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Head of Private Banking 
Wealth Management  
ING Luxembourg  
T: +352 4499 5850  
E: maxime.weissen@ing.lu  
I: www.ing.lu

Sanne TEN BRINK  
Head Curator ING Collection  
ING Art Management  
T: +31 2053 39170  
E: sanne.ten.brink@ing.com  
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*Financial Times, 8 January 2012*

“An 1895 version of Edvard Munch’s “The Scream” sold for almost $120m to an undisclosed collector on Wednesday night...”.

*Financial Times, 3 May 2012*

“On a day when U.S. stocks lost more than $240 billion in value, Christie’s held its largest-ever postwar and contemporary sale, setting records for eight artists including Franz Kline, Jeff Koons, Donald Judd and Jean-Michel Basquiat.”

*Bloomberg News, 15 November 2012*
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# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Foreword</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Introduction</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Key findings</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Priorities</td>
<td>16</td>
</tr>
<tr>
<td><strong>Section 1: The art market</strong></td>
<td>Interview: An auction house view on the art market</td>
<td>29</td>
</tr>
<tr>
<td><strong>Section 2: Art and wealth management survey</strong></td>
<td>General motivation and perceptions among wealth managers, art professionals and collectors</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>Article: An overview of recent developments in the global art secured lending market</td>
<td>40</td>
</tr>
<tr>
<td><strong>Section 3: Art as an investment</strong></td>
<td>Article: Art and collectibles funds – one of the greatest beneficiaries of the Alternative Investment Fund Managers Directive (AIFMD)?</td>
<td>52</td>
</tr>
<tr>
<td><strong>Section 4: Growth of the online art industry</strong></td>
<td>Interview: Views on the future of the online art industry</td>
<td>59</td>
</tr>
<tr>
<td><strong>Section 5: Art &amp; Finance analytical tools</strong></td>
<td>Article: Art market indexes</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>Article: Market and liquidity risk measurement tools</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Article: Market sentiment tools</td>
<td>67</td>
</tr>
<tr>
<td><strong>Section 6: Education</strong></td>
<td>Article: Annual art market symposium</td>
<td>70</td>
</tr>
<tr>
<td><strong>Section 7: The Polish art market profile</strong></td>
<td></td>
<td>75</td>
</tr>
</tbody>
</table>
Deloitte Luxembourg and ArtTactic are pleased to present the 2nd edition of the Art & Finance Report 2013.

The first issue of our Art & Finance Report was exceptionally well received by the international media. Our primary expectation of the first issue was to raise awareness of what is happening in the ‘Art & Finance industry’. The first issue also enabled us to establish partnerships with other offices in the global Deloitte network, and we are delighted that Deloitte Poland and Deloitte Spain have joined this initiative.

While the first report was about establishing a better understanding of the boundaries of the Art & Finance industry and the concerns and motivations of its stakeholders, this year’s report is more about the industry’s evolution in the last 14 months. With a set of comparative data, we are better placed to understand where the market could be heading and why. Although 14 months is not a long period, there have been some noteworthy changes in both the attitudes and actions among the wealth managers, collectors and art professionals surveyed for this report. We hope the findings of this report will create debate, raise awareness and encourage more Art & Finance stakeholders to participate in the discussions that will ultimately set the direction for this emerging industry and shape its future.

Once again, we would like to express our most sincere thanks to all the individuals and institutions that contributed to this report. Without their support, this report would not have been possible.
If there is one key word we could take away from this report, it must be ‘convergence’. What emerges from the report is a gradual convergence in the motivation and interests of key stakeholders in the art market and wealth management community as regards art as an asset class, and this trend is driven by the client.

The survey of wealth managers shows that industry competition is no longer the main motivation for including art in a traditional wealth management context; in fact the key driver is client demand. With clients sitting on an estimated US$4 trillion1 of treasure assets2, the private wealth management community has good reason to take notice.

One of the main factors increasing client demand is the current economic uncertainty, which has created a stronger investor appetite for real assets that have a low correlation with traditional investments such as equities and bonds. Moreover, against a backdrop of further quantitative easing and the risk of inflationary pressures, art and collectibles are increasingly viewed as a diversification tool by High Net Worth Individuals (HNWIs).

The focus has clearly shifted from looking at the returns that can be made on art to the role of art as a diversification and capital protection tool. However, the emotional return remains the key driver for art buyers and investors, and needs to be embedded in the wealth management approach to art. The client-driven trend towards services that protect, maintain and enhance the value of art assets will force a more holistic and integrated approach to art in the context of wealth management.

One of the key challenges for the future is the required shift in the current wealth management approach from looking at art as a ‘softer’ service (mostly client entertainment) towards developing a set of wealth management products around the art asset itself.

Methodology and limitations
Deloitte Luxembourg and ArtTactic conducted the research for this report between June and November 2012. We surveyed 30 private banks predominantly in Luxembourg, but also in Spain and Poland, which enabled us to give a wider perspective of perceptions in the European wealth management community. Our aim was to establish the perceptions and motivations related to art as an asset class, as well as the current involvement with art and future expectations. At the same time, we conducted a similar survey among 112 art professionals (galleries, auction houses and art advisors) and 81 important art collectors (up from 48 in 2011) worldwide to establish whether the issues and concerns in the art market were of a similar nature to those experienced in the wealth management community. Due to the broadening of the sample of private banks from 18 in 2011 to 30 in 2012, which included additional banks from Poland and Spain, some regional variations in the findings were to be expected. We have highlighted these regional differences where we felt they had an impact on the interpretation of the overall findings.

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1 Estimated figure using data from Barclays Wealth Insights and the World Wealth Report 2012 from Capgemini and RBC Wealth Management
2 Includes fine art, stamps and coins, wine, classic cars, precious metals, jewellery. Source: Barclays Wealth Insights
This year we also launched the Deloitte ArtTactic Art & Finance Confidence Indicator, an annual barometer for wealth manager sentiment towards art as an investment, art secured lending and the general economic environment in the next 12 months. We hope this confidence measure will give an insight into how wealth managers see the immediate future, and together with the other survey findings, help us to better understand the opportunities and challenges facing the evolution of the Art & Finance industry.

To provide a market context to survey findings we have given a broad, international overview of recent developments across various regional modern and contemporary art collecting categories. Most of the data is collected from Sotheby’s and Christie’s, as these firms represent a substantial share of the auction market, although certain regional markets such as China, India and Russia also include domestic auction data.

We have estimated the size of the global art fund industry, combining data and information from interviews with U.S. and European art funds, as well as public records on art investment trusts and art funds in China. We are also delighted to be able to publish interviews and opinions from key figures in the Art & Finance industry: Pierre Valentin, Partner at Constantine Cannon, on the subject of European art lending; Sergey Skaterschikov, Founder Skate’s Art Market Research of Next Edition Partners on the future of the online art industry; Guillaume Cerutti, Président Directeur Général of Sotheby’s France on the current state of the art market; Christopher Stuart Sinclair, Director at Deloitte Tax & Consulting in Luxembourg on the Alternative Investment Fund Managers Directive; Prof. Rachel Pownall from Maastricht and Tilburg University on art market indices and the art market symposium and Fabian Bocart, Founder of Tutela Capital on market and liquidity risk measurement tools.

Deloitte Luxembourg and ArtTactic recognise that the findings are indicative and recognise the limitations of these findings; however, we believe that the results reflect a broad representation of the perceptions and attitudes that exist in the global wealth management and art community.
The role of art in wealth management is changing

Art market

• The global art market continued its expansion in 2012, increasing the focus on art as an asset class and the need for new types of professional Art & Finance services

• Increasing confidence in the art market: recent surveys show an increase in market confidence across most global art markets, signalling the potential for additional growth in 2013, and supporting further development of the Art & Finance industry

• Post-war and contemporary art set new records in 2012, as wealthy buyers gravitated towards the top 20 blue-chip contemporary artists, accounting for 77% of contemporary art sales in 2012. Post-war and contemporary art is now the most important sales generator for Christie’s and Sotheby’s

• Chinese art market sales declined in 2012, but a rebound is likely this year: auction sales of Chinese art in Hong Kong and mainland China dropped by 43% between November 2011 and November 2012. However, recent polls suggest experts believe the market could start to recover in 2013

• Latin America will remain the growth region in 2013: with growth of 25% in auction sales in 2012, and 67% of art buyers expecting the Latin American art market to expand in 2013, the region is set for a year of strong growth

Art and wealth management

• Economic uncertainty is increasing client demand for alternative investments: 53% of wealth managers stated that the challenging economic environment is the main motivation for their clients to include art in their overall wealth portfolio (up from 28% in 2011). A large majority (60%) of wealth managers believe that we will see stronger demand in the future for art and collectible assets, as a result of the current economic uncertainty in Europe and in the world

• The increasing value of art is creating a need for new wealth management services: 43% of wealth managers said that the increasing value of art is creating a need for banking services to protect, enhance or monetise this value

• The role of art in wealth management is changing: the role of art services in wealth management is shifting from client entertainment to art wealth management services, with only 27% of wealth managers seeing client entertainment as a primary motivation in the future (down from 61% in 2011)

• Client demand is opening up opportunities for closer collaboration between wealth managers and art professionals: wealth managers should consider integrating art into their service offering to meet clients’ needs, and to work closely with art professionals who are increasingly being asked to provide collector services that focus on the financial aspects of transacting and owning art

3 Source: ArtTactic poll of 514 art collectors and art professionals
4 Source: ArtTactic Outlook 2013, published in January 2013
• Portfolio diversification is more important than investment returns for wealth managers, collectors and art professionals: According to the report, 43% of wealth managers stated that portfolio diversification was one of the strongest arguments for including art and collectibles in traditional wealth management. This was echoed by 59% of art professionals who said their clients were motivated by the opportunities for portfolio diversification. A further 44% of collectors surveyed said that portfolio diversification was a primary motivation for investing in art at the moment. As a consequence, reporting tools that include financial and non-financial assets will be required to monitor the diversification benefits.

• Private banks will increase their focus on art and philanthropy in the next two to three years: This is clearly a growing area of interest for wealth managers. 33% of banks expect to increase their focus in this area in the next two to three years. With significant sums involved in the intergenerational transfer of wealth (financial and non-financial assets) that is taking place, wealth managers will increasingly have to offer advice regarding art legacies and the most effective way of preserving their emotional, financial and cultural value.

• A new Freeport in Luxembourg could be a major attraction for the wealth management and art investment fund industry: A new Freeport specialising in the storage of valuables is scheduled to open in the third quarter of 2014, and is likely to become a major draw for bringing art and collectible assets to Luxembourg.

• Education is essential to the evolution of the Art & Finance industry: 40% of banks currently offer art and finance education to their clients and further 23% expect to offer these services in the next two to three years.

• Collectors see opportunities to use their art collection as collateral for loans: 41% of collectors state that they would use their collection for this purpose. When asked their motivation for using art as collateral, 36% of collectors would use it to invest in other business activities, 39% to buy more works of art and 18% to refinance other loans.

• U.S. art lenders are moving into Europe: Traditional art lenders such as Emigrant Bank Fine Art Finance offers art finance in Europe, strengthening its presence in the increasingly attractive European market.

• Increasing demand for short-term art loans: Short-term money lenders are eyeing new opportunities in the art market; for example, the recently launched Borro has quickly expanded its business in the U.S. and UK.

The increasing value of art and the economic uncertainty are creating a need for new wealth management services.

Art as an investment

- The art market offers diversification opportunities despite underperforming equities in 2012: the worldwide art auction prices declined 3.28% in 2012 according to the Mei Moses® World All Art Index. Despite underperforming the S&P index, art continues to offer significant diversification benefits to investors due to its low correlation, for example, with the equity market.
- The global art investment fund market increased by 69% in 2012 driven by Chinese demand for art investments but it is still a nascent market: the global art investment fund market reached a conservative estimate of US$1.62 billion in 2012, up from US$960 million in 2011, driven by growth in art investment funds and trusts in China.
- Existing art funds raise more money: although a number of new art funds started their fund raising in 2012, it is the existing art funds such as the Fine Art Fund (UK) and the Art Collector’s Fund (U.S.) that have been successful in attracting new investors to their funds.
- Early signs of increasing industry acceptance of art investment funds: while none of the banks surveyed in 2011 were looking at adding art investment funds to their investment platform in the next two to three years, the latest survey suggests that 18% believe it is likely or very likely that they will include art investment funds as part of their bank’s product platform in the next two years.
- The end of the first wave of art exchanges: after China saw a boom in art and cultural exchanges in 2010 and 2011, the government moved in to stop future development of these initiatives. Trading irregularities and manipulation were cited as the main reasons for this move. European initiatives in Luxembourg and Paris failed to materialise, although the Paris exchange is currently in the process of a relaunch.

Online art industry

- Rapid development in the global online art industry: we have seen an acceleration in the number of online art businesses coming to the market, with more than 300 online art ventures launched in recent years.
- The Art & Finance industry is set to benefit from greater transparency, liquidity and reduction in transaction costs: new online transaction platforms add liquidity to the art market and will broaden the scope and depth of art market data available, which in turn will improve transparency and facilitate more accurate art valuations.
- Online education is set to play an increasingly important role in building confidence in the art market: 67% of art collectors said online education and information will be crucial to the development of the Art & Finance industry.
- More confidence in online auctions than online galleries: 80% of collectors believe that online auctions will succeed, compared with 54% of collectors who have similar faith in online galleries.
- Building trust will remain critical to online businesses: collectors and art professionals have more faith in dealer-to-dealer platforms than consumer-to-consumer platforms (59% and 46% vs. 32% and 29% respectively), which highlights the importance of building trust online, as well as issues around guaranteeing provenance and authenticity.

The global art investment fund market increased by 69% in 2012 driven by Chinese demand for art investments but it is still a nascent market.

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Analytical tools

- **Improved technology and online index providers** give users access to almost immediate information on changes in indices, as well as tailor-made sector or specific artist indices. Although art index tools are still in development, indices can be used to evaluate the trading performance of art fund managers, and for insurance companies to better assess the value of their clients’ art collections.

- **Managing market and liquidity risks**: new tools and methodologies are currently being developed to measure market and liquidity risk more effectively.

- **Market sentiment analysis will play an important role**: as we have seen in the financial markets, sentiment-based data analysis and indicators are playing an increasingly important role for traders and investors in reading the future direction and risks of the market.

Education

- **Education will fuel development in art and finance activities**: a lack of knowledge is often cited as a reason for resistance to art as an asset class; however a number of recent education initiatives is likely to change this. The last two years have seen a significant increase in the number of seminars, conferences and university courses related to art as an asset class and other Art & Finance topics.

- **Academics are at the forefront of the development of the Art & Finance industry**: the number of academics who have written on art market performance and other art market-related issues has risen in recent years. Increasing collaboration between practitioners and academics will be pivotal to the development of the Art & Finance industry.

- **The Annual Art Market Symposium organised by Prof. Rachel Pownall from Maastricht University** is a unique initiative where international academics meet to present and discuss their latest papers and findings on a large number of art market themes.
Building closer relationships between art professionals in the art market and the wealth management community

1. Building closer relationships between art professionals in the art market and the wealth management community: one of the key findings of this report is the increasing convergence of interests and motivation among collectors, art professionals and wealth managers when it comes to the financial aspects associated with transacting and owning art. The previous resistance to art as an asset class is gradually diminishing, with an entirely new dialogue opening up between the different stakeholders in the market. It is evident from the recent survey findings that the Art & Finance industry has to develop as a mutually beneficial partnership between the art and finance sectors. This partnership requires a strong element of trust and understanding of each other’s businesses and modus operandi, supported by clear guidelines around the rules of engagement.

2. Increasing the focus on risk management: the risks in the art market have increased exponentially with its growth. Aside from significantly higher values, which have forced a rethink of how we look at risks in the art market, globalisation means that art is now transacted, traded, moved, stored and exhibited worldwide, raising important questions on insurance, tax, economic and financial risks—all in the context of an unregulated market. The fine art insurance industry is already feeling the pressure of the explosive growth in the art market. It is particularly the concentration of value in many of the current freeports that have highlighted the need for new storage facilities, as the value of art in storage has grown faster than insurers’ capacity to cover it. The ability to monitor insurance risk more effectively is a topic we will discuss in more detail in next year’s edition of the report. Apart from this, the challenge around the authenticity of art will intensify as new and less developed art markets—where the infrastructure and knowledge to support them are still in their infancy—continue to grow. It is essential that the wealth management sector supports and works closely with trusted partners in the art industry to build a common framework to better understand art-related risks in this global context. The call for a global art certification system that tracks and verifies the ownership and movement of art might seem too ambitious, but unless steps begin to be taken in this direction, the art market and the Art & Finance industry could become exposed to risks with the potential to undermine their future growth and development.
3. **Improving tools**: issues around valuation, risk and returns remain key obstacles to a well-oiled relationship between art and finance. It is paramount that the data, research and analytics providers in the art market raise their game when it comes to improving the understanding of value, risk and returns when considering art as an asset class. More academic research and increasing collaboration with practitioners will improve the understanding of how the art market functions, and more data and better technologies will facilitate the rapid processing of analytics and reporting, which in turn increases transparency. It is also important that the tools and methodologies adopted gain widespread recognition and acceptance among stakeholders in order for users to find them credible.

4. **Embracing new technologies**: technology is one of the key drivers for change in the art market, and presents the art industry with a new set of challenges and opportunities. Traditional art business models will have to adapt to this environment, as new players are already making rapid inroads into existing and virgin art market territory. With increasing amounts of data, information and research available online, and with new online transaction platforms opening up different segments of the art market, often at a lower cost, we are potentially on the cusp of a seismic shift in the way most people learn about, transact, engage and experience art. In this rapidly changing environment, there is an opportunity for the Art & Finance industry and digital players to develop a closer relationship and to share how these new ventures could tackle the current impediments to art as an asset class and art in a wealth management context.

