The volume of transactions in the global art market also increased in 2013, but by less than the growth in value, indicating that a significant part of the uplift of the market was due to higher priced works, rather than simply more works sold.
- Sales in the US in 2013 increased by 25% in value year-on-year, confirming its position as the key centre worldwide for sales of the highest priced art.
- The Chinese market experienced more cautious buying in 2013, with low positive growth of 2%.
- The EU has been one of the most stagnant regions of the art market, with sales falling by 2% in 2013.
- In 2013, the US accounted for 38% of the market by value, China dropped to 24% and the UK was in third place, at 20%.
- Online sales in 2013 were estimated to have been in excess of €2.5 billion, or around 5% of global art and antique sales. It is estimated that the online art market, including online sales by auction houses, dealers and online-only companies, could grow at a rate of at least 25% per annum, meaning that they could exceed €10 billion by 2020.
- Post War and Contemporary art was the largest sector of the market in 2013 and included the highest priced works sold during the year. It accounted for 46% of the fine art auction market by value and 44% by volume.
- The Post War and Contemporary sector grew 11% in value in 2013, reaching a historical peak of €4.9 billion in auction sales alone. The number of lots sold also rose to its highest level, with 6% growth year-on-year.
- In 2013, dealers reported making 33% of their total sales through art fairs, while sales through galleries increased 6% to 50%.
- There were 32 million millionaires worldwide in 2013 and 42% of those were based in the US. At least 600,000 of this global group are mid-to-high level art collectors (less than 2% of the world's millionaire population).
- World imports of art and antiques reached a total of €17.6 billion in 2012[A], a 19% increase year-on-year and the highest total yet recorded.
- The US and UK accounted for a combined majority of 69% of world imports as they continued to attract both international and domestic demand for art and antiques. Switzerland also maintained a high share at 8%.

- World exports increased 25% year-on-year to a new record high of €18.0 billion in 2012, their highest ever recorded level.
- The UK and US together accounted for the majority of the value of exports of art, with a combined share of 65%, underlining their importance as entrepôt markets for the art trade.
- The UK was the largest importer and exporter of art globally and a net importer of art, with imports of €6.1 billion exceeding exports of €5.8 billion, both just marginally ahead of the US.
- In 2013 sales in the art market in the US by dealers and auction houses reached a total of €18.0 billion, an advance of 25% year-on-year, having doubled in value in the five years since 2009.
- The US is the leading market place for sales of the highest priced art and antiques in the world. In 2013, it had a 52% share of the value of of all lots sold for over €1 million at auction around the world. It also accounted for 78% of the volume and 60% of the value of all transactions priced over €10 million.
- Post War and Contemporary art represented by far the largest sector of the art market the US in 2013, accounting for 59% of the value of fine art auction sales, with several examples of US and international artists selling for prices in excess of $50 million during the year.
- China remains the most important of all of the newer art markets, both in terms of the size of its domestic sales and the importance of its buyers globally, and was the second largest market by value worldwide in 2013, with sales of €11.5 billion.
- In 2013 public auction sales in China reached €7.5 billion, with 29% by value taking place in Hong Kong and 71% in Mainland China.
- The volume of auction sales in China in 2013 increased by 8% year-on-year, but buy-ins remained persistently high, at 53%, the highest average rate in the last ten years.
- The majority of sales at auction in China in 2013 were within the fine art sector, (accounting for 66% of total sales). The largest sector was Chinese painting and calligraphy, with 56% of the market by value.
- Although not unique to China, late and non-payment by winning bidders at auction remains a persistent problem in the art market in China.
- In 2013, based on conservative estimates, there were 308,525 businesses selling art and antiques worldwide, consisting of dealers, galleries, antique shops and auction houses.
- Businesses in the art market in 2013 directly supported 2.5 million jobs, including over 400,000 in the EU, 587,000 in the US and 300,930 in China.
- In 2013, it is conservatively estimated that the global art trade spent €12.1 billion on a range of external support services directly linked to their businesses.
- The highest single item of expenditure in 2013 by the art trade was on advertising and marketing at €3.2 billion (26% of total spending), of which 79% was spending by auction houses. Spending on art fairs, although only incurred by dealers, was the second largest at €1.9 billion.

CHAPTER 2

THE GLOBAL ART MARKET IN 2013

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Key Findings

- The international art market reached €47.4 billion in total sales of art and antiques in 2013, close to its highest ever recorded total, and advancing 8% year-on-year.
- The volume of transactions in the global art market also increased in 2013, but by less than the growth in values, indicating that a significant part of the uplift of the market was due to higher priced works, rather than simply more works sold.
- Sales in the US increased by 25% year-on-year, confirming its position as the key centre worldwide for sales of the highest priced art.
- The Chinese market experienced more cautious buying in 2013, with low positive growth of 2%.
- The EU has been one of the most stagnant regions of the art market, with sales falling by 2% in 2013.
- In 2013, the US accounted for 38% of the market by value, China dropped to 24% and the UK was in third place, at 20%.
- Online sales in 2013 were estimated to have been in excess of €2.5 billion, or around 5% of global sales of art and antiques. It is estimated that online sales could grow at a rate of at least 25% per annum, meaning that they could exceed €10 billion by 2020.
- Post War and Contemporary art was the largest sector of the market and included the highest priced works sold during the year. It accounted for 46% of the fine art auction market by value and 44% by volume.
- The Post War and Contemporary sector grew 11% in value in 2013, reaching a historical peak of €4.9 billion in auction sales alone. The number of lots sold also rose to its highest level, with 6% growth year-on-year.
- In 2013, dealers reported making 33% of their total sales through art fairs, down 3% on 2012, while sales through galleries increased 6% to 50%.

2.1 Art Market Overview

The international art market is estimated to have turned over in excess of €47.4 billion in total sales of art and antiques in 2013, close to its highest ever recorded total, and an increase of more than 150% in the last decade.

Looking back at the last decade, the market boomed from 2003 to 2007, with sales more than doubling in value. However, this positive cycle turned in 2008, when the market succumbed to the pressures of the global financial crisis, with aggregate values and the number of transactions both contracting by close to 40% within two years. After recovering strongly in 2010, the global art market has experienced mixed performance within different sectors and between nations. The much more moderate growth in sales over the last three years reflects the fact that different areas of the market have been recovering at different rates. Some sectors and individual businesses have reached peaks well in excess of those achieved in 2007, while others are still struggling to regain momentum.

Looking at the last three years, the market bounced back rapidly in 2010, with sales growth in excess of 50%, mainly led by strong sales in China and the US. This recovery continued at a much slower pace in 2011, with sales increasing by 8%, buoyed up by the continuing strength of the Chinese market. In 2012, after several years of rapid advances, the Chinese art market cooled. This together with only moderate growth in the US and elsewhere, led to an overall drop in sales of 5%. In 2013, the market regained its positive momentum and sales grew nearly 8% year-on-year to reach €47.4 billion, still slightly below the peak of 2007, but the highest level achieved since that point.

Sales in the US increased by 25% year-on-year and confirmed its position as the key centre worldwide for sales of the highest priced art. The Chinese market experienced more cautious buying in 2013, with the dominant auction market still dogged by very high buy-in rates, but as a whole it showed stability with low positive growth of 2%. The EU has been one of the most stagnant regions of the art market, and sales fell by 2% in 2013.

The volume of transactions in the global art market also increased in 2013, but by less than the growth in values, indicating that a significant part of the uplift of the market was due to higher priced works, rather than simply more works sold.

Table 2a. The Global Art Market: Value and Volume of Transactions

Year	Value (€m)	Volume (m)
2003	€18,631	25.4
2004	€24,385	26.6
2005	€28,833	28.2
2006	€43,331	32.1
2007	€48,065	49.8
2008	€42,158	43.7
2009	€28,335	31.0
2010	€42,951	35.1
2011	€46,351	36.8
2012[1]	€44,091	35.5
2013	€47,419	36.5

IN 2013, THE MARKET REGAINED ITS POSITIVE MOMENTUM AND SALES GREW 8% TO REACH €47.4 BILLION

Table 2b. The Global Art Market: Growth in Sales on the Global Art and Antiques Market

Year	Change in Value	Change in Volume
2003/04	30.9%	4.7%
2004/05	18.2%	6.0%
2005/06	50.3%	13.8%
2006/07	10.9%	55.1%
2007/08	-12.3%	-12.2%
2008/09	-32.8%	-29.1%
2009/10	51.6%	13.2%
2010/2011	7.9%	4.8%
2011/2012	-4.9%	-3.5%
2012/2013	7.5%	2.8%
2003 to 2013	154.5%	43.7%
2007 (Peak) to 2013	-1.3%	-26.7%
2009 (Trough) to 2013	67.4%	17.7%

There were over 308,500 businesses involved directly in buying and selling fine art, decorative art and antiques in 2013. Apart from the more traditional businesses, which include auction houses, galleries and dealers, there are now a variety of consultants, online platforms and other private agents. The breakdown between public auction sales and private sales varies widely between countries and between the different sectors of the market. But in 2013, private sales by dealers and other agents had a slightly larger share of the market, at 53% by value, with public auctions accounting for 47%.

2.2 The Distribution of the Global Art and Antiques Market

Apart from its rapidly increasing size, the art market has undergone an intense period of globalization since the turn of this century. The distribution of sales has changed fundamentally over the last ten years, with significant changes in the size and distribution of world wealth, leading to the emergence of new markets and buyers. New collectors from Asia, Latin America, the Middle East and elsewhere have increased global buying in the traditional art hubs of London and New York, while also helping to support some thriving local markets. China has been the most dominant of all these newer markets, both as an important buyer of art globally, and as one of the largest markets in the world for domestic sales.

China's emergence in the ranks of top global art markets around 2006 fundamentally changed the division of worldwide sales, and it has consistently narrowed margins with mature markets since that point. China overtook France to become the third largest market worldwide in 2007 and in 2010 become the second largest, overtaking the UK, which had until then maintained a substantial margin ahead of other markets. Most noticeably, in 2011, at the peak of the market in China, it ousted the US from its number one position, albeit by just 1%, to become the largest art market. This was a significant turning point for the US, which had retained the position of global leader for at least 20 years by a large margin, and it came about as sales in China more than doubled in two years, with other mature markets experiencing much more subdued growth.

In 2012, a slow down in the Chinese market and positive growth in the US redressed the balance, and the US again regained its position at the top with a 33% share, versus 26% in China. The UK remained in third place with 23%, still ahead of the next largest markets of France (6%), Switzerland (2%) and Germany (2%) by a significant margin.

[1] Sales figures for 2012 were adjusted on the previous TEFAF Art Market Report 2013 due to sales in China reported late to AMMA (Art Market Monitor of Artron) and adjustments in reported private sales in 2012.

Figure 2a. Global Art Market Share by Value in 2013

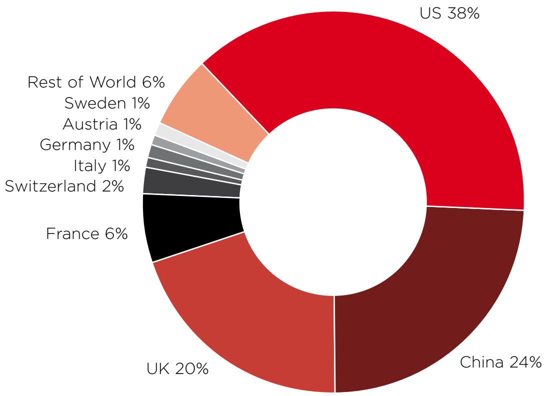
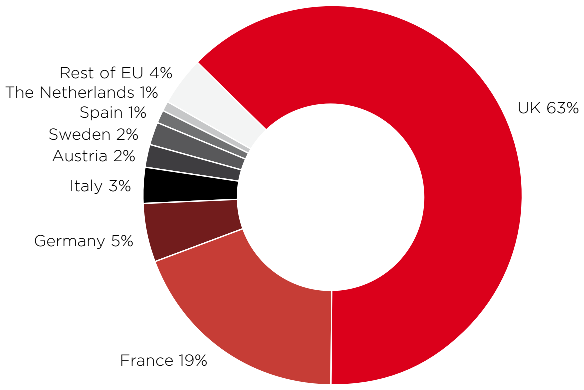


Figure 2b. EU Art Market Share by Value in 2013



A strong year for sales in the US and a period of stagnant growth in China meant that the leading position of the US was once again maintained in 2013, increasing by 5% to 38% of the global market. Nonetheless, this was less than the 46% attained by the US in 2006. China dropped 2% to 24%, although it remained ahead of the UK, in third place with 20%.

The share of the EU as a whole fell 3% year-on-year to 32% in 2013. Within the EU, the hierarchy of sales has remained stable over the last ten years, with the UK consistently having by far the highest total sales by value. Within the EU, the UK was the largest market again in 2013 with 63% by value (down 2% on 2012), while France also remained in second place with 19% (up 3% on 2012).

A STRONG YEAR FOR SALES IN THE US AND A PERIOD OF STAGNANT GROWTH IN CHINA MEANT THAT THE LEADING POSITION OF THE US WAS ONCE AGAIN MAINTAINED IN 2013

In 2013, the UK experienced a 5% decrease in total sales year-on-year, which contributed to the 2% decrease of the EU as a whole. Against this background of overall decline, France and Germany were slightly more buoyant with sales rising 13% and 11% respectively. However many other smaller markets, such as Italy and the Netherlands, were stagnant or declined.

2.3 Auction Sales

Sales at public auctions of fine and decorative art accounted for 47% of the market in 2013, with global sales reaching €22.5 billion, up 5% year-on-year. Auction sales have now advanced over 70% in value from their recent low point in 2009, although they are still just below their peak in 2007, when the market reached €24 billion.

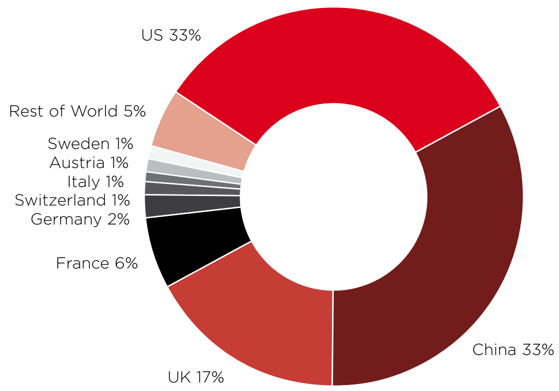
Figure 2c. Global Fine and Decorative Art and Antiques Auction Market 2003 - 2013

Auction sales have increased over 150% in the last ten years, and much of this growth has been driven by increasingly higher prices, particularly in the fine art sector and by the growth of the Chinese market. In 2010 and 2011, much of the uplift in the global market was due to rapidly advancing Chinese auction sales, but in 2012 and 2013, the US accounted most of the growth.

It is interesting to note that for auction sales only, the division of global sales is much more tightly contested between the US and China. In 2013, the US led by a margin of less than 1% with 34%, China had 33%, the UK accounted for 17%, and France remained in fourth place with just under 6% of the market.

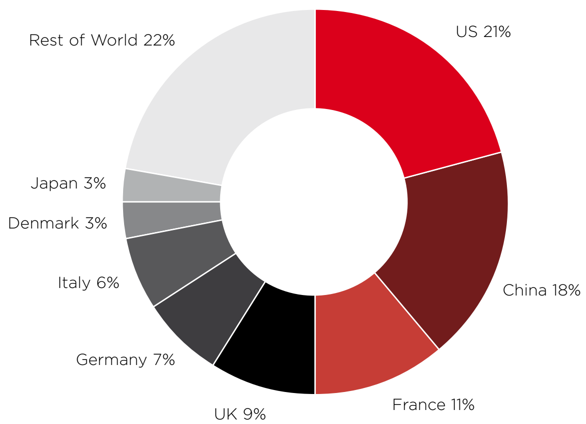
Trends in the volume of sales in the fine and decorative art market are more difficult to interpret than trends in value, as some auction houses sell large quantities of decorative items, jewellery and other small objects, the number of which can vary widely between sales. Analysis based on the fine art auction sector alone can therefore provide a better benchmark for comparison of trends in supply and demand between countries and over time. Despite an increase in value, the volume of fine art auction transactions decreased slightly (by 1%) in 2013, as a lower volume of works came on to the market, however at higher prices particularly in countries such as the US.

Figure 2d. Auction Market Global Share by Value in 2013



[2] AMMA is Art Market Monitor of Artron. Data is reported to Arts Economics in January each year and pertains to all data available and reported to AMMA by December 31st of the previous year.

Figure 2e. Fine Art Auction Market Global Share by Volume in 2013



© Arts Economics (2014) with data from Artnet

In 2013, the US had the largest share of the volume of fine art auction sales with 21%, followed by China with 18%.[3] The volume of transactions in the US rose marginally on a year-on-year basis (by just 1%), whereas in China there was a fall of 4%. The third largest market by volume was France (with 11%), which increased its transactions by 5% year-on-year, and attained a higher share than the UK, where the number of transactions declined in 2013.

The transparency of prices and the public nature of sales data in the auction sector have made it the basis for much of the analysis and research into the art market. However even auction houses now increasingly involve themselves in private sales and online selling, both of which are often not in the public domain.

To address the gaps in the available public data, Arts Economics conducted a global survey of top and second-tier auction houses in 2013. The top-tier auction houses are those with annual turnover in excess of €150 million to €200 million which make up the top 20 companies in the sector worldwide. The second-tier refers to those businesses with turnover from about €2 million to €200 million, most of which primarily serve national markets.

The auction sector remains concentrated at the top of the market, and the two premier auction houses of Christie's and Sotheby's continued to dominate many sectors and national markets in 2013. With a joint turnover at public auction of €8.2 billion these two houses accounted for a 36% share of the global public auction market in 2013. Christie's public auction sales totalled $5.9 billion (€4.3 billion) in 2013, up 12% in dollar terms, while Sotheby's sales advanced 14% on 2012 to $5.7 billion (€4.2 billion). Apart from public auction, both houses are conducting an increasing number of private sales. In 2013 private sales at Christies increased 18% year-on-year to $1.2 billion or 17% of their total sales. In 2013, Sotheby's private sales grew 30% to $1.2 billion, also representing 17% of total sales.

Poly International of China was the third largest auction house in 2013 with sales of €942 million, while China Guardian was in fourth place with sales of €781 million, both auction houses having increased by over 25% on the previous year, as the Chinese market slowly recovered. US-based Heritage Auctions ranked fifth, with sales of €661 million, up 2% in dollar terms on their best year ever in 2012.

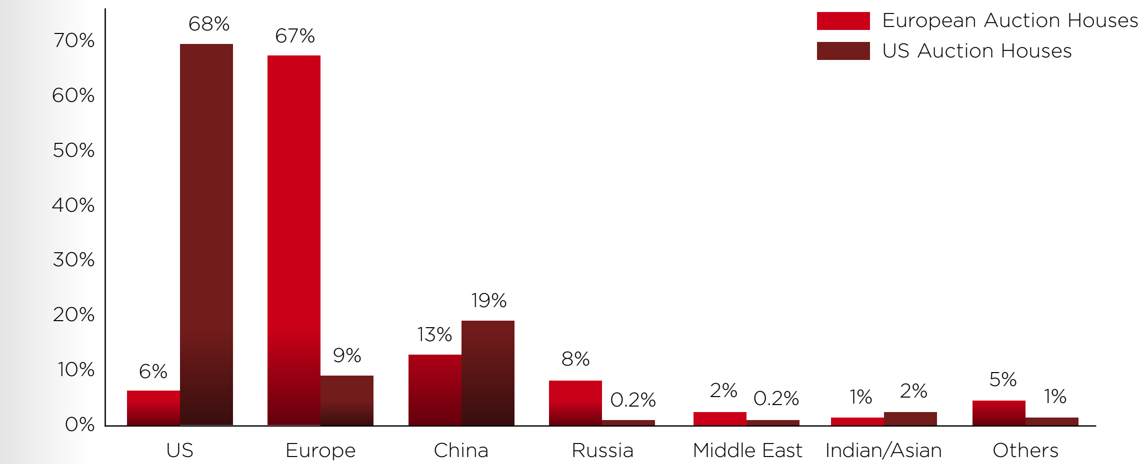
The size of enterprises is generally classified by turnover or the number of employees. A large company is defined as being one with turnover in excess of €50 million (or more than 250 employees); a medium company is between €10 million and €50 million in sales (or 50 to 250 employees); while a small company has sales of less than €10 million (and less than 50 employees).[4] The survey results showed that based on turnover the top-tier auction houses were all large companies. 47% of the second-tier houses were small companies, and the remaining 53% were medium-sized companies. Average sales in the second-tier (per business) in 2013 were €16 million, although this was skewed by some of the larger companies, and median turnover was lower (at €10 million). The average turnover of these second-tier houses increased 6% year-on-year (after a reported 8% drop in sales the previous year). 26% posted losses in 2013, and the remaining 74% were stable or had an increase in sales.

Most of the second-tier auction houses surveyed were based in a single national market. They reported that on average 75% of the sales they made were to buyers from local or neighbouring markets. Although the impact of foreign buyers differed widely between businesses, some regional difference emerged between US and European auction houses. While in both cases local buyers were in the majority, Chinese and Asian buyers accounted for a considerably higher share in US auction sales than was the case in their European counterparts (21% versus 13% in Europe), while Russian and Middle Eastern buyers had a higher share in Europe (10% versus 0.4% in the US).

The large international premier-tier auction houses attract buyers from throughout the world. In 2013, in excess of one third of buyers were from the US, around one quarter were from Europe, while Chinese buyers made up the next largest segment at about 20%.

Many auction houses no longer confine their activities to sales by public auction and they are increasingly diversifying into private and online selling. This is particularly the case for the premier-tier auction houses: in 2013, the survey and published data showed that, on average, 80% of sales by value in the top-tier houses were made at public auction, versus about 96% in the second-tier.

Figure 2f. Share of Expenditure in US and European Second-tier Auction Houses by Buyer Nationality



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AUCTION HOUSES ARE INCREASINGLY DIVERSIFYING INTO PRIVATE AND ONLINE SELLING WHICH NOW ACCOUNTS FOR AN AVERAGE OF 20% OF PREMIER TIER AUCTION SALES

3 This market share by volume is based on data from Artnet. Artnet gather fine art auction data from Chinese auction houses in Mainland China and Hong Kong. The transactions are considerably less than the 289,420 reported by Artron as they exclude decorative art, exclude Taiwan and do not report data from all of the smaller regional houses covered by Artron. Please see the Appendix for information on the different data sources.

4 See Europa (2014) *What is an SME?* At http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm.

2.4 Online Sales

Previous studies conducted by Arts Economics for TEFAF have observed that the art market was relatively slow in recognizing the potential of the internet as a means both of selling and of enlarging its client base. This is now beginning to change rapidly, both for the auction sector and for dealers.

In 2013 sales via the online channel accounted for an average of only 1% in the top-tier houses. The online channel was slightly more important in the second-tier houses with an average of 6% of sales. This average figure was skewed somewhat by a small number of businesses that reported doing a very large share of their sales online, even though up to 60% of auction businesses responding to the survey did not do any online sales.

Despite its low current share, some auction houses have begun concentrating more on online selling. In the art auction market, there have been two main methods for development to date: internally or via specialized external platforms.

The largest companies such as Christie's and Sotheby's have developed their own tools, sites and applications for online auctions. Sotheby's was one of the pioneers in the online sector, developing one of the first platforms in the market in 1999 in partnership with Amazon. However this was closed within one year. Sotheby's also had a short-term partnership with eBay but ceased online sales in 2003. The company maintains an online platform (BidNow), which enables buyers to follow an auction live, as well as to place bids online, alongside offline bidding.

Christie's introduced online bidding in 2006 (through Christie's LIVE) and launched online-only sales in 2012, and now holds regular sales of wine, art and collectibles. The company held seven online-only auctions in 2012, but this increased to 49 in 2013, including high profile sales in the Post War and Contemporary sector. Although these sales have had mixed results and still account for a relatively small total (at around €15.3 million in 2013), they have been highly effective in attracting new, globally diverse buyers, with new buyers accounting for 45% of buyers participating in online auctions in 2013 and registrants coming from over 100 countries.

The second approach, taken by small to medium sized companies, lacking the budgets or size to develop their own services, has been to use specialized platforms. These facilitate live auctions (by enabling remote bidding) or through online sales.[5]

A number of online only auction companies have also sprung up, that conduct their own sales[6], as well as some that combine this with acting as intermediaries for established auction houses, while also carrying out a significant amount of private sales[7]. The global leader for online sales is Heritage auctions, with 500,000 estimated visitors per month, and in the busiest top 1% of all internet sites in the US.

In the dealer and retail market also, galleries are actively using new online platforms, which have created digital marketplaces connecting buyers with established galleries and institutions. In 2013, Amazon launched *Amazon Art* selling original and limited edition works from more than 150 dealers with a daily inventory of about 60,000 works. Some of these platforms are focusing exclusively on the primary market[8] while others conduct secondary sales.[9] Some work with established dealers to make online sales, while others are separate businesses, even offering additional services such as art rental.[10]

Collectors are also buying directly from artists' websites and from specialized consumer-to-consumer platforms, such as The Spotlist and ArtViatic.

In both the auction and retail sectors, the primary focus for new online companies has been the middle market. The top end of the market is generally less suited to online sales. Factors such as

5 These include platforms such as Paddle8, Artnet auctions, Artfact (artfact.com, invaluable.com, auctionzip.com), ATG Media (saleroom.com, i-bidder.com, bidspotter.com), iGavel and Artprice auctions.
6 Such as Auctionata.com.
7 Such as Paddle8.
8 Including Artfinder, Artstation, 20x200 and Artspace.
9 For example Amazon, Artsy and 1st Dibs.
10 For example, Artsicle.

limited supply, the small number of high net worth (HNW) and ultra-high net worth (UHNW) buyers, the limited number of sellers, the need for education and expertise, and the fact that most purchases are highly priced and infrequent, militates against online selling. Because of this, although the internet has been critical for publicity and the dissemination of information, there has been very little e-commerce at this level. The main focus of online companies has been on the middle market for authentic, original works worth between a few hundred Euros to a maximum of around €100,000. Although this market has been dominated by primary sales and sales of prints and photography, it is increasingly being used for other types of art and the price level at which people are comfortable to purchase online is slowly moving up, as new generations of collectors become involved. While worries over provenance and authenticity have tended to keep the online market focused on lower price points, this ceiling is gradually shifting upwards.

Estimates of the size of the current online market vary, but based on the most recent evidence from dealers and auction houses, online sales in 2013 can be estimated at in excess of €2.5 billion[11], or around 5% of global sales of art and antiques, and 0.5% of the global B2C e-commerce market across all industries, which was estimated at $1.2 trillion (around €900 billion) in 2013.[12]

It is estimated that online sales in the art market could grow at a rate of at least 25% per annum[13], meaning that they could exceed €10 billion by 2020.

2.5 Fine Art Auction Prices

In 2013, fine art sales dominated the market with the highest individual prices and the largest aggregate sales by value.[14] In 2013, the (weighted) average share of fine art in top-tier auction houses was 70%, while in the second-tier houses, it accounted for 47% of sales. In many of the smaller, regional auction houses, decorative art continued to make up the majority of sales, with a high number of low value transactions of decorative art, antiques and collectibles accounting for up to 75% of their annual turnover.

Table 2c shows that average prices increased significantly in the US in 2013, advancing by 12% year-on-year. This was heavily influenced by the very highly priced lots sold at auction throughout the year. The highlight of the year in terms of auction prices was undoubtedly the sales of Post War and Contemporary art in the major auction houses. While there were numerous works sold for over $40 million by artists such as Jackson Pollock, Roy Lichtenstein, Jean-Michel Basquiat and Barnett Newman in the Spring sales at Christie's and Sotheby's in New York, the two auction houses' sales in November generated over $1 billion in just two nights. The highlight was the record-breaking sale of Francis Bacon's *Three Studies of Lucien Freud* for $142 million, a world record price for a work of art, overtaking the record set by Munch's *Scream* (which sold at Sotheby's in 2012 for $120 million). At Christie's New York there were ten works sold for over $20 million at that sale, while the company sold 58 lots for over $10 million during 2013.

While average prices as a whole in the EU contracted by 7%, some markets showed moderate increases, including the UK, where a larger contraction in the volume of sales at fine art auctions (-11%) than the drop in value (-8%) meant that averages remained positive. France on the other hand had exactly the opposite experience in 2013, as the 5% increase in the number of transactions slightly outweighed the 3% increase in value, with average prices falling by 2%.

Average prices in China more than doubled in 2010, and then increased by a further 18% in 2011, with large number of high value lots selling at the major auction houses. In 2012, as the market contracted, average prices fell by almost one third. This decline continued in 2013, as aggregate sales improved, but there were noticeably fewer higher priced works sold than in the boom years of 2010 and 2011.

[11] Including reported online sales by traditional dealers and auction houses plus estimates for online only companies selling on their own account.
[12] Estimates from eMarketer, June 2013. The US is estimated to make up 34% of these sales, closely followed by the Asia Pacific region with 32%, while Europe has a 28% share.
[13] This rate is a conservative estimate of growth based on the average rate of growth in online luxury goods retail sales for the last three years. This sector has grown at a steady rate of 25% per annum in each year from 2010 through 2012. See Bain and Company (2013) *Luxury Goods Worldwide Market Study* at www.bain.com.
[14] For the purposes of this analysis, fine art includes paintings, sculptures and works on paper (including watercolours, prints, drawings and photographs), while decorative art includes furniture and decorations (in glass, wood, stone, ceramic, metal or other material), couture, jewellery, ephemera, textiles and some other collectibles.

Table 2c Average Auction Prices for Fine Art by Country 2007-2013

Country	2007	2008	2009	2010	2011	2012	2013
Austria	€ 11,455	€ 9,578	€ 9,204	€ 12,903	€ 9,847	€ 11,224	€12,812
France	€ 17,337	€ 11,806	€ 18,534	€ 13,037	€ 13,808	€ 14,440	€14,158
Germany	€ 9,757	€ 7,262	€ 6,834	€ 7,144	€ 8,217	€ 8,486	€8,628
Italy	€ 23,247	€ 14,295	€ 12,923	€ 8,652	€ 6,417	€ 5,938	€5,973
Netherlands	€ 13,732	€ 12,730	€ 12,281	€ 13,577	€ 10,629	€ 12,983	€13,993
Sweden	€ 8,777	€ 10,558	€ 6,934	€ 8,897	€ 9,974	€ 11,673	€12,085
UK	€ 72,403	€ 72,860	€ 37,579	€ 54,842	€ 56,863	€ 66,001	€68,332
EU	**€ 29,962**	**€ 25,995**	**€ 16,695**	**€ 18,852**	**€ 19,041**	**€ 21,262**	**€19,878**
Singapore	€ 31,901	€ 21,975	€ 18,371	€ 20,572	€ 21,295	€ 25,298	€36,055
Japan	€ 25,352	€ 12,730	€ 9,817	€ 12,255	€ 6,711	€ 7,900	€7,629
Switzerland	€ 17,966	€ 18,278	€ 10,419	€ 16,323	€ 20,367	€ 19,950	€17,990
China	€16,434	€17,902	€17,150	€34,733	€40,820	€27,655	€25,888
UAE	€ 52,375	€ 65,509	€ 27,416	€ 50,497	€ 26,009	€ 23,756	€37,638
US	€ 62,362	€ 48,337	€ 27,115	€ 42,855	€ 36,057	€ 48,410	€54,236
TOTAL	**€ 39,086**	**€ 31,372**	**€ 20,640**	**€ 30,773**	**€ 32,445**	**€ 31,576**	**€32,723**

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Table 2d Changes in Average Fine Art Auction Prices

	2009-2013	2007-2013	2009-2010	2010-2011	2012-2013	2012-2013
Austria	39.2%	11.8%	40.2%	-23.7%	14.0%	14.1%
France	-23.6%	-18.3%	-29.7%	5.9%	4.6%	-2.0%
Germany	26.3%	-11.6%	4.5%	15.0%	3.3%	1.7%
Italy	-53.8%	-74.3%	-33.0%	-25.8%	-7.5%	0.6%
Netherlands	13.9%	1.9%	10.6%	-21.7%	22.1%	7.8%
Sweden	74.3%	37.7%	28.3%	12.1%	17.0%	3.5%
UK	81.8%	-5.6%	45.9%	3.7%	16.1%	3.5%
EU	**19.1%**	**-33.7%**	**12.9%**	**1.0%**	**11.7%**	**-6.5%**
Singapore	96.3%	13.0%	12.0%	3.5%	18.8%	42.5%
Japan	-22.3%	-69.9%	24.8%	-45.2%	17.7%	-3.4%
Switzerland	72.7%	0.1%	56.7%	24.8%	-2.0%	-9.8%
China	51.0%	57.5%	102.5%	17.5%	-32.3%	-6.4%
UAE	37.3%	-28.1%	84.2%	-48.5%	-8.7%	58.4%
US	100.0%	-13.0%	58.0%	-15.9%	34.3%	12.0%
TOTAL	**58.5%**	**-16.3%**	**49.1%**	**5.4%**	**-2.7%**	**3.6%**

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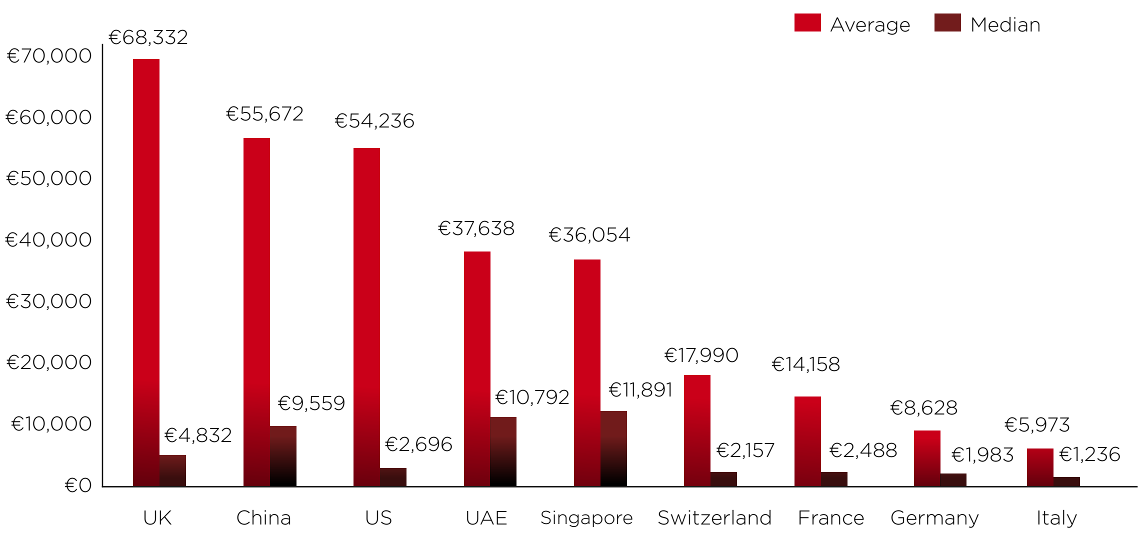
ONLINE SALES IN 2013 CAN BE ESTIMATED AT IN EXCESS OF €2.5 BILLION OR 5% OF GLOBAL SALES

Average prices at auction are often skewed upwards by a small number of very highly priced sales. To gauge trends in prices over time and between markets, the median price is a useful comparative measure.[15] As has been the case in nearly all markets and all countries over the last decade, the median price is lower than the average, indicating that prices in the fine art auction market are not symmetrical, but are heavily biased by a few very high prices which pull averages upwards, even though the majority of lots are sold at the lower end of the price range. Averages are generally closer to median prices when prices are distributed evenly either side of the average. In 2013, in markets such as the US and UK, where the very highest priced lots are sold at auction, there is a very large disparity between average and median prices: averages were 20 times the size of medians in the US and 14 times their size in the UK. By contrast the ratio was under five times in smaller markets such as Germany, Italy or Singapore. The highest median prices are often found in smaller markets with a low volume of higher value sales, for example in the UAE and Singapore, where median prices exceeded €10,000, around one third of averages.

In all countries the bulk of transactions at auction and through dealers takes place at the lower priced end of the market. This leads to much less variation in median prices than is the case for average prices. The predominance of trade at the lower end of the art market can be examined by looking at the market at different price points. Figure 2i examines the value and volume of art works sold in different price brackets in the global fine art market in 2013. It shows that the lowest three price brackets of works sold for less than €50,000 accounted for 93% of all lots sold in 2013, despite only having accounted for 18% of total sales by value. These ratios have not changed significantly over the last five years,

Figure 2g. Average and Median Fine Art Auction Hammer Prices in 2013



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[15] The median is a measure of central tendency that is used when distributions are skewed to get a better idea of where the middle of market is. The median price is simply the price separating the higher and lower halves of the distribution of prices: if prices in the art market were arranged from lowest to highest, the median price is the middle price or centre point along the spectrum.

and are a persistent feature of the market, despite changes in aggregate sales.

At the high end of the market, less than 0.5% of works at auction were sold for over €1 million, with these lots accounting for 44% of sales by value. The highest priced lots over €10 million also accounted for a tiny fraction of sales (less than 0.1%), but they still made up 16% of the market's total value. The high market share of top value sales has not changed significantly year-on-year, but has increased in value terms since 2011: in 2011, lots over €2 million accounted for 29% of the market's value but they rose to 34% in 2012 and then to 35% in 2013.

93% OF WORKS SOLD AT FINE ART AUCTIONS IN 2013 WERE PRICED AT LESS THAN €50,000 AND ONLY 0.5% WERE OVER €1 MILLION

Figure 2h. Share of Lots Sold and Total Value at Global Fine Art Auctions in 2013 by Price Bracket

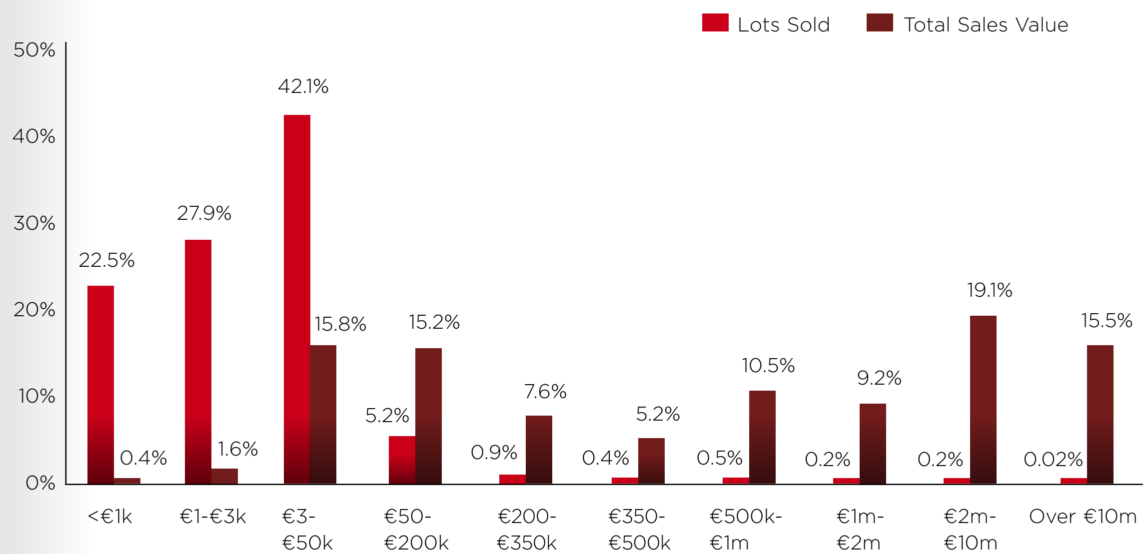

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Table 2e. Share of Artists with Sales at Auction by Price Bracket in 2013

	<€3k	€3-€50k	€50-€200k	€200-€350k	€350-€500k	€500k-€1m	€1m-€10m	Over €10m
China	36.7%	46.8%	10.0%	2.4%	1.3%	1.5%	1.1%	0.05%
France	61.2%	33.3%	3.9%	0.8%	0.3%	0.3%	0.2%	0%
Germany	65.1%	31.2%	2.9%	0.4%	0.1%	0.2%	0.1%	0%
Switzerland	62.4%	32.5%	3.4%	0.6%	0.5%	0.4%	0.3%	0%
UK	45.4%	39.5%	8.6%	2.4%	1.2%	1.5%	1.3%	0.09%
US	62.4%	28.7%	4.8%	1.5%	0.7%	0.9%	0.9%	0.11%
Total	**55.4%**	**34.9%**	**5.8%**	**1.5%**	**0.8%**	**0.9%**	**0.7%**	**0.06%**

Table 2f. Auction Sales Above and Below €50,000 in 2013

	Number of Lots		Total Sales	
Country	**Lots greater than €50,000**	**Lots less than €50,000**	**Value greater than €50,000**	**Value less than €50,000**
Austria	4.7%	95.3%	50.5%	49.5%
Belgium	0.8%	99.2%	22.4%	77.6%
France	4.2%	95.8%	64.8%	35.2%
Germany	2.7%	97.3%	48.9%	51.1%
Ireland	1.0%	99.0%	29.5%	70.5%
Italy	1.7%	98.3%	43.0%	57.0%
Netherlands	5.2%	94.8%	53.6%	46.4%
Spain	1.5%	98.5%	26.8%	73.2%
Sweden	3.5%	96.5%	57.3%	42.7%
UK	13.1%	86.9%	89.7%	10.3%
Rest of EU	1.2%	98.8%	30.7%	69.3%
EU	**2.8%**	**97.2%**	**53.6%**	**46.4%**
China	17.3%	82.7%	82.9%	17.1%
Japan	2.2%	97.8%	38.8%	61.2%
Singapore	20.4%	79.6%	72.3%	27.7%
Taiwan	15.0%	85.0%	77.6%	22.4%
UAE	16.2%	83.8%	70.4%	29.6%
Norway	9.9%	90.1%	65.6%	34.4%
Switzerland	4.6%	95.4%	73.0%	27.0%
US	7.5%	92.5%	90.2%	9.8%
Rest of World	3.6%	96.4%	56.3%	43.7%
World	**7.5%**	**92.5%**	**82.2%**	**17.8%**

An examination of auction sales of the work of individual artists shows that the majority of sales by value are works of a very small group of artists. Of those artists whose works appeared on the auction market in 2013, the majority (55%) were sold for less than €3,000, and 90% for less than €50,000. The work of less than 1% were sold for over €1 million, and only a tiny fraction had top selling lots for over €10 million (less than 50 artists worldwide). While the predominance of lower value sales and a very thin market at the top is a common feature in smaller markets, Table 2e shows that it is also applies to large art markets.

