THE ART MARKET 2023

A report by Art Basel & UBS

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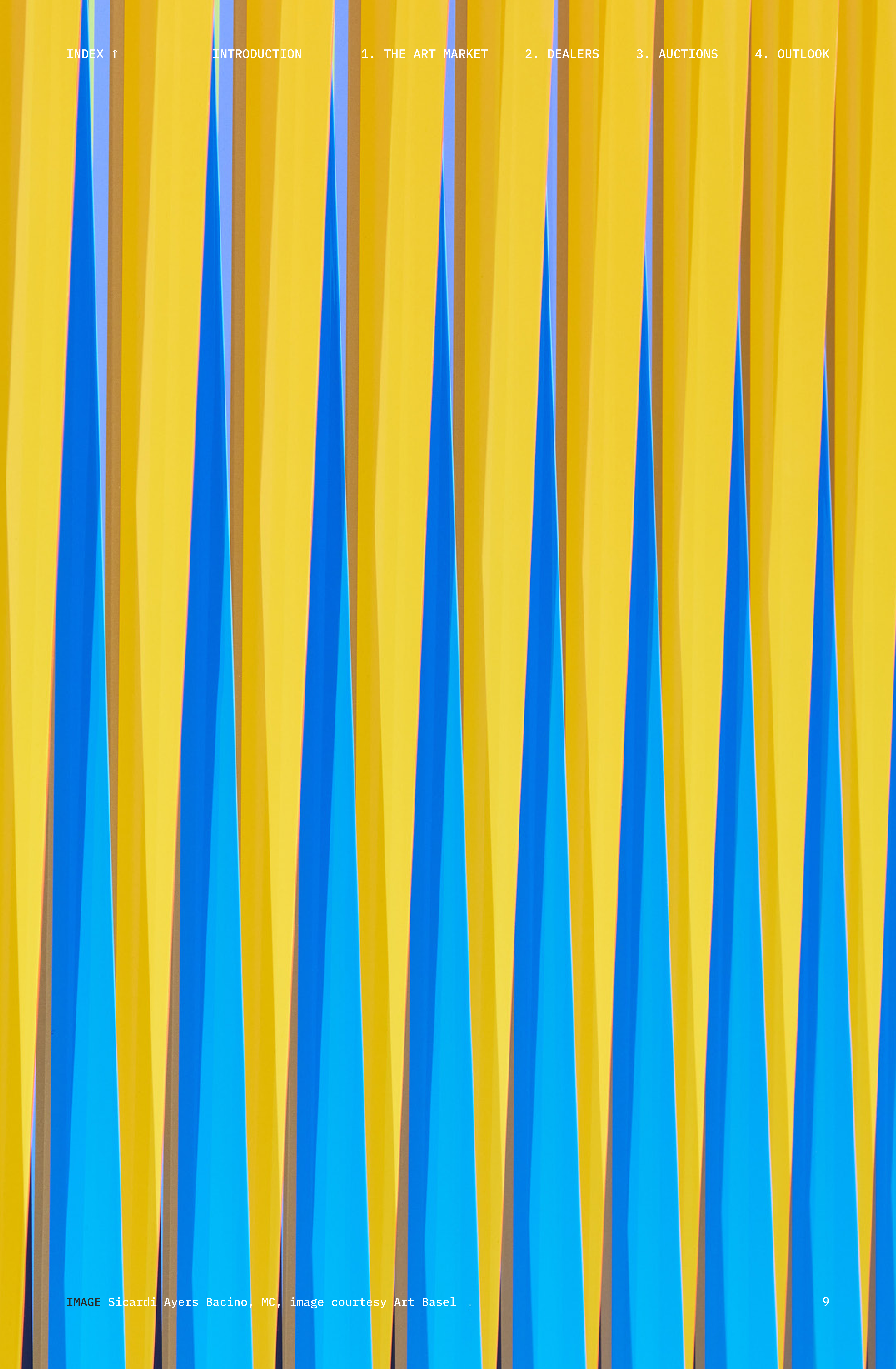

IMAGE Sicardi Ayers Bacino, MC, image courtesy Art Basel

Acknowledgements

The Art Market 2023 presents the findings of research on the global art and antiques market in 2022. The information presented in the report is based on data gathered and analyzed by Arts Economics (artseconomics.com) from dealers, auction houses, collectors, art fairs, art and financial databases, industry experts, and others involved in the art trade. (The Appendix offers an outline of some of the main data sources used in the report.)

A critical part of this research every year is the global survey of art and antiques dealers and I would like to extend by sincerest gratitude to all of the individual dealers who took the time to make this research possible by completing the survey. The survey is also supported by dealer associations around the world who distribute the survey to their members. Thank you to all of the presidents and administrative staff of these associations who play a pivotal role every year in boosting responses. This report expanded our coverage in Asia, and I would like to extend my gratitude especially in Japan to Sayuri Fujiwara of Fujihane, the Agency For Cultural Affairs at the Government of Japan (Bunka-Cho Art Platform Japan), Japan Art Dealer's Association, the Contemporary Art Dealers Association Nippon (CADAN), and the Association for the Promotion of Contemporary Art in Japan (APCA) for their help and collaboration. I am also very grateful to Jieon Shim from the Korean Arts Management Service (KAMS) for help with research of the Korean art market.

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Finally, my many thanks to Noah Horowitz for his insights, Jeni Fulton for her help with editing the draft, and especially Nyima Tsamdha for coordinating production.

Dr. Clare McAndrew
Arts Economics

Foreword by Art Basel

Inflationary pressures, the long tail of the COVID-19 pandemic, supply chain issues, and cryptocurrency turbulence: the art market has been subject to manifold, and at times contradictory forces over the last year. The sixth edition of our landmark report, The Art Market, authored by Dr. Clare McAndrew, Founder of Arts Economics and published in partnership with UBS aims to decode this territory. In an ever more quantified, yet also ever more complex world, the merits of data-driven analytics in supplying transparency in the art market is paramount, and this latest report provides a clear view on how the industry has fared.

The art market as a whole expanded, despite the volatility in the wider economy. A closer look, however, reveals a mixed picture: while the larger dealer segments grew, sales for the smallest dealers, and many parts of the auction market contracted. Overall, the market grew by 3%, driven by a 7% increase year-on-year in dealer sales, restoring the market to its value before the pandemic in 2019 for that sector. This was catalyzed by the event-driven cycle of art fairs, gallery openings, and auctions resuming its customary rhythm.

Closer to home, 2022 marked several exciting milestones for Art Basel, notably the launch of Paris+ par Art Basel in October and 20th anniversary edition of our show in Miami Beach in December. This emphatic end to the year underscored the resurgent appetite for international travel, discovery, and the vibrancy of seeing art in person. In lockstep with this, galleries reported that 35% of their business derived from fair participations, up from 27% in 2021 but below pre-pandemic levels, indicating that there is still room to grow.

Notwithstanding the challenging circumstances over the past two years, the number of dealers expanding their footprint to operate from more than one region jumped from 5% in 2021 to 9% in 2022 – an effect, perhaps, of dealers seeking to maintain close relationships to clients.

And despite the crypto winter, the popularity of digital, film, and video art increased substantially, from 1% of dealer sales in 2021 to 5% last year. NFT-backed digital art accounted for much of that change, indicating how the market continues to evolve and adapt to the times.

High-net-worth collectors – surveyed last year by Arts Economics in collaboration with UBS Investor Watch – remain optimistic about the market, spending more in 2022 than they had prior to the pandemic, and looking positively into 2023, with strong spending plans – 77% expected the market to grow, and the majority intended to purchase art in 2023. So, while signals of macro-economic volatility are a dominant talking point as we head into 2023, the data shows us a resilient art market bolstered by deep-pocketed collectors, particularly at the high end.

On behalf of Art Basel, I would like to thank Dr. Clare McAndrew once again for her extraordinary efforts in putting together this industry-leading study, as well as our counterparts at UBS who have been exemplary partners and whose vital contributions continue to grow year by year. Lastly, an earnest thanks to the gallerists, art market professionals, and our global team whose contributions make all of this possible.

Noah Horowitz
CEO Art Basel

Foreword by UBS

The year 2022 saw the art market hold onto its post-pandemic rebound and strengthen further despite severe economic uncertainty and the return of war to Europe. Financial markets slumped as central banks battled inflation and as television sets flickered with scenes of willful destruction we thought, perhaps foolishly, had been consigned to the past.

Collectors, however, remained committed to the market and reengaged with live events while exhibitions, auctions, and fairs returned to fuller schedules. This cautious growth in the face of deep uncertainty is testimony to the strength of the post-pandemic art market and reason to believe in its resilience. Global art sales increased by 3% year-on-year to an estimated $67.8 billion in 2022, lifting them above their pre-pandemic level in 2019. Not all gains were the same and the year 2022 can be described as one of divergence. Market growth is loaded towards the top end.

Sales in Mainland China and Hong Kong also eased during their ongoing battle against COVID-19. But the US market roared back to life, again securing its premier position in the global ranks. In one highlight, Christie's sale of Paul Allen's remarkable collection in New York realized more than $1.6 billion in November, making it the highest-value auction of all time. By late 2022, there was a sense of optimism among dealers, particularly in Mainland China and Hong Kong.

Digital developments also continue to open up the market. Blockchain innovations offer new tools to support artists, collectors, and dealers in a quickly advancing legal and regulatory landscape. There are welcome improvements in price transparency and access to information. It is helping to lower barriers to entry too, enabling new collectors to enter the market. This is essential to its long-term health.

Art collecting can be an act of courage and conviction driven by curiosity, inspiration, and a desire to forge new relationships. That courage permeated the year 2022, where the market demonstrated its resilience and enduring hope. UBS have been the Lead Partner of Art Basel for almost three decades, and since 2017, we have analyzed and co-presented art market trends and information, a role ideally suited to our leading position worldwide in financial research and analysis. We hope this publication leads to deeper insight into the state of today's art market.

Christl Novakovic
CEO UBS Europe SE and Head Wealth Management Europe
Chair of The UBS Art Board
UBS, Global Lead Partner of Art Basel

IMAGE Christopher Myers, James Cohan Gallery, image courtesy Art Basel

1. THE GLOBAL ART MARKET IN 2022

Key Findings

1. Global art sales increased by 3% year-on-year to an estimated $67.8 billion, bringing the market higher than its pre-pandemic level in 2019. After a strong recovery in sales of 31% in 2021 from the pandemic-induced low point the previous year, results were more mixed in 2022, with variations in performance by sector, region, and price segments resulting in more muted growth.

2. The volume of transactions fell sharply during the pandemic in 2020, but recovered in 2021, with the number of sales rising by 19% to 37.3 million. In 2022, these increased only marginally (1%) to 37.8 million, with the rise mainly due to more sales by dealers.

3. The high end of the market continued to be the driver of growth in 2022. Sales in the public auction sector dipped slightly by 1% to $26.8 billion, with works priced at over $10 million being the only segment to increase in value. The dealer sector grew by 7% to $37.2 billion, and sales for those operating at the higher end were significantly better than their peers in the lowest tiers.

4. The US retained its premier position in the global ranks, with its share of sales by value increasing by 2% year-on-year to 45%. The UK moved back into second place with 18% of sales, and China's share decreased (by 3%) to 17%, as it fell back into third position. France maintained its position as the fourth-largest art market worldwide with a stable share of 7%.

5. After a significant decline in sales during the pandemic, the US art market has seen one of the most robust recoveries of all the major markets. From a pandemic-induced low in 2020, sales bounced back in 2021, increasing by just over one third in value to $28.0 billion. Growth continued in 2022 with a further increase of 8% year-on-year to $30.2 billion, its highest level to date. This was driven by a major uplift at the high end of the auction sector, along with more moderate but positive growth in dealer sales.

6. Despite a year of intense economic and political pressures, sales in the UK maintained their momentum, with a rise of 5% to $11.9 billion in 2022. This second year of growth boosted the market from its 2020 low, although sales were still below their pre-pandemic level in 2019 of $12.2 billion.

7. China had a significantly worse year in 2022, with lockdowns stalling activity, and sales and events curtailed or cancelled. Sales declined by 14% year-on-year to $11.2 billion, and although still 13% above 2020, this was their lowest level prior to that since 2009.

8. The French market saw positive, low growth of 4% year-on-year measured in US dollars, with the increase somewhat muted by deteriorating Euro values in 2022. Following a drop in value of 30% in 2020, sales in France had a particularly strong uplift in 2021, increasing by 58% year-on-year to $4.8 billion. The continued growth in 2022 led to a new peak of just under $5 billion, the highest level to date.

9. As exhibitions, auctions, and fairs all ran on much fuller schedules and collectors began to reengage with live events and sales, both dealers and auction houses reported a further reduction in their share of e-commerce in 2022. Online-only sales fell to $11.0 billion, a decline of 17% from the 2021 peak of $13.3 billion, but still 85% higher than in 2019. Online sales accounted for 16% of the total value of the art market's 2022 turnover, down from the peak of 25% in 2020, and 4% lower than the share of global retail e-commerce (20%) in 2022.

10. After reaching a peak in late 2021 of close to $2.9 billion, sales of art-related NFTs on platforms outside the art market fell to just under $1.5 billion, a decline of 49% year-on-year. Despite the significant drop in value, sales were still over 70 times those in 2020 (at just over $20 million). The decline in value was much greater for art-related NFTs than other segments, and they accounted for just 8% of the value of NFT sales on the Ethereum network in 2022 (versus 67% for collectibles-based NFTs).

1.1 Overview of Global Sales

After two years of disruption from the global pandemic, 2022 was anticipated as the year the art market would return to a more regular momentum. Early in the year there were predictions of a boom in sales as the full art fair calendar resumed and auctions featured high profile collections. Collector sentiment surveys conducted mid-year also indicated optimistic buying plans. But in reality, while the year was certainly marked by exceptional sales and events, the overall results were much more mixed, with variation in performance by sector, region, and segment resulting in more muted growth than anticipated.

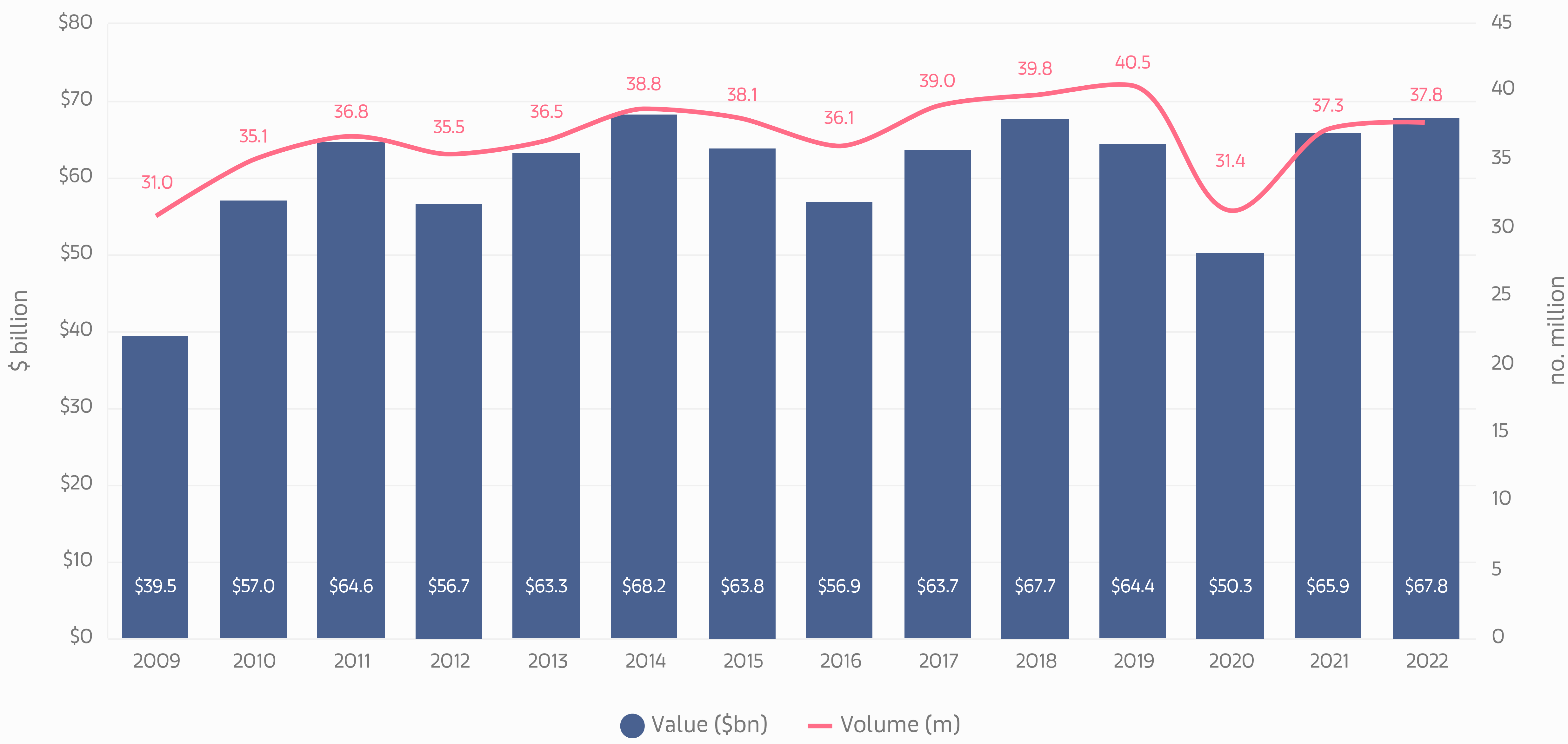
The COVID-19 pandemic created a very difficult operating context for the art trade, with restrictions on operations, travel, exhibitions, and events all contributing to a contraction in sales of 22% in 2020 to $50.3 billion, its lowest point since the global financial crisis in 2009. However, just as the market bounced back in 2010, sales also recovered quickly in 2021, driven by both the rapid adaption of the art trade to digital channels and strong sales at the high end of the market buoyed by the expanding wealth and spending power of high-net-worth (HNW) collectors. As nearly all regions and most segments recovered in 2021, values reached $65.9 billion, an increase of 31% from 2020, bringing the market higher than its pre-pandemic level in 2019.

Collectors and those in the art trade began 2022 with a highly optimistic outlook as sales and events resumed a more regular pace in most regions. The first half of the year was marked by strong sales in the auction sector, with many record prices achieved. There were positive indicators from the dealer sector with busy fairs and exhibitions. However, as the year progressed the context proved to be more challenging than anticipated, with political and economic instability, the intensifying war in Ukraine, rapidly increasing inflation rates, supply issues, and looming recessions in key markets. In the last quarter particularly, despite the headline-grabbing $1.6 billion Paul Allen sale at Christie’s in New York, the market appeared overstimulated and began to cool, with reports of more subdued bidding and buying at events. Tight zero-COVID policies in China also meant the cancellation of many events and auction sales in the region throughout the year, which took a heavy toll on the art market’s growth. High transmission rates from the abrupt end of these regulations at the start of 2023 have continued to cause short-term disruptions. While the other major markets including the US and UK posted positive results, this divergence in performance created more subdued growth, with global sales increasing by just 3% year-on-year to an estimated $67.8 billion.

Divergence in performance created more subdued growth in 2022, with global sales increasing by just 3% year-on-year to an estimated $67.8 billion

In addition to these differences by region, there was also divergence in market segments, with the highest end continuing to be the driver for growth. In the auction sector, the highest-priced works of over $10 million were the only segment to show an increase on aggregate, while in the dealer sector, those at the higher end performed significantly better than their peers in the lower tiers. These trends continued to dampen any hopes of significant restructuring of old hierarchies in the post-pandemic art market, and sales continued to display the more familiar pattern of outperformance at the high end, buoying aggregate values but creating a denser concentration at the top.

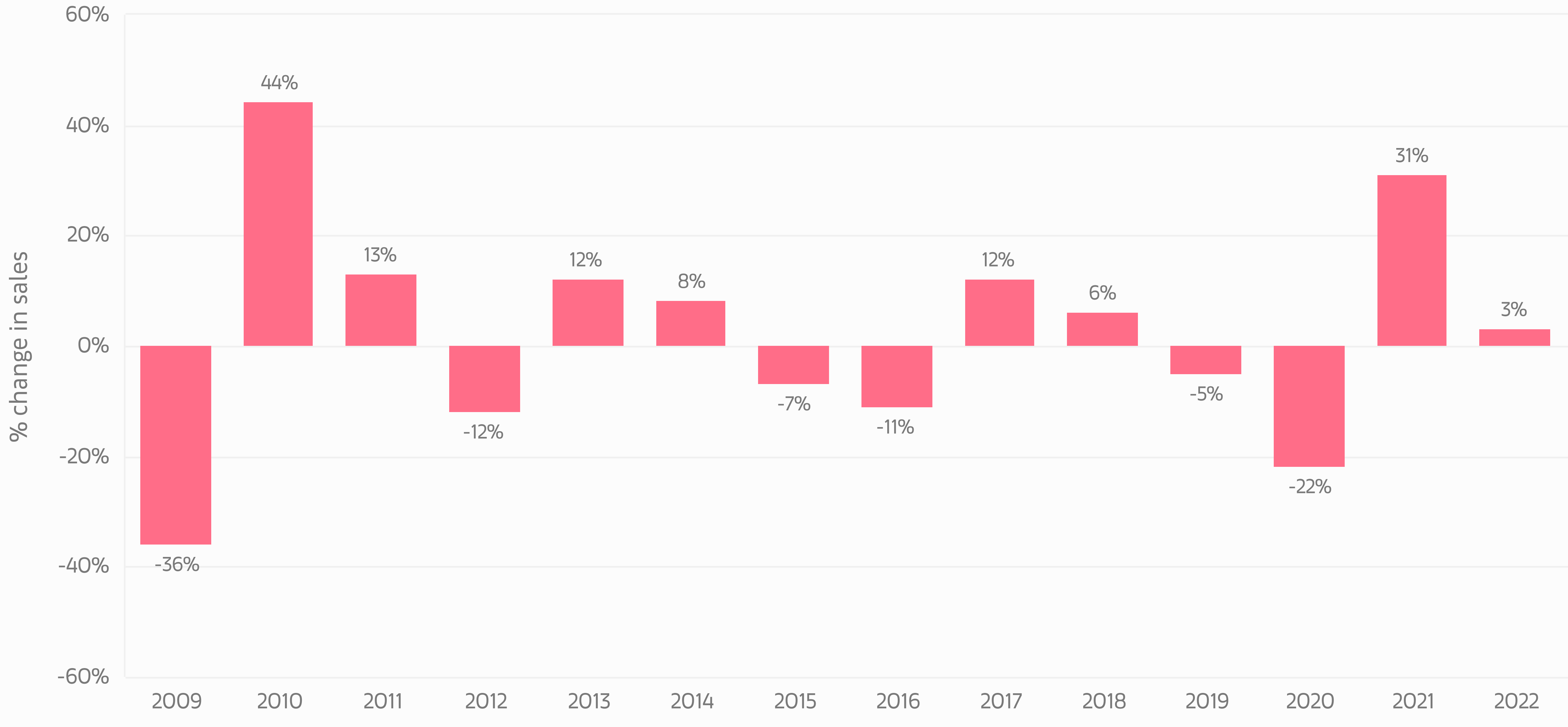
Figure 1.1 Sales in the Global Art Market 2009–2022



Prior to the events of the last three years, the last major recession in the art market took place in 2009 when sales fell by 36% to $39.5 billion. The fallout from the global financial crisis affected nearly all segments of the market, including the high end. The market bounced back strongly in 2010, with a booming Chinese market and strong sales in the US operating in unison to push values up by 44% to $64.6 billion by 2011. The recovery was stalled to some extent by the abrupt end to the boom in China in 2012 slowing global values, but from 2009 to 2011 global art sales had advanced in value by 63%.

This time around, the market was already under pressure prior to the pandemic-induced contraction in 2020 as geopolitical tensions and economic uncertainty negatively impacted sales in 2019. The onset of the pandemic in early 2020 created an unprecedented crisis for the market, with closures and restrictions on events all taking their toll. Nevertheless, the market showed considerable resilience, and online trading helped salvage value, with the year-on-year nominal decline significantly less severe than in 2009. This has been matched, however, with a less pronounced recovery than from 2009 to 2011, with sales from 2020 to 2022 increasing by 35%.

Figure 1.2 **Annual Change in Sales by Value in the Global Art Market 2009-2022**



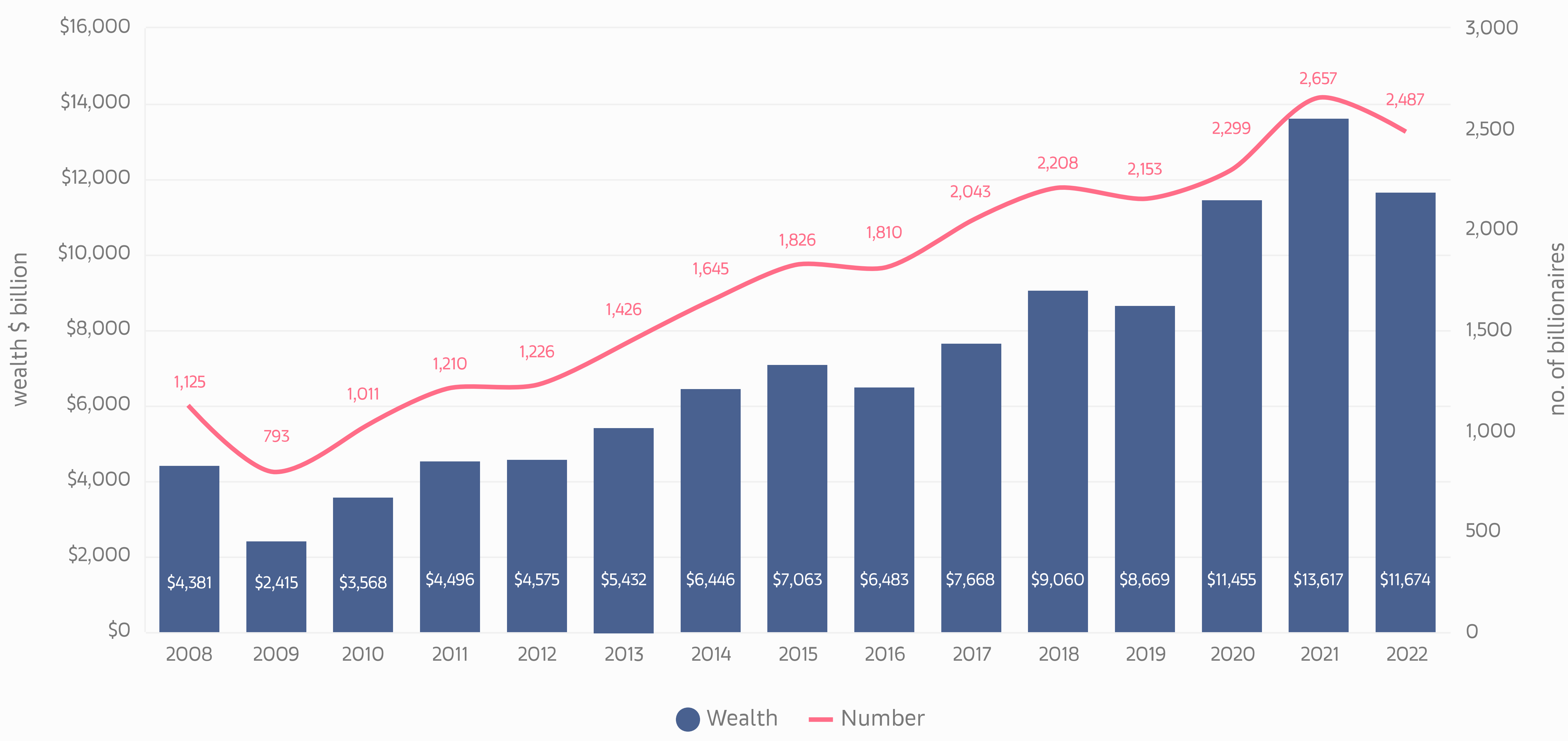
In both cases, the market's rebound has exceeded its decline. Sales in 2022 were greater than before the pandemic and the second-highest point achieved in the market to date, with values just below the peak of 2014. A significant factor helping the market contract less (and recover faster) has been ample demand at the higher end of the market from wealthy collectors. Despite the widespread negative social and economic effects of the pandemic, global billionaires saw a significant boost to their wealth of almost one third in 2020 with certain industries such as technology, e-commerce, and healthcare thriving. The continued growth of this segment highlighted important differences between the pandemic and other previous financial downturns, including the global financial crisis of 2009, which resulted in the number of billionaires worldwide falling by 30% and their wealth decreasing by 45%. Growth in high-end wealth continued in 2021 with the number of billionaires and their wealth rising further, by 16% and 19% respectively, reaching an historical peak of $13.6 trillion and 2,657 individuals.

Sales in 2022 were greater than before the pandemic and the second-highest point achieved in the market to date, with values just below the peak of 2014

Using *Forbes* World's Billionaires lists (compiled since 1987), and measuring real-time wealth in December 2022, it was evident that there was some slowing of this trajectory over the year. The reported number of billionaires dropped to 2,487 (down by 6%) and their combined wealth was down 14% to $11.7 trillion. Some of the biggest losses were in Russia, with the billionaire population down by 18% and their wealth declining by one quarter, and China (including Mainland China and Hong Kong), which lost 99 billionaires, a 16% decline year-on-year, with wealth also decreasing by 27%.

Nonetheless, even with this contraction in 2022, billionaire wealth has more than doubled in 10 years, and it has increased by more than one third since 2019, just before the onset of the pandemic. Along with the adaptions made by the market, the expansion in wealth for the world's richest individuals has undoubtedly helped the art market weather the COVID-19 crisis better than it otherwise would have and to recover more rapidly. The extent to which these billionaires have focused their buying on the thin segment at the top of the market may, however, have increased inequalities in how businesses in the art trade have fared.

Figure 1.3 Global Billionaire Population and Wealth 2008-2022



Sales performance also varied between the auction and dealer sectors of the market (with the latter covering both the primary and secondary markets). Both segments declined during the pandemic in 2020. Public auction sales fared slightly worse with values down by 29% versus a 20% drop in dealer sales. Going against the declining trend, private sales by auction houses rose by over 40% of their value. As the market recovered in 2021, all segments revived, but auction sales showed the strongest increase year-on-year, advancing by just over 50%. Private sales by auction houses were up by just over one third and aggregate values in the dealer sector increased by 18%. As noted in previous reports, it is often the case that when there is a positive outlook for the market, public auction sales are particularly buoyant, with vendors enticed by the chance of even better than anticipated returns. However, in less certain economic and political contexts, private sales, whether through auction houses or dealers, have often outperformed public auctions as sellers may prefer to keep the details of their transactions as well as the possibility of a failure to sell out of public record, as was the case in 2019.

While 2022 started optimistically, political and economic trends that percolated through the year – most notably the war in Ukraine, rapidly increasing inflation rates, interest rate hikes, China’s COVID-19 lockdowns, and looming recessions in key markets, like the US –

produced a much more uncertain outlook. The more pessimistic context created greater risk aversion on behalf of vendors, reports of thinner bidding at some auction sales, and more cautious and slower transacting in the private sector. This may have, in part, contributed to the better performance of dealers in 2022, as the uncertain and less positive outlook steered buyers and sellers more into the private sector. At the same time, within each of these diverse segments of the market, the performance of businesses was varied. As is commonly seen in times of uncertainty, the very top end of the market was less affected, with wealthy buyers anchoring onto the most established artists and works they perceived to be lower risk and greater stores of value.

Combining all sales of auction houses (both private and public), the auction sector accounted for 45% of the value of sales in 2022, down by 2% in share year-on-year, while dealers and galleries (including all online and offline retail sales of art and antiques in the primary and secondary markets) were at 55%. As always, the division between public and private sales varies widely between different regions and sectors. The boundary between these segments has also become less defined and 2022 saw companies in each sector encroaching further into what were once more traditionally segregated parts of each market. A detailed analysis of the dealer and gallery sectors based on surveys and other research in 2022 is given in Chapter 2, while Chapter 3 examines the auction sector, focusing on sales at public auctions.

The volume of transactions through the auction and dealer sectors also fell sharply during the pandemic by an estimated 23% to 31.4 million in 2020, but recovered in 2021, with the number of sales rising by 19% to 37.3 million. The number of transactions increased marginally in 2022 by just 1% to 37.8 million, with the rise largely due to more dealer sales as transactions in the fine art auction sector shrank. A significant volume of sales also continued to happen outside the traditional art market, both offline and through online platforms supporting direct sales from artists, creators, and resellers. Art-related sales on non-fungible token (NFT) platforms are not included in the figures for the art market's sales in 2022 but are discussed in more detail in Section 1.4.