5. **Opportunity for regulated art security exchange**: despite the challenges faced by the first wave of art security exchanges in Europe and China, the rationale and demand for regulated art investment markets remain. It seems there is room for a regulated art investment market to co-exist alongside the traditional art market. To make these exchanges credible to potential investors and also to the art market, it is essential that these exchanges are set up within a regulatory framework, so that they do not become unregulated casino-like exchanges of the kind we saw in some parts of the world. The impact of regulated exchanges on transparency, liquidity, costs and valuation will change the way we look at as an asset class and art investment in the future.

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**Opportunity for regulated art security exchange:** the rationale and demand for regulated art investment markets remain
The growth of the global art market and the increasing value of art continue to drive the increasing interest in art as an asset class and represent one of the raison d’être of the Art & Finance industry.

### Highlights

- **The growth of the global art market and the increase in value** is driving an increasing interest in art as an asset class and new developments in the Art & Finance industry.

- **Global art auction sales have risen as HNWIs’ appetite for art increases**: overall auction sales at Sotheby’s and Christie’s of Chinese art, Old Masters, Impressionist & Modern and Post-War & Contemporary art saw a 5.9% increase last year, from US$6.27 billion in 2011 to US$6.64 billion in 2012.

- **Chinese art market sales are in decline**: China became the largest art market in the world in 2011, accounting for 30% of global art sales (dealer and auction) by value; however auction sales of Chinese art in Hong Kong and mainland China dropped by 43% between November 2011 and November 2012. On the other hand, experts believe the Chinese art market could rebound in 2013, which is likely to calm the nerves of the country’s burgeoning art investment industry.

- **The Old Master market revived in 2012**, with its best year since 2007. Christie’s and Sotheby’s Old Master sales were up 57%, from US$313 million in 2011 to US$490 million in 2012.

- **Contemporary art sales increased by 34%** from US$2.1 billion in 2011 to US$2.7 billion in 2012, contributing the largest dollar increase to the overall total for Christie’s and Sotheby’s combined.

- **India’s art market is emerging from the gloom**: the Indian auction market was down 11% overall on 2011. However, the negative trend in place since June 2010 was reversed in the second part of 2012, as figures for September were 33% higher than the previous period. With the outlook turning increasingly positive, the interest in art among the country’s HNWI population is likely to grow.

- **Latin America remains the growth region in 2012**: with growth in auction sales of 25% in 2012, and 67% of art buyers expecting the Latin American art market to expand in 2013, the region is set for a year of strong growth.

- **Renewed interest in Russian sales in London**: the Russian Modern and Contemporary art auction market in London grew by 17.9% between 2011 and 2012, signalling renewed interest in this collecting segment.

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7 High net worth individuals (HNWI)
9 Source: ArtTactic poll of 514 art collectors in January 2013
10 Source: ArtTactic Outlook 2013, published in January 2013
11 Source: ArtTactic Outlook 2013, published in January 2013
Global art market overview and outlook

The growth of the global art market and the increasing value of art continue to drive the increasing interest in art as an asset class and represent one of the raison d'être of the Art & Finance industry.

The marketplace has undergone radical change. While the art market was previously dominated by buyers and artists from the U.S. and Europe, the last 10-15 years have seen the emergence of new art markets across the world, bringing collectors, artists and art professionals together in a truly global market. The advent of art fairs, biennials, auctions, new online ventures and the rapid expansion in galleries and museums have led the market to more than double in size since 2002.12

The purpose of this section is to give an overview of the recent changes and expected developments in some of the global art collecting categories. This is not meant to be an exhaustive analysis of the global art market, but rather an insight into collectors' buying trends and interests. We aim to do this by providing some context to the survey findings that we present in the following sections, such as why wealth managers, art professionals and collectors are increasingly looking at financial considerations related to transacting and owning art.

Global auction sales13 reach new heights in 2012

Total auction sales at Sotheby’s and Christie’s in the Chinese art, Old Masters, Impressionist & Modern, and Contemporary categories grew by 5.9% in 2012 to US$6.64 billion, from US$6.27 billion in 2011. Worldwide Chinese art was the only category to register a decline in Sotheby’s and Christie’s auction sales in 2012, of 29%14, to US$1.53 billion from US$2.15 billion in 2011.

The Impressionist & Modern market grew by 8.6% in 2012 to US$1.89 billion, from US$1.74 billion in 2011, while the Old Master market was up 56.5%, from US$313 million in 2011 to US$490 million in 2012. Contemporary art increased by 32.5%, from US$2.06 billion in 2011 to US$2.73 billion in 2012, contributing the largest dollar increase to the overall total.

Until 2007, the Impressionist & Modern category was the most important revenue generator for Christie’s and Sotheby’s. However, in the last two years the Contemporary market has accounted for the lion’s share of auction turnover. This is partly driven by new buyers with a taste for modern and contemporary art and with the ambition of building up a significant art collection in a short space of time. Few of the other more traditional collecting categories (Old Master and Impressionist) can provide the quality of supply to satisfy market demand, mainly as many of the best works are owned by museums, while the supply is finite—since the artists are no longer alive.

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12 TEFAF Report 2012: Global art sales grew from €22.2 million to €46.1 million
13 Based on Sotheby’s and Christie’s Old Master, Impressionist & Modern, Chinese, and Post-War & Contemporary sales worldwide. These sales are concentrated at the high end of the art market, and the results do not necessarily reflect the status and performance of lower-priced segments
14 This figure refers to global sales of Chinese art at Sotheby’s and Christie’s only
Auction sales of Chinese art in Hong Kong and mainland China fell by 43.6% between November 2011 and November 2012, putting China’s leading position in the art market under pressure.

In 2011, the Chinese art market increased its global presence, overtaking the U.S. market as the world’s largest in terms of the art trade as a whole, with sales of €9.7 billion or a 42% share. However, with slowing economic growth in China, coupled with a 43.6% drop in auction sales between November 2011 and November 2012, it is questionable whether China will retain its leading position, unless this negative trend is reversed.

In autumn 2012, total auction sales of Chinese art (all categories) declined by 43.6%, from US$2.2 billion in autumn 2011 to US$1.24 billion, based on the results from the four biggest auction houses (Sotheby’s Hong Kong, Christie’s Hong Kong, China Guardian and Poly Auction). This was 52% lower than the peak of the Chinese art market in May 2011. Market experts feel that the intervention by the Chinese government in 2012, following allegations of tax avoidance with regard to art imports into mainland China, has made the market nervous and kept buyers away from the auction rooms.

Of the four leading auction houses, China Guardian suffered the largest fall, with overall sales down 55% on autumn 2011. Despite a drop of 53%, Poly Auction still managed to claim the top position with total sales of US$370 million, 13% higher than Christie’s Hong Kong, which came in second, and 39% higher than Sotheby’s Hong Kong.

Even though the overall Chinese market is cooling, a new trend is emerging. Until now, the line between the international and the domestic auction market was clearly defined, mostly due to Beijing’s protectionist policies. However, with Gehua, the cultural development group, setting up a new freeport in Beijing and joining forces with Sotheby’s, this could signal a possible softening in the government’s position towards foreign intervention in China’s domestic art market.

At the same time, Poly and Guardian are venturing out of their domestic market, with regular sales scheduled for this autumn in Hong Kong. The crossover between the international Chinese art market in Hong Kong and the domestic market in mainland China is likely to trigger a new battle between the two domestic auction houses (Poly and Guardian) and their two international rivals (Sotheby’s and Christie’s).

The global market for modern and contemporary art has seen dramatic and unprecedented growth since 2000. Although most of the figures in this section relate to the auction market, it is important to bear in mind that this only represents part of the overall market. The expansion of the global auction market could not have happened without a simultaneous expansion in the global art infrastructure, such as the increase in galleries, art fairs, biennials, exhibitions and museums around the world.

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17 ArtTactic Art Market Outlook – July 2012
18 Source: ArtTactic Outlook 2013
19 A state-owned cultural industrial group. Beijing Gehua Cultural Development Group was founded in December 1997
Table 1. Regional market trends in modern and contemporary art and 2013 outlook

<table>
<thead>
<tr>
<th>Geographical market</th>
<th>Auction sales trend 2011-2012</th>
<th>Confidence trend 2011-2012</th>
<th>Collector outlook 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global trend</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>Although there are significant regional differences, global sales of modern and contemporary art were up in 2012, mainly driven by the increase in U.S. and European auction sales at the high end of the market. Economic uncertainty remains a concern for the art market, but buyers continue to be positive towards the high end of the market (artworks valued above US$1 million) of the market. Unless a major political or negative economic event occurs in 2013, the market is set to continue the trend of 2012, supported by continued interest from new markets in Latin America, Asia and the Middle East.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>U.S. and European contemporary</strong></td>
<td>+32.5%</td>
<td>+16%</td>
<td>Record sales in New York in November 2012 have boosted confidence in the market. Collector poll: market direction UP: 36% FLAT: 47% DOWN: 17%</td>
</tr>
<tr>
<td><strong>Chinese contemporary</strong></td>
<td>-54% Hong Kong -40% mainland China</td>
<td>-39%</td>
<td>After a difficult year, the majority of collectors believe the market correction is losing momentum, and that the market could rebound in 2013. Collector poll: market direction UP: 43% FLAT: 35% DOWN: 22%</td>
</tr>
<tr>
<td><strong>Middle East modern and contemporary</strong></td>
<td>-36%</td>
<td>-3%</td>
<td>After fewer auction sales in 2012, and a general lack of record sales, 2013 will be a better year as Sotheby’s re-instates its modern and contemporary Arab and Iranian sale in April. Collector poll: market direction UP: 52% FLAT: 43% DOWN: 5%</td>
</tr>
</tbody>
</table>

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20 ArtTactic Poll of 514 art collectors in January 2013
21 Same as Post-War & Contemporary. In a western auction context, modern art belongs to the Impressionist & Modern auction category, and is therefore not included
Geographical market | Auction sales trend 2011-2012 | Confidence trend 2011-2012 | Collector outlook 2013\(^{20}\)
--- | --- | --- | ---
Indian modern and contemporary | -19% | +8% | The lack of quality works featured in Indian auction sales undermined market confidence in 2012. However, the Sotheby’s decision to hold fewer sales in 2013, but focus on higher quality works could prove positive for the market. 
Collector poll: market direction 
UP: 22% 
FLAT: 63% 
DOWN: 15%

Latin American modern and contemporary | +25% | +2% | Global interest in Latin American art is set to continue in 2013, as major international collectors and galleries focus on the region. 
Collector poll: market direction 
UP: 59% 
FLAT: 33% 
DOWN: 8%

Russian modern and contemporary | +17.9% | -11% | The market for Russian contemporary art continues to struggle as the domestic Russian art market remains weak. However, a renewed international focus on Russian contemporary art could instil some much needed confidence in this market. 
Collector poll: market direction 
UP: 29% 
FLAT: 54% 
DOWN: 17%

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Source: ArtTactic outlook report 2013

In the overview that follows we have focused primarily on the modern and contemporary segments\(^{22}\) of the art market, as we believe that new trends and directions emerging in these collecting categories are representative of many of the overall collecting trends in the global art market. We have also added some of the art infrastructure trends that we believe support the interest in and demand for these collecting segments.

The following overview covers some of the recent auction buying trends across different regional modern and contemporary collecting categories.

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\(^{20}\) ArtTactic Poll of 514 art collectors in January 2013

\(^{22}\) Although modern and contemporary will be used as categories to describe different geographical art markets around the world, the definition of modern art and contemporary art will vary from one market to another. The analytics presented in this report draw on the auction categories defined by the sales of Christie’s and Sotheby’s.
U.S. and European sales of post-war and contemporary art increased from US$268 million in 2000 to US$2.73 billion in 2012 (see figure 3). The year-on-year increase of 32.5% to US$2.73 billion in 2012, from US$2.06 billion in 2011, resulted in the highest combined contemporary total for the two auction houses.

The apparent resilience of the high end of art market (prices above US$1 million) to the global economic crisis is increasingly drawing the attention of HNWIs looking for diversification and cultural trophies. New York’s post-war & contemporary sales in November 2012 surpassed the levels from the previous boom in 2008, propelled by the very high end of the art market. Works valued above US$1 million accounted for 88% of the evening sales of contemporary art in 2012. The top 20 artists at the contemporary evening sales of Sotheby’s, Christie’s and Philips accounted for 77% of total sales in 2012.

The latest poll results show that 47% of art market experts believe the market will remain stable in 2013, while 36% expect growth. This signals a healthy and robust outlook for the U.S. and European contemporary art markets in 2013.

Recent art infrastructure trends

London and Paris are the new hubs for international galleries: as a result of several major galleries (Werner Gallery, David Zwirner, PACE, Gagosian) expanding into London and Paris, we expect both cities to increase their importance as cultural and commercial hubs for Russian, Middle Eastern and Asian art buyers.

Art fair competition is hotting up: after Art HK was acquired by Art Basel in May 2011, competition in the art fair market has been hotting up. The London-based Frieze Art Fair launched a new fair in New York in March 2012, and a new fair in London called Frieze Masters, which coincided with its original fair in October 2012. The previous owners of the Art HK fair have reinvested in three new fairs: India Art Fair in Delhi (February 2013), and ART13 (London in March 2013), as well as a new contemporary art fair in Istanbul in September 2013. The Armory Show has been acquired by Louise Blouin, the publisher of Artinfo, and changes are also likely to occur on the New York art fair scene.

Figure 3. The U.S. and European post-war and contemporary art market (by auction sales US$) - Sotheby’s/Christie’s

Source: ArtTactic

ArtTactic estimate based on the low estimate for post-war & contemporary sales in New York in November 2011
China

As the market matures, buyers are becoming increasingly selective and value conscious, which is taking the froth off the more speculative segments of the Chinese art market.

Sales of Chinese contemporary art also experienced a slowdown in the last 12 months, with total sales falling 54% in Hong Kong (Sotheby’s and Christie’s) and 40% in mainland China (Poly and China Guardian). As the market matures, buyers are becoming increasingly selective and value conscious, which is taking the froth off the more speculative segments of the Chinese art market. The next 12 months will be crucial for the sales of Chinese contemporary art as this will tell us more about how boom-time buyers and investors are coming to terms with a slowing market.

Despite the sharp slowdown, a recent poll among international art collectors suggests that 43% expect the market to rebound in 2013, the second highest result after Latin America (59%). A market rebound in China in 2013 would reduce the current risk of speculative buyers being forced to sell in a weakening market.

Recent art infrastructure trends

- **Private museum boom in China**: a number of private museums has been set up recently, for example, collector couple Liu Yiqian and Wang Wei launched their Long Art Museum in Pudong, Shanghai in December, which exhibits their masterpiece collections from ancient to contemporary. The museum covers an area of 10,000 square metres. Another venture, the Long Contemporary Art Museum in Xuhui, is scheduled for launch in Shanghai in late 2013. Indonesian collector Budi Tek is also set to open a museum in 2013, in Shanghai.

- **Auctions**: the second-tier auction house Council (Beijing) has acquired Shanghai-based auction house Hengli. This acquisition will help Council challenge the first tier auction houses.

- **The Art Newspaper** will launch a Chinese version in 2013.

Source: ArtTactic


$0 20 40 60 80 100

Sell: 1 2 3 4 5 6 7 8

Mainland China (Poly and China Guardian) Hong Kong (Sotheby’s, Christie’s) Mainland China % of the total

Source: ArtTactic

Figure 4. Chinese contemporary art sales: sales of Chinese contemporary art in Hong Kong and mainland China
Middle East

Two years of declining sales of Middle Eastern modern and contemporary art could come to an end as experts turn positive on the market in 2013.

The sale of Middle Eastern modern and contemporary art has been declining since 2010, largely because of lower sales in the Modern art segment, with consignments of rare, high-quality works in short supply. Auction sales of modern art have fallen from US$24.6 million in 2010, to just above US$5.2 million in 2012. Total auction sales were affected by Sotheby’s decision to postpone their modern and contemporary Arab and Iranian autumn London sale in 2012 to spring 2013. This year Sotheby’s will organize a new sale in Doha of Contemporary Art (16 April 2013), which will include Western contemporary as well as contemporary Arab, Iranian and Turkish art. Bonham’s have stopped their sales in Dubai, and are instead basing these sales in London. Christie’s continues to be the dominant player in this market, with the highest visibility in the region.

In October 2012, Christie’s autumn sales of modern and contemporary Arab, Iranian and Turkish Art in Dubai raised a total of US$4,800,600, down on the spring 2012 and autumn 2011 sales (by 8% and 47% respectively)—but well within the pre-sale estimate of between US$4,299,000 and US$5,950,000

Despite the negative trend in recent years, 52% of international collectors polled by ArtTactic in January 2013 said they believe the market will go up in the next six months, versus 5% who think it may fall further.

With Christie’s and Sotheby’s continued commitment to the region, and art fairs such as Art Dubai and Art Abu Dhabi supporting the primary market, we could start to see confidence creeping back into this market in 2013.

