The state of the arts

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It is not only the uncertainty of Brexit that has affected the art market over the past 3 years

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More than 3 years after the UK?s referendum on EU membership, failed negotiations and repeated postponements have left many businesses with seemingly uncertain futures. High-street retailers have seen fluctuating fortunes, although factors besides Brexit have admittedly been part of this process.

Against this less than optimistic picture, global art sales reached an estimated $67.4bn in 2018 ? an increase of 6% on 2017, according to findings published in the Art Basel and UBS global report The Art Market 2019 .

Identifying trends and assessing the impact of wider economic shifts is always of interest to personal property professionals ? and indeed, throughout the property profession generally. For instance, sales of jewellery and watches in the UK have performed strongly; the link with gold price has probably contributed to this, because jewellery and precious metals are a traditional hedge against inflation and diminishing confidence in monetary investments. Continually low interest rates for savers may also have fuelled the market, and likewise changes in taxation for buy-to-let investors.

At the same time, the value of the pound has fluctuated since the referendum, and a weak pound is bad for the jewellery trade: precious metals and gemstones are traded globally and become more expensive in real terms as the pound falls. Luxury pieces typically have a low inventory turnover ? that is, stock is not sold or replaced many times over a given period ? so this could make it more difficult to sell them as prices will have to rise.

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On the other hand, more expensive jewellery prices could encourage visitors from overseas to spend more as they perceive the pieces as being of higher quality. The weaker pound is also encouraging overseas tourists to visit the UK as sterling is cheaper for them to buy, and jewellery sales could rise if they are tempted to make purchases while they are here. Some Swiss watch brands are even altering their pricing structure, as buyers from eurozone countries are making purchases in London because the price in sterling is lower than in their homeland.

Sales across 2018 brought the global art market to its second-highest level in a decade, representing a rise of 9% since 2008. But why has this occurred, given the ongoing uncertainty over Brexit in the past 3 years?

Research on global high-net-worth collectors has shown that millennials are buying considerably more across all sectors of the art market than other generations. Millennial collectors across all regions made up just less than half of the high-end spenders, buying artworks valued at more than $1m, which underlines the purchasing power of this demographic in the global market.

While galleries and auction houses were the most commonly used channels for such purchases, art fairs were also important, especially in Asia, where Brexit has only intensified competition. Between 92% and 97% of collectors from Singapore and Hong Kong purchased from fairs, compared to 68% and 72% in Japan and the UK, respectively.

James Hammond, head of Asian art at Ewbanks Auctioneers , says: ?There have been enormous changes across the Asian economies over the past 20 years or so. This is producing a vast new market of collectors and dealers who have looked at both the traditional collecting areas and auctions offering high-status objects that may be new or speculative.

?For many years, demand exceeded supply, so auctions were buoyant, buyers confident, and vendors keen to sell. As the Asian markets evolved and matured, buyers have set their sights higher. You would now expect queues of telephone bidders for the masterpieces of Chinese imperial porcelains, the large tantric sculptures of Tibet and the monumental paintings of Amrita Sher-Gil. This is a sensible case of investment and good taste, but it has left the bottom rungs of the collecting ladder depleted. That produces a limited perspective of art history and identifies great art in terms of its hammer price.

?Younger collectors who are driven to buy Japanese prints, Chinese export porcelain, Indian devotional sculpture or Islamic metalwork are now an endangered species, causing further deterioration in these traditional markets.?

Western preferences and designs, especially in conjunction with perceived status, have dramatically altered the Asian art market, particularly for a new generation who are investing their spare salary in technology, such as the latest TV models, rather than in art. You could say that it has never been a better time to invest in the lower rungs of the Asian market.

Auction sales in the UK were meanwhile reported in The Art Market 2019 as having advanced by 15% year on year to $5.3bn by the close of 2018. In the same period, auction sales in China declined by 9%, to $8.5bn. The Chinese market also saw one of its highest rates of unsold lots, with 57% of the works offered for auction in 2018 not finding buyers.

As many collectors and auction-goers will testify, the online market is becoming increasingly dominant as a platform for art trading. Economists estimate that online sales approached $6bn in 2018, which equates to nearly 1 in 10 of all global sales. However, at the top end of the art market, sales of artworks purchased online slumped to around 4%.

Millennials have also moved away from other traditional collecting areas, and there has been a seemingly unstoppable surge of interest in sporting and film memorabilia, vintage watches and handbags. Conversations with auctioneers, gallery owners and jewellers in recent months are best summed up as being concerned with planning ahead. Even the experts can?t predict what will happen in the wake of Brexit, as those who follow the media pundits can attest. If jewellery prices do rise, some experts believe that people will continue to invest in luxury goods; others think it may cause disruption for jewellers.

The potential for future job uncertainty may cause some collectors to consider what they can afford ? but others may see it as an opportunity.

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Further information

- This feature is taken from the RICS Property Journal (January/February 2020)