IMAGE Evelyn Taocheng Wang, Antenna Space, image courtesy Art Basel

1.2 Regional Market Performance

Although their individual shares changed considerably, the three largest art markets – the US, China, and the UK – continued to account for the majority of sales by location in 2022, with a combined share of 80%, stable on 2021.

The US was one of the strongest performing markets overall in 2022. It retained its premier position in the global ranks, with its share of sales by value shifting up by a further 2% year-on-year to account for 45%. The UK and China have seen much reshuffling between second and third positions over the last decade and this continued in 2022, with the UK market moving back into second place with 18% of sales, up by 1% year-on-year from 2021. The difficult year for China's art market saw its share decrease by 3%, falling back into third position with 17%. France maintained its position as the fourth largest market with a stable share of 7%, and along with the rest of the EU accounted for a combined 12% of global sales, also stable on 2021, and up by 2% on 2020.

The US was one of the strongest performing markets overall in 2022 and retained its premier position in the global ranks, with 45% of sales by value

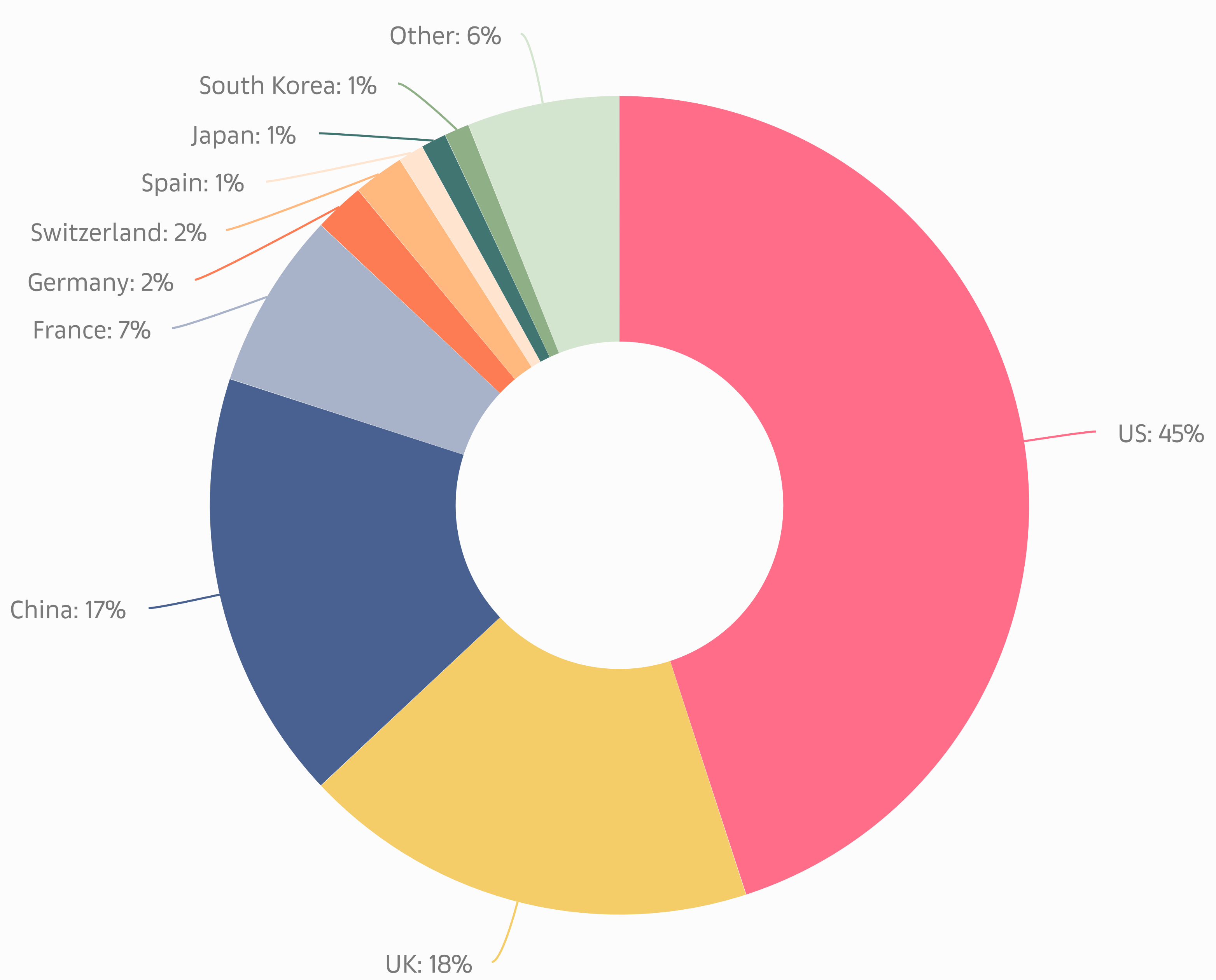
After a significant 25% decline in sales in 2020 during the pandemic, the US has seen one of the most robust recoveries of all the major markets, continuing in its key role as the center of global trading in art and home to the majority of the highest-priced sales that took place in 2022. Supported by strong, high-end supply and buoyant demand from local and international HNW collectors, sales recovered in 2021 increasing by just over one third in value to $28.0 billion. This growth continued in 2022 with a further increase of 8% year-on-year to $30.2 billion, driven by a major uplift in the auction sector from a string of multi-million-dollar sales, along with more moderate but positive growth in the dealer sector.

The US has been one of the strongest performing markets of the past 20 years, and helped drive the market's recovery following the global financial crisis in 2010, with consistent growth in sales up to 2015. A slowdown in supply at the high end of the market caused sales to fall by 16% in 2016, but they picked up from that point on, advancing to a peak of just under $30 billion in 2018. After two years of decline up to the end of 2020, the bounce back in sales over the last two years has brought values to a new peak, their highest level to date edging 1% above their previous high point in 2018.

The market in the US is supported by healthy local demand and supply, with the largest base of HNW and ultra-HNW (UHNW) individuals in the world as well as a strongly developed cultural infrastructure. However, one of its key growth drivers has been its position as the main global hub for the art trade, with the most expensive artworks brought to New York for sale to both local and international buyers. Sales in the US are fueled by imports of art and antiques, which rose by 60% year-on-year in 2021, and by a further 23% in 2022 to over $10.3 billion.[1]

The UK art market came under significant pressure over the last few years due to the complexities of Brexit alongside the impact of the pandemic. However, after two years of decline, the UK market increased in value by 15% year-on-year in 2021 to just over $11.4 billion, recouping some of its losses. This was nonetheless a weaker recovery than its larger peers, leaving it in third position globally, with a share of 17% in 2021, its lowest in a decade. Despite a year of intense economic and political pressures, sales maintained their momentum in 2022, with a moderate rise of 5% to $11.9 billion. This was still slightly below pre-pandemic 2019 levels, and the value of the market in the UK has fallen by 7% between 2013 and 2022, versus a rise of 46% for the US market in that period.

Figure 1.4 Global Art Market Share by Value in 2022



1 Data on US trade from USITC DataWeb.

Elsewhere in Europe, sales in France also saw positive, low growth of 4% year-on-year measured in US dollars, with the advance muted somewhat by deteriorating Euro values in 2022, which hit a 20-year low against the dollar during the second half of the year. Following a 30% decrease in 2020, sales in France had a particularly strong uplift in 2021, increasing in value by 58% year-on-year to $4.8 billion. The continued growth in 2022 lifted the market to a new peak of just under $5 billion, its highest level to date. Sales in Germany and Spain also showed growth and the EU as a whole advanced by 5% year-on-year to an estimated $8.8 billion.

China (including Mainland China and Hong Kong) fared significantly worse in 2022. Lockdowns stalled activity in some regions, restricting access and supply, and some sales were curtailed or cancelled due to strict zero-COVID policies. Some major auction sales were postponed in the autumn season and fairs were cancelled or cut short due to the stringent measures. Sales in China declined by 14% year-on-year to $11.2 billion, and the market fell to third place in the global ranks behind the UK. During a boom in sales in China from 2010 to 2014, sales had exceeded those in the UK. The two markets were then neck and neck for several years before the UK took the lead in 2018 and 2019, as trade and political issues weakened Chinese sales. In 2020, after three years of decline, China's market fell to $9.9 billion, its lowest point since 2009. It rose again by almost one third in value in 2021 to just over $13 billion. Although sales in 2022 were still 13% above 2020, they were at their second-lowest level since 2009.

Sales in China declined by 14% year-on-year to $11.2 billion, and the market fell to third place in the global ranks behind the UK

Figure 1.5 Global Art Market Share of the US, UK, and China 2013–2022[2]

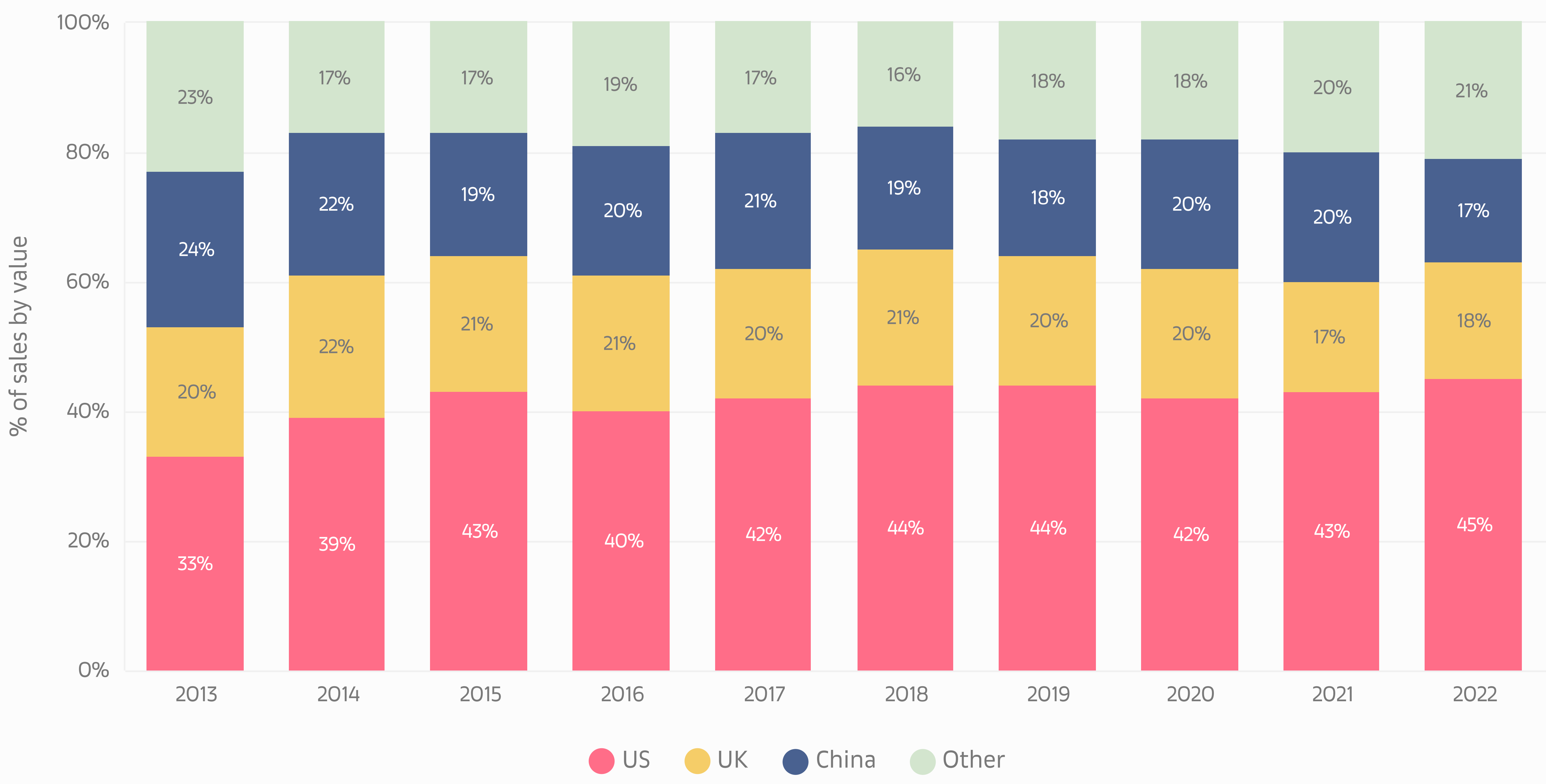
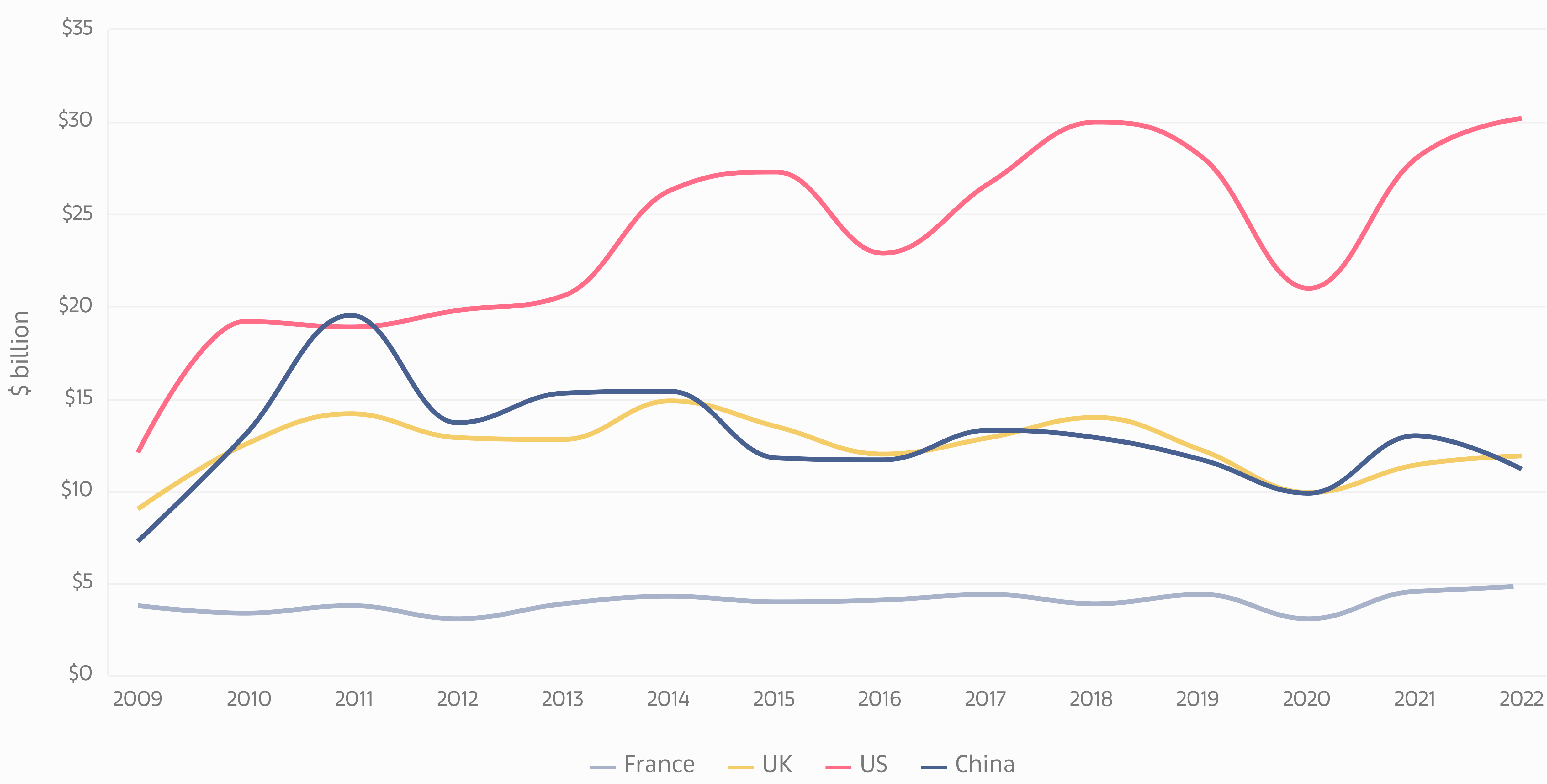


Figure 1.6 Sales in the Major Art Markets 2009–2022



2 Percentages presented throughout the report are rounded and reported to their nearest integer (apart from those less than 0.5%). In some cases, therefore, the integers in charts do not sum to 100% (but sum to 99% or 101%) due to rounding.

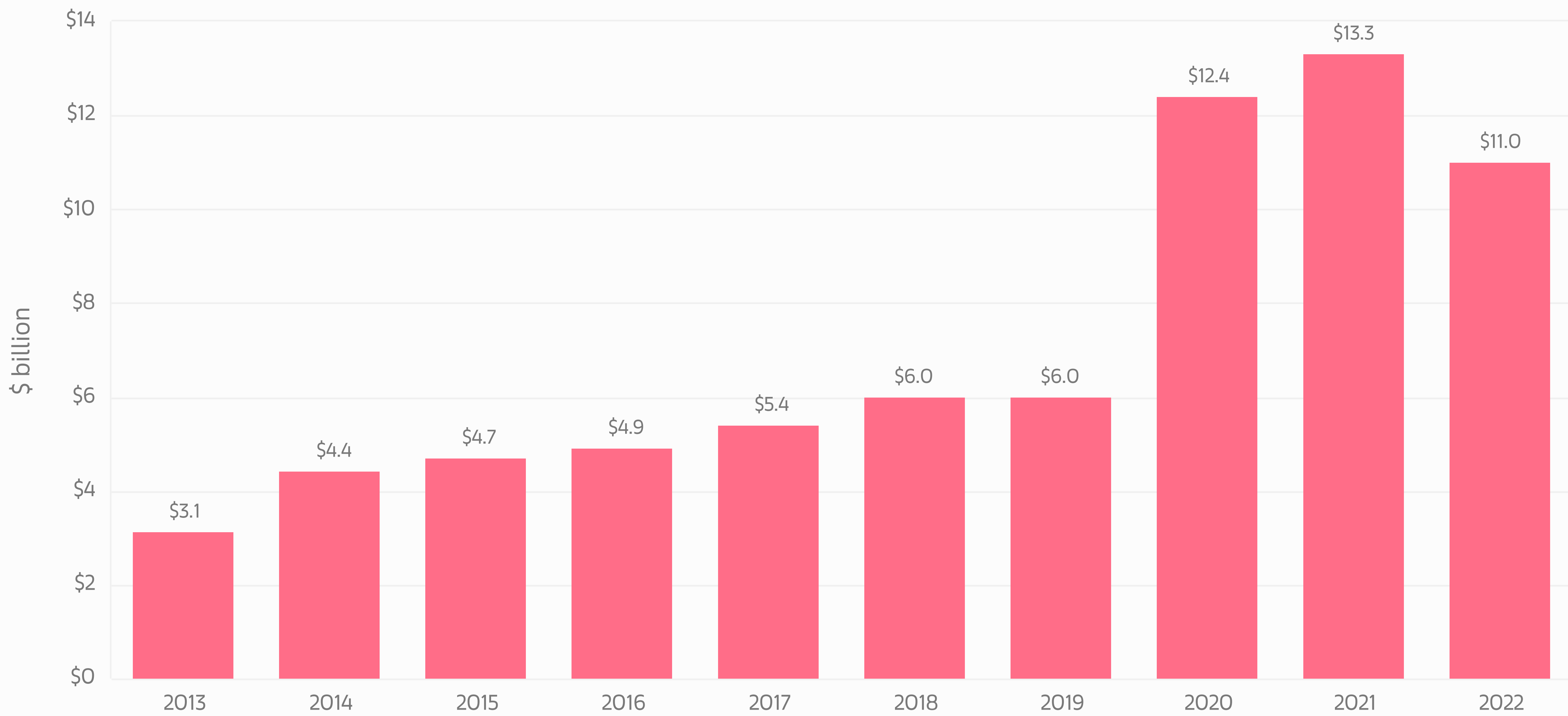
1.3 Online Sales

As the event-driven market resumed its more regular schedule in 2022, trends in how sales were made continued to develop. There was much focus on whether the shift to online would be sustained or if it had in fact been more of a knee-jerk reaction to the particular set of circumstances presented by the pandemic. The growth in e-commerce was one of the most significant developments in the art market over the last three years, and while the massive uplift in the share of online sales in 2020 has not been sustained, the market has not reverted to its pre-pandemic division of online versus offline sales.

After a slow but positive trajectory of growth in most years up to 2019, online sales reached an historic peak of $12.4 billion in 2020, doubling in size year-on-year as the pandemic restricted offline channels and events. Growth continued in 2021 with sales reaching $13.3 billion, an increase of 7%, with the advancing market buoying all sales, despite a slightly lower share of sales made online. Most businesses maintained digital sales and programs alongside their gradual return to live sales and exhibitions. However, in 2022, as exhibitions, auction sales, and fairs all ran on much fuller schedules and collectors began to reengage with live events and sales, both dealers and auction houses reported a further reduction in their aggregate share of pure e-commerce. Online-only sales fell to $11 billion, a 17% decline year-on-year from the 2021 peak, but still up 85% on levels in 2019.

The share of online-only sales in 2022 was 16% of the value of the art market's total turnover, down by 4% year-on-year and by 9% from the peak in 2020. Again, despite the decline, it remained significantly higher than 2019 or any previous year. Online sales are defined here as those made by galleries, dealers, and auction houses, either through their own websites, online viewing rooms (OVRs), other platforms, or via email, without an in-person viewing or presale contact. In the case of auctions, online-only sales are those where a live auction does not take place and do not include online bidding at a live sale. Online sales by dealers and auction houses are discussed in further detail in Chapters 2 and 3.

Figure 1.7 Online Sales in the Global Art Market 2013–2022



Considering the wider context, online sales in the art market fell below the share of aggregate retail e-commerce, reported as 20% in 2022 – 4% above the art market.[3] After significantly lagging behind other industries, the rapid uplift in growth in online art sales in 2020 had meant that the share of e-commerce, at 25%, temporarily exceeded that of aggregate global retail (18%) for the first time, before converging to more similar levels in 2021. It is clear from Figure 1.8 that the pandemic induced a substantial shift in e-commerce across many industries, doubling from 9% of retail in 2016 to 18% in 2020. While e-commerce is predicted to keep growing, the annual rate is expected to slow over the coming years. Retail e-commerce grew by 17% in 2021, but growth slowed to 10% in 2022. This pace is expected to remain relatively stable, with the share of total sales potentially inching forward to around 23% by 2025.[4]

Given the investment the art trade has made in digital platforms and strategies, along with the increasing acceptance and regularity of use of digital channels by collectors, it seems unlikely that the share of sales will revert to pre-pandemic levels in the art market. However, the tendency for higher-priced sales to remain offline may keep it from expanding past a minority share. Aside from the tapering off of the value of online-only sales in 2022, the importance of digital technology in assisting and supporting sales has continued to

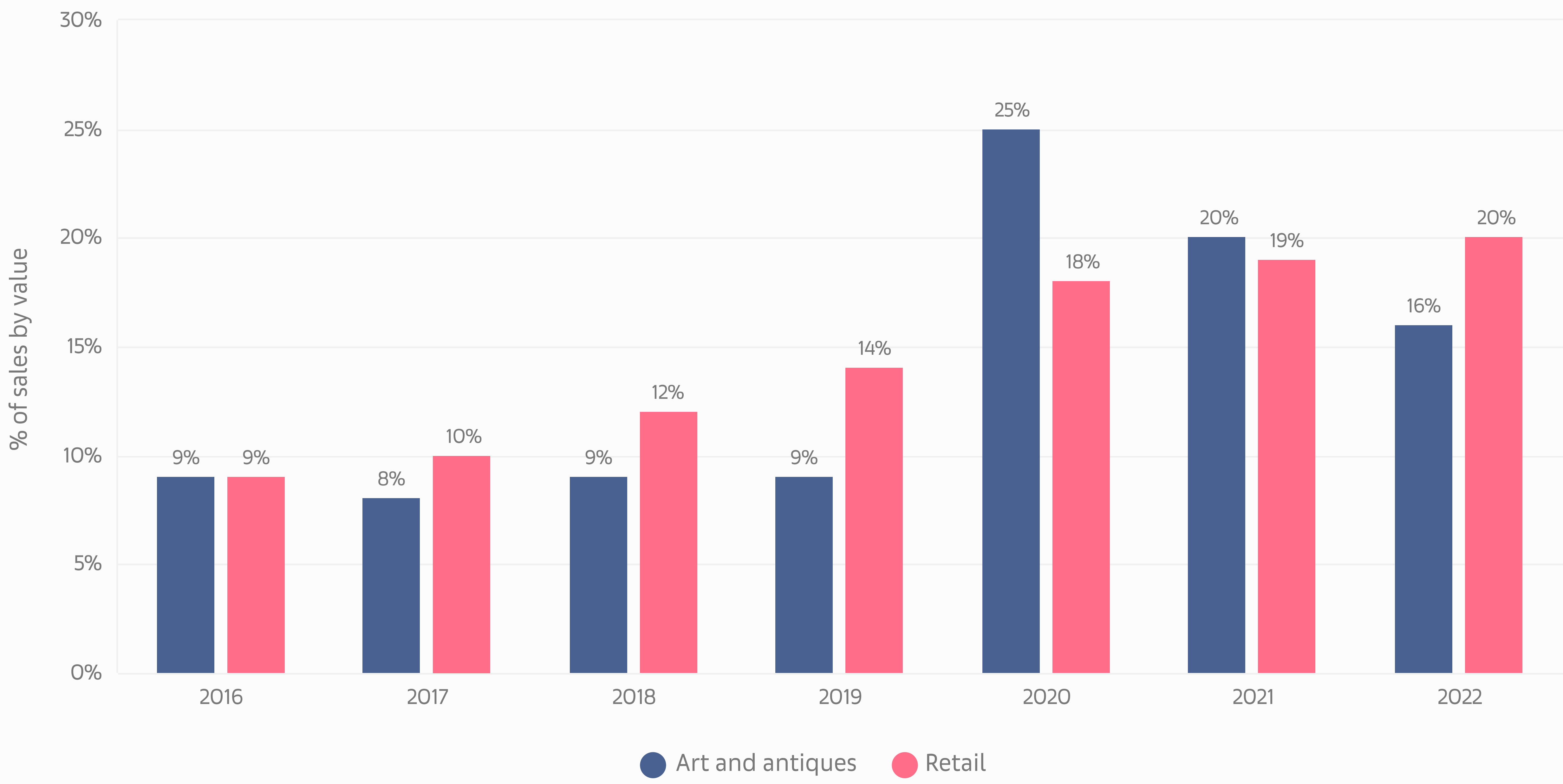
3 Statistics on general retail are taken from E-Marketer (2022) *Global E-Commerce Forecast 2022,* available at www.emarketer.com.

4 Ibid.

expand. In the auction sector, more online bidding is taking place than ever before, with Sotheby's reporting that 91% of the bids placed at their auctions in 2022 were online (from just 44% in 2017 and only 18% in 2012). Similarly, at Christie's, 75% of bids in 2022 were online, compared to just 45% in 2018. While the dealer sector has yet to replicate this same kind of engagement, there is evidence of the growing frequency and acceptance of transacting online in this sector too. In surveys of HNW collectors carried out in 2022 by Arts Economics, in collaboration with UBS, 95% of the 2,709 collectors responding had purchased works of art at some stage without viewing them in person first, with just over half (51%) regularly doing so. A majority of 69% had purchased directly from a gallery website in 2022 and 53% from an online or social media platform. There were also indicators of positive shifts in preferences towards buying online from dealers (discussed in further detail in Chapter 2).[5]

However, despite wider use of online channels, 93% of those surveyed also thought it was important (42%) or very important (51%) to see a work in person before purchasing, and price remained the key driver to do so. Preferences for viewing a work offline prior to purchasing still remained dominant. In the survey, which covered 11 different markets, 73% of collectors preferred live or in-person viewing at a gallery or fair, up by 4% on the surveys of 2021 and by 7% on 2020; 17% preferred online exhibitions or platforms (down by 2% on 2021); and 10% were indifferent to one over the other.[6]

Figure 1.8 **Share of Online Sales in the Art Market versus General Retail 2016–2022**



5+6 Arts Economics (2022) *A Survey of Global Collecting in 2022, An Art Basel and UBS Global Market Report*, available at: artbasel.com/about/initiatives/the-art-market.

1.4 Art and NFTs in 2022

Disintermediation, or the potential reduction in the role and importance of intermediaries such as dealers and auction house experts in making sales, has been a widely discussed topic for the last three years and more, as online platforms have increasingly allowed more direct communication and exchanges between artists and collectors. However, the impact of disintermediation within the art market has been relatively weak to date. In the surveys of HNW collectors mentioned above, just 10% of the value of collectors' spending in 2022 was from purchases made directly from artist studios (6%) or direct commissions (4%), and a further 4% from transactions with other collectors or private parties. Most spending was still through dealers and galleries (30% directly and an additional 15% through art fairs), with 17% via auctions. The surveys also revealed that 20% of spending was via third-party online platforms (6%) and Instagram (6%), both of which include a mix of direct and mediated sales, while 8% was through NFT platforms outside the art market.

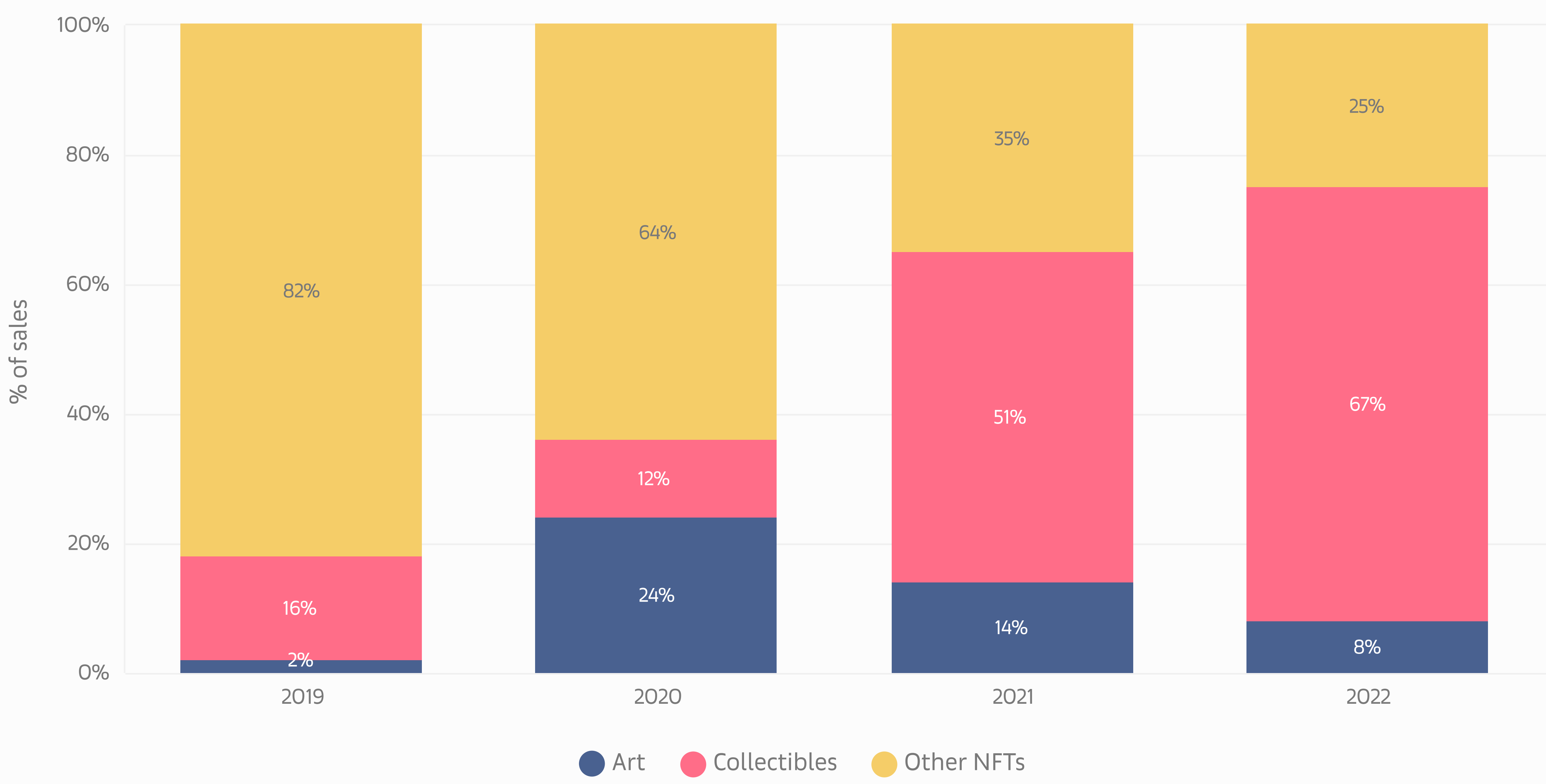
The rise of platforms selling art-related NFTs outside the art market has been an important development over the last three years, and the surge in interest in NFTs was one of the biggest trends of 2021, with most of the impact outside traditional galleries and auction houses on external platforms. The cooling of this market in 2022 has also been closely followed. With less focus on booming prices and speculation, the debate has shifted to the longer-term impact of blockchain applications in the art market.