Recent art infrastructure trends

- **New museum infrastructure**: in 2010, the Mathaf: Arab Museum of Modern Art in Doha, Qatar opened its doors to the public. The 5,500 square-metre museum is located in a former school building in Doha’s Education City and has a collection of more than 6,000 artworks that offers a rare and comprehensive overview of modern Arab art, representing the major trends and sites of production spanning the 1840s through the present. The collection was donated by Sheikh Hassan bin Mohamed bin Ali Thani to the Qatar Foundation, and was later acquired by the Qatar Museums Authority

- **Saadiyat Island**: after the project was postponed, the development of the museum island in Abu Dhabi is reportedly going ahead, with completion dates set in stages of 2015 (Louvre), 2016 (National Museum) and 2017 (Guggenheim Museum)

Figure 5. Middle East modern and contemporary art market (2006-2012) – Christie’s, Sotheby’s and Bonhams

Source: ArtTactic
The overall ArtTactic® Indian art market confidence indicator increased by 9.6% between May and October 2012, and currently stands at 57 (up from 52). The increased market confidence comes on the back of improved results from the last round of auctions for modern and contemporary Indian art in September 2012. Overall auction sales for modern and contemporary Indian art totalled US$11.4 million, which represents a 33% increase from June 2012, on a par with the results 12 months ago. After six consecutive seasons of decline, the Indian art market has shown the first signs of a possible turnaround; however, it is too early to say this with certainty, as confirmation will largely depend on the outcome of the auction season this spring.

The Indian market remains conservative, and although the last June season showed some encouraging signs in the contemporary market segment, the last round of auctions returned to the more established Modern segment, with contemporary lots accounting for only 14% of the total number of lots and 5% of the total value.

In a recently conducted poll, 22% of collectors expected the market to go up in 2013, versus 15% who think the market will fall. The large majority, 63%, believe the market will remain flat. Improving auction sales would instil new confidence in the market, and again reinvigorate the interest in art among India’s HNWI population.

Recent art infrastructure trends

India Art Fair: the India Art Fair launched its second edition in February 2013 under new ownership. The fair has become a key event in the Indian art market calendar, and has been an important counterweight to the lack of confidence in the auction market since 2010.

India’s first biennale: the Kochi-Muziris Biennale is an international exhibition of contemporary art being held in Kochi, Kerala. It is a first for India and runs from December 2012 to March 2013.
In November 2012, Latin American art auction sales at Sotheby’s, Christies and Phillips raised a total of US$36.5 million, 12.1% below the low pre-sale estimates of US$41.6 million. This result was flat compared with November 2011, and fell 24% short of the auctions held in May 2012. Despite the drop in sales in the second half of 2012, the total for the year was still the second highest since the peak of the Sotheby’s and Christie’s Latin American auction sales in 2008.

Modern Latin American art dominated the sales, accounting for more than 90% of the total. While the appetite for Latin American art has increased in recent years among European, Asian and Middle Eastern buyers, the November 2012 sales saw the interest shifting back to regional buyers, which is likely to be a result of favourable economic conditions in markets such as Chile, Brazil and Colombia. Looking ahead, this is the region that most collectors expect to do well in 2013, with 59% of respondents believing that this market will go up in the next six months. Higher sales and prices are likely to encourage HNWIs in the region to start turning to art, not only as a collectible, but also as an asset class.

Recent art infrastructure trends

Latin American art fairs are gaining international attention: several of the Latin American markets are shaking off their ‘regional’ reputation and have started to attract attention from the international art world. In September 2012, collectors and sixty international galleries flocked to the second edition of the ArtRio art fair, attracting big names such as the Gagosian Gallery, David Zwirner and White Cube. Other art fairs in the region, such as ArtBo (Bogota) and ArteBa (Buenos Aires) have seen similar trends.

International galleries have established a presence in Brazil: the increasing appetite for art among Brazil’s wealthy has also led the Gagosian Gallery to open a temporary space in Rio in September, and London’s White Cube gallery is to open a new permanent outpost in São Paulo.

Figure 7. Latin American modern and contemporary art market (2006-2012) – Sotheby’s/Christie’s

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Latin America

Despite the market for Latin American art slowing down in the second half of last year, 2012 marked the highest total since the market peak in 2008.
Modern and contemporary Russian art auction sales increased by 17.9% between 2011 and 2012, signalling a renewed interest in this collecting segment.

The overall market for Russian art\(^3\) was relatively stable in 2012, with auction sales falling by 8.4% from US$95.2 million in 2011 to US$87.2 million in 2012.

However, the sale of modern and contemporary Russian art saw a more positive trend, with auction sales increasing by 17.9% from £28.4 million in 2011 to £33.5 million in 2012. While MacDougall’s, the Russian auction specialist, raised the highest total (£9,285,500) in terms of Russian modern and contemporary art in May 2012, it was Christie’s who came out as the winner in this category in December 2012, with a total of £9,127,500.

The Russian contemporary art segment is still small, and accounts for around 10% of the total Russian modern and contemporary art auction market. The Saatchi Gallery’s big exhibition on Russian contemporary art that opened in November 2012 will contribute to this shift, and maybe encourage Russian collectors who currently buy international contemporary art to also support their own artists. The positive auction sales trend is likely to continue in 2013, with 29% of the collectors surveyed believing the market will go up in the first half of 2013, and 54% believing the Russian modern and contemporary art market will remain flat at approximately the current level.

Recent art infrastructure trends

- **Art Vienna has established itself as a new platform for Russian and Eastern European art:** the recent re-launch of Art Vienna is good news for the Russian contemporary art market, which has been negatively affected after a number of major Russian galleries closed down or moved out of Russia.
- **The Saatchi Gallery launched its first exhibition focusing on Russian contemporary art in December 2012,** an important event for a market that has been neglected in recent years.

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\(3\) Based on sales at MacDougall, Christie’s and Sotheby’s in London.
An auction house view on the art market

Q: With Europe in the midst of an economic crisis, how do you see the European art market evolving over the next two to three years? What do you see as the main opportunities and challenges?

The art market is such a specialist field that predictions are always extremely difficult if not impossible, so I won’t hazard any guesses! Even so, we have seen some strong trends in recent years, and we may suppose they will continue for the foreseeable future. First of all, whereas the art market was long the monopoly of European and American clients, it has now become global—under the dual effect of the emergence of new generations of buyers from Russia, Asia, the Gulf States and Latin America, and the ease with which information now circulates in the internet era. This globalisation has profoundly and durably transformed the market. The principal actors of the art market—the auction houses, dealers and gallerists—have adapted to this evolution by adopting strategies to appeal to clients around the world, and by diversifying the services they offer. This is why private treaty sales and financial services to clients (like the possibility of obtaining an advance on the collateral value of a work of art) have become an increasing part of our activity at Sotheby’s.

Q: The value of art and collectibles has proved resilient, despite the fall in other traditional assets. Do you see this trend continuing and, if so, why?

It is true that pointers for measuring the evolution of the art market, notably the technique for measuring results of repeated sales (like the Mei Moses Index), show that, over the last decade, the art market has held up rather better than the market for stocks and shares. This evolution has encouraged the creation of art investment funds—which are not new phenomena, but had disappeared somewhat since the 1990s. We should, however, temper this observation a little. Results are not the same in every sector of the art market: what is true for contemporary or modern art is not confirmed by other sectors, such as traditional furniture or books and manuscripts. Above all, the many art market transactions concern unique works or items with their own qualities and importance in the history of art or of the artist concerned, not forgetting their provenance… So it is very hard to talk of an art market model as we can for traditional markets. Art is not a ‘commodity’!

Q: Recent surveys suggest that more and more people view art not only as an emotional investment, but increasingly as a financial asset. What does this imply for the art market?

In an increasingly tough European economic context, art has become a sort of ‘refuge value’. Anyone with sizeable liquid assets is interested in buying quality works of art whose value will be preserved in the long run—and which also procure pleasure and emotion. At the same time, wealth management advisors and private bankers now tend to classify works of art as ‘assets’, and have no hesitation in advising their clients to move into this field. This situation is interesting for the art market, as it is clear that new types of buyers are emerging, and we need to welcome and guide them. At the same time we also have a duty to explain that acquiring a work of art should reflect a desire and afford pleasure—rather than the belief it will lead to financial profit. This can never be certain, as it depends on a range of factors to do with the unique character of each work in its own right.

Q: In your view, how can family offices, wealth managers and private bankers help their clients manage their art collections (assets)? What kind of services does Sotheby’s offer in this respect?

Family offices, wealth managers and private bankers have a crucial advisory role to play. In the highly specific field of works of art, the best advice they can give is to consult professionals, galleries or auction houses for advice about valuing their collection, assessing a work or planning an acquisition. Sotheby’s provides all these services.

Q: The Luxembourg Freeport for valuable assets is planning to open in Q3 2013. Do you see any opportunity here for Sotheby’s?

We are keeping a close eye on this project that is at the heart of Europe, and are in touch with its promoters. It is still a bit too early to say anything more.
Section 2: Art and wealth management survey

There is heightened awareness among wealth managers about the development of art as an asset class

Highlights

- **Increased confidence among wealth managers:** the Deloitte ArtTactic art & finance confidence indicator is up 32% on the 2011 figure, from 32.0 to 42.3, signalling an increase in confidence among wealth managers in the development of the Art & Finance industry in the next 12 months.

- **Economic uncertainty has increased client demand for art and collectible investments:** 53% of wealth managers stated that the challenging economic environment is the main motivation for their clients to include art in their overall wealth portfolio (up from 28% in 2011). A large majority (60%) of wealth managers believe that we will see stronger demand in the future for ‘collectible and emotional’ assets, as a result of the current economic uncertainty in the world.

- **The value of treasure assets** is an estimated US$4 trillion: wealthy individuals hold an average of 9.6% of their total net worth in treasure assets; this equates to just over US$4 trillion of treasure assets.

- **There is heightened awareness among wealth managers about the development of art as an asset class:** a total of 43% of the wealth managers surveyed said they were strongly aware of the developments taking place with regard to art as an asset class, up from 33% in 2011. This suggests that the increasing number of initiatives related to Art & Finance, such as seminars, conferences, university courses and publications like this Art & Finance Report, as well as the general media, are starting to broaden the awareness of this emerging industry and asset class.

- **A majority of private banks already offer art-related services:** a significant majority (71%) of banks surveyed already offer art-related services to their clients. Although the most common service relates to client entertainment (63%), an increasing number of banks are offering art advisory (57%) and art valuation services (47%).

- **Client demand is opening up possibilities for closer collaboration between wealth managers and art professionals:** wealth managers should consider integrating art into their service offering to meet clients’ needs, and collaborate with art professionals who are requested to provide services that focus on the financial aspects of transacting and owning art.

- **The increasing value of art is triggering the need for new wealth management services:** 43% of wealth managers said that the increasing value of art is triggering a need for banking services to protect, enhance or monetise this value (up from 27% in 2011).

- **The role of art in wealth management is changing:** the future role of art services in wealth management is moving from client entertainment to art wealth management services, with only 27% of the wealth managers seeing client entertainment as a primary motivation in the future (down from 61% in 2011).

- **The emotional value of art is the strongest motivation for collectors:** 83% of the art collectors surveyed said the emotional value of buying art was most important. It is important that wealth managers recognise that the strongest reason for buying and owning art remains the emotional factor.

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34 Any reading below 50 implies that there is more negative than positive sentiment towards the development of the Art & Finance industry. The overall indicator is composed of the average of three sub-indicators: the economic indicator, art investment indicator and art lending indicator.

35 From Barclays Wealth Insights Report ‘Profit or Pleasure?’, volume 15. Treasure assets include: fine art, stamps and coins, wine, classic cars, precious metals, jewellery.

36 The World Wealth Report 2012 from Capgemini and RBC Wealth Management states that the total wealth of HNWIs amounts to US$42 trillion. As an estimate, this would equate to just over US$4 trillion of treasure assets, using the average figure of 9.6% reported by Barclays Wealth, which represents the share of treasure assets as a percentage of wealthy individuals total net worth.
• Increasing focus on portfolio diversification: 43% of wealth managers stated that portfolio diversification was one of the strongest arguments for including art and collectibles in traditional wealth management. This was echoed by 44% of collectors surveyed, who said that portfolio diversification was a primary motivation for buying art at present. As a consequence, reporting tools will be needed to analyse the diversification aspects.

• Art professionals are seeing an increasing interest in the financial aspects of buying and holding art: although non-financial elements associated with buying art and collectibles dominate, a majority of 59% of art professionals are motivated by the opportunities for portfolio diversification. The findings suggest that financial motivations are becoming more important among art professionals.

• Succession planning in art is becoming increasingly relevant: 40% of the private banks surveyed currently offer services related to art and succession planning (up from 28% in 2011). Of those banks that do not offer these services, 53% said they are likely to do so in the next two to three years. With significant sums involved in the intergenerational transfer of wealth (financial and non-financial assets) taking place, wealth managers will increasingly have to offer advice regarding art legacies and the best way to preserve their emotional, financial and cultural value.

• Collectors see opportunities to use their art collection as collateral for loans: 41% of collectors stated that they would use their collection for this purpose. When asked their motivation for using art as collateral, 36% of collectors said they would use it to invest in other business activities, 39% to buy more works of art and 18% to refinance other loans.

• New providers are entering the art secured lending market: in the last 12 months, a number of financial services providers have geared up their activities towards offering loans to clients secured against artworks. These range from short-term lenders such as Borro to medium-term lenders such as Medallion, the New York-based financial services company.

• Traditional niche lenders are expanding their footprint: Emigrant Bank Fine Art Finance has teamed up with UBS US to provide their clients with the opportunity to offer art secured lending services. Emigrant Bank Fine Art Finance offers art finance in Europe, increasing its presence in the increasingly attractive UK market.

• China is setting up infrastructure to allow for art secured lending for cultural institutions: The Chinese government has started working on a strategy to allow financial institutions to accept artworks and other collectible items as collateral for bank loans to cultural enterprises.

• Education is an important tool in the evolution of the Art & Finance industry: 40% of banks currently offer Art & Finance education to their clients and further 23% expect to offer these services in the next two to three years. 40% of financial institutions expressed an interest in attending seminars related to Art & Finance and 70% would be interested in receiving information on this subject.

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Opportunities for wealth managers and art professionals

Both wealth managers and art professionals are facing new client demands, which are opening up possibilities for closer collaboration between these two industries. Wealth managers should consider integrating art into their service offering to meet clients’ needs, and collaborate with art professionals who are requested to provide services that focus on the financial aspects of transacting and owning art.

The following trends suggest a move to further collaboration between wealth managers and art professionals to serve the same Art & Finance clients.

1. The increasing popularity of valuable tangible assets: art and collectibles\(^{38}\) represent a significant proportion of the total assets of many high net worth individuals (HNWIs). This is supported by a number of research reports published in 2012. The Knight Frank/Citibank Wealth Report\(^{39}\) reported that 59%\(^{40}\) of HNWIs already invest in fine art and collectibles. According to another report by Barclays\(^{41}\), wealthy individuals hold an average of 9.6% of their total net worth in treasure assets, equating to just over US$4 trillion\(^{42}\) of treasure assets globally.

2. The need for tailored private banking services: art acts as a differentiator. The recent findings from the Deloitte ArtTactic Art Wealth Management Survey point to a shift towards a more holistic approach to the role of art in wealth management. Clients are increasingly requiring that wealth managers help to protect, maintain, leverage and enhance the value of their art assets. This presents both opportunities and challenges, which will be discussed in more detail in this section.

Both wealth managers and art professionals are facing new client demands, which are opening up possibilities for closer collaboration between these two industries.

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38 An asset of limited supply which would include objects such as stamps, antiques, coins, musical instruments, classic cars, jewellery and works of art
40 This is a global figure. The breakdown by region is: North America 85%, Latin America 42%, Europe & Russia 67%, Africa and Middle East 30%, Asia Pacific 62%
41 Barclays Wealth Insights, Volume 15: Profit or Pleasure? Exploring the Motivations Behind Treasure Trends
42 The World Wealth Report 2012 from Capgemini and RBC Wealth Management states that the total wealth of HNWIs amounts to US$42 trillion. This equates to just over US$4 trillion of treasure assets using the average figure of 9.6% from the Barclays Wealth Insights report
Deloitte/ArtTactic Art & Finance Confidence Indicator

As a way of measuring the confidence in the Art & Finance industry, we have launched an annual Indicator that will act as a barometer for the changes in confidence among wealth managers towards art investment and art secured lending.

The recent Deloitte ArtTactic Art & Finance Confidence Indicator43 is up 32% from the last reading in 2011, from 32.0 to 42.3, which signals an increase in confidence among wealth managers in the development of the Art & Finance industry in the next 12 months. The biggest change can be seen in the wealth managers’ outlook on the economy in the next 12 months: none of the wealth managers surveyed felt positive about the 12-month economic outlook in 2011, but 30% had a positive view on 2013. The art investment indicator is up 20% from 50.0 to 60.0, and signals a growing confidence in art as an alternative investment, an observation which is echoed in other parts of the wealth management survey. The art lending indicator is down 20% from 45.9 to 36.8, which suggests European wealth managers remain pessimistic about the outlook for art lending in Europe in the coming 12 months, which could partly be a result of the lack of a uniform regulatory framework in Europe, but also reflects the conservative lending environment that has followed the banking crisis. This will be discussed further by Pierre Valentine, Partner at Constantine Cannon in London, on page 40.

Figure 10. Art & Finance confidence indicator

Any reading below 50 implies that there is more negative than positive sentiment towards the development of the Art & Finance industry. The overall indicator is composed of the average of three sub-indicators, the economic indicator, art investment indicator and art secured lending indicator.

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013

43. Any reading below 50 implies that there is more negative than positive sentiment towards the development of the Art & Finance industry. The overall indicator is composed of the average of three sub-indicators, the economic indicator, art investment indicator and art secured lending indicator.
General motivation and perceptions among wealth managers, art professionals and collectors

A. Wealth managers

Motivation: why include art and collectibles as part of your existing wealth management service?