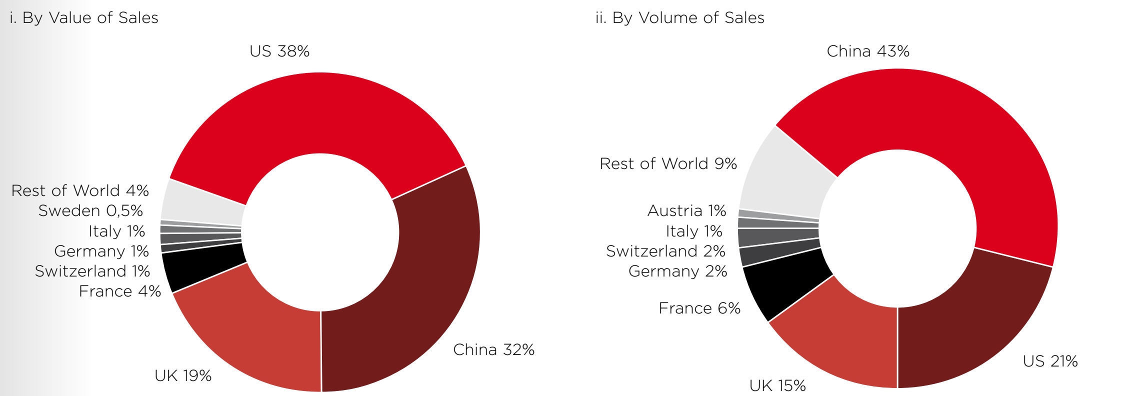
In the US for example, only 1% of the artists whose work was sold at auction in 2013 had works priced over €1 million. The small number of artists whose work was sold for these higher prices emphasises the continuing narrow focus of the auction market, with a small number of names accounting for an increasingly large share of total sales. It is also true of the dealer market, with high-end dealers commenting that their top collectors appeared to be interested in the work of only about 50 to 100 artists.

Table 2f looks at the number of lots sold and the value of sales by country for works priced above and below €50,000. In 2013, only 8% of lots sold worldwide were for over €50,000 but they accounted for 82% of the value of total sales.

The largest art markets had the highest share of sales above €50,000, with the UK and the US at 90% each by value. In 2013, China's market share in this higher bracket was 83% (up 13% on 2012) and the number of lots in this price category also rose by 2%. While all markets had a majority of transactions in the lower end of the market, in many of the smaller markets in Europe such as Germany, Belgium, Italy and Spain lower value sales also accounted for the majority of value.

Figure 2j shows the market share in terms of the value and number of transactions at fine art auctions for works sold for more than €50,000 in 2013. The largest markets had the biggest share of the value of sales with the US, China and the UK accounting for 89%. As in 2012, the US was the largest market by value with share of 38%, but China has more than double its share in transactions with 43%.[16]

Figure 2i. Market Share of Fine Art Auction Market for Works Sold for More than €50,000 in 2013



[16] In the highest end of the market (above €1 million), the US had the largest share by both value (with 36%) and volume (with 52% compared to 22% each in China and the UK).

2.6 Fine Art by Sector in 2013

In terms of overall values, fine art has dominated decorative art and antiques over the last few years, especially at the higher end of the market. However even within the fine art market, there has been considerable variation, with Post War and Contemporary dominating in 2012 and 2013. Definitions of different categories of art can vary widely between professionals in the art trade and art experts, but for the purposes of this analysis by sector, the following definitions are used[17]:

a. Post-War and Contemporary, defined as artists born after 1910.
b. Modern, defined as artists born between 1875 and 1910.
c. Impressionist and Post-Impressionist, which are defined as artists born between 1821 and 1874.
d. Old Masters, defined as artists born before 1821.[18]

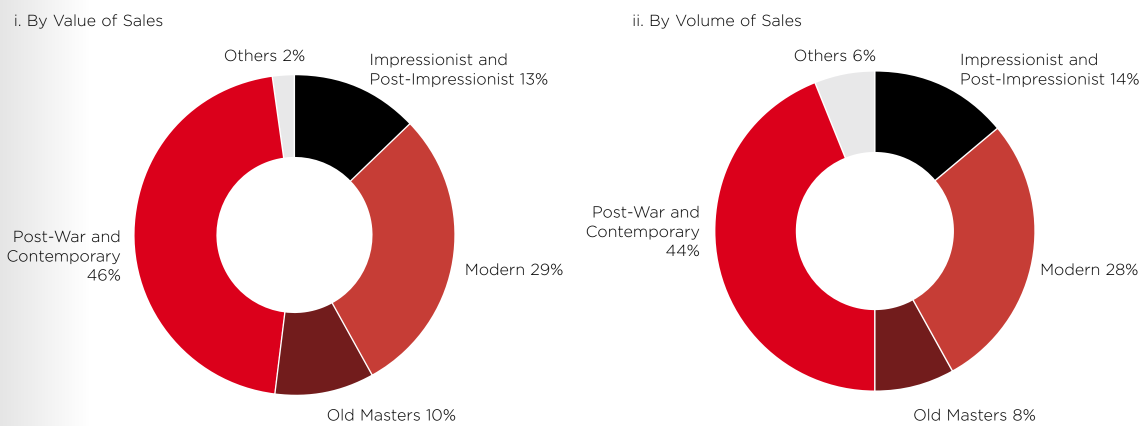
The market share of these four main sectors in 2013, in terms of value and volume of sales at auction, is given in Figure 2k. This shows that Post War and Contemporary art accounted for 46% of the market by value and 44% by volume, with both shares up 3% on 2012. Modern and Post War and Contemporary works together made up 75% of the market's value and 72% of all transactions.

Post War and Contemporary Art

The Post War and Contemporary sector grew 11% in value in 2013, reaching a historical peak of €4.9 billion in auction sales alone. The number of lots sold also rose to its highest level, with 6% growth year-on-year to just under 143,000 lots.

Of the 80 lots that were sold for over €10 million during the year, the majority were from this sector, and most of them were sold in New York. The sector includes many of the highest selling artists including all of those artists making significant record prices in 2013 (Francis Bacon, Roy Lichtenstein, Andy Warhol, Jean-Michel Basquiat, Zeng Fanzhi and others). Although Post War and Contemporary art accounted for the work of more than 36,000 artists in 2013, value was concentrated on this very narrow group of key names.

Figure 2j. Market Share by Sector of the Fine Art Auction Market in 2013



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[17] Most artists categorization is based on date of birth, but there are a small number of artists included in different sectors based on their importance to a particular movement, for example Francis Bacon (born 1909) and Mark Rothko (born 1903) are both included in the Post War and Contemporary sector.

[18] More specifically, this sector is defined as artists born between 1250 and 1820, or works executed 1275-1850.

Post War and Contemporary art sales have shown consistent growth since 2009, with the value of sales advancing by almost 250%. Over the decade, it has been one of the fastest growing and most volatile sectors of the art market and from 2003 to 2007 grew over 480% in value. As one of the most speculative sectors of the market however, its performance was particularly susceptible to a downturn in financial markets, and it was therefore the hardest hit of all sectors in the recession, with the market losing 60% of its value in the two years to 2009. Since then, average growth rates have been in excess of 40% per annum and the market has surpassed the peak of 2007, by 42% in value.

In 2013, the US was the largest market for Post War and Contemporary art, with a global market share of 44% by value and 21% of transactions, both rising 3% in share year-on-year as US auction sales in the sector advanced 20% in value to reach €2.2 billion. Strong sales in China brought the US share down to 32% in 2011, its lowest since 2000. Although in 2012 and 2013 the US market rose significantly, and the value of the market has risen by over 320% since 2009, its share is still significantly less than it was in 2000 when the US accounted for 67% of the sector.

China was the second largest market for sales in this sector, with a 26% share by value in 2013, up 1% on 2012, although its share of transactions fell 4%. The Chinese Post War and Contemporary market grew 17% in value year-on-year reaching €1.3 billion.

The EU accounted for 24% of this market by value. Total sales reached €1.2 billion, a 3% decline on 2012, although its share of transactions grew 2% year-on-year to 43%. The UK's share of the global market declined by 2%, to 15%. This continues a declining trend in the UK, which has dropped from a share of 35% in this sector in 2008. Total sales in the UK fell 12% year-on-year in 2013, reaching €728 million, while sales in the next largest European market, France, grew 21%, albeit from a lower base.

Modern Art

After a strong recovery in 2011, the Modern art sector was virtually stagnant in 2013. An active auction

Figure 2k. The Post War and Contemporary Art Sector: 2003 to 2013

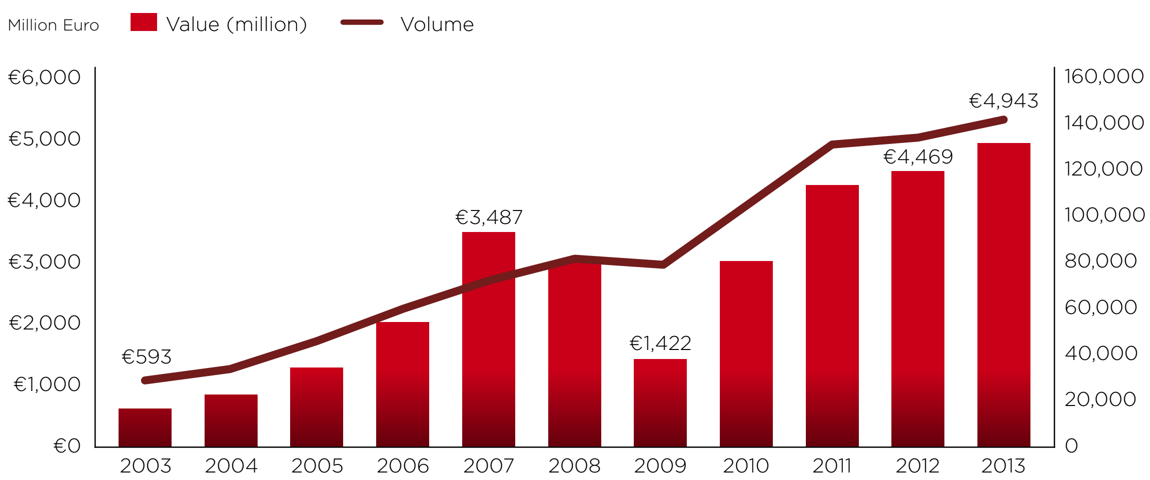

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Table 2g. Market Share by Value and Volume and Average Prices in 2013 – Post War and Contemporary Art

Country	Value	Volume	Average Price	Median Price
US	44.1%	21.3%	€ 71,692	€ 2,912
China	26.3%	19.4%	€ 46,919	€ 8,714
UK	14.7%	6.7%	€ 76,523	€ 5,969
France	4.6%	9.8%	€ 16,071	€ 2,469
Italy	1.1%	7.3%	€ 5,388	€ 984
Germany	1.1%	5.6%	€ 6,937	€ 1,764
Taiwan	0.6%	0.5%	€ 48,257	€ 9,727
Japan	0.6%	2.9%	€ 7,115	€ 2,252
Sweden	0.5%	1.7%	€ 10,521	€ 2,813
Rest of World	6.3%	24.9%	€ 8,793	€3,602
World	**100.0%**	**100.0%**	**€ 34,643**	**€3,838**[19]

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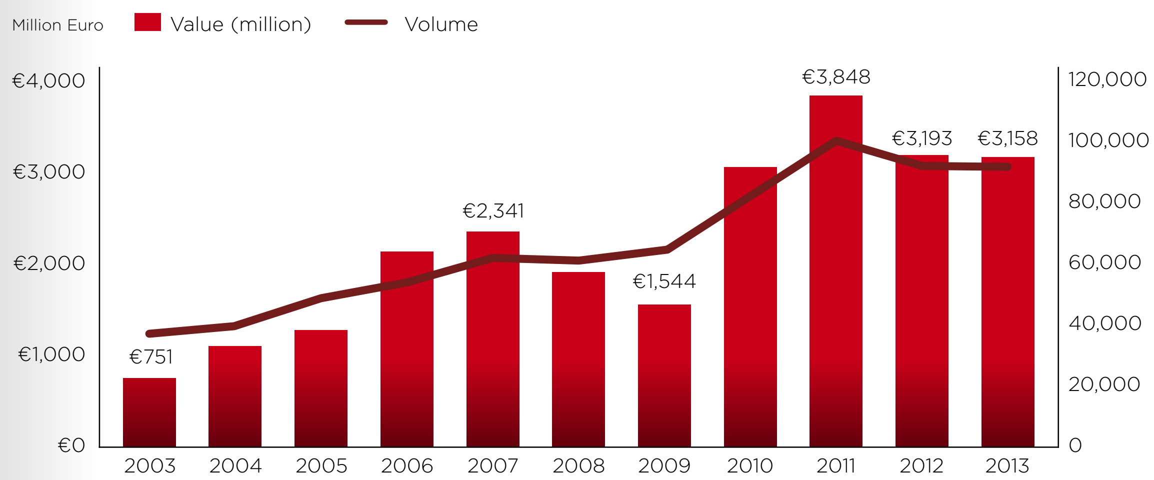
market for the best known artists such as Pablo Picasso, Alberto Giacometti, Xu Beihong and Li Keran has kept sales relatively buoyant in recent years. The sector has more than doubled in value since the low point in 2009, and has grown by over four times in ten years. However, sales growth in the last two years has been much more subdued, and after falling 17% in 2012, it changed little in 2013, with a slight drop of 1% in value, while volumes increased by 1%.

The sector was the largest in the fine art market up to 2006, with share of 36%, but was overtaken by Post War and Contemporary in 2007, and it has since remained smaller.

Figure 2l. The Modern Art Sector: 2003 to 2013



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[19] World median is the average median of all countries.

China had the highest value share of the Modern art market in 2013, with 36%, up 1% on 2012. Its share grew from just 2% in 2003 to a peak of 47% in 2011, and it still leads the US by a margin of 8%. This increase in share came about in spite of values in the Chinese market decreasing by 4% in 2013, to reach just over €1.1 billion. The sector contains some of China's top selling artists including Zhang Daqian, whose works sold accounted for 10% of all auction sales of fine art in China.

Although the US accounted for roughly the same share in the number of transactions as China, lower sales values meant lower average prices, and the middle of the market was also much lower as demonstrated by the significantly lower median price in Table 2h. Sales in the US in the sector increased 5% year-on-year to reach €897 million.

The EU maintained a 31% share of the sector by value in 2013, with a 48% share of the number of transactions, little changed since 2012. The UK is the largest market in the EU and accounted for 19% of the global market by value. France had a larger number of sales with a 13% share of the number of transactions, and a 5% global share by value. The value of sales in the UK was stagnant in 2013, while values in France declined by 8%.

Impressionist and Post-Impressionist

Although it was one of the most popular areas of interest to collectors in the 1980s, the Impressionist and Post-Impressionist sector is now much smaller relative to Post War and Contemporary and Modern art, and its share of the fine art market was less than half that of Modern art in 2013 at 13%. Works by 15,300 artists were sold at auction in this sector, less than half that of the Post War and Contemporary sector and 10% less than the Modern sector. This can be explained to an extent by the increasing scarcity of Impressionist and Post Impressionist works: for example, in 2013 just eight paintings by Paul Cezanne were sold at auction and only 25 by Claude Monet whereas hundreds of paintings by artists such as Andy Warhol or Pablo Picasso were sold during the year.

This sector peaked in 2011 when total sales reached €1.7 billion, an increase of over 140% from their low point in 2009. However both values and volumes dropped in 2012 (by 26% and 14% respectively), before returning to growth in 2013. Sales grew 9% in value year-on-year reaching €1.4 billion, below the peak of 2011, but above any level previously recorded since 2000.

Table 2h. Market Share by Value and Volume and Average Prices in 2013 – Modern Art

Country	Value	Volume	Average Price	Median Price
China	35.7%	19.4%	€63,106	€11,189
US	28.4%	20.5%	€47,532	€2,738
UK	18.9%	7.8%	€83,316	€5,214
France	5.1%	12.8%	€13,815	€2,453
Germany	2.6%	7.6%	€11,559	€2,167
Switzerland	1.8%	3.3%	€19,112	€1,967
Japan	1.0%	3.2%	€11,245	€2,983
Italy	0.8%	4.1%	€6,824	€1,484
Sweden	0.7%	2.2%	€10,374	€2,813
Austria	0.6%	1.8%	€12,392	€2,381
Rest of World	4.3%	17.3%	€8,585	€10,050
World	**100.0%**	**100.0%**	**€34,362**	**€7,090**

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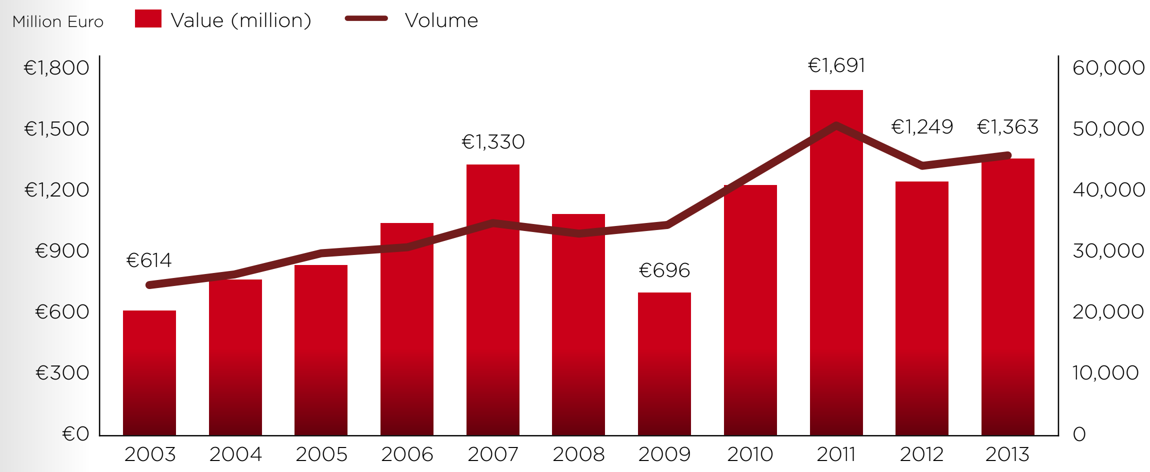
Figure 2m. Impressionist and Post-Impressionist Auction Sales 2003-2013



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Sales in China and the US were nearly level in 2013 at just under €400 million. In China they grew 7% year-on-year. The work of Qi Baishi alone accounted for 67% of the value in this sector (and 8% of all fine art auction sales in China). Sales in the US grew by 9% and accounted for 23% of the volume of global transactions.

The EU increased its market share 3% year-on-year to a total of 36% by value, and accounted for 56% of transactions. Sales in the UK grew 18% by value in 2013, increasing its global share to 22%. Some of the smaller markets, such as France and Germany, increased in value by over 20%.

Table 2i. Market Share by Value and Volume and Average Prices in 2013 – Impressionists–Post Impressionists

Country	Value	Volume	Average Price	Median Price
China	29.2%	13.1%	€66,066	€7,847
US	29.2%	23.4%	€36,873	€2,373
UK	22.0%	10.4%	€62,408	€3,279
France	5.2%	12.0%	€12,776	€2,220
Switzerland	3.9%	3.5%	€32,921	€2,174
Germany	2.0%	8.4%	€6,893	€1,845
Sweden	1.6%	2.3%	€21,057	€3,149
Austria	0.9%	3.0%	€8,921	€3,059
Italy	0.6%	3.2%	€5,722	€1,808
Denmark	0.4%	4.0%	€3,110	€894
Rest of World	5.0%	16.7%	€10,517	€2,507
World	**100.0%**	**100.0%**	**€29,532**	**€3,078**

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Figure 2n. Old Master Painting Sales 2003-2013

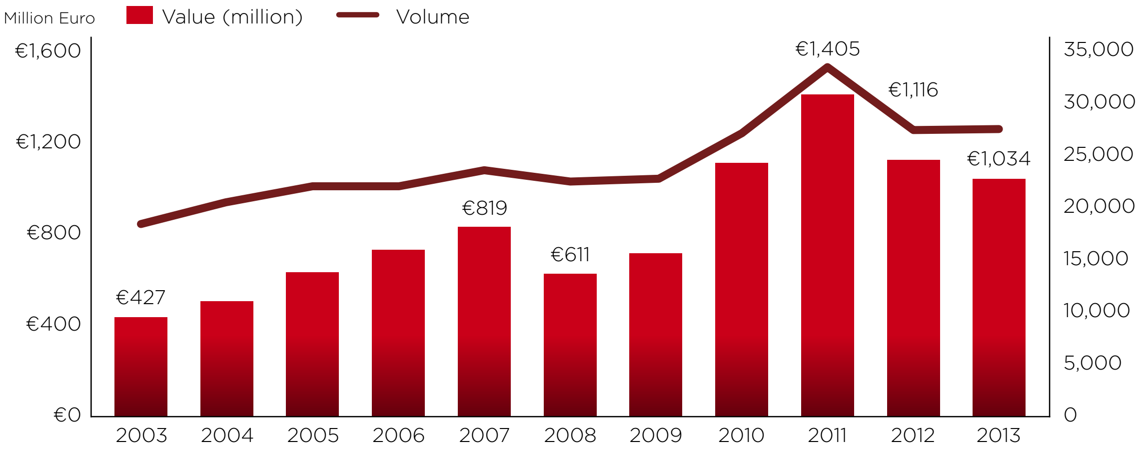

Table 2j. Market Share by Value and Volume and Average Prices in 2013

Country	Value	Volume	Average Price	Median Price
China	40.5%	17.8%	€ 86,602	€ 13,137
UK	24.3%	18.2%	€ 50,783	€ 5,722
US	18.8%	16.2%	€ 44,090	€ 3,747
France	5.6%	13.3%	€ 15,997	€ 3,793
Germany	2.9%	11.7%	€ 9,373	€ 2,650
Austria	2.1%	3.4%	€ 22,680	€ 6,309
Switzerland	1.9%	3.9%	€ 18,657	€ 3,486
Italy	1.1%	3.8%	€ 11,463	€ 4,846
Netherlands	0.7%	1.8%	€ 15,453	€ 6,206
Sweden	0.5%	1.6%	€ 10,339	€ 3,931
Rest of World	1.6%	8.4%	€ 7,743	€ 4,771
World	**100.0%**	**100.0%**	**€ 38,027**	**€ 5,077**

THE UK IS AN IMPORTANT GLOBAL CENTRE FOR THE TRADE IN OLD MASTER PAINTINGS WITH THE HIGHEST SHARE OF INDIVIDUAL TRANSACTIONS IN 2013

Old Masters

The Old Master sector has often displayed a low correlation, both with other sectors of the fine art market and with the art market in general. This was the case again in 2013, as the sector contracted by 7% in value, the second year of negative growth, bringing sales to just over €1 billion, below the level of 2010, but still more than double their value ten years ago.

Old Masters is the smallest sector of fine art, with just 10% of the total value of sales. In 2013, like the Impressionist sector, it suffered from a scarcity of major works with the highest quality works appearing less frequently on the market.

Sales in China grew by 6% year-on-year and China's global share by value of the Old Master sector reached 40% (up 5% on 2012). Older traditional Chinese painting and calligraphy continues to be one of the strongest collecting areas in China, and works by artists such as Dong Bangda, Ma Yuan and Shen Zou were among the highest value lots sold at the main auction houses in Beijing.

The UK is an important global centre for the trade in Old Master paintings and is the second highest selling market by value, with the most individual transactions in 2013. However its global share by value dropped 5%, as sales fell 23% year-on-year. The US, the third largest, saw its share rise 3% to 19%. Although the sector has been somewhat less fashionable than Contemporary art, it is beginning to attract more interest from the global wealthy.

2.7 Dealer Sales

Arts Economics conducted a global survey of over 5,500 dealers from the US, Europe, Asia, Africa and South America to establish information and views on their businesses and on the art market in 2013. Some important insights can be gained from the results of the survey and from supplementary interviews conducted with dealers around the world.

In 2013, the dealer sector (including dealer and gallery sales and private sales within the art trade) was estimated to account for around 53% of the global art and antiques market by value. This share varied widely between countries, reaching up to 80% in some emerging markets where the primary sector dominated, and as low as 30% in markets with an underdeveloped gallery infrastructure. In the large mature markets, its share was generally at or over 55%.

Sales in this sector reached an estimated total of just under €25 billion, up 12% on 2012. Based on the survey data, the median turnover of dealers increased by 23% year-on-year (from €750,000 in 2012 to €920,000 in 2013). However, different segments of the market fared better than others. While in 2012, the survey indicated that the very lowest end of the market performed most poorly, in 2013, the middle market showed lower growth than the lowest and highest ends. Based on unweighted averages of the changes for individual businesses year-to year, the survey indicated that:

- Dealers with sales under €500,000 reported that average turnover increased 12% year-on-year.
- Dealers with sales of between €500,000 and €2 million reported increased sales of 3%.
- Those with sales between €2million and €10 million increased by 2% on average.
- The top end of the market, where dealers generated sales of over €10 million, reported an average increase of 11%.

These trends in average sales could indicate that the top and lower ends of the market are growing at a faster rate than the middle, but it is important to note that averages mask local and micro-level variations. In both the top and lowest end of the market some respondents reported a drop in sales of over 50%, while others had advances of 100% and more. Nonetheless, the general trend does fit with anecdotal evidence from dealers that the most difficult area in 2013 was the middle market.

The dealer market is highly fragmented with an estimated 295,000 businesses worldwide in 2013. Of those, less than 30,000 (or the top 10%) account for over 60% of the market by value.

Most dealers are small and medium-sized enterprises. In the sample, 1% reported turnover of over €50 million (large businesses), 9% were between €10 million and €50 million (medium businesses) and the remaining 90% were small businesses. While most dealers were small businesses, the majority could be further classified as micro-businesses[20], with 71% of the dealers having a turnover of less than €2 million.

Looking ahead to 2014, most dealers were optimistic, with 47% estimating that sales would increase year-on-year and 42% feeling that they would remain stable. Only 11% predicted lower sales, with the majority of these from Europe.

Dealers were also asked to report their gross margins for 2013, which averaged 35%, with a median of 30% (down 7% on 2012). These margins are higher than averages in some other retail sectors (such as the car industry which averages between 15% for used cars and 30% for new cars in the US), but lower than some other luxury industries, which report average margins in excess of 60%.[21]

The average number of works sold by dealers in 2013 was 127, a 5% increase on 2012. Previous surveys indicated that the average was 208 in 2011. However averages are often skewed by some decorative art and antique dealers, who tend to sell a high volume of smaller value items. The median number of works sold in 2013 was 80 (and 78 in 2012). These figures are also relatively stable compared with the 2012 survey.

Sales Channels

In 2013, dealers reported making 33% of their total sales through art fairs, down 3% on 2012. These were divided between international fairs and local or national fairs, with a greater share in the latter. The slight drop in sales through this channel fits with some of the anecdotal evidence from dealers who reported reducing the number of fairs they attend and concentrating their efforts on those with the most suitable buyers. Some have also reported that they are refocusing more on local buyers and gallery sales, although this tended to be in larger markets such as the US and some countries in Europe, where there is a strong, wealthy buyer base. When asked whether they saw the continued growth of art fairs as a positive development in the art market, views were evenly divided, with 51% regarding it as positive and 49% disagreeing. Despite this, when asked about their activities over the next five years, 49% felt their presence at fairs would increase, while only 12% thought they would cut back on their attendance.

On average, sales made through galleries were up 6% on 2012 to 50%, while those conducted privately and through auctions were up 1% each. Although the decline of gallery sales has been a widely discussed topic in recent years, there is some evidence of a reversal in this trend. When asked to estimate sales through different channels over the next five years, 49% felt that gallery sales would increase and only 8% felt they would decline.

Online sales have become an increasingly important part of many dealers' businesses, however, on average reported online sales in 2013 were only 5% in value of total sales, down 3% on those reported in 2012. But this overall average includes dealers who do not conduct any sales online. Considering only those who had at least some sales online, the average share was 14% of the value of total sales. Dealers reported that 62% of their online sales in value were to new buyers who had never been to their gallery or met the dealer in person, 10% were to regular online buyers with whom they had not had personal contact, and 28% were to existing buyers who had already transacted with the dealer off-line.

It is worth noting also that for those dealers that made online sales, pure e-commerce accounted for about 30% of the online transactions. 67% of dealers felt that their online sales would increase over the next five years. More generally, two thirds of dealers felt that the internet and online sales were having a positive influence on the art market.

Figure 2o. Share of Dealers by Total Sales in 2012 and 2013

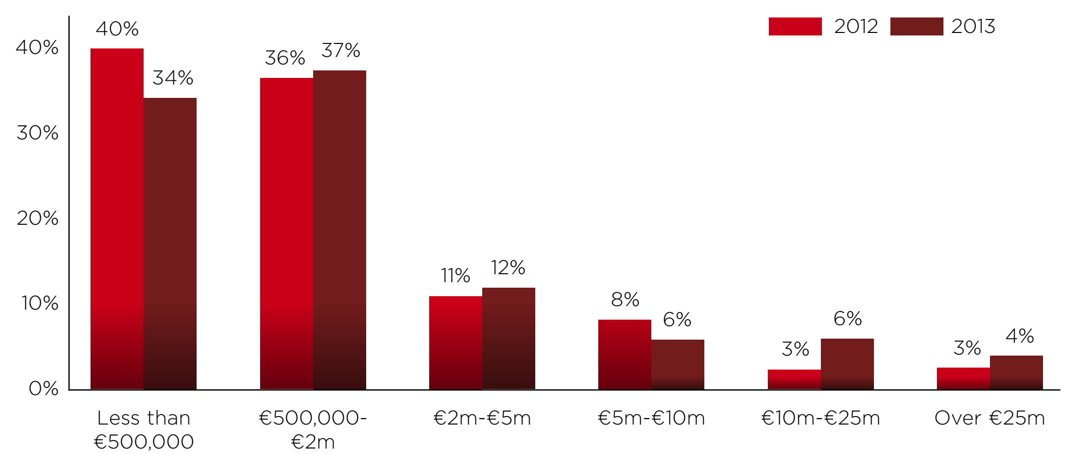

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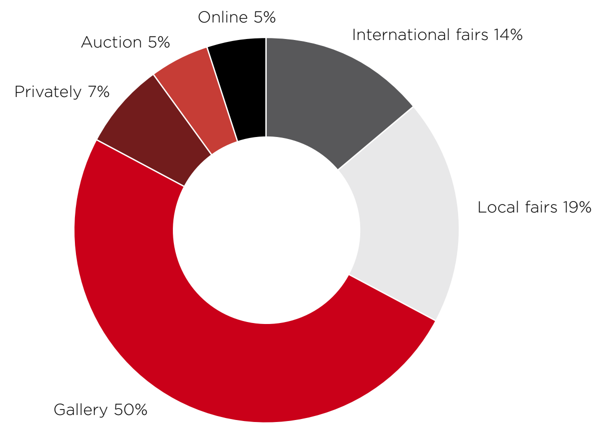
Figure 2p. Share of Dealer Sales by Value in 2013



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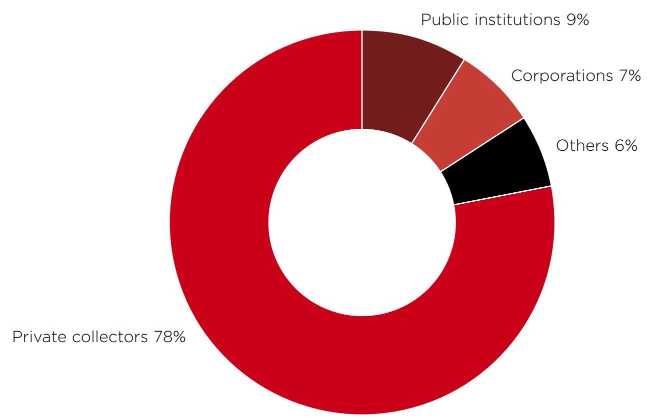
[20] A micro-business is defined as one having less than ten employees or annual turnover of less than €2 million.
[21] For example see Investors Chronicle (2013) *Live the High Life with these Luxury Retailers*, at http://www.investorschronicle.co.uk.

Figure 2q. Market Share of Sales by Value by Buyer Group in 2013



Buyers

In 2013, on average 65% of sales made by dealers were to local buyers and 35% to buyers from overseas. The share of local selling is down 5% year-on-year. The most important buyer nationalities varied, depending on where dealers were based, but some general trends were apparent:

- The importance of bilateral sales between geographically close smaller markets in Europe and Asia;
- The larger markets tending to trade more with each other, for example the UK and US;
- US buyers were important for the majority of all businesses worldwide;
- While Asian buyers were mainly Chinese, there was a more diverse range of nationalities over 2013, including Indonesian and Taiwanese collectors.

The median number of buyers was 50, although there was a wide range in number. Dealers reported that 32% of their current clients were buyers new to them in the last year, 38% were buyers who had been buying from them for one to five years, and 30% who had been clients of over five years.

By far the largest share of sales (78%) in 2013 were to private collectors. On average, 9% of sales in 2013 were to museums and other public institutions, although this ranged from 1% to 80% for different dealers.

Prices in the Dealer Sector

The majority of trade that takes place in the dealer sector is at the lower priced end of the market. In 2013, dealers reported that the majority of their sales (72%) were at prices of €50,000 or less. The share of sales in the lowest end (less than €3,000) was 11% higher in share than 2012, while the segment from €3,000 to €50,000 saw the largest fall year-on-year (of -16%).

Only 4% of sales were at levels greater than €500,000, and just 1% were for over €2 million, virtually unchanged since 2012. US dealers had a larger number of transactions in the highest brackets with 8% over €500,000 in 2013. However UK dealers were on par with the world average (at 4%) and those from France had just 2%. In all markets, the majority of sales were less than €50,000.

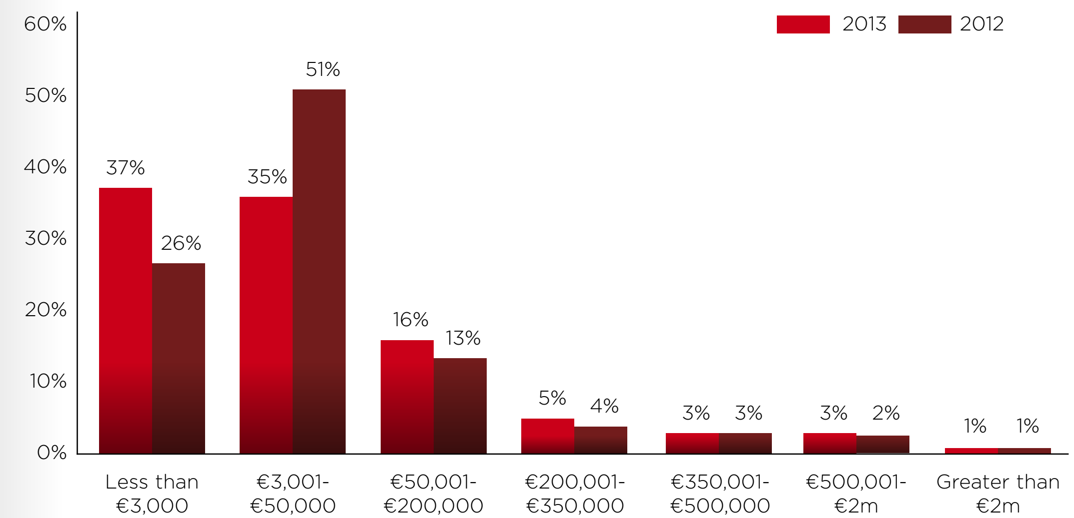
Dealers were also asked about the biggest challenges facing them in 2013. These varied widely, but some common themes emerged. Many identified the wider economic context and economic uncertainty as posing the biggest challenge for their businesses. Many considered that finding and accessing fresh stock (be it art works or artists) would create difficulties given the inflation in the market over the last decade and the increasingly narrow focus of collectors.

One of the most commonly reported challenges was competition with auction houses, particularly noting their increased private sales and their global reach. Adjusting to the new channels for selling, including increasing online sales, and the costs of attending international fairs were also commonly cited.

Tax and regulation were a major concern. 70% of dealers surveyed, particularly those in Europe, felt that the regulatory burden on their businesses had increased. European dealers especially complained about VAT and the distortions it continued to create and about artists' resale royalties. 69% of dealers felt that increased regulation had imposed additional costs on their businesses.

IN 2013, DEALERS REPORTED MAKING 33% OF THEIR TOTAL SALES THROUGH ART FAIRS, 50% IN THEIR GALLERIES AND 5% ONLINE

Figure 2r. Global Dealer Sales by Price Level



CHAPTER 3

CHANGING PATTERNS OF GLOBAL WEALTH

CHANGING PATTERNS OF GLOBAL WEALTH

Key Findings

- The US and UK posted positive economic growth in 2013, although the EU as whole was stagnant. Several emerging regions slowed in 2013, including China, which still remained one of the fastest growing economies in the world.

- There were 32 million millionaires worldwide in 2013, an increase of 11% year-on-year. The US had the most millionaires with a 42% share of their global population.

- More than 600,000 millionaires are mid to high level art collectors (equating to less than 2% of the world's millionaire population).

- Personal wealth has been growing faster at the top during the last ten years. In particular, the number of ultra-high net worth individuals (UHNWIs) and their wealth is growing much faster than general wealth. In 2013, it is estimated that there were just under 200,000 UHNWIs worldwide including 2,170 global billionaires.

- High net worth individuals (HNWIs) allocate an average of 10% to so-called investments of passion. Within these investments, the most popular in 2013 was the category of jewellery, gems, and watches, with a 32% allocation globally, while art was the third most popular, with a 17% share.

3.1 Economic Growth

Overall, the size and distribution of art and antique sales is closely correlated with some key economic variables, notably national incomes and wealth. It is useful to look at some of the trends in the distribution of world wealth to assess their potential effects on the art market.

Globally, economic growth in 2013 was positive, although relatively low, averaging 2.5% in the first six months, the same as the last six months of 2012. A notable feature of 2013 was that some of the advanced economies gained some speed, while the emerging economies slowed, although there was substantial variance in both groups. The once flourishing BRIC economies (Brazil, Russia, India and China) displayed varying degrees of regrowth, with some economies stalling, while the US led among the more mature economies.

Both the US and UK posted positive growth in 2013, although the EU as whole was stagnant, as the sovereign debt crisis continued to hamper confidence and consumer demand in some areas. Some countries remained in recession in 2013, and, for others, growth was low as austerity measures meant lower spending and increased taxes. In the emerging regions, several countries slowed in 2013, including mainland China, although it still posted substantial year-on-year growth of 7.6%, and remained one of the fastest growing economies in the world. Russia, the UAE, Indonesia and others experienced a decrease in growth in GDP, while some bucked the trend, including Korea, Singapore, Taiwan and Hong Kong.