With less focus on booming prices and speculation, the debate has shifted to the longer-term impact of blockchain applications in the art market

Transactions via NFT platforms are not included in the total value of the art market estimated here (as they occur outside galleries, dealers, and auction houses), but an analysis of sales on these platforms shows the rapid advance in activity in 2021 and subsequent decline in 2022. Data on sales on NFT platforms is supplied for this report by Nonfungible.com, which tracks the sale of NFTs on the Ethereum network in the main standard of NFT, ERC-721. NFT platforms cover several different categories of collectibles including art, sports, music, and entertainment collectibles and a range of in-game and in-world digital items. Art-based NFTs made up just 2% of the value of all NFT sales in 2019, but their popularity escalated rapidly, and by 2020 had reached 24% – double the share of the now dominant collectibles segment. By 2021, art and collectibles made up the majority (65%) of NFT sales, but art was again the smaller component (14%). While the expansion of collectibles continued in 2022, and this segment has become by far the largest by value, art slipped back in share to 8%, as the values of sales in this segment declined significantly more than others.

Focusing only on art-related NFTs, sales have experienced an incredible rise by both value and volume, from a low of $605,000 in 2019 to just over $20 million in 2020, before their biggest advance in value the following year to $2.9 billion. However, after peaking in August 2021, sales cooled substantially in 2022 as the price of Ethereum slumped and the volume of trade also slowed as the market became more saturated.[7] This substantial drop in the value and volume of trade helped to dampen the media frenzy around NFTs and shook out some of the most speculative traders. As noted in 2021, the high liquidity, ease of access, and instant tradability of NFTs had attracted very speculative buyers, primarily interested in buying and reselling in a short period for financial returns. The pseudonymous nature of transactions also meant there were few barriers to entry compared to the traditional art market, and lower starting prices meant greater accessibility.

Figure 1.9 Share of Value of Art and Collectibles in All NFT Sales 2019–2022



©Arts Economics (2023) with data from Nonfungible.com

7 Ethereum is the second-largest blockchain (next to Bitcoin) and the first to be used for art-related NFT sales and other digital assets beyond cryptocurrencies. The value of Ethereum (ETH) against the dollar rose dramatically over 2021. Data from Coinbase.com showed a 34-fold increase from January 2020 to its peak in November 2021 (from around $135 to over $4,630), driving greater spending power and more speculative trading. It then fell substantially over the next months reaching a low of $880 by June 2022. By the end of 2022, the price had improved somewhat, reaching just over $1,200 in December 2022, but still only around one third of its 2021 high. See www.coinbase.com/price/Ethereum.

The average time between purchase and resale of art-related NFTs in 2021 was just 33 days, implying that they were being bought and resold within around one month (versus the average resale period on the art market of 25 to 30 years). Figure 1.10 shows the rapidly escalating prices that also attracted speculative trading, with the average price of an art-related NFT increasing to more than 20 times its size from the end of 2020 to the peak in August 2021. Of the transactions carried out in 2021, 91% were profitable.

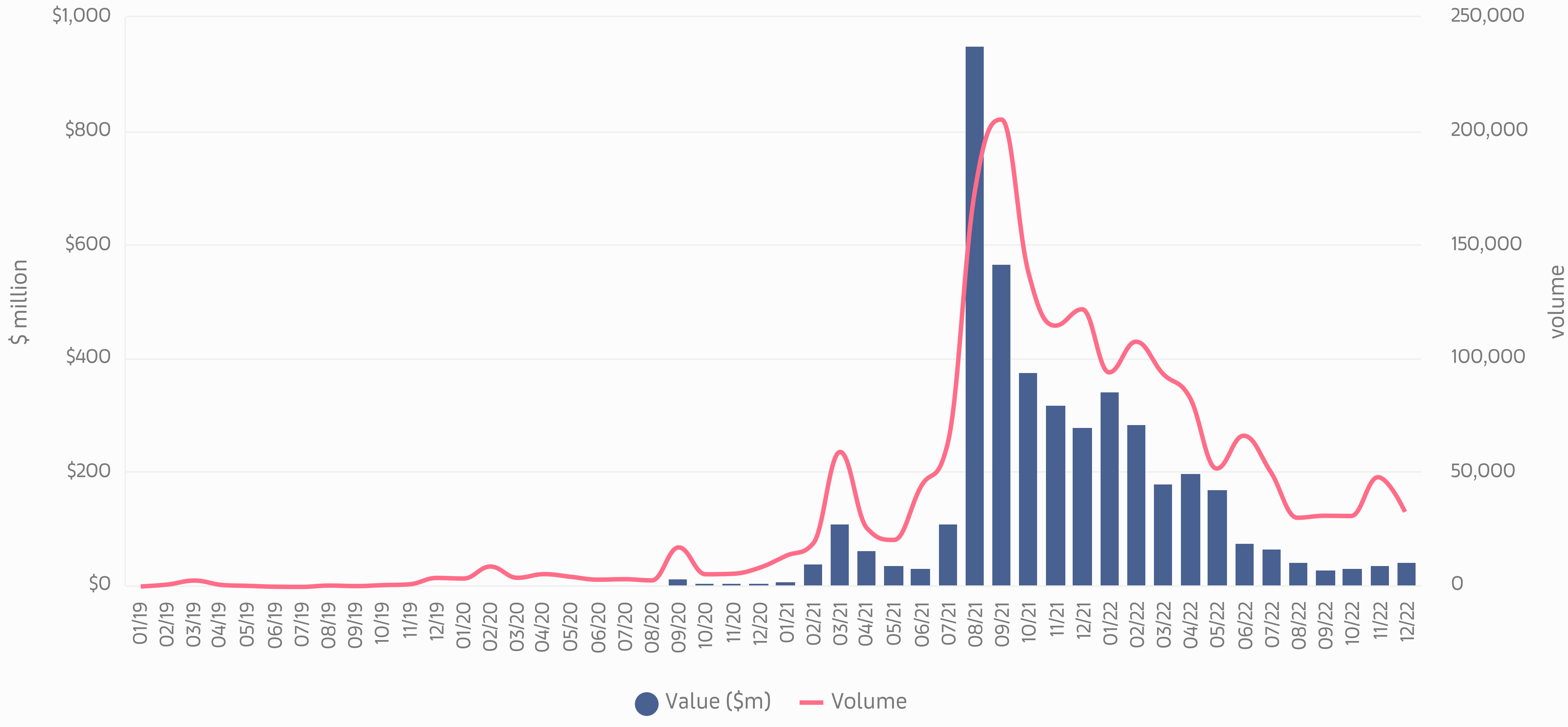
Supporting these transactions, there was also a huge expansion in the number of buyers purchasing and selling NFTs. In 2019, there were 2,287 unique buyers and 1,891 unique sellers involved in art-related NFT transactions, and this rose to 153,382 buyers and 92,252 sellers by 2021. Despite the fall in the market in 2022, there was still an expansion in the number of wallets operating on these platforms, with unique sellers rising by 55% to 180,416 and buyers up by 14% to 174,764.[8] This was completely driven by a rise in secondary market participants and the number of those in the primary market, both buying and selling, fell by 12%.

8 The number of unique wallets rose by 26% from 177,157 in 2021 to 222,470 in 2022.

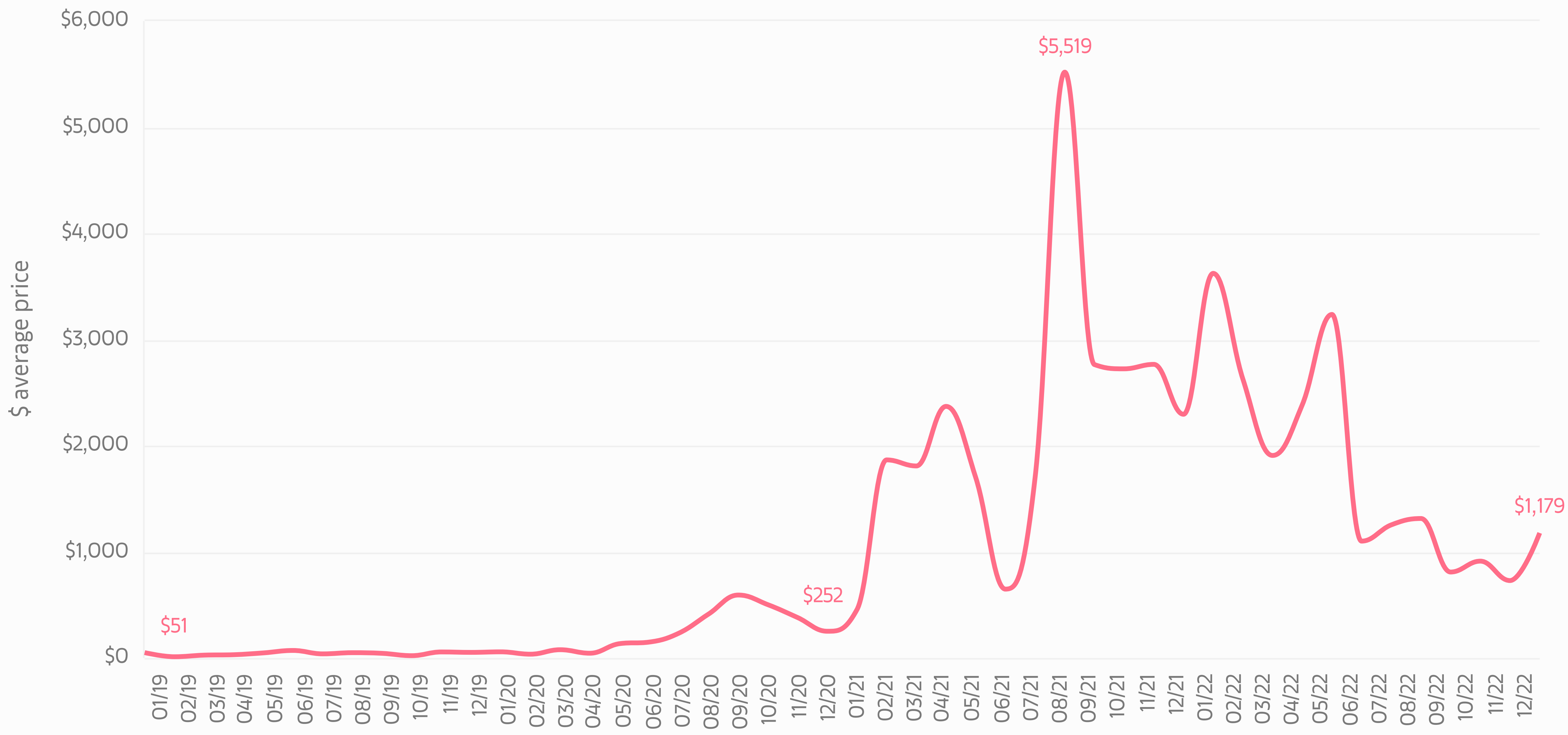
IMAGE Marguerite Humeau, Clearing, image courtesy Art Basel

Figure 1.10 Sales of Art-Related NFTs 2019–2022

a) Value and Volume of Sales



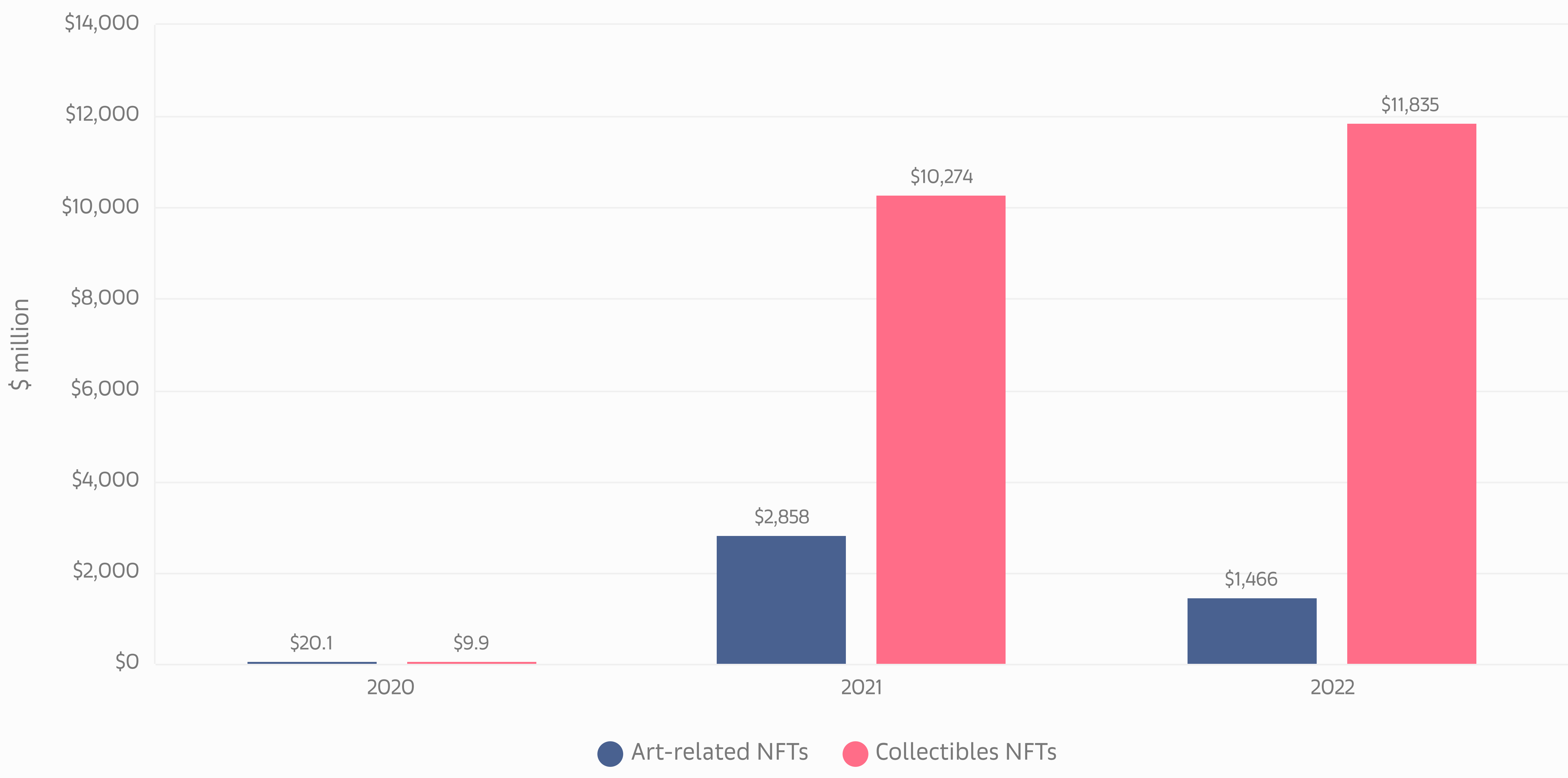
b) Average Prices



©Arts Economics (2023) with data from Nonfungible.com

Even with the very significant drop in values from late 2021, overall sales of art-related NFTs reached close to $1.5 billion in 2022, a decline of 49% year-on-year, but still representing values that were over 70 times the size of the market in 2020 ($20 million). This fall in sales for the art segment was, however, significantly worse than the performance of NFTs generally (which declined by just 12% in value across all segments).[9] It is also in sharp contrast to the performance of the much larger collectibles segment, which saw values rising by 15% (from $10.3 billion in 2021 to $11.8 billion in 2022).

Figure 1.11 **Annual Sales of Art and Collectibles NFTs 2020–2022**



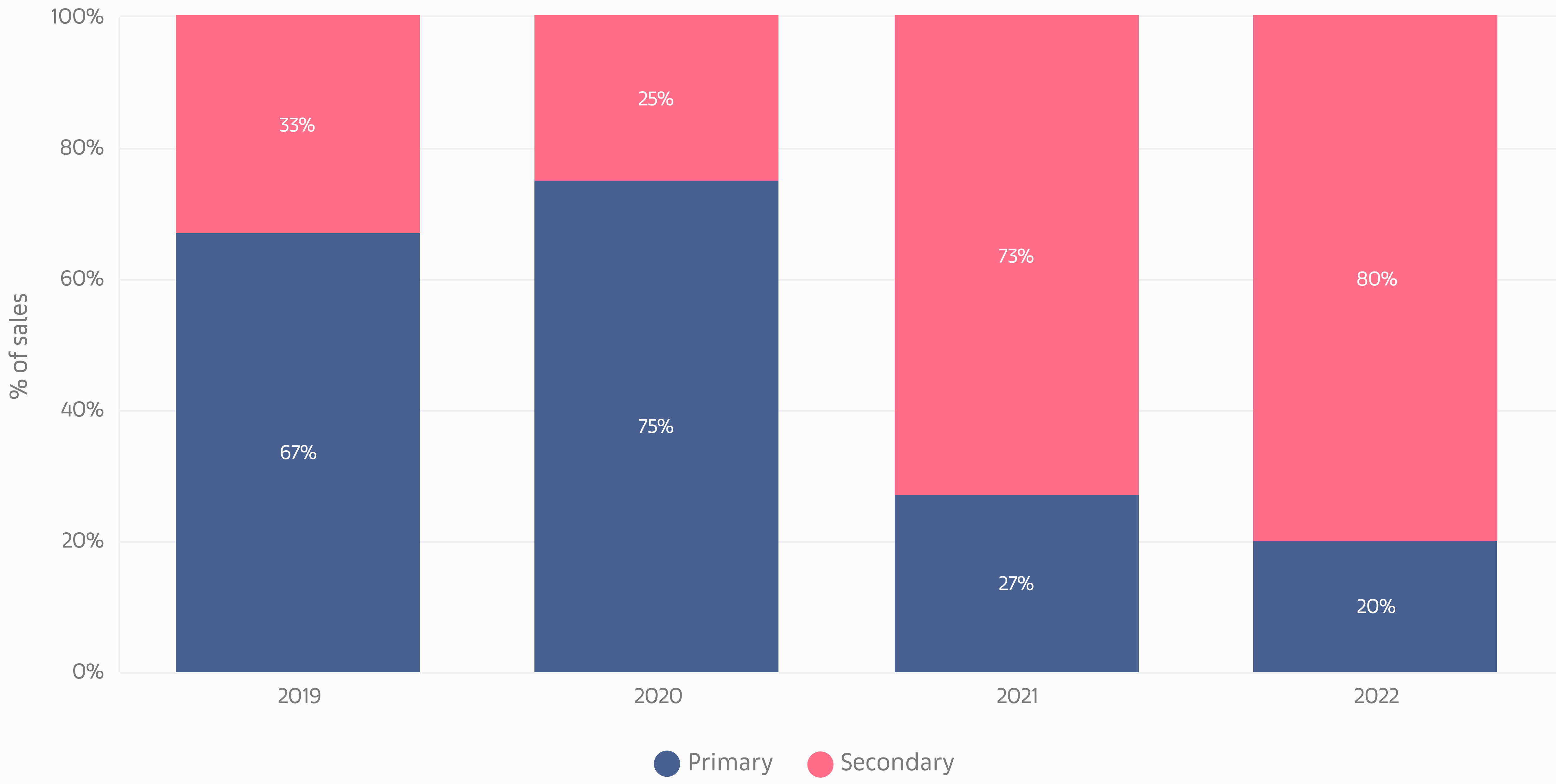
9 According to data from Nonfungible.com, the aggregated NFT market fell by 12% from $20.2 billion to $17.7 billion, while the volume of transactions experienced an even greater decline of 40% to 23.3 million.

Another change in the art segment of NFTs over the last few years has been the shifting share of primary versus secondary sales. Secondary sales always had a majority share in the collectibles segments (accounting for 76% in 2019 and rising to 89% in 2022). But for art-related NFTs, in 2019 and 2020, the bulk of sales were related to primary market transactions, which accounted for the majority of both the value and volume of sales. This changed dramatically in 2021, as their instant tradability and rising prices spawned a booming secondary market and most activity centered on resales. Secondary market sales rose to 73% of the total values of art-related NFTs in 2021, while those on the primary market fell to 27%. The share of the number of secondary resale transactions also doubled, reaching 42%. This became even more pronounced in 2022, with the secondary market accounting for 80% of the value of sales and the majority (61%) of transactions, underlining that reselling is now the dominant activity on these platforms, rather than creation and new launches.

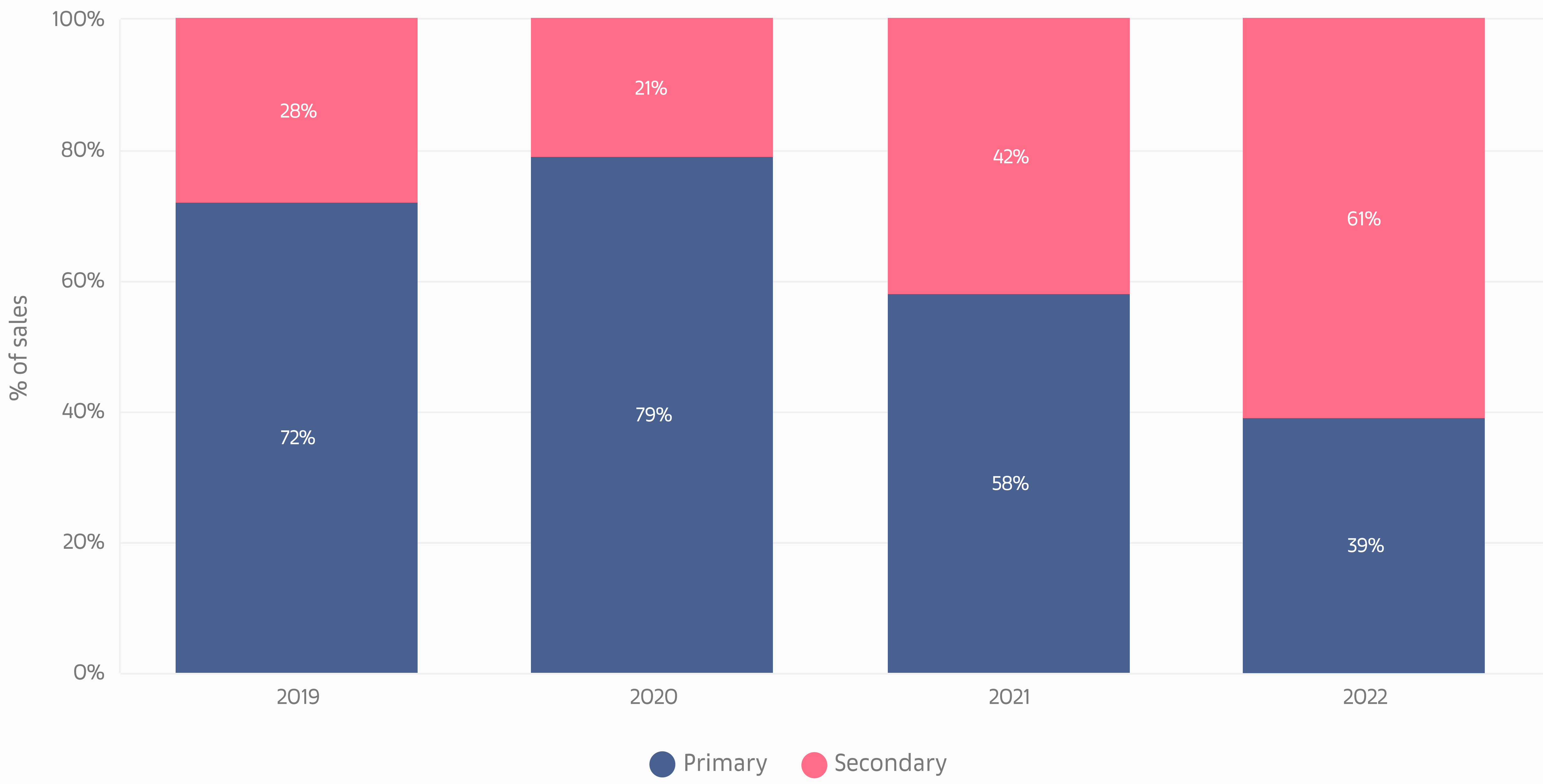
Secondary sales of art-related NFTs accounted for 80% of the market's value and 61% of transactions in 2022, underlining that reselling is now the dominant activity on these platforms

Figure 1.12a Primary Versus Secondary Sales of Art and Collectibles NFTs 2019–2022

a) By Value of Sales



b) By Volume of Sales (Number of Transactions)



©Arts Economics (2023) with data from Nonfungible.com

Although the media attention for the last three years has been focused primarily on the financial aspects of NFT sales and returns, the art trade is steadily adopting some of the more important and long-term implications of Web3 and blockchain for their businesses. Bigger companies have even been building teams to specifically handle issues around their digital assets. However, companies at all levels are facing significant changes, as innovations bring both challenges to old practices and important opportunities to support relationships with both artists and collectors. Exhibit 1 discusses some of the key developments and innovations in this area, while Exhibit 2 summarizes some of the key legal and regulatory issues the market is now facing in relation to blockchain and related technologies.

IMAGE Alicja Kwade, Kamel Mennour, image courtesy Art Basel

Exhibit 1. Embracing Technical Innovation in the Artworld

*Caroline Taylor, Appraisal Bureau**

‘Non-Fungible Token’ is an overused and unspecific term.

A Non-Fungible Token is a unique digital identifier recorded on a blockchain that points to a digital file such as an image, video, or music. NFTs can be bought, sold, and traded. They can be a Digital Twin of a physical item, a standalone artwork, an interoperable in-game item – any of which may carry independent, dependent, or no value. However, it is the use cases and utility of blockchain that will hold the most significance in the long run.

NFTs are the proof of concept of ‘Web3,’ the next generation of the internet which relies on decentralized networks. Web2 was introduced when internet users became active participants in the internet (through the launch of social media platforms), while Web1 was defined with the launch of html/static webpages in the early-mid 1990s, which spawned the dotcom boom later that decade. A burgeoning Web3 allows unique ownership of digital identity and assets. In a growing digital world, it is a natural transition to own assets rather than rent them, the latter being the case in Web2.

The advent of NFTs has created what is referenced as the ‘Creator Economy,’ an ecosystem in which artists and creators are perpetually compensated through royalties and are in direct contact with their audience. Art and music have been at the forefront of promoting the benefits of blockchain, pioneering a path for other industries to follow. Creators have rewritten many rules through engagement with the new technology, which will continue to be reinforced by real-world use cases of applications of blockchain.

Like any new movement, community engagement not only drives success, but is necessary for survival. Applications built on top of Layer 1 blockchain infrastructure support underlying cryptocurrencies such as Bitcoin or Ethereum. ‘Crypto Winter’ brought an end to many protocols, but 2023 will see the introduction of new and intelligent projects in their place.

In today's skeptical environment it is easy to assume a new technology to be at the root of failure (FTX, for example), but in reality the code is not to blame – the blockchain likely served its purpose and played its role. As the dust settles, there is a need for regulation and standards. Although counterintuitive to the purist nature of blockchain, it is necessary (to a degree) when the assets in question are physical and we must reconcile with real-world institutions and authorities. Best practices, security and regulation are a major theme of Web3 in 2023.

Institutional Adoption

Auction houses, notably Sotheby's and Christie's, have built teams around their digital asset divisions. As NFTs have changed the landscape for artists' relationships to dealers, digitally native creators often consign directly to the auctions. While a buyer may absorb higher fees acquiring an NFT from a brick-and-mortar auction rather than from a marketplace such as OpenSea, the auction houses generally receive the highest-quality works. The NFT data in the report has shown that sales volumes have fallen from their previous peaks, yet interest remains high and has attracted new collectors.

In 2022, Yuga Labs, the creators of *Bored Ape Yacht Club* (who, in a landmark transaction purchased the IP of Larva Labs' *CryptoPunks*), established the Punks Legacy Project to donate significant NFTs to leading institutions internationally. *CryptoPunk #305* was donated to the Institute of Contemporary Art, Miami, a pioneer in the NFT space. The piece has already been exhibited alongside Andy Warhol's *Kay Fortson (an American Lady)* (1976). A goal of the project is to promote best practices in NFT ownership with responsible storage, insurance, and valuation reporting. Reportedly, donations to additional institutions are scheduled for 2023.

Variables in Valuation

NFT valuation is a complex matter, as different sectors continue to overlap in their classification of this burgeoning asset. However, what remains a constant is the need for compliance and regulation in the approach to reporting. Appraisal standards are set by the Congressionally authorised and federally funded Appraisal Foundation, while the Appraisal Standards Board develops and amends USPAP. An appraiser must define a type of value, which, in the case of NFTs may range from traditional personal property calculations (such as Fair Market Value, or Retail Replacement Value) to standards governed by the Financial Accounting Standards Board (FASB). Accounting Standards Codification 820, for example, considers fair value more akin to an exit price in a venture portfolio, which may be employed in the case of audit for some types of NFTs held within funds.

NFTs have several added dimensions in valuation, relative to traditional art, as one must account for volatility of the underlying blockchain. Some use cases may require a daily recalculation of valuation while others rely on monthly or quarterly reports.

NFT Insurance and Security Considerations

Valuation is a vital element to insurance policies, including the nascent field of digital asset coverage, which has grown significantly over the past few years. The largest policy limits sit in the Specie market – a niche insurance market covering high-value assets such as art, diamonds, bullion and, now, digital assets. Specie covers assets while 'at rest' (i.e. in a vault) while other markets such as Crime cover additional perils not considered on a Specie policy. These insurance markets do have synergies and creative underwriters are able to coordinate policy languages. 2023 will see new solutions enabling accessible and safe management of digital assets. Responsible ownership, particularly of Art NFTs, will continue to rely on third-party storage facilities and custodians compliant to evolving regulatory requirements.

In considering how to insure the non-tangible assets, insurers study potential perils relevant to the insured. A Non-Fungible Token is a unique cryptographic asset on a blockchain and is 'held' via a Web3 wallet – to which one gains access via seed phrase or private key. (A private key provides access to just one account, whereas a seed phrase grants access to a total wallet.) Therefore, protection of the digital asset comes down to protection of the private key. Multiple solutions have been introduced to provide different levels of coverage. Full liability insurance is available from the Lloyds of London Specie market with the physical component of a BIP38 wallet (a two-factor cryptographic private key recorded on a metal card taking the assets totally 'offline') secured in a bullion vault. In this case, the physical card is insured while safely stored in a vault, the insured value correlates to an appraisal that is updated on a daily basis to manage volatility. NFTs and cryptocurrency are, quite literally, stored amongst stacks of bullion. The insurance markets have also embraced solutions such as Multi-Party Computation which spreads the signature step of a signing amongst multiple participants, limiting risk by broadening the point of failure beyond one holder of a private key.

A License to Build

As applications continue to build on blockchain, legal frameworks have emerged to support the notion of open source – particularly relevant to artists and the sharing of digital content. The Creative Commons Zero, or 'CC0,' license reverses traditional copyrights and IP protection for artists (as well as scientists, educators, and other creators and content holders) opening their work to the public domain. CC0 is a release of all rights and instead encourages a 'remix culture', particularly when used in connection with NFTs. The crypto artist XCOPY notably applied CCO licensing to his *Right-Click* and *Save Guy* a month after it was sold and has since announced that he will release rights to all of his artworks. The original content has flourished through the hands of other creators and digital outlets.

Creative Commons itself is not new, however, now more traditional outlets have engaged the licensing. Through their Open Access initiative, the Metropolitan Museum in New York has subscribed all public domain images in their collection to the license, which provides data on over 420,000 objects from the museum's collections, spanning 5,000 years of history. Open Access images have reportedly been viewed over 1.2 billion times.

Looking Ahead

Going forward, security and responsible ownership of digital assets remain a critical theme. New products utilizing the blockchain to support established real-world industries will continue to flourish. Multi-party Computation (MPC) is a cryptographic tool, growing in popularity and likely to see more traction in the coming year, that distributes private keys across multiple users. Private keys held in a single source, such as hot or cold wallets, present a single point of failure, whereas MPC distributes shares of the key across nodes. In order to sign a transaction, all nodes (controlled by multiple parties) must participate, and authentication is communicated to the underlying blockchain.

While the most obvious use case of MPC is private key management – which specifically offers institutions a safe solution for holding digital assets, MPC also functions as a digital nondisclosure agreement with the ability to control information distribution. Personal data is never exposed to the underlying digital ledger and thus identities of individual signers are not revealed.