Economic uncertainty increases client demand for art wealth management services: 53% of private banks in the survey (up from 28% in 2011) felt that the challenging economic environment is the main motivation for their clients to include art in their overall wealth portfolio. Economic uncertainty and the volatile return of other traditional assets in recent years are forcing HNWIs to consider a wider spectrum of alternative assets, including art and collectibles.

Art is seen by the wealth management community as a diversification tool: diversification is one of the strongest motivations for including art in wealth management, with 43% of private banks feeling that art is playing an important role in seeking a more balanced portfolio and asset diversification. This is further supported by 40% of private banks seeing art as protection against inflation (up from 22% in 2011) and a further 43% of private banks viewing art as a store of value, a significant increase from 28% in 2011.

This suggests that wealth managers will have to start taking a holistic view of their clients’ wealth and to develop management and reporting tools that combine both financial and non-financial assets. This is supported by the finding that 40% of the private banks surveyed said they expected their clients to want to include art and other collectible assets in their portfolios.

Increasing competition in the private banking sector remains a strong motivation: competition in the wealth management industry remains the second strongest motivation for private banks to offer art-related services, a finding supported by 47% of the private banks surveyed. However, this is down from 83% in 2011. Although part of the decrease is down to regional variations, more importantly it could signal a shift from general concerns about what competitors are doing towards increasingly having to respond to direct requests from clients.

Art is no longer just a client engagement tool: As the value of art is increasing so has the need for banking services to protect, enhance or monetise this value: 43% of private banks see the increasing value of art as the main motivation for integrating art into wealth management; this is significantly up from 28% in 2011. This finding suggests that private bankers increasingly have to respond to issues concerning the management of art-related wealth. Private banks are likely to take a more service-driven approach to art in the future.

In 2011, 61% of private banks considered client entertainment as one of the strongest arguments for incorporating art into wealth management. However, only 27% of the banks said this was a primary motivation in 2012. In addition to the previous findings, this suggests that wealth managers are increasingly looking to start offering wealth management services that specifically involve art, rather than seeing it only as a client marketing or branding tool.

Figure 11. What do you consider the strongest arguments for including art and collectibles in traditional wealth management/private banking?

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Current involvement: how do you currently engage with art?

The majority of private banks (71%) already offer art-related services to their clients. Although art and client entertainment remains a core service among 63% of the banks surveyed, an increasing number of banks are also offering art advisory (57%) and art valuation services (47%). 37% of the wealth managers surveyed said they offered their clients art collection management services (up from 17% in 2011) and 40% of the private banks are offering inheritance and succession planning related to art. This suggests that banks are increasingly involved in areas surrounding the management of art wealth.

Art investment funds: of the banks that already offer art-related services, a total of 30% said they offer their clients access to art investment funds. This is significantly up from 11% in 2011. However, only 26% of the banks said that they offer their clients advice on investing in art investment funds. This could suggest that wealth managers are responding to client requests about art investment funds rather than taking a more proactive role in giving advice on how to access and invest in these types of investments (see section 3 for more information on art investment funds).

More private banks are offering art-related education: 40% of private banks are offering client education (directly or via third-party) related to art and the art market; this is up from 28% in 2011. This is most likely a result of many of the new educational initiatives (see section 6) that have been initiated in the last couple of years.

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Economic uncertainty increases client demand for art wealth management services

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Figure 12. Which of the following art-related services do you offer?

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013

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44 A decrease from 57% 2011; however, this is largely due to sample variations, as the 2012 survey included private banks operating in Spain and Poland

45 Only 14% of the Spanish private banks said this was a major motivation, versus 54% of Luxembourg and 50% of Polish private banks

46 Art advisory is a term commonly used for a wide range of art-related services ranging from advice on buying and selling works of art to their registration, maintenance, conservation, handling and installation. Although collection management and valuation are treated as separate services for the purpose of this survey, these are often defined as part of an art advisory role or service

47 Includes fair market valuations, valuations for charitable donations, insurance valuations for loans, indemnification valuations for government applications and auction estimates for sale
These findings suggest that banks are investing in art-related services, and that the value of these services is increasingly having a strategic role in traditional wealth management. As competition in the wealth management industry intensifies, we are likely to see more private banks and family offices acquiring expertise on art and collectibles. This trend presents a unique opportunity for the art industry (art advisors, appraisers, auctions houses and other specialists) to develop closer relationships with the wealth management community, particularly as 64% of art valuations, 47% of art advisory work and 45% of art collection management is currently being conducted by third parties. A total of 77% of the private banks surveyed said they would outsource these art wealth management services in the future, which suggests a significant opportunity for art professionals going forward.

**Figure 13. Which of the art related services do you offer in-house vs offered by a third party**

<table>
<thead>
<tr>
<th>Service</th>
<th>In-house</th>
<th>Outsource</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsorship</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Client entertainment (private views, art fairs, museum...)</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>Client education (seminars, conferences on art/the art market)</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Art lending/finance (using art as a collateral for loans)</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Art philanthropy/Individual giving to the arts (gifts, donations,…)</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Inheritance and succession planning</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>Art collection management</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Art advisory (buying/selling art)</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Art valuation</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>Art/collectibles investment funds</td>
<td>22%</td>
<td>78%</td>
</tr>
</tbody>
</table>

*Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013*
Challenges: what do you see as the biggest challenge in offering art-related services?

Market transparency is the main obstacle to incorporating art and collectibles into wealth management: a large majority (70%) of respondents is concerned by a lack of transparency, information and research on the art market. This is an increase from 61% who viewed transparency as a challenge in 2011. However, with rapid developments in technology (see section 4), improved analytical tools (see section 5) and more educational initiatives (see section 6), we would expect this to be less of an issue in the near future.

Lack of market regulation: 57% of respondents believe that the unregulated nature of the market is challenging or very challenging, a decrease from 72% in 2011. However, different markets and jurisdictions appear to have different attitudes towards the unregulated nature of the art market. A total of 38% of the Polish banks in the survey see the lack of regulation as a major hurdle, compared with 57% of Spanish banks and 62% of Luxembourg banks.

Finding the right expertise remains one of the key hurdles for the art and finance industry to grow: 57% of the private banks surveyed found it challenging to find the right art-related expertise, compared with 50% in 2011. It is evident from these findings that the current dialogue between wealth managers and key operators in the art market, such as appraisers, art advisors, auction houses and dealers can be improved. However, going forward we expect the number of initiatives such as the annual Deloitte Art & Finance Conference and several of the other forums and networks (see section 6) to increasingly bridge the gap between these two industries. There is a clear need for collaborative efforts between different associations representing the interests of the art and finance industries.

Figure 14. What do you see as the biggest challenge in offering art-related services/products?

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Art secured lending\textsuperscript{48}

Of the private banks surveyed\textsuperscript{49}, 23% currently offer their clients the opportunity to use their art collection as collateral for loans; this is up from 17% in 2011. This suggests a moderately positive trend in art-related financing among the banks surveyed, but any dramatic change in this segment is unlikely in the current risk-averse bank lending environment in Europe.

Strong collector demand for art-related financing: it is clear from the survey of art collectors and art professionals that using their art as collateral for loans is an attractive wealth management product, with 41% of collectors stating that they would use their collection for this purpose, while an even higher percentage of art professionals said the same (53%). When asked about their motivations for using art as collateral; 44% of art professionals said their clients are likely to invest in other business activities, 36% to buy more works of art and 16% to refinance other loans. 39% of collectors said they would purchase more works of art, while 36% said they would refinance existing loans and 18% said they would finance other business activities. A majority of art professionals and collectors (61% and 59% respectively) believe we will see an increase in owners using their art as collateral in the next two to three years.

Figure 15. What do you feel are the main hurdles for providing art lending/art as a collateral to the bank’s current clients?

Challenges: what do you see as the biggest challenge in offering your clients a loan against an artwork?

Of the many hurdles that private banks face when using art as collateral, the difficulty of assessing the risk (83%) and the lack of liquidity (83%) are cited as most important. These are closely followed by the difficulty of conducting due diligence (77%) and the lack of mark-to-market valuations (77%). The unregulated nature of the market is problematic for 70% and the legal aspects are an important hurdle for 63% of wealth managers (up from 39% in 2011). Secure storage has become a major hurdle according to 60% of European wealth managers (up from 28% in 2011). The advent of the new freeport in Luxembourg in 2014 should allay concerns around secure storage and contribute to the development of the European art finance and lending market.

48 There are two main forms of art secured lending: 1) recourse lending, where artworks form part of the collateral for a loan (traditional lending), and 2) non-recourse lending, where loans are offered against the security of a single artwork or an art collection (asset-based lending).

49 Traditional lenders offering art secured lending on a recourse basis to ultra HNWIs
Recent developments in art secured lending

• Borro is expanding short-term art secured lending in the UK and U.S.: Borro has emerged as one of the new leaders in this segment. The company was established in August 2008, and has seen lending volumes grow significantly in the last four years.

• Medallion has expanded into art secured lending: the New York-based financial services company recently announced it will offer art secured lending to clients.

• U.S. Bank’s Ascent Private Capital Management, whose clients have at least US$50 million in net assets, says, in the Wall Street Journal, 10 January 2013, it is building a program around art-backed loans that it plans to launch next year.

• Emigrant Bank Fine Art Finance: despite the legal hurdles facing Europe’s art lending market, the demand from collectors for these types of loans remains strong. Emigrant Bank Fine Art Finance has seen strong demand in the UK and offers art finance in Europe. However, it is unlikely in the current climate that we will see traditional banks setting up expensive infrastructure to be able to support art lending, and we are more likely to see banks outsourcing these types of services to third-party specialist providers, such as in the case of UBS (U.S.) and Emigrant Bank Fine Art Finance.

• China’s government allows art as collateral: in 2012, the Chinese government started working on a strategy to allow financial institutions to accept artworks and other collectible items as collateral for bank loans to cultural enterprises. Reportedly, the Chinese government is looking into setting up the infrastructure to facilitate art lending that would involve verification, authentication and certification; such a system is currently missing for artworks and collectibles. This new development comes on the back of its decision to accelerate cultural development and prosperity. The Professional Talents Management Centre under the State Council, China’s cabinet, has started work on a plan to adopt a universal accreditation system and train qualified authenticity appraisers, with banking staff said to be included in this program.

A majority of art professionals and collectors (61% and 59% respectively) believe we will see an increase in owners using their art as collateral in the next two to three years.

51 A decision made after the Sixth Plenary Session of the Chinese Communist Party’s 17th Central Committee held in October 2011.
A handful of international private banks continue to offer art loans, for example Deutsche Bank, Citi, JP Morgan, US Trust and Bank of America. Some banks, such as US Trust, offer art loans in the U.S. only. Others offer loans in the U.S. and in Europe, for example Citi and Deutsche Bank. A few international private banks are now looking to offer art finance in Hong Kong and Singapore.

Loans by private banks are typically on a full recourse basis. This means that if—in a distress situation—the art collateral sells for less than the total amount due, the bank will seek to recover the balance from the borrower. Private banks will not offer art loans below a certain amount, which can be relatively high (e.g. US$5 million). They normally extend art loans to clients only, in other words the borrower must qualify as a private banking client and place significant assets under management with the bank.

Emigrant Bank Fine Art Finance, a subsidiary of Emigrant Bank in New York, is unusual because it offers art loans at prices not wholly dissimilar to those charged by the international private banks, yet does not require assets under management. It lends for periods of between one and ten years. The minimum loan amount is US$1 million. It will also lend against a wider range of art assets than most private banks. In 2012, it started offering art loans in Europe.

In the second group of providers of art finance, we find specialist lenders offering non-recourse loans at high rates of interest. These lenders generally rely exclusively on the collateral, rather than on the borrower’s net worth. Loans tend to be for shorter periods. The loan amount can be as low as a few thousand pounds sterling. Lenders in that category include Art Finance Partners (U.S.), Art Capital Group (U.S.) and the three specialist lenders mentioned in last year’s Art & Finance Report, namely Art Assure (USA), Montage Finance (U.S.) and PlatiniumArt (U.S.). More recent entrants include Borro in the UK and Medallion Financial Corp in the U.S.

The auction houses continue to offer advances on auction proceeds. Auction houses may occasionally offer loans against art not consigned for sale, although they are unlikely to want to lend without the prospect of a sale (auction or private) at some future date.

A few independent firms are currently looking to enter the market. These are art advisory firms with access to funding, or alternative investment boutiques. Their lending models are not yet publicly available.

Art finance is not simply for collectors. Art dealers can also benefit. Unless art dealers can offer real estate as security, they may find it difficult to raise funds, as most banks do not regard art inventory as satisfactory collateral. Loans secured by art inventory can offer the financial flexibility to expand a business, refinance other debts or respond to buying opportunities when they arise.
The art finance industry is more developed in New York than anywhere else in the world. There are two main reasons for this. The first is that in the U.S., the lender may register its security interest in the art on a public register under the Uniform Commercial Code (UCC), thereby putting the world on notice that the art is subject to a charge. Having perfected its security interest through registration, the lender is able to let the borrower keep possession of the art. The second reason is New York’s position as both an art and financial capital, attracting a population of collectors who regard their art collection as an investment as well as a passion, and expect to be able to leverage their art in a similar way to their other assets.

In Europe, although there is a higher ratio of asset rich/cash poor collectors than in the U.S., art finance remains relatively unexplored. The concept of art as an asset class is a fairly new phenomenon. There is a psychological barrier among the older generation of collectors, as well as those with inherited wealth, to treating art as an instrument of finance. There is no uniform system of registration of charges over chattels such as the US Uniform Commercial Code.

Each European country has its own system. The English system of bills of sale is archaic and unsuitable to 21st century banking. As a result, lenders against art often require possession of the art to perfect their security interest. A third reason is circumstantial: the current debt crisis in the EU has created constraints on all types of lending, of which art is considered, unfairly, one of the most problematic.

In Europe, although there is a higher ratio of asset rich/cash poor collectors than in the U.S., art finance remains relatively unexplored
B. Art professionals

As a result of art increasing in value, art professionals are increasingly confronted by financial issues related to art. The survey findings suggest their clients are increasingly looking for services related to protection and maintenance, as well as the leveraging of the financial value of art, services typically associated with wealth management.

The emotional and social value of art remain the primary reasons for buying art: according to the latest survey of 112 art professionals by Deloitte and ArtTactic, 82% said that emotional value is a primary motivation for buying art. This was followed by 59% who view art as the ultimate luxury good and 59% who consider the social value of buying art as one of the most important motivations (similar to the survey findings in 2011).

Increasing interest in financial aspects of buying and holding art: although non-financial elements associated with buying art and collectibles dominate, a significant proportion (59%) of art professionals are motivated by the opportunities for portfolio diversification, an increase from 39% in 2011. A further 44% are motivated by investment returns, 32% believe art is an important hedge against inflation and more than a quarter (28%) see art as a safe haven in times of uncertainty. The findings from this survey suggest that financial motivations are becoming more important among art professionals as a result of the increasing value of art and the corresponding need from collectors to protect and enhance its value (see the next section on collector attitudes).

Figure 16. Art professionals: Which of the following motivations are most important in buying art?

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013

52 For the purpose of this survey, art professionals are defined as individuals who offer specialist expertise and networks in specific collecting areas (advising on buying and selling works of art), but may also have more practical knowledge in a broad range of areas, including museum-quality methodology in registration, maintenance, conservation, art handling and installation. These individuals may work for galleries, dealers, auction houses, museums or art advisory firms.
Which services are most relevant to your clients?

Art Market research and information is seen as the most relevant service: despite not being included in the 2011 survey, 73% of art professionals believe that research and information services are the most relevant aspect to their clients.

Art appraisal and valuation remains a core service for art professionals: 71% said that art valuation and art advisory were important or very important for their clients. Art collection management is also seen as an important service for 63% of art professionals (up from 51% in 2011).

Art wealth management services: services traditionally offered by financial institutions are becoming increasingly relevant to the work of art professionals. 41% describe art investment funds as relevant to their clients, up from 29% in 2011. Similarly, inheritance and succession planning (34%), and art philanthropy (30%) are seen as important services for art professionals to offer.

Again, these findings suggest that the art and finance industries share a strong common interest, namely to offer the best possible art wealth management service to their clients. The future challenge is to create a common platform where these two worlds could share their knowledge and expertise.

Figure 17. Art Professionals: Which of the art wealth management services are most relevant to your clients?

As a result of art increasing in value, art professionals are increasingly confronted by financial issues related to art
C. Art collectors

Art collectors are increasingly looking for art wealth management services

What motivates collectors to buy art?

Emotional and social values motivate collectors: 83% of the art collectors surveyed said the emotional value of buying art was most important, followed by social value with 60%, which was significantly up from 22% in 2011. This could suggest that social aspects, such as the exclusive networks, events, prestige and status associated with buying art are increasingly important motivations for today’s art collectors, and need to be factored in when considering art in a wealth management context. Art fair and exhibition sponsorships from the private banks such as UBS, HSBC, ING, Deutsche Bank, Banque Delen, Citibank and others are therefore playing an important role in catering for the social aspect of being part of the global art world.