Table 3a. Growth in National GDP per Annum (%)

GDP growth	2003	2008	2009	2010	2011	2012	2013	2018	Average 2003-2013	Average 2013-2018*
Australia	3.1%	2.7%	1.4%	2.6%	2.4%	3.7%	2.5%	3.0%	3.0%	2.9%
Brazil	1.1%	5.2%	-0.3%	7.5%	2.7%	0.9%	2.5%	3.5%	3.5%	3.1%
Canada	1.9%	1.2%	-2.7%	3.4%	2.5%	1.7%	1.6%	2.2%	1.9%	2.2%
China	10.0%	9.6%	9.2%	10.4%	9.3%	7.7%	7.6%	7.0%	10.2%	7.1%
France	0.9%	-0.1%	-3.1%	1.7%	2.0%	0.0%	0.2%	1.9%	1.0%	1.4%
Germany	-0.4%	0.8%	-5.1%	3.9%	3.4%	0.9%	0.5%	1.2%	1.2%	1.2%
Hong Kong	3.1%	2.1%	-2.5%	6.8%	4.9%	1.5%	3.0%	4.5%	4.4%	4.2%
India	8.4%	3.9%	8.5%	10.5%	6.3%	3.2%	3.8%	6.7%	7.4%	5.8%
Indonesia	4.8%	6.0%	4.6%	6.2%	6.5%	6.2%	5.3%	6.0%	5.7%	5.8%
Italy	0.0%	-1.2%	-5.5%	1.7%	0.4%	-2.4%	-1.8%	1.2%	-0.2%	0.7%
Japan	1.7%	-1.0%	-5.5%	4.7%	-0.6%	2.0%	2.0%	1.1%	1.0%	1.3%
Korea	2.8%	2.3%	0.3%	6.3%	3.7%	2.0%	2.8%	4.0%	3.6%	3.8%
Norway	1.0%	0.0%	-1.4%	0.2%	1.3%	3.0%	1.6%	2.2%	1.6%	2.1%
Qatar	6.3%	17.7%	12.0%	16.7%	13.0%	6.2%	5.1%	6.5%	13.3%	6.1%
Russia	7.3%	5.2%	-7.8%	4.5%	4.3%	3.4%	1.5%	3.5%	4.4%	3.1%
Singapore	4.6%	1.7%	-0.8%	14.8%	5.2%	1.3%	3.5%	3.9%	5.9%	3.7%
Spain	3.1%	0.9%	-3.8%	-0.2%	0.1%	-1.6%	-1.3%	1.2%	1.0%	0.4%
Sweden	2.3%	-0.6%	-5.0%	6.6%	2.9%	1.0%	0.9%	2.4%	2.1%	2.1%
Switzerland	0.0%	2.2%	-1.9%	3.0%	1.8%	1.0%	1.7%	1.9%	1.9%	1.9%
Taiwan	3.7%	0.7%	-1.8%	10.8%	4.1%	1.3%	2.2%	4.7%	3.9%	3.9%
UAE	8.8%	3.2%	-4.8%	1.7%	3.9%	4.4%	4.0%	3.4%	4.4%	3.7%
UK	3.9%	-0.8%	-5.2%	1.7%	1.1%	0.2%	1.4%	2.3%	1.4%	1.9%
US	2.8%	-0.3%	-2.8%	2.5%	1.8%	2.8%	1.6%	3.1%	1.8%	2.9%
EU	**1.7%**	**0.6%**	**-4.4%**	**2.0%**	**1.7%**	**-0.3%**	**0.0%**	**1.9%**	**1.4%**	**1.4%**

© Arts Economics (2014) with data from the IMF *Forecasts from the IMF

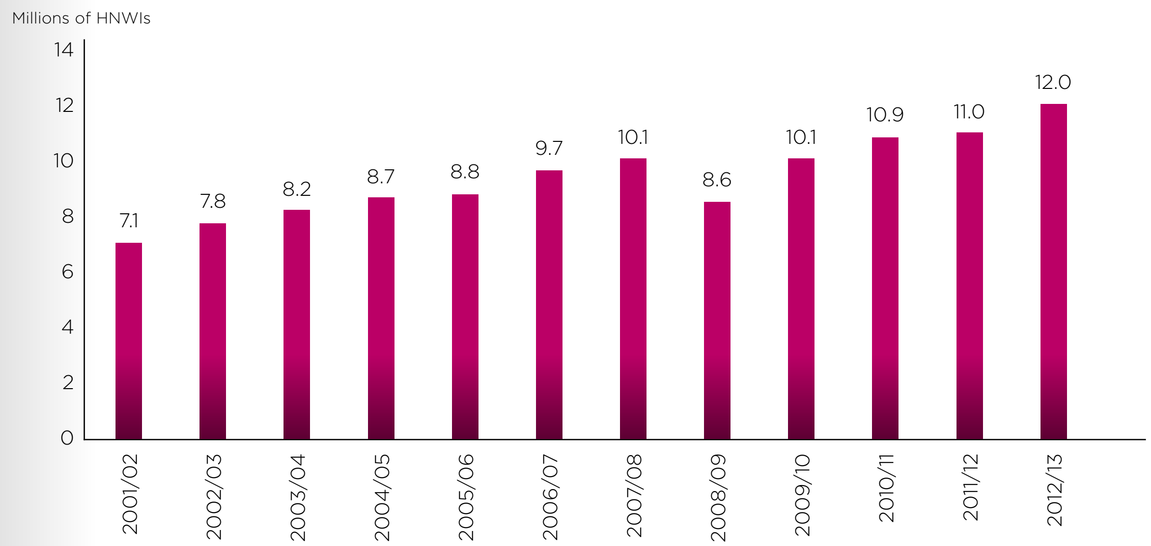
3.2 HNWIs and World Wealth

Despite challenging economic environment for many countries, in general household wealth improved during 2013. Personal wealth was estimated to have increased worldwide by 5%, passing the pre-crisis peak set in 2010, with average wealth per adult the highest since 2007.[22] Wealth per adult grew most strongly in North America, increasing 12% year-on-year. Europe also posted gains of 8%. Although China showed positive results, increasing 7%, the Asia Pacific region as a whole was down 9%, mainly due to stagnant growth in Japan.

Although general household wealth gives some indication of the economic climate, trends in the HNW segments of national and world populations have more direct links with the art market. In 2013, the richest 10% of people worldwide held around 86% of the world's wealth, with the top 1% alone accounting for 46% of global assets. It is these top segments that drive the strongest flows of private assets and trends in investment, and this is particularly the case in the art market. The main buyers in the art market are the stereotypical HNWIs, who participate in other financial and asset markets internationally. The growing number of individuals in this category (from just 7 million to 12 million in ten years) has fuelled greater consumption of all luxury goods. Their widening geographic spread has increased spending in established art market hubs and has also led to the creation of new, emerging markets.

The population of HNWIs (defined here as individuals with investable wealth greater than $1 million),[23] at the end of 2012 was approximately 12 million, up almost 70% since the end of 2001, having grown 9% year-on-year.

Figure 3a. The Total Global Population of HNWIs



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[22] Credit Suisse (2013) *Global Wealth Databook.* Credit Suisse: Zurich. Credit Swiss measure world wealth in the year to mid-2013 as having reached $241 trillion.

[23] This definition of what will be referred to as "HNWIs" is that used in Capgemini/ RBC Wealth Management (2013) *World Wealth Report 2013* from which these figures are derived. It measures HNWIs as those with US$1 million or more at their disposal for investing and therefore excludes personal assets and property, collectibles and other consumables. These will be referred to throughout the chapter as HNWIs to distinguish them from the broader definition of "dollar millionaires" used later in the chapter when including property and other physical assets.

The combined investable wealth of these HNWIs increased 10% year-on-year, reaching $46.2 trillion by the end of 2012, its highest ever recorded level, after having declined slightly in 2011. North America contributed significantly to global HNWI population growth by registering the highest regional growth rate (12%) to reach 3.73 million HNWIs, and it regained its position as the region with the highest number of HNWIs, overtaking Asia-Pacific, which also grew 9.4% to 3.68 million. North America also had the highest level of HNW wealth. However, this trend is forecast to change over the next few years, with Asia-Pacific wealth expected to be the highest internationally by 2015.[24]

3.3 Global Millionaires and Wealth

Individual net worth analysis can also take account of non-financial assets in assessing personal wealth. When the definition of individual net worth includes non-financial assets (such as property and land) these so-called “dollar millionaires”[25] form a much larger group globally. In 2013, according to estimates from Credit Suisse, there were 31.7 million millionaires worldwide, a substantial advance of 11% on numbers they reported in 2012.[26]

Although there is no definitive figure on the number of HNWIs who collect art, it is estimated that of the 32 million millionaires in existence in 2013, at least 600,000 are mid-to-high level collectors (equating to less than 2%).

Table 3b. High Net Worth Wealth 2000-2015

Wealth (US$ trillion)	Total	North America	Europe	Middle East	Africa	Latin America	Asia Pacific
Forecast 2015	$55.9	$15.0	$13.1	$2.2	$1.4	$13.1	$15.9
2012/13	$46.2	$12.7	$10.9	$1.8	$1.3	$7.5	$12.0
2011/12	$42.0	$11.4	$10.1	$1.7	$1.1	$7.1	$10.7
2010/11	$42.8	$11.6	$10.2	$1.7	$1.2	$7.3	$10.8
2009/10	$39.1	$10.7	$9.5	$1.5	$1.0	$6.7	$9.7
2009/08	$32.8	$9.1	$8.3	$1.4	$0.8	$5.8	$7.4
2008/07	$40.8	$11.7	$10.7	$1.7	$1.0	$6.2	$9.5
2007/06	$37.2	$11.3	$10.1	$1.4	$0.9	$5.1	$8.4
2006/05	$33.5	$10.2	$9.4	$1.3	$0.8	$4.2	$7.6
2005/04	$33.4	$9.4	$10.2	$1.2	$0.8	$4.2	$7.6
2004/03	$30.7	$8.9	$9.3	$1.0	$0.7	$3.7	$7.1
2003/02	$28.5	$8.6	$8.5	$0.8	$0.6	$3.4	$6.6
2002/01	$26,2	$7.6	$8.4	$1.0	$0.6	$3.5	$5.1
2001/00	$25.5	$7.5	$8.4	$1.0	$0.6	$3.2	$4.8

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THE RICHEST 10% OF PEOPLE WORLDWIDE HELD AROUND 86% OF THE WORLD’S WEALTH IN 2013, WITH THE TOP 1% ALONE ACCOUNTING FOR 46% OF GLOBAL ASSETS

[24] All forecasts to 2015 including those in Table 3b. are from Capgemini/ RBC Wealth Management in 2013.
[25] The term “dollar millionaires” will be used here to describe the definition of high net worth individuals used in Credit Suisse’s *Global Wealth Databooks*, dating from 2010 to 2013, which is those with net wealth greater than $1 million, with wealth defined as financial assets plus non-financial assets less debts. Non-financial assets include property, land and other physical assets in defining a HNWI.
[26] Credit Suisse revised the number of millionaires in 2012 to 29.9 in their 2013 Global Wealth Book. They did not provide an estimate of their combined wealth or other detail therefore in order to be able to compare year-on-year, the 2012 published figures are maintained here.

The number of millionaires in a country is influenced by the size of the adult population, their average wealth and the amount of wealth inequality that exists. The US rates highly on all three of these criteria and had by far the largest number of dollar millionaires in 2013, with a 42% share (13.2 million), which represented just 3% of the US population. The next highest millionaire population was found in Japan at 8% of the world total (despite the number of millionaires falling substantially over 2013), closely followed by France at 7%, which also showed a decrease in number over 2013.

Figure 3b. Global Population and Wealth of “Dollar Millionaires” 2010-2013

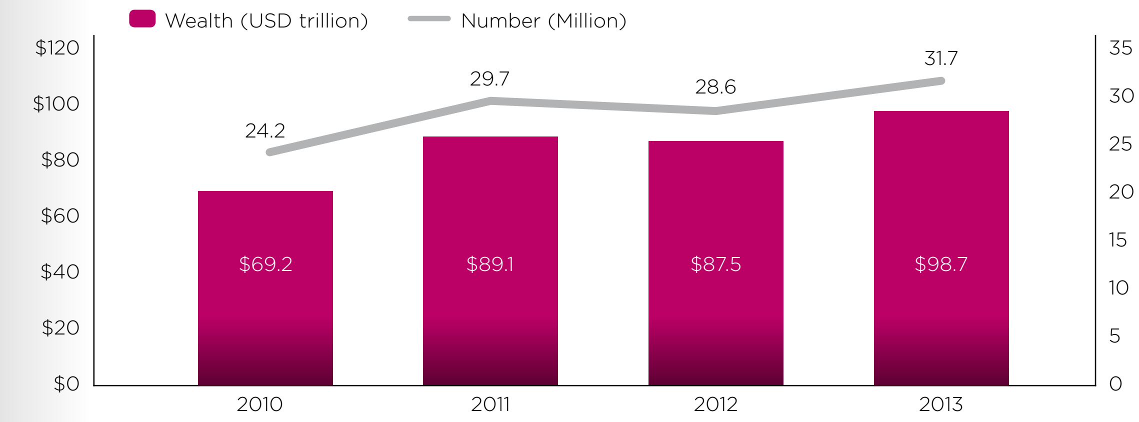

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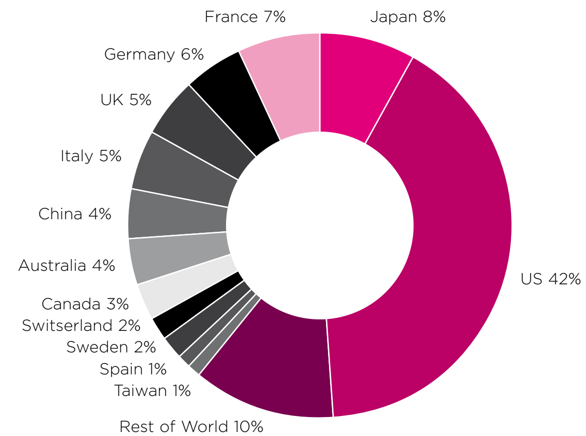
Figure 3c. Share of Global Population of Dollar Millionaires 2013



© Arts Economics (2014) with data from Credit Suisse

Despite poor economic conditions, the number of millionaires in countries such as Spain and Italy grew, although they represented a tiny fraction of their populations. China accounted for the seventh largest millionaire population in 2013, with a world share of 4%, and it is expected to overtake the major European countries within the next decade. Countries such as Sweden and Switzerland have relatively small populations, but high average wealth, which helped them achieve a share of 2% each of the world total in 2013. In Switzerland, the share of millionaires per head of national population is among the highest worldwide, at over 7%.

Although a high proportion of millionaires is linked with the size of a country's art market, and it is a necessary condition for substantial art sales, it is not the only factor, which determines the location of markets. Countries such as Japan and Germany, for example, may have a significant number of important global art buyers, but they have

Table 3c. Populations of Dollar Millionaires in 2012 and 2013

Country	2012	2013	Change 2012-13	Share of World's Millionaires	Share in National Population
Australia	905	1,123	24%	3.5%	4.1%
Brazil	227	221	-3%	0.7%	0.1%
Canada	842	993	18%	3.1%	2.4%
China	964	1,123	16%	3.5%	0.1%
Hong Kong	92	103	12%	0.3%	1.3%
France	2,284	2,211	-3%	7.0%	3.6%
Germany	1,463	1,735	19%	5.5%	1.8%
India	158	182	15%	0.6%	0.0%
Indonesia	104	123	18%	0.4%	0.0%
Italy	1,170	1,449	24%	4.6%	1.9%
Japan	3,581	2,655	-26%	8.4%	2.8%
Korea	208	251	21%	0.8%	0.4%
Norway	229	279	22%	0.9%	4.6%
Qatar	19	21	11%	0.1%	1.2%
Russia	97	84	-13%	0.3%	0.1%
Singapore	156	174	12%	0.5%	3.1%
Spain	313	402	28%	1.3%	0.7%
Sweden	343	506	48%	1.6%	3.6%
Switzerland	562	610	9%	1.9%	7.3%
Taiwan	253	309	22%	1.0%	1.1%
UAE	43	48	12%	0.2%	0.9%
UK	1,582	1,529	-3%	4.8%	2.5%
US	11,023	13,216	20%	41.7%	3.4%
WORLD	**28,548**	**31,680**	**11%**	**100%**	**0.5%**

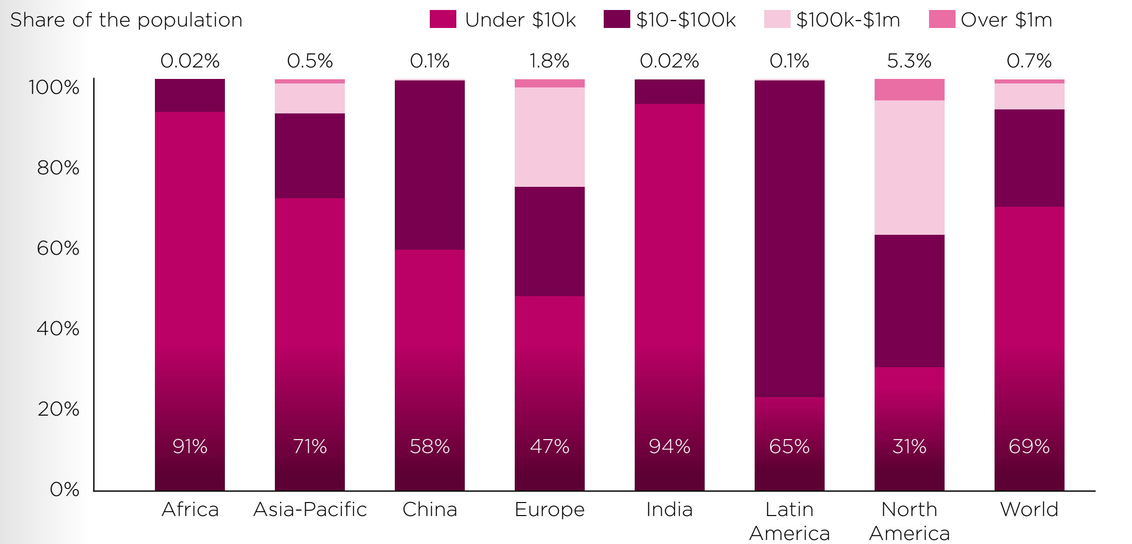
relatively small domestic art markets with many of their collectors buying art in traditional market hubs such as London and New York. While national wealth is linked to art sales, it clearly takes more than a high proportion of rich people to create a significant national art market. This is demonstrated by emerging markets, with China being the only one that is significant in terms of the size of its domestic sales.

3.4 Average Incomes and the Art Market

While the spending of HNWIs has been critical for the development of art markets in many regions, in emerging markets such as the BRIC regions, increasing prices for art and the value of art sales have been driven by a relatively small portion of the nation's population. In China in 2013, 58% of the population possessed wealth of less than $10,000. This is even more marked in countries such as India (94%) and Indonesia (81%). On a worldwide level, 69% of the global population were in this lowest group, which accounted for just 3% of worldwide wealth. At the other end of the spectrum, the less than 1% of individuals throughout the world with wealth of over $1 million accounted for a substantial 41% of world wealth. Just 8% of the global population has wealth of over $100,000, although they collectively account for 83% of world wealth.

In China, millionaires made up less than 0.1% of the population in 2013, and those with wealth in excess of $100,000 were less than 3%. As a result, the majority of the Chinese public does not yet have the disposable income necessary to enter the art market. However a positive trend, in common with other emerging markets, is that average incomes are growing at a very fast rate. This means that in several of these regions there is a burgeoning middle-class with a strong appetite for luxury goods, which will no doubt influence trends in the art market. As the populations in the emergent regions become wealthier, their spending on luxury goods will increase and this will boost the number of potential art buyers, bringing collecting to a wider section of the population.

Figure 3d. Wealth Distribution within Nations in 2013



From Table 3d, it becomes clear how far nations such as China, India and Indonesia currently lag behind their more mature economic counterparts in terms of GDP per capita (a proxy for average incomes). It is also clear from the table that some of these nations have witnessed the fastest growth in average incomes in recent years, and are expected to continue to grow at much higher rates over the next five years than other mature economies. China, for example, has forecast growth in GDP per capita to 2018 of more than double that of the US and UK. These accelerated growth rates will slowly narrow the gap between emerging and mature markets, as the populations in these countries become wealthier, potentially widening the base of art buyers in those countries.

3.5 Ultra-High Net Worth Individuals

Another feature of the distribution of world wealth is that individual wealth has been growing faster at the top during the last ten years. In particular, the number of UHNWIS and their wealth is growing much faster than general wealth. In 2013, it is estimated that there were just under 200,000 UHNWIs worldwide[27], the highest ever recorded level, with total wealth of $28 trillion. This group includes 2,170 global billionaires with total net worth of $6.5 trillion or 23% of the world's UHNW total wealth (despite being only 1% of the UHNWI population).

The US is again the most important centre for UHNW wealth, with one third of the world's population and 24% of all billionaires. Although the US and Europe grew faster than Asia in 2013, it is forecast that Asia will generate more UHNWIs and wealth than both regions in the next five years. At the current growth rates, Asia's UHNW population will surpass Europe in 2021 and is expected to overtake the US by 2032. In terms of wealth, this trajectory is even more rapid: UHNW wealth in Asia is expected to exceed Europe by 2017 and the US by 2024.

3.6 HNWIs and their Allocation to Art

Research suggests that HNWIs generally allocate an average of 10% to so-called investments of passion[28], although this proportion varies widely between countries, with the highest allocations often found in those countries with high inflation and less developed domestic art and financial markets.

Table 3d. GDP per capita and Growth Rates: Selected Nations

Country	GDP per Capita	Growth 2003-2013	Forecast 2013-2018	Country	GDP per Capita	Growth 2003-2013	Forecast 2013-2018
Qatar	$104,655	269%	10%	France	$42,991	76%	22%
Norway	$101,271	140%	12%	Japan	$39,321	26%	21%
Switzerland	$80,276	103%	14%	UK	$39,049	43%	25%
Australia	$64,157	197%	7%	Hong Kong	$38,605	56%	43%
Sweden	$57,297	104%	27%	Italy	$33,909	57%	19%
Singapore	$52,918	144%	14%	Spain	$29,409	76%	18%
US	$52,839	39%	23%	Korea	$23,838	97%	39%
Canada	$51,871	116%	19%	Taiwan	$20,706	55%	41%
Austria	$49,256	91%	23%	Russia	$14,973	530%	45%
Netherlands	$47,651	75%	20%	Brazil	$10,958	288%	20%
Belgium	$45,537	85%	17%	M. China	$6,569	480%	50%
Germany	$43,952	80%	23%	Indonesia	$3,499	279%	30%
UAE	$43,185	32%	4%	India	$1,414	188%	32%

[27] These estimates are from Wealth-X and UBS (2013) *World Ultra Wealth Report 2013*, which defines UHNWIs as those with a net worth of at least $30 million (after accounting for shares in public and private companies, residential and passion investments such as art, planes and real estate).

[28] This term is used in the annual World Wealth Reports from Cap Gemini and RBC Wealth Management and refers to investments in art, antiques, collectibles, sports investments, jewellery and gems and others.

Table 3e. UHNWIs and their Wealth in 2013

Wealth Band	Population 2013	Wealth $bn 2013	Population 2012	Wealth $bn 2012	Change in Popn	Change in Wealth
>$1bn	2,170	$6,516	2,160	$6,190	0.5%	5.3%
$750m -$999m	1,080	$929	990	$855	9.1%	8.7%
$500m to $749m	2,660	$1,695	2,475	$1,560	7.5%	8.7%
$250m to $499m	8,695	$3,420	8,090	$3,225	7.5%	6.0%
$200m to $249m	14,185	$3,205	13,500	$3,035	5.1%	5.6%
$100m to $199m	23,835	$3,780	22,290	$3,335	6.9%	13.3%
$50m to $99m	60,760	$4,720	56,205	$4,295	8.1%	9.9%
$30m to $49m	85,850	$3,505	81,670	$3,280	5.1%	6.9%
TOTAL UHNWI	**199,235**	**$27,770**	**187,380**	**$25,775**	**6.3%**	**7.7%**

Within these investments of passion, the most popular in 2013 was the category of jewellery, gems, and watches, with a 32% allocation globally, while art was the third most popular, with a 17% share. Other collectibles, which includes coins, wine and antiques, was the second most popular worldwide at 24%, and the most popular in the US.

Allocations to art have varied over time and trends indicate that in times of financial crisis and uncertainty, people tend to lean towards art, which is seen as a more familiar, tangible asset with considerable longevity in terms of value maintenance and appreciation. At the height of the financial crisis in 2008/09, allocations to art increased to 25%, as art was seen as an asset that would have the most lasting value, and was also a means of diversifying out of other poorly performing asset classes. Many HNWIs are increasingly approaching luxury goods as investments, and looking for those sectors that have the most long-term value, notably art and antiques.

Figure 3e. Allocation of Investments of Passion by HNWIs in 2013

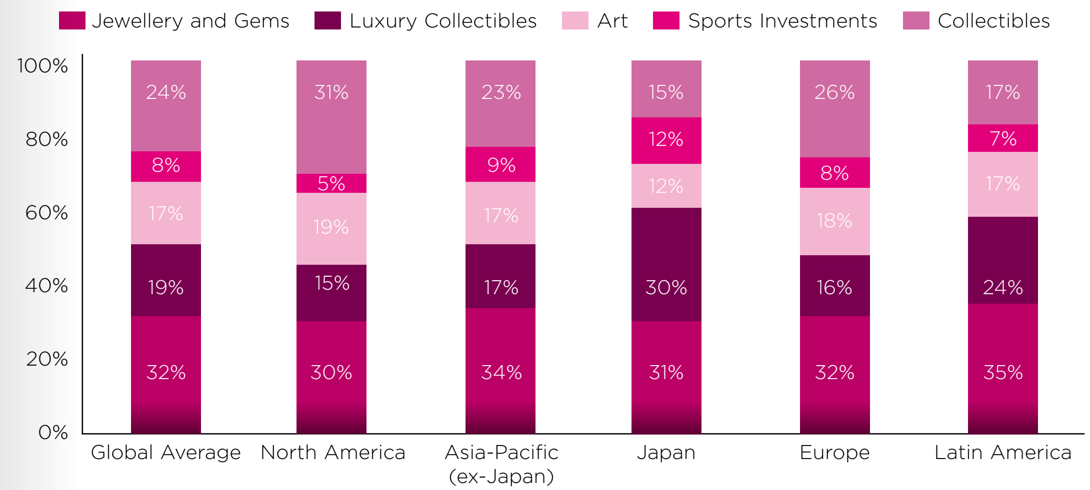


Table 3f. National Allocations to Art in Investments of Passion 2013

Country	Share to Art	Country	Share to Art
Italy	25.4%	France	17.5%
Australia	20.8%	Germany	16.5%
Canada	20.4%	Singapore	16.3%
Switzerland	19.2%	Brazil	15.7%
US	19.0%	UAE	15.5%
South Africa	18.2%	UK	14.3%
China	18.2%	Japan	12.2%
		Hong Kong	12.1%

© Arts Economics (2014) with data from Capgemini, RBC Wealth Management, and Scorpio Partnership HNW Insights Survey 2013

Research by Capgemini and RBC Wealth Management on investments of passion within the investment portfolios of HNWIs showed that the highest allocations to art in 2013 were in Italy, Australia, Canada, Switzerland and the US, while the lowest were in Japan and the UK.

They also found that allocations vary with demographics, for example HNWIs under 40 years of age held less in art than older HNWIs. In North America and Europe, for example, HNWIs aged over 40 allocated around 20% to art versus around 15% for those under 40. Globally, male HNWIs allocate more to art than female HNWIs, although the difference is less than 1%. Globally, the female allocation to art averages 16% and is highest in Latin America (at 18%). Art allocations were also highest for mid-tier HNWIs with the largest holdings among those with wealth between $5 million to $20 million in the US, and $20 to $30 million in Europe.

3.7 Conclusions

Despite the overall economic picture remaining relatively mixed in 2013, there is considerable scope for global wealth to grow at an accelerated pace in the coming years. Each year, emerging markets are increasing their importance in the global wealth hierarchy and have been growing at faster rates than more developed markets, a trend that is expected to continue. Between 2000 and 2013, emerging markets nearly doubled their share of global wealth from 12% to 21%. Although China is likely to continue to be a clear leader in this region, dominating in terms of aggregate wealth and the number of millionaires, there are some smaller emerging markets that are showing interesting trajectories, which can be linked to buying trends in the art market. For example, net worth in Indonesia has increased more than six-fold since 2000 and, despite low average wealth by world standards, the country now has 123,000 dollar millionaires and 175,000 Indonesians are within the top 1% of global wealth holders. These trends are helping to bolster a small local market, as well as impacting on buying at international auctions and galleries.

The US led recovery in wealth over 2013 and is expected to remain the leader in terms of aggregate wealth for the next five years, with anticipated growth of over 20% in that period. In Europe the picture is more mixed: while several countries are exiting from recessionary years and building momentum, others are still struggling to bounce back from the financial crisis.

All of these trends in global wealth filter down in different ways to the movement of art between countries, which is influenced by the wealth of the trading partners, as richer nations spend more on luxury goods and trade more across borders.

CHAPTER 4

THE CROSS BORDER TRADE IN ART

THE CROSS BORDER TRADE IN ART

Key Findings

- World imports of art and antiques reached a total of €17.6 billion in 2012, a 19% increase year-on-year and the highest total yet recorded.
- The US and UK accounted for a combined majority of 69% of world imports as they continued to attract both international and domestic demand for art and antiques. Switzerland also maintained a high share of world imports at 8%.
- World exports increased 25% year-on-year to a new record high of €18.0 billion in 2012, their highest ever recorded level.
- The UK and US together accounted for the majority of the value of exports of art, with a combined share of 65% underlining their importance as entrepôt markets for the art trade.
- The UK was the largest importer and exporter of art globally and a net importer of art, with imports of €6.1 billion exceeding exports of €5.8 billion, both just marginally ahead of the US.
- Switzerland was the third largest importer and exporter of art and antiques, with share of 8% of imports and 7% of exports.

4.1 Introduction

As well as measuring domestic sales, the analysis of flows of art and antiques between countries also demonstrates an increase in the amount and value of art traded around the world. In 2012, the international art trade achieved its highest ever level of recorded imports and exports, with exchanges of art also taking place between an increasingly diverse range of countries.[29]

The growth and global distribution of wealth and the rapidly increasing movement of art across borders are clearly correlated. However, in spite of a wider geographical distribution of art buyers, the bulk of the art trade by value still takes place each year through key established international hubs, most notably the US and UK, but also including the smaller market centres of Switzerland and Hong Kong. The bulk of art imports and exports continue to flow through London and New York (accounting for a combined 65% of exports and 69% of imports by value), despite the fact that the eventual buyers may reside elsewhere. Although there have been some minor fluctuations year-on-year, this dominance has not changed significantly since the 1980s.[30] The success of these art market hubs is therefore not simply derived from a healthy local demand and sufficient national wealth to support sales, but also from having the power to import and assemble art sales that attract international interest, as well as having a favourable legal and fiscal environment and the necessary skills and services to support the trade.

In other words, while there is a link between national wealth and art sales, import demand for art is not fuelled solely by domestic wealth. Imports into an international hub such as the UK or US are supported by the existence of the market itself and its ability to bring together enough desirable works of art and antiques for sale to attract both local and international art buyers. A large proportion of these buyers (by value) are HNWIs, and their burgeoning wealth and global spending patterns are helping to create new art markets, while also boosting international spending in the market's traditional hubs.

An increase in the number of global HNWIs and advancing wealth per capita in many regions has boosted spending on luxury goods, which are purchased locally and overseas, raising both domestic consumption and international trade and exchange. Import and export statistics help to illustrate the rapid globalisation of the market for art and antiques, and demonstrate the importance of both wealth and an open trading regime.

4.2 Imports

World imports of art and antiques reached a total of €17.6 billion in 2012, a 19% increase year-on-year and the highest total yet recorded. This represented the third year of growth in imports, an increase of 88% from the low point in 2009, and surpassing the previous peak in 2007. While imports have increased since 2002 by 48% in value, this is substantially less than half the rate of growth in the value of the art market in the same period (with total sales advancing 98%). This reflects in part the fact that the market in China has remained relatively domestic, with sales driven by domestic supply and demand and therefore less reliant on foreign trade than the older markets in the West.

As noted above, the US and UK accounted for a combined majority of 69% of world imports in 2012 (up 3% on 2011) as they continued to attract both international and domestic demand for art and antiques. Switzerland also maintained a high share of world imports at 8%, which was stable year-on-year, despite being a relatively small art market. In part this was due to the use of freeport facilities for art by HNWIs and by companies to delay the payment of custom duties and other taxes. China was again in fourth position, with Hong Kong accounting for 93% of the Chinese inward trade by value. While China's share of world imports (and exports) has risen substantially over recent years (from less than 1% in 2000), it remains considerably smaller than the mature international markets, despite the greatly advanced size of its domestic market.

THE INTERNATIONAL ART TRADE ACHIEVED ITS HIGHEST EVER LEVEL OF RECORDED IMPORTS AND EXPORTS IN 2012

[29] Trade statistics come primarily from the United Nations Comtrade Database and Eurostat, and are only made available with a lag of 12 to 18 months in many cases. For consistency and to follow reporting of 2011 data in the TEFAF Art Market Report in 2013, 2012 is analysed as the latest full year with a complete set of trade data.

[30] In 1985, the combined share of the US and UK for world exports and art and antiques was 69% for import and 62% for exports.

Figure 4a. World Imports of Art 2002-2012 (Billion Euro)

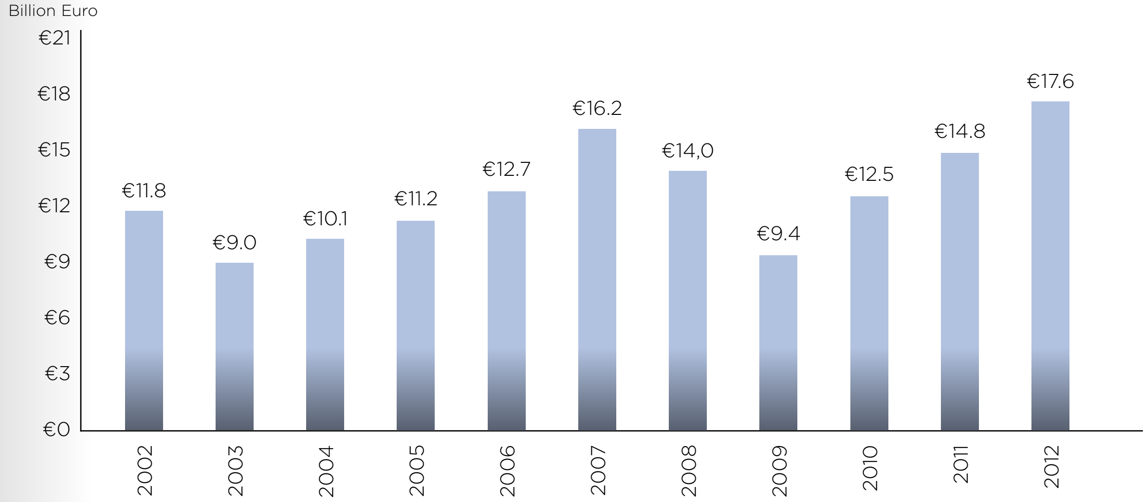


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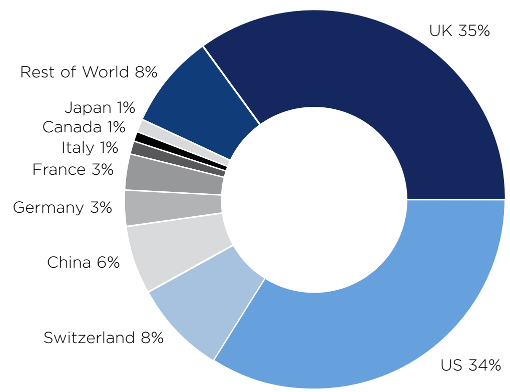
Figure 4b. Share of the Value of Global Imports, by Country



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4.3 Exports

World exports grew substantially during 2012, increasing 25% year-on-year to a new record high of €18.0 billion. Like imports, exports have been increasing steadily from a low point of just under €11 billion in 2009, but with a 65% increase in value since then, substantially surpassing any previously recorded level, with total growth of 78% over a decade.

Again, the UK and US together accounted for the majority of the value of exports of art, with a combined share of 65% (up 3% year-on-year), underlining their importance as entrepôt markets for the art trade, with works of art being bought just as often by foreign as by domestic buyers. Other important exporters of art in 2012 were France and Switzerland, whose share of the global export market for art and antiques remained stable year-on-year at 8% and 7% respectively.

It is worth noting that a comparison of world imports and exports of art reveals a discrepancy of €408 million in excess exports (or a notional world trade surplus). Ideally trade statistics would be symmetrical between countries: the amount country A exports to country B should be the same as what country B imports from country A. However, in practice asymmetry is common for several reasons, including different national price systems between exports and imports, different trade systems among countries, differences in thresholds for recording international trade, product classification or misattribution within a common system, the treatment of re-exports and re-imports and more generally inconsistencies and inaccuracies in some national records. Although these are not peculiar to art and antiques, art is among the most mismatched statistics in some regions, most notably China.

WORLD EXPORTS GREW SUBSTANTIALLY DURING 2012, INCREASING 25% YEAR-ON-YEAR

Figure 4c. World Exports of Art 2002-2012 (Billion Euro)

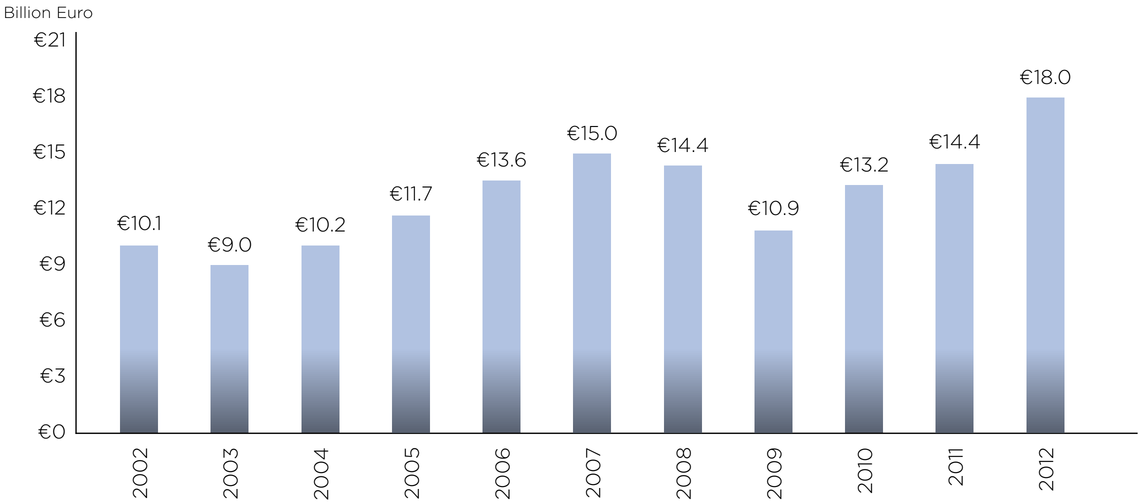

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Figure 4d. Share of the Value of Global Exports, by Country

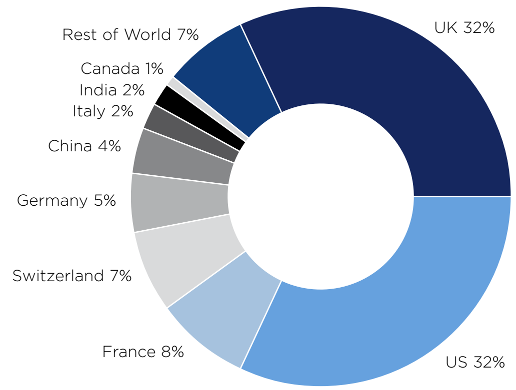

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Table 4a. Global Imports and Exports of Art in 2012

Country	Import (€m)	% Change on 2011	Exports (€m)	% Change on 2011	Net Exports (€m)
Austria	€128.7	9%	€98.5	-35%	-€30.2
Belgium/Luxembourg	€125.2	15%	€152.5	137%	€27.2
Denmark	€33.2	9%	€44.3	28%	€11.0
France	€477.0	-4%	€1,445.6	24%	€968.6
Germany	€576.7	29%	€905.5	0%	€328.8
Greece	€7.2	-73%	€6.8	45%	-€0.4
Ireland	€12.1	96%	€18.0	60%	€5.8
Italy	€223.0	111%	€313.3	51%	€90.3
Netherlands	€132.6	51%	€69.6	-11%	-€63.0
Spain	€52.5	-40%	€85.1	30%	€32.7
Sweden	€24.5	-6%	€34.3	31%	€9.8
UK	€6,100.0	30%	€5,816.0	50%	-€284.0
Other EU	€62.0	-67%%	€56.4	-54%%	-€5.6
EU	**€7,954.7**	**24%**	**€9,045.9**	**35%**	**€1,091.2**
US	€6,072.0	22%	€5,779.6	14%	-€292.4
Switzerland	€1,355.9	9%	€1,209.6	25%	-€146.3
Norway	€61.2	1%	€122.8	269%	€61.6
China	€1,039.2	0%	€785.8	33%	-€253.4
Singapore	€147.0	-22%	€118.6	-16%	-€28.4
Korea	€128.80	-26%	€95.90	31%	-€32.9
Brazil	€30.0	152%	€36.1	-11%	€6.1
UAE	€29.1	8%	€25.5	8%	-€3.6
India	€18.5	-59%	€190.1	-4%	€171.6
Russia	€12.1	-32%	€2.7	58%	-€9.4

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4.4 US Imports and Exports

In 2012, the US was the second largest importer and exporter of art (next to the UK), and a net importer of art, with imports of €6.1 billion, exceeding exports of €5.8 billion. 2012 marked a return to deficit in the US's trading balance for art and antiques, having run a trade surplus from 2008 through 2011. Prior to that, the US ran a deficit for art, with demand for art exceeding what was available for sale in the domestic market from the early 1990s to the peak of the market in 2007. This is a strong indicator of the buoyancy of demand in the market in 2012, with the US dominating as an important buyer for art, even if many of the buyers of the imported works may in fact reside elsewhere.

Imports increased 22% in value year-on-year, a rise of 70% in total from the lowest point in recent years in 2009, but falling just short of the peak in 2007 of €6.3 billion. The main sources for imports to the US in 2012 were the UK, France and Germany with a combined share of 56% of the total value.

Exports also rose by 14% year-on-year, which, after three years of steady growth and only one year of contraction (in 2009) since 2003, brought total exports of art from the US to their highest ever recorded level. Almost one third of these exports were destined for the UK, which continues to act as a conduit for sales in Europe. Switzerland accounted for a 27% share of exports from the US.

4.5 The EU

The EU was a net exporter of art in 2012 with a trade surplus of €1.1 billion. Imports to the EU totalled just under €8.0 billion, their highest level in the last ten years and an increase of 24% year-on-year (in Euro terms). Imports to the EU have increased in value by 73% in ten years, with growth of over 130% in the period from the contraction in the art market in 2009 to 2012.

