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Auction houses on a growth course

Nicola Countess Keglevich talks to Dr. Clare McAndrew, Arts Economics, Dublin

Nicola Countess Keglevich (NCK): Clare, you are the industry's No. 1 analyst, famous for your annual report of the art industry. But what is an art or cultural economist?

Clare McAndrew: Arts and cultural markets have very specific economic features – and this is what I have dedicated my career to. Art is a big commercial market with many specific features as it is offering products that are dual in nature - both consumption goods and capital assets. Goods are unique, driven by scarcity, values tend to be higher on secondary markets. They also have a lot of the qualities of public goods, and are funded and supported by the public and governments, a branch of welfare economics, where we are trying to measure the value of creating positive benefits for society, positive externalities even for people not consuming it. This world fascinates me every day.

NCK: What came first for you: arts or numbers?

Clare McAndrew: came first, I am afraid. I wish I had done a phd in art history first (laughs) but I did economics first. However, my interest has always been in art. Only in the post-graduate phase of my economic studies, I found my way into art economics.

NCK: What were the key findings in your 2022 report for the industry in general and maybe the auction biz in particular?

Clare McAndrew: The global art market has come out of its biggest recession and saw a big recovery last year with overall sales up nearly 30 percent, in many areas returning close to or just above the 2019 levels. Interesting: after a huge surge for online business during the pandemic, we see a recovery of art fairs and gallery-based sales, but still online stronger than ever before. Online art business was lagging behind other industries but thanks to the pandemic it is catching up now.



NICOLA COUNTESS KEGLEVICH, SENIOR DIRECTOR

NCK: What were your findings regarding auctions and auction houses?

Clare McAndrew: The auction business is indeed very interesting. The first finding is: The very few big, multi-national auction houses all went through a big downturn and have now recovered sales. A lot of their global performance is highly dependent on the fate of the extremely sensitive top market segment above \$10 mio. Others - I call them the 2nd tier with a more regional focus – often saw their business in continues growth trajectory. Ketterer Kunst is just one example. It is a bit hidden in my numbers as my annual report is very much driven by macro-economic, aggregated global trends but, indeed, this deserves a much deeper analysis.

NCK: What do you see as the reason for the difference in market success between auction houses?

Clare McAndrew: Some factors that may have helped auction houses such as Ketterer Kunst were that their market segments might have been more resilient. The customer experience for remote bidding was long established and good. All of the auction houses across the world were also very successful in attracting many new customers ...

“However, I expect some very strong years for the auction houses to come, as they are particularly popular with new buyers, and because they have worked hard to win the sellers' confidence.”

NCK: ... indeed, we saw many new and in particular younger bidders...

Clare McAndrew: ...who have grown-up with online buying and have now discovered online art buying and remote bidding. This gives auction houses a clear advantage going forward by providing a clear and easily accessible entry point to the market.

NCK: Many industries report a trend towards regionalization. Is there a local versus global trend in the art business too?

Clare McAndrew: Clearly, the pandemic had people purchasing more locally, and supporting local cultures and local art markets is a good thing. However, I clearly see a danger for the art market to turn away from being global: At its core, art is all about cross cultural communication, global interaction and sharing. But it is right to ask: Is it always necessary to travel to buy or sell art? Do artists always need to be in hubs to build careers? Do I have to go to 15 art fairs per year? On the other hand: It is encouraging to see more people in China getting into Western art for example, and much of this is through travel and experiencing more Western culture, or when I speak to galleries in parts of Africa they tell me that if they were only local they couldn't exist. We need to combine local and global in a more clever and sustainable way.

NCK: What are the trends you see evolving this year following the Russian invasion in Ukraine?

Clare McAndrew: I don't consider myself a forecaster. However, what I can say is: 2022 started with huge optimism and the spring auctions and the recent Art Basel exhibition seemed to indicate resilience of the art and in particular the auction market despite geopolitical turmoil. However, it is too early to say as many of the key decisions by buyers and vendors are very much last minute.

NCK: Let's return to your annual report. If you compare the regions how is the industry developing?

Clare McAndrew: Nearly all markets recovered on a similar scale, China is now firmly established in second place next to the US. The EU recovered by 37 percent. Europe overall was a little more sluggish because of the specific situation in the UK where Brexit on top of COVID has created a very difficult period for the UK market.

NCK: Which clearly restrained vendors and buyers in the EU to go to London ...

Arts Economics

Arts Economics is a research and consulting firm with a sole focus on the economics of the arts. The company conducts research and analysis for private and institutional clients. Currently, major research areas include macroeconomic art market studies, economic impact studies, micro-level artist- and industry analysis, as well as art finance and investment services.