Art as a financial asset: just over half of collectors (53%) view art as a financial asset, against 57% in 2011. 7% buy art mainly for investment, while 53% focus on collecting, but take an investment view. Although social and aesthetic values are still considered more important than financial concerns, it is clear that the increasing value of art is triggering a set of new considerations among art collectors. This suggests that the process of buying art is increasingly combining emotional with more financial aspects, such as better understanding and transparency concerning the value and price of art. The advent of online art price databases such as Artnet and Artprice have significantly increased the price transparency in the art market and are likely to become even more influential in the future as buyers and sellers are using this information as part of their decision-making process. However, given the highly heterogeneous nature of art, it is paramount that the art information and research industry moves from data to more sophisticated analytical tools and frameworks to incorporate the highly complex nature of art valuations and pricing (see section 5 on analytical tools).

Portfolio diversification: while the primary motivation for buying art for 40% of collectors is the investment return (down from 45%), 44% opted for portfolio diversification, up from 39% in 2011. This suggests collectors are less focused on financial returns, and more interested in using art as a way of diversifying and protecting their wealth in today’s uncertain economic climate. It is clear that collectors want to have the emotional return and, at the same time, a degree of capital protection. In this regard, wealth managers have an opportunity to cater for clients’ emotional needs as well as offering a range of financial services that monitor, enhance and protect their assets. Adequate reporting that allows the monitoring of all assets, (financial or otherwise), performance analysis and the identification of risks is therefore essential. The transition to seeing art in a wealth management context rather than solely in an investment management (asset allocation) context has significant potential to broaden the scope of the Art & Finance industry, and is already shifting the discussion from products such as art investment funds towards other wealth management services such as asset protection, tax, estate and succession planning and art philanthropy.

Figure 18. Collectors: Which of the following motivations are most important in buying art?

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
What type of ‘art services’ are collectors interested in?

**Due diligence and valuation:** as with art professionals, the service that collectors consider most important is art market research and information (68%), followed by art valuation (52%).

**Education:** 68% of the collectors surveyed ranked education among the most sought-after services, which points to further growth potential in this sector.

**Art wealth management:** 42% of collectors say they are looking for inheritance and succession planning advice, while 38% are interested in art advisory and 41% want art collection management services. Advice on buying and selling art is relevant to 38% of collectors, whereas 26% of collectors find art investment services relevant. This could suggest that many collectors are keen to do their own research and make their own decisions when buying art, and are not looking for investment vehicles to provide financial returns without the emotional value of owning the art.

Although social and aesthetic values are still considered more important than financial concerns, it is clear that the increasing value of art is triggering a set of new considerations among art collectors.

**Figure 19. Collectors: Which of the art wealth management services are most relevant to you?**

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Section 3: Art as an investment

A track record is gradually being built in the art fund industry and confidence in art as an alternative asset class is on the increase.

Highlights

• The art market offers diversification opportunities despite underperforming equities in 2012: the worldwide art auction prices declined 3.28% in 2012 according to the Mei Moses® World All Art Index. Despite underperforming the S&P index, art continues to offer significant diversification benefits to investors due to its low correlation, for example, with the equity market.

• The global art investment fund industry is still a nascent market despite an asset under management increase of 69% in 2012: the global art investment fund market was estimated conservatively to be worth US$1.62 billion in 2012, up from US$960 million in 2011, driven by growth in art investment funds and trusts in China. In 2012, an estimated 83 art funds and art investment trusts were in operation, and 58 of these have been set up in China since 2009.

• Existing art funds increase funds under management: The Fine Art Fund Group currently has US$200 million under management, up from US$120 million in November 2011. Other funds such as US-based The Collectors Fund are also looking to raise in excess of US$50 million for their new fund focusing on twentieth-century masters.


• Increasing demand for managed art accounts: existing art fund managers are seeing increasing interest from HNWIs to build private, customised art investment portfolios.

• The end of the first wave of art exchanges: after China saw a boom in art and cultural exchanges in 2010 and 2011, the government moved in to stop future development of these initiatives. Trading irregularities and manipulation were cited as the main reasons for this move. The European initiatives in Luxembourg and Paris failed to materialise, although the Paris exchange is currently in the process of a relaunch.

• The new freeport in Luxembourg will be a major attraction for the art and wealth management industry: of the Luxembourg banks surveyed, 62% expect more art investment funds to be launched in Luxembourg in the next two years. The new freeport dedicated to fine art, wine and collectibles is scheduled to open in the third quarter of 2014 and is likely become a major draw for bringing future art investment funds to Luxembourg.


54 A managed account is a fee-based investment management product for high net worth individuals. The appeal of managed accounts is the access to professional managers and advisors and a high degree of customisation. Managed accounts provide the added benefits of greater transparency and control.
The performance of art as an asset class

Mei Moses World All Art Index declined by 3.28% in 2012

After 2011 saw an all time year-end closing high for the Mei Moses® World All Art Index (ALL Art-W), the index fell by 3.28% in 2012. The decline in the World All Art Index in 2012 was mainly attributable to flat or negative returns in the Traditional Chinese Works of Art (TCWA-W) (-2.4%), Post-War & Contemporary (PWC-W) (-0.01%) and Impressionist & Modern collecting (IMP-W) (-1.05%) categories, despite Old Masters and 19th Century (OM19-W) works gaining 6.4%. This index substantially underperformed the positive results of the S&P 500 and the Financial Times All Share (FTAS) total return indexes in 2012. However, the most recent ten-year (2002-2012) compound annual return (CAR) for art, at 7.25%, exceeds the S&P and FTAS return of 7.0% and 5.2% respectively. Furthermore, post-war & contemporary and traditional Chinese works of art (two of the most successful art markets in the last three years) delivered compound annual returns of 11.6% and 15.5% respectively—a particularly strong performance compared with U.S. and European equities in the last ten years.

Risk and correlation

In addition to return, relative risk is another important measure of financial performance. The increasing risk associated with traditional assets is reinforcing the opportunity to include art into an optimal portfolio allocation. It is clear from Table 2 that the S&P Total Return index has been more volatile than most of the art indices (except traditional Chinese) for the last ten years. The risk associated with each index is measured by the standard deviation of the changes in their annual returns. The absolute risk associated with the Mei Moses® All Art index is lower than that of the S&P 500 Total Return Index over the last 10 years (12.5% vs. 19.7% respectively), as well as the last 20 years (10.6% vs. 18.6%).

According to Mei Moses®, the correlation of returns among assets is another measure used in financial decision making. There is a low correlation between the annual percentage changes in the art and stock indexes. The very low correlation factor of negative 0.07, positive 0.02, negative 0.03 and negative 0.08 between the art and stock indexes for the last 10, 20, 40 and 60 years respectively and its negative and low correlation with bonds for the same time periods indicates that art may play a positive role in portfolio diversification.

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55 The Mei Moses® World All Art Index is from the Mei Moses® family of art indexes and is based on a proprietary database of repeat sale pairs created from transactions in the United States, Europe and recently added data from art transactions in China, and historical information from THE EUROPEAN FINE ART DATABASE created by Prof Rachel Pownall

56 Ibid.
Table 2. Comparative performance 2000-2012
Mei Moses® world collecting category indexes (in US$)

<table>
<thead>
<tr>
<th>10 years</th>
<th>All Art</th>
<th>IMPMOD</th>
<th>OLM19C</th>
<th>Post war and contemporary</th>
<th>Trad. chinese</th>
<th>S&amp;P total return</th>
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<tr>
<td>CAR</td>
<td>7.25%</td>
<td>6.99%</td>
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<td>STDEV</td>
<td>12.55%</td>
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<td>CORR-SGP</td>
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<td>-0.458</td>
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</tr>
</tbody>
</table>

Art investment: the art fund market

Chinese investors’ appetite for art investment fuels growth in the global art fund industry


An estimated total of US$430 million of art investment fund/trust redemptions are scheduled for 2013, which is likely to put downward pressure on the art market, unless the proceeds are reinvested in the art market. As we mentioned in last year’s report, we could expect to see stricter regulation of these types of investment vehicle, if the Chinese authorities feel that these funds are fuelling speculation and potentially destabilising the art market.

Existing art funds in the U.S. and Europe expand at a modest pace

The U.S. and European art fund market remained relatively stable in 2012, with an estimated US$651 million under management (same level as last year). In Europe and the U.S., new capital has been raised on the back of existing arts funds rather than an influx of new ones. It is clear that those funds with a three to five year track record are finding it easier to attract investors in the current climate.

Although the art investment industry remains a niche market, particularly in Europe, the recent introduction of the Alternative Investment Fund Managers Directive (AIFMD) could change this. This directive provides a new framework that allows previous initiatives to be drawn together within a comparable and structured environment. At the same time, it offers investors safeguards and controls not previously harmonised or, in some cases, that were not even available (see commentary from Christopher Stuart Sinclair on page 52).

57 An estimated US$651 million of this total is based on art investment funds in Europe, the U.S., Korea and Brazil. The Chinese art fund and art investment trust market was worth an estimated US$969 million at the end of 2012 based on publicly available information. The total art fund market figure does not include a number of large art funds announced in the press, as we were unable to verify these figures. If the amounts reported in the media are correct, these funds would add a further US$1.05 billion to the art fund industry total. Fine wine and collectibles funds are also excluded, as are private, family wealth-oriented art funds that do not raise funds from external investors.
Despite the relatively stagnant growth in new art funds in the USA and Europe in 2012, attitudes to art investment funds among wealth managers, art professionals and private collectors remains positive, and suggest that the track record of existing art funds operating in the market is adding confidence to the art fund industry.

Survey findings on art investment funds

Despite the relatively stagnant growth in new art funds in the USA and Europe in 2012, attitudes to art investment funds among wealth managers, art professionals and private collectors remains positive, and suggest that the track record of existing art funds operating in the market is adding confidence to the art fund industry.

Art and collectible investment products

The economic crisis in Europe triggers demand for art and collectible assets: 60% of wealth managers believe that we will see stronger demand for ‘collectible and emotional’ assets, as a result of the current economic crisis in Europe and the slowdown in the world economy. 30% of the private banks surveyed have noticed an increase in demand for art and collectible investment products. This is encouraging for the industry, as only 26% (up from 11% in 2011) of private banks currently offer advice to clients on investment in art funds.

Cautious approach to art investment funds: while none of the banks surveyed in 2011 were looking to add art investment funds to their investment platforms in the next two to three years, in the 2012 survey, 18% thought it likely or very likely that art investment funds would be included in the next two years.

Only 10% of banks believe that it is likely their clients will invest in a new art investment fund in the next 12 months, and as a result just 4% of banks are likely to inject seed money into a new art investment fund. This could be a result of a relatively stagnant art fund industry in Europe, with only a handful of European art funds coming to the market in 2012. These findings would appear to confirm that mainstream institutional support for art investment funds is still some time away, but that the asset class is gradually gaining interest among banks.

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58 This includes Chinese art investment trusts
59 From Deloitte ArtTactic Art & Wealth Management Survey 2012
60 Two of the five banks that said they were likely to add art investment funds are in Luxembourg, while the other three are in Poland
Increasing interest in the art investment fund industry in the future: although private banks remain hesitant at the moment, this could change as the industry matures. 63% of the wealth managers surveyed would be interested in knowing more about the art investment funds that currently exist. A further 57% expect their clients to increase their focus on art as an asset class in the future.

Of the Luxembourg banks, 62% expect more art investment funds to be launched in Luxembourg in the next two years. This is a significant proportion despite the fact that it is a decrease from 67% in 2011. Luxembourg is well positioned to become a key player in the emerging Art & Finance industry with its flexible legal environment and onshore regulation. In addition, the new freeport for fine art, wine and collectibles is scheduled to open in the third quarter of 2014 and is likely to become a major draw for bringing future art investment funds to Luxembourg.

The majority of art professionals and collectors believe the art fund industry will expand in the next two to three years: 57% of professionals and 51% of collectors believe that the art fund industry will expand in the next two to three years, although only 25% of the collectors (24% in 2011) would invest in an art fund.

Art professionals, however, generally responded more positively than collectors: 42% agree that an art fund could provide important access to experts and expertise that they don’t currently have, compared with 25% of collectors. 46% of professionals would invest in an art fund because it was professionally managed, with strong investment discipline and a focus on value, whereas only 28% of collectors agreed. 52% of professionals would invest in a fund because of the opportunities for portfolio diversification; only 28% of collectors shared this view. Despite differences in attitudes towards art investment funds among art collectors and art professionals, both groups have become more positive towards the prospect of investing in art funds in the last 12 months.

**Challenges: What are the main challenges for the development of the art investment fund industry?**

The small size and flat growth of the European art fund market in 2012 is seen by 63% of wealth managers (up from 39% in 2011) as a major obstacle. The biggest hurdle for banks when considering art funds is the due diligence necessary for them to stand alongside other financial assets. 80% of respondents note the difficulty in assessing the viability of an art fund, 77% cited the lack of liquidity in the art market and 77% blamed a lack of mark-to-market valuation as a significant problem. These results are similar to the 2011 survey, showing that there has been little progress in selling the viability of art funds to large financial institutions. 70% of the wealth managers surveyed cite the lack of a visible track record of the fund industry as a major hurdle (against 44% in 2011), while 67% view the unregulated nature of the art market as a major obstacle to growth.

**Figure 23. What do you feel are the main hurdles for incorporating art investment funds as part of the bank’s current client offering?**

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Recent developments

Slower growth of art investment funds and trusts in 2012 as the Chinese art market cools

Coinciding with the rapid growth in the Chinese art market between 2009 and 2011, Chinese investors’ appetite for art as an investment grew exponentially. China’s art fund and art investment trust market reached just over US$969 million in 2012, with an estimated US$367 million of the new investment raised in 2012, versus US$506 million in 2011. An estimated total of US$430 million of art investment fund/trust redemptions are scheduled for 2013, which is likely to put downward pressure on the art market, unless the proceeds are reinvested in the art market. As we mentioned in last year’s report, we could expect to see stricter regulation of these types of investment vehicles, if the government feels that these funds are fuelling speculation and potentially destabilising the art market.

Existing art investment funds in Europe and U.S. launch new fund

The Fine Art Fund Group: since its inception in 2001, The Fine Art Fund Group, which is based in London, has advised collectors and investors on over US$200 million assets under contract — across five major funds, additional private funds, co-investments and new projects — which in 2013/14 are set to double. The group works with over 40 people, including some of the world’s leading art experts, and currently advises investors in 23 countries. The longest running fund reported a gross IRR of 18.89% per annum on sold assets as of 31 December 2012. The Fine Art Fund has recently entered a joint venture with Berenberg Art Advice (linked to Berenberg Bank) to advise the assets of the Berenberg Art Capital Fund Limited.

The Collectors Fund: the first fund, American Masters Collection I LLC, which has assets under management of approximately US$20 million, has generated an IRR of 19.0% on sales to date. A new fund was launched in 2012 called Twentieth Century Masters Collection LLC (TCMC). The anticipated closing of the fund is in Q4 of 2013. The target for the second fund is US$50 million plus. The art fund’s focus will be on museum-quality 20th century and contemporary American and international art. On a larger scale than the first fund (higher investment entry level and higher price point for target acquisitions), TCMC will be broadly diversified across several artistic movements and may invest up to 30% of its holdings in non-American works, where exceptional opportunities exist. As with the first fund, members will also enjoy opportunities to have the art in their home or office through a rotation program, and participate in special educational events and activities.

Table 3. Examples of new art investment funds entering the market in 2012/2013

<table>
<thead>
<tr>
<th>Name</th>
<th>Focus</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anthea Art Fund</td>
<td>Post-war &amp; contemporary art</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>The Collectors Fund</td>
<td>20th century and contemporary American and international art</td>
<td>U.S.</td>
</tr>
<tr>
<td>Art Collections Fund</td>
<td>Post-war and contemporary art, tribal art</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>Art Vantage PCC Limited, owner of the Tiroche DeLeon Collection</td>
<td>Emerging markets/contemporary art</td>
<td>Gibraltar</td>
</tr>
<tr>
<td>Abbey Art Fund</td>
<td>Polish art</td>
<td>Poland</td>
</tr>
<tr>
<td>Berenberg Art Capital Fund</td>
<td>Old master, impressionist, modern, Post-war and contemporary</td>
<td>Jersey</td>
</tr>
<tr>
<td>The Library Art Fund</td>
<td>Rare letters, manuscripts, autographs</td>
<td>Luxembourg</td>
</tr>
</tbody>
</table>

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Art and collectibles funds – one of the greatest beneficiaries of the Alternative Investment Fund Managers Directive (AIFMD)?

Beauty, or genius, or any of those qualities that together are perceived to give an object that indefinable aura that makes it something to be admired, treasured and collected can be multi-faceted qualities. At times that may be no more than the fortuitous encounter of inspiration, fortune and chance. It is thus perhaps not too far-fetched to suggest that something as prosaic as a European directive regulating investment fund managers could contribute to the furtherance of the pursuit of beauty.

The Alternative Investment Fund Managers Directive was inspired jointly by the prevalence of disparate investment funds, mostly non-regulated, finding their way into the public domain, and the potential impact such ‘products’ might have on the investing public and even the economy itself. The importance of introducing such a measure became all the more apparent from the lack of transparency that emerged as one of the principal causes of the financial crisis of 2008, and taking its inspiration from the very successful directive covering retail investment funds, the UCITS61 Directive, AIFMD set out to offer a standardised framework for all such ‘alternative’ investments.

There are of course numerous technicalities and subtleties around the directive—for example the fact that in the first instance it regulates managers and not products—and much of it draws its inspiration from the specific context of the hedge fund, and considerations around complex financial instruments, where one can see a certain reactive element in the process by which it was drafted. But when one strips out those specifics, one discovers a basic text that provides minimum requirements for those who would manage assets, any form of assets in the public domain, minimum requirements ensuring the adequate safekeeping and conservation of such assets, minimum requirements for the independent and transparent valuation of such assets, and minimum requirements for the management of risks associated with investment in such assets.