2012 also saw a 35% year-on-year increase in the value of exports of art from the EU, growing to €9.0 billion. This was the third year of consecutive increases from the low point of 2009, and an advance of 113% in value over that period. The value of exports has increased by 62% since 2002, and, like imports, reached the highest recorded nominal value to date.

Table 4b. Summary Statistics: EU Imports and Export of Art and Antiques

Year	Imports (€m)	Exports (€m)	Net Exports (€m)	Share World Imports	Share World Exports
2002	€4,598	€5,567	€969	39%	55%
2003	€3,409	€4,893	€1,484	38%	54%
2004	€4,017	€5,325	€1,307	40%	52%
2005	€4,313	€6,015	€1,702	38%	51%
2006	€4,891	€6,316	€1,426	38%	47%
2007	€6,254	€6,870	€616	39%	46%
2008	€5,097	€5,740	€643	36%	40%
2009	€3,402	€4,249	€846	36%	39%
2010	€4,830	€5,992	€1,162	39%	45%
2011	€6,411	€6,704	€293	43%	46%
2012	€7,955	€9,046	€1,091	45%	51%

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The EU accounted for a share of 45% of world imports of art and antiques in 2012, up 2% and one of its highest levels in the last ten years. Similarly the share of exports increased year-on-year by 5% to 51%, however it remained below the share achieved in the years before 2006.

The UK was once again the largest importer and exporter of art and antiques in the EU in 2012, with a 64% share of the value of exports (up 6% on 2011) and 77% of imports (an increase in share of 4% year-on-year). As noted above, it was also the largest importer and exporter of art globally, with flows slightly larger than the US in 2012.

In 2012, imports to the UK reached €6.1 billion, their highest recorded total, an advance of 30% year-on-year, and up nearly 200% on levels achieved in 2009. Exports also grew strongly, by 50%, reaching €5.8 billion, also a record high, having more than doubled in three years. Net exports were negative in 2012, the second year of a trade deficit, after a period of surplus from 1998 through 2010. This indicates the importance of international purchases over international sales, which could imply that domestic demand outweighed sales in the UK market. It is important to note, however, that domestic demand in the UK also comes from many European buyers, who use the UK as a conduit for purchases from outside the EU because of its relatively low import VAT. The main sources for UK imports in 2012 were the US with a share of 42%, Switzerland with 19%, and China with 4%. There was a similar pattern for exports, with the US being again the dominant destination accounting for a 50% share, while Switzerland also had a substantial 29%.

France had the second largest art imports and exports in the EU in 2012, accounting for a 16% share of exports (down 1% on 2011) and a 6% share of imports (down 2% year-on-year). Imports into France fell by 4% year-on-year reaching €477 million, after two relatively strong years of growth from 2009. Exports, on the other hand, advanced strongly, rising 25% year-on-year to their highest level yet recorded of €1.4 billion. Some 50% of these went to Switzerland, a further 25% to the US and 8% to China. Imports were also mainly from the US (44%) and Switzerland (16%), while 7% came from the UK and 6% from China.

Germany also had a significant share of 10% of EU exports, although this fell 4% year-on-year, while imports were stable with a 7% share. Although its share of imports is relatively small, Germany imported more art than France in 2012, with growth of 29% year-on-year to bring total values to €577 million. Exports contracted slightly (by -0.5%) on 2011, but were still much higher than imports totalling €906 million, and giving Germany a trade surplus for art. The important destination markets for German exports were outside the EU, including neighbouring Switzerland (35%), the US (33%), China (4%) and Russia (3%). Within Europe, exports to the UK and France amounted to a 6% share. Imports also came primarily from Switzerland (43%) and the US (26%). 9% of imports were from the UK and 7% from the UAE in 2012.

In 2012, extra-EU flows continued to dominate intra-EU movements because of the larger value and higher amount of trade between EU markets and the US, Switzerland and China. Aggregating all trade flows, the value of extra-EU imports in 2012 was 91% of total imports of art and antiques and 85% of exports. Countries varied depending on their market size and the extent of their trade with closer partners in the EU, with some smaller nations tending to be more local in the focus of their trade. However the dominance of the major trading centres such as the UK, and to a lesser extent France and Germany which rely on large inflows and outflows of art from outside the EU means that extra-EU trade has dominated for the last 20 years, regardless of harmonisation policies within the EU Single Market.

While large flows of art in and out of the UK always dominate aggregate trade statistics, taking an average over all EU states, it is also clear that the share of extra-EU trade has increased significantly over the last ten years, underlining the mobility of art and the expanding market for it. The dominance of the UK in terms of third country imports and exports underlines the fact that the art market remains concentrated in a few global centres and, while the Single Market has been effective in enhancing intra-EU trade in other industries, it has had little effect on the location of art markets within Europe.

4.6 Switzerland

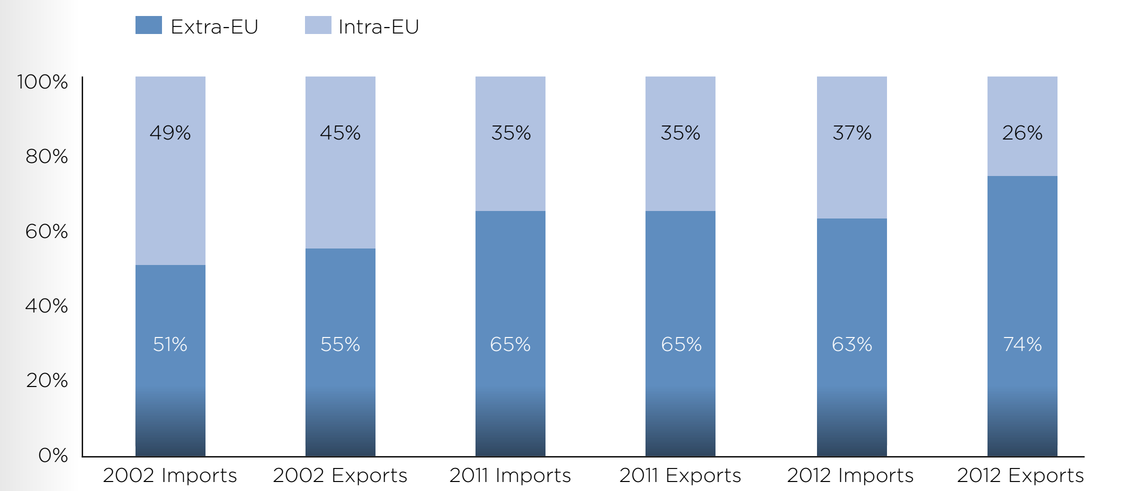
In 2012, Switzerland was the third largest importer and exporter of art and antiques, next to the US and UK, with share of 8% of imports and 7% of exports. It ran a trade deficit for art for the sixth year in a row, with imports of €1.4 billion against exports of €1.2 billion.

While in 2011, flows to and from the Swiss market remained relatively stable (with imports falling just 1% and exports by 2%), 2012 marked a return to growth, with imports increasing by 9% and exports by 25%. Recorded flows were mainly to and from the US and the EU.

Switzerland remains an important international centre of freeports for the storage of art. These have become increasingly important for HNW collectors, offering secure warehousing, confidentiality and some tax advantages. As long as works are stored within the freeports, customs duties and taxes are suspended, and may continue to be so until the object is removed and sold or placed in its final destination. While this benefit is intended as a temporary exemption applying to goods in transit, it can be applied for an indefinite period, with art stored for decades without attracting any levies. Art is also exempt from certain withholding, value-added or capital-gains taxes while in storage. While these taxes may fall due in the destination country when an object leaves storage, it may in fact have changed hands several times in the interim.

These exemptions have been valuable for collectors and institutions wishing to hold works until the

Figure 4e. Average Intra-EU and Extra-EU Imports and Exports of Works of Art



© Arts Economics (2014) with data from Eurostat point they feel it is advantageous to sell them in the market. Increasingly transactions and changes of ownership are carried out while the goods are stored and the freeports themselves have changed from being mere warehousing facilities to higher-end exhibition centres where potential buyers can view art in person or online.

While new premises have opened in the last few years in Asia and Europe, and a new freeport is due to open in Luxembourg in 2014, the freeports located in Switzerland are among the oldest and largest. Although the value of art stored in these premises is not fully assessable, it is believed to be well in excess of the size of the annual global art trade, and estimates in the media in 2013 quoted figures of up to $100 billion in one storage facility in Geneva alone.[31]

For the analysis of trade flows in and out of Switzerland this is an important factor as only those works that are formally imported into Switzerland are recorded as imports (and subsequently as exports). If a work is held in storage and then consigned elsewhere, it may not show up in the trade statistics. The amount of actual flows of art occurring through Switzerland are therefore likely to be underestimated.

4.7 Emerging Art Markets

An interesting feature of the development of emerging art markets is that, despite the growing importance of their buyers, reported flows of art and antiques remain relatively low. In 2012, the BRIC markets accounted for just 6% of world imports and exports, with the bulk of these flowing through China (and within China largely through Hong Kong).

Table 4c. Imports of Art and Antiques to Emerging Markets (€ Million)

Imports	China	Singapore	Brazil	UAE	India	Russia	Korea
2002	€169.7	€23.7	€8.4	€4.4	€1.2	€2.1	€68.4
2008	€525.3	€283.9	€15.3	€63.9	€19.3	€26.1	€494.1
2009	€402.0	€79.6	€3.6	€85.4	€16.2	€69.3	€153.7
2010	€612.7	€145.1	€5.5	€42.6	€22.2	€8.3	€140.8
2011	€1,042.1	€187.3	€11.9	€26.9	€45.1	€17.7	€173.6
2012	€1,039.2	€147.0	€30.0	€29.1	€18.5	€12.1	€128.9
2011-2012	-0.3%	-22%	152%	8%	-59%	-32%	-26%
2002-2012	512%	520%	257%	567%	1416%	486%	88%

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Table 4d. Exports of Art and Antiques from Emerging Markets (€ Million)

Exports	China	Singapore	Brazil	UAE	India	Russia	Korea
2002	€156.3	€9.7	€2.6	€1.6	€4.9	€6.6	€57.2
2008	€335.9	€227.2	€12.7	€5.2	€91.7	€2.4	€536.6
2009	€196.1	€77.7	€24.5	€13.6	€47.8	€0.9	€208.8
2010	€341.7	€121.6	€14.6	€12.1	€166.0	€2.4	€102.4
2011	€588.8	€141.9	€40.7	€23.5	€199.0	€1.7	€73.2
2012	€785.8	€118.6	€36.1	€25.5	€190.1	€2.7	€95.9
2011-2012	33%	-16%	-11%	8%	-4%	58%	31%
2002-2012	403%	1128%	1287%	1507%	3779%	-59%	68%

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[31] "Über-Warehouses for the Ultra-Rich." *The Economist*, November 23, 2013.

China recorded the largest trade and exchange of art among the emerging markets in 2012 and it was a net importer, with imports of just over €1 billion exceeding exports of €786 million. As the market contracted in China during 2012, imports stagnated (falling -0.3% year-on-year), but exports grew by 33%. Despite a slower year for imports, growth over the decade has been substantial at over 500% in value between 2002 and 2012, while exports have also grown by just over 400%.

Russia and the UAE were also net importers of art and antiques in 2012, reflecting their role in the international market as art buyers rather than sellers. Both markets have low values of art flows, although the UAE is the more substantial of the two, with €27 million in exports and €24 million in imports. Both imports and exports to the UAE grew by 8% over 2012, and although still at low levels, have shown considerable advances over the last ten years.

Both Singapore and Korea were also net importers. Flows in and out of Singapore peaked in 2011, just after the opening of the Freeport in 2010, and fell year-on-year in 2012. Korean imports and exports peaked in 2008, with imports reaching a substantial €494 million and exports of €537 million, however the levels have fallen considerably since then (by 74% and 82% respectively).

Brazil and India, on the other hand, both run a trade surplus for art. Exports from Brazil contracted by 11% over 2012, while imports rose by over 150%. Although the levels of these flows are very low by international standards, they have also grown very substantially over the last decade. In India exports of art are more than ten times the value of imports and the domestic market remains relatively small and locally based.

4.8 Conclusions

Wealth, an openness to trade and the existence of market infrastructures and support services continue to be dominant forces shaping the art trade. The analysis of trade flows continues to highlight the importance of the global entrepôts of the UK and US. These nations, through acting as conduits for global buyers and sellers, enable a critical mass of high quality art to be assembled together in one location to attract global interest from both buyers and sellers.

The continuing development of freeports in Europe and Asia has been a notable trend over the last few years. Increasing use of freeport facilities by HNWIs, institutions and the art trade, and particularly the occurrence of private exchanges within these repositories, mean that trade statistics may fail to capture the full extent of exchanges of art between countries. Even without these facilities, it is likely that there is a large amount of trade and private exchanges between nations that is under-reported and cannot be captured in official statistics. The art trade is built around centres such as London and New York with competitive levels of import and export taxes and a relatively favourable regulatory environment. While transactions are carried out in these low cost centres, the buyers often reside elsewhere and move art privately to its ultimate destination, with some of these flows likely to be unrecorded. While providing a crucial point of analysis of the global movement of art, import and export data is therefore likely to underestimate its full international circulation.

DESPITE THE GROWING IMPORTANCE OF THEIR BUYERS, REPORTED FLOWS OF ART AND ANTIQUES FROM EMERGING MARKETS REMAIN LOW

CHAPTER 5

FOCUS ON THE ART MARKET IN THE US

FOCUS ON THE ART MARKET IN THE US

Key Findings

- In 2013, sales in the art market in the US by dealers and auction houses reached a total of €18.0 billion, an advance of 25% year-on-year, having doubled in value in the five years since 2009.
- In the decade from 2003 to 2013, sales have grown by over 130% driven by the expansion of both local and global demand, as well as increasing prices, particularly for Modern and Contemporary art.
- The US is the leading market place for sales of the highest priced art and antiques in the world. Increasingly most of the sales of multi-million dollar works at auction are carried out in New York, and most of the largest galleries are based there.
- The US had a share of 52% of all lots sold for over €1 million at fine art auctions. In the market for works priced above €10 million, the US heavily dominates, with a 78% share by value and 60% by volume.
- Post War and Contemporary art represented by far the largest sector of the art market in the US in 2013, accounting for 59% of the value of sales, with several examples of US and international artists selling for prices in excess of $50 million. The US accounted for 44% of this global sector by value in 2013 and 21% of lots sold.
- The art market in the US was comprised of 72,580 businesses in 2013, including 4,080 auction houses and 68,500 businesses in the gallery and dealer sector.
- New York is the centre for the highest priced sales in the US at auction, with a share of over 90% of all fine art sales by value within the US in 2013.

5.1 Market Background

The growth of the art market in the US reflects its immense economic power in the late 19th and early 20th century, which led to an influx of art being bought primarily from Europe by wealthy US collectors. The frequently cited quote by London art dealer Joseph Duveen during the 1920s and 1930s was that "Europe had plenty of art and America had plenty of money" sums this up.

In the 18th and 19th centuries, Europe and particularly Paris and London, were the key centres for the art trade. A number of regulatory, political and economic changes from 1900 started the shift of the market towards the US, where economic strength and buyer purchasing power rested. Buyers and sellers were also drawn to the more liberal trading regime in the US, as new taxes and other regulatory deterrents severely impacted on the market share of former centres such as Paris. The movement of art through sales towards the US soon developed a sufficient critical mass of objects to support its own domestic trade. From the post-War period to the present, the fame of US artists also let to the further strong development of the art trade.

During the 1960s and 1970s auction houses in New York and large galleries began to flourish to accommodate expanding demand. Dealers associations, such as the ADAA, were set up to promote standards in the profession. It was during this period that New York began to establish itself specifically as the international centre for modern sectors of the art trade. The US became the premier market for art during this period, with a share of over 50% of the market in most years up to 2000. This margin has been diluted over the last ten years, as China emerged as a third global leader. However the US maintained its dominant position in 2013.

5.2 Art Market Sales

In 2013, sales in the art market in the US by dealers and auction houses reached a total of €18.0 billion, an advance of 25% year-on-year, and having more than doubled in value in the five years since 2009. The art market in the US led the recovery of the global market in 2010, but growth was more subdued then for the next two years. In 2011, after a fall in sales of 6% and a boom year in the Chinese market, the US relinquished its premier position with a 29% share of global sales, second to China's 30%. However, 2012 and especially 2013 marked a return to strong growth, with sales returning to levels just below the peak of the market in 2006. In the decade from 2003 to 2013, sales have grown by over 135% driven by the expansion of both local and global demand, as well as increasing prices, particularly for Modern and Contemporary art.

The strong advances in the US in 2013, and a more moderate recovery in China, meant that the US retained its position as the highest ranking market worldwide in terms of total art sales. Its 38% share was a substantial increase year-on-year, and 9% greater than in 2011 when it hit its lowest level in 50 years (at 29%). Nonetheless, the US's global market share is still less than it was in 2006, before China exerted its influence.

Public auction sales reached €7.5 billion, an increase of 20% on 2012. Christie's and Sotheby's both achieved sales growth of 10% and 18% by value respectively, although the third largest auction house, Heritage, saw a more moderate increase of just 2% after a record year in 2012.

Sales in the dealer and private sales sectors reached €10.5 billion in 2013, an increase of 29% year-on-year. According to the survey evidence from

Figure 5a. US Sales of Art and Antiques 2003 to 2013 (Billion Euro)

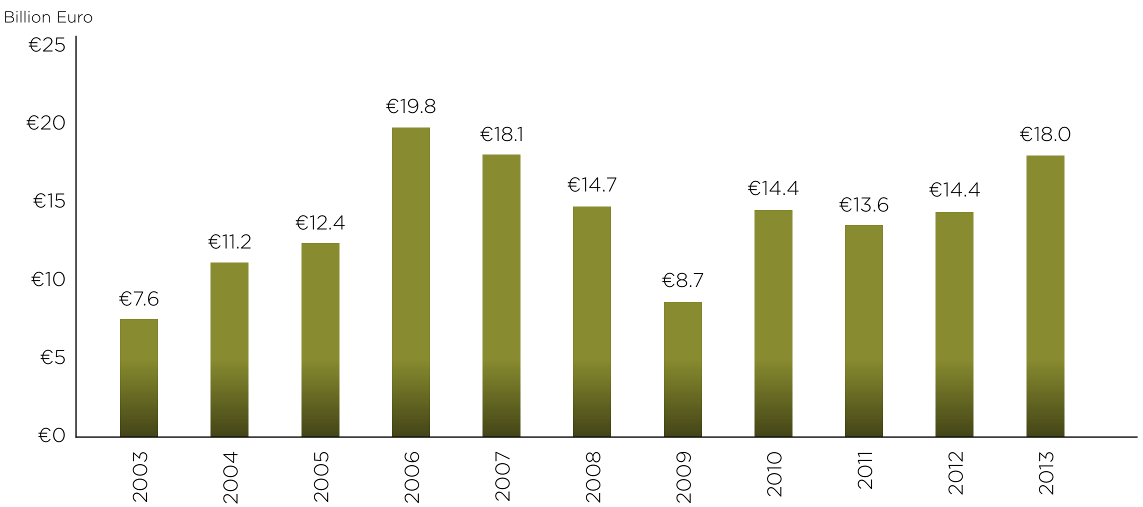
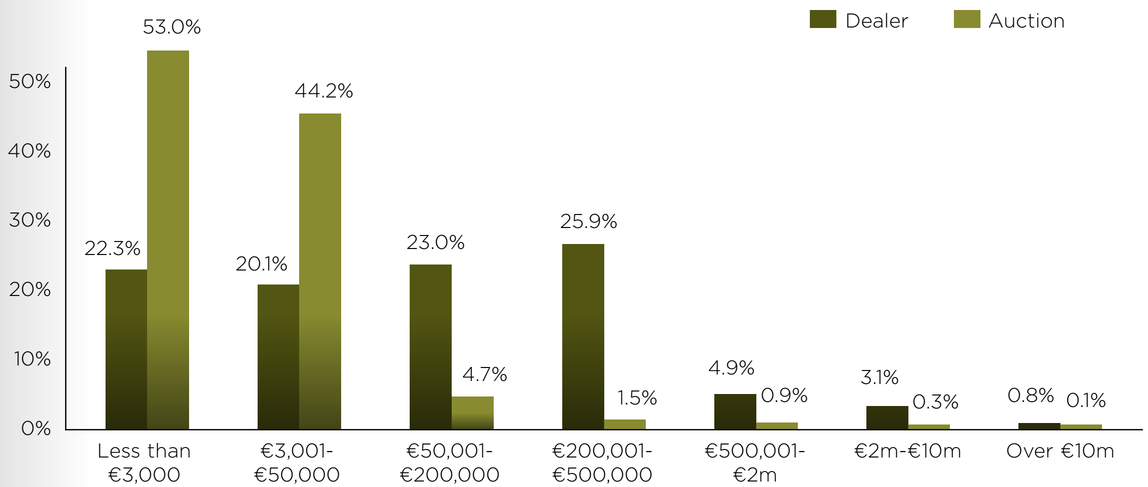


Table 5a. Global Market Share of the US, UK and China 2006 to 2013

SHARE of	2006	2007	2008	2009	2010	2011	2012	2013
US	46%	38%	35%	31%	34%	29%	33%	38%
UK	27%	27%	34%	23%	22%	22%	23%	20%
CHINA	8%	9%	9%	18%	23%	30%	26%	25%
Rest of World	20%	26%	22%	28%	21%	18%	18%	18%

Figure 5b. Share of Number of Transactions by Price Level in 2013 in the US



this sector in the US, median sales in 2013 were €1 million per dealer, and the top 10% of dealers covered in this survey were estimated to account for up to 70% of the value of US dealers' total sales. Looking ahead, half of the dealers surveyed felt that their sales would be somewhat higher in 2014, 43% felt they would be stable, and just 7% thought they would be lower.

5.3 Art Prices

The US is the leading market place for sales of the highest priced art in the world. Increasingly most of the sales of multi-million dollar works at auction are carried out in New York, and most of the largest galleries are based there.

The fine art market accounts for the highest priced individual sales at auction over the last few years, and within this, the Contemporary sector has dominated. At auction, the average price of a work sold in the US in 2013 was €54,240, more than 1.6 times the world average. As elsewhere however, in numerical terms, the largest number of objects sold by US dealers and auctions were in the lower priced brackets. In 2013, 42% of works sold by dealers were for less than €50,000 and this share was even higher (at 97%) at auction. At the higher end of the market, only 9% of the works sold by dealers were priced at over €500,000 and just 1% at auction, despite the fact that these works accounted for over 70% of the total value of the sector.

Table 5b. shows that auction sales in the US of individual items over €1 million accounted for 66% of the value of the market, despite representing less than 1% of all transactions. The Table also demonstrates that the US is the global centre for such sales, with a share of 38% of the world market for lots between €1 and €10 million (and a 52% share of all lots over €1 million). In the market for works priced above €10 million, the US heavily dominates, with a 78% share by value and 68% of all transactions.

Table 5b. Share of Fine Art Auctions by Price Level 2013

Lots Sold	**Under €50,000**	**€50,000 to €1m**	**€1m to €10m**	**Over €10m**
Share of US	92.5%	6.8%	0.6%	0.1%
Share of World	20.9%	20.0%	34.4%	68.4%
Sales Value	**Under €50,000**	**€50,000 to €1m**	**€1m to €10m**	**Over €10m**
Share of US	9.8%	24.4%	31.0%	34.8%
Share of World	19.1%	21.9%	37.9%	77.8%

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THE US IS THE LEADING MARKET PLACE FOR THE HIGHEST PRICED ART IN THE WORLD, WITH MOST OF THE MULTI-MILLION DOLLAR WORKS AT AUCTION SOLD IN NEW YORK, AND THE LARGEST GALLERIES BASED THERE

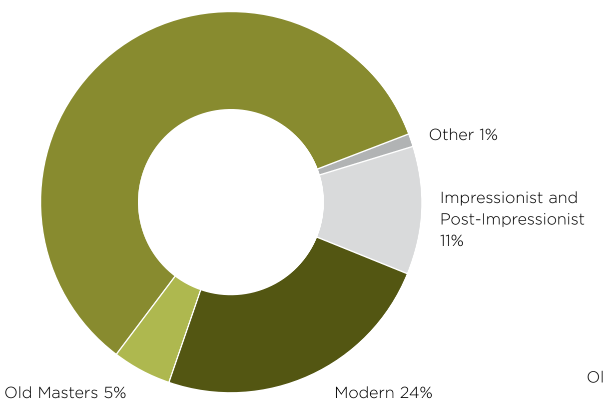
5.4 US Sales by Sector

Given the record-breaking sales at auction in New York discussed in Chapter 2, it is not surprising to see that Post War and Contemporary art represented by far the largest sector of the art market in the US in 2013. Based on fine art auction sales, it accounted for 59% of sales by value, with several examples of US and international artists selling for prices in excess of $50 million during the year. The US accounted for 44% of this global sector in 2013 by value and 21% of lots sold. The US Post War and Contemporary market also had the highest number of sales, accounting for 45% of all fine art auction transactions during the year. Together with Modern art, the sector accounted for nearly three quarters of works that were sold at fine art auctions in the US.

All sectors showed positive growth year-on-year, with the highest increase in Post War and Contemporary sales, which grew 20% in value and 18% in volume. Old Master sales also grew 11% in value, albeit from a much smaller base, and despite the decline in the global market. In the decade from 2003 to 2013, sales in Post War and Contemporary have shown by far the strongest growth, increasing by over 500% in value, followed by the Modern sector with an increase of just over 180%. Sales of Old Master works grew substantially (by 88% in value), while Impressionist and Post Impressionist sales had a more moderate increase of just under 30%.

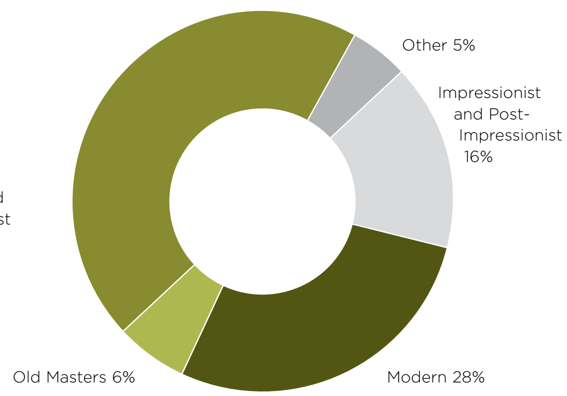
Many of the top lots sold in New York were by US Post War and Contemporary artists including Andy Warhol, Jeff Koons, Jean Michel Basquiat, Roy Lichtenstein and Jackson Pollock. These are some of the most sought after artists worldwide, and each has a strong international following and can be marketed anywhere. The fact that they are sold in the US is more connected to the economic power of buyers and sellers there, together with the regulatory context in which the sales take place. In 2013, 80% of the individual works by US artists sold at auction were sold within the US, and US sales accounted for 84% of the total value of sales of works by US artists.

Figure 5c. Market Share by Value:
US Fine Art Auctions 2013



Source: © Arts Economics (2014) with data from Artnet

Figure 5d. Market Share by Volume:
US Fine Art Auctions 2013



Source: © Arts Economics (2014) with data from Artnet

Figure 5e. US Auction Sales by Sector 2003 to 2013 (€ Million)

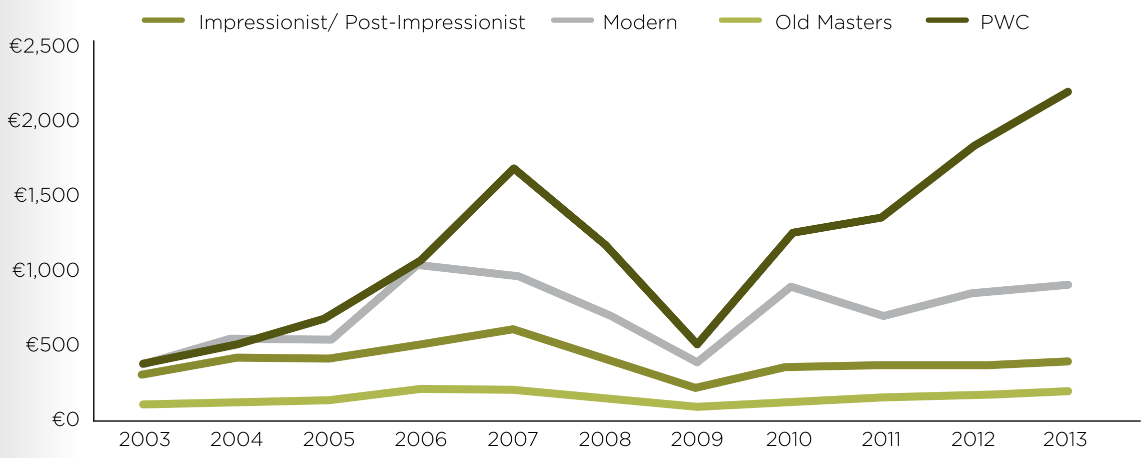


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Table 5c. Share of Sales of US Artists at Auction Within/Outside the US

Year	In the US (Lots)	Outside the US (Lots)	In the US (Value)	Outside the US (Value)
2005	83%	17%	88%	12%
2006	83%	17%	85%	15%
2007	79%	21%	79%	21%
2008	76%	24%	72%	28%
2009	78%	22%	78%	22%
2010	80%	20%	84%	16%
2011	81%	19%	79%	21%
2012	81%	19%	81%	19%
2013	80%	20%	84%	16%

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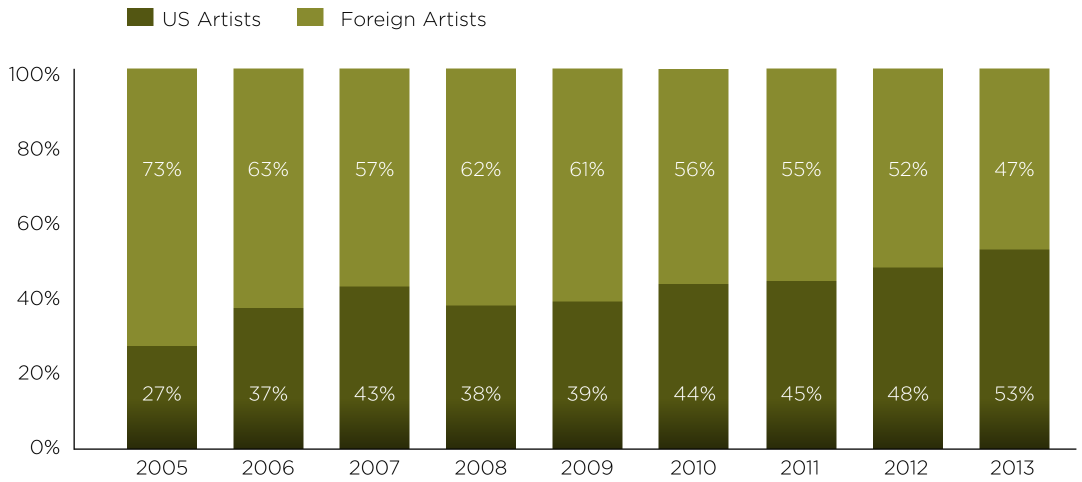
POST WAR AND CONTEMPORARY ART REPRESENTED BY FAR THE LARGEST SECTOR OF THE ART MARKET IN THE US IN 2013 WITH 59% OF SALES BY VALUE

Figure 5f. Share of US Fine Art Auctions by Value: US versus Foreign Artists



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The highest grossing artist in terms of aggregate sales for the last three years has been Andy Warhol, although the total sales of his work in the US accounted for just 9% of US fine art market as a whole. The other artists in the top five by value (Jean Michel Basquiat, Roy Lichtenstein, Willem de Kooning and Jackson Pollock) together accounted for 23% of total sales.

Although US art has tended to dominate sales, the US is an international centre for the art trade, attracting both overseas and domestic buyers. In 2013, 51% of all of the individual works sold at fine art auctions in the US were by foreign, non-US artists. These works accounted for 47% of the value of total fine art sales, but have averaged around 59% of values from 2005 to 2013. Considering the entire auction sector (including decorative art and antiques) the work of US artists accounted for around 25% of total sales by value.

5.5 Art Market Structure

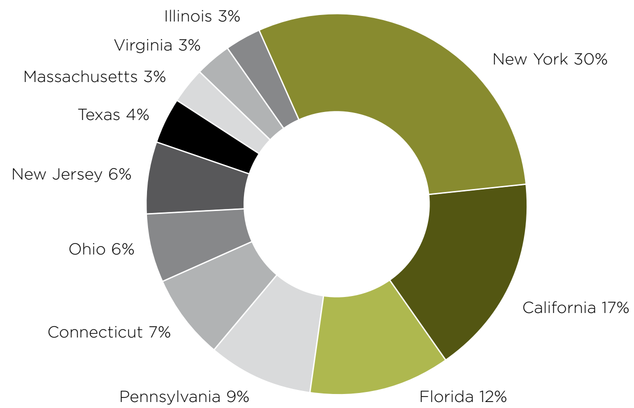
The US art market was comprised of 72,580 businesses in 2013, including auction houses, online auction companies, antique dealers, galleries, private dealers and art consultants.

The Auction Sector

In 2013, there were an estimated 4,080 auction houses selling art, antiques and collectibles. There were however only about 600 exclusively selling art and antiques (and doing so on a regular basis). These auction houses are distributed throughout the US, with the greatest number in New York (30% of the total), with Florida and California also having a significant share (29%).

NEW YORK IS THE CENTRE FOR THE HIGHEST PRICED AUCTION SALES IN THE US AND HAS MAINTAINED A SHARE OF OVER 90% OF FINE ART SALES BY VALUE

Figure 5g. Geographical Share of the Art and Antique Auction Houses in the US



Source: © Arts Economics (2014)

The largest auction houses by value of sales in 2013 were Christie's and Sotheby's, accounting for just over 80% of the fine art market by value. Table 5d records the share of sales of the top five auction houses out of the core 150 leading fine art auction companies currently in operation. Sales in these 150 houses have more than doubled between 2005 and 2013, with a 13% increase year-on-year.

THE US ART MARKET WAS COMPRISED OF 72,580 BUSINESSES IN 2013

Table 5d. Top 150 Auction Houses: Fine Art Sales and Share

Auction Houses	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Value Top 150 (Billion Euro)	**€ 1.8**	**€ 2.9**	**€ 3.5**	**€ 2.5**	**€ 1.2**	**€ 2.7**	**€ 2.6**	**€ 3.3**	**€ 3.7**
Christie's	46%	48%	47%	41%	38%	44%	41%	42%	48%
Sotheby's	40%	41%	43%	48%	48%	42%	42%	43%	39%
Phillips	4%	3%	3%	3%	3%	7%	7%	6%	5%
Bonham's	1%	1%	1%	1%	2%	1%	1%	1%	1%
Heritage	0%	0%	0%	0%	1%	1%	1%	1%	1%
Share of Top 5	**93%**	**94%**	**95%**	**94%**	**92%**	**94%**	**92%**	**93%**	**94%**

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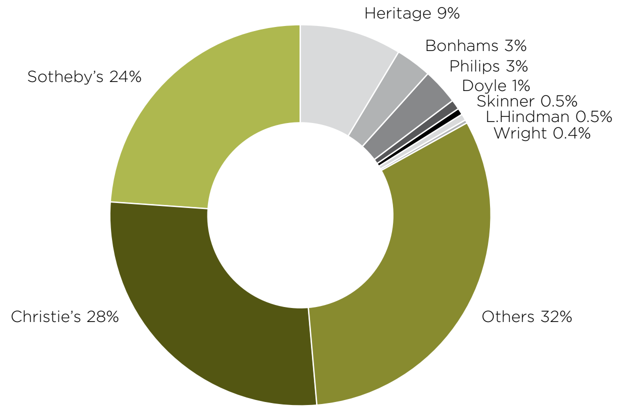
Figure 5h. Market Share of Auction House Sales of Fine and Decorative Art and Antiques in the US in 2013



Source: © Arts Economics (2014)

While fine art has dominated the media coverage of the auction market in the US (and at Christie's, Sotheby's and Phillips, fine art accounted for over 80% of the value of sales in 2013), in some auction houses, decorative art and antiques accounted for a greater share of their total sales. Heritage Auctions in Dallas for example sold close to 90% by value in decorative arts, antiques and collectibles. Other houses such as Bonhams, Doyle's, Skinner, Freeman's and Leslie Hindman's also averaged 74% in decorative art and antiques by value in 2013.

Including all auctions of fine and decorative art, antiques and collectibles, the combined share of Christie's and Sotheby's in 2013 was 52%.

New York is the centre for the highest priced auction sales in the US, and this is especially apparent in the fine art auction sector. Table 5e shows the level of fine art auction sales by total value, average price and median price in some of the top cities in the US since 2008. In all years, New York has maintained a share of over 90% of fine art sales by value, with prices significantly higher than those in other cities.

The traditional public auction is still the dominant sales channel for most auction houses in the US, with surveys of the main second-tier houses showing that 84% of sales were made through this channel in 2013. However private sales are becoming important for some auction businesses, accounting for 5% of their sales on average, while online sales represented an 11% share. Some new auction companies, mostly headquartered in New York, only sell online (see Chapter 2), and are not included in this survey sample.

Auction houses reported that on average of about 80% of their sales were to US buyers, 5% to Europeans, 11% to Chinese and Asian buyers and the remaining 4% to those from Russia, the Middle East and elsewhere.

The Gallery and Private Dealer Sector

The gallery and private dealer sector accounted for 68,500 businesses in 2013.[32] Just over 33,225 businesses (48% of the total) were registered as art dealers or galleries and of them, 74% were non-employee businesses, demonstrating the dominance of small businesses in this sector. The remaining 35,275 were antiques and collectibles dealers and shops, and similarly 76% were non-employee businesses.

[32] This figure is based on data for art and antique dealer businesses in the US Census (with some updated inputs from other directories), which counts both employee businesses and non-employee businesses (i.e. sole traders, partnerships and those companies with unpaid employees).

Table 5e. Fine Art Auction Sales by Selected City 2008-2013

i. Total Value (Million Euro)

City	2008	2009	2010	2011	2012	2013
New York	€ 2,331.4	€ 1,142.7	€ 2,509.9	€ 2,412.1	€ 3,041.1	€ 3,488.2
Chicago	€ 14.4	€ 11.0	€ 15.5	€ 22.4	€ 28.4	€ 29.7
Hayden	€ 25.1	€ 8.3	€ 5.7	€ 12.0	€ 13.5	€ 21.8
Dallas	€ 7.1	€ 12.0	€ 20.3	€ 10.6	€ 21.8	€ 17.1
Los Angeles	€ 7.4	€ 13.9	€ 13.3	€ 13.4	€ 12.8	€ 13.2
Bolton	€ 5.8	€ 4.9	€ 8.6	€ 8.2	€ 6.3	€ 8.7
San Francisco	€ 13.1	€ 2.4	€ 4.6	€ 6.2	€ 8.6	€ 7.0
Philadelphia	€ 4.1	€ 5.8	€ 8.8	€ 7.9	€ 6.8	€ 6.7
New Orleans	€ 4.3	€ 4.3	€ 6.3	€ 5.2	€ 4.2	€ 6.4
Miami	na	na	€ 0.5	€ 18.1	€ 24.7	€ 5.6

ii. Average Price

City	2008	2009	2010	2011	2012	2013
New York	€ 82,180	€ 46,970	€ 86,300	€ 75,692	€ 104,950	€ 120,849
Chicago	€ 5,658	€ 3,567	€ 4,281	€ 5,484	€ 6,634	€ 6,165
Hayden	€ 96,586	€ 33,813	€ 21,903	€ 44,385	€ 48,169	€ 72,401
Dallas	€ 7,550	€ 6,138	€ 6,490	€ 6,089	€ 9,135	€ 6,721
Los Angeles	€ 9,411	€ 5,814	€ 5,363	€ 4,598	€ 6,010	€ 7,571
Bolton	€ 2,753	€ 3,564	€ 3,829	€ 3,976	€ 3,307	€ 3,991
San Francisco	€ 4,634	€ 1,736	€ 2,735	€ 3,924	€ 4,516	€ 4,046
Philadelphia	€ 3,757	€ 4,265	€ 5,393	€ 6,405	€ 6,745	€ 5,541
New Orleans	€ 3,201	€ 4,448	€ 4,447	€ 3,888	€ 4,186	€ 4,462
Miami	na	na	€ 10,651	€ 92,926	€ 167,170	€ 28,581

iii. Median Price

City	2008	2009	2010	2011	2012	2013
New York	€ 6,560	€ 4,270	€ 5,661	€ 5,391	€ 6,723	€ 6,983
Chicago	€ 2,501	€ 1,491	€ 1,887	€ 1,929	€ 2,432	€ 2,311
Hayden	€ 21,610	€ 10,750	€ 8,058	€ 12,616	€ 18,038	€ 14,320
Dallas	€ 2,308	€ 1,719	€ 2,255	€ 2,157	€ 2,354	€ 2,118
Los Angeles	€ 2,870	€ 1,842	€ 1,657	€ 1,579	€ 1,459	€ 1,734
Bolton	€ 972	€ 938	€ 894	€ 1,193	€ 1,089	€ 1,109
San Francisco	€ 1,558	€ 877	€ 1,013	€ 1,316	€ 1,751	€ 1,650
Philadelphia	€ 1,452	€ 1,798	€ 1,415	€ 1,977	€ 2,334	€ 2,219
New Orleans	€ 1,298	€ 1,606	€ 1,578	€ 1,680	€ 1,488	€ 1,550
Miami	na	na	€ 3,913	€ 13,263	€ 6,433	€ 6,389

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The number of businesses has risen by about 16% since 2010. This increase has been driven by a sharp increase in the number of art dealers and consultants, while the numbers of antiques dealers and shops has declined by 5%. These figures fit with the anecdotal evidence from dealer interviews, with many dealers in fine art sectors, particularly at the higher end, reporting that business was better than ever. Some dealers in antiques on the other hand were struggling more or simply managing to maintain a stable level of sales.