In 2005, Arts Economics was founded by Dr. Clare McAndrew, a cultural economist specializing in the art, antiques and collectibles markets. Clare works with a network of private consultants and academic experts to provide research and advisory services to the global art trade and the financial sector.

Dr. Clare McAndrew

Dr. Clare McAndrew is the author of numerous publications on art market economics, since 2005 she releases an annual macroeconomic report on the global art market. This global art market report was published by the European Fine Art Foundation (TEFAF) from 2005 to 2015. The annual study has been commissioned by Art Basel and UBS since 2016. Clare holds a PhD in Economics from Trinity College Dublin. In addition, she conducts academic research with a particular interest in risk and investment, arts-related politics and artist careers. Clare is a lecturer in Art Market Economics at Christie's Education and was a visiting lecturer with the Trinity College Dublin masters course at the Trinity Irish Art Research Center (TRIAC), she also lectured on Finance and Taxes in the Art Market at the University of Zurich (Executive Masters in Art Market Studies).

Clare McAndrew: Yes, business from Europe has been negatively affected by Brexit. Some galleries and auction houses have opened new business in the EU posing a threat to the centrality of London as a market. However, overall sales in the UK coming from outside of the EU, from Asia, the US and Middle East have not been affected by Brexit directly and these have helped to keep London going. But Hong Kong and New York have tax and legal frameworks that support them being global hubs for the art markets. London is now overall weaker in comparison in terms of some of its trade regulations and costs, and no other art hub on the continent is stepping in by creating a New York or Hong Kong style regulatory environment. A pity that we allow our regulatory complexities to drive the highest priced objects away from Europe.

NCK: Some market players predicted prior to the Pandemic the early end of live auctions: "Online is King". Then we saw the very busy live-auctions this year. Was declaring live-auctions dead premature?

Clare McAndrew: Live-auctions with life-stream is a very successful hybrid format. Theatre and drama of live-auction-sales are exciting and enticing for buyers. It is true that for new buyers to participate online and via phone with an advisor on their side has lowered the entry-barrier making it easier and less risky to participate. This simultaneous on and offline format is one that works for auction houses and maybe galleries but the art fairs have not been as successful with online viewing rooms.

NCK: The strongest market segment you reported is Post War / Contemporary followed by Modern Art. What are the trends you see developing in Post War and Contemporary?

Clare McAndrew: I see several trends – and some need more research and most likely a better breakdown of that segment. One of the most remarkable trends for me is the boom in the business of newly - even in the last five years - created art and in general art by living artists. This business more than doubled recently. Globally, art by living artists is entering the secondary markets, including auction houses, much earlier now. Some players voice concern about reselling too quickly and burning out.

NCK: Isn't that actually a good sign of growing interest in the art market in particular by new buyers who traditionally start with contemporary art?

Clare McAndrew: Yes, absolutely, but I really need to study this a little deeper as this shift is really making a difference. There is clearly a significant element of speculation in it, which is also not fully unusual.

“To me an art purchase is successful when my children will be able to sell it for at least the same price, or at best for more.”

NCK: In 2021, high-net-worth collectors nearly invested 4x as much into art than in 2019 ...

Clare McAndrew: ... reflecting the wealth effect in the pandemic. It was not necessarily investing larger shares of their assets into art, but their greater wealth allowing more discretionary purchasing across the board.

NCK: What is the role of Private Sales in the auction market?

Clare McAndrew: In a buyout market with strong demand, the sky is the limit in public auction sales – you can get better results than you ever imagined if the sale goes well. But if you don't want your art in the public domain or you are uncertain about the market, private sales are an alternative. However, private sales are hated by appraisers and analysts like me just because they are private (laughs).

NCK: Let's come to the outlook. What are the trends for the future to watch, let's say for the next 5 or 10 years?

Clare McAndrew: Again, I don't consider myself a forecaster and I am very reluctant giving a forecast. However, I expect some very strong years for the auction houses because of the engagement they have found in particular with new buyers and the trust they earned with vendors. In fact, public auctions have grown its market share over the last few years significantly. They are now at 47 percent of the entire market and I think this will grow further.

NCK: If you had an economic advice to give to a collector and an art advice to give to an economist, what would that be?

“In comparison, London has become weaker overall.”

Clare McAndrew: (laughs) I don't give advice to individuals but I'm happy to share the considerations with which I buy: I treat art as a store of value. Thus, I don't focus on returns that could be generated from resale but will consider an acquisition successful if my kids can sell the art again for at least the same price and hopefully more. With big money to spend, you can consider buying masterpieces. With a smaller amount of free cash, I won't consider buying a share of a masterpiece but rather take a risk and buy something that I like and where I can imagine lasting appreciation. I guess learning how to imagine is real work but it pays and is fun.

NCK: Clare, thank you for this interesting conversation.