And whereas for traditional investment funds in the alternative space, the hedge fund or the private equity or real estate fund, this legislation will require managers and products to adapt their existing philosophy and practices to new regulation, for art and collectibles funds, the directive provides the framework that allows previous initiatives to be drawn together within a comparable and structured environment, that at the same time offers investors safeguards and controls not previously harmonised or, in some cases even available.

In return for the effort and accompanying expense implicit in compliance with these regulatory requirements, the directive also offers harmonisation in the realm of how such products may be marketed and distributed. Once duly authorised under the directive, an alternative investment fund manager—in this case a manager of an art or a collectibles fund—will be able to offer the fund to ‘professional investors’ throughout the European Union without let or hindrance, and with only minimal additional administrative and regulatory burden. By implication, the establishment of such a regulated investment market is likely to have a knock-on effect beyond the boundaries of Europe and may well lead to the creation of a global standard in this field.

61 UCITS (Undertakings for Collective Investment in Transferable Securities)
For art and collectibles structures the development is all the more fortuitous as it comes at a time when concerns around traditional financial assets—sovereign credit ratings, the stability of financial institutions, the impacts on economic growth potential as a result of currency convergence—have once again increased the appetite of institutional investors such as pension funds, foundations, family offices and numerous others for genuine diversification in asset classes. The corollary to this renewed interest is security, and that security is offered by the minimum standards laid out in the directive. To be able to sell an investment product in this sector to increasingly risk averse investors, compliance with these rules and authorisation under the directive may well become a sine qua non for success and at the same time offer the perspective of a long-term future for a market that has hitherto shown a certain syncopation in its development.

The final chapter on AIFMD detailing the impact it may have on more traditional financial markets is still to be written, but for art and collectible vehicles it could prove one of the catalysts in creating a ‘golden era’ or a school and style of its own.
Section 4: Growth of the online art industry

Highlights

- **Rapid development in the global online art industry:** 2012 saw an acceleration in the number of online art businesses coming to the market, with more than 300 online art ventures launched to date.
- **The Art & Finance industry is set to benefit from greater transparency and more liquidity:** new online transaction platforms add liquidity to the lower end of the art market, and will broaden the scope and depth of art market data available, which in turn will improve the valuation of art.
- **Online education is set to play an increasingly important role in building confidence in the art market:** 77% of collectors said online education and information will be crucial to the development of the Art & Finance industry.
- **Online art businesses are here to stay:** 62% of art professionals and 65% of collectors believe that online art businesses will play a significant role in the art market in the next two to three years.
- **More confidence in online auctions than online galleries:** 80% of collectors believe that online auctions will succeed, compared with 54% of collectors who have similar faith in online galleries.
- **Building trust will be essential for online businesses:** there is also greater faith among collectors and art professionals in dealer-to-dealer platforms compared with consumer-to-consumer platforms (59% and 46% as opposed to 32% and 29%), which highlights the importance of building trust online, as well as issues around guaranteeing provenance and authenticity.

Introduction

Technology continues to disrupt and change one industry after another, and with other cultural industries such as music, film, and publishing having been transformed in recent years, inevitably the question is asked: is the art market next? To what extent will traditional and existing business models in the art market survive? The emergence of new interactive, non-linear channels has the potential to radically transform current business models, reshaping the art ecosystem and driving demand for new business models that will be required to support the digital art industry. And what implications could technology have on the development of the Art & Finance market in the next few years?

In the last three years the online art industry has been experiencing rapid growth. There are now more than 300 online art market players worldwide. These cover segments such as data, information and research, social communities, auctions and galleries, business-to-business and consumer-to-consumer art transaction platforms. In addition, the number of art investment and crowd funding ventures is increasing.

The internet has started to have a profound impact on the way art is being transacted. Christie’s is reporting strong growth in its LIVE online bidding platform. Companies such as Artnet.com (U.S.), Artprice (France) and Paddle8 (U.S.) have launched their own online auctions. In the primary market, websites such as s [edition] (UK), Artspace (U.S.), Artfinder (UK), 1stdibs (U.S.), Exhibition A (U.S.), Artsy (U.S.) and VIP Art (U.S.) have started to make inroads into the lower-priced segments of the art market. In addition, we have started to see other selling platforms for art such as peer-to-peer services offered by ArtViatic (Monaco), Artbanc (UK), The COMPANY (U.S.) and Expertissim (France).

62 2.4% annual growth between 2006-11. This figure includes the sale of original or limited-edition artworks through online galleries, online auctions, online art fairs, and online art dealing and trading. The sales figures included data from 716 businesses and covered the sale of paintings, drawings, sculpture, photographs and other media (source: IBIS) http://webprod.forrester.com/US+Online+Retail+Forecast+2011+To+2016/fulltext/-/E-RES60672?objectid=RES60672
A recent report from IBIS World estimates that the online art sales industry in the U.S. market alone was worth about US$287.5 million in 2011.62

Besides the apparent commercial interest for the development of a digital art market, there is a clear interest in consuming information and experiencing and learning about art online. There is a realisation that websites are not just publishing channels, but more importantly, providing interactive platforms that allow audiences to engage with art in different and unique ways, opening up the possibilities of an entire new art market. The Google Art Project is probably one of the most ambitious projects in this regard, and many museums have started to digitise their collections, thereby making them available to a global audience.

This section of the Art & Finance Report offers our readers an insight into the perception and attitudes towards online art businesses and their ability to potentially change the current Art & Finance landscape.

Survey: online art industry—perception and attitudes

The most recent Deloitte ArtTactic Survey among art professionals and collectors indicates that there is considerable confidence in the success and longevity of online art businesses. A significant proportion, 62% of art professionals and 65% of collectors, think that online art businesses will play an important or very important role in the next two to three years. However, unlike examples from the worlds of film, music and print, 61% of advisors and 57% of collectors believe it is unlikely that online art businesses will replace traditional operators.

The survey findings show that there are four main areas that respondents believe will be of significance going forward, and that are also likely to bring about changes in the Art & Finance industry.

As figure 24. shows, online data, research and analysis products are expected, by the majority of respondents, to be successful and play a major role. These businesses already exist almost exclusively online and rely on fast and effective delivery systems, including subscription websites, social media, apps and email distribution.

The online auction is perceived as the most successful model for online sales. 80% of collectors and 69% of art professionals believe that online auctions will survive compared with 54% of collectors and 42% of professionals who have similar faith in online galleries.

There is also greater faith among the sample in dealer-to-dealer platforms (59% of collectors and 46% of art professionals strongly believe these types of businesses will succeed). There is less confidence in the success of consumer-to-consumer platforms (32% of collectors and 29% of art professionals). This highlights an opportunity for existing art businesses with an already established reputation to take advantage of new online markets, and expand their current client base, but it also raises issues around the importance of building trust online, and guaranteeing provenance and authenticity.

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013

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62 Google Art Project is an online platform through which the public can access high-resolution images of artworks housed in the initiative’s partner museums. The project was launched on 1 February 2011 by Google, in cooperation with 17 international museums.
Online businesses are seen as key in developing the Art & Finance industry

High transaction costs, a lack of transparency and low liquidity are often mentioned as impediments to the development of art as an asset class. However, it is possible that by conducting business activities online, some of these issues can be resolved.

On the other hand, the survey highlights how the new online art businesses can benefit the wider art market, and the Art & Finance industry specifically. 96% of art professionals and 83% of collectors cited the key importance of online platforms as a way to provide data, information and research. Other areas of key importance include creating more transparency (51% and 59%) and reducing transaction costs (46% and 49%).

Several of the online transactional platforms such as ArtViatic, Paddle8 and Artnet Auctions are undercutting the fee structure of the traditional auction houses, offering commissions of 6-12%64, whereas commission for traditional auction houses can be as high 25%65 for lower-valued lots. As competition in this area increases, overall transaction fees should come down in the future as a result of the increased competition from online players, particularly at the lower end of the market. It is also likely to have an impact at the middle-to-higher end of the price spectrum as the confidence in transacting online increases.

Just over half (51%) of collectors are also seeing the new online transaction platforms as a way of creating more market liquidity, by making it easier to sell works of art at any time. The greater number of transactions will also result in more data, and in turn, more transparency and more accurate valuations—seen as desirable by 49% of collectors. In a market where the larger auction houses such as Christie’s and Sotheby’s only focus on the high end of the market, the new online auction houses and other selling platforms provide much-needed liquidity at the lower end.

Figure 25. In terms of art investment, how important do you believe many of the online art businesses will be in...

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013

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64 Paddle8 buyer’s premium is 12% on lower-value lots. ArtViatic charges both seller and buyer 3% for lots valued above €150,000

65 Christie’s and Sotheby’s charge 25% buyer’s commission on lots selling up to US$50,000
How the online art industry can contribute to the development of the Art & Finance industry

The figure 26. below illustrates some of the main obstacles (in blue) faced by wealth managers when dealing with art as an asset class, and how the growth in new online art businesses can help in tackling these. For asset managers, private banks, custodians, family offices, forwarding services and fund management companies, a reliable data, information and valuation system needs to be in place to overcome the current deficits in measuring value, return and risk. Art & Finance businesses such as Artfact, ArtTactic, Artnet, Artprice, Skate’s and Tutela Capital have started to fill this void.

High transaction costs, a lack of transparency and low liquidity are often mentioned as impediments to the development of art as an asset class. New online art businesses can help in tackling these issues.

Figure 26. The Art & Finance industry will benefit from the growth of new technology and new online businesses

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Table 4. Online art business—an overview

<table>
<thead>
<tr>
<th>Services</th>
<th>Overview</th>
<th>Company examples</th>
</tr>
</thead>
</table>
| 1. Data  | • Auction data  
• Primary market data | • Subscription access to millions of past auction results  
• Pricing data for online sales | • Artpiece, Artnet, Artvalue, Mutualart, Artinfo  
• Online galleries, e-commerce platforms (see below) |
| 2. Market analysis/tools | • Auction indices  
• Artist reputation rankings (exhibition, gallery, museum data)  
• Market sentiment indices | • Art market analysis and comparison to financial markets  
• Artist information and ranking determined by public exposure  
• Subscription access to sentiment data | • Mei & Moses (www. artasanasset.com), Artnet, Artrage, Tutela Capital, AMR  
• Artfacts.net, ArtTactic  
• ArtTactic, Artpiece |
| 3. Market information | • Digital print news  
• Art news online | • Limited access to print newspaper articles  
• Online only art market information | • Art Trade Gazette, The Art Newspaper Online  
• Art Daily, Artinfo, Art Market Monitor |
| 4. Online sales | • Live bidding  
• Online auctions  
• Online sales  
• Online marketplaces | • Bid in real time while viewing a live stream of the physical auction  
• Dedicated online auctions  
• Websites that act as a broker between customers and galleries (often curated)  
• Online portal and marketplace for transactions | • Christie’s LIVETM, Sotheby’s Bid Now, LiveAuctioneers  
• Artnet Auctions, SafronArt  
• Artspace, Artsy, Paddle8, s [edition], VIP Art Fair, Artfinder, Exhibition A  
• 1st dibs, eBay, ArtVitcic, Artbanc, The COMPANY, Expertissim |
| 5. Education | • Online art business education  
• Museum apps | • Online courses in art business and finance  
• Educational tools offered to accompany a museum or specific exhibition | • Sotheby’s Institute of Art  
• MoMA, Louvre, Tate, etc. |
| 6. Social platforms | • Social media | • Audience building and communication with current and potential customers | • ArtStack, artweeen.com, artrise.com, artists2artists.ne, Facebook, Twitter, Artsy |

Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2013
Interview

Views on the future of the online art industry

Q: What do you think will be the main trends in the art industry in the next five years?
I think the biggest change will come from how artworks find their buyers and how collectors manage their inventory. The current art supply chain management system is largely based on the cottage industry of relatively small and undercapitalised art dealers—for the wall décor, lifestyle consumption and reputation management market (that art market is when defined in the buyer’s motivation terms) client propositions of branding, variety of choices and networking become increasingly important. This is why successful art fairs proliferate and big dealers and auction houses are able to operate internationally and absorb an even larger market share each year. This will continue to be the case, driving to extinction hundreds of smaller galleries and making it increasingly difficult to break onto the art stage for artists not affiliated with major dealers.

At the same time I expect the growing power of large auction houses and major dealers to be offset by the direct market participation of large and dedicated collectors. Big collectors are increasingly becoming a force of their own, able to promote the artists of their choice and arrange for distribution and museum placement deals on their own. Individual collector-owned art market franchises will flourish and professionalise, becoming an institutional investor (buy side) that the art market had been missing so badly.

Q: Online art industry - where will the future battlefield be?
The biggest question is, of course, the size of the addressable market. The last couple of years have seen a massive inflow of capital and talent into the online art industry but so far this has failed to produce a profitable online art trade of any significance. Buying online is technically a more rational and well thought out exercise than physical shopping, which can be driven by impulse and returning/exchange is more emotional. Non-impulse rational buying does not always work well with art and so far it continues to depress online sales.

I guess the ‘battlefield’ is product selection—www.nytimes.com66 might do better in sales than Artnet auctions this year, and I’ll not be surprised.

Q: What type of online business models do you think will emerge as winners?
Information and e-commerce is all that works online, and this will hold true for the art segment. I think we will see far more advances in information management than in trade models online this year.

Q: In what way do you see online art businesses supporting the development of the Art & Finance market?
Online consumers want transparency and fair trade. Both seem to be a challenge for the art market to deliver, but money talks and online consumers will prevail, forcing artists and their promoters to offer different products to online buyers once they recognise the market potential of this audience.

Also, as long as rational art buying continues to grow, it will create a larger market for professional art services, including valuations, tax structuring and art asset management strategies. Given the growing amount of capital being locked into art assets, including both private and public funds, it will inevitably pave the way for more diverse financial services surrounding the art industry, perhaps with financing products based on government-owned art collections paving the way for commercial products in the sector.

Q: What do you feel are the biggest challenges facing the online art industry?
Finding the right product. Online consumers are used to great customer service, cutting-edge pricing and generous returns policies. The traditional art trade does not have products for that. Finding them is the challenge, and it will definitely be addressed this year, as there seems to be a critical mass of players in the game right now. Those who are late figuring out the product question will also be out of the game.
Section 5: Art & Finance
analytical tools

Data, research and analysis—getting to grips with the tools available for the Art & Finance industry

Highlights

• **Improved technology and online index providers** give users access to almost immediate information on changes in indices, as well as tailor-made sector or specific artist indices. Although art index tools are still in development, indices can be used to evaluate the trading performance of art fund managers, and for insurance companies to better assess the value of their clients’ art collections.

• **Managing market and liquidity risks**: new tools and methodologies are currently being developed to measure market and liquidity risk more effectively.

• **Market sentiment analysis will play an important role**: as we have seen in the financial markets, sentiment-based data and indicators are playing an increasingly important role for traders and investors in reading and analysing the potential future direction of the market. Similarly, in order to better understand the risk and direction in the art market, the role of sentiment analysis will be important as the art and finance market evolves.

The development of art as an asset class is also supported by the ongoing development of analytical tools that allows us to better anticipate, measure and track the evolution, risks and performance of the art markets. Without tools for interpreting this data effectively, it would be very difficult to build an Art & Finance industry. But thanks to a number of operators in this market, the data and analytical infrastructure is improving. This section provides a summary of three tools presented at the Deloitte Luxembourg Art & Finance Seminar in November 2012 that are supporting the development of an Art & Finance industry:

1. Art market index tools
2. Market and liquidity risk measurement tools
3. Market sentiment tools
The growth of the global art market, the creation of Art Funds, online price information, and new platforms for trading art, have all led to an increase in the desire to track movements in the art market more accurately.

Together with methodologies developed originally to track house price movements, improved computing power and the desire to have a variety of art market indices are fuelling the move towards tradable art market indices. Interest in the art market is growing rapidly.

It is all too familiar that auction sales hitting the headlines with record-breaking prices catch our attention, spurring the desire for an investment in a beautiful asset that would have been financially very attractive as well as aesthetically pleasing. Those artworks failing to hit their reserve price at auction go unsold and those selling at low prices fail to catch any media limelight at all. But to what extent do average art prices increase over time? Are the record-breakers the exception, or is there an overall trend for art prices to appreciate over time?

Generally speaking, as long as art holds its cultural value in society, art prices will appreciate over time, reflecting a general increase in consumer prices in line with the rate of inflation. Artworks with a rich art history will tend to maintain their prices well, with less variability in price movements over time. Such paintings fall less in and out of fashion and the co-movement with overall prices is higher. In terms of finance, the idiosyncratic risk is less. While for artworks which carry much more idiosyncratic risk, as with, for example the rise and fall of impressionist paintings in the 1980s and 1990s and Contemporary art in the last decade, the price variability is often much greater. Artworks, with a proven track record, maintain their cultural and economic value, and the likelihood of falling prices is lower, hence, can be considered therefore as less risky. However, for paintings that fall from fashion and result in low sales prices, the picture can be very different. If considered as an investment, the financial risk can be much greater.

The financial return over the holding period can in some cases be negative, even before inflationary effects are taken into account.

Those artworks which obtain large positive returns are the ones we tend to hear about, and those that don’t sell well, fail to the wayside. So to what extent do the stories we hear about in the press represent the overall art market? This is when an art price index is a useful means to measure the extent to which prices have changed over time; so that we can gauge overall market performance. Also submarkets, or different genres, artists, and movements can be indexed.