Despite the more recent increases, the total number of gallery and dealer businesses has declined over the last decade: from 2002 when the Census reported just under 70,000 businesses in this sector, there has been a decline of 2% (or 1,500 businesses).

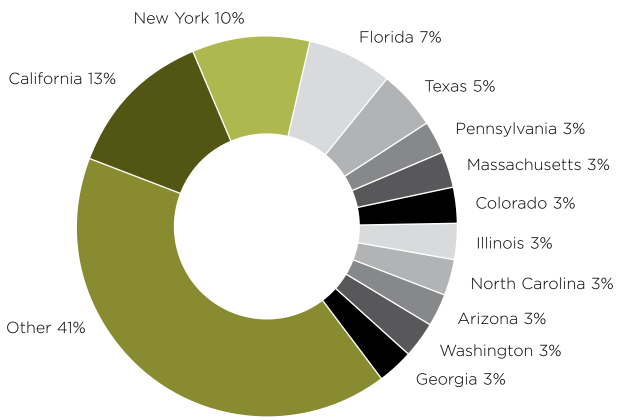
Hurricane Sandy, which struck New York at the end of 2012, inflicted heavy damage on many galleries in the arts district of Chelsea in New York. One dealer estimated that around 90 dealers had closed their premises as a result of damage from the hurricane, some moving to other areas, some becoming private dealers and others going out of business. They estimated that the number of galleries in 2013 had dropped from over 300 to around 220, and that this had a negative effect on the remaining businesses as a large concentration of galleries helped to generate a critical mass. Although many galleries were insured, some commented that certain works lost were impossible to replace. Insurance losses from the hurricane are still being paid out, and are estimated to run up to $500 million, the largest ever pay-out made in the art insurance market, and nearly equivalent to the premiums paid by the entire art industry each year. As a result, many galleries are finding that their rates have risen (or they were worried they would in 2014). Several have reported that their insurance companies will simply no longer insure art kept in basements in Chelsea, forcing them to find alternative storage locations, some of which were not as convenient for client access. Many dealers felt this was a further blow to the cost structure of maintaining a gallery in the area, which had already seen many businesses leave as a result of increasing rents.

Location of Dealers

The total value of sales by dealers is heavily dominated by New York and to some extent Miami, with dealers reporting these as the key cities for attracting both domestic and overseas buyers. However in terms of the number of businesses, California led in 2013 with 13% of the total, while New York accounted for 10%. California and the West Coast were also perceived as important centres for artists, and therefore important to those dealers working in the primary market.

THE NUMBER OF DEALER BUSINESSES HAS RISEN BY 16% SINCE 2010, DRIVEN BY A SHARP INCREASE IN THE NUMBER OF ART DEALERS AND CONSULTANTS, WHILE THE NUMBERS OF ANTIQUES DEALERS HAS DECLINED

Figure 5i. Geographical Spread of Art and Antique Dealers in the US



Source: © Arts Economics (2014) with data from US Census

Although New York has historically dominated the US art gallery sector, there are a number of important regional centres, some of which experienced very strong sales during the last three years. In interviews with US dealers, most felt that New York would continue to act as a clearing house for art, being the centre for international trade and where the largest galleries would continue to be headquartered. However, there has been increased interest in regional centres such as Chicago and Dallas during the last five years. One dealer noted:

Strong galleries are developing in regional areas all around the US but you need leadership and risk-taking to create markets outside the usual centres. There is a certain degree of 'corporatisation' in some of the larger centres, whereas it is easier to access 'real culture' in the smaller cities where collectors and dealers are willing to take more risks and there is less of a hierarchy.

States such as Texas, where economic recovery has been the most rapid and where there are significant pockets of long-established wealth, support a strong local gallery trade, even if it has been at lower price levels than New York.

Buyers and Sales Channels

In terms of buyer numbers, dealers had 40 main buyers on average. About one quarter of these buyers were new to them in 2013; 43% had been buying from them for one to five years; and 32% were more long-term clients of over five years. The majority of dealer sales were to private collectors (68%), with 17% to museums and other public institutions, 11% to corporations and 5% to others (including mainly other dealers and interior designers). Only 10% of respondents reported that the majority of their sales were to museums in 2013, and these dealers tended to work in traditional sectors such as Old Masters. However some commented that museums had started to buy more over the last two years, particularly in states such as Texas and New York, following a severe curtailment in their budgets in 2008 and 2009.

The majority of sales by dealers in the US were to US buyers, with the share of local sales averaging 74%. The most common foreign buyers were European (primarily German, French, British, Spanish and Swiss), Asian (notably Chinese) or South American (most commonly from Brazil).

Looking ahead over the next five years, dealers were generally positive about their sales to local buyers, with 64% estimating that they would be stable and the remainder anticipating increased sales. Optimism was even greater regarding sales to international clients, with 82% estimating they would increase.

The majority of sales by value in 2013 were made through galleries (52%), while a significant 39% were carried out at art fairs. 75% of their sales at art fairs took place at fairs within the US (such as the ADAA fair, Frieze New York, Armory, Expo Chicago and Art Basel Miami). These were important even for dealers in the cities that hosted the fairs, as they considered that many collectors were increasingly inclined to visit fairs rather than local galleries. Looking ahead to the next five years, 91% of dealers surveyed felt that their attendance at fairs in the US would be about the same or would increase.

Some dealers commented on the importance of fairs, not only as a venue for sales, but also as a method of marketing and forming alliances. For example, one dealer note that fairs were: *"probably the only way you can get the entire board of a museum to see your collection in one day".*

While they were central to many dealers' businesses, there appears to have been a retreat from attendance at a large numbers of fairs in different locations. Many dealers noted that they had significantly reduced their participation in fairs generally, and particularly those overseas. One explained:

We no longer do fairs abroad but still exhibit at some in the US. We feel that the model has become very strained: you used to be able to count on the fact that a fair would be profitable, but now is often just about meeting new collectors. You can waste a lot of money on new collectors, whereas you should be spending time and money on existing clients. We have resolved this tension by 'staying at our post' more and travelling less.

This view was echoed by several dealers based in cities such as Dallas, New York and Miami, where local sales to both US and international buyers were buoyant. The majority of dealers surveyed (67%) disagreed that the continued growth of art fairs was a positive development for the art market (with 22% strongly disagreeing). Despite this, 45% of dealers surveyed felt that they would exhibit more at international fairs over the next five years.

Some Contemporary dealers also commented that, while art fairs were good at generating excitement and enthusiasm, they were increasingly encouraging their buyers to visit their galleries, as they felt this provided a more appropriate context to view more conceptual and experimental art. Some dealers in areas such as Chelsea in New York also said that they were experiencing a sufficiently high level of visitors to lessen the need to exhibit at fairs.

Dealers were generally positive about the level of sales at their galleries over the next five years: 36% felt they would remain stable, and 46% felt they would increase.

THE MAJORITY OF DEALERS' SALES BY VALUE IN 2013 WERE MADE THROUGH GALLERIES, WHILE A SIGNIFICANT 39% WERE CARRIED OUT AT ART FAIRS AND 7% ONLINE

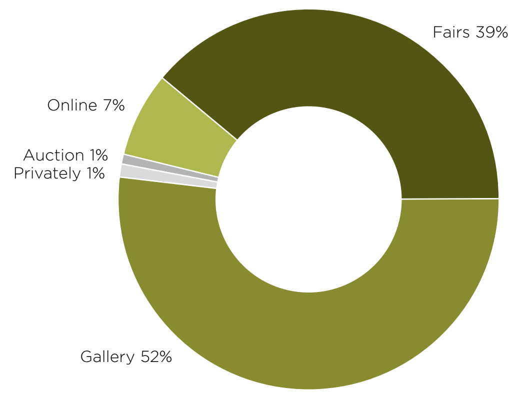
Overall, dealers reported making approximately 7% of their sales online, and just over half of these were pure e-commerce, with no other contact with the gallery. This average included dealers who did not conduct any online sales. Narrowing the responses to just those who had made at least some of their sales online, the average share via this channel was higher at 14%. Of those galleries that made sales online, the majority (58%) were to new buyers who had never visited the gallery, 9% were to regular online buyers (with whom they had had no personal contact) and 33% were to existing buyers with whom they had had personal contact.

Some dealers continued to feel that online selling was not an area of interest and that it posed certain risks when buying at higher price levels. Despite some reluctance, the majority of dealers (55%) felt that their online sales would increase over the next five years. Of those who had an opinion either way, views were split evenly on whether the internet and online sales were having a positive influence on the art market.

Some noted that they were increasingly re-focusing on gallery sales as a means to add value and remain competitive with auction houses, and they felt that this meant concentrating less on both fairs and online sales:

Dealers in the US need to focus on what can be done by staying in their galleries and not chasing people out of their doors by always selling online and at fairs. They shouldn't always try to compete with the short, sharp process and noise of an auction sale, and instead focus on giving a very different experience that allows calm reflection. Galleries are not just another shopping stop but can offer greater guarantees and commitment and much less pressure.

Figure 5j. Share of Sales by Sales Channel for US dealers in 2013



Source: © Arts Economics (2014)

THE US HAS BEEN ONE OF THE MOST IMPORTANT CENTRES FOR THE CROSS BORDER TRADE IN ART FOR THE LAST 50 YEARS

When asked about their views on the art market in the US, many dealers commented that it had become more competitive, particularly as auction houses conducted more private sales.

Views were mixed on the level of competitiveness between dealers but a common theme was that the Contemporary sector was highly competitive, more commercial and less collegiate than some of the older sectors of the market. In fact some dealers in older sectors noted that they actually suffered from a lack of competition and felt that greater competition would prevent a fall in prices and boost the market. One noted:

It is still no problem to sell at the higher end, but the polarisation of the market is not because the collector base has changed their thinking, but that they are confronted with much less choice than ever before, especially at auction. More dealers and more competition in some sectors would therefore definitely improve things.

Competitiveness also differed between the primary and secondary markets, with most of the competition in the secondary market perceived as being with auction houses. In the primary market, dealers reported facing very strong competition in procuring work from certain artists, and that many artists were less willing to work exclusively with them. They noted that once an artist sparked interest at a fair in New York or Miami, it was a "rat race" to get them signed, and if they did manage to get exclusivity, it was often only for their city and not nationally or globally. Some commented that larger dealers in New York were more inclined towards gaining exclusivity with artists:

We work semi-exclusively with artists and are happy to do so. Big mega-galleries in New York push for exclusivity, many are power hungry and want to control artists and there is much more of a hierarchy. Whereas our ethos, and that of many more regional galleries, is not to control or conquer the world but to want our gallery and our artists to do well and to live a normal life.

In general, dealers were positive about working in the US from a regulatory perspective, feeling that it was a clear and transparent marketplace with regard to taxes and regulations, and that the government, for the most part, promoted the commercial development of business and labour. They also were very positive regarding the low level of regulation and charges in cross-border trade, which made it easier to import and sell internationally, especially compared with Europe, which was described as overly complicated and complex to deal with. A problem noted in dealing with European collectors and vendors was that as taxes within Europe had risen on capital gains and on profits in many countries, some were less inclined to sell, causing problems of supply in some sectors in the US.

The main specific regulatory issue mentioned by dealers was sales taxes, with some complaining that collectors pushed them to engage in more complex transactions to avoid high taxes (see below). Others considered that the opportunity of state-by-state arbitrage was in fact very beneficial for their business, given the wide geographical collector base in the US. Others complained about auction regulations, most notably the legality of "chandelier bidding", where an auctioneer could bid on behalf of the owner.

Dealers were evenly divided on whether the regulatory burden on their businesses had increased in recent years (in contrast with European dealers, 75% of whom felt that it had increased). About 50% of US dealers felt that increased regulations had imposed additional costs on their businesses in recent years (as against a 72% share of European dealers). Looking more generally at the cost structures within the US and its attitude toward small businesses, most dealers (60%) felt that the costs of doing business in the US had been beneficial to their business in recent years.

5.6 The US Cross Border Art Trade

In addition to its dominance as a market for domestic sales, the US has been one of the most important centres for the cross border trade in art for the last 50 years. Since 1985, the US has maintained an average share of 30% of world exports of art and antiques and 38% of imports. Its dominance in world trade has been brought about because of its importance as *an entrepôt* market for the art trade, with strong domestic and foreign buying, along with one of the most liberal trading regimes in place for the circulation of art works, with low tariffs and limited restrictions.

As a major buying nation, the US has maintained one of the most lenient systems of imports worldwide and has always leaned in favour of the free exchange of cultural property across borders. Excluding specialized import restrictions regarding endangered species[33] and some specific embargoes and nation-specific agreements[34], there are few Federal laws that specifically regulate the import of art and other cultural property into the US.

The US also has one of the most liberal systems of exports with no legislation barring or limiting the export of art, except very specific laws regulating antiquities and archaeological property discovered on Federal or Native American lands and property owned or controlled by museums or institutions receiving Federal funding. Compared to countries in Europe there is much less legislation in the US on rights connected to national patrimony, and with the existing laws relating to protecting cultural heritage mainly dealing with historic properties and buildings and not works of art.

The US was a net importer of art in 2012 with imports of €6.1 billion exceeding exports of €5.8 billion (a trade deficit for art and antiques). A trade deficit where imports exceed exports in the context of art and antiques can imply that domestic demand exceeds the available supply and works are imported to meet buyers demand (although it is also influenced by a variety of factors including exchange rates and price differentials between works of art). The local demand for imported works in the US also reflects not only demand from US collectors, but also from foreign buyers purchasing at auction and from dealers in the US. Part of the success of cities such as New York derives from their ability to assemble a critical mass of the most sought after works together at one time to attract global buyers and sellers.

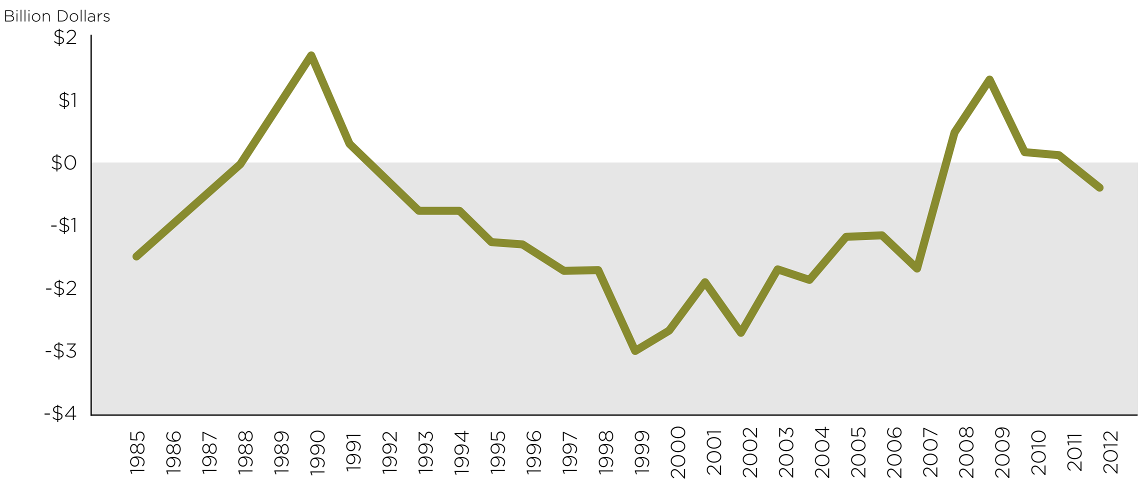
When the art market in the US has been relatively strong, import demand has exceeded export supply, as buyers support strong inflows of art. It is clear from Figure 5k that when the market has experienced periods of depression, such as in the early 1990s and the more recent contraction of 2009, this trade balance is reversed as domestic demand becomes somewhat more subdued.

PART OF THE SUCCESS OF CITIES SUCH AS NEW YORK DERIVES FROM THEIR ABILITY TO ASSEMBLE A CRITICAL MASS OF THE MOST SOUGHT AFTER WORKS TOGETHER AT ONE TIME TO ATTRACT GLOBAL BUYERS AND SELLERS

[33] The US is a signatory to the Convention on International Trade in Endangered Species of Wild Fauna and Flora or CITES, which has also been implemented in the EU. The US is also subject to the stricter restrictions enacted under the Endangered Species Act of 1973 (ESA) which restricts or prohibits the movement of endangered or protected plants or animals, such as ivories, feathers, tortoise shell, coral and certain types of woods.

[34] One example of this is the Memorandum of Understanding between the Chinese and US governments, which restricts imports of very specific older Chinese works, and is discussed in Chapter 6. This is under review in 2014. See http://www.state.gov/documents/organization/122226.pdf.

Figure 5k. Net Exports or the Trade Balance for US Art and Antiques



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The return to a trade deficit in 2012 is therefore a strong indicator of the buoyancy of demand. Data available for the US trade in art for the first nine months of 2013 shows a continuing negative trade balance with imports exceeding exports for that period.[35]

Imports

In 2012, US imports of art and antiques reached €6.1 billion, increasing 22% in value year-on-year, and 70% in total from their recent low in 2009, but still just less than the peak in 2007 of €6.3 billion.

Figure 5l. Imports of Art and Antiques to the US (Billion Euro)

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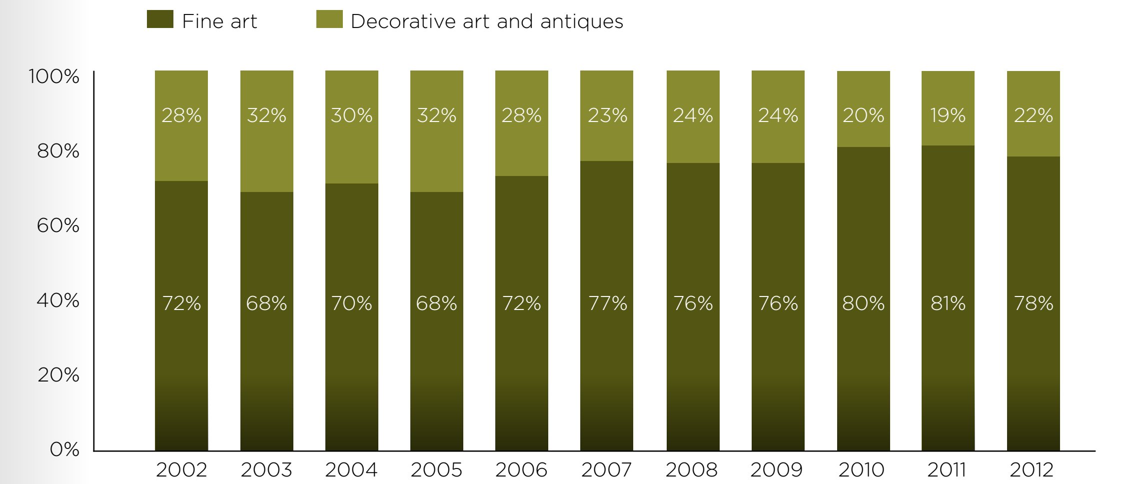
[35] Annualizing the data from January to September 2013 and based on dollar values, suggests that trade flows would stay fairly stable on values reported in 2012, with imports rising 1% and exports declining 2%. However the last three months of the year are critical in the art market and include many high value auction sales and art fairs, therefore this data is unlikely to give a very accurate view of 2013.

Figure 5m. Share of Imports by Value to the US: Fine Art Versus Decorative Art



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The US maintained a 35% share of world imports (a drop of 3% year-on-year), the second largest importer worldwide with a fractionally smaller share than the UK.

In 2012, over 80% of imports to the US were from the EU, with the UK accounting for a 23% share, France (22%), Germany (11%) and Italy (10%). Outside the EU, important source markets were China, with a 5% share and Switzerland (with 4%).

Fine art imports (paintings and sculpture) have dominated decorative art and antiques in recent years, accounting for a 78% share of the total value of imports in 2012.

Exports

In 2012, exports of art and antiques from the US reached €5.8 billion, their higher ever recorded total. Exports also rose by 14% year-on-year and have increased over 120% in value in the last ten years. The US was the second largest exporter of art and antiques worldwide with a 32% share of world exports, again marginally below the UK. Considering only fine art exports, values were however higher in the US (with €4.9 billion versus €4.5 billion from the UK).

IN 2012, EXPORTS OF ART AND ANTIQUES FROM THE US REACHED €5.8 BILLION, THEIR HIGHER EVER RECORDED TOTAL, WHILE IMPORTS REACHED €6.1 BILLION

Figure 5n. Exports of Art and Antiques from the US (Billion Euro)

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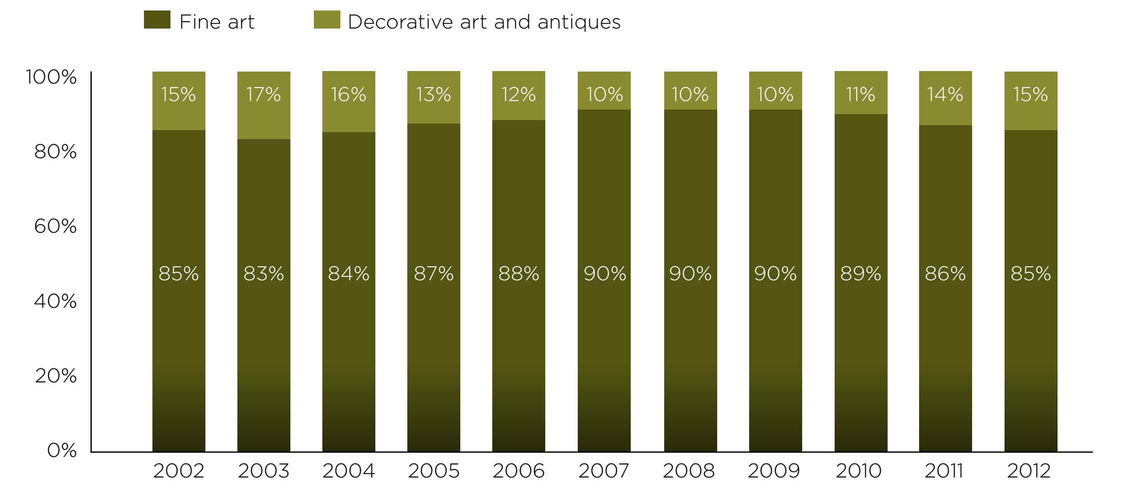
Figure 5o. Share of Exports by Value from the US: Fine Art Versus Decorative Art



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THE TRADE STATISTICS, WITH LARGE INFLOWS BOTH IN AND OUT OF THE US, UNDERLINE ITS IMPORTANCE AS A GLOBAL ENTREPÔT

In 2012, 32% of exports of art and antiques from the US went to the UK, with a further 12% to France and Germany. Outside the EU, Switzerland was the second most important destination market for exports with a 27% share, while China accounted for 7%.

As with imports, exports of fine art are dominant in terms of value with a share of 85% of the total in recent years.

The trade statistics, with large inflows both in and out of the US, underline the importance of the US as a global *entrepôt*. New York, in particular has developed an infrastructure of skills, expertise, services and institutions to support the market, as well having maintained a relatively trade-enhancing fiscal environment which encourages a healthy flow of trade in all but a few restricted sectors.

5.7 Art Collecting in the US

The US is home to some of the most important collectors worldwide and is also the biggest centre for global purchases of art.

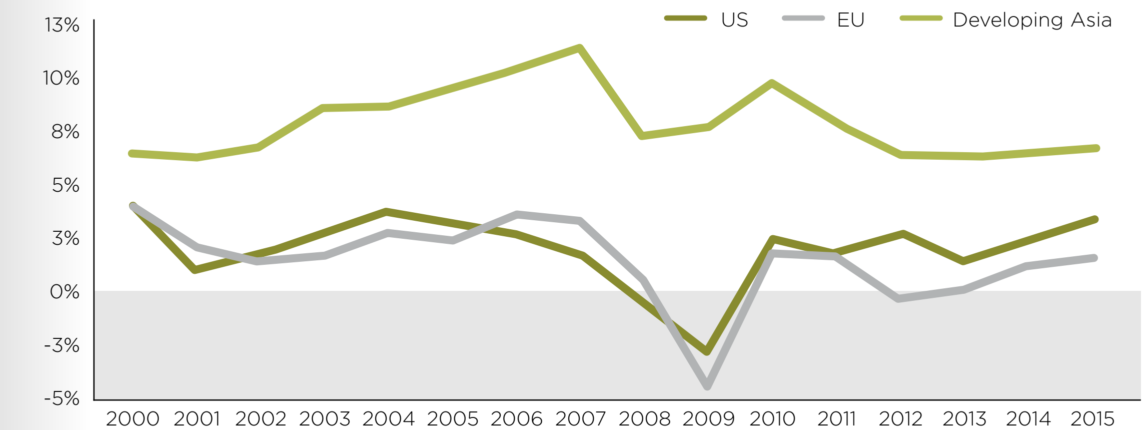
It is impossible to state with precision the exact number of collectors worldwide, but as noted in Chapter 3, it can be estimated that there are at least 600,000 mid-to-high level regular collectors of art and antiques. From those, some experts within the trade estimate that there is a group of 3,000 collectors at the highest level, at least half of these reside in New York.

Although there are many reasons why the US has developed into the epicentre of the art trade, a fundamental factor has been that it is the largest home to the most wealthy individuals around the world.

Wealth in the US

The US has endured a turbulent economic period over the last decade. From 2001 to 2006, although growth rates varied, the economy and the level of wealth in it were in a generally positive cycle. From 2006 however, growth dropped significantly and the economy entered recession for two successive years as the global financial crisis took hold. As the US housing bubble burst in 2007, the values of securities tied to US property prices also plummeted, impacting not only US financial institutions but also those throughout the world. The credit crisis and recession that followed caused aggregate wealth to fall, with consequential declines in consumption and business investment and increases in unemployment.

Figure 5p. Growth and Projected Growth in GDP 2000-2015



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Although the recession officially ended in the second quarter of 2009, recovery has been slow, both in terms of jobs and overall growth, but it has far outpaced recoveries in many countries in Europe, some of which remained in recession in 2013.

Although growth has been positive, political uncertainties over the last two years have dampened investment confidence in the US, particularly in 2012 with concerns over the Federal budget and ensuing "fiscal cliff". In the latter part of 2012, as this crisis was more or less averted and quantitative easing was put in place, the US economy stabilised, which alongside rising house sales helped encourage spending by consumers and businesses. Although 2013 was still marked by reduced government spending and political issues, (both highlighted during the Federal shutdown in October), continued increases in credit availability, lower inflation, strong stock markets and an expansion of business investment and consumption all aided growth.

All of these economic issues affected wealth in the US, which has been subject to volatile growth. In the period from 2000 to 2007, North America had the second lowest wealth growth rate worldwide. However in the period from 2008 to 2013, it had the second highest.[36] Despite the volatility of recent years and a slowly recovering economy, aggregate wealth has grown steadily each year in the US from its low point in 2008. 2013 was a particularly strong year for personal wealth in the

THE US IS HOME TO SOME OF THE MOST IMPORTANT COLLECTORS WORLDWIDE AND IS ALSO THE BIGGEST CENTRE FOR GLOBAL PURCHASES OF ART

Table 5f. Growth in Key Economic Indicators for the US 2000-2015

YEAR	GDP	GDP pc	Inflation	Unemployment
2000	4.1%	$36,450	3.4%	4.0%
2001	0.9%	$37,253	2.8%	4.7%
2002	1.8%	$38,123	1.6%	5.8%
2003	2.8%	$39,597	2.3%	6.0%
2004	3.8%	$41,846	2.7%	5.5%
2005	3.4%	$44,224	3.4%	5.1%
2006	2.7%	$46,358	3.2%	4.6%
2007	1.8%	$47,964	2.9%	4.6%
2008	-0.3%	$48,308	3.8%	5.8%
2009	-2.8%	$46,907	-0.3%	9.3%
2010	2.5%	$48,294	1.6%	9.6%
2011	1.8%	$49,797	3.1%	8.9%
2012	2.8%	$51,704	2.1%	8.1%
2013	1.6%	$52,839	1.4%	7.6%
2014	2.6%	$54,609	1.5%	7.4%
2015	3.4%	$57,080	1.8%	6.9%

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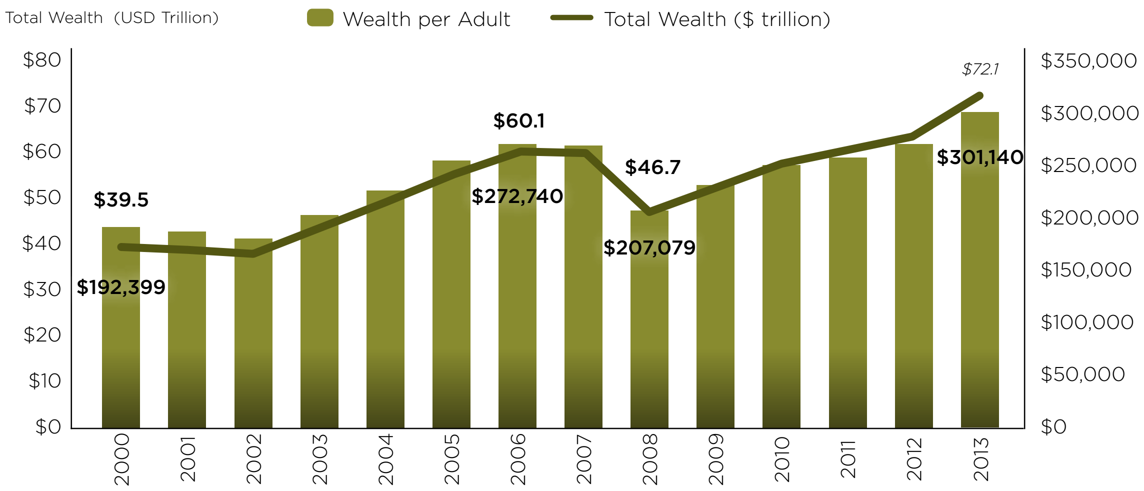
[36] Between 2000 to 2007, Asia Pacific excluding China had the lowest growth rate of all regions and from 2008 to 2013 the highest growth rate has been in China. (Statistics are derived from Credit Suisse Global Wealth Databook 2013).

Figure 5q. Aggregate Wealth and Wealth per Adult in US 2000-2013



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US, with a fifth successive year of increase leaving it 10% above its previous peak in 2006 before the financial crisis. Aggregate wealth rose 13% year-on-year to $72 trillion, its highest ever recorded level, and 54% above the recent low in 2008.

The US is the wealthiest country in the world in terms of aggregate wealth, with a 30% share of total global wealth in 2013. It has maintained a share of between 25% and 36% since 2000, and the margin between it and the next wealthiest nations

Figure 5r. Aggregate World Wealth and US Share of World Wealth

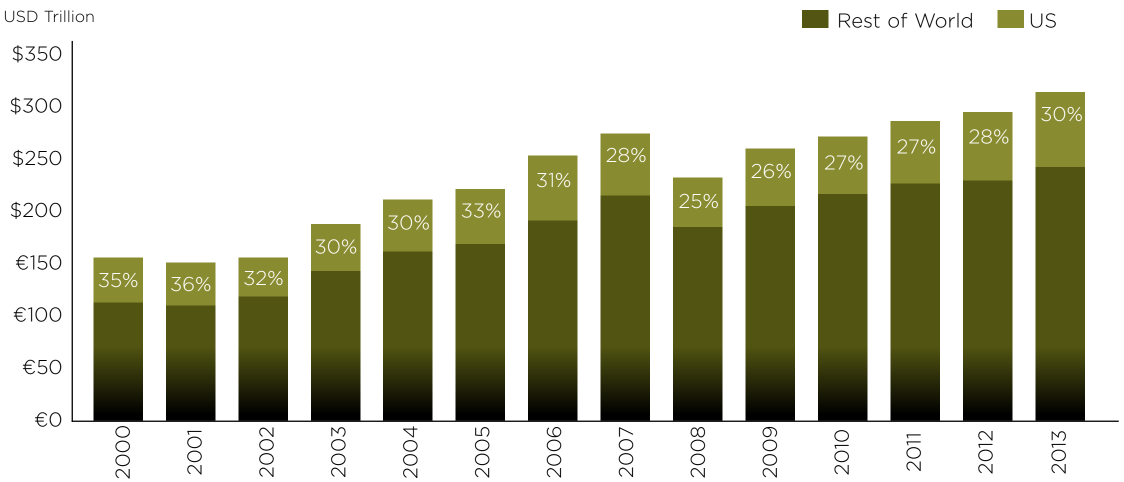

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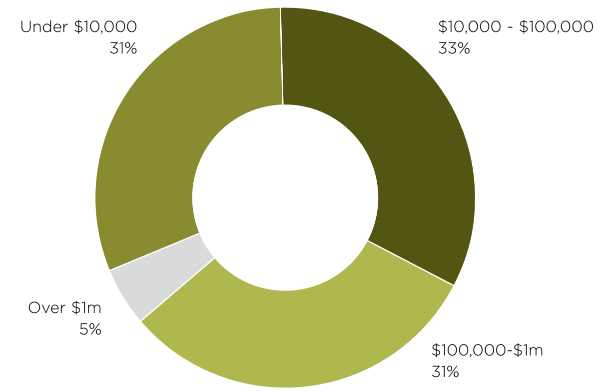
Figure 5s. The Distribution of Household Wealth in the US in 2013



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has remained substantial. (In 2013, these were Japan and China, both with 9% of global wealth.)

The US also has a very high proportion of its population in the upper middle-classes and HNWIs, a fact that has been critical to supporting a healthy local art trade. Although the majority of US adults have wealth holdings of less than $100,000, by comparison with the rest of the world, it has a high proportion (36%) of the population with wealth above $100,000, and the percentage becomes even more marked at higher wealth levels. The US has by far the greatest population in the top 1% global wealth group, accounting for a 39% share in 2013.

In 2013, 6% of adults in the US were dollar millionaires (versus the share worldwide of 0.7%). The US accounted for 42% of all millionaires worldwide and this share increased year-on-year by 3%.

Table 5g. Adults (1000s) with Wealth over $100,000 and $1 million

Number of Adults and Share	2010	2011	2012	2013
No. of US Adults with Wealth over $100k	**83,622**	**84,728**	**78,734**	**86,729**
Share of Those in Total US Adults	36.2%	36.3%	33.3%	36.2%
Share of Those in World Adults with Wealth over $100,000	23.2%	21.3%	21.1%	22.1%
No. of US Adults with Wealth over $1m	**9,940**	**10,061**	**11,023**	**13,216**
Share of Those in Total US Adults	4.3%	4.3%	4.7%	5.5%
Share of Those in World Adults with Wealth over $1m	40.5%	33.9%	38.5%	41.7%

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While the statistics above measure wealth, including non-financial assets such as property and land, using the stricter criteria for HNWIs (i.e. those with investable assets over $1 million), the US was home to over 3.4 million HNWIs at the end of 2012, up 12% year-on-year to the highest ever recorded number. The share of the US in the world's HNWI population was again the largest worldwide at 29%. This share has not widely altered in the last ten years, and with Japan and Germany, has consistently represented a majority of the world's HNWIs. However, their combined share has dropped from 55% in 2006 to 53% in 2012 and is expected to erode over time as emerging markets take greater prominence. According to the *World Wealth Report 2013*[37], North America also had the highest share of HNW investable wealth, with $12.7 trillion in 2012, compared to U$12.0 trillion for Asia-Pacific, $10.9 trillion for Europe, and $7.5 trillion for Latin America.

Table 5h. Population of HNWIs in US and World (Millions) 2002 to 2012

Year	US	World	Share of World's HNWIs
2002	2.00	7.80	26%
2003	2.27	8.20	28%
2004	2.50	8.70	29%
2005	2.67	8.80	30%
2006	2.92	9.70	30%
2007	3.03	10.10	30%
2008	2.46	8.60	29%
2009	2.87	10.10	28%
2010	3.10	10.90	28%
2011	3.07	11.00	28%
2012	3.44	12.00	29%

© Arts Economics (2014) with data from Capgemini/ Merrill Lynch/ RBC Wealth Management

Looking at the highest levels of wealth in the UHNW segment, the US again tops the league tables. Although estimates vary between sources, Wealth-X estimated that there were 515 billionaires in the US in 2013[38], an increase of 7% year-on-year in number, with their wealth also marginally increasing. These individuals made up 24% of the world's population of billionaires in 2013 (up from 22% from 2012) and 6% of their total wealth.

Considering all those individuals with net worth in excess of $30 million, the US accounts for one third of the world's UHNWI population and one third of their wealth.

It is interesting to note that although there are clusters around some major cities, the wealthiest people are regionally distributed across US states and cities. New York, the financial and art capital of the country, had the largest share of UHNWIs in 2013 at 12%, and together with Los Angeles accounted for over 20% of the UHNWI population. However, the top ten cities only account for 47% of the population of this highest wealth group (compared to 75% in China and over 90% in India). The top five states in the US in terms of UHNWIs (California, New York, Texas, Florida and Illinois) account for the majority share (53%) of their population.

Table 5i. The US Population and Wealth of UHNWIs in 2013

Wealth Band	Popn 2013	Share of World	Wealth 2013 $bn	Share of World	Popn 2012	Wealth 2012 $bn	Change in Popn	Change in Wealth
>$1bn	515	24%	$2,064	32%	480	$2,055	7%	0.4%
$750m to $999m	285	26%	$270	29%	230	$215	24%	26%
$500m to $749m	925	35%	$656	39%	935	$690	-1%	-5%
$250m to $499m	1,945	22%	$945	28%	1,370	$665	42%	42%
$200m to $249m	3,830	27%	$890	28%	3,045	$740	26%	20%
$100m to $199m	5,080	21%	$995	26%	4,435	$790	15%	26%
$50m to $99m	20,605	34%	$1,890	40%	19,070	$1,750	8%	8%
$30m to $49m	32,320	38%	$1,375	39%	30,715	$1,380	5%	-0.4%
TOTAL UHNW	**65,505**	**33%**	**$9,085**	**33%**	**60,280**	**$8,285**	**9%**	**10%**

© Arts Economics (2014) with data from Wealth-X and UBS

[37] Capgemini/ RBC Wealth Management (2013).
[38] Wealth-X/ UBS (2013). Credit Suisse estimate that there was 326 billionaires in 2013.
[39] Analysis from the Capgemini, *RBC Wealth Management, and Scorpio Partnership HNW Insights Survey 2013.*
[40] These estimates are taken from Wealth-X/ UBS in 2013 which estimated the average value of a global billionaire's collection at $31 million. Although it is not possible to say with precision how many billionaires collect art and how much their art collections are worth, 0.5% does not seem an reasonable estimate given that some do not collect while others invest over 50% of their net worth in their collections.

Table 5j. The US Population of UHNWIs by City in 2013

City	Population of UHNWIs 2013	Share of US UHNWIs	Population of UHNWIs 2012	Share of US UHNWIs
New York	8,025	12.3%	7,580	12.6%
Los Angeles	4,945	7.5%	4,520	7.5%
San Francisco	4,840	7.4%	4,590	7.6%
Washington	2,675	4.1%	2,395	4.0%
Chicago	2,665	4.1%	2,615	4.3%
Houston	2,490	3.8%	2,295	3.8%
Dallas	2,240	3.4%	2,020	3.4%
Atlanta	1,135	1.7%	970	1.6%
Seattle	1,070	1.6%	950	1.6%
Boston	995	1.5%	915	1.5%

© Arts Economics (2014) with data from Wealth-X and UBS

Private Collectors in the US

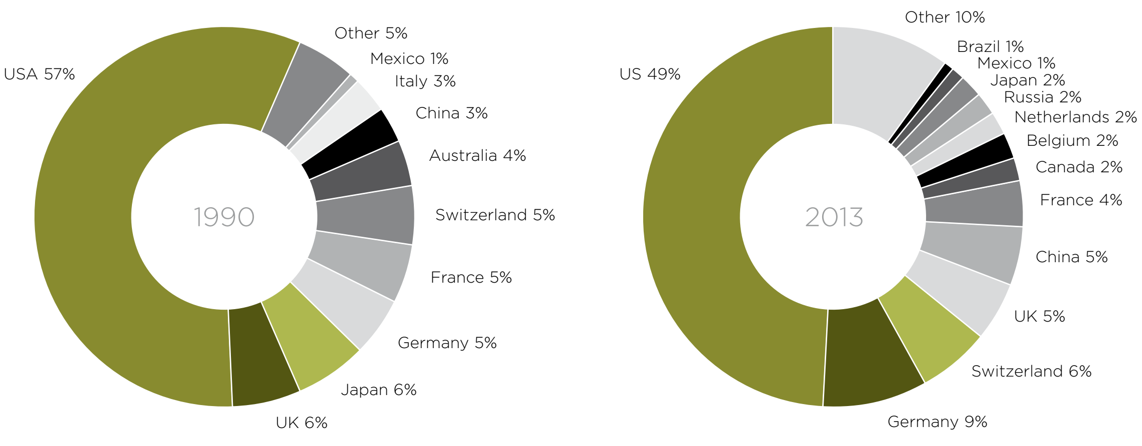
Many of these billionaires and HNWIs are art collectors. It is estimated that US collectors held roughly 19% of their investments of passion in fine art in 2013 and accounting for art, antiques and other similar collectibles, HNWIs from North America held a share of 50% versus the global average of 41%.[39]

It is estimated that the allocation to art and antiques by billionaires worldwide is around 0.5% of their net worth.[40] Using a similarly conservative estimate[41] the amount of art and antiques held by UHNWIs in the US is likely to exceed $20 billion (including billionaire's collections of $12 billion and other UHNWIs of $8 billion). Assuming that the allocation

THE US HAD THE LARGEST NUMBER OF MILLIONAIRES WORLDWIDE WITH 13.2 MILLION IN 2013, 42% OF THE WORLD'S MILLIONAIRE POPULATION. IT WAS ALSO HOME TO THE HIGHEST SHARE OF BILLIONAIRES, WITH A 24% GLOBAL SHARE BY POPULATION AND 32% SHARE BY WEALTH IN 2013

[41] Using the Wealth-X estimate of 0.5%, the art collections of billionaires in the US could be worth over $10 billion or an average value of $20 million. This is a significant underestimation however as summing the reported valuations of 13 of the top to billionaire collectors in the US amounts to $10.9 billion and even assuming modest holdings of art by the remaining billionaires is likely to bring the total closer to $12 billion. These valuations were gathered from estimates reported in Forbes and by Wealth-X, which reported that the top US collectors had very high shares of art as a percentage of their net worth ranging from 10% to 56% with an average of 25%. Capgemini and RBC Consulting report that North Americans hold 20% more of their investments of passion in art, antiques and similar collectibles therefore 0.6% is a 20% increase on 0.5% and used to estimate the share of art holdings in the US.

