

Art Markets: Demand & Outlook

Broad overview of trends in demand and outlook for global & Latin American art markets

The laws of capitalism can now be applied to fine art markets, due to two main phenomena: globalization and research.¹ The long-term worldwide trend of increasing wealth has created an enormous potential investor population. Diasporas have also helped promote cross border and international interest in regional art. Better research has been helped by significant technological advances allowing for data dissemination, verification and flow of information. These factors have brought together a much larger community interested in investing in art.

In recent years, globalization has been a driving force of demand in the art markets. The Economist describes the patterns in art investing: “When nations grow richer, their citizens become more educated and have fewer children. Once they reach a certain level of affluence, they also start to buy art. Their first instinct is to seek out the traditional sort made in their own country. As they become more confident they often grow more adventurous as well, buying unfamiliar work from other countries and less traditional contemporary art produced at home that expands the boundaries of taste.” This trend can be quantified when looking at the regional spread of the biggest buyers of Sotheby’s (who purchased lots costing at least \$500,000): in 2003, these buyers came from 36 countries. In 2009, only four years later, they were spread over 58 countries, and their total number tripled.¹

More global buyers translates into higher demand for art, supporting increasing prices and value. Increasing wealth is also a positive force in the art markets. In 2013, the population of individuals with \$30 million net worth or above increased by 6.3%, and is projected to increase by 4.0% annually over the next 5 years.¹ As ultra high net worth individuals are the crucial source of demand, this increase in population should translate into increased interest and activity in the art market. In 2012, 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 from 2011: from US \$6.27 billion (2011) to \$6.64 billion (2012), as demonstrated by the below chart.¹

The Thinking Man’s Approach



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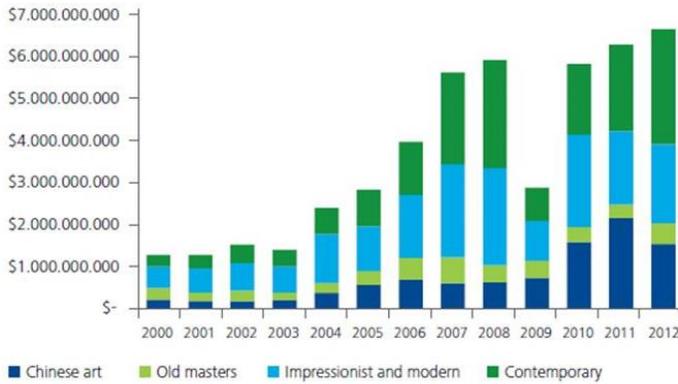
This month’s Thinking Man is dedicated to the art markets, as over the next few weeks, there are two major events for modern & contemporary art: **Pinta**, the Modern & Contemporary Latin American Art Fair (New York, November 14th) and **Art Basel**, the world’s premiere Modern & Contemporary Art Show (Miami, December 4th). We describe positive trends in demand – globalization; rising worldwide wealth; and potential increases in allocation to art- as well as outlooks for the global and Latin American art markets.

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Another potential positive source of demand in the art world is the increased spending that ultra high net worth individuals may allocate to art. The typical art investor is driven to invest for emotional reasons- to support an artist; to express their creativity and tastes; for their own enjoyment. They also may want to build up a collection to leave as a legacy for the future generations of the family. But art is also building up a reputation for some of its investment characteristics- diversification (as it is a non-correlated asset) and an inflation hedge (as it is a real asset and provides a store of value). Art markets may see increased flow if investors believe it can add value to their portfolios.