One way to estimate such average price changes for the art market is to track a basket of artworks over time, or rather, a portfolio of paintings, but the concept is the same. In recent years the financial press have quoted various art indices to gauge the overall level of art sales prices. Online internet websites which collect auction house sales data from the major auction houses also provide this service. Artnet, Artsales, Art Market Research and the Mei Moses art indexes, all provide a variety of indices available to subscribers, generally with an annual fee. Most providers provide information on their chosen index methodology and the choice of artists in the various indexes. Currently it is only possible to track auction sales prices, as sales prices from dealers are not widely available. The reliability and accuracy of the data used is very important. Naturally some errors will occur in the data, however, there can be issues with currencies, the recording of old English pounds and guineas, hammer prices and prices with premiums, which are at times incorrectly recorded. Furthermore unless the identical painting is identified when using repeat sales, then the use of repeat sales estimates to estimate an index will be incorrect. Simply matching titles of artworks by the same artist is not effective at finding repeat sales, as often the artwork is reattributed, or the title of the artwork changes over time.
There are various methodologies to create such an index to track the art market. The earliest such methods adopted are average price indexes, and were used during the art market boom in the 1960s to track the relative increase of painting prices at a particularly buoyant time in the art market. Art market indexes themselves are therefore not new. The methodology at the time was to take the average prices of a large number of similar quality artworks. The idea not to include extremely high priced paintings, or low valued pieces was to not skew the average prices with a few outliers. Comparing similar artists, and similar artworks was the first means to construct indexes of groups of artworks over time.

Efforts in the 1960s to capture the large appreciation in art prices during that decade resulted in the establishment of a number of art price indexes. One of the first to do this was the art investor, Richard Rush. He provided graphs of indexes using groups of similar artists in an attempt to provide an index for particular genres of art movements since the 1920s, up until the 1960s. Interestingly, he tried to follow popular artworks sold in the 1920s and compare their price movements, rather than back-fill the popular artists of the sixties. This was one of the first approaches to measure overall average price movements (increases and decreases, of course) was to take prices of established artists and note their sales prices. Using enough artists, and avoiding exclusive, expensive masterpieces, led to the creation of an art market index as far back as the mid 60’s.

In 1967, Geraldine Keen, working for The Times newspaper, together with Peter Wilson, the Chairman of the board of Sotheby and Company created The Times-Sotheby Index of Fine Art Prices, with the aim of producing a monthly index in the Times newspaper using art auction sales from Sotheby’s Auction House. Their aim was to measure the extent to which art prices had changed over the years, on average in various different fields of the art market. Although popular during the 1960s and early 1970s, The Times stopped reporting the index in the 1970s, and refer to the Art Sales Index as the most comprehensive available guide on art prices available instead. More recently the index was taken over by the Louise Blouin Media group.

Indeed, during each art market boom over the last sixty years there have been continued efforts to provide an art market index to reflect the sometimes rapid appreciation in art prices. When the market frenzy dies down, and the market collapses, or rather dries up, with few art sales taking place, interest wanes, and only with a resurgence in art sales prices, and record breaking prices hitting the headlines is interest reignited once more.

The methodological developments in providing indices of housing prices in the real estate sector have been adopted by academics in economics and finance to develop similar price indexes for art. There are two main methodologies used for the construction of these indexes. Firstly the hedonic models, which aim to explain the influence of time on prices, over and above the price paid for acquiring certain characteristics, capture the overall market movement. Once the premium for the artist, the size of the paintings, the location of sale, the medium and the genre of the painting have all been taken into consideration, and any other relevant characteristics, which do not change over time, then the premium which is paid for the market sentiment is also included as a further characteristic.

In recent years the financial press have quoted various art indices to gauge the overall level of art sales prices.

Efforts in the 1960s to capture the large appreciation in art prices during that decade resulted in the establishment of a number of art price indexes. One of the first to do this was the art investor, Richard Rush. He provided graphs of indexes using groups of similar artists in an attempt to provide an index for particular genres of art movements since the 1920s, up until the 1960s. Interestingly, he tried to follow popular artworks sold in the 1920s and compare their price movements, rather than back-fill the popular artists of the sixties. This was one of the first approaches to measure overall average price movements (increases and decreases, of course) was to take prices of established artists and note their sales prices. Using enough artists, and avoiding exclusive, expensive masterpieces, led to the creation of an art market index as far back as the mid 60’s.
The residual or the part which is unexplained by the painting characteristics must be determined by the time aspect. Using a variable for each year, then the yearly effect can be estimated accordingly. In the 1980s many indexes were constructed using data from the Gerald Reitlinger and Enriqe Mayer data collections on art sales prices. Both hedonic indexes and repeat sales indexes were estimated.

The Mei-Moses repeat sales index was developed in 2002, using the same repeat sales index technique as the Case-Shiller house price indexes, now commonly used in the U.S. and quoted on Bloomberg. Indeed, even financial derivatives are traded on these housing indexes. With fresh data from New York auction houses, interest was spurred in quoting these art prices in the financial media, with art prices for the US auction houses outperforming the S&P500 equity index.

Although not taking into account transaction costs, the apparent outperformance of art has led to continued interest in art being considered a financial investment and even as an asset class in its own right. Although using auction house data alone, and the bias induced at just focusing only on leading auction houses can be criticised, it does provide a good indication of price movements over a long period in time. Until dealers provide information on their prices, the auction market will be the only market that is transparent enough for art sales prices to be collected and used to construct art price indexes.

The repeat sales index is a special case of the hedonic methodology. If all paintings are included in the repeat sales model, then the estimation technique collapses to the hedonic methodology. The advantage however, of using the repeat sales methodology is that because two sales prices are used (purchase price and sales price), the characteristics of the painting do not need to be included, and the repeat sales index captures the pure change in price, over time, of an identical artwork.

The methodological developments in providing indices of housing prices in the real estate sector have been adopted by academics in economics and finance to develop similar price indexes for art.

The disadvantage is that not all works have two sales prices available. Take for example contemporary art appearing at auction for the first time, or artworks which have not appeared at auction before, either having only been sold in the primary market by dealers and not before at auction. The disadvantage of the hedonic approach is that the variables used to characterise the painting have to be able to capture the full variation in price across artworks. The most important of these variables is invariably the artist him or herself, followed by attributes such as oil on canvas, surface size, age of the artist etc, but other attributes and characteristics that cannot be quantified quite so easily get lost in this approach.
Consider two similar artworks in their attributes, but where the price tag is significantly different for the same artist – a white Fontana with three slashes, versus a red one with six slashes, sells at a multiple of the price of the white one. Only if such characteristics are additionally employed can the residual price movement be correctly attributed to the time dimension. As long as the hedonic methodology does not omit important variables and captures all of a painting’s characteristics it will capture well the time variation of artworks. If the importance of these various characteristics changes over time, then the time variation will be incorrectly estimated.

Tracking identical paintings over time, so that repeat sales can be found for the same painting, means that many paintings are dropped from the sample. This can be unsatisfactory. The appropriate method can be adopted depending on the requirements for which the index is to be used. Increasingly, the greater sources of data available have proved that the differences in the indexes constructed from the various approaches are limited in their differences. In economic parlance, they are not too dissimilar or insignificantly different from each other. Including hedonic characteristics into a repeat sales regression to capture characteristics, which change between the point of purchase and sale, represent a hybrid approach to index construction; for example different sales locations or auctioneers in addition to the repeat sales prices.

What is new is the availability of data and the speed and ease at which indexes can be updated. The various index providers now have online tools that give subscribers access to almost immediate information on changes in indexes; as well as tailor-made sector or specific artist indices.

The use of indexes to evaluate art fund managers trading performance, and for insurance companies to correctly assess the value of their clients’ artworks, may be the natural first place where indexes are adopted. Hedging the risk of negative art market price movements is of less importance to collectors who always maintain the aesthetic beauty of their artworks, even in times of a market downturn, but is certainly highly important to banks and institutions who may have issued loans against art as collateral. If the financial services industry has a need to take such short positions on the art market, then financial products based on art prices will undoubtedly become available to interested parties on the market. Picking up a ‘cheap’ Old Master painting, or a Gerard Richter at a fraction of its current price, if the market turns down may be an attractive option not only for Art Funds, but also for Museums and collectors.

Although it is not possible to invest in a fund that track these indices exactly, as is commonplace in the equity share market, real-estate market and for other financial assets, there are a number of specialised funds which will do a good job in investing in a subset of the index, and provides a similar financial return. With the average price of a painting being a large multiple of the average share price, providing a diversified fund of artworks is not (yet) feasible. Attempts to provide a securitised market for art are under discussion, and the advent of such a trading place in Europe may not be far behind recent developments in China and the Far East. A securitised market place would provide a whole new index of its own!

Until dealers provide information on their prices, the auction market will be the only market that is transparent enough for art sales prices to be collected and used to construct art price indexes
Market and liquidity risk measurement tools

While management tools for bonds, equities and standardised commodities saw tremendous technological progress during the course of the last century, management tools for art investments have changed little since the early 1900s. Despite the considerable sums transacted in the art market, most art world players fail to accurately measure their performance, let alone the market and liquidity risks they (or their clients) face. This situation is in sharp contrast with the high standard of finance professionals of the 21st century, including insurance underwriters, brokers, bankers or asset managers, who use sophisticated software to control their positions and P&L (profit and losses). The computer programs used by finance professionals generally plot the market value of a given portfolio over time, and take into account financial prices, Profit & Loss evaluation and risk monitoring. Thanks to these metrics, money managers are able to constantly track their performance and can reassess their strategies at any point in time. Art and finance professionals equally need specific metrics to optimise their strategies and have a clear understanding of their situation. The lack of technological developments has been ignored in recent years by both the academic world and the Art & Finance industry. More specifically, Tutela’s quant team has focused on useful and accurate tools for portfolio management, which are aimed at art and finance professionals.

In general, there are two ways for portfolio managers to operate:

1. They may need to take a fixed quantity of art into account in the design of a global asset allocation (e.g. devising an optimal, diversified portfolio for an art collector)

2. They may want to use art to exploit its diversification benefits or to generate higher returns (e.g. deciding to adopt an art investment strategy

The first situation is referred to as ‘passive art investment’ and the latter as ‘active art investment’.

In the case of a passive art investment, Tutela has deployed a technology that allows money managers to obtain time series of the monthly market value of an art collection. Managers can then use these time series to compute portfolio optimisation under constraint in the exact same computational fashion as if the collection were a financial instrument. In this case, taking art into account will lead to a much clearer view of the client’s total wealth and will help to properly reshape the portfolio to correct the risk-return trade-off of the client. In the example of a private banker who advised a U.S. pop art collector, taking her collection into account led to the reshaping of the geographical exposure of the entire portfolio.

In conclusion, the development of specific tools for art investments is crucial to avoid underperforming portfolios and to optimise the risk-return trade-off of the client’s total wealth.
Active art investment calls for management of risks that are specific to the art market: in addition to volatility risks, active art investors need to carefully monitor liquidity risks. Tutela defines ‘liquidity’ as the probability of selling a given artwork at its fair price in a public auction. This measurement is time-varying since liquidity depends on market conditions and market appetite. Liquidity is also dependent on each artwork so that a ‘bought-in’ rate is a very poor approximation of the likelihood of selling a specific artwork. Given all the available characteristics of a painting, Tutela infers the exact probability for this particular piece to sell at its fair price. Managers who are savvy with regard to the evolving liquidity constraints of their stock avoid being squeezed by treasury issues, arguably the number one cause of the failure of art funds.

Managing market risks and liquidity risks is nowadays possible and accessible to art and finance professionals. Since the vast majority of players in the market are still stuck with pre-industrial technology, art and finance professionals who successfully marry traditional art market knowledge with modern portfolio management techniques are poised to outperform the market as a whole.

Art and finance professionals equally need specific metrics to optimise their strategies and have a clear understanding of their situation.
Market sentiment tools

Past experience shows that the art market is not immune to economic shocks. This happened between 1986 and 1991, when the European impressionist art market saw an unprecedented boom, on the back of speculation from Japanese investors—and a subsequent collapse, when the Japanese economic bubble burst.

More recently, the Lehman Brothers collapse in September 2008 resulted in art market prices falling 23.5% in 2009, according to Mei Moses, and market liquidity evaporated as auction sales fell by up to 80% from their peak.67

In fact, the ArtTactic Art Market Confidence Index dropped 40% in November 2007, ten months prior to the actual art market collapse. This signalled at the time that almost half of the survey respondents were negative on the six-month art market outlook. This shift in sentiment among ‘experts’ in the contemporary art market triggered ArtTactic’s interest in trying to better understand the relationship between the art market sentiment and the buying and selling patterns in the market place.

In 2005, ArtTactic decided to develop a methodology to track the sentiment and opinions of a carefully selected group of art market experts. The initial sample for the U.S. and European contemporary art market was carefully constructed over a period of three years, finally reaching just over 100 individuals, ranging from private collectors to art advisors, curators, galleries, museums, and also more investment-oriented buyers. By capturing the consensus opinion of these experts, it gave us a better tool to understand their level (or lack) of support for a particular artist and his/her market. The sample was weighted by giving different players more or fewer votes depending on their position in the art market hierarchy.

The survey is conducted every six months and includes questions about the overall contemporary art market, perception about risk and speculation, as well as sentiment towards individual artist markets. The survey methodology is similar to the CEO Confidence Survey68 (source: The Conference Board).

Every six months, ArtTactic sends a questionnaire on contemporary art market conditions to 100 key art market experts. Responses to several of the survey questions related to the economy and the primary and secondary art markets are combined to form the ArtTactic Art Market Confidence Index (AAMCI). In addition to the overall confidence index, ArtTactic also produces confidence indexes on 250 individual U.S. and European, Indian and Chinese modern and contemporary artists.

ArtTactic Art Market Confidence Indices: Contemporary art market vs. Damien Hirst vs. Jeff Koons

Source: ArtTactic

67 ArtTactic Auction Analysis - New York 2009
68 The CEO Confidence Survey is monthly. The ArtTactic Art Market Confidence Survey is six-monthly
As a forecasting tool, the AAMCI is not subject to major revisions. Indeed, the only revisions to the AAMCI survey are annual updates to the artists that the survey aims to cover; a potential limitation of the AAMCI arises from the fact that it is a diffusion index: a high AAMCI reading simply means that more art market experts are reporting positive sentiment towards the art market than are reporting deteriorating sentiment. However, there has been an attempt to address this by weighting the responses from different ‘experts’ differently, to reflect their ‘ranking’ in the art market hierarchy and their influence.

From a market research standpoint, the confidence indicator based on expert polling has enabled ArtTactic to better understand the consensus opinion among ‘tastemakers’ and its likely impact on the market for individual artists. As market analysts we are mainly concerned about two things: firstly, a ‘shift’ in consensus among experts, particularly as the majority of opinions (or opinions among key players) move from a bearish to a bullish stance or the other way around.

This could signal a possible performance shift in the market, as the expert sample (mostly insiders with privileged access to information) starts to take certain actions that others may only pick up on at a later stage. Secondly, we pay attention to the relative position vis-à-vis other artists (relative ranking) — as this allows us to highlight specific artists whose performance contradicts the general sentiment.

As we have seen in the financial market, sentiment-based data and indicators are playing an increasingly important role for traders and investors in reading and analysing the potential future direction of the market. Similarly, in order to better understand risk and market direction, we believe the role of sentiment analysis in the art market will start to play a similar role.

In 2005, ArtTactic decided to develop a methodology to track the sentiment and opinions of a carefully selected group of art market experts.
The lack of training possibilities has often been mentioned as an obstacle to the development of the Art & Finance industry

Highlights

- **Education will fuel development in art and finance activities:** A lack of knowledge is often cited as a reason for the resistance against art as an asset class; however, a number of recent education initiatives are likely to change this. The last two years have seen a significant increase in the number of seminars, conferences, and university courses related to art as an asset class and other art and finance topics.

- **Academics are at the forefront of the development of the Art & Finance industry:** The number of academics who have written on art market performance and other art market-related issues is increasing.

- **Increasing collaboration between practitioners and academics** to discuss requirements and learn the results of the academic research is critical to the development of the Art & Finance industry.

- **The Annual Art Market Symposium** organised by Prof Rachel Pownall at Maastricht University is a unique initiative where international academics meet to present and discuss their latest papers and findings on a large number of topics in the art market.

Introduction

Among the key drivers for the development of an Art & Finance market are academic research and education.

The lack of training possibilities has often been mentioned as an obstacle to the development of the Art & Finance industry. However, in recent years several initiatives have emerged internationally. In this section, we report on some of the main academic and private initiatives.
Prof. Rachel Pownall of Maastricht University has hosted an annual art market symposium which is now in its seventh year. Since 2008, Deloitte’s own Art & Finance conference has provided practitioners globally with an annual forum for discussion and presentations by new art business ventures. Supporting each other for their fifth year, academics and practitioners are brought together and benefit from each other’s trade secrets.

In 2007, Prof. Rachel Pownall hosted an art market symposium devoted to research on art markets. It focused on bringing together the few global researchers who specialise in art economics and art finance. During The Fine Art Fair (TEFAF) hosted in Maastricht each year in March, these few researchers share their current work and discuss each other’s contribution to the field, with the aim of improving and critically assessing the work of peers. Before articles are published formally in journals, it is common that research is peer reviewed, and placed under scrutiny at the highest level.

With the aim of contributing to the knowledge and understanding of what drives art markets, art prices and the construction of art indices, as well as many other topics from the psychology of the arts, the symposium was a major success. It is now in its seventh year and the focus in 2013 will be on ‘Art and Emotions’.