Figure 5t. Location of Top 200 Collectors in 1990 versus 2013



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USING CONSERVATIVE ESTIMATES, THERE IS IN EXCESS OF $265 BILLION IN PRIVATE COLLECTIONS IN THE US

to art falls as wealth levels decrease, the other US millionaires could hold a further $180 billion in private collections, while the upper middle-classes (those with wealth net of debt between $100,000 and $1 million), could add a further $65 billion.[42]

In total therefore, using very conservative estimates, there is likely to be in excess of $265 billion in private collections in the US.

It is difficult to provide any rigorous quantitative analysis of the geographical distribution of collectors because of their private nature. However, *ARTnews* has formulated a list of the Top 200 collectors of art since 1990, which provides some insights on the dominance of US buyers.[43]

In 1990, the majority (57%) of top collectors resided in the US, with the UK and Japan accounting for the next highest populations. In 2013, the US share dropped to 49%, however it still held a significant margin ahead of the next largest nations (Germany, Switzerland, the UK and China). Unsurprisingly given the globalisation of the market, the list has become much more diverse over time, with just 17 nationalities represented in 1990 versus 29 in 2013.

The significance of New York is demonstrated in Table 5k, with collectors from there averaging 18% of the top 200 in 2013, and having consistently represented around one third of those in the US. There is nonetheless a considerable spread throughout the US relative to other countries in the world, with other important states including California (particularly Los Angeles and San Francisco), Florida (Miami) and Texas having a combined share of close to 30%.

There is also a high degree of correlation between where UHNWIs reside and where top collectors

[42] This uses an average allocation of 0.3% of the net worth of those adults in the US with wealth of between $1m and $50 million. This conservatively implies that the average art collection held by millionaires is around $13,500. The allocation for those adults with net worth between $100,000 to $1 million is just 0.2% each implying an average collection size of $750.

[43] This list is based on research and interviews with over 100 key experts each year (including dealers, auctioneers, collectors, museum directors, curators, advisors). We would like to thank Milton Esterow of *ARTnews* for the supply and use of the historical data on the Top Collectors.

Table 5k. Share of US Top Collectors in Total 200

	US Share of Top Collectors Worldwide	New York's Share of Top Collectors in US	New York's Share of Top Collectors Worldwide
1990	57%	36%	21%
1995	47%	30%	14%
2000	48%	33%	16%
2003	53%	34%	18%
2004	55%	34%	19%
2005	55%	32%	18%
2006	53%	31%	17%
2007	55%	34%	19%
2008	54%	31%	17%
2009	53%	37%	19%
2010	58%	37%	21%
2012	48%	38%	18%
2013	49%	36%	18%

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Table 5l. Share of Population by State in 2013: Top Collectors and UHNWIs

State	Share of Top 200 Collectors in US	Share of UHNWI Population in US
New York	38%	14%
California	13%	19%
Florida	8%	6%
Texas	8%	10%
Washington	7%	2%
Ohio	4%	2%
Pennsylvania	3%	2%
Connecticut	3%	2%
Colorado	3%	2%
Michigan	2%	3%
Nevada	2%	1%
Arizona	1%	2%
Illinois	1%	4%
Maryland	1%	2%
Pennsylvania	1%	2%
Iowa	1%	0.3%
Massachusetts	1%	2%
TOTAL	**100%**	**75%**

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are based. In 2013, the states in which the top 200 collectors were based were also home to 75% of US UHNWIs. The top five states that accounted for 75% of the population of top collectors also accounted for 51% of the population of UHNWIs in the US.

Issues for Private Collectors

Collectors in the US come from a diverse range of backgrounds and have varied interests making it difficult to generalise aspects of collecting in any meaningful way. To help to understand some of the key issues facing collectors in the US at present, a number of in depth interviews were conducted by Arts Economics with collectors and dealers in the second half of 2013 in cities throughout the US. Some of the common themes that emerged are presented here.

Collectors Profiles

All of the collectors interviewed were well-educated and successful entrepreneurs and professionals. None worked directly in the art industry but came from a variety of backgrounds, the most common being finance and investment related industries. Other industries included property, media and entertainment, and professions such as medicine and law.

Some collectors had inherited wealth, but the majority were financially self-made, even though many reported having inherited part of their collections or there having been a tradition of interest in the arts within their family.

Most collectors were over 40 years of age, although dealers noted that in the last two years many of their younger clients were the ones doing the most buying, while older collectors were more active as sellers.

Many dealers commented on the change in the range of collectors over the longer term. Some felt that there was a core of collectors in the US primarily focused on artistic merit, who bought art without regard for investment or resale values.

There was also a wider group, who bought art as an investment and were more speculative and fashion driven. Some dealers felt that, while the core still existed, most of the growth in the collector market had been in the latter group.

Collector Geography

Most collectors and dealers agreed that New York and Miami were the main centres for sales in the US. While New York was still the most important market for higher-end works, some noted that it was possible to access good quality art in the lower to mid-priced sectors in other regional centres such as Chicago, Houston and Dallas.

Although art sales are mainly centred on New York and Miami, collectors were from a wide range of states including Colorado, Kansas, Texas, California and Illinois. Also, while New York has one of the strongest bases of buyers in the US, dealers noted that many of their New York buyers were foreigners, who maintained a second home in New York or resided there temporarily throughout the year.

Some dealers noted differences in collecting styles between regions. Buyers from Chicago and Mid-West tended to be more conservative and reserved and tended to be more "old money", while New York collectors were a mix of new and old money. Many felt that collectors from Miami were driven more by fashion. Many dealers in New York and throughout the US had important collectors from the South, with areas such as Texas and North Carolina providing large groups of professionals with a combination of money and high education levels. These collectors were highly supportive of local galleries and public institutions, but they also bought art in New York.

Sectors of Interest

A trend noted by dealers and collectors was the rise in interest in Contemporary art. A large majority of collectors focused on Contemporary art, although some combined this with other sectors, most notably Modern art. There was a smaller number of collectors buying only in traditional sectors of the market such as Old Masters, Chinese porcelain, antiquities or Impressionism, many of whom had not changed their area of interest throughout their lives.

Some dealers in older sectors felt that the rise of Modern and Contemporary art was partially due to generational changes with some of the historical collectors retiring and younger collectors wanting more *"loud images and instant gratification more easily found in non-historical sectors"*. Nonetheless they felt that collecting in the US had always been cyclical and that interest in traditional art would return.

Many collectors, particularly those in the Contemporary and Modern sectors, considered that the top-tier artists had become over-priced. This was having a positive influence on some of the lower tier artists as collectors were being forced to shift their focus because of escalating prices and a lack of supply.

Pricing and Market Polarisation

A commonly discussed theme by both collectors and dealers was the polarisation of the market and the difficulties this posed in accessing the best art and its negative effects in the middle market.

Although dealers sell works of art in a range of different price levels, a common theme reported was the difficulty in selling to collectors at their own mid-level price points. Many felt that decorative, lower end items still had some liquidity, as did the highest priced works, but that those in the middle range were suffering from the lowest demand. Dealers in regional centres for example reported that they sold the highest volume of works in the $50,000 plus price bracket, but had difficulties with those priced at less than $10,000. Higher end dealers in New York, on the other hand, found works ranging from $500,000 to $2 million the most difficult to sell.

As noted by a dealer:

There is an increasingly narrow sphere of interest among buyers - you can sell to them at any price, provided it is what they want. We now focus on selling a much lower volume of high-end works that are specifically tailored to certain clients.

Others have noted that while there is some increase in the appetite for risk at the lower end of the market, collectors at the high end are increasingly risk averse. In the Contemporary market for example, collectors and dealers reported that they would be happy to spend between $20,000 and $50,000 on an emerging, high risk artist *"just because they like it"* but, since 2008, they were more wary of taking risks at the higher end. Collectors at this price level were tending to veer towards high quality, low risk, commercial works from well-known artists with established reputations.

Nearly all collectors interviewed stated that they did not buy art for investment purposes, but were cognisant of its financial value and wary of over-paying. Some followed strict quantitative guidelines, including distinct targets for resale values and potential losses. Many noted that despite being bought purely from taste, their collections had been very good investments in terms of the change in their value over time.

Buying Channels

Preferred channels for buying art differed between collectors and depended very much on their area of interest. Many well-established collectors tended to buy mostly at galleries and fairs rather than at auction. Some dealers felt that their more established collectors enjoyed collecting privately and discretely, whereas some newer buyers with more financial motives were keener to be seen to be buying at auction.

Some collectors attended fairs outside the US but others felt that increasingly travel was not always essential:

I don't have to travel outside the US or go to art fairs in far-flung places to get the art I want as it all comes here – either to a fair or gallery in New York or Miami.

Many commented that they had reached a point where people knew what they liked so they were being approached with works for sale rather than having to search them out themselves. Some also felt that there was a significant market of art changing hands privately either directly between collectors or through agents outside the more traditional dealer and auction sectors.

Dealers also reported that buying channels varied with the age of collectors, with older collectors tending towards galleries and younger ones towards fairs, online purchases and, to some extent, auction. Many noted that the next generation of collectors were immersed in technology and online media and now wanted information and access to transactions in the ways they were most familiar in other areas of their lives.

Finally, a strong trend noted by collectors and dealers was the rise of art advisors and consultants with some describing it as a *"mania by collectors to have an art consultant"*. The general consensus was that such consultants varied in quality, with the top advisors being highly valued and offering access to galleries and collectors. Many collectors described them as hard working, transparent, diligent academics who offered them a significant level of comfort in areas such as authentication.

Collectors themselves were most concerned about the fee structures used by consultants, with complaints that some of them were taking commissions from both the buyer and seller, which they felt was highly inappropriate. Others noted that some were simply not knowledgeable about the market.

Wealth and the Art Market

When asked about their views on the art market in the US and particularly the outlook over the next few years, a recurrent theme brought up by both dealers and collectors was the impact of the national distribution of wealth.

One of the biggest changes noted in the wider market was the so-called shrinking of the middle-class, with many feeling that it was now an increasingly narrow share of the population that held most of the wealth.

This view seems to be confirmed by published data. For example, US Census data shows that the share of households in the brackets between $10,000 and $100,000 has indeed shrunk from 33% in 2000 to 24% in 2011. The greatest gain in share has been at the higher end: households with net worth of over $100,000 rose from 38% to 44%. Data from Credit Suisse on wealth per adult from 2011 to 2013 also shows a 2% drop in the $10,000 to $100,000 section and gains of 3% made in the higher end. The gap between the earnings of the top 1% and the rest of the population is also getting wider. In 2013, it was reported that the very wealthiest Americans earned more than 19% of the country's total household income, the biggest share since 1928. The wealthiest 10 % accounted for a substantial 48% of total earnings.[44]

Some dealers noted that the most wealthy collectors were affected less during the recession and had been the most successful financially since then. This again reflects the more general trend in the US: while incomes have picked up gradually since 2009, gains have been very uneven. The top 1% of incomes grew by 31% while the bottom 99% grew by only 0.4% from 2009 to the end of 2012. Hence, the top 1% shared 95% of the income gains in the first three years of the recovery.[45]

Some of these trends have filtered down into the art market in positive ways, providing greater discretionary spending for HNWIs. Some felt that there was also more diversity entering the HNWI segment as it expanded which was positive for the art market:

The wealthy are getting wealthier but also getting more educated which is good for the art market in the US. Some of the very wealthy now are not just oil barons and industry tycoons but from sectors such as finance, technology and various professions. They are often more informed and educated as well as rich which is important in generating interest in art.

Collectors and Taxes[46]

The US has maintained a number of tax incentives that relate to art which have helped collectors maintain, donate and bequeath collections between generations. There is a strong culture of philanthropy in the US and it has consistently ranked the highest spender in this area worldwide. When collectors were asked why they felt this was so, there were a variety of reasons offered: the focus on creativity, individualism and innovation in US culture; increased media and public attention creating an expectation that HNWIs should donate art to the public; the visible disparity of wealth and providing art as a means to redress the inequality of access; feeling lucky to have been so successful and giving something back; a tradition of less reliance on the state to support the arts; and finally being able to avail of useful tax incentives to promote giving.

The US government has encouraged philanthropic giving through offering incentivised deductions on individual and corporate tax returns, which has helped to build many important museum collections. Due to issues that have arisen regarding tax avoidance, appraisals and others, legislation in this area has become more stringent and many loopholes for art have closed. Collectors can still use a variety of sophisticated strategies to optimize tax deductions, but some felt that the government has made it more difficult. Some noted specific

[44] Statistics are from Saez, E. (2013) "Striking it Richer: The Evolution of Top Incomes in the United States." *Working Paper University of California.*

[45] Ibid.

[46] Thanks to Diana Wierbicki from the New York office of Withers Bergman LLP for her advice on the key changes in 2013 to taxes relevant to US collectors.

changes, such as those curtailing fractional giving[47], while others reported more general increases in the formality and level of requirements and conditions needed to avail of incentives in the last 30 years.

In 2013, to avert the so-called "fiscal cliff" that might have occurred with the ending of the Bush Tax Cuts of 2003, Congress passed a number of changes to their proposed tax plan under the *American Taxpayer Relief Act* (ATRA) of 2012. Estate tax rates were raised from 35% to 40% but the base of $5 million[48] (the value of assets which can be transferred by lifetime gift or on death, free of tax) was retained. The Act also increased the capital gains (and dividends) tax rates as well as marginal income tax rates on high-income earners. Although these changes did not affect collectors specifically, they do affect those in the higher income categories to which many belong.

The sale of works of art by collectors continues to be taxed at the US Federal capital gains rate (currently 28%). However, beginning in 2013, a new tax of 3.8%, imposed by the *2010 Health Care Reconciliation Act*, was applied to net investment income, which includes income from the sale of works of art for those with income above certain threshold amounts, resulting in a new rate of 31.8% for some individuals.

Because of the increased rates of taxes on capital gains, some collectors, particularly those who would be considered art investors as they purchase and sell art for profit, have been increasingly looking at structuring sales in different ways. One popular method in recent years has been restructuring transactions to qualify as a *Section 1031 Like-Kind Exchange* which allows collectors/investors to defer the recognition of capital gains and losses on a sale.

There are a number of strict requirements to qualify for a 1031 Exchange related to the nature and duration of the exchange and the third parties involved.[49]

Dealers reported that they were being asked to get involved in more of these types of transactions over the last year, particularly by their more investment driven buyers. While some described these working very well on occasion, others found that the restrictive limitations on time and the amount of planning required caused problems in some circumstances.

Table 5m. State and Local Sales and Use Rates 2013: Selected States

State	State Rate	Local Rate	BOTH	State	State Rate	Local Rate	BOTH
Delaware	0%	0%	0%	Florida	6.0%	0.6%	6.6%
Montana	0%	0%	0%	Iowa	6.0%	0.8%	6.8%
New Hampshire	0%	0%	0%	Maryland	6.0%	0%	6.0%
Oregon	0%	0%	0%	Michigan	6.0%	0%	6.0%
Colorado	2.9%	4.5%	7.4%	Pennsylvania	6.0%	0.3%	6.3%
New York	4.0%	4.5%	8.5%	Illinois	6.3%	1.9%	8.1%
North Carolina	4.8%	2.2%	6.9%	Massachusetts	6.3%	0%	6.3%
Wisconsin	5.0%	0.4%	5.4%	Texas	6.3%	1.9%	8.2%
Ohio	5.5%	1.3%	6.8%	Connecticut	6.4%	0.0%	6.4%
Arizona	5.6%	2.6%	8.2%	Nevada	6.9%	1.1%	7.9%
Washington	6.0%	0%	6.0%	California	7.5%	0.9%	8.4%

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Other taxes affecting collectors are basic sales taxes and particularly their large variation between states (see Table 5m). There is a considerable difference between the rates of state and local taxes between states in US, and some dealers reported that they are often asked to structure more complex transactions to avoid paying higher sales taxes.

In general, it was felt that the US government was positive towards collectors from a tax perspective, at least relative to other countries. 86% of the US dealers surveyed felt the US fiscal and tax system encouraged art collecting.

Collectors also felt that there were very strict reporting requirements and regular auditing in the US which meant that they took considerable care of the financial affairs relating to their collections.

5.8 Conclusions

As fiscal consolidation eases and monetary conditions stay supportive, the trajectory for growth in US wealth is expected generally to stay positive, at least in the short-term. This will undoubtedly help to support continued sales in the art and antiques market.

Although China and other centres continue to develop at a rapid pace, the US market, despite some decrease in the margin of its lead, seems unlikely to decline from the ranks as a leading global centre for the international art trade.

The fundamental reasons for the continued success of the art market in the US are:

- The strong base of wealth within the US, with the nation retaining by far the highest numbers of HNWIs and UHNWIs, as well as a stronger upper middle-class which gives depth and scope to the market. Cities such as New York are also the temporary home of many global millionaires and the city attracts these international HNWIs to art sales as a critical mass of the world's greatest art is put on show at auctions, fairs and exhibitions.
- New York and other regional centres in the US have a highly developed cultural infrastructure which supports a booming art trade, with specialised services for collectors (including the expertise within the trade itself), art insurance, art banking, appraisal and valuation, conservation and a range of others.
- Finally it is one of the most transparent centres worldwide for the art trade where the fiscal system, rule of law and US commercial codes offer a high level of protection to both domestic and international buyers, while giving sellers enough incentives to boost a healthy inflow and outflow of art. The business - friendly fiscal environment and liberal trading regime has undoubtedly been key in ensuring that the very highest priced works of art have continued to be sold in the US.

THE US HAS MAINTAINED A NUMBER OF TAX INCENTIVES WHICH HAVE HELPED COLLECTORS MAINTAIN, DONATE AND BEQUEATH COLLECTIONS BETWEEN GENERATIONS

[47] A donor can receive a Federal income tax deduction for a gift of a fractional interest in a work of art which is owned 100% by the donor, or by the donor and the recipient charitable organization. However under the *Pension Protection Act of 2006*, an individual who donates a fractional interest has to then donate his entire interest in the work within ten years or before their death. In addition, the recipient museum or other charitable organization must have substantial physical possession of the property, as well as comply with the related use rules under the Internal Revenue Code.

[48] This amount changes each year and in 2014 is $5.3 million.

[49] These include for example that the work of art must be held for investment purposes or productive use in a trade or business, they have to be of "like kind", and the collector/investor only has 45 days in order to find a suitable replacement work. In theory an exchange would involve a simple swap of one work of art for another between two people, however as it is often difficult for individuals to find a perfect match within a specified time, the majority of exchanges are delayed or three party. In a delayed exchange, the collector/investor needs a middleman, generally a dealer, who holds the cash after they sell the work of art and uses it to buy the replacement work for them with a slightly longer time frame of 180 days to complete the entire transaction. Under the regulations there needs to be a formal written agreement between the collector/investor and this agent, who must in turn be a qualified intermediary as defined in the regulations, and this generally excludes galleries where the work as been recently consigned. See http://www.irs.gov/uac/Like-Kind-Exchanges-Under-IRC-Code-Section-1031.

CHAPTER 6

FOCUS ON THE ART MARKET IN CHINA

FOCUS ON THE ART MARKET IN CHINA

Key Findings

- China remains the most important of all of the newer art markets, both in terms of the size of its domestic sales and the importance of its buyers globally, and was the second largest market by value worldwide in 2013 with sales of €11.5 billion.

- After a boom year in 2011, when China overtook the US to become the largest art market globally, sales in the art and antiques market in China cooled over 2012, but then began a slow recovery in 2013, with growth in value of 2%.

- In 2013 public auction sales reached €7.5 billion, with 29% by value taking place in Hong Kong and 71% in Mainland China.

- The volume of auction sales in 2013 increased by 8% year-on-year, but buy-ins remained persistently high at 53%, the highest average rate in the last ten years.

- The majority of sales at auction in China were within the fine art sector, (accounting for 66% of total sales). The largest sector was Chinese painting and calligraphy, with 56% of the market by value.

- Although not unique to China, late and non-payment by winning bidders at auction remains a persistent problem in the Chinese art market.

- In 2012, China was a net importer of art, with exports of €786 million, exceeding imports of just over €1 billion, and reflecting its importance worldwide as an international purchaser of art.

- China's cross-border trade is comparatively low relative to its market size, with a share of world imports in 2012 of 6% and 4% of exports.

6.1 Introduction

After a boom year in 2011 when China overtook the US to become the largest art market globally, sales in the art and antiques market in China cooled over 2012, with sales in Mainland China and Hong Kong both contracting significantly. In 2013, the market began a slow recovery and China maintained a 24% share of world sales. China remains the most important of all of the newer markets, both in terms of the size of its domestic sales and the importance of its buyers globally, and was the second largest market by value worldwide in 2013 with total sales of €11.5 billion. The dynamics of supply and demand in the market have made it one of the fastest growing, and in the decade to 2013, sales have increased by over 900% (in Euro terms).

While domestic sales have rivalled the US and UK, cross-border trade between China and the rest of the world is still much less than in these two centres. The market has been domestically focused to date, with collectors primarily buying Chinese art within the Chinese marketplace. This is slowly starting to change however, and in 2013, Chinese buyers increasingly appeared at several high profile auction sales of Modern and Contemporary Western art. Nonetheless, the majority of art collectors in China remain focused on Chinese art.

Growth in the Chinese economy slowed during 2012 and remained stagnant in 2013. However it has still averaged over 10% in the last decade, with double-digit average figures since the end of the 1970s. GDP per capita has grown by more than 450% over the last decade and there has been a rapid expansion in the number of HNWIs, with strong leanings towards luxury markets, resulting in the growth of local art and antiques sales.

6.2 Art Market Structure

The art market in China is divided into two main sales channels:

- The auction sector, which has accounted for about 70% of all sales in recent years.
- The gallery and private dealing sector (accounting for some 30%), including gallery sales, private dealers and sales by artists.

Auction Houses

In 2013, there were 355 auction houses in Mainland China that were licenced by the Chinese Auctioneers Association (CAA) and over 100 others that sell art and antiques (including 62 in Hong Kong, 12 in Taiwan and six in Macau). The number of licenced houses in Mainland China has been increasing in recent years, with 46 new houses opening, primarily in Beijing and Shanghai in the 12 months to May 2013. The number of licenced houses in Mainland China has increased over 200% since 2005, when there were just 108 houses.[50]

The 355 auction houses licenced by the CAA are regulated under the *2010 Standard for Auction of Cultural Relics and Art Works* and are the only auctioneers in China eligible to sell Chinese cultural relics.

Figure 6a. The Geographical Distribution of Auction Houses (Share by Number of Auction Houses)

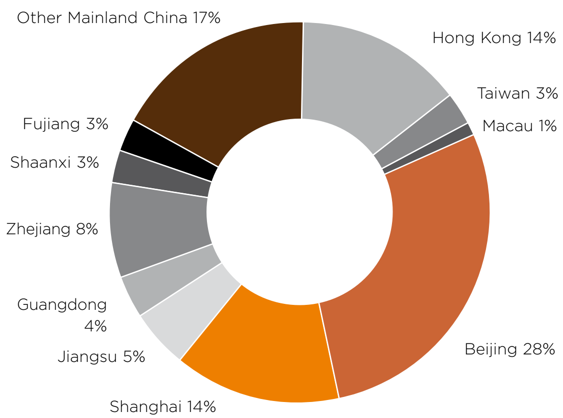

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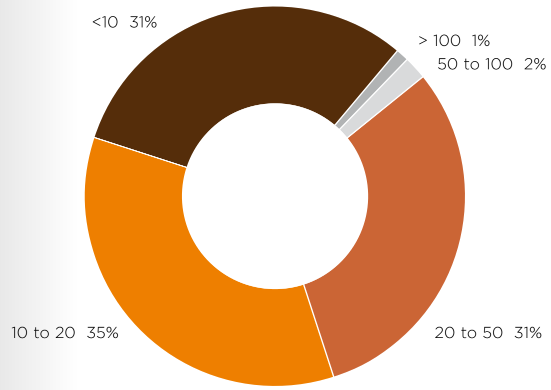
Figure 6b. Mainland China Auction Houses: Employee Numbers in 2013



©Arts Economics (2014) with data from the CAA

The registered capital of the 355 auction houses was RMB 4.3 billion (€510 million) in 2013. Seven of them had more than 50 million RMB (€6 million) registered capital, nine had between RMB 30 to 50 million (€4 million to €6 million) and the remainder had less than 30 million RMB (€4 million). Together these companies employed a total of 6,184 employees, with the two largest houses having more than 100 employees, while the majority had less than ten.

Although not yet updated for 2013, a survey in 2012 of nearly 300 Mainland auction houses by the CAA showed that 48% of them made positive profits and a further 16% broke-even, with an average gross profit margin of 43%.

In 2013, the top ten auction houses in Mainland China and Hong Kong accounted for 56% of total sales of fine and decorative art and antiques. For fine art only, the top ten auction houses accounted for 78% of sales, substantially more than in 2012 when their combined share was just 49%.[51] While sales of fine art are concentrated among a few auction houses, this is not as pronounced as in the US where Christie's and Sotheby's alone accounted for over 80% of fine art sales in 2013.

While Chinese art is sold in Europe, the US and elsewhere, the market by value and volume has become highly consolidated within China, where about 90% of all Chinese art by value is sold, primarily in the two cities of Beijing and Hong Kong.[53] The key sales of Chinese art at auction have shifted from New York and London to China over the past decade, to be closer to where key buyers are located. In 2013, only 6% of works by Chinese artists were sold outside China and these represented just 4% of the total value of worldwide auction sales by Chinese artists.

Table 6a. Market Share by Value of Auction Houses in China in 2012 and 2013[52]

Auction House	2012	Auction House	2013
Poly International	11%	Poly International*	13%
China Guardian	9%	China Guardian*	10%
Christie's	8%	Christie's	9%
Sotheby's	7%	Sotheby's	9%
Beijing Council	4%	Beijing Council	6%
Beijing Hanhai	3%	Beijing Hanhai	3%
Poly auction in Guangdong	3%	Xinlingyinshe	2%
Xinlingyinshe	3%	Duoyunxuan	2%
Duoyunxuan	2%	Shanghai Jiahe	2%
Beijing jiuge	2%	Beijing Inzone	1%
Others	49%	Others	44%

© Arts Economics (2014) with data from AMMA *Includes sales in Hong Kong

[50] Data on the numbers and geography of Mainland Chinese auction houses are from CAA (2013) *China Antiques & Artworks Auction Market – Statistical Annual Report.* CAA: Beijing.

[51] This share for fine art only is derived from data from Artnet.

[52] The source for all auction data in this chapter (unless otherwise stated) is AMMA (Art Market Monitor of ARTRON). The data presented is all data collected by AMMA by December 31st, 2013.

[53] Artnet/ CAA, 2013.

Table 6b. Share of Value and Volume of Sales of Works by Chinese Artists

Year	Value in China	Value Outside China	Volume in China	Value Outside China
2007	68%	32%	74%	26%
2008	74%	26%	68%	32%
2009	89%	11%	90%	10%
2010	95%	5%	92%	8%
2011	91%	9%	88%	12%
2012	93%	7%	91%	9%
2013	96%	4%	94%	6%

© Arts Economics (2014) with data from Artnet

The majority of sales within China take place in Mainland China, predominantly in Beijing, where many of the highest priced works are sold. At the height of the market's boom in 2011, Mainland China accounted for 88% of auction sales by value and 92% by volume. However this share dropped in the two years that followed, as several of the top Hong Kong salerooms posted strong increases in sales. In 2013, 29% of sales by value took place in Hong Kong and 71% in Mainland China.

Poly International remained the largest auction house in China in 2013, with China Guardian in second place, both reporting significant gains in sales in 2013. Both started holding auctions in Hong Kong in 2012 to take advantage of low taxes, a highly developed infrastructure and significant buyers there. In 2013, sales in Hong Kong accounted for around 21% of the value of Poly International's sales and about 10% at China Guardian.

Also, while Christie's and Sotheby's have held sales in Hong Kong since the early 1970s, both moved into the Mainland market during the last year. In September 2012 Sotheby's joined with the Chinese state-owned enterprise, Beijing GeHua Art Co, to sell art in China for the first time, with Sotheby's taking an 80% stake in the jointly held company. In December 2013 the company sold €31 million's worth of Chinese Modern and Contemporary art works, alongside a week of private selling exhibitions of Western and Chinese fine and decorative art, with an estimated value of over $212 million.[54]

In April 2013, Christie's became the first foreign auction house to receive a license to operate independently in Mainland China. Their first sale in September in Shanghai achieved €20 million in sales which included Western art, Southeast Asian art, Chinese contemporary art and jewellery.

As foreign auction houses, both Sotheby's and Christie's are still banned from trading in so-called "cultural relics" (works created before 1949, when the Communist Party came to power which include Chinese porcelain and classical ink paintings, which are among the most valuable categories in the Chinese art trade).

IN 2013, 29% OF AUCTION SALES BY VALUE TOOK PLACE IN HONG KONG AND 71% IN MAINLAND CHINA

[54] Sotheby's Press Releases, 2013.

Figure 6c. Market Share of Hong Kong Versus Mainland China (Value)

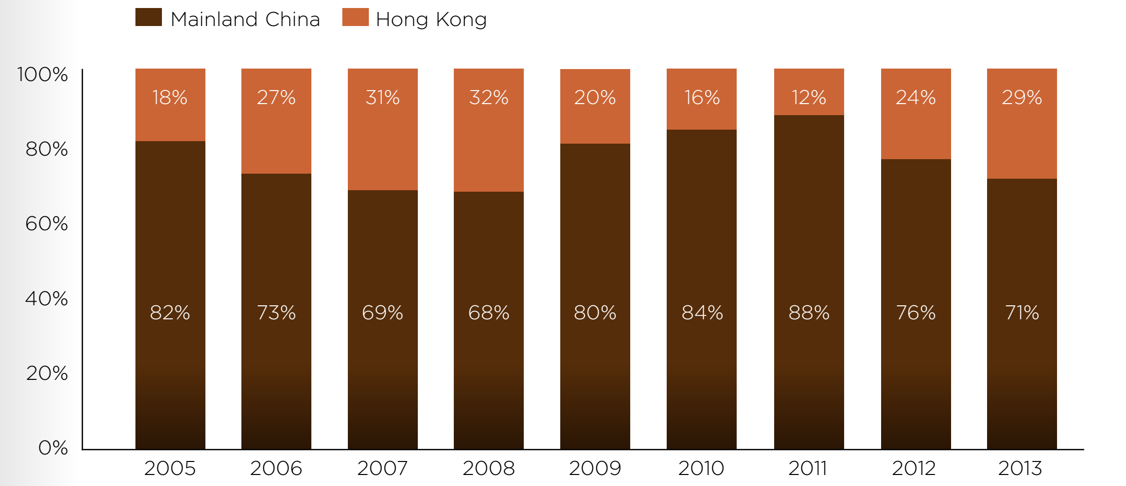


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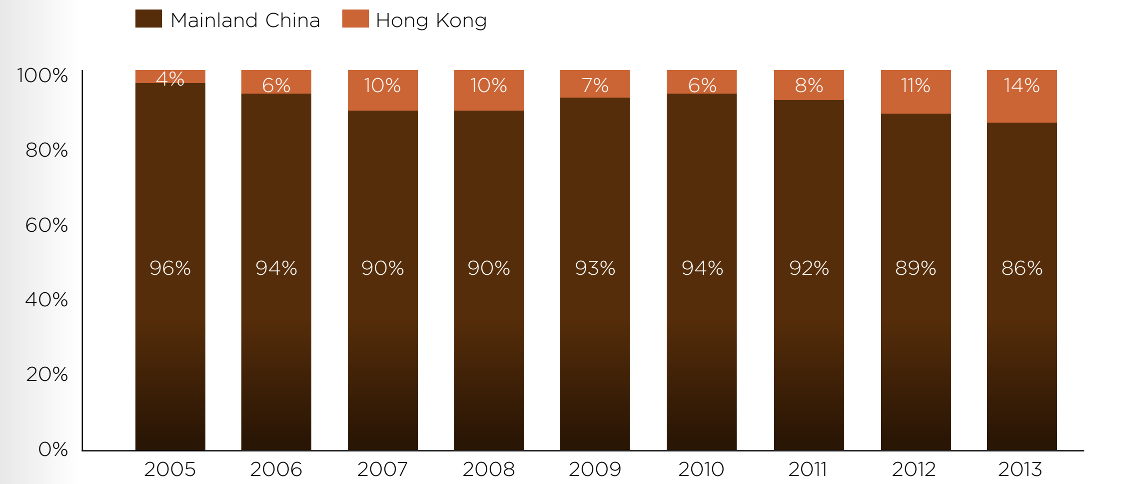
Figure 6d. Market Share of Hong Kong Versus Mainland China (Volume)



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Dealers and Galleries

The dealer market in China can be divided into three main parts:

1. The gallery market, with most galleries in the Mainland focusing on Contemporary art, while in Hong Kong many focus on antiques and decorative art. There are estimated to be around 6,200 galleries selling art and antiques in China. In 2013, there were around 500 professional galleries in Beijing, the 798 Art Zone being the most significant area, with 173 galleries operating there. In 2013, the Shanghai government announced that there were 488 commercial businesses in the city operating as galleries or art shops.
2. There are several thousand private dealers often working as sole traders, partnerships or small companies. These dealers usually work without an exhibition space, and most of them deal in Chinese traditional paintings and antiques. Their numbers and turnover are difficult to estimate with precision, but they are in excess of 30,000 businesses, with over 10,000 in Beijing alone.
3. The artists' market, where Chinese artists sell works directly to collectors.

Although difficult to quantify precisely, estimates from the industry, available data and interviews suggest that the last two categories account for the majority of the value of sales in the dealer sector.

The number of galleries has been growing steadily year-on-year, particularly in Beijing and Shanghai. From 2012, some of the more established galleries in Beijing have begun to expand their businesses to Hong Kong and more have signalled their intention to do so over 2014.

Less than 1% of the galleries generated a turnover of RMB 10 million (around €1 million) or more in 2013, and most of them had sales of less than RMB 1 million (€100,000). 2013 was a year of overall recovery in the sector. Nonetheless, only about 15% of galleries generated profits, with the remainder breaking even or losing money. The top galleries appear to have done better than their smaller counterparts and have increased their participation in art fairs.

Although the gallery and dealer sector has been somewhat fragmented in China to date, a gallery association was initiated in Beijing in 2012, with 80 members. The Association is working with the government to produce industry standards and a rating system for the sector, which they hope will be formally established in 2014. It has also organised two training programmes to help their members deal with new policy and operational risks and to improve their operational standards.

In 2013, Arts Economics conducted a small, stratified survey of the top galleries in Beijing, all of which were fine art galleries specialising in Contemporary or Modern Chinese art. On average galleries employed eight people, with no change in employment from the previous year. The responses revealed that the average turnover per gallery was approximately €3.3 million (with the highest at just under €10 million). The majority of galleries reported that their turnover had not changed significantly from 2012, but most (83%) expected sales to improve over 2014.

These galleries made an average of 67% of their sales in 2013 at their premises. At present, few make any significant online sales, but around half of those surveyed felt that this would increase in the next five years. 70% also felt that the internet and online selling was having a positive effect on their businesses.

On average, the majority of gallery sales (59%) were to local Chinese buyers, but this varied substantially. Some reported up to 80% of their sales by value to foreign buyers (mainly Swiss, US and Indonesian collectors). Some were foreign-owned and maintained significant international

links. However the views on foreign businesses entering the Chinese market were generally negative, with 60% seeing this as having a negative influence on the art market.

Art fairs have not been as dominant a trend in Mainland China as they have been elsewhere, largely due to the less developed gallery network. While many smaller galleries in China do not attend any fairs, in this sample of galleries, 33% of the value of their sales on average were made through local and international fairs. All of those surveyed felt they would exhibit as much or more at art fairs in the next five years, although views were evenly divided on whether fairs were having a positive influence on the market or not.

In 2013, two of the key fine art fairs in Mainland China were Art Beijing and ART 021 in Shanghai. According to information obtained directly from the organisers of Art Beijing, there were 176 exhibitors in 2013, a 10% increase on 2012. They reported that 30% of the works exhibited at the fair were sold and 95% of exhibitors sold at least one work. Most works were priced between €5,000 and €20,000, and the most expensive (a work by Zhao Wou-ki) was RMB 4 million/ €500,000.

Although ART 021 is a much smaller fair, with less than 30 Chinese and international galleries, it is perceived as a very high quality event, both in terms of the exhibitors and the collectors that it attracts. The visitor numbers are much smaller than Art Beijing but are believed to be a much more targeted group, and in 2013 it was reported that nearly half of the works were sold during the VIP preview.

Major fairs in Hong Kong in 2013 included the first edition of Art Basel in Hong Kong, replacing ART HK, in which MCH Swiss Exhibition Basel Ltd. purchased a 60% share in 2011. The first edition of the fair in its new form attracted 60,000 visitors and showed 245 galleries, with a split of around 50:50 between Asian and Western exhibitors.

There have also been a small number of new affordable art fairs emerging in China, the two main ones in 2013 being "I Can Pay" art fair and "SURGE Art" art fair in Beijing, both targeted at the young, emerging middle-class. Prices at Surge Art in 2013 were mainly between €500 and €1,000 and at "I Can Pay" art fair, 50% of works exhibited were below €1,000, 30% between €1,000 and €6,000, and 10% above €10,000. SURGE Art reported strong sales in 2013 and the fair toured Hong Kong, Shanghai and Beijing, with 95% of their exhibited works sold.[55]

Online Sales

Online art sales have been increasing over the last year, mainly supported by young Chinese middle-class buyers. In general, China has very rapidly become the world's second-largest "e-tailing market", with estimates at the end of 2012 across all industries of around $210 billion in sales and a compound annual growth rate of 120% since 2003. It is now the second highest digital retail consumer next to US, ahead of Japan and the UK. Chinese e-commerce, is however, distinctly different than other countries in that only a small fraction of it takes place directly between consumers and retailers. Instead, most of it occurs on large, extensive e-commerce platforms, which are replacing traditional retail transactions as well as stimulating consumption that would not otherwise take place.[56]

Since 2010, there has been a significant increase in online sales of art and antiques . Many new websites have emerged over the last three years selling art and collectibles, with the majority focusing on younger Contemporary artists in the primary market and on works priced at less than €10,000. Taking only stand-alone companies selling art and antiques (and excluding dealer or gallery platforms) the e-commerce market has doubled from an estimated €100 million in 2010 to in excess of €200 million in 2013.

[55] Information from Lei Qian, Executive Director of SURGE Art.
[56] See McKinsey (2013) China's Next Chapter: The E-tailing Opportunity. At www.mckinsey.com.

In addition to the smaller professional e-commerce websites, some established e-commerce companies in China moved into art sales in 2013. Alibaba, China's biggest e-commerce company with estimated sales approaching $1 trillion (more than eBay and Amazon combined),[57] started to sell art and luxury collectibles through its B2C portal (tmall.com). In the second half of 2013, two major electrical appliance online retailers also entered the fine art market. Gome Electrical Appliance Group officially introduced the company's new fine art arm (gomeart.com), which currently sells more than 1,000 traditional Chinese calligraphy and painting works from about 150 artists. Suning's e-commerce site launched paimai.suning.com, a dedicated fine art selling platform in November 2013. Suning paired with yidianchina.com, an arts information portal, and now offers a considerably wider range of art and collectibles than Gome. Founded in late 2012, Yidianchina also began offering third-party services in 2013 to bring professional auction houses and online retailers together. In May, it partnered with Poly International to hold a four-day online auction on taobao.com, China's biggest consumer-to-consumer online platform. Transactions via Taobao facilitated by Yidianchina are estimated to have already surpassed €4 million.

As well as being used by dealers (and private individuals) to sell art, some of these sites are also being used by artists to sell directly to collectors. It is still relatively common for Chinese artists, particularly older ones, to sell works directly to collectors, bypassing the gallery network. This is slowly changing however and increasingly younger artists are working with galleries to enhance their careers and international presence.

6.3 Art Market Sales

The art and antiques market in China has been by far the strongest growing market worldwide over the last ten years, with average annual growth rates of over 40% (in Euro terms).

Auction sales have been the main engine of growth, accounting for close to 70% of sales. From 2009 to 2011, sales values in the sector increased by over 350%, driven both by an increasing volume of works appearing on the market and by record prices at auction. Until 2009, there had been no more than four works sold in any given year at auction for more than €10 million, whereas in 2010 there were 17, and 23 in 2011. This boom in auction sales, alongside a slowly growing dealer sector, led China into a dominant position in the world market in 2011, nudging the US from its first ranking position with a global market share of 30% (versus 29% in the US).