Another increasingly popular product is Non-Transferable Tokens (NTT), also known as Soulbound Tokens, which are just as the name implies – non-transferable. Bound to a particular wallet, these tokens serve as an identity confirmation of the holder. One may use an NTT as verification of identity credentials – an NTT could even take the place of a résumé verifying employment history. These tokens are an upgraded version of an NFT and support credibility within Web3 communities. NTTs are restricted to one way transfer from the creator to the owner. These tokens have no market value and therefore do not appear on marketplaces. The use cases for NTTs are obvious in the art market – a non-transferable identity associated with an asset solves numerous issues including money laundering through identity verification and ownership tracking, among many more.

Finally, Blockweave is a cousin of the blockchain in which blocks of data are linked to multiple blocks, rather than a single block. Rather than relying on the consensus mechanism of Proof of Work or Proof of Stake – which burn significant energy – the blockweave relies on the far more environmentally friendly Proof of Access (PoA). Blockweave miners offer their excess disk space to store data and are rewarded in tokens native to the protocol in exchange for providing cryptographic PoA to what is referred to as a 'recall block.' PoA incentivizes long-term storage, which has led to the 'permaweb'. Already home to numerous applications, the structure promises extremely cost-effective digital storage centuries into the future. The permaweb and blockweave are an invaluable tool for archives in any sector, but they are particularly relevant to museums and galleries.

As digital art and applications of blockchain in the artworld continue to grow and evolve, it is important to understand the surrounding landscape from a legal and regulatory perspective in order to engage best practices and responsible ownership. The technology is already facilitating extraordinary innovation and offers new tools and mediums to support artists, gallerists, and collectors, and is undoubtedly here to stay.

** Caroline Taylor is the Founder & CEO of Appraisal Bureau, a Fine Art and Digital Asset Valuation Firm: www.appraisalbureau.com.*

Exhibit 2. NFTs in a (Legal) Nutshell

*Vejay Lalla, Peter Hart, Kevin Kirby and Monica Kim**

Fine Art: Technology Innovator

From the period when NFTs 'rocketed to the top of the market' – beginning with the Christie's sale of *Beeple's Everydays: the First 5000 Days* in March 2021 and Sotheby's sale of *Bored Ape Yacht Club #8817* in October 2021[10] – NFTs have found a market for sales in a wide range of industries. Video games, sports memorabilia, celebrity/fan experiences, and real estate, as examples, have identified (and continue to expand on) applications for unique digital assets in the blockchain. Still, today, as in 2021, the artworld continues to be a primary driver of NFT interest and innovation. During the first half of 2022, high-net-worth collectors spent an average of $46,000 on art-based NFTs, which is more than the combined sum of the previous two years.[11]

As blockchain usage continues to evolve, and as traditionally offline spaces such as art galleries expand into online arenas such as virtual galleries, gamified metaverses, and online museums hosting unique digital properties, key ownership, intellectual property (IP), and regulatory issues need to be addressed for sellers and art galleries moving into or further evolving their activities in the NFT space.

NFT, Not Copyright, Ownership

For background, an NFT is a digital certificate that authenticates ownership of an asset through blockchain technology. It includes a unique identifier and metadata about the asset that cannot be copied or replaced and is not interchangeable with any other token or fungible asset.[12] Typically, the metadata is a set of data that includes a link to the digital art/multimedia content, and the art is generally saved in multimedia file storage and sharing systems. When a seller sells an NFT (for US dollars or cryptocurrency), the seller transfers to the buyer the right to claim ownership, and excludes others from claiming ownership,

10 Boucher, B. (2022) 'Collectors are Spending More, Not Less, on NFT Art, according to the Art Market Report.' *Art Basel Stories*, available at: artbasel.com/stories/art-market-report-2022-collectors-cryptocurrency-nfts.

11 Arts Economics (2022) *A Survey of Global Collecting in 2022*, An Art Basel and UBS Global Market Report, available at: artbasel.com/about/initiatives/the-art-market.

12 Ferrill,E., Shah, S., and Young, M. (2022) 'Demystifying NFTs and Intellectual Property: What You Need to Know.' *Reuters*, available at: reuters.com/legal/legalindustry/demystifying-nfts-intellectual-property-what-you-need-know-2022-05-10.

of the NFT itself (like personal property ownership). However, this right does not necessarily include ownership of the digital art associated with the NFT. Ownership of the digital art usually lies with the original creator of the artwork by default.[13]

Buyers and sellers of NFTs are becoming more familiar with this concept, i.e., that the token is a separate asset from the copyright (though often the token owner is conferred certain noncommercial rights to use the copyrighted work for as long as they are the owner – see below). In response, and as a natural development, some art galleries have commissioned artists to create art to be linked to the NFTs, and through these commissions, the gallery owns the associated art rather than the artist. As such, ownership of the IP rights in the digital art associated with NFTs is largely a commercial question for creators and art galleries to consider.

So what rights in the actual artwork does a buyer of an NFT receive? When an art gallery sells a painting to a purchaser, often, the purchaser owns the physical painting but not the copyright of it. Similarly, when the original owners of the NFTs (whether the creators or the art galleries) sell NFTs, the purchaser does not typically own the copyright to the art (and thus the right to commercially license it or exclude others from using it). Rather, the copyright owner often licenses the IP rights of the art to the tokenholder. Buyers therefore need to check the license or Terms of Use for the NFT – usually found in the NFT metadata, or if part of a project, on the NFT project website – to understand the scope of the license rights. The type of licenses, as selected by the original creator and/or seller of the NFT, range in remit from (1) granting only personal, noncommercial rights to the art (e.g., NBA Top Shot); (2) granting personal, noncommercial rights, as well as commercial rights (e.g., *Bored Ape Yacht Club, CryptoPunks*); and (3) relinquishing all legal rights in the art under a CCO (Creative Commons Zero) license (e.g., *CrypToadz, Moonbirds*). In a rare case, the World of Women NFT project transfers all rights in the art (except moral rights of the original author, which cannot be transferred under certain jurisdictions) to the NFT holder through an IP assignment. Recently, to address the diffusion of bespoke and opaque NFT licenses covering various NFT projects, the Silicon Valley venture capital firm, released six form *Can't Be Evil* NFT License Terms and Conditions, with a similar range of rights granted to the NFT holder, for NFT creators to utilize. Their hope is that these licenses catch on and act as standards that can be more easily interpreted by users without a legal background (similar to the common open-source software licenses in the tech world). Although these NFT licenses are generally accepted as legal mechanisms to grant rights in the art to the purchaser of an NFT, there may be potential enforceability issues with these NFT licenses, particularly related to the holders' acceptance of the terms as well as the governing law (depending on where the purchaser and seller are located). This can get more complex still where the parties sit in various jurisdictions that may have differing IP protection frameworks and enforceability standards.

13 Goldman,J. (2021) 'A Primer on NFTs and Intellectual Property.' *Lexology*, available at: lexology.com.

Marketplaces and Metaverses – New Spaces for Dealers, Same Issues

As of today, sellers can make NFTs available for sale on NFT marketplaces, such as OpenSea, Magic Eden, Blur, Rarible, Nifty Gateway, and SuperRare, which is the most common way for individuals to buy and sell NFTs using their personal digital wallets. Typically, these NFT marketplaces charge a transaction fee for users to buy and sell on their platforms, although growing competitive pressure has led many to reduce or eliminate fees.[14] Creators have also relied on NFT marketplaces to help enforce secondary transaction fees payable to creators (or 'royalty fees' which can reach 5% to 10% of the gross price of each transaction). However, because royalty payments have proven difficult to enforce among tokenholders, many NFT marketplaces have begun to accommodate more optionality in royalty payment arrangements between creators and collectors, while also helping to advance the development of NFT technical standards that would empower creators to limit royalty payment circumvention through blockchain-based code.[15] Given the evolving nature of marketplace fees and royalties, sellers and art galleries should be mindful of NFT marketplaces' royalty policies when choosing whether or not to sell on particular platforms.

Alternatively, some art galleries have started opening separate galleries in different metaverses, virtual spaces where users can interact with 3D digital objects, to display the digital art linked to the NFT for virtual visitors. For example, in June 2021, Sotheby's opened its first virtual art gallery in Decentraland, which is a well-known 3D virtual world, browser-based platform. Other virtual NFT galleries include: KnownOrigin and Narra Gallery in Decentraland, B.20 Gallery and Async Gallery in the Voxels metaverse, as well as oncyber, Spatial, and Museum of Crypto Art (MOCA).[16] For these virtual NFT art galleries, sellers and art galleries should similarly be conscious of the various transaction fees and royalty payments.

14 See for example, Thompson, C. (2023) 'OpenSea Goes Zero-Fee, Creator Royalties Optional.' *CoinDesk*, available at: coindesk.com/web3/2023/02/17/opensea-goes-zero-fee-creator-royalties-optional.

15 Gilbert, J. and Hernandez, O. (2022) 'How NFT Royalties Work – and Sometimes Don't.' *Blockworks*, available at: blockworks.co/news/nft-royalties-sometimes-they-work-sometimes-they-don't. Further information is also available at *The Royalty Registry* (royaltyregistry.xyz).

16 Borg, J. (2022) '8 NFT Galleries for Viewing Digital Art.' *NFTEvening*, available at: nftevening.com/8-nft-galleries-for-viewing-digital-art.

Infringing NFTs – An Evolving Frontier

Given the unique digital space in which NFTs sit, they are ripe for copyright and trademark infringement claims under US law – not only because the ownership of the token is separate from the artwork, and thus rights in the artwork are still poorly-tracked and poorly-understood, but also as a result of the ubiquity of digital art based on 'transformative' uses of existing designs and objects. Beyond ensuring that the digital art is original or that they have the proper rights from the creators of the digital art, sellers of the NFTs should be aware of marketplaces which have obligations to comply with applicable copyright laws, including takedown requests from copyright owners, if applicable. An art gallery in the US planning on creating its own metaverse to showcase NFTs needs to be aware of the safe harbors under the US Digital Millennium Copyright Act (DMCA), which limits liability to service providers that could result from copyright infringement or unauthorized use of copyright-protected works by the creators and their NFTs.

While this is a new and shifting landscape, the traditional legal and regulatory principles will apply. A handful of high-profile IP infringement issues as they relate to the sale of NFTs have recently been and are continuing to be argued and ruled on in the court system, and determinations and lines will be further made clear as these cases make their way through the system. From what we have seen thus far, IP holders do not have to only rely on copyright law, but are often bringing claims in the US under trademark principles which rely on the likelihood of confusion standard or bringing false advertising or association claims. While we are in the early innings, US courts have so far used the 'Rogers test', an analysis created in the seminal Rogers v. Grimaldi case in the Second Circuit, to balance between trademark rights and First Amendment-protected speech, specifically through the application of a two-pronged approach to determine whether the use of a trademark in an artistic work is actionable (if the use of the mark (1) has no artistic relevance to the underlying work, or (2) explicitly misleads as to the source or content of the work), as summarized below:

- **Hermes v. Mason Rothschild (2022):** Hermes alleged, among other actions, trademark infringement of its famous Birkin luxury handbag by Rothschild creating and selling a collection of 100 MetaBirkins NFTs.[17] On February 8, 2023, the court found Rothschild liable for infringing and diluting Hermes' trademarks for its iconic Birkin handbag and for unlawfully cybersquatting on the MetaBirkins.com domain name. Rothschild's First Amendment defense was not helped by his use of the name 'Birkin' in promotional materials, which went 'far beyond a digital version' of the handbag and created actual confusion on the part of both consumers and the media. The outcome of this case may be an indicator for brand owners that their trademark rights extend beyond physical

17 Urias,S. (2022) 'Trademark and Copyright Considerations for NFTs.' *Reuters*, available at: reuters.com/legal/legalindustry/trademark-copyright-considerations-nfts-2022-05-02; Notorious Pink (2023) 'The Case of Hermes vs MetaBirkins NFTs, Part I.' *Purseblog*, available at: purseblog.com/hermes/the-case-of-hermes-vs-metabirkins-nfts-part-i.

products and cover digital ones including in an NFT format as well and is a cautionary tale for creators and sellers.

- **Yuga Labs v. Ryder Ripps (2022):** Yuga Labs alleged that Ripps scammed 'consumers into purchasing RR/BAYC NFTs by misusing Yuga Labs' trademarks' and created and sold 'NFTs that bear the very same trademarks that Yuga Labs uses to promote and sell authentic BAYC NFTs.'[18] Although the lawsuit is ongoing, the court has thus far found in favor of Yuga Labs, noting that Ripps' RR/BAYC NFTs at issue 'do not express an idea or point of view' that would be protected under free speech principles.

- Other cases alleging IP infringement related to NFT sales in the US have been settled, while others, like Nike's lawsuit against StockX alleging, among other actions, trademark infringement 'in connection with [StockX's] offering up of NFTs tied to images and physical versions of Nike footwear' without Nike's permission, are set to go to trial in the near future.

Regulatory Roadblocks

In addition to the IP issues brought before US courts, the rise of NFTs, particularly in the artworld, has raised novel issues that regulators have grappled with in an effort to fit them into existing regulatory regimes. Again, using the US as an example, some of the key issues have included:

- **Bank Secrecy Act/Anti-Money Laundering (BSA/AML) regulations:** Although part of the appeal of an NFT is its ready transferability, this feature can also introduce the risk of financial crimes such as money laundering. The BSA/AML regime in the US is designed to detect and prevent such illicit activity by imposing compliance obligations on financial services intermediaries. The Financial Crimes Enforcement Network – the Treasury bureau tasked with BSA/AML rulemaking and enforcement – has long held that virtual currencies may be deemed 'value that substitutes for currency' for purposes of its money transmission regulations.[19] In a 2022 report on illicit finance in the art market, the US Treasury Department endorsed the view that NFTs that are not interchangeable like currency, such as those used as collectibles or that represent unique works of art, would not fit within the BSA/AML regulatory regime. However, the same report indicated that NFTs that could be used in practice for payment purposes may present the kinds

18 Poritz, I. (2022), 'Bored Ape Yacht Club NFT Creator Advances Trademark Lawsuit (1).' *Bloomberg*, available at: news.bloomberglaw.com/ip-law/bored-ape-yacht-club-nft-creator-advances-trademark-lawsuit; TFL(2023) 'From Hermes to Bored Apes: A Running List of Key Lawsuits Centering on NFTs.' *The Fashion Law*, available at: thefashionlaw.com/from-hermes-to-bored-apes-a-running-list-of-key-lawsuits-over-nfts.

19 US Department of Treasury (2013) 'Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies.' *Guidance FIN-2013-G001 March 18, 2013*, available at: fincen.gov/sites/default/files/shared/FIN-2013-G001.pdf.

of money-laundering or illicit finance risks the regulatory regime is meant to address.[20] Creators, galleries and dealers collaborating on NFT projects should take care to ensure that an NFT would not be construed as a 'value that substitutes for currency', or if that risk is present, to consider any potential BSA/AML responsibilities that may be associated with the distribution, exchange, transfer, custody, or other intermediary activities regarding the tokens. In the context of the artworld, individual artworks commissioned on a bespoke basis are unlikely to fit the above definition of currency or a substitute for currency. However, an NFT project in which thousands of nearly identical NFTs are created and where the market is deep and liquid and prices for each are identical, or at least predictable, would be much more likely to give rise to oversight.

- **Securities Laws:** Might an NFT be classified as a security, rather than a currency? The US Securities and Exchange Commission and some state regulators have determined certain digital assets have been sold as 'investment contracts', a type of security that state and federal laws require to be registered for offering unless exempt. Under the so-called 'Howey Test', named after a 1946 Supreme Court case, a regulator or private plaintiff may allege there is an investment contract if there has been each of the following: (1) an investment of money; (2) in a common enterprise; (3) with the reasonable expectation of profits derived solely from the efforts of others.[21] The test is highly fact-specific, but is in practice more likely to be met where the NFT is sold to fund a continuing entrepreneurial effort that benefits the NFT holders – even if that effort is creating art. In early 2023, a New York judge determined that a class action against the creators of the *NBA Top Shots* NFT collection had a plausible claim for damages from an unregistered securities offering, allowing the case to proceed.[22] Galleries and dealers may therefore need to work with sophisticated counsel to avoid these pitfalls that may classify their NFTs as securities.

- **Other Fraud Issues:** Even where an NFT is not classified as a security, dealers and galleries need to be aware of bad actors influencing sales. In 2022, US prosecutors charged a former NFT marketplace employee with 'insider trading'; while working at that marketplace he had been responsible for picking NFTs for feature on its homepage, which had a tendency to raise the NFT's value.[23] Allegedly he had bought certain NFTs just before featuring them, then sold them for a profit. Rather than argue that these NFTs were securities in a securities fraud scheme, prosecutors charged him with federal wire fraud.

20 US Department of Treasury (2022) *Study of the Facilitation of Money Laundering and Terror Finance Through the Trade in Works of Art*, available at: home.treasury.gov/system/files/136/Treasury_Study_WoA.pdf.

21 US Securities and Exchange Commission (2023) *Framework for Investment Contract Analysis of Digital Assets*, available at: sec.gov/corpfin/framework-investment-contract-analysis-digital-assets.

22 *Friel v. Dapper Labs, Inc. et al*, 1:21-cv-05837 (SDNY).

23 US Department of Justice (2022) 'Former Employee Of NFT Marketplace Charged In First Ever Digital Asset Insider Trading Scheme.' *US Department of Justice Press Release June 1, 2022*, available at: justice.gov/usao-sdny/pr/former-employee-nft-marketplace-charged-first-ever-digital-asset-insider-trading-scheme.

The US Department of Justice will continue to watch carefully for similar fraudulent activity in the sales of digital assets and the jury is out on whether the regulators will issue further guidance or use enforcement as the guidance tool.

As digital art continues to attract money and artists, and find new applications and sales channels in the traditional artworld, it may fall in many ways to those selling the art, and the galleries promoting it, to avoid the direct and indirect risks inherent in a nascent industry with an ever-changing economic and legal landscape. As the infrastructure is being established in the NFT space, these businesses not only need to be familiar with traditional issues in the artworld, but also should understand and track legal and related valuation, security, storage, and insurance developments in the world of digital assets as they evolve.

**Vejay Lalla is a partner in the Technology Transactions group and colead of the Consumer, Digital Media, and Entertainment industry group at Fenwick (fenwick.com). Peter Hart and Monica Kim are associates in the Technology Transactions group at Fenwick, and Kevin Kirby is an associate in the Regulatory group.*

IMAGE Pu Yingwei, Hive Center for Contemporary Art, image courtesy Art Basel

2.
DEALERS

Key Findings

1. Dealer sales reached an estimated $37.2 billion in 2022, a 7% increase year-on-year, restoring the market to its value before the pandemic in 2019.

2. Surveys of the dealer sector in 2022 showed that those with the highest turnovers of over $10 million saw some of the largest increases in average sales values, at 19%. The smallest businesses struggled with price-conscious and cautious buyers, rocketing costs, and more stagnant sales, with a decline of 3% for those with turnover of less than $250,000. This segment also had the smallest rise in sales from 2020 to 2021 (at 6%, versus 27% in the $10 million-plus segment).

3. Despite the difficult conditions over the last two years, some galleries have been expanding their premises, both locally and internationally. The majority (71%) of dealers surveyed in 2022 operated from one gallery or site in one country, with a further 14% operating from one region but with more than one premises. 9% operated over multiple regions (versus just 5% in 2021), and the remaining 6% had no physical premises.

4. Although traditional mediums still dominated dealers' sales, with paintings, sculptures, and works on paper accounting for 82% by value in 2022, the share of digital, film, and video art rose to 5% (from just 1% in 2021). The majority of those sales (4%) were in digital art, and almost all (99%) were sales of digital art associated with NFTs.

5. In 2022, dealers reported that sales from their single highest-selling artists accounted for an average of 31% of their total revenues, while their top three artists accounted for 51%. This skewed distribution was slightly more pronounced for primary market dealers, with their top-selling artists accounting for 34% and the top three 56%. However, these shares have declined from 2018, when they were 42% and 63% respectively.

6. Sales at art fairs rose significantly in 2022, as dealers exhibited at the same number of fairs on average as they had in 2019. Sales from live events increased from 27% of total sales in 2021 to 35% in 2022, but remained significantly below pre-pandemic levels in 2019 (42%). The largest shares were reported by the biggest dealers, including 40% for those turning over more than $10 million, with the majority of sales taking place at international fairs.

7. Looking ahead, just over half (51%) of dealers predicted art fair sales would increase (from 65% in 2021), 13% expected a decline, and the remaining 36% thought they would remain stable. Dealers with turnover of greater than $10 million were the most optimistic, with 58% predicting that their sales at fairs would increase in 2023.

8. After a rapid escalation of growth in e-commerce in 2020 to 39% of dealers' sales, the share of online decreased to 22% in 2021, and again to 16% in 2022. 42% of dealers thought e-commerce would increase in 2023, 50% thought it would remain stable, and just 8% anticipated a decline.

9. Maintaining relationships with existing collectors was a top priority for 65% of dealers in 2022 and ranked the highest priority overall, followed by attending art fairs. Online sales and exhibitions ranked third, indicating the dual focus of pursuing both online and offline strategies. Looking ahead for the next five years, these top priorities were unchanged, with the need to widen the geographical reach of their client base in close fourth position as a future priority.

10. Dealers' focus in 2022 was divided between maintaining sales to their existing base of clients and finding new buyers. New buyers accounted for 35% of their sales on average, with smaller dealers having the highest share (43% for those with turnover of less than $250,000 versus 32% for in the $10 million-plus segment). All dealers turning over more than $500,000 saw the share of sales to new buyers decline year-on-year.

2.1 The Dealer Sector in 2022

Following a period of significant change and upheaval, 2022 represented a year of continued recovery in the global dealer sector. While most regions saw a return to a regular schedule of exhibitions and events after the pandemic-induced restrictions of the previous two years, dealers had to continue to navigate a challenging market, adapting to changing economic realities, rapidly rising costs, and a range of region- and sector-specific issues. The dealer market was particularly vulnerable to the pandemic's impact in 2020, being heavily based on events, live exhibitions, personal relationships, and travel, and sales saw a sharp decline of 20%. However, the adaption of the sector to new ways of operating and the mobilization of digital resources, along with continued demand at the high end of the market, ensured sales bounced back quickly to $34.7 billion in 2021, increasing 18% year-on-year. In 2022, growth continued, but at a more moderate pace, with estimated values reaching $37.2 billion, a 7% increase on the previous year, restoring the market to its value before the pandemic in 2019.

> **In 2022, growth continued, but at a more moderate pace, with estimated values reaching $37.2 billion, a 7% increase on the previous year, restoring the market to its value before the pandemic in 2019**

It was already evident in 2021 that the negative effects of the crisis had not been evenly distributed throughout the sector. The hierarchical nature of the market resurfaced in many sectors and dealers operating at the high end were once again key drivers of the growth in aggregate sales. This polarized market continued in 2022, and dealers with the highest turnovers saw some of the largest increases in sales, while the smallest businesses struggled with price-conscious and cautious buyers, rocketing costs, and more stagnant sales.

This chapter focuses on the dealer and gallery market, consisting of businesses trading in fine art, decorative art, antiques, and antiquities. Due to the private nature of dealer sales and limited publicly available data on turnover and other aspects of their businesses, surveys continue to be one of the primary sources of information that guides analysis of year-on-year trends. Arts Economics carried out an annual survey of dealers globally in

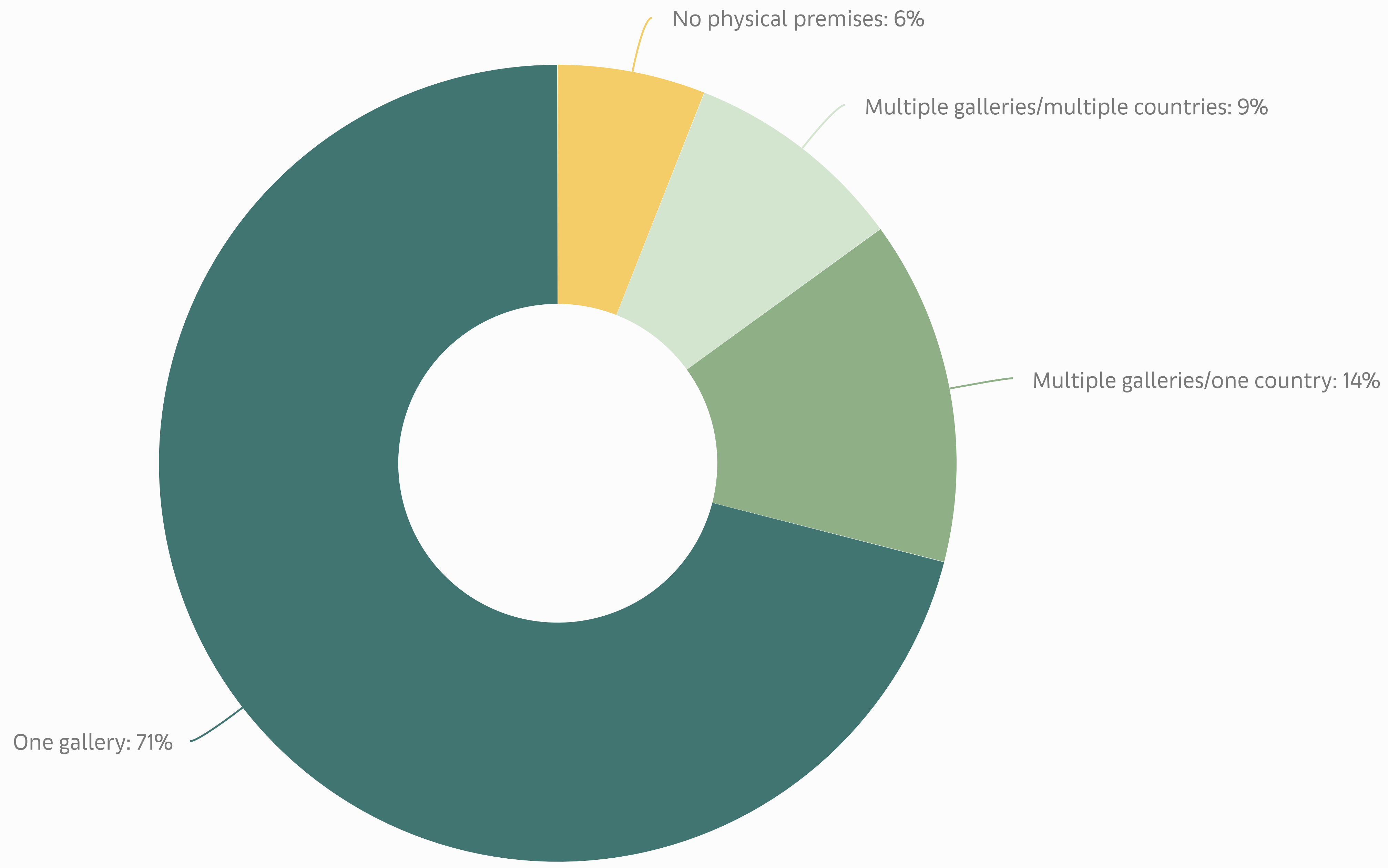
December 2022, covering around 60 different regional or national markets, with a total of just over 1,300 responses. The dealer sector is made up of close to 300,000 businesses globally, covering both the primary and secondary markets for art and antiques, the majority of which are small businesses, both in terms of employment and sales. The survey sample was primarily drawn from dealers that are either members of dealer associations or who participate in art fairs, meaning that they are, for the most part, more established businesses. Due to the criteria required to get into a fair or association, the sample therefore, by its nature, excludes very many small businesses and sole traders, and hence a large volume of lower value sales.[24]

The majority of businesses covered in the survey were based in Europe (53%), with 34% of those from the UK and 16% from France. Dealers from Asia accounted for 24% of the survey, 16% were from North America, and 4% from South and Central America.

The majority of dealers (71%) operated from one gallery or premises in one country, and a further 14% operated in only one country or market, but through more than one premises. This is a significantly lower share than reported in previous surveys, including in 2021 when almost 95% of dealers operated from only one location. Although there are differences in the sample in 2022 – notably a greater proportion of galleries in Asia – this indicates that despite the challenges of the last few years and rapidly escalating operating costs, including rents in many cities, some businesses have continued to expand into different markets. In this sample, 9% of respondents had multiple gallery premises in different countries, and the remaining 6% had no permanent physical gallery or other premises. Of those with multiple premises, almost half (49%) had galleries in two regions, 28% in three, and 22% in four or more. In 2021, of the 5% of galleries with multinational premises, 60% had premises in two regions and 40% in three or more, with similar shares in 2020. This again indicates that notwithstanding the difficult conditions over the last two years, and although applying to a relatively small share of businesses, there appears to have been some expansion of gallery premises. These expansions have been both locally within regions (with many examples such as Marian Goodman Gallery, Pace Gallery, Sean Kelly, Lisson Gallery, David Zwirner, and others having opened, or are planning to open, new premises in Los Angeles on top of their existing US galleries), as well as across different geographical regions in order to access new collectors and expand the geographical reach of their exhibitions and sales. Examples include the Gladstone Gallery's expansion to Seoul in 2022, Marianna Ibrahim Gallery's new gallery opened in Mexico City in early 2023, and several others.

24 More information on the dealer survey and sources is given in the Appendix. These surveys of the dealer sector have been carried out by Arts Economics consecutively for over 15 years, providing a means for tracking trends in the market over time. Interviews were also conducted with dealers in different sectors and regions in 2022 to provide deeper insights into some key issues uncovered in the surveys.

Figure 2.1 Geographical Gallery Operations in 2022

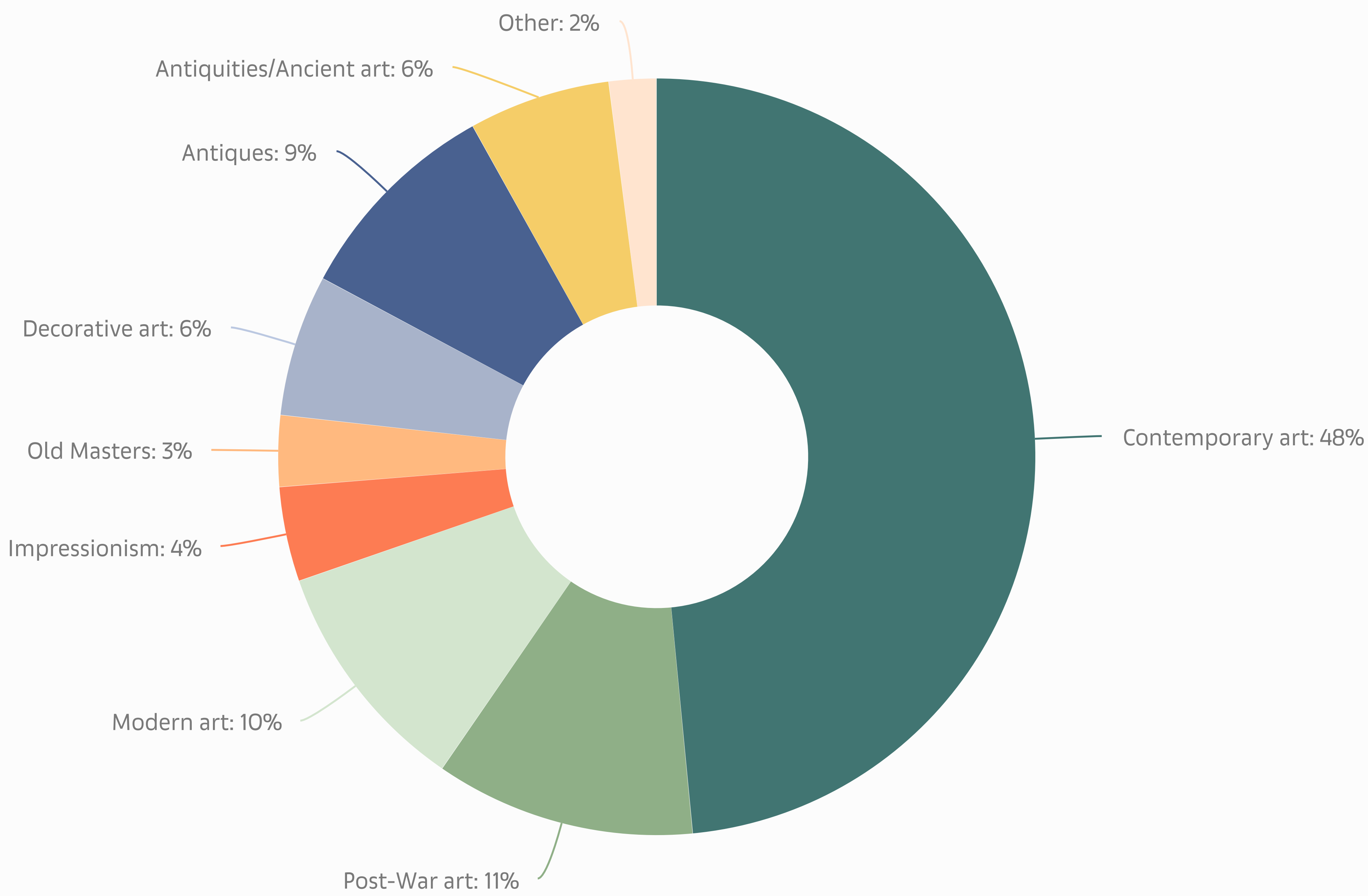


©Arts Economics (2023)

The survey sample covered all sectors of the art and antiques market, with the majority of respondents being fine art dealers (82%), while 18% operated only in the decorative art, antiques, or antiquities sectors. Unlike their more diversified auction house counterparts, a dealer's business model is often built around specializing in a few highly defined fields where they have a high level of expertise. Dealers often develop a strong vertical presence within one specific sector, where they build deep personal and institutional knowledge and networks. Specialization can be a very successful strategy but is a much higher risk business model as it is dependent on the success of a small number of disciplines, which can also make it more difficult to expand. Specialization remained a dominant model in 2022, with the majority of dealers (63%) focusing on only one sector of the market. Of the remainder, most dealt in a small number of related sectors (such as Contemporary with Post-War or Modern art or antiques with decorative art), although there was a minority of 9% that were what might be termed more generalist dealers, mixing fine art with decorative art, antiques, or antiquities. Although the motivations for this mixed strategy are likely to have varied, some dealers commented that a shortage of supply, along with changing demands from more geographically diverse buyers, had forced them to broaden their coverage in order to maintain sales.