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Latin American Art

In 2012, Latin American auction sales saw massive growth- increasing by 25% to \$84.8 million. Although the latest round of auction sales (in May 2013) showed just a modest 2% increase (from November 2012 sales) auction sales continue to be robust and steadily grow in the Latin American market since the 2008 crisis.¹

There is broad consensus amongst art experts that the Latin American market will experience growth. ArtTactic, the leading art market analysis and research firm, published in its 2013 outlook that 67% of art buyers expect the Latin American art market to expand in 2013. Also significant is Latin America's distinction as the regional market which art collectors and professionals have the most confidence in: 59% believe that the market will be positive- by far the most of any of region (see below table).²

	ArtTactic Collector Outlook 2013	Collector poll: Market direction		
		Up	Flat	Down
US & European contemporary	Record sales in New York in November 2012 have boosted confidence in the market	36%	47%	17%
Chinese contemporary	After a difficult year, the majority of collectors believe the market correction is losing momentum, and that the market could rebound in 2013	43%	35%	22%
Middle East modern and contemporary	After fewer auction sales in 2012, and a general lack of record sales, 2013 will be a better year as Sotheby's reinstates its modern and contemporary Arab and Iranian sale in April.	52%	43%	5%
Indian modern and contemporary	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.	22%	63%	15%

¹ "Art Market Update: Latin American Art Market." *Fine Art Fund Group*. Aug 2013

² "Art and Finance Report 2013." *Deloitte and ArtTactic*. 26 Mar 2013



Latin American modern and contemporary	Global interest in Latin American art is set to continue in 2013, as major international collectors and galleries focus on the region.	59%	33%	8%
Russian modern and contemporary	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 instill some much needed confidence in this market.	29%	54%	17%

Latin American art is often characterized as undervalued, as there has not been an “explosion” in prices as there have been in other 20th century art categories. Alejandro Zaia, chairman of the London Latin American art fair Pinta, characterizes the market: “slowly, but steadily, prices are heading up,” and “you still have undervalued artists, you have opportunities, but it is not the same as 10 to 20 years ago.”¹

In 2012, there was strong demand from regional buyers- which may be a consequence of positive economic conditions in markets such as Chile, Brazil and Colombia.² According to the Fine Art Fund Group, there has also been a strong demand for modern art work outside of Mexico (which has played a dominant role). Now art works from Brazil, Chile, Venezuela, Colombia and Cuba are also facing strong demand, signaling “that new collectors related to these regions are playing an increasingly important role in the growth of the Latin American art market.”³ This newly expanded regional base is encouraging for Latin American art. But the expanded base doesn’t just apply to regional players- Latin American art is experiencing its own driving force of globalization, gaining international recognition and demand from buyers in Europe, the US and Middle East. Latin American art fairs have been a key infrastructure trend, and have started to attract attention from the international art world.⁴ A positive outlook in the market coupled with stronger regional and global demand are all positive forces for the Latin American art market and are encouraging signs for investors.

Conclusion

The art markets have strong forces driving demand: globalized buyers, the increasing ultra high net worth population and potential for increased allocation to art in investor portfolios. Experts see value in the Latin American art market, and BigSur is happy to act as a player in supporting the growing visibility of Latin American art and bringing it to the world stage. This year we will sponsor The Modern & Contemporary Latin American Art Show, PINTA, held in New York City on November 14th. In particular, we will be sponsoring a special exhibit on José Gurvich, a very important artist who among other things, embodies the diaspora phenomenon- born in Lithuania, raised in Uruguay, travelling and working extensively throughout Europe and Israel, and finally ending up in New York in 1970.⁵ All these diverse environments and experienced shaped his unique artistic talent.

¹ Ferro, Shane. “The Curious Case of the Latin American Art Market: Low Volatility, Undervalued Stars, and Tenacious Collectors.” *Blouin Art Info*. 17 May 2012.

² “Art and Finance Report 2013.” *Deloitte and ArtTactic*. 26 Mar 2013

³ “Art Market Update: Latin American Art Market.” *Fine Art Fund Group*. Aug 2013

⁴ “Art and Finance Report 2013.” *Deloitte and ArtTactic*. 26 Mar 2013

⁵ Museo Gurvich (http://www.museogurvich.org/ing_biografia.html)



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