In 2012 however, the market cooled and auction values declined 25% (in Euro terms)[58] as both Mainland and Hong Kong houses experienced a slow down in sales. The number of highest priced lots (over €10 million) dropped to just five and the number of works priced at greater than €6 million shrank from 75 in 2011 to 20 in 2012. Nonetheless the market still achieved a substantial €11.3 billion in sales by auction houses and dealers, but China slipped again to second place in terms of global market share.

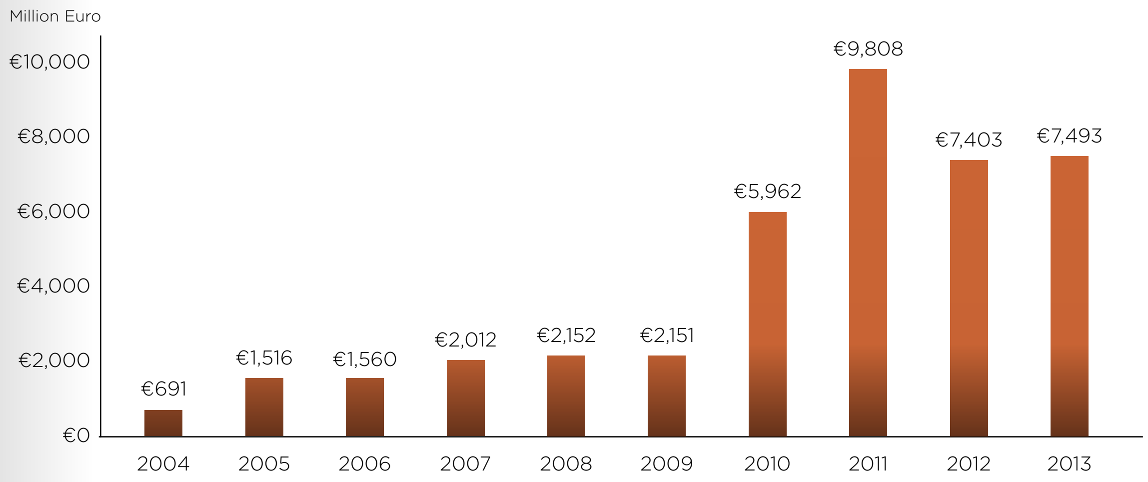
The main reasons for the deceleration in growth were both demand factors (including a slow down in economic growth in China and continuing liquidity constraints) and a reduced amount of high quality, high priced works coming on to the market, as sellers hung on to their best works. With a nationwide crack-down on tax evasion and corruption, there was also much less buying from more speculative investors, both in the private and institutional spheres.

2013 was a year of some recovery in China, with buyer confidence slowly returning to the market, although with a certain degree of caution and lower tolerance for what were perceived to be over-priced works. Public auction sales increased 1% to €7.5 billion, and the market as a whole reached a total of €11.5 billion including auction, dealer and private sales, accounting for 24% of the global art market.

[57] The Economist, March 2013: "The Alibaba Phenomenon".

[58] Auction sales data for China is from Art Market Monitor of ARTRON (AMMA) reported to Arts Economics in January each year and contains all results collected by December 31st of the previous year. In some cases, a small number of sales are reported to AMMA during January that are sometimes excluded from the data. In 2013, auction data for 2012 was initially reported as €6.9 billion, but with the addition of late sales figures have been adjusted to €7.4 billion.

Figure 6e. Chinese Public Auction Sales 2004 to 2013 (Million Euro)



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In 2013, Poly International led the auction market in China with sales totalling 7.9 billion RMB (€942 million), up 30% on 2012 (in RMB terms) but still substantially less than the 12.1 billion RMB reported in 2011. The auction house's top sale was a record for the Modern painter Huang Zhou, entitled *Gaiety in the Grassland,* which sold for €16 million, and it also reported a further 36 sales of works priced over €1 million.

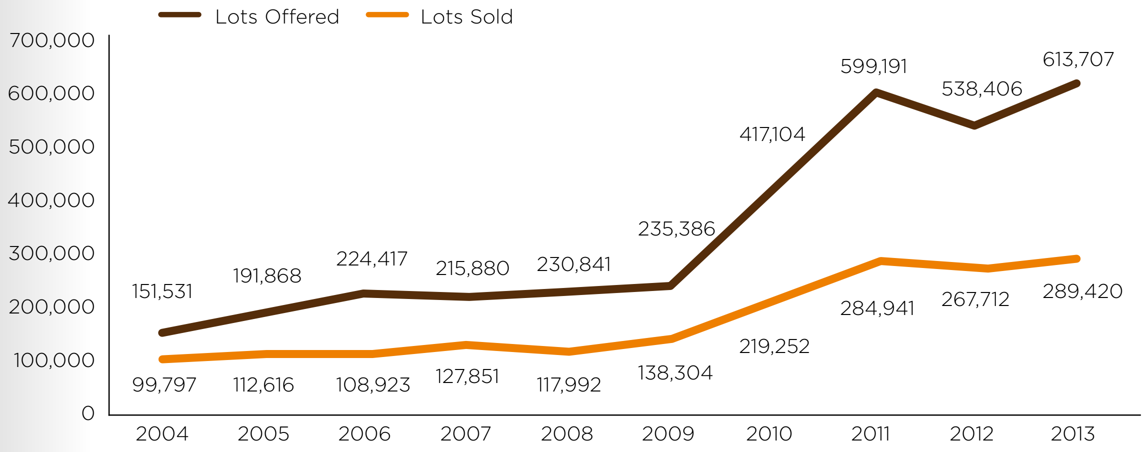
China Guardian's sales in 2013 reached 6.55 billion RMB (€781 million) up 27% from the previous year, but again still below its record sales of over 11.2 billion RMB in 2011, as prices dropped and the number of lots sold decreased by 15%. The top lots of 2013 included Jin Shangyi's *Tajik Bride,* a record for the artist at just over €10 million, and Wu Zuoren's *The Yellow Blooms on the Battlefield Smell Sweeter,* at €9.6 million.

As noted above, these two auction houses accounted for a combined 23% of the auction market by value, and coupled with Sotheby's and Christie's in Hong Kong, the top four auction houses accounted for 41% of sales in 2013. Christie's had the highest share of sales in Hong Kong, reporting a 30% increase on 2012 and reaching over €691 million, while Sotheby's reported increases of 57% to €680 million.[59]

2013 WAS A YEAR OF RECOVERY IN CHINA, WITH BUYER CONFIDENCE SLOWLY RETURNING, ALTHOUGH WITH A CERTAIN DEGREE OF CAUTION AND LOWER TOLERANCE FOR WHAT WERE PERCEIVED TO BE OVER-PRICED WORKS

[59] Sales reported for Christie's and Sotheby's are public auction sales only and the change year-on-year is measured in US dollar terms.

Figure 6f. Volume of Auction Transactions in China 2004 to 2013



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The volume of auction sales in 2013 increased by 8% year-on-year, after a decline of 6% over 2012[60] bringing the number of successful sales at auction back to just under the peak of 2011. Figure 6f shows both the lots offered for sale and those actually sold at auction from 2004 to 2013. In 2013 the lots offered increased by an even greater rate than those sold (at 14%) with buy-ins remaining persistently high.

The number of lots being offered at Chinese auction sales has grown at a much more rapid pace than those actually selling. The number of lots brought to auction over the last decade has increased by over 300%, however sold lots increased by 190%. In 2004, 34% of the lots offered at auction were bought-in, whereas in 2013, the rate of buy-ins was 53%, its highest average level in the last ten years. This high rate of buy-ins is a persistent feature of the market and its increase over 2013 indicates buyer resistance (with collectors reporting that they felt many works that did not sell were either over-priced or not the best examples by the artists), problems regarding supply (such as provenance, quality and authenticity), and inadequate buyer depth to absorb the rapid growth in the volume of sales over the last decade.

While buy-in rates are high throughout China, they have been consistently greater in Mainland China, and in 2013 they were 10% higher than in Hong Kong.

Table 6c. Buy-In Rates at Auction 2004 to 2013

Year	China	Mainland China	Hong Kong
2005	41%	42%	31%
2006	51%	52%	31%
2007	41%	42%	30%
2008	49%	47%	35%
2009	41%	40%	35%
2010	47%	42%	41%
2011	52%	50%	40%
2012	50%	51%	47%
2013	53%	54%	44%

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[60] Lots sold in 2012 have also been adjusted as per footnote 7.

6.4 Chinese Art Auctions by Sector

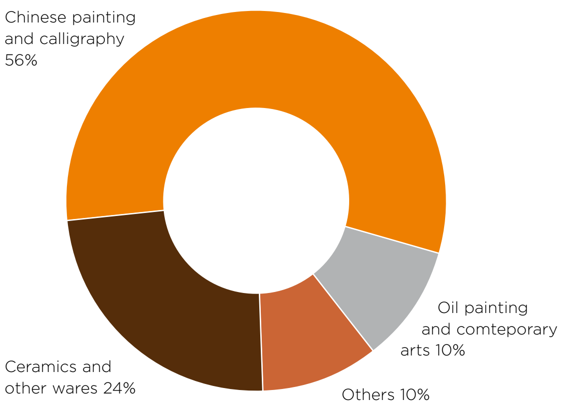
The majority of sales at auction in China were within the fine art sector, accounting for 66% by value and 59% of all Chinese art market transactions in 2013.

The largest sector in 2013 was Chinese painting and calligraphy, with 56% of the market by value (up 5% on 2012) and 55% of all lots sold. This sector peaked in 2011 with a number of record sales driving the total to over €5.9 billion, having increased by 13 times since 2004. It also suffered the greatest drop in total sales in 2012, falling 36%, as prices fell and 10% fewer lots were sold. However it recovered in 2013 with total sales rising by 11% to €4.2 billion, below levels in 2010 and 2011, but significantly above any level achieved previously. The number of works offered for sale in this sector increased by over 20% year-on-year, but lots sold rose only 15%, leaving it with one of the highest average buy-in rates at 55%.

Ceramics and other decorative arts made up 24% of the market by value and 23% by volume in 2013. This sector also witnessed phenomenal growth up to 2011, increasing by over 1,000% in value since 2004. However it then decreased for two years, including a decline of 10% during 2013 to €1.8 billion. This drop in value occurred despite an increase in the number of lots sold, with average prices falling and less highly priced lots sold.

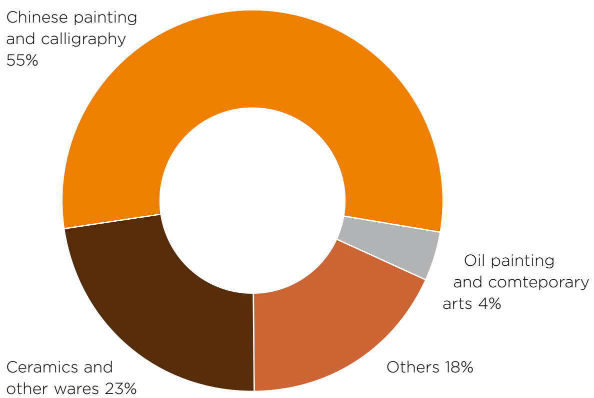
Oil painting and Contemporary art remains the smallest sector of the Chinese auction market, with a 10% share by value and just 4% by volume. This sector experienced rapid growth up to 2007, when it reached a peak of €553 million, from only €24 million in 2004. Much of this growth was due to a booming Chinese Contemporary market. At its peak in 2007 the sector accounted for 28% of the auction market by value, ahead of ceramics and decorative arts (26%) and its closest ever margin with Chinese painting and calligraphy (34%). But it had fallen to 11% by 2009, as many of the more speculative investors left the market. In the period from 2007 to 2009, this sector lost 56% of its value, before resuming growth in 2010. Like all other sectors, sales again declined in 2012 (by 20%) but have resumed growth in 2013, increasing 11% to €744 million, while the number of works sold also increased by 19%.

Figure 6g. Market Share by Sector of the Art Auction Market 2013 (Value)



Source: © Arts Economics (2013) with data from AMMA

Figure 6h. Market Share by Sector of the Art Auction Market 2013 (Volume)



Source: © Arts Economics (2013) with data from AMMA

Average prices in all sectors of the Chinese auction market have grown substantially over the last decade. It is interesting to note that, despite being one of the smallest sectors, oil painting and Contemporary art has had the highest average prices in the market since 2004, and in 2013 (at just over €60,000) were more than double those in the other two sectors (with an average of €27,500 in ceramic and other wares and €26,200 in Chinese painting and calligraphy). These averages were influenced by some of the top priced lots sold during the year which included Zeng Fanzhi's *The Last Supper,* selling at Sotheby's Hong Kong for €17 million, a new record for an Asian Contemporary artist, and the work by Huang Zhou mentioned above which sold at Poly International for €16 million. Huang Zhou was the fifth top selling artist in China in terms of aggregate sales in 2013, accounting for just 4% of all fine art sold at auction. The top selling artist was Zhang Daqian with a 10% share of fine art auction sales, followed by Qi Baishi (8%), Zao Wou-Ki (5%), and Xu Beihong (4%). Together the work of these five artists accounted for 30% of fine art auction sales in 2013.[61]

Unlike Western auctions where the highest priced works are consistently in fine art, the highest priced items sold at auction in China in 2013 were decorative pieces: Sotheby's Hong Kong sold a white diamond for €22.5 million (a record price for a white diamond at auction), and a gilt-bronze figure of a seated Shakyamuni Buddha from the Ming Dynasty for €22.2 million, also a record for a Chinese sculpture.

The Chinese art market, like most others around the world, is dominated by a higher volume of sales at the lower value end of the market. Table 6d, showing the share of the number of transactions of fine and decorative art and antiques at auction by price level, demonstrates the consistently higher share of individual lots sold below €120,000. These accounted for 97% of auction transactions, whereas lots over €1.2 million were less than 1%. For the fine art auction market, 87% of works sold were for less than €50,000 and 24% of those were for less than €3,000. Transactions priced at over €1m made up less than 0.5% of the total number despite accounting for 30% of the market's overall value.[62]

Table 6d. Market Share of Chinese Auction Sales by Price Bracket

RMB	Over 50m	10m-50m	1m-10m	Less than 1m
Euro (2013 Values)	**Over €6m**	**€1.2m-€6m**	**€120,000-€1.2m**	**Less than €120,000**
2005	0.00%	0.1%	2.0%	98.0%
2006	0.01%	0.1%	2.0%	97.9%
2007	0.01%	0.1%	2.5%	97.4%
2008	0.01%	0.1%	2.3%	97.5%
2009	0.01%	0.1%	2.1%	97.7%
2010	0.03%	0.3%	3.4%	96.3%
2011	0.03%	0.4%	4.7%	95.0%
2012	0.01%	0.1%	3.2%	96.7%
2013	0.01%	0.1%	3.0%	96.9%

© Arts Economics (2014) with data from AMMA

[61] Data on sales of these top five artists is from Artnet, 2014.
[62] This data on fine art auctions in China is from Artnet, 2014.

6.5 Chinese Auction Data and Clearing Rates

A frequently discussed issue relating to the accurate measurement of Chinese sales in the international market is that of late and non-payment by winning bidders at auction. It is important to point out that this is not a problem unique to China, and it occurs with varying frequency at small and large auction houses in markets around the world. However, its extent is clearly much more marked in China and it is worth taking note of as being a persistent feature of the Chinese market.

Under regulations in China, full settlement of winning bids is supposed to be made within six months. However in reality, the law is very flexible and payments are still often made later than this period. As a means of monitoring this, every year, licenced auction houses are required to report their payment clearing rates and any other related information to the Ministry of Commerce, which passes on the data to the Chinese Auctioneers Association (CAA), the body responsible for approving and monitoring licencing in the sector. In the year to June 2013 according to their figures, the total clearing rate was 56% at Mainland Chinese auction houses. This means that, on average, only 56% of the lots sold had been totally paid for by buyers within six months.

There are several reasons for high rates of late payment in the market including questions concerning authenticity or provenance as well as the attitude of buyers in China, with a very different auction culture and system of negotiating and transacting.

Clearing rates also vary widely between auction houses and at different price points. From mid-2011 to mid-2012, of the CAA's sample of 581 lots sold in licenced auction houses for over 10 million RMB, 45% were fully paid, 15% were partially cleared, and 40% had not been paid for within six months. During this period, Poly International sold 175 lots for over 10 million RMB, 58% of which had been paid for, 11% were partly paid and 31% remained unpaid. While at China Guardian, of the 129 lots sold for over 10 million RMB, 54% had been fully paid, 13% of them were partly completed, and 33% of them were not cleared. At Beijing Council 19% of their 31 higher priced lots remained unpaid, while only 26% of them were completed and 55% were partially completed.

In the year to June 2013, in the CAA's sample, there were 206 lots sold for over 10 million RMB, 47% of which had been paid for (up 2% on the same period in 2012), 23% partly paid (up 8%), and 30% of them had not been paid for (down 10% and substantially lower than the aggregate rate for all price levels of 44%).

The clearing rates in the top three houses were also generally higher in 2013 than the average level. China Guardian showed the most marked improvement in clearing rates, with 83% of the 46 lots of over 10 million RMB fully paid, a further 11% partly paid, and 6% still unpaid. For Poly International, 34% of their 68 pieces priced over 10 million RMB were fully paid, 47% of them were partly paid, while 19% were unpaid. In Beijing Council, 56% of the 23 lots reaching over 10 million RMB were paid, 26% of them were partly paid, and the remaining 18% had not yet been paid for.

Apart from the issues that arise in analysing data on the sector, the variation in clearing rates means that smaller auction houses face a much higher risk of non-payment and many have faced problems with revenues, as delays cause shortages of cash flows.

6.6 The Chinese Cross-Border Trade in Art

In 2012, China was a net importer of art, with exports of €786 million, exceeding imports of just over €1 billion. China has maintained a trade deficit for art since 2002, which reflects its importance worldwide as an international purchaser. This trend was reversed to some extent in previous decades, before the Mainland market opened up and exports of art and antiques from Hong Kong dominated trade flows. However, since 2000, Mainland Chinese

Figure 6i. Clearing Rates for Works Sold at Auction for Greater than 10 million RMB in Mainland China

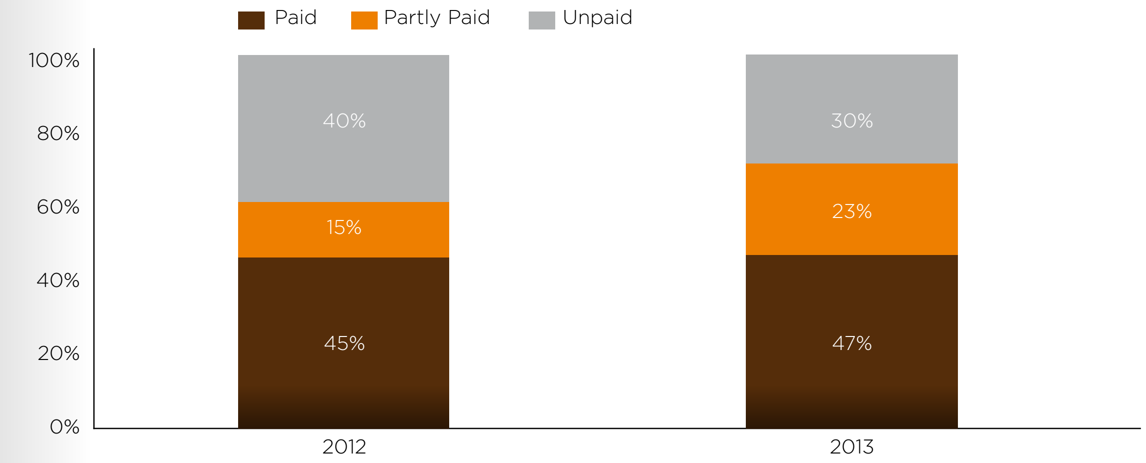


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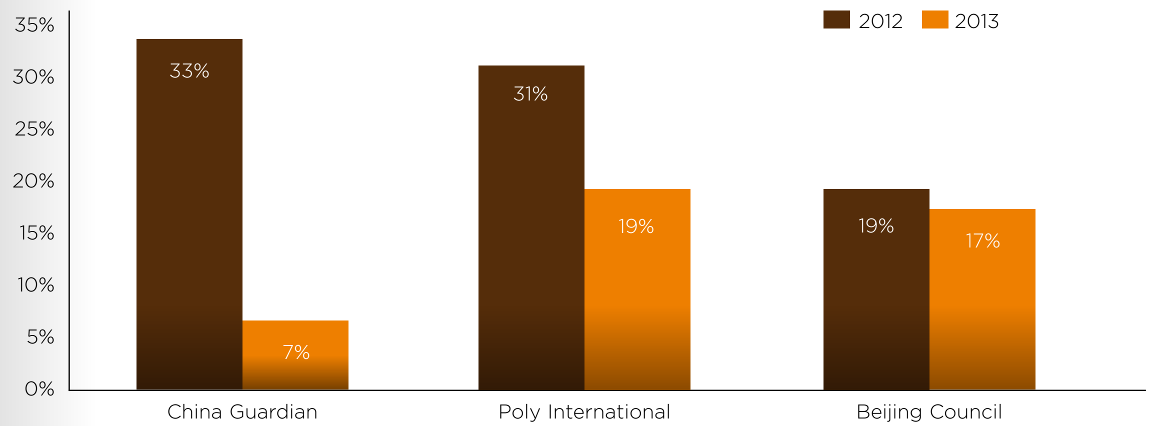
Figure 6j. Share of Unpaid Lots over 10 million RMB in Top Chinese Auction Houses



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ALTHOUGH NOT UNIQUE TO CHINA, LATE AND NON-PAYMENT BY WINNING BIDDERS AT AUCTION HAS BEEN A PERSISTENT FEATURE OF THE CHINESE ART MARKET institutional and private buyers have become more influential, and imports have increased in value and have exceeded exports.

China's cross-border trade is comparatively low relative to its market size, with a share of world imports in 2012 of 6% and 4% of exports. As sales in the domestic market contracted, imports showed low negative growth (falling -0.3% year-on-year), while exports grew by 33% (in Euro terms). Growth over the decade from 2002 has been substantial, however, with imports increasing in value by over 500% between 2002 and 2012, while exports grew over 400%. In 2012, China was the fourth largest importer of art worldwide and the fifth largest exporter.

Figure 6k. Imports and Exports of Art from China 2002-2012 (Million Euro)

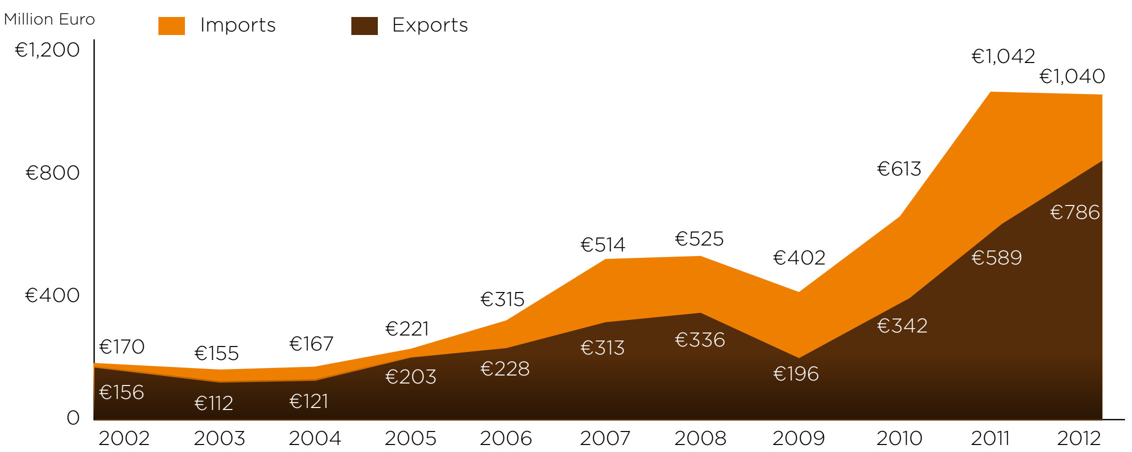

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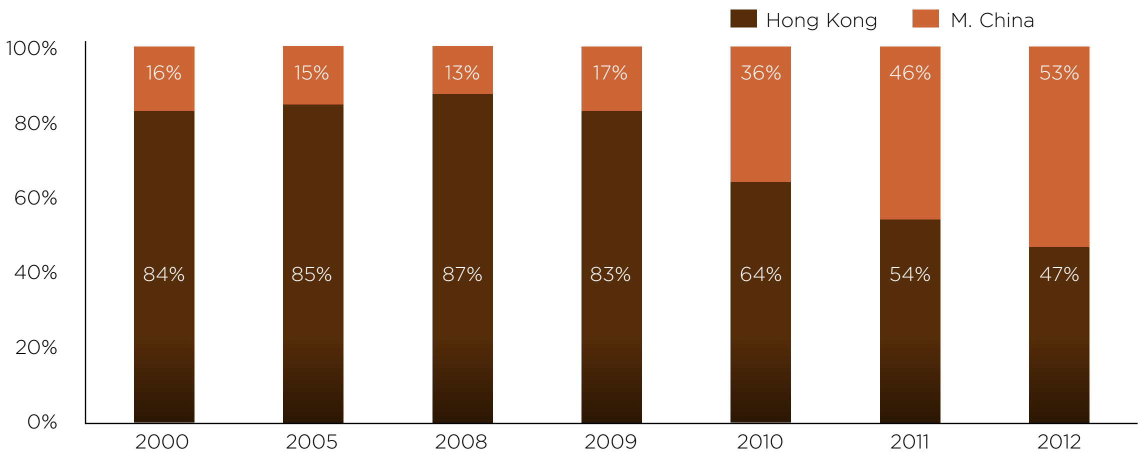
Figure 6l. Chinese Exports of Art 2000-2012



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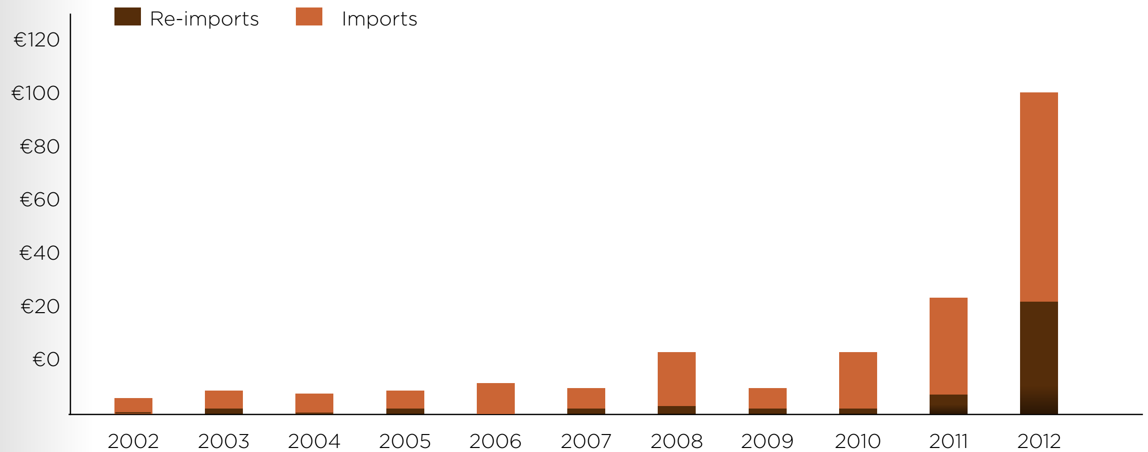
Hong Kong has been the dominant centre for trade from China, with a much more flexible system of regulation for international trade. Until 2011, the majority of exports by value from China were from Hong Kong, but in 2012 that trend was reversed for the first time and exports from Mainland China accounted for the majority, at 53%.

The main destination markets for exports from China (including Mainland China and Hong Kong) in 2012 were the US, with 29% of total exports, and Japan, with 28%. The main destination markets from Hong Kong were the US (41%), UK (19%), Singapore (9%) and Switzerland (7%). While the US, UK and Switzerland have been the main trade partners with Hong Kong for some time, Singapore is a relatively new destination, and exports to there have grown over 650% in the last ten years, including a 91% increased to €32 million during 2012. As in 2011, Japan was the main destination for exports from Mainland China with a 49% share, up 15% year-on-year, followed by the US (19%), Canada (4%) and the UK and the Netherlands at 3% each.

In 2012, the main foreign sources for imports into Mainland China were the UK (10%), France (13%), India (9%) and the US (5%). A recurring issue with Chinese trade data is a very high incidence of re-imports. China reported a 53% share of imports "from China" in 2012, which was exclusively accounted for by re-imports, a very high proportion of which were works of art that were temporarily exported to Hong Kong and then re-imported to Mainland China.

Re-imports simply refer to the import of goods into the same country from which they had been previously exported[63]. The country of origin in the trade data is therefore the reporting country itself, and these flows appear as a country's trade with itself. There are several reasons why an exported good might return to the country of origin, for example if it is defective or not in accordance with a contract, if the importer defaults on a payment or cancels an order, or if the customs authorities have imposed some kind of barrier or demand for its return. It can also include works of art and antiques have been sent abroad for exhibition purposes or for a fair.[64]

Figure 6m. Imports and Re-imports of Art to China 2002 -2012



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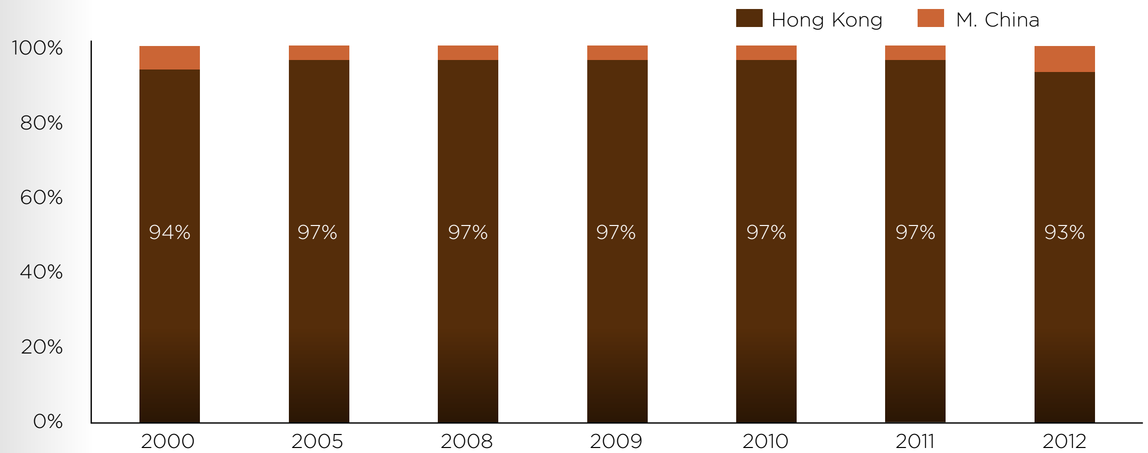
63 Under the Kyoto Convention, which governs the way much of UN trade data is compiled, re-imports must be included in import figures for all countries. Re-importation in the same state is defined as the customs procedure under which goods which were exported may be taken into home use free of import duties and taxes, provided they have not undergone any manufacturing, processing or repairs abroad.

64 All countries report re-imports but it is the magnitude of them for art and antiques in China's case that is notable and their increase over time. In 2002, re-imports only accounted for only 10% of the import trade in art versus 53% in 2012. By comparison, for the UK re-imports accounted for a 32% share of the trade in art in 2002,and just 7% in 2012.

The majority of imports into China by value enter via Hong Kong. In 2012, imports directly into Mainland China doubled, but remained at only 7% of all imports. With the increasing presence of Chinese buyers at global auctions and art fairs however, it seems likely that some works of art are being imported into Hong Kong and then brought to Mainland China but not reported in the official import statistics of Mainland China, or the export statistics of Hong Kong. This would explain the persistent differences in the mirror statistics of Hong Kong and Mainland China[65]. In 2012, for example, the United Nations reported $12.4 million in exports of art and antiques from Hong Kong to Mainland China, whereas China only reported $2.8 million in imports of art from Hong Kong. As noted above however, China reported a significant $47 million in "imports from itself" which represents some of these exports from Hong Kong. While there is often some asymmetry in bilateral trade statistics, the gaps in the reported figures suggest that some trade between China and Hong Kong is under-reported.

In the other larger art markets, such as the US and UK, fine art dominates both imports and exports. This is not the case in China, where the highest values in imported goods are in the decorative art sectors, and most notably antiques. In 2012, decorative art and antiques accounted for 58% of imports by value, with antiques accounting for 39% of that total. Some of these recorded flows include antiques and older decorative works that had been looted from the Summer Palace by foreign troops in 1860. For example, 2013 saw the return of two famous bronze fountain heads, a Rat and Rabbit, restituted to Beijing by François Pinault.

Figure 6n. Chinese Imports of Art 2000-2012



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IN LARGER ART MARKETS FINE ART DOMINATES TRADE FLOWS, BUT NOT IN CHINA, WHERE THE HIGHEST VALUES IN IMPORTED GOODS ARE IN THE DECORATIVE SECTORS

65 Mirror statistics are bilateral comparisons of two basic measures of a trade flow, for example how the imports of country A to country B match the exports of country B to A. International trade databases record statistics of all goods, which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its national boundaries. Goods simply being transported through a country "in transit" or on a temporary basis are generally not recorded in these statistics.Countries report data from their national statistics offices and these vary in coverage and method. For example, some rely solely on customs data, whereas others use additional records and surveys to verify figures. Although there are strict standards for valuation and classification of goods, these can vary in practice, and adjustment methods for VAT and other duties and charges, under-reporting, exchange rate differences, time gaps and a range of other small inconsistencies can often mean that the goods imported by country A from country B do not always exactly match exports from B to A.

The share of fine art exports has gradually increased from 29% in 2000 to 76% in 2012, reflecting increasing international purchases of Contemporary and Modern Chinese art, which are relatively much easier to export.

Although it has increased substantially, cross border trade to and from Mainland China still remains relatively low. While Hong Kong has actively promoted itself as a hub for the art trade in Asia with no taxes on imports and exports, the trade in art and antiques with the Mainland is often complex and expensive.

Under the *Cultural Relics Law* of 2002 there are extensive restrictions on the export of Chinese art, which are enforced by an export permit system. Any object leaving China which is designated as a "cultural relic" must be accompanied by an export permit, and approved by the State Administration of Cultural Heritage. Antiques or any items over 100 years or any state-owned objects are generally banned from export if they are considered to be of national importance, with the exception of some items destined for exhibitions under strict conditions.

Regulations in 2007 banned individuals from exporting cultural relics predating 1911, the end of the Qing dynasty, any antique deemed an "important relic" created before 1949, and any object deemed of importance to the heritage of an ethnic minority created before 1966. While there was no actual change to the law during 2013, the Chinese government extended these export restrictions in practice by adding Modern artist Wu Guanzhong to the forbidden list, as well as (in principle) works by Guan Shanyue and Chen Yifei.

The US and the China entered into a bilateral agreement (a Memorandum of Understanding or MOU) in 2009, to protect categories of archaeological material from the Palaeolithic Period to the Tang Dynasty, and monumental sculpture and wall art at least 250 years old. The US action was in direct response to a request from the Chinese government seeking protection of its cultural heritage, made under Article 9 of the *1970 UNESCO Convention* and was an attempt to prevent illicit trafficking in cultural objects by blocking the main market for them. This MOU is up for renewal in 2014. Arguments for and against a further five-year extension were submitted to the Cultural Property Advisory Committee (CPAC) which met at the US State Department in May. Although many institutions supported the extension, there were concerns raised about ensuring that its scope was not extended and that there should be actions sought to simplify the process of exporting for exhibition purposes.

Table 6e. Share of Chinese Imports and Exports by Sector of Art

	Exports		Imports	
	Fine	Decorative	Fine	Decorative
2000	29%	71%	35%	65%
2005	31%	69%	41%	59%
2007	43%	57%	43%	57%
2008	56%	44%	55%	45%
2009	56%	44%	49%	51%
2010	66%	34%	43%	57%
2011	70%	30%	32%	68%
2012	76%	14%	42%	58%

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Although Contemporary art is generally exported more easily than older works, it is also subject to legal restriction. The *Interim Provisions on the Management of the Import and Export of Fine Art* of 2009 state that approval is required by the Ministry of Culture for both the import and export of all Contemporary art. Works can be banned from trade if their content offends or violates certain constitutional, political and historical traditions. Although this law remains in place, it has not been used in practice in recent years.

Imports of art are also subject to various taxes and charges. Works of art imported to China are in the same category as luxury goods and attract an import tax of 17%. On top of this, import duties (ICDs) are also due, which were reduced from 12% to 6% in 2011. There are no ICDs due on imports of antiques, which has helped to encourage the restitution of older Chinese art works. The reduction in rates was meant as a trial for one year to help reduce tax evasion, however the government extended it for a further year, and hence it was still in operation in 2013.

Hong Kong is in stark contrast. As a freeport, it is both simple and tax-free to import and export works of art. This trade-friendly context has made Hong Kong the leading art market hub in Asia.

To attempt to replicate some of these trading conditions, the Beijing Freeport of Culture is being built, which is now expected to be open and functioning in 2014. This vast complex has large art storage facilities, which will enable art works to be imported into the zone tax and duty free. If they are then sold outside the Freeport, import charges will be triggered. Initial partners in the project will include Sotheby's, which plans to conduct auctions in the Freeport. Due to the onerous and complex tax regime for the import and sale of art it is hoped that the Freeport will offer an efficient way for collectors and businesses to trade in art.

6.7 Art Collecting in China

Chinese art collectors have been one of the strongest growing regional collector groups in recent years, supporting the rapidly expanding domestic market, as well as making an increasing impact in global auction and dealer markets.

Art collecting in China has been boosted by the country's strong economic performance over the last ten years, with growing average wealth and a rapidly expanding HNWI population. In 2013, China had more people in the top 10% of global wealth holders than any other country, except for the US and Japan, moving into third place in the rankings by overtaking Italy and Germany. It also has the second highest number of UHNWIs worldwide next to the US.

ART COLLECTING HAS BEEN BOOSTED BY CHINA'S STRONG ECONOMIC PERFORMANCE OVER THE LAST TEN YEARS AND IT REMAINS ONE OF THE FASTEST-GROWING ECONOMIES, WITH GDP GROWTH IN 2013 OVER TWICE THE GLOBAL AVERAGE

Table 6f. Growth in Key Economic Indicators for Mainland China 2000-2015

Year	GDP	GDP per capita*	Inflation	Unemployment
2000	8.4%	9.8%	0.4%	3.1%
2001	8.3%	9.0%	0.7%	3.6%
2002	9.1%	12.2%	-0.8%	4.0%
2003	10.0%	17.0%	1.2%	4.3%
2004	10.1%	15.0%	3.9%	4.2%
2005	11.3%	16.4%	1.8%	4.2%
2006	12.7%	22.2%	1.5%	4.1%
2007	14.2%	17.5%	4.8%	4.0%
2008	9.6%	8.0%	5.9%	4.2%
2009	9.2%	17.2%	-0.7%	4.3%
2010	10.4%	17.3%	3.3%	4.1%
2011	9.3%	9.1%	5.4%	4.1%
2012	7.7%	9.7%	2.7%	4.1%
2013	7.6%	9.5%	2.7%	4.1%
2014	7.3%	9.4%	3.0%	4.1%
2015	7.0%	9.2%	3.0%	4.1%

© Arts Economics (2014) with data from IMF *Percentage change per annum based on change in GDP per capita in RMB

Table 6g. Key Economic Indicators for Hong Kong 2000-2015

Year	GDP	GDP per capita*	Inflation	Unemployment
2000	8.0%	-1.5%	-3.7%	4.9%
2001	0.6%	-1.7%	-1.6%	5.1%
2002	1.7%	-3.7%	-3.1%	7.3%
2003	3.1%	4.3%	-2.6%	7.9%
2004	8.7%	6.6%	-0.4%	6.8%
2005	7.4%	5.4%	0.9%	5.6%
2006	7.0%	9.3%	2.0%	4.8%
2007	6.5%	3.1%	2.0%	4.0%
2008	2.1%	-3.3%	4.3%	3.5%
2009	-2.5%	6.2%	0.6%	5.2%
2010	6.8%	8.0%	2.3%	4.3%
2011	4.9%	4.5%	5.3%	3.4%
2012	1.5%	5.3%	4.1%	3.3%
2013	3.0%	7.3%	3.5%	3.2%
2014	4.4%	7.5%	3.5%	3.1%
2015	4.4%	7.6%	3.5%	3.1%

© Arts Economics (2014) with data from IMF *Percentage change per annum based on change in GDP per capita in HKD

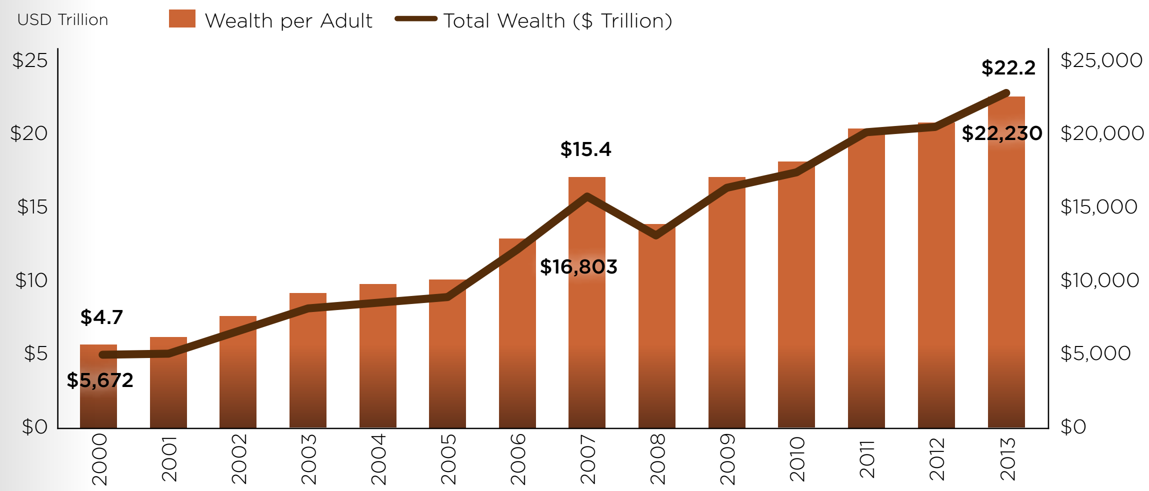
Table 6f and 6g show some of the main economic growth indicators in Mainland China and Hong Kong. From 2000 to 2015, China's GDP averaged annual growth rates of 9.5% and although these have decreased since 2010, largely due to external shocks leading to a fall in exports and issues related to the property market, they are still significantly higher than mature markets in the West and were over three times the global average in 2013.