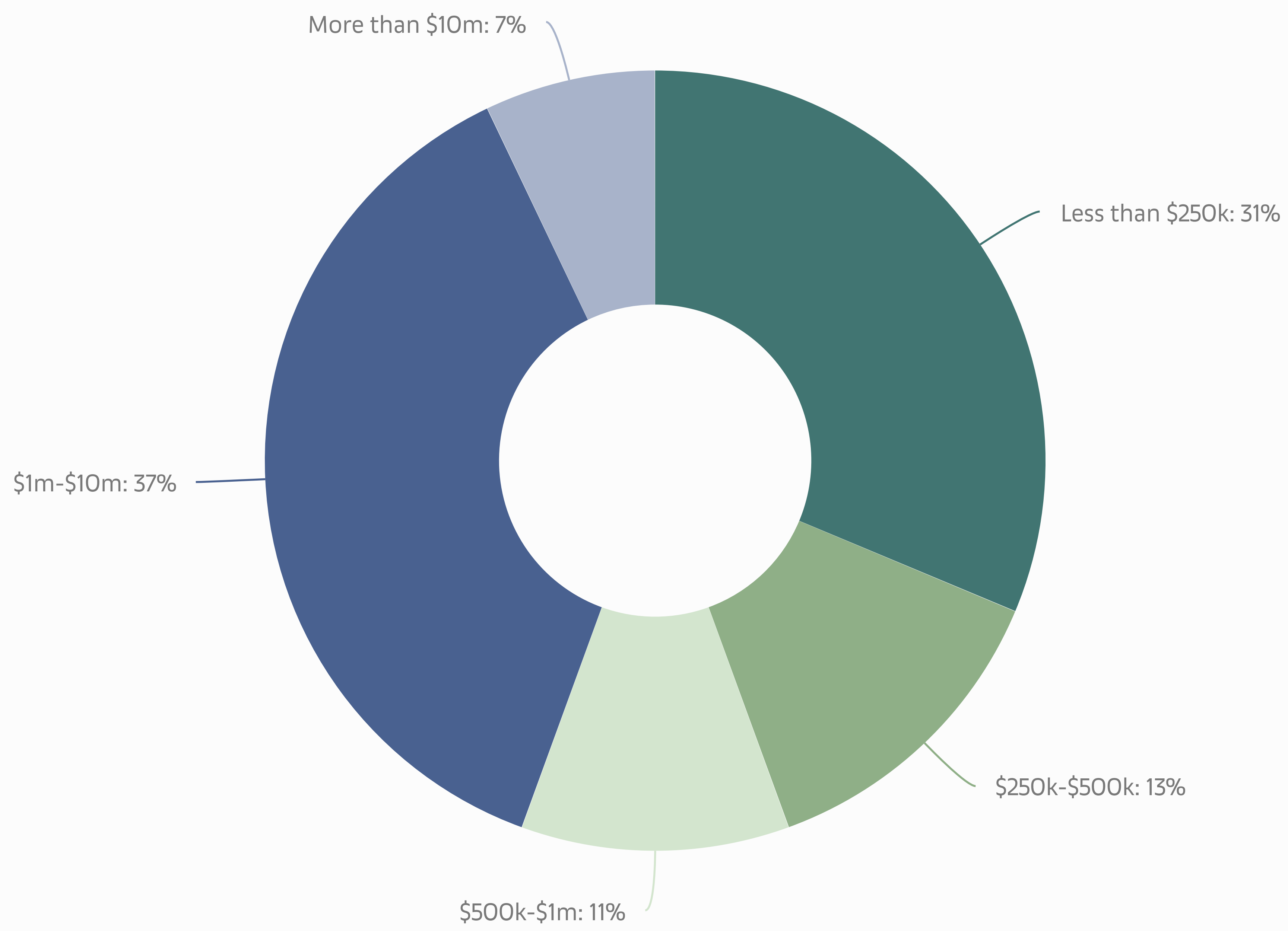
Figure 2.2 shows the distribution of individual sectors covered by the dealers in the survey. As a share of all of the sectors reported, including specialized and mixed-focus businesses, Contemporary art (defined here as by artists born after 1945) accounted for 48%, with a further 11% in Post-War art (artists born between 1910 and 1945). A majority of 71% of dealers responding to the survey dealt in Post-War or Contemporary art, either alone or in conjunction with other sectors.

Figure 2.2 Share of Total Sectors Operated in by Dealers Surveyed in 2022



The majority of dealers are small businesses, both in terms of employment and sales. Due to the stratified nature of the survey sample (being made up of dealers in associations or those who participate in art fairs) respondents were, for the most part, more established businesses. Respondents' reported sales for 2022 varied, and were used to establish segments of the market to compare performance. Just over half (56%) had annual sales of less than $1 million and 7% reported sales in excess of $10 million. The largest segment was those dealers with turnover between $1 million and $10 million in 2022 (37%, with 28% of those in the $1 million to $5 million segment).

Figure 2.3 **Annual Sales Turnover of Survey Respondents in 2022**

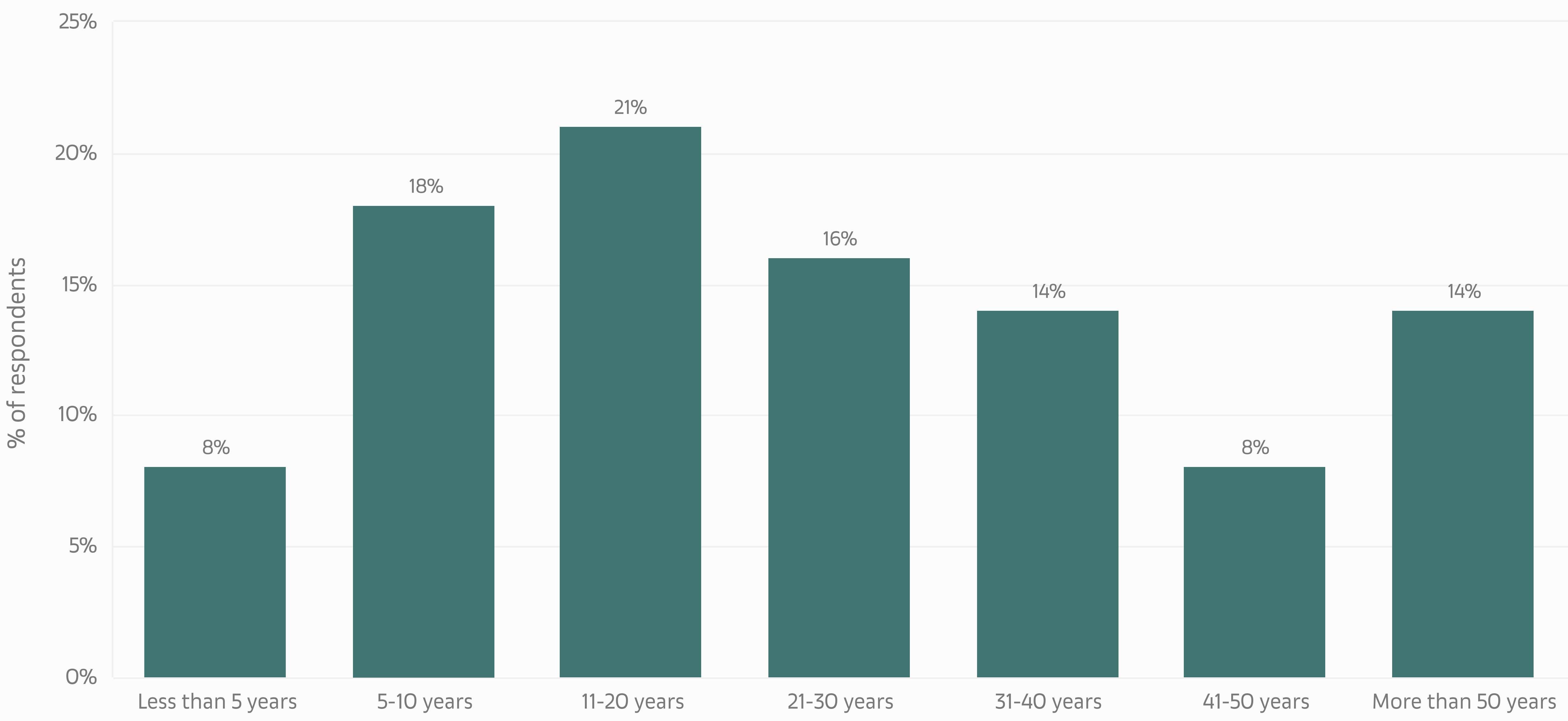


©Arts Economics (2023)

Again, due in part to the sampling process, most dealers were relatively well established in terms of their business tenure, and the average period in operation was 29 years.[25] Just over half (53%) were in business longer than 20 years, up from 42% from the surveys in 2021 and remaining significantly higher than many other industry averages. For example, data from the Bureau of Labor Statistics in the US shows that in 2022, just 26% of the companies operating in the private sector had been in business for 20 years or more, and only 17% for 28 years or longer.[26]

Although most businesses were well established, 5% of the sample had started their galleries in the last three years. These new businesses were mainly based in Europe (49%) and Asia (41%), and most (80%) were in the Contemporary market.

Figure 2.4 **Dealers' Number of Years in Business in 2022**



25 The survey was distributed by various national dealer associations, including SLAD, the ADAA, the CPGA, CINOA, and others, as well as to Art Basel exhibitors. These associations and art fairs have vetting and entry criteria and it is therefore more likely that the dealers surveyed had been open and established for at least one or more years.

26 Retail enterprises in the US had a slightly higher share of 36%, but companies operating in the arts, entertainment, and recreation sectors were just 25%. See *Business Employment Dynamics* statistics, available at bls.gov.

2.2 Dealer Sales

Sales in the dealer sector continued to grow in 2022, with most sectors and regions showing a positive trajectory on aggregate. A majority of 61% of dealers responding to the survey reported an increase in sales year-on-year from 2021. However, positive performance was not universal and 24% of the sample reported a decline in values (with the remaining 15% stable year-on-year). Comparing their sales to 2019, more than half (58%) had seen an improvement in values by 2022, and a further 12% had regained their turnover to around the same level.

One of the bigger trends in the dealer sector over the last three years has been the advance in e-commerce and digital strategies. The unique challenges presented by the global pandemic rapidly escalated the movement of sales online. Dealers were forced to review their business models and adapt to new sales contexts and economic realities, which, for many, involved rolling out or significantly intensifying digital strategies in order to maintain sales and communications. Some smaller galleries fared better than their larger counterparts at the beginning of the COVID-19 crisis in 2020, possibly as they had relied less on fairs and events and more on digital channels and were somewhat more adaptable to change. However, hopes of these trends creating a more level playing field and a more significant or long-term restructuring of the art market did not materialize as the recovery progressed in 2021 and 2022.

Small and mid-sized dealers noted that the competition for visibility and sales online was often just as competitive as offline, and some felt that the increasing volume of online offerings had even made it more difficult for them to build audiences or gain a spotlight on their galleries and artists. Faced with a large number of online exhibitions and sales to view, many of which were delivered in similar, homogenous formats despite a wide variety of content, some collectors and new buyers found it difficult to differentiate or distinguish quality, and many resorted to anchoring on well-known and established artists and businesses. As the market recovered in 2021, the higher end again began to outpace the growth of smaller business and the more familiar hierarchies returned. This continued in 2022 as sales shifted back to fairs and events, with the highest growth in sales for some of the larger businesses and the smallest dealers coming under the most pressure.

Sales by Turnover Segment

Figure 2.5 sets out the average change in sales reported by the dealers surveyed in 2022 in each turnover segment. This shows that some of the larger dealers with sales over $10 million, showed the highest average increase in sales year-on-year at 19%. Dealers in this segment commented that buying was 'strong but thin at the top', noting that while supply was still a key determinant, many of their high-end buyers had expressed a preference to buy privately in order to engage in a more 'thought-through transaction' and retain the ability to negotiate and interact more directly.

> *'We have found the top end alive and well and there seems to be a better appetite to buy privately this year. While this used to be about privacy, now we find collectors at this level want to avoid being manipulated by guarantees and having third parties to a transaction and prefer the more straightforward approach of a private sale.'*

HNW collectors surveyed in 2022 showed strong levels of spending at prices over $1 million, with buying via dealers, galleries, and art fairs accounting for some of the largest shares. A global survey of HNW collectors in 2022 conducted by Arts Economics in collaboration with UBS showed that the share of HNW collectors buying works priced at over $1 million nearly doubled from 12% in 2021 to 23% in the first half of 2022, on par with levels reported in similar surveys in 2019. 93% of HNW collectors bought art through a gallery or dealer, either directly, online, or via a fair. Dealers accounted for 45% of their overall expenditure in 2022, including 13% at galleries, 10% via online dealer platforms, 7% by phone or email, and a further 15% through dealers at art fairs.[27]

Sales for dealers in the $1 million to $10 million brackets grew more moderately (averaging 7%), but there was considerable uplift in the segment from $500,000 to $1 million, with dealers citing the return to exhibitions and fairs helping boost their performance. The poorest performance year-on-year was reported by the smallest dealers (with turnover of less than $250,000), where values declined by 3%. This segment had also shown the smallest rise in sales from 2020 to 2021 (at just 6%, versus 27% in the $10 million-plus segment). Some dealers in this segment noted that, unlike buyers at the top end that were perhaps more impervious to general economic conditions, their buyers had tighter budgets and were generally more cost-conscious in 2022. This resulted in slower sales and some commented that they had to offer larger discounts to close a sale.

27 See Arts Economics (2022) *A Survey of Global Collecting in 2022, An Art Basel and UBS Report*, available at: artbasel.com/about/initiatives/the-art-market.

In all segments, the growth of sales in 2022 was slower than in 2021, when the market had bounced back strongly from the previous years' contractions. Overall, the majority of businesses had recovered their losses: 58% had higher sales in 2022 than in pre-pandemic 2019, 12% were roughly on par, while 30% were still below that level.

Figure 2.5 **Average Change in Year-on-Year Turnover by Dealer Turnover Segment 2021–2022**

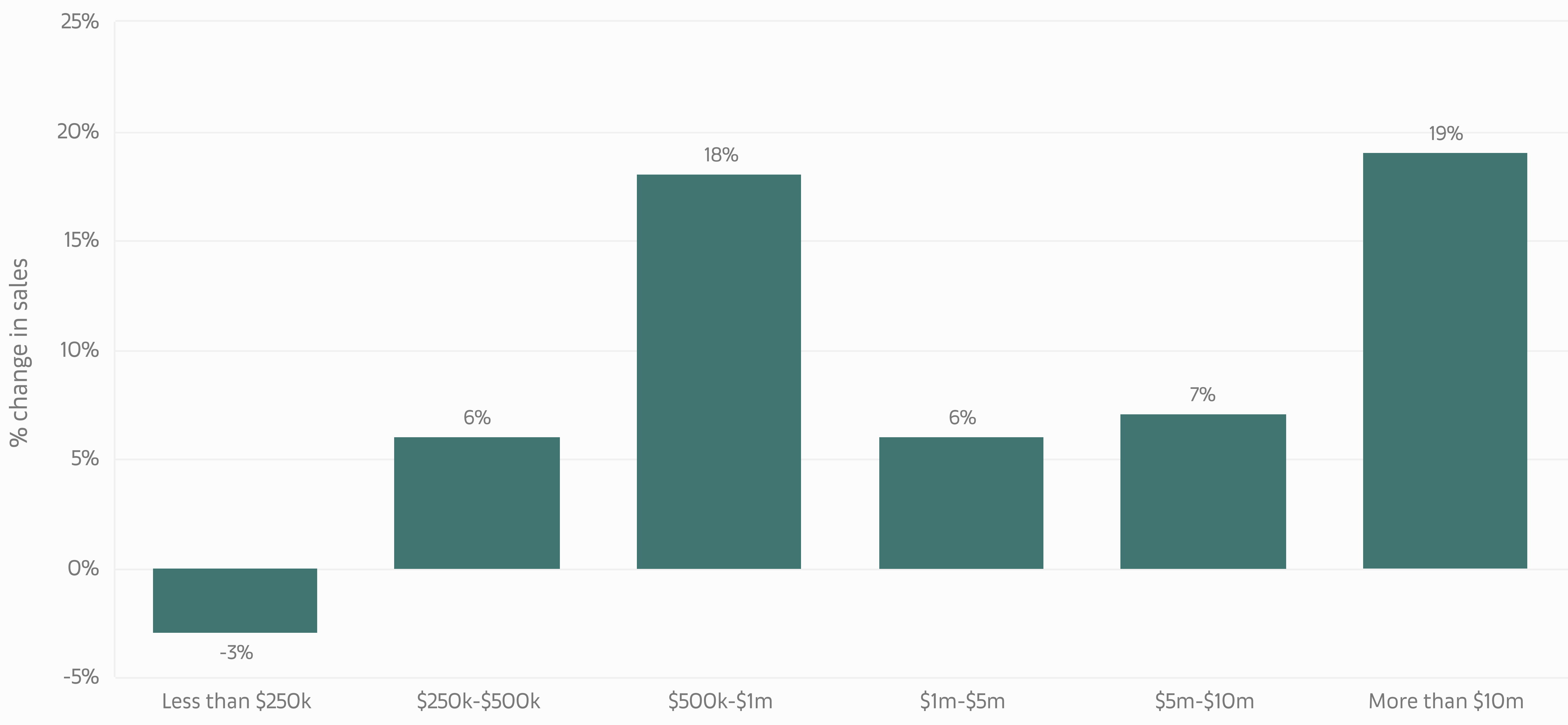


Figure 2.6 Average Change in Turnover by Dealer Turnover Segment from Surveys 2019–2022

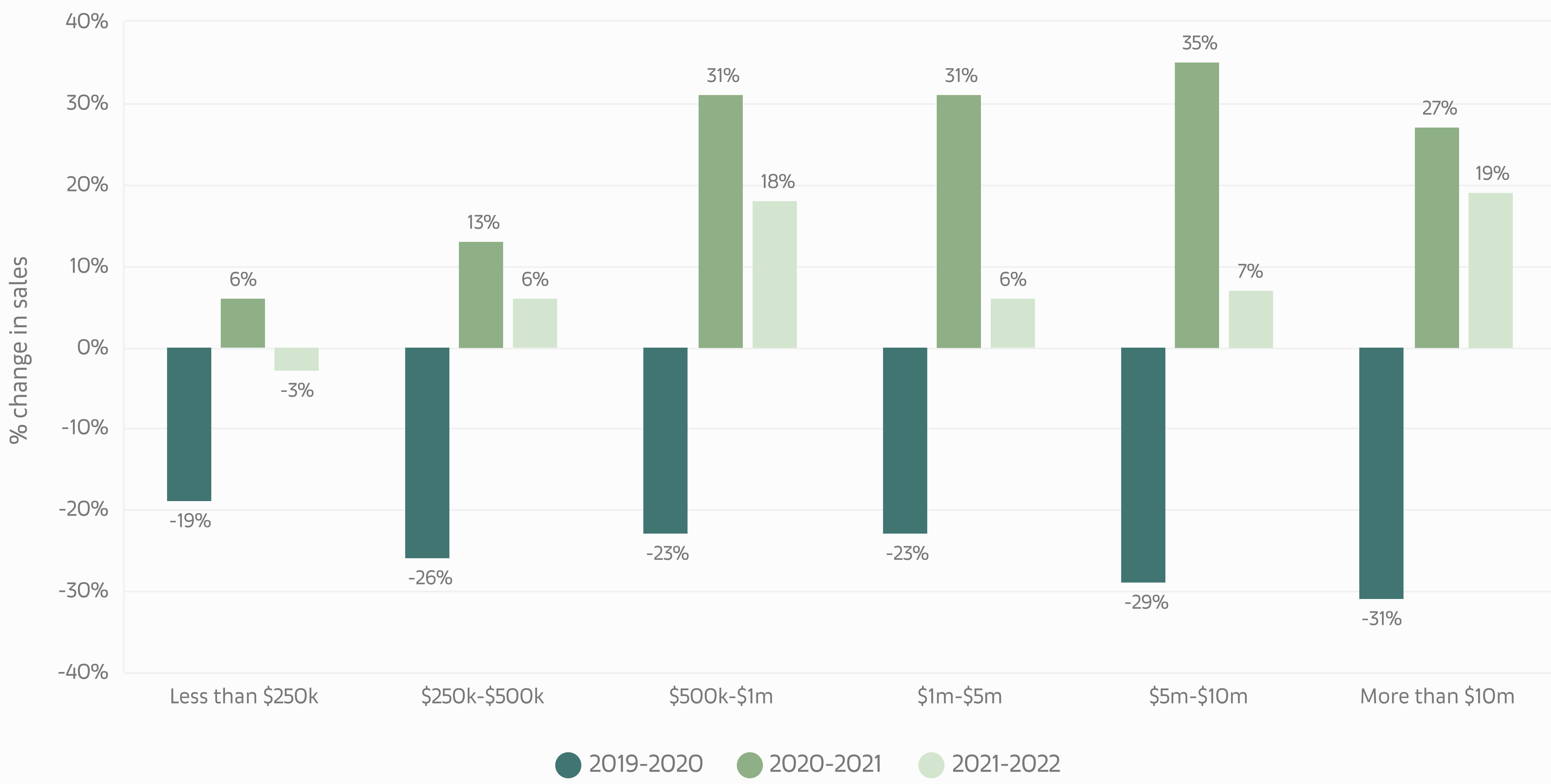


IMAGE Roméo Mivekannin, Galerie Cecile Fakhoury, image courtesy Art Basel

Sales by Region and Sector

Within each of these brackets, there were also differences between regions and sectors. Some of the strongest sales increases were reported in the survey by Asian dealers, with an aggregate rise of 26%, including a 28% increase in Japan and close to 40% by dealers in South Korea. The latter received a boost from the intense focus on the region during the year with the launch of Frieze Seoul in September, running at the same time as KIAF and numerous local events and exhibitions. Dealers in China reported an average increase of 11%. However, this sample represents a relatively small portion of primarily higher-end dealers, with anecdotal and other evidence from the market indicating that smaller businesses had a much more difficult year due to limitations on events and exhibitions and the restricted movement of buyers.

Dealers in the US posted considerably more moderate growth, with values rising just 6% year-on-year, and just over half (57%) of dealers reporting a rise in sales, with the remainder stable (24%) or declining (19%) on 2021.

Across all of the European markets, average sales rose by a reported 17%. While the UK was one of the worst performing markets in Europe in 2021, dealers made a stronger recovery in 2022, with average sales in this sample up by 22%. In contrast, dealers from EU markets reported an increase of 8% on average, with French dealers posting more moderate gains in 2022 of 5%. While other regions including Spain, Switzerland, and Belgium all showed relatively strong growth, the German market was also more subdued, with a low positive trajectory of 2% growth, while Italian dealers reported a drop in sales of 4%.

In South America, dealers reported growth of 4%, substantially lower than the 29% increase of 2021, with relatively stagnant sales reported in the major market of Brazil (up just 1% year-on-year from 2021). Dealers from markets within Africa also reported an increase of just 1% on aggregate from 2021.

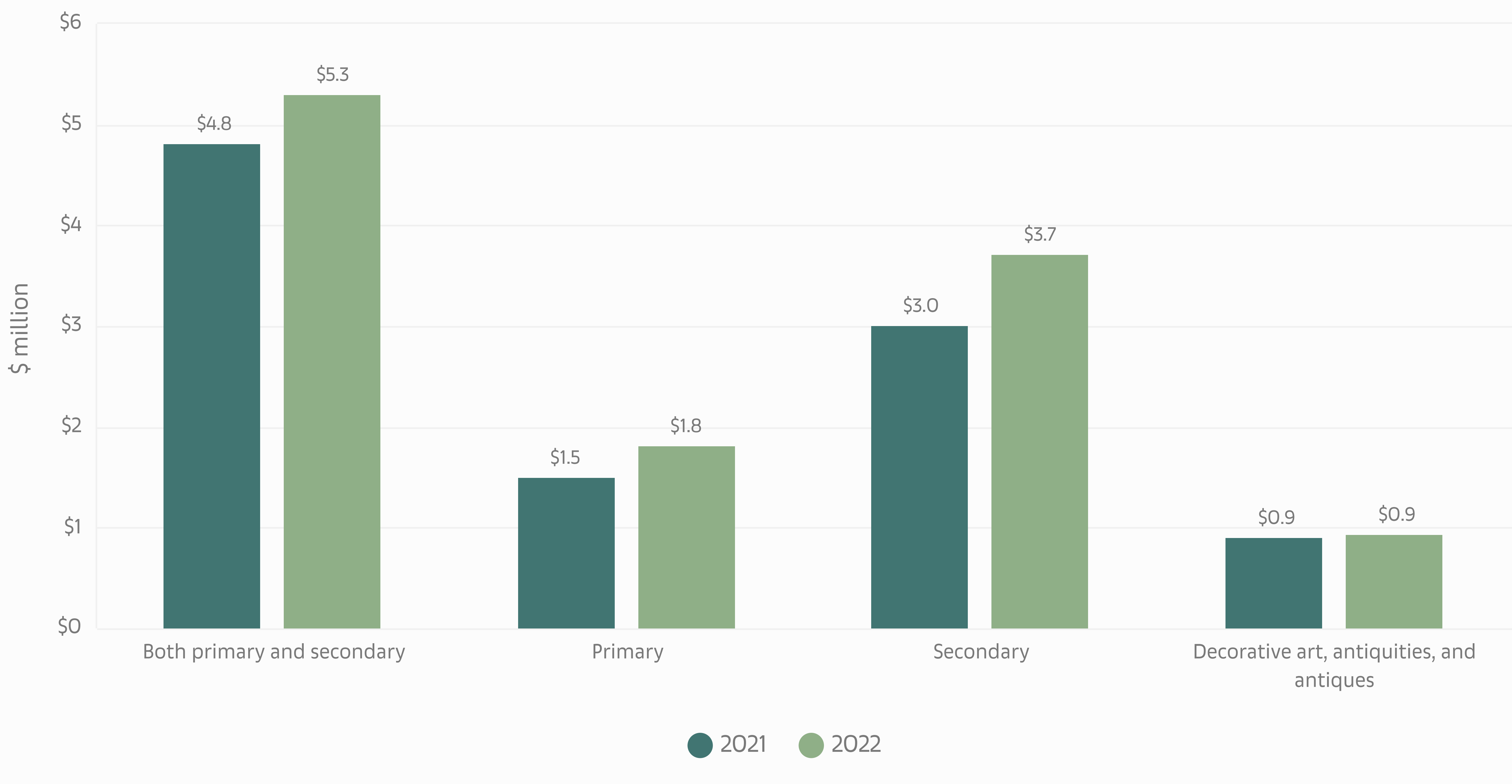
Differences were also apparent by sector. As noted above, around 82% of respondents were fine art dealers and among those fine art dealers:

- 45% worked in the primary market;
- 13% worked in the secondary market; and
- 42% worked in both the primary and secondary markets.

Dealers working across both markets reported that their sales in 2022 were divided evenly, with 50% by value in each segment. Dealers in the primary market saw a significant increase in average sales year-on-year, with values rising 20%, driven by those operating at the highest end of this market. Considering median sales (or the middle of the market), which is less affected by very high values for individual businesses, sales decreased by 15%. This underlines again that in the primary market in particular, some top-tier businesses skewed average sales and growth higher, while others, particularly those with lower turnover, still had a challenging year.

Secondary market dealers also saw a substantial rise in sales of 22%, again driven by a very small number of dealers in Old Masters and other older sectors, who saw a significant rise from 2021. Dealers operating across both segments of the market continued to have by far the highest average sales, but experienced lower growth, with values increasing by 11% year-on-year in 2022.

Figure 2.7 **Average Turnover of Dealers by Market Sector 2021-2022**



Combining the primary market sales of those working solely in the primary market and those operating jointly in both markets, primary market sales advanced on average by 19% versus 11% in the secondary market. Dealers also commented that their primary market sales had seen a spike in interest for the last two years as exhibitions and events had returned, versus slower activity in secondary sales, although some were concerned about how long this would last.

> *'For the last two years, the primary market has been more vibrant than the secondary, and this continued in 2022. But we are unsure if it will extend even into next year.'*

Some also commented that they felt certain parts of the primary market had become overinflated in 2021, and sales, while positive, had not kept up at the same pace in 2022, with concerns that there could be what was termed a 'rocky road ahead for some artists.' Comments were often particularly directed at the inflation of prices for some 'living celebrity artists' already in the $1 million-plus price levels relatively early in their careers. There were fears that prices and sales might not be sustainable in the near term, and that some of the buying for the last two years, particularly of younger artists' works, had centered on financial gains and speculation rather than longer-term collecting goals. This was of particular concern for some dealers who earned a disproportionate amount of revenue in the last two years from sales of a small number of artists (discussed in Section 2.3).

The sales reported for 2021 and 2022 for those working in the Post-War and Contemporary art sectors showed that dealers working in the Contemporary market saw a greater increase in their median sales (of 11%) than those in older Post-War segments (with a decline of 4%). However, there were concerns expressed that as the economic outlook becomes more uncertain, collectors may become more risk averse and those paying higher prices will increasingly seek the stability of artists with a more established historical footprint.

Commenting on their concerns regarding the future markets for some of these artists, dealers noted:

> *'When prices reach unprecedented heights too early, where can they go from there except down? Apart from the rarest of cases and where the works are extraordinary. Artists need consistent prices that are going up over many years.'*

> *'One of our biggest challenges now is galleries pushing up prices too quickly for unproven artists and the crash in values that will result from this.'*

Some experienced dealers commented that they felt the issue arose not only due to collector demand but because of the influx of *'too many new galleries that have no integrity or knowledge of the business.'* Others felt that although most dealers attempted to manage artists' careers for longevity, inflated prices at auction that did not match those in galleries were causing hype around certain artists. Some noted that *'auction visibility was replacing museum acquisitions as a marketing technique for artists'* with works going from artists' studios to the auction sector in a very rapid turnaround, rather than being exhibited first in galleries and museums before moving to the secondary sector (see also Chapter 3).