With the introduction of Deloitte’s Art & Finance series in 2008, a natural partnership was provided to bring both academics and practitioners together, so that they could learn from each other. What practical issues were the academics lacking? Coupled with the advances of academic theories and methods, which could prove useful to practitioners? It was a partnership made to last. The first five years have been fruitful and it is hoped that the relationship will be a long-term one. Over the last few years, Deloitte Luxembourg has become a leading institution, showing its support for leading academic research in the area of Art & Finance. Over this period Deloitte has formally sponsored the Annual Art Market Symposium, showing direct support for independent academic research into art finance.

After the first two years at TEFAF, rather than staying in one location, the team reached out to first FRIEZE in London 2010, then to FIAC in Paris 2011, and to Miami Art Basel in 2012. The event will be back ‘home’ in Maastricht for TEFAF 2013. Participants have attended from Stern University New York, Duke University, Brandeis University, Texas-Tech, London Business School, Said Business School, Brussels University, Frankfurt University, Bocconi, University of Zurich, Free-University of Amsterdam, Tilburg University, the Federal Reserve Bank and Sotheby’s Institute of Art in London.

Deloitte is one of the few companies to have dedicated human and capital resources to developing a platform for the Art & Finance industry. It is a pioneering firm in this area with a reputation for innovation that provides a competitive edge.
With the development of the Luxembourg Freeport and the legislative regime, Luxembourg supports the regulation of alternative funds specialising in this area, while Deloitte positions itself as the leader in accountancy and consultancy services in this field.

To maintain this leading role, Deloitte has established a link between academia and practice. By bringing together top academics in the field of art markets, art economics and art finance, Deloitte supports the development of cutting-edge research in this area. The annual symposium enables Deloitte to join discussions with leading academics in the field, and to maintain their competitive edge and advanced knowledge of developments in the area. The academic symposium is currently not open to other practitioners in the field.

The Art & Finance Report by Deloitte and ArtTactic provides an overview of the current practices in the field and the knowledge base developed each year and discussed during the Art Market Symposiums provides topics of interest discussed during panel sessions of subsequent years.

Together they also provide seminars for practitioners. Prof. Pownall participated in the Deloitte seminar series in 2011 and 2012, providing a lecture to wealth managers on the analytical tools and current position of the art market. This is highly relevant to those with an interest in investing in art, but with a limited knowledge of art price movement and the risks involved in the market.

The exposure to academic knowledge is an area of joint interest has proved fruitful to both Deloitte and to the Maastricht University.
Other educational initiatives aimed at increasing the awareness of art as an asset class

The list of initiatives set out below is not exhaustive, but gives an overview of some of the current and previous international providers of Art & Finance related events, courses and education programs.

Artelligence (New York, USA)

Art Market Monitor presents Artelligence, a forum for conferences and seminars dedicated to understanding art as an asset class. Recent topics have included art as a *family asset*, with Jo Backer Laird and Michael Arlein (Patterson, Belknap, Webb & Tyler LLP), *insurance for art* estates presented by Katja Zigerlig (Chartis Insurance) and a Picasso market report by Brian McConville and Thomas Galbraith (Artnet).

The Art Fund Association LLC (New York, USA)

Art FA is a major source of information on the art fund industry and regularly organises and sponsors conferences, educational seminars and other events, many of which are open only to its membership. Such conferences are an important means of disseminating information on industry standards, investment strategies and the characteristics of art as an alternative investment category. Specifically, Art FA is currently developing a series of professional development courses aimed at raising the standards of the industry, each of which will be geared towards a different audience.

Art Industry Forum (Vienna, Austria)

The Art Industry Forum brings together key players in the Art & Finance sector to showcase the latest developments in the field and provide an opportunity to debate key issues. The 2012 forum involved Skate’s Art Market Research, Deloitte Luxembourg, The Art Newspaper, the Art Investment Council, Rising Leaders in Art Business and the Erste Group. The Forum is open to investors, banks, hedge funds, family offices, investment funds, foundations, private collectors and all those with an interest in the latest developments in the international art industry.

Art Investment Council

In response to the significant growth of global interest in art as an investment, the Art Investment Council (AIC), a not-for-profit entity, was founded to promote a greater understanding of art as an asset class by encouraging transparency, best practices, education and consistency of terminology and reporting. The AIC provides a forum for open discussion about current issues in art investment, as well as a platform for publishing, seminars and events. Recent events include The MoneyShow: Art Investments – Do they Belong in Your Portfolio and The International Art Industry Forum, Vienna.

Art13 (London)

Art13 London, sponsored by Citibank Private Bank, is London’s largest and most exciting new art fair in a decade. The fair consists of 120 galleries from more than 30 different countries showcasing modern and contemporary art. Art13 London will be running a comprehensive education programme throughout the fair, including a panel discussion on art as an asset class.

China International Art Foundation (CIAF)

The China Art Market Research Centre was found in 2007 by Professor Zhao Li, and is the first institute in China dedicated to art market research trends, art industry research and art appraisal. It is also the first research platform in China to focus on art economics and art finance.

Its objectives are to assist the authorities in implementing ‘best practice’ regulation in the art market, introducing a system for art wealth management in China, and building a worldwide research platform for art economics and art finance.

The institute is involved in several major national research programmes and a series of consulting initiatives with the Chinese government, corporations and research institutes. It publishes annual art market reports for China’s Ministry of Culture and provides appraisal services for insurance companies, such as AXA, PICC, etc. It also offers consultancy services to major investment companies in China, and will launch wealth management services for China Construction Bank and China Minsheng Bank Co. LLC this year.
Christie’s Education courses
(London, New York, Hong Kong)
Christie’s Education offers its History of Art and Art-World Practice courses in London and the History of Art and the Art Market course in New York. In 2013, it will launch an MSc in Art, Law & Business in London. The courses open doors to a variety of career paths from the full range of activities in an auction house to art-related jobs in the creative industries, as well as the public sector.

Deloitte Art & Finance Seminar Series
(Luxembourg)
Deloitte Luxembourg, together with ArtTactic, provides seminars for professionals who seek hands-on guidance through the global art market. Sessions are offered on the following topics:
1. Art investment funds and case study
2. Luxembourg Freeport business opportunities for wealth managers and custodian banks
3. Art and collectible funds best practices from an external auditor’s perspective
4. Art banking: wealth management perspective
5. How to measure art market performance

Programme highlights will include:
1. Realising investment potential out of your SWAG assets
2. Silver Wine Art Gold (SWAG) based portfolio management
3. Fragmentation of players in art and finance —common denominators or rivaling agendas
4. Art philanthropy and the next generation —learning from art foundations
5. Alternative investment fund managers directive —new regulatory framework for art and other collectible investment funds
6. Art & Finance Report 2013—learning from the findings

Deloitte Art & Finance Conference
(2013 Maastricht, Netherlands)
The sixth annual Deloitte Art & Finance Conference will be held in Maastricht on 15 March 2013. Each conference has been set against a major art event: Art Basel Miami and Basel, FIAC Paris, Frieze London, and this year, TEFAF, one of the oldest and most well respected fine art fairs. The conference will feature a series of talks and research papers covering an interdisciplinary mix of art and finance research and practice.

Fine Art Wealth Management courses
(London, England)
Fine Art Wealth Management is a membership-based advisory firm that provides independent consulting, education, networking and research for art investors and financial families with exceptional art wealth.
London Business School—Art Investment Conference (London)
In 2012 the conference discussed the future of art and emotional asset investing amid the continued market turbulence. In past years, participants have spanned the industry and include collectors and art market professionals, art investment funds, private wealth managers, institutional investors, lawyers, consultants and wealth management professionals. The 2012 keynote speakers included Philip Hoffman (Fine Art Fund), Dr Christophe Spaenjers (HEC University) and Dr Rachel Campbell (Maastricht University).

Luxembourg School of Finance
‘Exotic Assets’, Luxembourg (Luxembourg)—11 May 2013. Adriano Picinati and Rachel Pownall will speak to the students of the Executive Programme in Wealth Management (EPWM).

Professional Advisors to the International Art Market (PAIAM), London
PAIAM, a not-for-profit association, provides to its members a forum for open discussion on current issues affecting the international art market. PAIAM holds an annual conference for its members. This year’s conference took place on 17 January 2013. The speakers were Tracy Nolder (David Zwirner Gallery), David Arendt (Luxembourg Freeport), Adam Prideaux (Blackwall Green) and James Carleton (Farrer & Co). PAIAM is currently developing an online know-how platform open to the public. The platform will be available at www.paiam.org. It will contain know how generated by member of the association.

Sotheby’s Institute of Art courses (London & New York)
Sotheby’s Institute of Art offers Master’s degrees, semester courses, summer study, short courses, executive education, art fair courses and online courses in art business. These courses are tailored to prepare participants for a career in the art world or to provide greater understanding about art-related business.

Zurich University (Zurich, Switzerland)
The Executive Master in Art Market Studies programme develops the professional and innovative skills needed to master the challenges of today’s art market. It promotes entrepreneurial thinking and at the same time fosters an ethical approach to the art market in all participants. Switzerland is widely recognised as one of the leading art markets in the world, providing an outstanding network of art market specialists and professionals who bring a broad range of knowledge and experience to the programme.

Deloitte Luxembourg, together with ArtTactic, provides seminars for professionals who seek hands-on guidance through the global art market
Section 7: The Polish art market profile

Introduction
The Polish art market has been strongly affected by historical events in Poland. The decades of communism that followed World War II put its development on hold, stopped the tradition of art collecting and delayed the natural process of society becoming more affluent. The Polish art market as it exists today only began to emerge after 1989 when the communist era ended and Poland became a free market economy. Before then, there was a monopoly in the art market, with state-owned enterprise DESA being the only entity that could legally deal in art. In 1989 the free art market in Poland started to build and the situation changed. The first auction houses were established in 1990, galleries have flourished and today, over twenty years later, the Polish art market is worth Polish Zloty (PLN) 300-350 million (1 PLN = €0.24, 0.32 US$), which, although it is mere 0.2% of the global trade value, is great news. It is believed that the Polish market, while relatively small in size and underdeveloped, is largely undervalued and its potential is estimated at as much as seven times the above amount.69

Market value
The current standing of the Polish auction art market looks highly positive. In 2011, sales increased by 16.6%, which marked the beginning of rapid growth. In the first half of 2012, auction sales totalled PLN 30.1 million, representing growth of over 90% in 12 months, a record level since 1989. Although the increase slowed down in the second half of the year, with full-year sales coming in at PLN 60, 804,307 (a 25.7% increase compared with 2011), it is still believed to be one of the best years in the country’s history.

Table 5: Performance of the Polish auction market (H1 2012)

<table>
<thead>
<tr>
<th></th>
<th>2011 H1</th>
<th>2012 H1</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (PLN million)</td>
<td>15.8</td>
<td>30.1</td>
<td>(+) 90.5%</td>
</tr>
<tr>
<td>Number of transactions</td>
<td>2024</td>
<td>2480</td>
<td>(+) 22.5</td>
</tr>
<tr>
<td>% of lots sold</td>
<td>30.3%</td>
<td>38.8%</td>
<td>(+) 8.5%</td>
</tr>
<tr>
<td>Number of auctions</td>
<td>56</td>
<td>54</td>
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</tr>
</tbody>
</table>

Table 6: Performance of the Polish auction market (FY 2012)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (PLN)</td>
<td>48,386,398</td>
<td>60,804,307</td>
<td>(+) 25.7%</td>
</tr>
<tr>
<td>Number of transactions</td>
<td>5,384</td>
<td>6,630</td>
<td>(+) 23.1%</td>
</tr>
<tr>
<td>% of lots sold</td>
<td>36.4%</td>
<td>42.3%</td>
<td>(+) 5.9 p.p.</td>
</tr>
<tr>
<td>Number of auctions</td>
<td>125</td>
<td>123</td>
<td>(-) 1.6%</td>
</tr>
</tbody>
</table>

Source: Art & Business Annual Volumes, websites of auction houses

69 World Wealth Report 2012 by Capgemini and RBC Wealth Management
Market players

According to the Central Statistical Office of Poland (GUS), there are 777 museums and 352 galleries in Poland. It can be assumed, however, that there are hundreds more small antique shops and private dealers and collectors. There are several auction houses, based mainly in Warsaw but operating throughout the country. Recently, a new auction house—Abbey House—has opened in Poland, which seeks to exclusively promote and sell the work of selected young artists. Abbey House also set up the first art fund in Poland. Established in 2011, the Abbey Art Fund invests in special purpose vehicles (SPV) that later transfer funds to both public and private firms in the art market, global art funds, collections and particular works of art. The fund always leaves 20% of its assets in cash. Since its inauguration in autumn 2011, the Abbey Art Fund has delivered a gain of 16.6% for its investors.

With the expansion of the art market, and the growing interest in art as an asset class, it is believed that Poland will continue to see a steady rise in the number of funds coming to market—according to the initial data from the survey that Deloitte Poland conducted among art market experts, 40% answered that there will be an increase in the number of art funds in Poland.

Market structure

The dominant category in the Polish art market is paintings, which generate the most transactions (73%) and the highest value (92%). Graphics and crafts come second and third, with 25% and 7% respectively. The advantage of painting over other mediums results mostly from the above-mentioned development over the last five years of young artists, who mainly produce paintings. The market pricing structure has undergone significant change during this period.

- The lowest price segment increased its share of the total number of transactions; works by the youngest artists are sold for the average price of PLN 1,500
- The average price has decreased: five years ago, only one in ten paintings could be purchased for less than PLN 2,000, whereas in mid-2012, 49.5% of all transactions involving painting and works on paper did not exceed PLN 2,000

On the Polish market, art created after 1945 accounts for 75% of all artworks offered at auctions.

Figure 27. Breakdown of transactions by category (H1 2012)

The primary market is considered as the most active art distribution sector in Poland due to its promotion of Polish artists nationally and internationally and access to foreign sources of funding through sales and exhibitions—according to the report by Wealth Solutions, between September 2011 and September 2012 galleries in Warsaw organised almost 190 projects and observed a 25% increase in sales in comparison with the previous season.
Abbey House Auction House

Biggest transactions
The first place in the ranking is held by a painting entitled ‘Rozbitek’ (Wrecked) by Henryk Siemiradzki, sold in 2000 for PLN 2.13 million. A set of three pastel portraits of the Sternbach family by Stanisław Wyspiański, sold in March 2012 for PLN 1.85 million, ranks second. Prices in excess of PLN 1 million are still rare in Poland.

Art as an asset class
Until recently, alternative investments in Poland were not very popular, and knowledge and education in this area was scarce. However, with the volatility of the global financial markets and the fact that both property and shares have disappointed repeatedly in Poland over the past few years, the idea that you can combine good profits with pleasure has started to attract Polish investors, who now add more alternative assets, including art, to their investment portfolios.

The belief that only the richest can afford to buy art is still prevalent in Poland, but art purchases by middle-class buyers have been increasing. This has mainly been possible because of the rapid development of ’young art’, which has significantly altered the pricing structure of the entire art market.

Why this popularity? There is an increase in overall prosperity: the number of Poles earning over PLN 7,100 gross a month has nearly doubled in the last ten years, with average income growing by nearly a third. And although there are just over 28,400 HNWIs in Poland in 2012, Wealthinsight predicts the total number of Polish HNWIs will increase by 40%, to reach 39,687 in 2017.

Moreover, the art market in Poland is becoming more transparent and more is known of its complexities, thanks to an increasing number of articles and reports in the Polish media, more magazines and art portals dedicated to art topics, such as Art & Business, Rynek i Sztuka, Artysta i sztuka and Art Bazaar—all of these build communities that share knowledge on art and promote the idea of art investing. Poles have started to treat art not only as an important element of a particular lifestyle, but also as an element of their environment.

With the growing interest in art as an asset class, it is believed that Poland will see a steady rise in the number of funds coming to market.

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72 Data from the Polish Ministry of Finance
73 Poland 2012 Wealth Book: The rising star of Europe, Wealthinsight
Can you make a profit buying and selling Polish art?
In the first half of 2012, 43 repeat sales transactions took place (this includes investments within a horizon of more than one year). The average investment horizon was six to seven years. During this time, investors earned 155.4% on average (excluding inflation). The annual rate of return for artworks held for longer than 15 years is 46.6%, while those held from one year to five years generated an annual return of just 0.2%.

As markets continue to flourish throughout the world, the art market in Poland is also gaining momentum and there is growing interest in the possible investment opportunities. Poland is definitely on the right track even if it takes another ten years or more to match the size and value of the leading art markets today.

*Selected facts*

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<tr>
<th>43 repeat sales between January 1 and June 30 2012 (investments with a horizon of more than one year)</th>
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<td><strong>Average length of the investment horizon</strong>: 6 years 7 months</td>
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<td>Investors earned an average of <strong>155.4%</strong> (excl. inflation) in this period</td>
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<td><strong>Average annual rate of return</strong>: 0.2% for artworks kept for more than one year, 11% for artworks kept for more than two years</td>
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<td><strong>Average annual rate of return for paintings</strong>: 11.7%</td>
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<td><strong>Average annual rate of return for drawings</strong>: 3.7%</td>
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<td><strong>Average annual rate of return for art before 1945</strong>: 13.6% (23 transactions)</td>
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<td><strong>Average annual rate of return for contemporary art</strong>: 4.6% (20 transactions)</td>
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<tr>
<td><strong>Average annual rate of return for investments with a horizon of more than 15 years</strong>: 46.6% (6 transactions)</td>
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*Source: Polish auction market. Report on the first half of 2012. Abbey House Auction House*
Poles have started to treat art not only as an important element of a particular lifestyle, but also as an element of their environment.