China's economic growth contracted in 2012, mainly due to the export slowdown and curbs on speculative activity in the property market. But in 2013, although growth was stagnant, China escaped major economic set backs and the so-called "hard landing", as its consumer base grew, housing revived, and global demand began to recover.

China is still one of the fastest-growing economies in the world, with GDP growth in 2013 of over twice the global average (2.9%) and seven times the average for the G7 economies (1.2%). The difference is particularly marked by comparison with regions such as the Euro area (which was still in recession in 2013) or the EU as a whole that posted just 0.02% growth. While inflation is relatively high by current world standards (for example around 1.9% in the G7 economies in 2013), employment is stable (with unemployment around one third of that in the Euro area) and government debt to GDP is less than 25% versus over 90% in European and G7 economies.

In 2013, China's aggregate wealth grew 10% year-on-year to reach $22.2 trillion. Including Hong Kong, total wealth is now $23.1 trillion, the second highest next to the US (at $72.1 trillion) and greater than Japan (at $22.6 trillion) or any large economies in Europe. China had only one year of negative growth, when in 2008, as a result of the global financial crisis, wealth per adult and total wealth contracted 18% and 16% respectively. Both soon recovered, however, and despite recent economic uncertainties and a slowdown in the economy, they remain well above their pre-crisis peaks.

Figure 6o. Wealth and Wealth per Adult in Mainland China 2000-2013



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Despite the rapid growth in wealth, China's wealth distribution is still heavily skewed towards the bottom end, and, despite rises in average incomes over the last decade, there has been increasing inequality as the number of very wealthy people in Chinese expands.

In 2013, China (including Mainland China and Hong Kong) had 1.2 million dollar millionaires, the seventh largest population of millionaires worldwide, up 10% on 2012 and representing a 4% share of the global population.

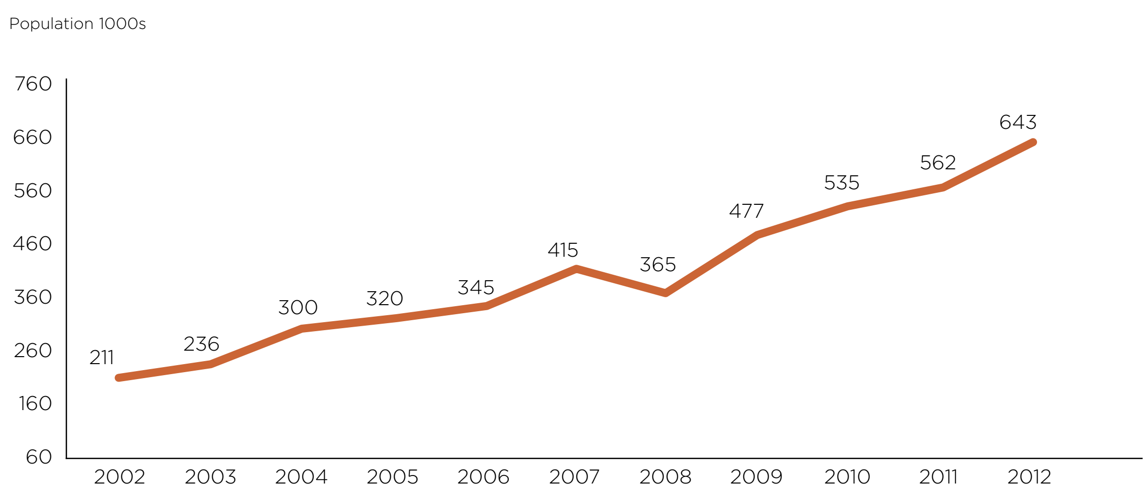
Using the stricter criteria for HNWIs (i.e. those with investable assets of over $1 million), China was home to over 643,000 HNWIs at the end of 2012, up 14% year-on-year. Figure 6p tracks the population of HNWIs in China since 2002, showing an increase of over 200% in the period, with growth in every year except 2008.

Wealth is even more heavily skewed in China within the UHNWI segments, with a high proportion of billionaires. Although estimates vary slightly between sources, Wealth-X estimated that there were 157 billionaires in Mainland China in 2013[66], an increase of 7% year-on-year. These individuals made up 7% of the world's population of billionaires and 6% of their wealth.

In the lower brackets of UHNW wealth (i.e. between $30 million and $500 million), there was a decrease in both population and wealth from 2012, leading to an overall decline year-on-year in China. This table excludes Hong Kong, which saw a rise in UHNWIs in 2013 (from 3,135 to 3,180), with their wealth also increasing by 13% to $530 billion. Hong Kong experienced one of the strongest increases in UHNW wealth in the Asia-Pacific region, and was the recipient of some of the losses from the Mainland: as economic pressures mounted, many wealthy Mainland Chinese diversified and moved their assets to Hong Kong.

Although China's population of millionaires is increasing, it still represents a tiny 0.1% of the total population of Mainland China, where the majority of the population has wealth of less than

Figure 6p. Population of HNWIs in China (1000s) 2002-end 2012



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[66] Credit Suisse estimate that there was 104 billionaires in 2013.

Table 6h. Mainland China's UHNWIs and their Wealth ($ billion) in 2013

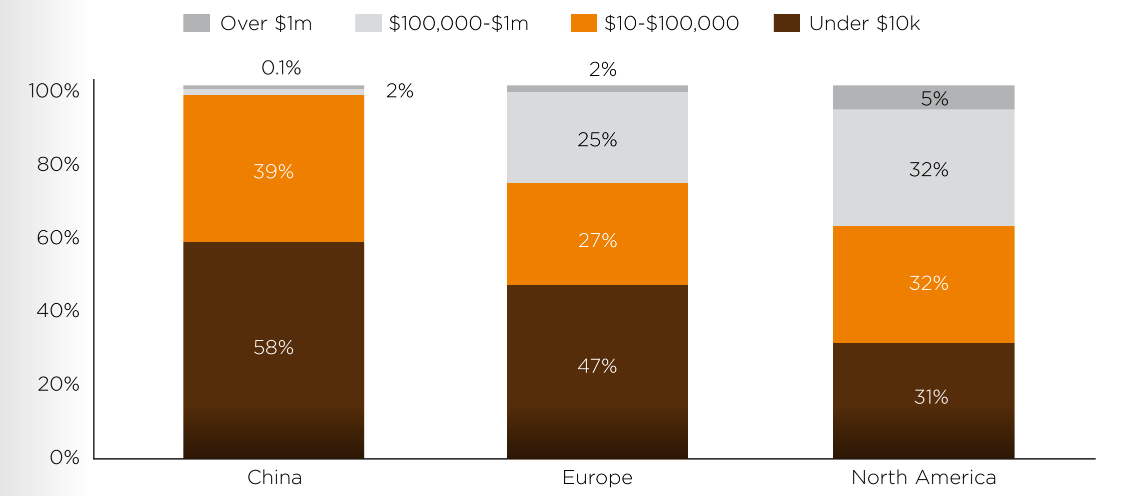
Wealth Band	Population 2013	World Share	Wealth 2013	World Share	Population 2012	Wealth 2012	Change in Population	Change in Wealth
>$1bn	157	7%	$384	6%	$147	380	7%	1%
$750m to $999m	85	8%	$70	8%	$70	60	21%	17%
$500m to $749m	265	10%	$150	9%	$245	145	8%	3%
$250m to $499m	743	9%	$250	7%	$785	265	-5%	-6%
$200m to $249m	1,110	8%	$236	7%	$1,175	250	-6%	-6%
$100m to $199m	1,380	6%	$150	4%	$1,470	165	-6%	-9%
$50m to $99m	2,585	4%	$130	3%	$2,745	145	-6%	-10%
$30m to $49m	4,350	5%	$145	4%	$4,610	170	-6%	-15%
TOTAL UHNWI	**10,675**	**5%**	**$1,515**	**5%**	**$11,245**	**1,580**	**-5%**	**-4%**

© Arts Economics (2014) with data from Wealth-X and UBS

$10,000. Although this is not atypical, it represents considerably greater wealth inequality than in Europe or North America.

Although the divide between very high and low wealth in China is increasing, the middle segment is also expanding, with a burgeoning middle-class being created on the back of the country's economic growth during the past two decades. Using a global definition of middle-class as the one billion or so adults worldwide in the $10,000 to $100,000 wealth range, some interesting developments in China versus other emerging markets emerge: other nations with large populations such as India and Africa are under-represented, while China is over-represented. The contrast between China and India is especially interesting as India (with a population of around 1.2 billion) has only 4% of the

Figure 6q. The Distribution of Household Wealth in 2013



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global middle-class and its share has been rising slowly in recent years. China, on the other hand (with 1.4 billion inhabitants), has been growing very rapidly and now accounts for more than one third of this group.

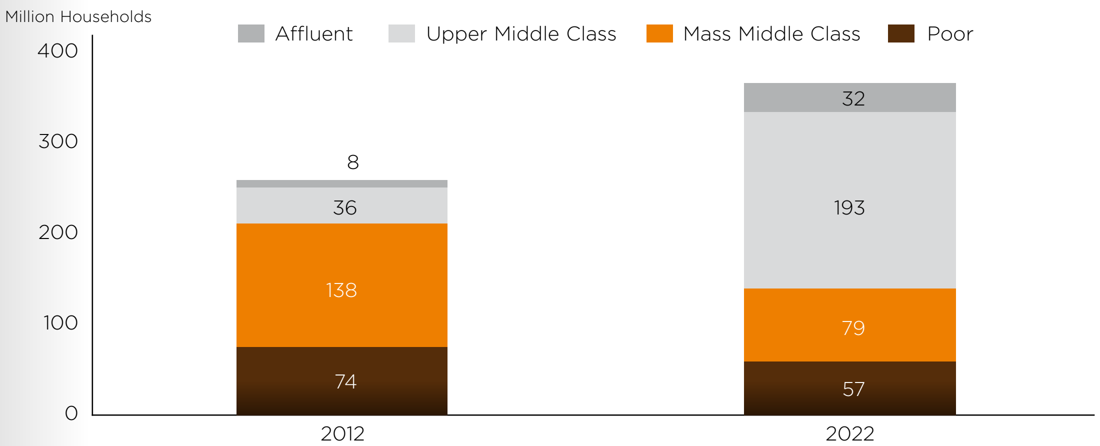
These wealth trends all come alongside an important transition in China, as it moves away from its historical role as an investment economy to a more consumption based one. An over-reliance on investment-led growth in the past has caused some imbalances, including the under-development of China's domestic consumer market and a heavy reliance on exports for growth. Although in 2013, investment as a percentage of GDP is still more than twice the world average[67], a re-balancing is starting to happen as incomes continue to rise and middle-class consumers emerge. It is estimated that in less than a decade, more than three quarters of China's urban households will approach middle-class status.

China's urban population is also set to expand by at least 30% in the decade to 2020 (reaching 850 million individuals[68]), and it is within this urban population where the most growth is expected in the middle-classes. Apart from the mass middle-class, the upper-middle-class is expected to grow the fastest to become the largest segment of the population by 2022. This is by far the most important factor in the development potential of China's art and antiques market.

Along with HNWIs and UHNWIs, it is upper-middle-class consumers who are stimulating the rapid growth in consumption of luxury goods, which has been advancing at rates of between 16% and 20% per annum for the past four years. By 2015, it is expected that more than one-third of the money spent throughout the world on luxury products will be spent by Chinese consumers.

While Chinese HNWIs have put the bulk of money into the art market within China to date, the middle-class are also showing increasing interest, especially in the Contemporary sector. Sohu.com published a survey of Chinese middle-class art collectors in 2013. In this survey, 89% of the sample intended to purchase at least one work of art in the near future and 68% were willing to spend 10% of their income or more on art (and 8% were prepared to spend 30% or more).[69]

Figure 6r. Number of Urban Households (Millions) in China by Wealth Levels



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[67] China's investment to GDP ration in 2013 was 49% compared with 18% in the EU and 19% in the US.
[68] Estimates from McKinsey Quarterly 2013.
[69] Sohu.com (2014) *China Art Market Annual Report*. From www.sohu.com.

A low range of attractive options for investment combined with a currency that is still not fully convertible, has supported a significant interest in alternative investments, including art and antiques. It is estimated that in 2012, millionaires in China allocated around 17% of their wealth to so-called "investments of passion".[70] Allocations to art within these investments is high, averaging 18.2% in 2013. This is considerably higher than the world average of 16.9%, and that of the Asia-Pacific region at 14.2%, as well as many other national allocations to art (for example, 14.3% in the UK, 12.2% in Japan and 15.7% in Brazil).[71]

Collectors in China

The primary focus of Chinese art collectors has been traditional Chinese paintings and antiques. Demand for calligraphy has also been steadily growing with interest in Contemporary ink painting increasing.

In the area of oil paintings, older realistic paintings were the most sought after by collectors with Jin Sangyi and Qiu Ti both reaching record prices. In the Contemporary sector, sales of works by Zeng Fanzhi were among the strongest, whereas older Contemporary stars like Zhang Xiaogang, Wang Guangyi, Zhou Chunya, Yue Minjun and Liu Ye had more mixed results.

While the focus of the majority of art buyers in China remains predominantly on the domestic market, Chinese collectors are steadily increasing their involvement in international auctions each year.

Experts in the Chinese art market believe there is still less than 50 significant collectors of Western art in Mainland China. Nonetheless, 2013 saw a number of major purchases in the global market. Sotheby's and Christie's reported that works by artists such as Picasso, Schiele and other well-known Modern artists were sold to Chinese collectors.

Sotheby's reported that since 2010, the number of Chinese clients bidding for non-Chinese works of art has increased 54%, with about 530 collectors from Mainland China spending $378 million on Western works during the year. At Christie's registrations to bid at auction in London and Hong Kong from Mainland Chinese buyers have doubled.[72] In November 2013, WANDA Group, one of China's biggest property developers, attracted much public attention when it bought a Picasso work, *Claude et Paloma,* for $28 million at Christie's in New York. Various media sources also reported that a Chinese collector bid for the record-breaking Francis Bacon triptych up to $120 million.[73]

Chinese collectors have entered the Western market slowly and with caution to date. However of the galleries interviewed, 80% felt that Chinese collectors were becoming more interested in foreign art.

Institutional and Corporate Collecting

In 2013, the estimated value of corporate collections in China reached RMB 45 billion (€5.6 billion). As well as a rapid advance in size, the focus of corporate collectors has also changed: formerly most companies were focused on art investment, however over the last three years, increasing attention has been given to the marketing, branding and promotional benefits of owning an art collection. From 2012, the Chinese government has also been actively promoting entrepreneurs to invest in cultural industries in China, with various concessions concerning property and funding.

Both individual collectors and companies have also begun to build private museums for their collections, and in 2013 it is estimated that the number of private museums rose to over 1,000. Recent openings included the Dragon Museum (also known as the Long Museum) in Shanghai which opened at the end of 2012 by famous Chinese collectors Liu Yiqian and Wang Wei to showcase their 2 billion RMB collection containing a range of works from ancient Chinese painting to Contemporary. Indonesian-Chinese farming tycoon and collector Budi Tek also opened the De Museum in Shanghai in 2013 featuring Asian and Western contemporary art.

[70] Barclays (2012). *Wealth Insights: Profit or Pleasure. Exploring the Motivations behind Treasure Trends.* Barclays: London.
[71] Capgemini/RBC Wealth Management (2013).
[72] See http://www.ftchinese.com/story/001053700.
[73] See for example, Bloomberg.com, November 13: *Bacon, Koons Set Major Records in New York at Christie's;* The Guardian.com, November 13: *Christie's 'Theatre Of Pure Money' Auctions Off Bacon For Record Price.*

Art Funds and Art Financing

Art funds in China have increased rapidly in size in the last five years. It is estimated that there were over 70 art funds when the market peaked in 2011, with total funds under management of approximately €1.5 billion, but in 2012 their valuations declined by over 70%.

Trust funds have been the main format used by art funds and many experienced challenges in declining market of 2012. These funds tend to be built around two models: as a financing vehicle or as an investment vehicle. In 2013, about 80% of trust funds were financing vehicles, which functioned in a similar manner to asset-backed securities. Because of the strict regulations on loan origination in China, banks have not been comfortable using their own balance sheets to lend against art, which made the art trust structure a perfect substitute for art loans. In 2013, around 29 art trusts with a face value of just under €500 million closed or reached maturity but only around ten new ones were launched. Although full information on these funds is not made public, it is estimated that the remaining art trust funds are worth less than €150 million.

Besides art trusts, many art funds in China have been built around private equity or limited partnership structures. To avoid potential taxes, many art fund management companies do not have a formal contract and rely on private agreements between parties. Unlike many Western art funds which have been keen to establish trading records, Chinese art funds are less transparent, hence making it more difficult to accurately determine their total funds under management.

Art financing is also increasing in popularity. In 2013, Minsheng Bank became the first bank to recognize alternative assets (including wine, art, private jets and cars) as legitimate collateral, and it now provides art-lending services to HNWIs in China[74]. Some commercial banks have also embraced art lending, providing art loans to a wider range of clients.

In November 2013, a new fund (called Guangzhou Xinchang Bank Industry Art Collateral Fund) was established to provide art-lending services to the China Construction Bank, Pingan Bank, Guangzhou Nanyue Bank, and some local associations. It intends to issue RMB 10 billion in three years, at interest rates of between 15% to 18%. At its launch in 2013, the fund had already issued a RMB 1.68 million loan against a Qianlong period vase to Guangdong Collectors' Association.

While there has been much interest in art lending in China, the two major outstanding issues are authentication and appraisal. Currently, there is no standard procedure for art appraisal, and many of the art institutes have not been accredited by the financial institutions. Authentication poses much risk in art lending transactions. Most qualified professionals belong to national museums and are not allowed to provide authentication services to the private sector, while some of the self-employed, private professionals are thought to lack the training and experience necessary. The valuation of Chinese antiques and traditional paintings is also a very subjective area as often many works lack any significant track record of sales.

ART LENDING IS INCREASING IN POPULARITY IN CHINA, HOWEVER THE TWO MAJOR OUTSTANDING ISSUES ARE AUTHENTICATION AND APPRAISAL

[74] In order to qualify for a loan from the bank, the individual must be a "qualified client" in its private bank and generally a business owner or senior executive. Art can also not exceed 50% of the collateral portfolio, and alternative assets cannot exceed 5% of the investor's total assets. The interest rate offered on these loans in 2013 varied between 7% to 12%.

CHAPTER 7

ECONOMIC IMPACT OF THE ART MARKET

ECONOMIC IMPACT OF THE ART MARKET

Key Findings

- In 2013, based on conservative estimates, there were 308,525 businesses selling art and antiques worldwide, consisting of dealers, galleries, antique shops and auction houses.
- These businesses directly supported 2.5 million jobs, including over 400,000 in the EU, 587,000 in the US and 300,930 in China.
- In 2013, it is conservatively estimated that the global art trade spent €12.1 billion on a range of external support services directly linked to their businesses.
- The highest single item of expenditure by the art trade was on advertising and marketing at €3.2 billion (26% of total spending), of which 79% was spending by auction houses.
- Spending on art fairs, although only incurred by dealers, was the second largest area of expenditure in 2013 at €1.8 billion, accounting for 16% of total ancillary expenditure.
- Besides the direct economic contribution of art businesses and support services, the art trade also has many positive links to other high value sectors in the economy in cultural industries, tourism and finance.

7.1 Introduction

The art market makes a significant economic contribution to employment, revenues and in the nurturing of specialist skills. The value added by the sector comes both from the businesses directly engaged in the industry and through a range of specialised ancillary services that it supports, as well as through multiplier effects throughout economies.

In 2013, based on conservative estimates assembled from national directories, business databases and other sources, there were 308,525 businesses selling art and antiques worldwide, consisting of dealers, galleries, antique shops and auction houses. These businesses directly supported 2.5 million jobs. The EU art trade was made up of 49,205 businesses with over 400,000 people directly employed, while in the US there were just over 587,000 workers employed in 72,580 art and antiques businesses. China's 36,960 art businesses also supported a conservatively estimated 300,930.

The market supports many other ancillary businesses, often in specialised services and niche areas connected specifically to the art trade. Art fairs, exhibitions and other cultural events produce employment and revenues directly, as well as generating second-round spending and employment in unrelated industries.

7.2 Employment

Dealer Sector Employment

Art and antique dealers worldwide are primarily small to medium-sized enterprises. In terms of employment, most are small businesses and the average number employed per business in 2013 was seven, with a median of five. 22% of those surveyed worked as sole traders or in a partnership of just two people. The average has increased from five in 2012 (with a median of three), but this may be due in part to an increased share of fine art dealers in the survey sample, which tend to employ higher numbers. In 2013, fine art dealers employed eight people on average (with a range from one to over 100), while decorative art and antiques businesses tended to be smaller, with an average of four employees (and a range of one to 20). 22% of the sample had ten employees or more, the vast majority of which were fine art dealers (53% were specifically identifiable as Contemporary art dealers). At the other end of the spectrum, 40% of dealers that were sole traders or worked in partnerships of just two people worked in the decorative art and antiques sector.

There were also differences in averages between countries. In mature markets, larger art markets tend to employ higher numbers (for example the average was seven in the US and UK versus five in France and Germany), but newer art markets also tend to have a higher average again (such as eight in China and ten in Brazil).

Many dealers suffered employment losses in the fallout from the global financial crisis. In 2010, over one quarter of respondents reported that they had decreased numbers employed during the year. However by 2013, employment had stabilised for most businesses and the majority (73%) had kept their numbers unchanged year-on-year, while 20% had increased employment (on average by just one person).

Employment within the dealer sector in 2013 was split evenly between males and females. This is slightly more gender balanced than averages in the mainstream labour force in many countries (for example the US, with 53% males and the EU with 55% males in 2013). The average for all OECD countries was around 56%.[75] The rate of female participation in the dealer market has increased in recent years, and is up 6% in the three years since 2010.

In terms of employment status, the dealer sector averaged 76% in full time employment in 2013, with 24% part-time or temporary positions. This is fairly similar to the overall work force in many countries, with part-time rates slightly higher than the EU (with 20% part-time workers) and around the same as the average of 25% in the US.[76] It was considerably higher than the average for all OECD countries at 17%.

In general, dealers are very well educated with a high level of formal, third-level qualifications. In 2013, 72% of those employed in the dealer sector globally held a university or third level qualification. In nearly half of the businesses surveyed, all employees had third level qualifications. Certain countries also showed higher average education levels, notably the US and China, both with averages of over 90%. These levels of educational attainment are much higher than the general labour force in most countries. For example in the US in 2013, 42% of the labour force had a bachelor degree or higher, 40% in the UK and 31% in the EU. In cultural industries generally, the level of tertiary qualifications is generally around 24% higher than the mainstream labour force.[77]

Auction Sector Employment

The auction sector consists of small, medium and large enterprises. The top-tier houses consist of both national companies and multi-national global enterprises, while the second and lower tiers are predominantly smaller companies operating locally and nationally.

In 2013, the largest top-tier auction houses employed between 250 and 2,200 people worldwide, and most reported numbers either staying stable year-on-year or increasing. For the more global top-tier houses, the biggest locations for employment were New York and London, with nearly 75% of employees in these two cities. In the Chinese top-tier houses, however employment was mainly locally based in Hong Kong and Beijing.

The survey of second-tier houses indicated that the average number of employees in 2013 was 26 people. 62% of auction houses had increased their employment in 2013, with the remaining businesses maintaining stable numbers.

Nearly all of the auction houses surveyed had businesses located primarily in one country, where the majority of employees were based, although a small number had offices or facilities in one or two other countries.

Unlike the dealer sector, the auction sector tends to be female dominated, with 63% female employees in the top-tier auction houses and 56% in the second-tier. Employees also tend to be full-time, particularly in the top-tier houses, where an average of just 9% of employees were part-time or temporary. Part-time work was higher in the second-tier houses with an average of 26%, although this has dropped considerably over the years. In 2009 part-time workers averaged 47% in the second-tier sector.

Employees in the auction sector as a whole also tend to be well educated. In the top-tier auction houses, the share of employees with a university degree or equivalent tertiary level qualification averaged over 90%, while in the second-tier houses it was 50%, both above the general labour force in most regions.

THE ART MARKET MAKES A SIGNIFICANT ECONOMIC CONTRIBUTION TO EMPLOYMENT, REVENUES AND IN THE NURTURING OF SPECIALIST SKILLS

75 OECD Statistics 2014 from www.oecd.org.
76 General labour market data for the US is from the US Bureau of Labour Statistics. Data for the EU is from the *Eurostat Labour Force Survey.*
77 European Commission (2011) *Cultural Statistics*. Eurostat: Brussels.

Table 7a. Estimated Businesses and Employees in the Art and Antiques Market (2013)[78]

Country	No. Of Businesses AUCTION	DEALER	TOTAL	No. Employed AUCTION	DEALER	TOTAL
Austria	45	1,060	1,105	1,170	7,420	8,590
Belgium	90	2,505	2,595	2,340	17,535	19,875
Denmark	100	1,680	1,780	2,600	11,760	14,360
France	370	7,050	7,420	9,620	42,300	51,920
Germany	240	4,250	4,490	6,240	25,500	31,740
Ireland	55	650	705	1,430	4,550	5,980
Italy	170	6,100	6,270	4,420	42,700	47,120
Netherlands	145	3,500	3,645	3,770	24,500	28,270
Spain	125	2,950	3,075	3,250	20,650	23,900
Sweden	190	1,250	1,440	4,940	8,750	13,690
UK	1,005	6,850	7,855	30,328	47,950	78,278
EU Total	**2,915**	**46,290**	**49,205**	**79,728**	**324,030**	**403,758**
Switzerland	65	1,500	1,565	1,690	10,500	12,190
US	4,080	68,500	72,580	107,678	479,500	587,178
China	460	36,500	36,960	8,930	292,000	300,930
Japan	30	10,850	10,880	780	75,950	76,730
Singapore	20	600	620	520	4,200	4,720
Australia	250	4,100	4,350	6,500	28,700	35,200
Rest of World	5,865	126,500	132,365	152,490	885,500	1,037,990
Global Total	**13,685**	**294,840**	**308,525**	**358,316**	**2,100,380**	**2,458,696**

7.3 Ancillary Economic Impact

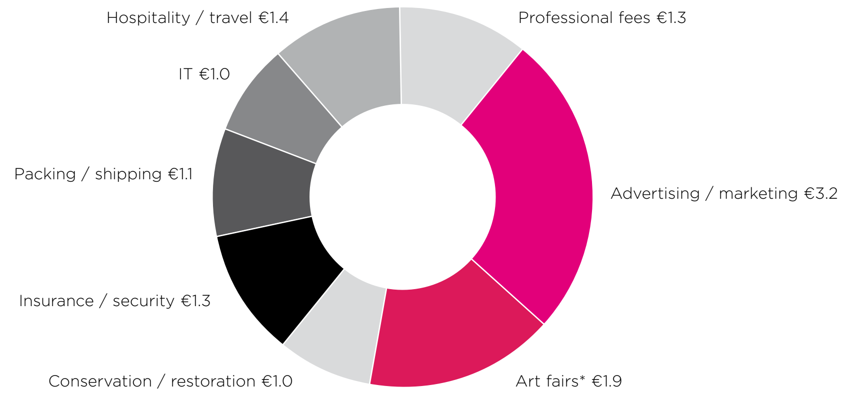
Apart from generating close to 2.5 million knowledge-intense and gender-balanced jobs in galleries, auction houses and other outlets around the world, the art market also creates significant revenue and jobs through a number of ancillary industries and support services used by auctioneers, dealers and collectors. Many of these services are from highly specialized, niche industries that have developed specifically around the art market. Some businesses such as conservation and restoration would probably not survive without it. Others such as packing, shipping, insurance and other professional services are used in other industries but have developed into high value niche services to meet the specialized needs of buyers and sellers in the art market.

In 2013, it is conservatively estimated that the global art trade spent €12.1 billion on a range of external support services directly linked to their businesses. This is up 6% on the total of €11.5 billion reported in 2011, despite the lower estimate of the number of businesses in the art trade.

Figure 7a shows how this expenditure was divided between different industries and services. The highest single item of expenditure by the art trade was on advertising and marketing at €3.2 billion (26% of total spending), of which 79% was spending by auction houses. The total was down 13% on values in 2011, mainly due to a drop in the share of spending allocated by second-tier auction houses. While dealers allocated about 12% of their external spending to advertising and marketing in

78 This table is based on an extensive search of all listings, directories and databases for art galleries, antique shops, dealers of art or antiques and auction houses or auctioneers that sell art, antiques and collectibles either exclusively or as a considerable part of their business. Although some also sell fine and decorative art, businesses that mainly sell posters, reproductions and craft works have been excluded, as have antique restoration companies, which has reduced some of the numbers from those previously published. Figures are compiled from art specific directories as well as general business sources such as national golden pages, therefore changes year-on-year can reflect changes in listings and classifications as much as businesses openings and closures. The numbers of businesses are therefore meant as a broad guide only and are rounded. The figures are highly likely to underestimate the totals in some countries given a number of small businesses will not feature in listings. The figures in the table are also recorded per business outlet rather than by company.

Figure 7a. Spending by the Global Art Trade on Selected Ancillary Services (2013, Billion Euro)



 *Spending by dealers only

2013, the share for top-tier and second-tier auction houses ranged from 30% to 40%.

One third of sales made by dealers were through art fairs in 2013. Spending on art fairs, although only incurred by dealers, was the second largest area of expenditure in 2013 at €1.9 billion, accounting for 16% of total ancillary spending. For dealers, spending on fairs accounted for 33% of their total expenditure on ancillary services, up 8% on figures reported in 2011. In the last two years, individual dealers appear actually to have been spending much more than they were on art fairs, as indicated by the median spend per dealer on fairs which increased 28% over the same period.

The next highest area of aggregate expenditure was on hospitality and travel, totalling €1.4 billion. This accounted for 11% of the total spending and has increased over 24% on figures reported in 2011. Dealers and top-tier auction houses allocate around 15% of their total external spending on this, whereas for second-tier houses, the share was slightly lower, at 8%.

Professional fees includes spending on lawyers, auditors and bank charges accounted for 11% of total spending, at just over €1.3 billion. This area has seen one of the biggest expansions in size over time, increasing 56% on aggregate from 2011. Both dealers and top-tier houses increased their spending slightly, but second-tier houses doubled their allocation from 6% to 12% in the three-year period.

Table 7b examines ancillary revenues and employment generation in the global art trade. In 2013, based on average sales per employee in a range of similar service industries, it is estimated

THE HIGHEST SINGLE ITEM OF EXPENDITURE BY THE ART TRADE WAS ON ADVERTISING AND MARKETING AT €3.2 BILLION, OF WHICH 79% WAS SPENDING BY AUCTION HOUSES

Table 7b. Ancillary Expenditure and Employment Generated

	GLOBAL		EU	
Service	**Revenue €m**	**Employment**	**Revenue €m**	**Employment**
Advertising / marketing	€3,181	77,587	€764	18,624
Art fairs	€1,901	45,800	€600	14,643
Conservation and restoration	€987	23,778	€270	6,584
Insurance and security	€1,259	30,337	€317	7,732
Packing and shipping	€1,131	27,262	€297	7,239
IT	€1,017	24,497	€252	6,144
Hospitality and travel	€1,360	32,763	€389	9,493
Professional fees	€1,269	30,587	€329	8,025
TOTAL	**€12,105**	**291,677**	**€3,218**	**78,484**

that the €12.1 billion in revenues generated in ancillary industries by the art trade directly supported close to 292,000 jobs. In the EU art market, revenues from these ancillary services that could be directly attributed to the art trade were €3.2 billion supporting nearly 78,500 jobs.[79]

Besides the direct economic contribution of art businesses and support services, the art trade also has many positive links to other high value sectors in the economy in cultural industries, tourism, finance and other areas.

Cultural tourism continues to be one of the largest and fastest growing global tourism markets and the art trade has contributed to it by attracting high value tourists to national markets. The art trade is increasingly built around major events such as art fairs, exhibitions and major auction sales which generate a cluster of valuable economic activity in a relatively short period of time.

Tourism was estimated to have accounted for a total contribution of 9% of global GDP in 2013, 5% of total investment and 5% of world exports. Apart from its considerable economic size, it is also one of the fastest growing sectors, and by 2023 is expected to account for one in ten jobs around the world.[80] International tourist arrivals worldwide reached their highest ever level of 1.1 trillion in 2013, growing 5% year-on-year and driven mainly by Europe and the Asia Pacific region, which both saw tourist numbers increase by 6%. In 2012, international tourism had generated receipts of close to €900 billion and over 40% were in Europe.

THE ART TRADE IS INCREASINGLY BUILT AROUND MAJOR EVENTS SUCH AS ART FAIRS, EXHIBITIONS AND MAJOR AUCTION SALES WHICH GENERATE A CLUSTER OF VALUABLE ECONOMIC ACTIVITY IN A RELATIVELY SHORT PERIOD OF TIME

[79] Figures for employment generation are derived based on the value of sales and production across several service based industries, divided by the number of people employed in them and taken from the US Bureau of Labor Statistics (approximately €41,000). It is worth noting that this is a higher productivity measure than that used in the TEFAF AMR in 2011 (of €33,700), which accounts for some of the drop in numbers estimated.

[80] Statistics from the World Travel and Tourism Council in 2013.

The art market and cultural industries generally are particularly important in gaining a global share of this key industry. The World Tourist Organisation claims that cultural tourism represents between 35% and 40% of all tourism worldwide, and that it is growing at 15% per annum – three times the rate of growth of general tourism. The European Commission estimate that cultural tourism accounts for at least 40% of all European tourism in 2013 and several of their studies have pointed to the specific importance of art institutions and the art market for generating these visitors.[81]

Apart from being a large sector of the market, cultural tourists have been shown in various research studies in Europe and the US to travel more often and for longer durations and to spend significantly more than the average tourist. Events such as art fairs, for example, make a significant contribution to the cities that host them by bringing a rapid inflow of wealthy visitors, spending not only at the fairs themselves but also on hotels, restaurants, local transport and retail and service outlets.

Tourism is the third largest economic activity in the EU and directly accounts for 5% of EU GDP and 10 million jobs. Accounting for related sectors, the European Commission estimates that tourism could in fact even account for 10% of EU GDP and 12% of the total labour force or over 24 million jobs.[82] As the global tourism market becomes increasingly competitive, the focus on the distinct competitive advantages in areas such as culture and the arts in attracting tourists to regions such as Europe are likely to be even more critical, making the positive links generated by the art trade yet more important.

Besides the more transient tourist population, a strong artistic infrastructure has also been strongly linked to attracting skilled workers to a region or economy, creating a "brain gain" effect, and making regions more attractive to businesses, with subsequent positive multiplier effects throughout the economy. Several studies have shown that arts and cultural industries foster innovation and growth in commercial creative industries and support the productivity of the labour force as a whole.[83] The art market and its conservatively estimated 308,525 businesses and 2.5 million direct employees therefore make a significant contribution to global economies both directly in terms of revenues, through the employment and the fiscal contributions they generate, as well as indirectly, through the businesses they use for support and through their indirect links to other high value sectors and parts of the economy.

[81] See http://ec.europa.eu/enterprise/sectors/tourism/cultural-routes/index_en.htm

[82] Husting (2013) *The EU Tourism Policy and Actions To Enhance Sustainable Tourism. Tourism Policy Unit.* European Commission. From www.europarc.org

[83] See CEBR (2013) *The Contribution of the Arts and Culture to the National Economy.* London: Arts Council England.

APPENDIX: A NOTE ON DATA SOURCES

APPENDIX: A NOTE ON DATA SOURCES

Due to the complex nature of the art market, information presented in this report comes from a wide range of sources. All of the data is gathered and analysed directly by **Arts Economics** from dealers, auction houses, art and antique collectors, art price databases, financial and economic databases, industry experts and others involved in the art trade and its ancillary services.

Some of the key data sources are listed here, although this is not designed as a full list of those used or as an explanation of the methodological approaches taken. For more specific information on data or methodology, please feel free to contact Dr. Clare McAndrew, clare@artseconomics.com.

Auction Data

Auction data used in this report comes from 4 main sources:

1. Artnet

Global fine art data is supplied by Artnet, which is the most reliable, transparent and comprehensive global source for auction data in this sector. The Artnet Price Database has over 7 million auction results for fine art spanning over 30 years, including a total of over 1,400 auction houses and over 300,000 artists. Every lot is catalogued, translated, and edited by professional, multilingual specialists to ensure data accuracy and correct categorization. Artnet works directly with auction houses so that prices are posted on the same day of the auction for the major auction houses. Since 2013, Artnet has been working with the China Association of Auctioneers (CAA) to better screen auction houses from Mainland China and only covers data from auction houses that have passed the CAA's annual evaluation.

2. AMMA

Both fine and decorative auction data for the Chinese art market is supplied by AMMA (Art Market Monitor of Artron). Artron.net was founded in 2000 as an interactive online community devoted to Chinese works of art. AMMA is a subsidiary of the Artron Group and conducts research, monitoring and analysis of the Chinese art market. It has the most comprehensive and reliable available database on the Chinese art market. The Artron Chinese Artwork Database has recorded nearly 3,700,000 results from over 15,000 sales from over 700 auction houses since the first art auction in China in 1993. The company supplies data-processing services, art appraisal and other price consulting services.

3. Auction Houses Published Results

Arts Economics collects data directly from the published auction results and press releases of auction houses around the world.

4. Auction House Survey

Arts Economics distributes two surveys in the auction sector: a top-tier survey of the top 20 auction houses worldwide plus a second-tier survey of around 400 national second-tier auction houses.

Dealer Data

To compile data on the dealer sector, Arts Economics conducted an anonymous online survey of approximately 5,500 dealers from the US, Europe, Asia, Africa and South America in 2013. Response rates varied between countries and sectors, but on aggregate came to approximately 12%.

Ideally to analyse the market without bias, a random sample of all 295,000 businesses would be drawn and surveyed. However due to the private nature of the industry and the potential problem of low response rates from random sampling, a stratified sample was used, based on the populations of dealers belonging to art dealers associations around the world, those exhibiting at art fairs, and some lists compiled with the help of experts in particular national markets. While the survey revealed dealers with a wide range of levels of turnover, by the nature of the sampling process, it is skewed towards the middle to higher end of the market and does not account for the very many very small businesses, consultants and other agents in the market which do not belong to associations or exhibit at fairs.

The survey was conducted in China both through the online survey and through in person interviews with more than 20 art galleries in Beijing.

A series of supplementary interviews were also conducted with dealers around the world. The highest concentration of these (besides China) were in the US because of the report's special focus on this market. Around 80 dealers were interviewed in New York, Dallas, Houston, Chicago, Los Angeles and Miami.

Trade Data

The two main databases used for international cross-border trade data are:

1. The UN Comtrade Database

The United Nations Commodity Trade Statistics Database (UN Comtrade) contains detailed import and export statistics reported by statistical authorities of around 200 countries, with data from the early 1960s to the most recent year. It is the most comprehensive trade database available with more than 1 billion records in 2013. The database is continuously updated, however most countries statistics are only available with a lag of 12 to 18 months.

2. Eurostat

Eurostat is the statistical office of the European Union. Its international trade statistics track the value and quantity of goods traded between EU member states (intra-EU trade) and between member states and non-EU countries (extra-EU trade). Since customs formalities between member states were removed, data on intra-EU trade is collected via Intrastat. In the Intrastat system, data is collected directly from trade operators, which send a monthly declaration to the relevant national statistical administration. These statistical authorities also collect extra-EU trade statistics from the relevant customs authorities each month, although reporting to Eurostat varies between Member States with lags of one to 18 months.

Collector Data

Collector data is compiled from interviews with collectors, with the primary focus this year on those in China and the US. The sample is small (less than 40) relative to the potential number of collectors worldwide, however interesting insights on their buyers were gleaned also from interviews with dealers and auction house representatives.

This year, data on the top 200 collectors was kindly supplied by *ARTNews* specifically for the purposes of this research.

Secondary Sources

The report uses a large number of secondary sources (that are cited in the report). Some key sources used for data in the report included:

- The IMF World Economic Outlook (Database)
- Capgemini and RBC Wealth Management World Wealth Reports (Various years)
- Credit Suisse Global Wealth Databook (Various years)
- Wealth-X and UBS 2013 *World Ultra Wealth Report*

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