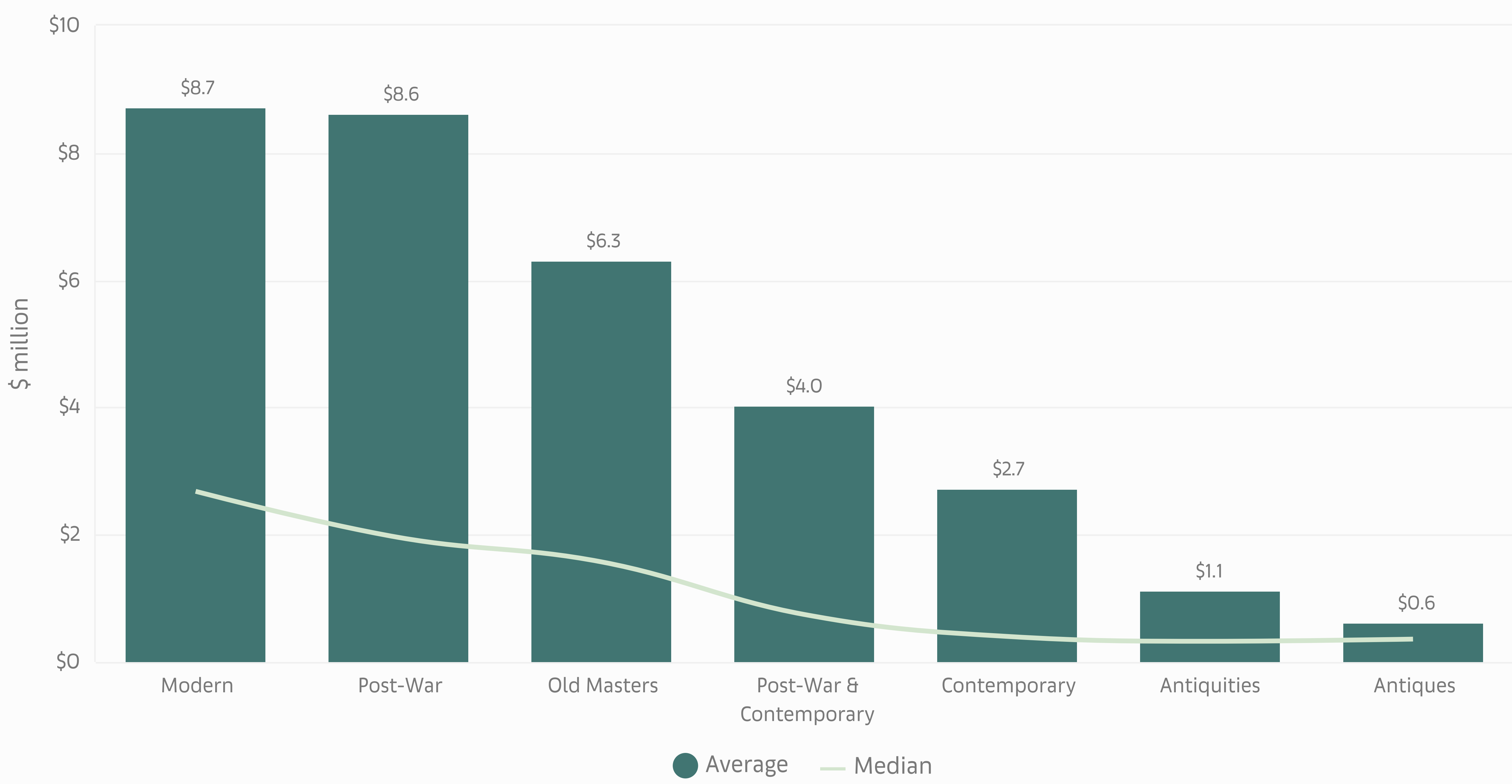
Some dealers also saw the issues of fast-selling and overinflated markets as part of a resurgence of the trend toward a more financial focus in the art market over the last few years.

> *'We have seen a resurgence of investment schemes and the use of inappropriate financial tools in the art market again in the last two years. When these things start to proliferate, it's always a sign of trouble ahead.'*

> *'One of the biggest issues now is the corporatization of the art world. Especially for young artists who need to have time to brew and make mistakes and grow without being eaten alive by the market.'*

Although most concerns related to the primary market, dealers operating in the secondary market also noted that despite strong sales for specific, historically significant artists, the frenzy of activity some had experienced in 2021 had quietened in 2022, with collectors being choosier about sales and more competitive on prices. Although dealers in living and Contemporary artists' works had higher year-on-year growth, their average turnover was still considerably lower than dealers in older sectors of the market, particularly those only dealing in the primary market (with the exception of those operating in non-fine art sectors such as antiquities, antiques, and decorative art). Among the survey respondents in 2022, Modern, Old Masters, and Post-War specialists all had higher average turnover than Contemporary art dealers. Dealers in antiquities, decorative art, and antiques had among the lowest average turnovers in this sample, but sales increased for these sectors in 2022. Combining sales of specialist dealers in these three areas (excluding any that also dealt in fine art), average sales rose by 14%, and like all sectors, performance tended to be better for dealers operating at the higher end.

Figure 2.8 Average and Median Sales of Selected Dealer Sectors in 2022



Sales by Medium

Despite the continued development of interest and collecting in digital art over the last two years, the majority of sales by value in the dealer sector in 2022 came from the more traditional mediums of paintings, sculptures, and works on paper. Analyzing the share of sales (weighted by turnover) by fine art dealers in both the primary and secondary markets, these three mediums accounted for a combined 82% of sales by value, with paintings once again being the largest by value (at 57%, stable on 2021). Prints, multiples, and photography made up a further 9%.

Although the traditional mediums still dominated, their share of sales declined in 2022, making room for the advance in sales of digital mediums. Sales of digital, film, and video art accounted for 5% of sales in 2022, up from just 1% in 2021. The majority of those sales (4%) were digital art, and almost all (99%) of those sales were associated with an NFT or 'crypto art.' As set out in Chapter 1, despite the sharp decline in the markets for art-related NFTs in 2022 from their peak the previous year, sales were still substantially above any level achieved before 2021. Although increasing, the relatively small impact they have made on the value of sales in the dealer sector underlines the fact that most of these sales continue to be on external platforms rather than in the traditional galleries covered in the survey.

Importantly, some dealers also noted that while some speculative digital art had flourished in the last two years, video art, conceptual art, and installations had become much more difficult sectors to sell works in, particularly for mid-career artists, with few private or major institutional clients with 'sufficient vision or ambition' (or budget) to purchase major works in these categories.

> *'As the size of the artworld and art market has grown, galleries have needed more and more collectors to stay afloat, and somewhere along the way we forgot that the cultivation of conscientious collectors ought to be our primary concern. We have squandered the legacy of the [Leo] Castellis, Konrad Fishers, and Marian Goodmans of this world because the art fair industrial complex needed us to keep more and more lights on. Some artists have benefited from this, but there is a crisis in the market for mid-career installation, video, and conceptual art that is obscured by healthy auction results for painting and breathless art fair press releases.'*

Figure 2.9 Fine Art Dealers' Share of the Value of Sales by Medium in 2022

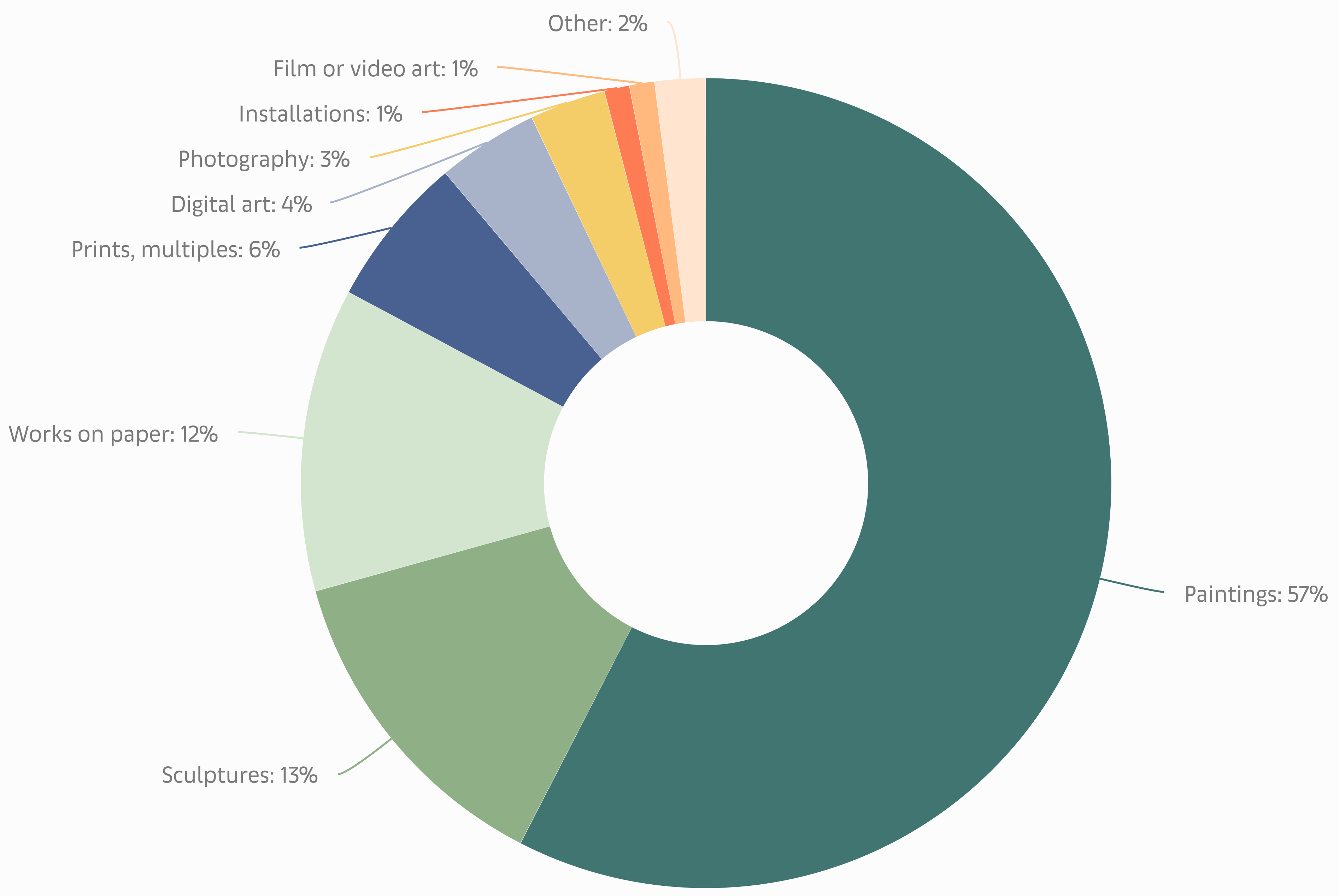
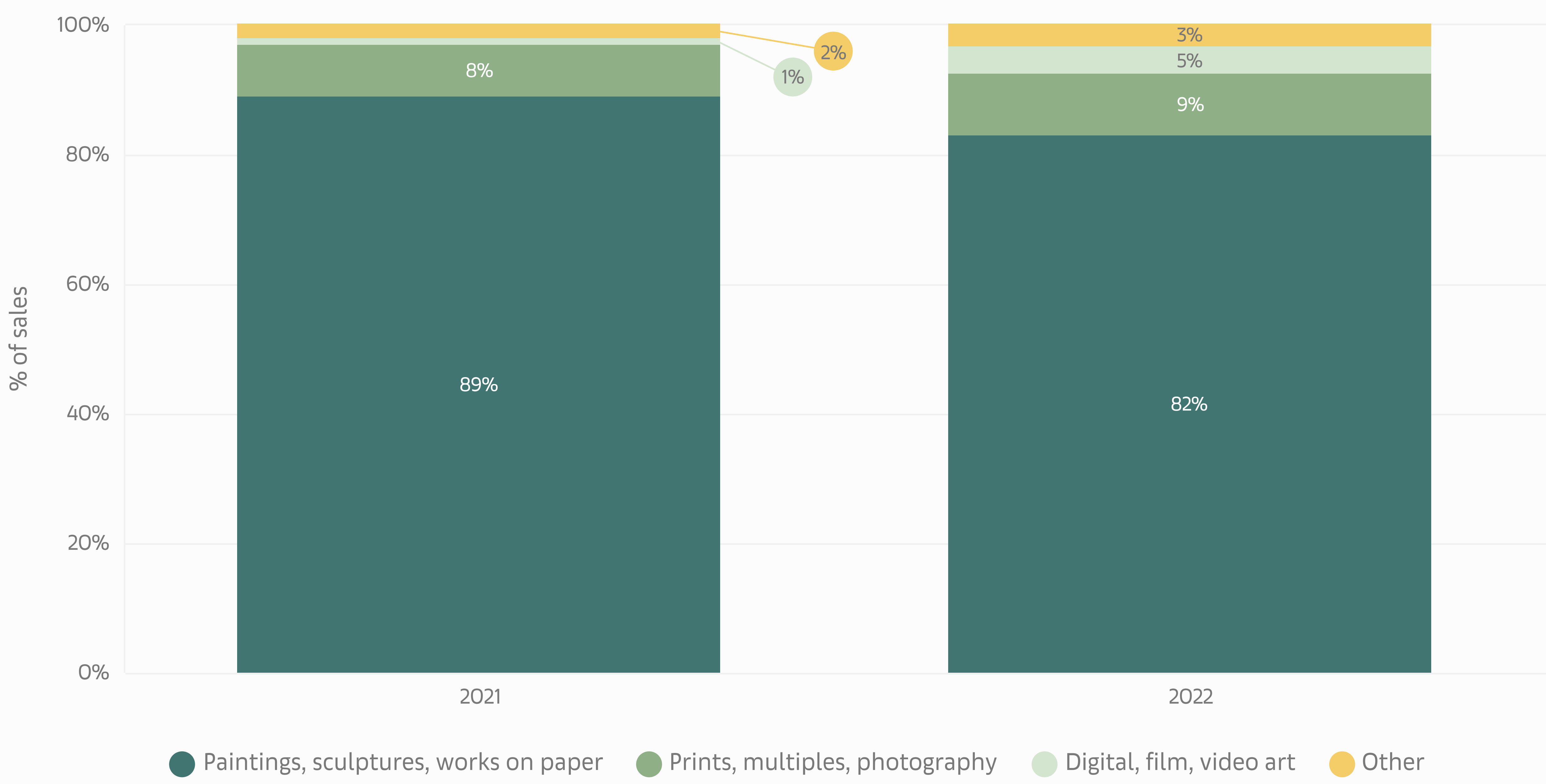


Figure 2.10 Dealers' Sales by Medium in 2021 versus 2022



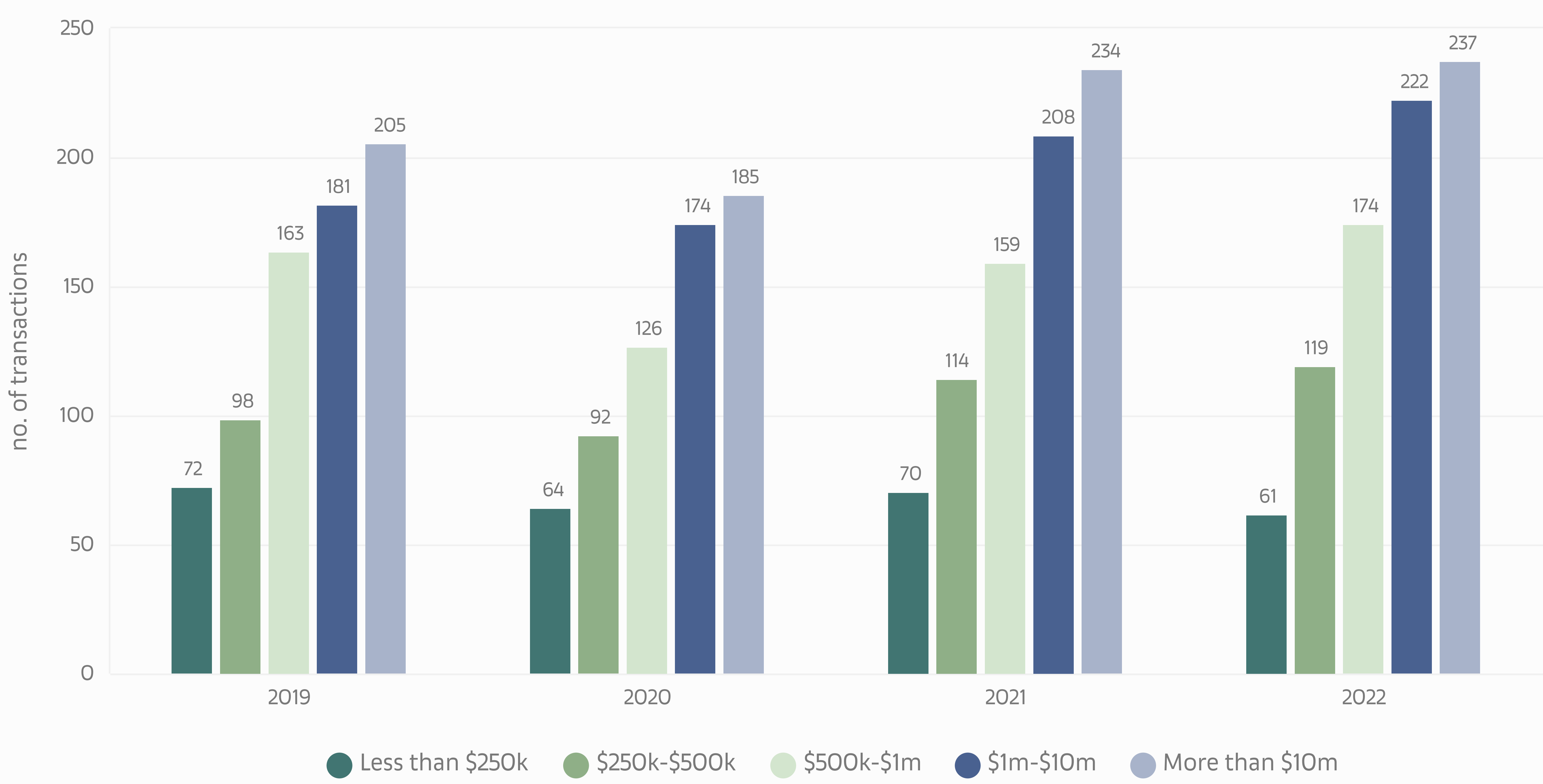
Sales Volumes in 2022

Some of the rise in sales in 2022 was due to an increased volume of transactions in the dealer sector, with the average number of works and objects sold across those surveyed increasing by 7% (from 145 to 153). These averages can fluctuate significantly year to year, and they are influenced by some dealers who sell a high volume of art and objects, including those in lower-priced segments. The median number of works is therefore more representative of the trend for most businesses, and this also rose from 65 to 75 works. The number of works sold tended to rise as the size of the business increased, with the largest dealers with turnover of over $10 million, some of which are multinational businesses, selling a median of 225 works, versus 15 for those with turnover of less than $250,000.

Figure 2.11 sets out the changes in the average number of works sold for those dealers who reported the volume of transactions over all four years from 2019 through 2022. It is notable that all segments saw a rise in the number of works sold, with the exception of the smallest dealers (turning over less than $250,000), where the average volume dropped by 13%. The median number of works sold in this segment was stable, which alongside declining sales values indicated some downward pressure on prices at the lowest end of the market. Dealers at the highest end of the market saw a more significant rise in sales, and in this segment and all others with sales of over $250,000, the volume of transactions has increased from 2019, indicating that rising values have been driven by more activity in the market over the last few years.

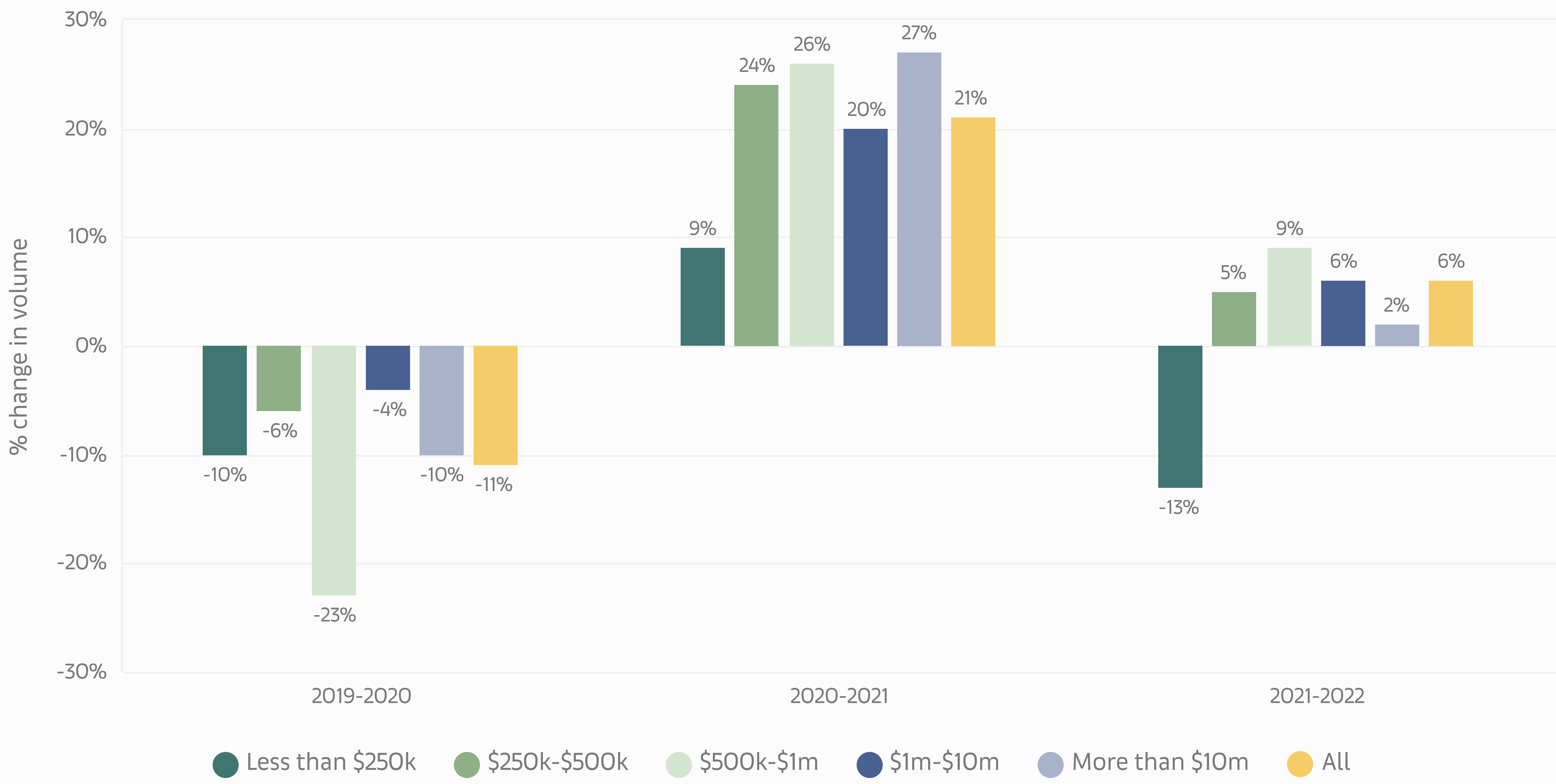
Figure 2.11 Volume of Works Sold by Dealers 2019–2022

a) Average Number of Transactions



©Arts Economics (2023)

b) Annual Change in Volume of Works Sold



©Arts Economics (2023)

The share of the volume of sales in different price brackets was relatively stable from 2019 to 2021, however, in 2022, there was a decline in the volume of works being sold for less than $50,000 (from 82% in 2021 to 73%). Although these figures likely reflect lower volumes of sales by smaller dealers, a decrease in spending at this level was also indicated in surveys of HNW collectors in 2022, which showed a significant fall in spending at this level mostly in favor of the $1 million-plus level. According to these surveys conducted in mid-2022 by Arts Economics in collaboration with UBS across 11 different regional markets, 30% of the collectors surveyed reported most often buying art at prices of less than $50,000 in 2021, but this dropped to 22% in 2022. Conversely, the share of those most often purchasing in the $1 million-plus range rose from 12% to 23%.[28]

For dealers, most of the share shifted to transactions at prices of between $50,000 and $250,000, which saw an increase in share of 8%. The share of sales at prices of over $1 million dropped marginally to 3% in 2022, although this was still above both 2020 (1%) and 2019 (2%).

28 See Arts Economics (2022) *A Survey of Global Collecting in 2022, An Art Basel and UBS Report,* available at: artbasel.com/about/initiatives/the-art-market.

Figure 2.12 Volume of Sales by Price Bracket in Surveys 2021-2022

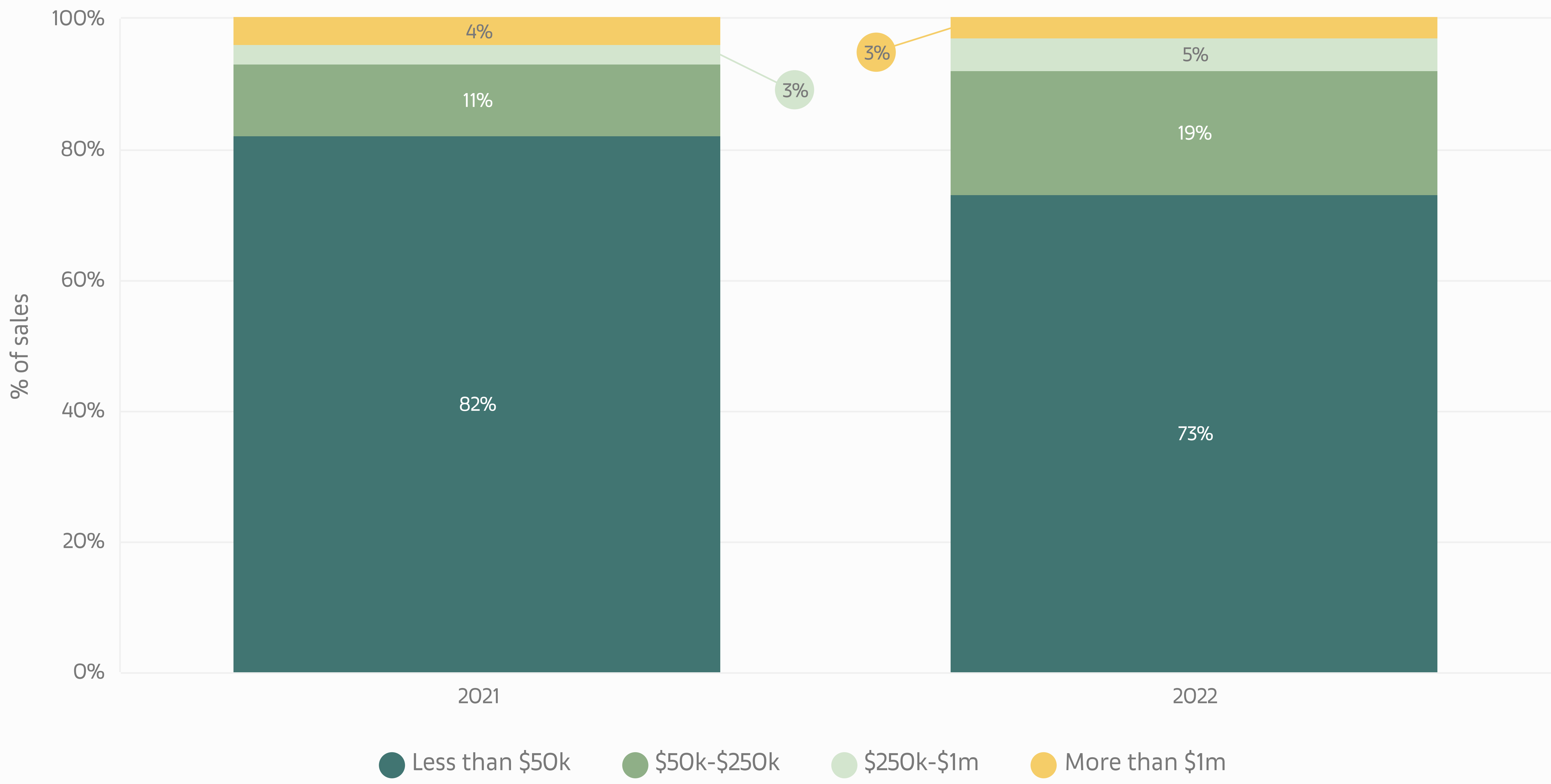


IMAGE Thomas Schütte, Peter Freeman, image courtesy Art Basel

2.3 Artist Representation

As noted in Chapter 1, there has been renewed discussion regarding disintermediation in the market and artists working more directly with collectors, partly driven by advances in technology and greater focus online. When dealers were asked about their level of concern regarding disintermediation in the market or artists selling directly to collectors (bypassing dealers), 24% were extremely or moderately concerned versus 29% who were not concerned at all.[29] It was a considerably more relevant issue in the primary market, with just over one third (35%) extremely or moderately concerned and only 20% not concerned. 38% of primary market dealers also predicted an increase in direct selling by artists in the next year, and only 13% expected a decline, indicating that this could be an issue that will evolve in future.[30]

Although dealers discussed the issue and cited individual concerns from their programs, there was little to indicate any overall quantifiable impact on the representation of artists by galleries. Primary market galleries represented 19 artists on average, stable on 2021. Previous surveys of the sector indicated that this has not shifted over the last three years, from an average of 18 in 2019, but has declined from 2017 (25 artists on average). Although there could be many factors contributing to the decline (including changes in the sample), some dealers noted that concentrating on a smaller number of artists over time was a deliberate strategy in order to focus their resources, given the active role many play in establishing and building artist's markets, rather than an indication of deliberate disintermediation.

There has been renewed discussion regarding disintermediation in the market, and 38% of primary market dealers predicted an increase in direct selling by artists in the next year

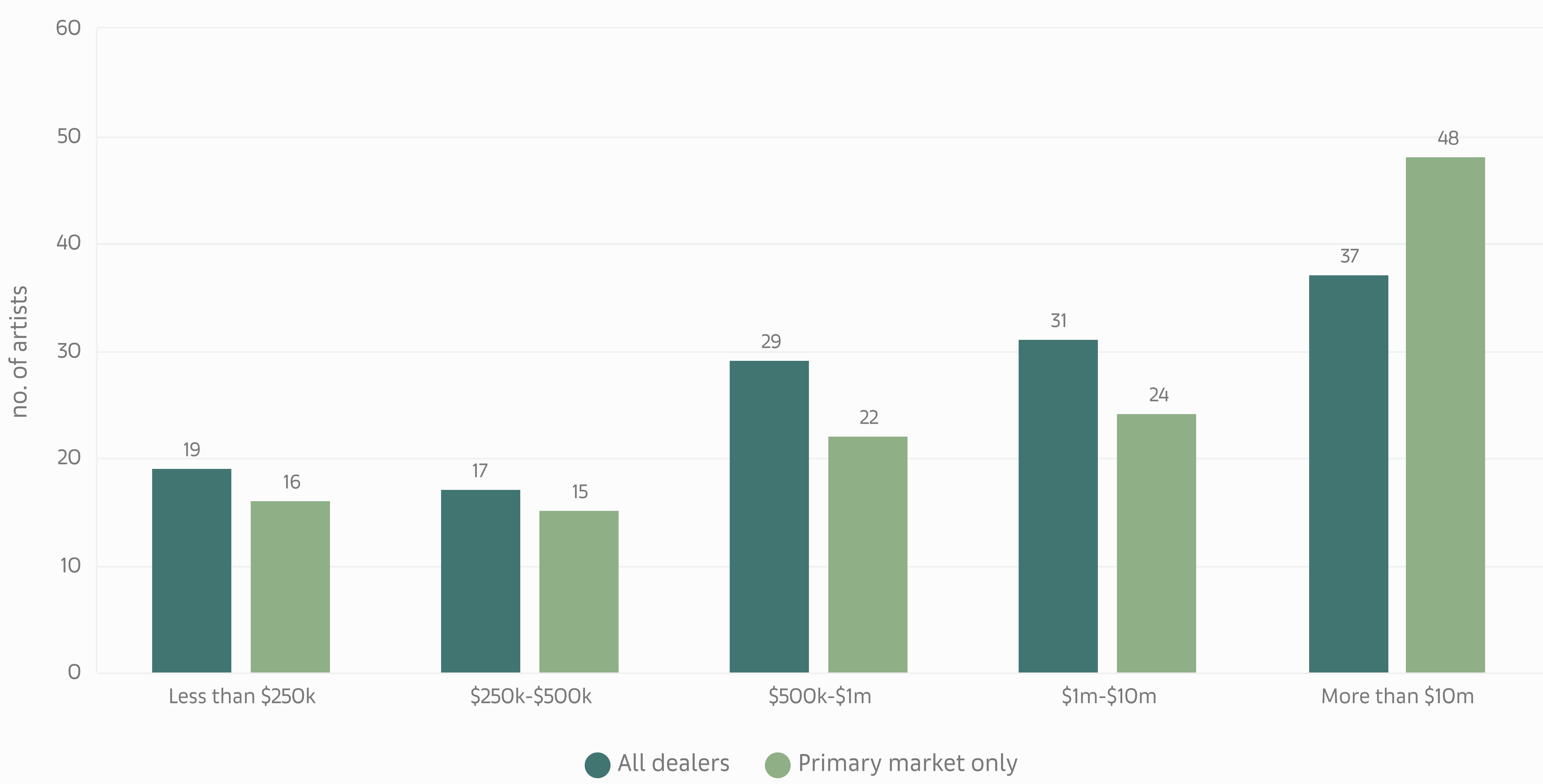
29 This share is from the 84% of respondents who felt it was a relevant concern for their business.

30 Just under half (49%) predicted direct selling by artists would stay about the same. These figures exclude a high share of 25% who did not know how this might pan out in the next 12 months (and 39% for the wider sample) indicating that this is an area of uncertainty for a significant proportion of dealers.

For businesses operating in both the primary and secondary markets, the number of artists represented was higher, at 31, a slight increase on the average reported in 2021 of 29, but still below the pre-pandemic average of 34 in 2019.

The number of artists represented also varied by the level of turnover. Although the number of artists a gallery represents is not necessarily proportional to sales or profitability, dealers often require significant resources to finance the promotion of artists as well as supporting the production of work for those in the early stages of their careers where sales may be low or unstable. This was borne out in the sample and smaller galleries represented fewer artists on average than larger ones in 2022, whether they worked exclusively in the primary market or across both the primary and secondary markets. Smaller businesses with turnovers of less than $500,000 in 2022 represented less than half the number of artists of the largest businesses, with those turning over $10 million or more averaging 37 artists (and 48 for those only operating in the primary market).

Figure 2.13 Average Number of Artists Represented by Dealer Turnover Segment in 2022



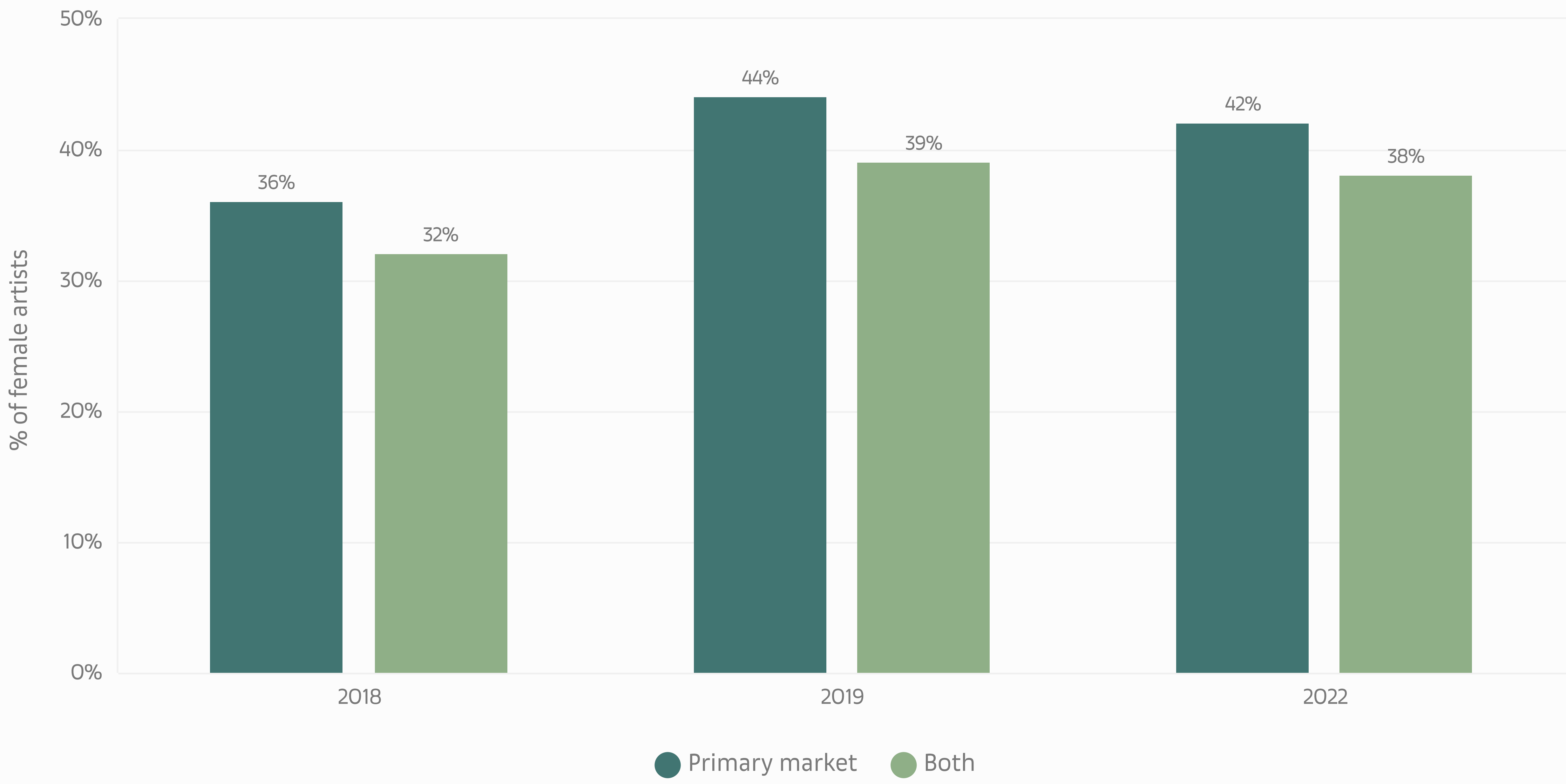
Despite considerable attention and some improvement regarding gender imbalances in the market, the representation of female artists remains persistently lower than their male counterparts and increasing equity in terms of sales has also been slow to evolve. Across all respondents, the share of female artists represented by galleries was 39%, up from 37% in 2021. As in previous surveys, the research showed that the share of female artists represented by galleries in the primary market was higher (42%) than for those operating in both the primary and secondary markets (38%). Dealers operating solely in the secondary market had the lowest share of female artists overall at 16%, which was unsurprising given the underrepresentation of women in art history.

> **The share of sales made from works by female artists was 40% for primary market galleries and 30% for those operating in both markets, with strong sales having continued for a small number of successful female artists**

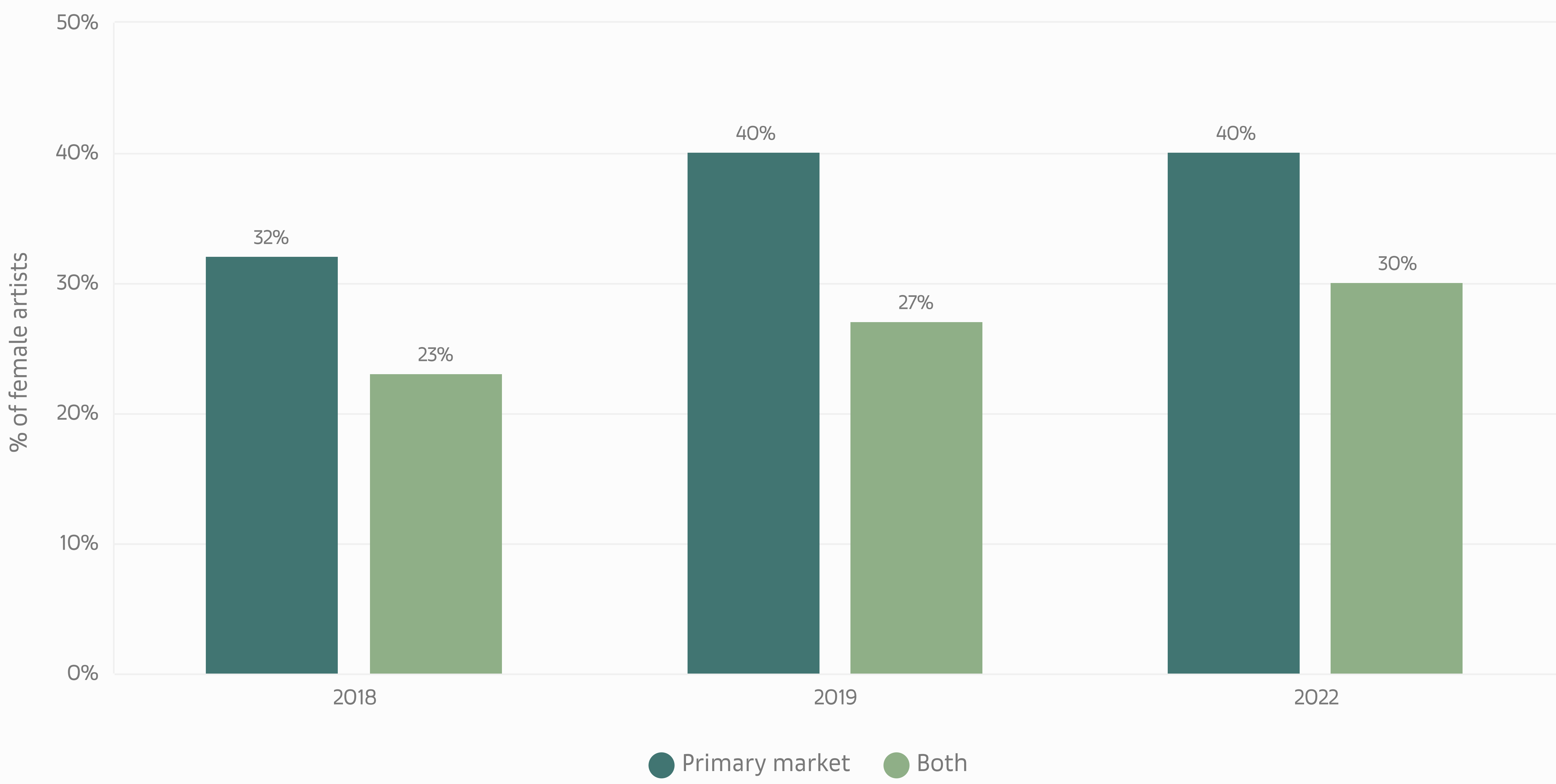
While the share of the number of female artists represented by galleries has increased over five years, progress appears to have stalled in the last two years, with the share of female artists fractionally less than in 2019 (down by 2% for primary market galleries from 44% in 2019). The share of sales made from the work of female artists has seen a similar rise over five years, but in this case the increase has been maintained from 2019 to 2022 (stable at 40% for primary market galleries and increasing 3% to 30% for galleries operating in both markets), with strong sales having continued for a small number of successful female artists.

Figure 2.14 **Female Artist Representation and Sales in 2022**

a) Share of Female Artists (from Dealers' Total Number of Artists)

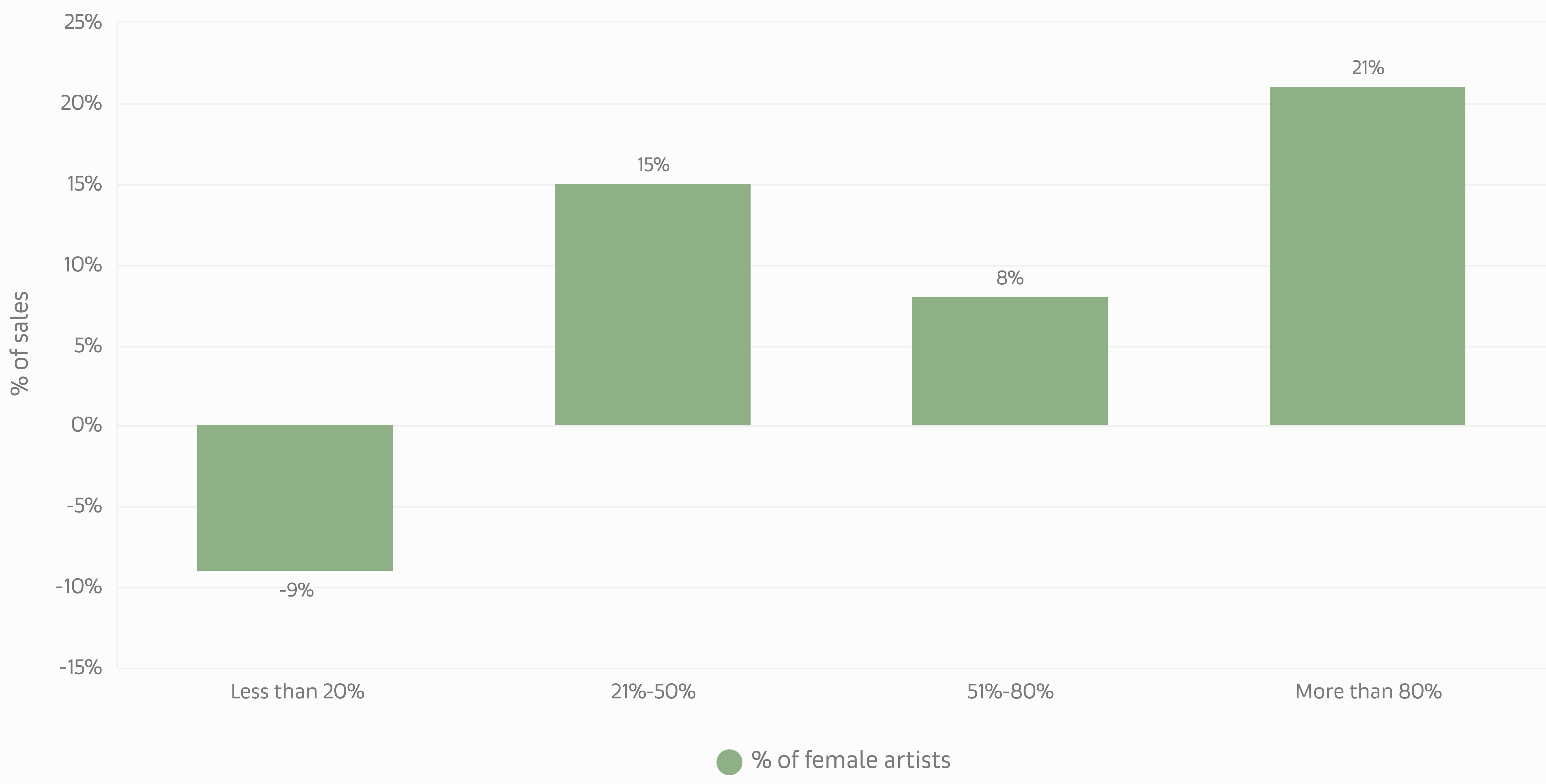


b) Share of Sales by Female Artists



At the start of the pandemic, an assessment was made of whether having a smaller or greater share of female artists affected sales performance. Surveys in 2020 showed that galleries representing the lowest share of female artists tended to have the largest decline in sales year-on-year from 2019, with those with 25% or less seeing a 23% drop in sales versus a more moderate decline of 11% for those with all female artists. Performance was particularly positively related to female artist representation in the primary market, with a higher share correlating with a lower decline. Although it was not possible to show direct causality between sales and representation, and there were very likely many factors driving these changes, it is notable that similarly in 2022, having a very low share of female representation was correlated with low performance. Those galleries with less than 20% of female artists in their programs had stagnant and declining sales year-on-year, while those with over 80% had significantly higher growth of 21%. While the performance of the segments in between were somewhat mixed and further investigations would be required to assess which artists outperformed others, the findings indicated again that having a higher share of women has not been a negative factor for sales in 2022, but having very few could be.

Figure 2.15 Change in Average Sales by Share of Female Artists Represented 2021-2022

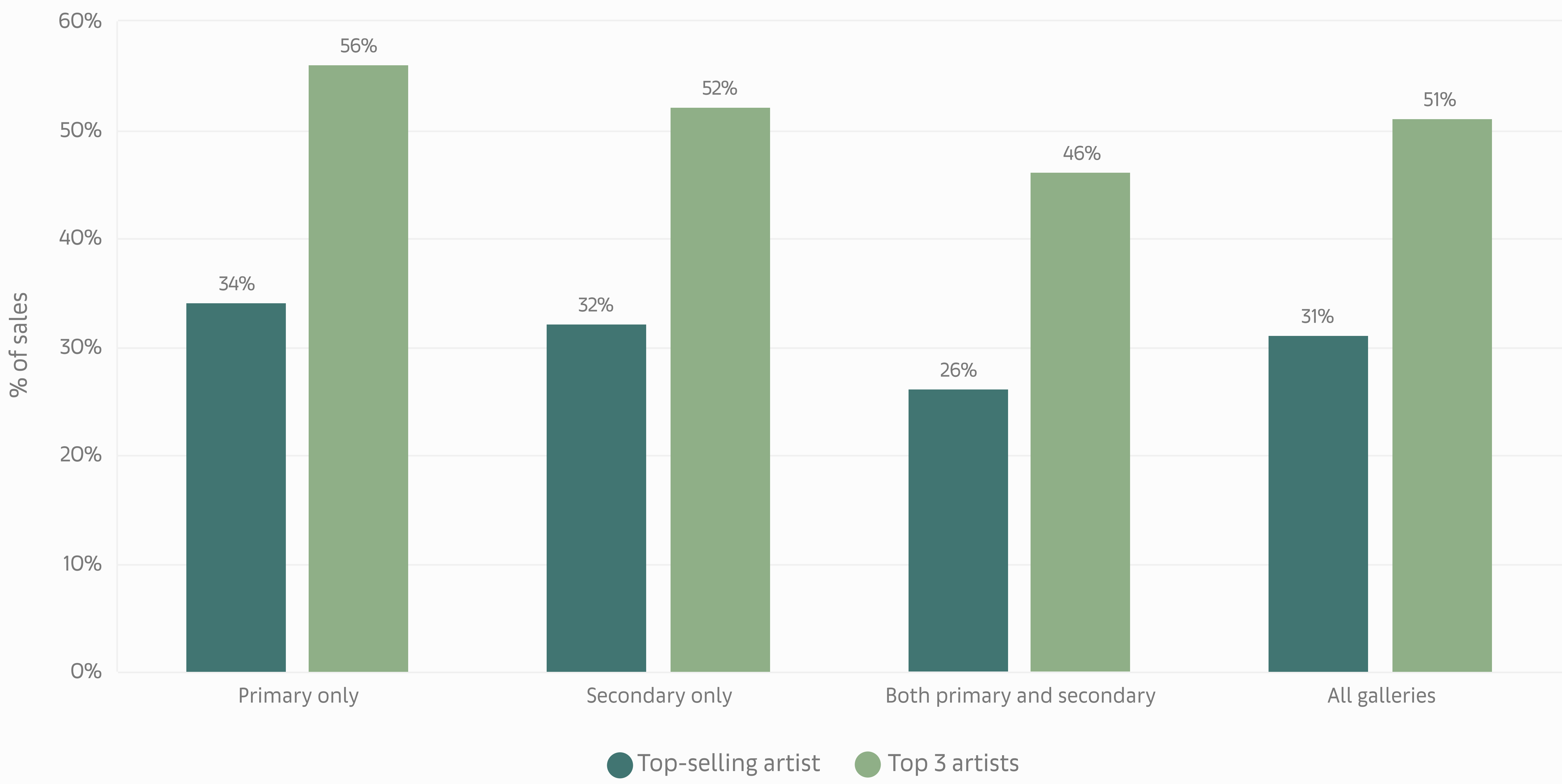


As noted above, concerns over the longevity of high prices for some (particularly young) artists and the role of the dealer in the development of artists' careers has been debated over the last couple of years, particularly as some artists started to engage more directly in sales, bypassing dealers and working directly with NFT platforms and at auction.

Issues concerning how galleries maintain long-term connections and relationships with artists in their programs are not new and are particularly concerning for some businesses who have a heavy reliance for sales and profitability on a relatively small number of artists. The sometimes-devastating effect of larger galleries 'poaching' artists from smaller galleries after they have invested significant time and capital early in their careers has been discussed at length in previous reports. The shift of power to the artist themselves and their capacity for direct selling has become more the focus in the last few years, tied to some degree with the increasing digital take-up in the market which has enabled more channels for direct sales and marketing. Some galleries are therefore feeling pressure on their programs both from the top down from large top-tier galleries and the risks of artists being poached, and the bottom up from the artists themselves as their practices mature.

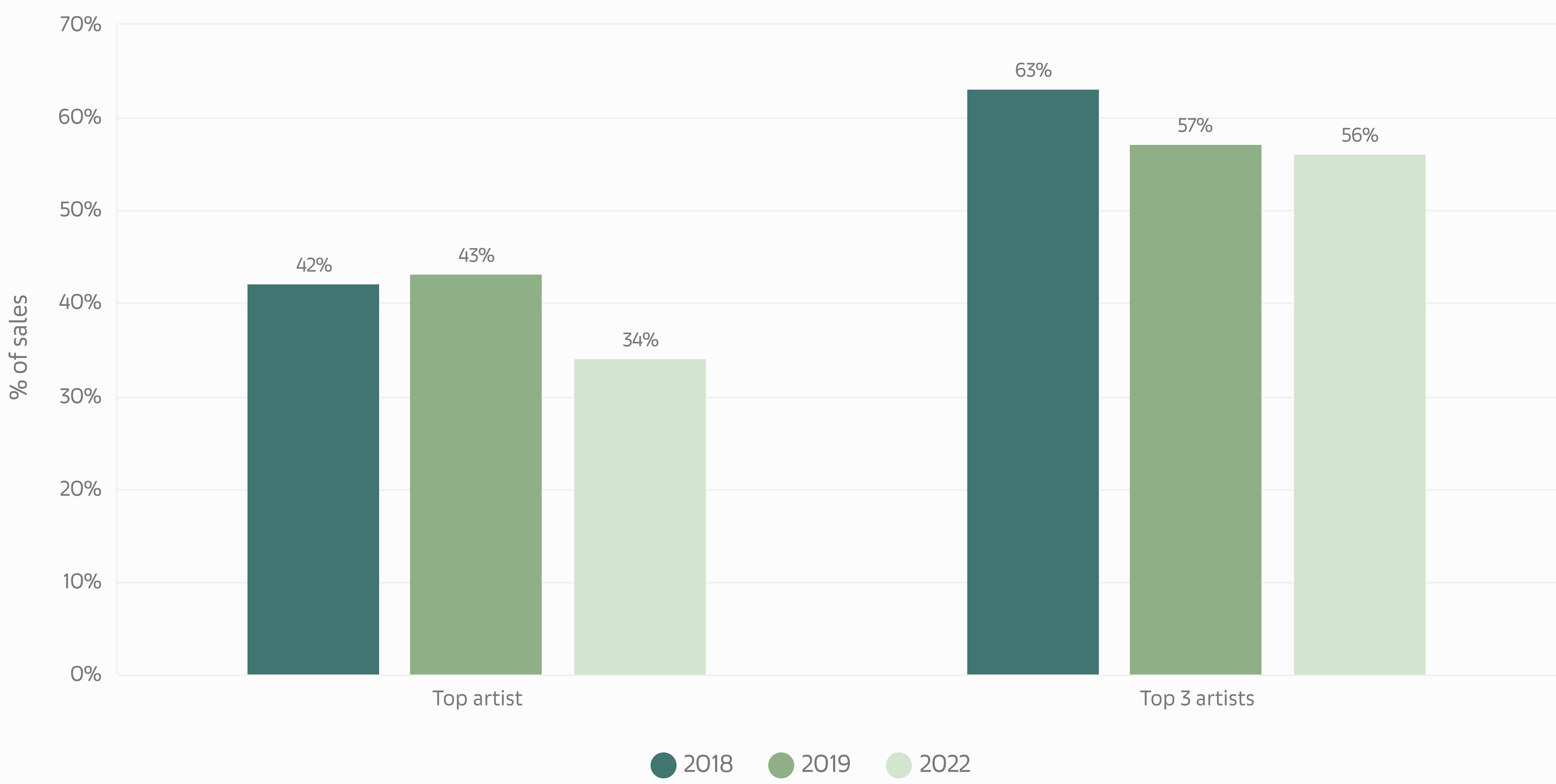
To maintain the viability of their businesses, it is often necessary for galleries to use the commercial success of one or a few artists to fund their operations as well as help subsidize the careers of others, investing the profits of their top-selling artists into the careers of those not yet as successful. In 2022, sales from the single highest-selling artist accounted for an average of 31% of sales for galleries, while their top three artists accounted for just over half of sales. The skewed distribution of sales towards a few top-selling artists was more pronounced for businesses operating in the primary market, where, on average, a gallery's top-selling artist accounted for just over one third of sales in 2022 and the top three for 56%.

Figure 2.16 Sales Share of Top Artists by Dealer Sector in 2022



Focusing only on those galleries operating in the primary market, while the share of sales accounted for by top artists is still very high, it has declined over time. The share of sales by the single highest-selling artist has fallen by 8% over the five-year period since 2018, while values accounted for by the top three has declined by 7%. While for some galleries this was due to proactive diversification in terms of the artists they were working with, others noted that improvements in their digital marketing platforms and strategies had made it easier to broaden their sales base. Finding new artists remained one of the top priorities for the dealers surveyed. It was in the top five for both 2022 and for the next five years for all dealers surveyed, and in the top four for primary market dealers.

Figure 2.17 Primary Market Galleries' Sales Share of Top Artists in 2018, 2019, and 2022



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2.4 Dealer Costs and Margins

As dealers returned to a more regular schedule of exhibitions and events, a key challenge for many was to merge and balance offline and online strategies within the limitations of their supply constraints, finite financial resources, and mounting operating costs. Rapidly escalating inflation and variable demand made it imperative for many businesses to focus on their bottom line in 2022, and rising costs were one of the most commented on issues by dealers anecdotally as well as in the survey.

As in previous years, payroll and rent remained two of the largest components of business expenses in 2022, accounting for around half of total operating costs. While dealers reported that costs escalated substantially in many regions, the shares that these two elements accounted for were virtually unchanged on 2021, with payroll shifting up slightly from 24% to 26% and a marginal decline in the share of rent from 25% to 24%.

For just over half of the sample (57%), payroll and rent were roughly on par, while for one third, wages and salaries made up a larger share of costs. Despite government support, the pandemic induced a significant share of layoffs and shifts in employment, and in 2020, surveys showed that 28% of businesses operating in the dealer sector had downsized their employment. However, this improved in 2021 and the majority of dealers (59%) maintained employment levels, while 29% increased their numbers – close to the level laying off staff in the previous year.[31] In 2022, employment was also relatively stable, and there were indications of some further job creation in the sector:

- 65% of dealers maintained the same employment level;
- 28% increased numbers employed and by an average of three people; and
- 7% experienced a decline in employment, with an average loss of two people.

Larger businesses were the most likely to have expanded, with half of the businesses in the $10 million-plus segment taking on new hires in 2022 and only 3% reporting a net decline. The smallest businesses were the least likely to increase their employment, with only 16% of those with sales of under $250,000 per annum expanding during the year, although most (78%) maintained stable numbers.

31 Arts Economics (2021) *Resilience in the Dealer Sector, A Mid-Year Review 2021*, available at: artbasel.com/about/initiatives/the-art-market.

There were also some differences between regions. Dealers based in South America reported the largest share expanding employment (51%) and US dealers were also above the average share (33%). The UK market had a smaller share of just 25% increasing their staff, while 10% of dealers reported lower employee numbers than in 2021. Similarly, China and Hong Kong were on par with the UK in terms of expansions but with the highest shares of reported layoffs, with 15% reporting that they had cut staff numbers during the year.

Although employment was relatively stable, mounting staffing costs were identified as a pressing issue for some businesses in 2022. Equally, finding and keeping the right people was also of paramount concern. When asked about the priorities for their business in 2022 and over the next five years, some galleries specifically identified that these would include trying to find ways to design attractive-enough compensation structures for senior staff and management in order to build long-term and stable employment in the face of rising inflation. Others stressed their focus on keeping up some of the pandemic-induced flexible working structures – including less travel – to retain staff and promote long-term goals.

'One of our key priorities over the next five years is having a work-life balance for all of our team.'

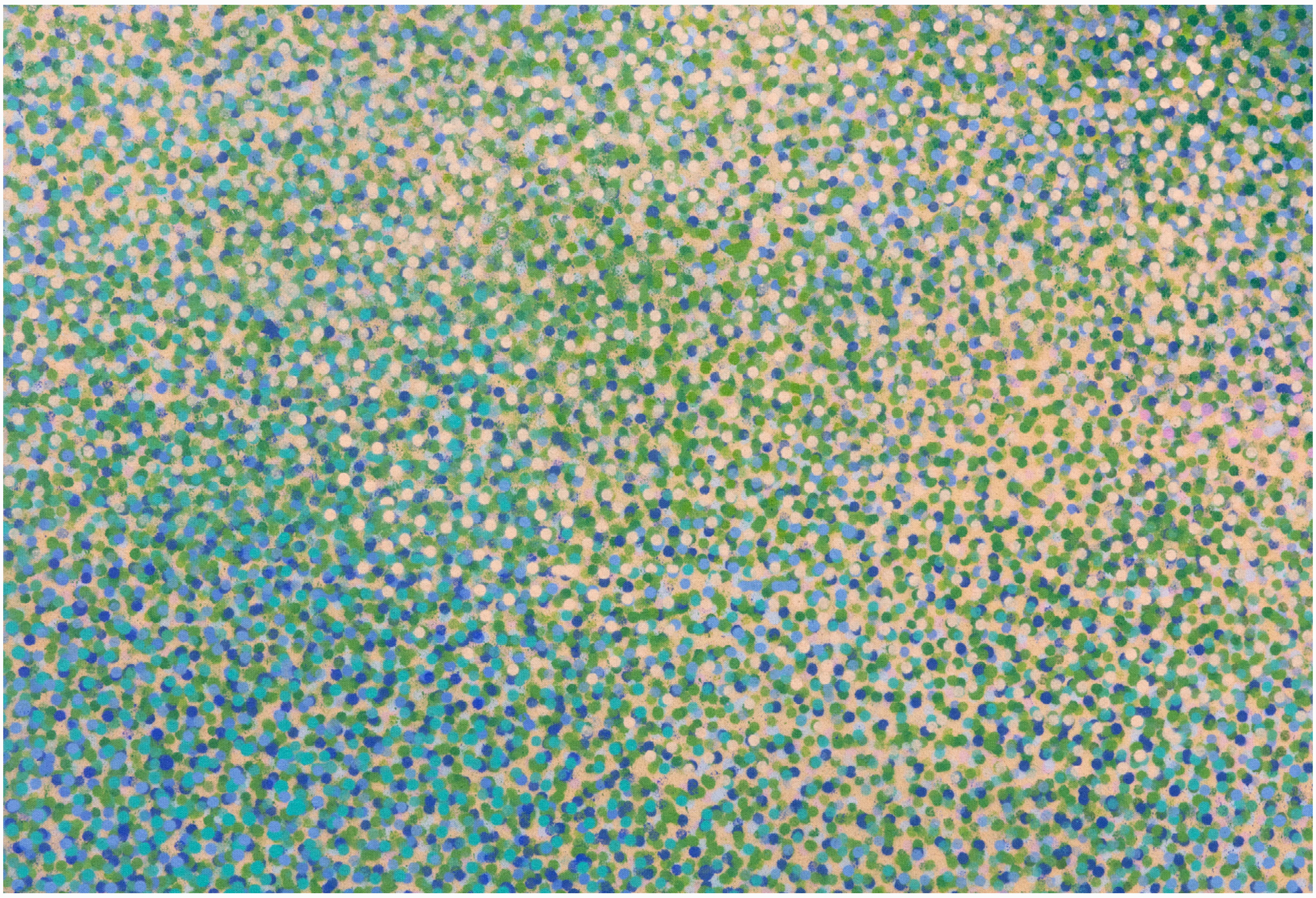
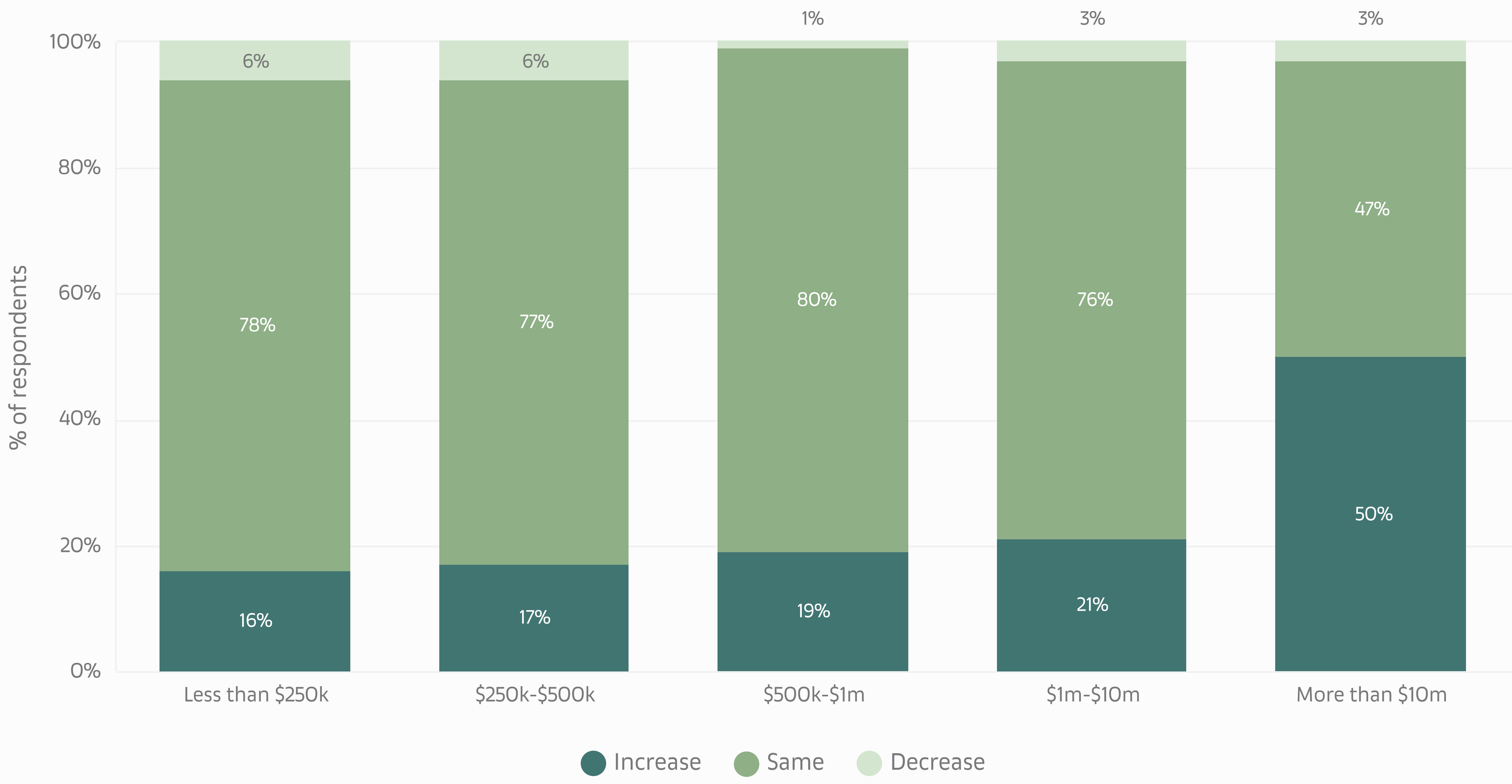


IMAGE Howardena Pindell, Garth Greenan Gallery, image courtesy Art Basel

Figure 2.18 Change in Employment by Dealer Turnover Level 2021-2022



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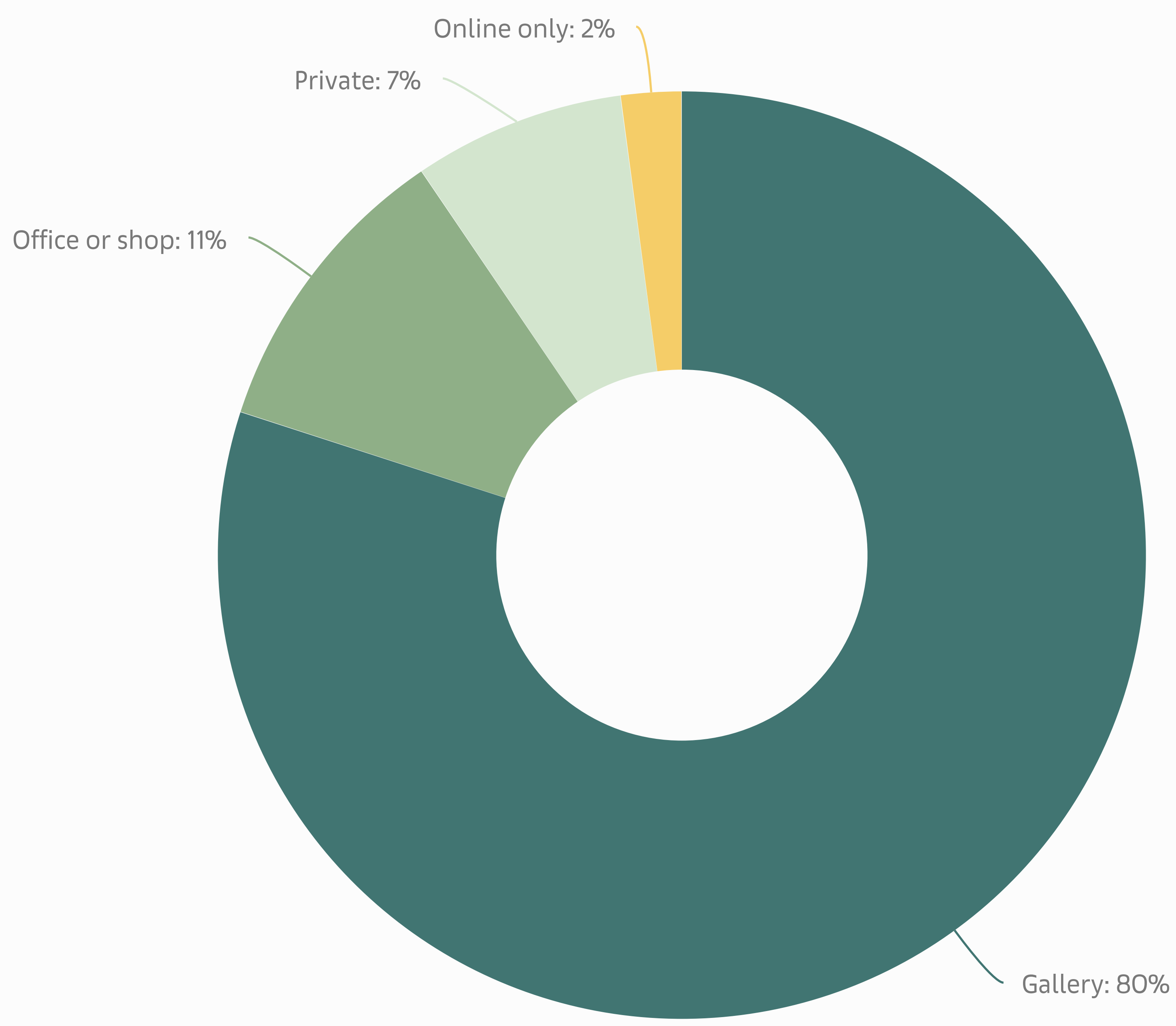
During the pandemic, most businesses in the sector had to temporarily close their galleries and other physical premises, with some continuing to trade online as lockdowns persisted. As the market opened up again, the success of their digital programs reignited the debates regarding the future of the retail gallery and the feasibility of operating through alternative premises such as temporary exhibition spaces, lower-cost offices, or online-only businesses.

In 2022, dealers reported continuing to experiment with new structures and collaborative models, some permanent and others for distinct projects. However, when the survey was carried out in December 2022, the most common model (for 80% of dealers) was to operate from a traditional, physical gallery or galleries with a dedicated space for exhibitions (up from 75% in the surveys of 2021). A further 11% reported that they ran their business from an office, shop, or other business premises, and the majority of those (76%) offering viewing of works for sale by appointment, and the remainder running any exhibitions and viewings they held in external locations. Of the remaining 9%, 7% reported that they dealt privately (either from home or a private office) and 2% operated a purely online-only gallery.

This share was lower than the 8% running online-only galleries or without a premises in 2021, although still double the share reported in similar surveys of the sector in mid-2020.[32] Some galleries also simultaneously ran a variety of different premises, combining galleries with offices and other venues in an attempt to adapt their business models to changing sales contexts and their required geographical outreach and visibility, while also addressing the rapidly rising costs of rent and operations.

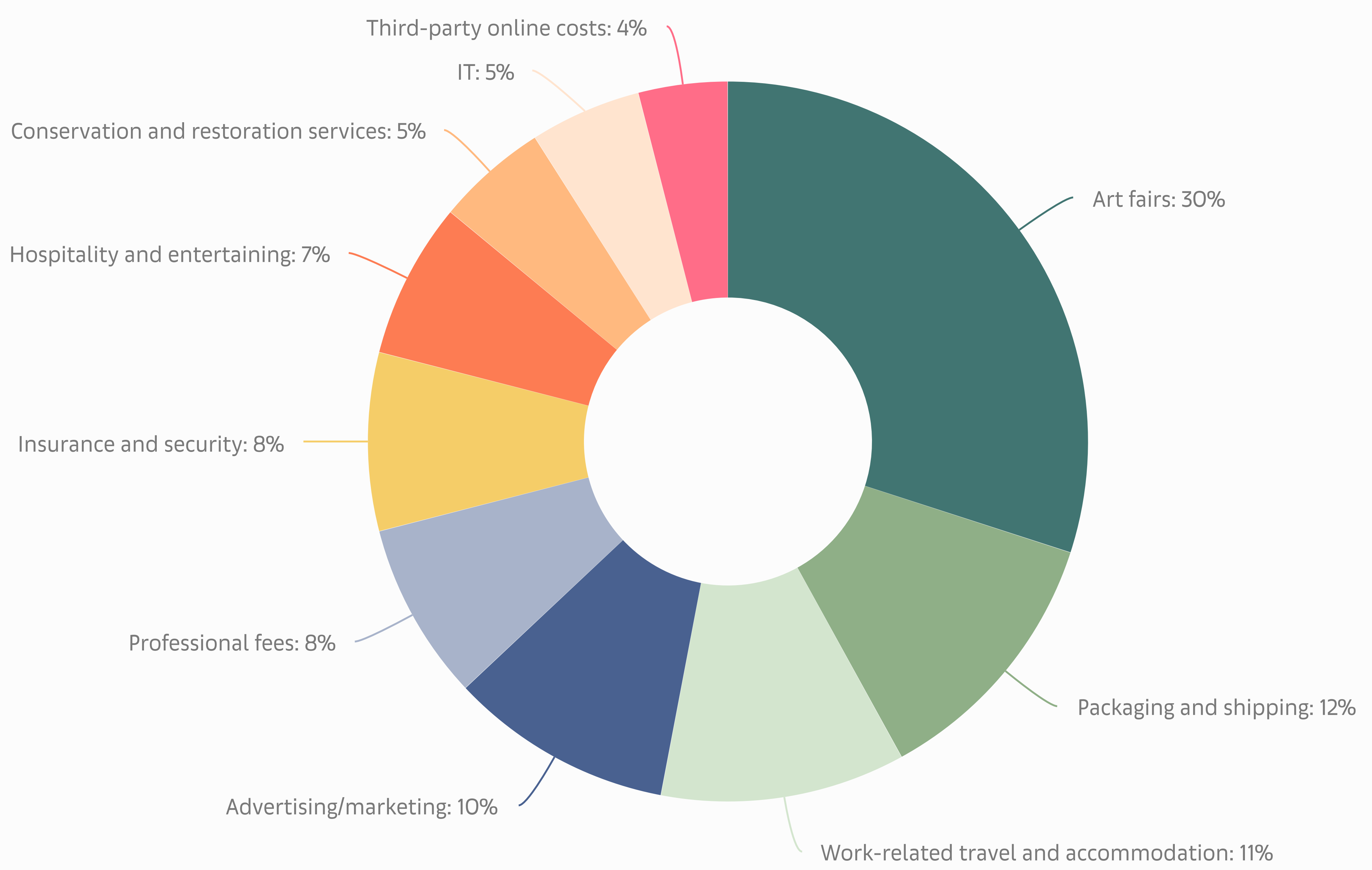
Figure 2.19 Type of Business Premises Dealers Operated from in 2022



32 Arts Economics (2021) *Resilience in the Dealer Sector, A Mid-Year Review 2021*, available at: artbasel.com/about/initiatives/the-art-market.

Besides these main in-house costs, dealers also spent a significant amount on a range of external services to support their businesses. Dealers reported that they spent an average of between 20% to 30% of their gross sales on a range of goods and services (excluding inventory) contracted from individuals and companies outside their business in 2022. The largest component of this external expenditure was on art fairs, which made up 30% of the total (including only booth and exhibition costs). Work-related travel and accommodation along with hospitality and entertaining accounted for a further 18% of external spending, with 12% associated with packing and shipping. Many dealers noted that shipping costs in particular had rocketed in 2022, with some commenting that their expenditure in this area alone had increased by 20% to 40% in the space of one year. Advertising and marketing was also a substantial 10% of spending outside their businesses, while IT (including websites, IT contractors, hardware, software, and fees for online third-party platforms) accounted for 9%.

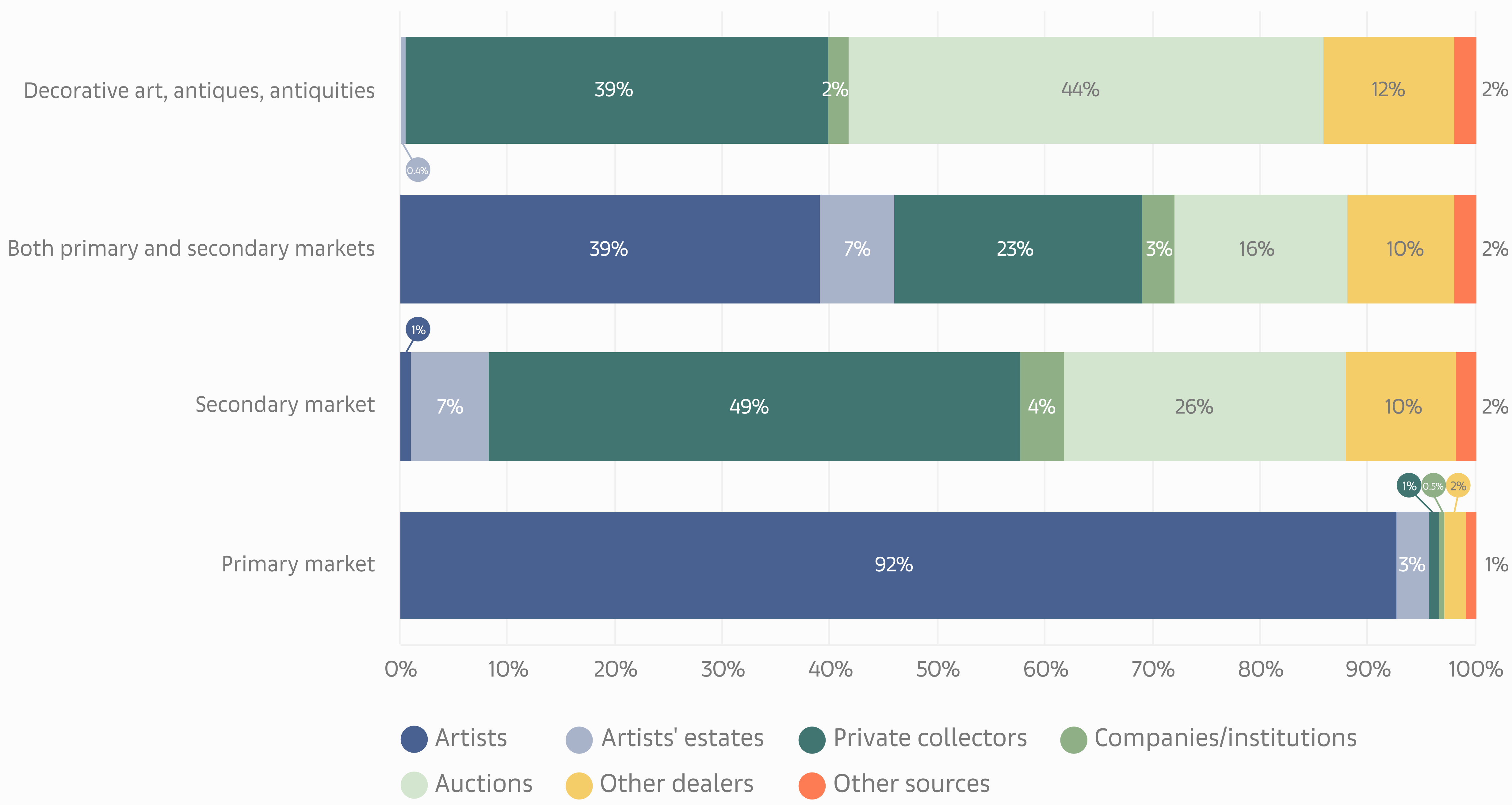
Figure 2.20 **Share of Dealers' Externally Contracted Expenditure in 2022**



As operating costs have increased, the relatively slow-moving cycle of inventory in the dealer sector has also been problematic for some businesses in terms of access to cash flow. Finding the right inventory, both in terms of artists and individual works, has been one of the key concerns reported by dealers over time, and this continued to be a priority in 2022. As noted above, finding new artists was ranked among the top five current priorities by dealers overall, while accessing a supply of high-quality works for resale was the number one priority both in 2022 and for the next five years for those working in the secondary market.

How dealers sourced inventory was dependent on the sector they work in. In 2022, for dealers whose businesses were based in the primary market, artists were the key source, accounting for 92% of the value of sales, with 3% from artists' estates, and the remainder from private sources or other dealers. Private collections were an important source for about half of the sales of secondary market dealers, with an additional 26% of the value of sales from works sourced at auction. Auctions were also a key source for non-fine art dealers, with works purchased at auction accounting for 44% of the sales made in 2022.

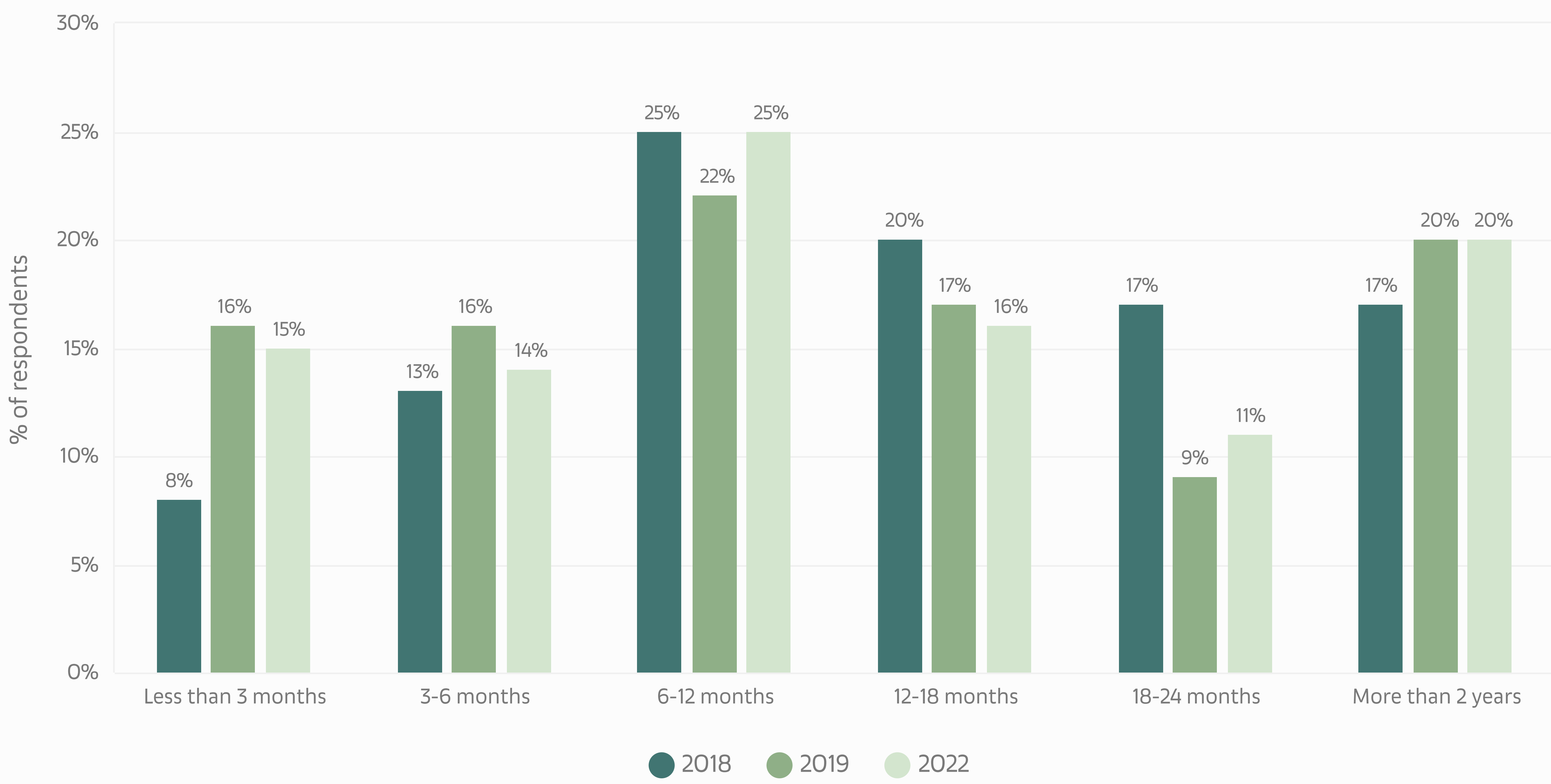
Figure 2.21 **Share of Dealers' Sales by Inventory Source and Sector in 2022**



An issue that affects the profitability of dealers is the slow-moving and variable pace of sales once items are entered into inventory against regular and rising fixed costs. The amount of time works take to sell varies between different parts of the market and dealers were asked to report on their average inventory cycle – that is, the length of time between works entering their inventory to the final sale. The average period from inventory to sale across all respondents was 13 months, which was one month higher than before the pandemic in 2019. It is, however, still below the average of 14 months five years previously in 2018.

Although the share of dealers with a shorter inventory cycle of six months or less has dropped slightly since 2019, it has increased over five years (from 21% in 2018 to 29% in 2022). At the slower end of the cycle, the proportion of dealers taking over one year to sell inventory has declined slightly over that period (from 54% to 47%), but those taking more than two years has remained stubbornly high at 20%, up by 3% in share versus 2018.

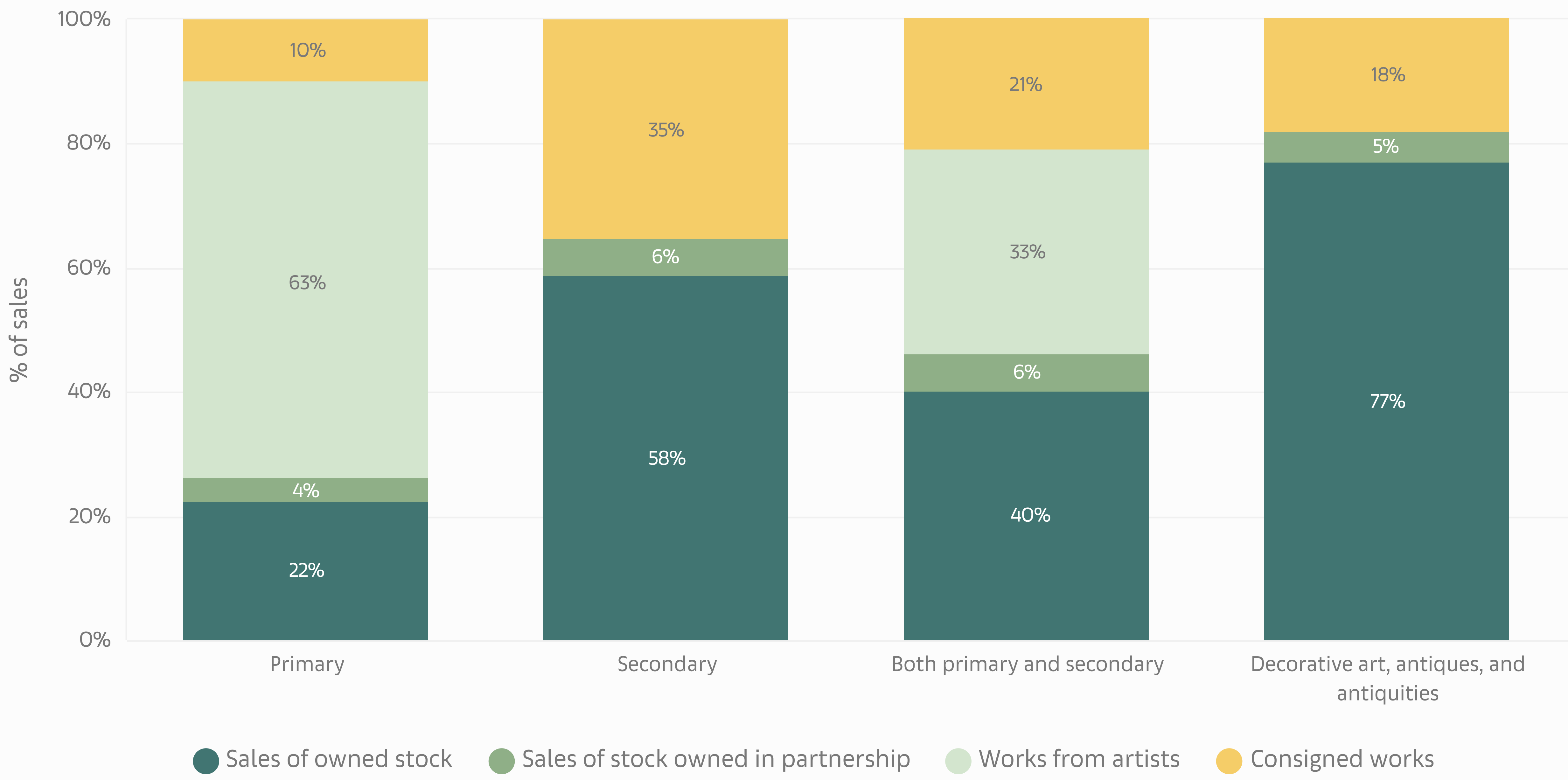
Figure 2.22 Average Inventory to Sale Cycle in 2018, 2019, and 2022



Inventory cycles ranged between sectors with the shortest average reported by dealers working in Contemporary art at 11 months (and 10 months for those working exclusively in the primary market). Dealers in non-fine art sectors had an average of 15 months and it was 17 months for those in older fine art sectors including Modern art, Impressionism, and Old Masters. These inventory cycles indicate a considerably slower average pace of sales compared to many other retail sectors, which clearly puts dealers under pressure financially as their fixed costs of rent and payroll have escalated, alongside the substantial costs they accrue to help produce, promote, and exhibit artists' works in their galleries, online, at art fairs, and in other institutions. As noted in previous reports, the timing of these costs is often disconnected to the final sale of a work, which can be difficult to manage without personal means or access to credit to financially smooth over this cycle. Dealers have previously noted that there continues to be a lack of understanding by both banks and governments regarding the differences between their business model versus other commercial retailers.

Dealers in older fine art sectors and antiques also often still own inventory and incur the costs of purchase and restoration prior to sales, which is especially difficult given that they have one of the lengthiest cycles, with more than one third of dealers in antiques, antiquities, and decorative arts taking over two years on average to sell their works or objects. Figure 2.23 shows that 82% of the sales made by dealers in this sector in 2022 were from sales of their own stock, the majority of which their businesses owned outright. Although works sold directly from artists dominate the primary market (63%), dealers reported that just over one quarter of their sales (27%) came from works they owned outright – either the gallery itself or in partnership with others. In the secondary market, many sales were also based on dealer-owned works (58%), while just over one third were works or objects consigned on commission by a vendor or client.

Figure 2.23 Share of Sales by Inventory Status in 2022



Slow-moving inventory, combined with rising costs and poor external financing to bridge the gaps, has been an ongoing problem for dealers over many years. During the pandemic in 2020, although most businesses experienced a significant drop in sales, the reduction of art fair, travel costs, and staffing produced leaner operating structures for some businesses, allowing them to maintain or even increase profitability in some cases. During 2020, the majority (54%) of dealers were less profitable than in 2019, but 28% increased profitability. In 2021, as sales picked up and galleries remained cost-conscious, there was a significant uplift in the number of businesses making more profit, with 55% more profitable than in 2020 and 24% less so. In 2022, although aggregate sales grew in many sectors, the presence of rapidly rising costs was evidenced in a significant fall in the share of more profitable businesses. As dealers came under pressure to maintain their bottom line, a minority were more profitable, and around one third saw their profits decline. Across all dealers during 2022:

- 39% were more profitable than in 2021;
- 29% were around the same as 2021; and
- 32% were less profitable.

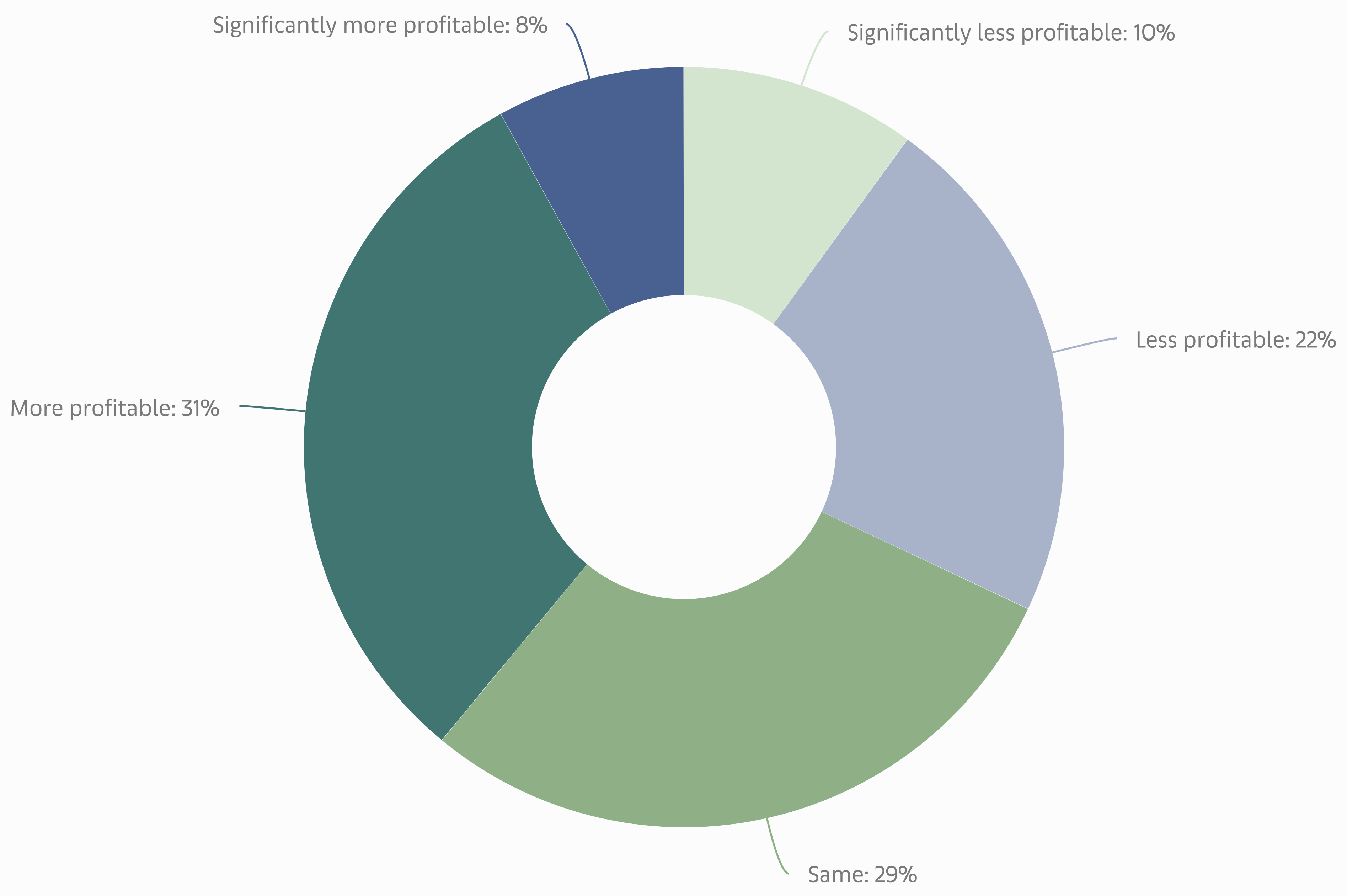
Reinforcing the trend already underway in 2021, businesses with the highest turnover were more likely to report increasing profits. Just under half (49%) of dealers with turnover of greater than $10 million had higher profitability, the largest share of all segments, but down from 69% in 2021. The segments remaining under the most pressure, on the other hand, were the smaller dealers who had seen the least uplift in sales. The share reporting lower profitability in the segment with turnover of less than $250,000 increased by 5% year-on-year in 2022 to 39%, and their closest peers with turnover of between $250,000 and $500,000 had an even higher share of 41%.

Although definitions of what constitutes the middle of the market vary, in this sample, what might be termed the upper-middle segment of dealers with turnover of between $500,000 to $1 million had a considerably stronger year, with their double-digit rise in sales likely to have contributed to greater profitability for over half (53%) of the businesses in this segment. Anecdotally, some dealers in this segment reported that they had attended less fairs but were successful at those they did exhibit at, which alongside the maintenance of increased digital marketing had helped to boost sales while keeping costs relatively stable.

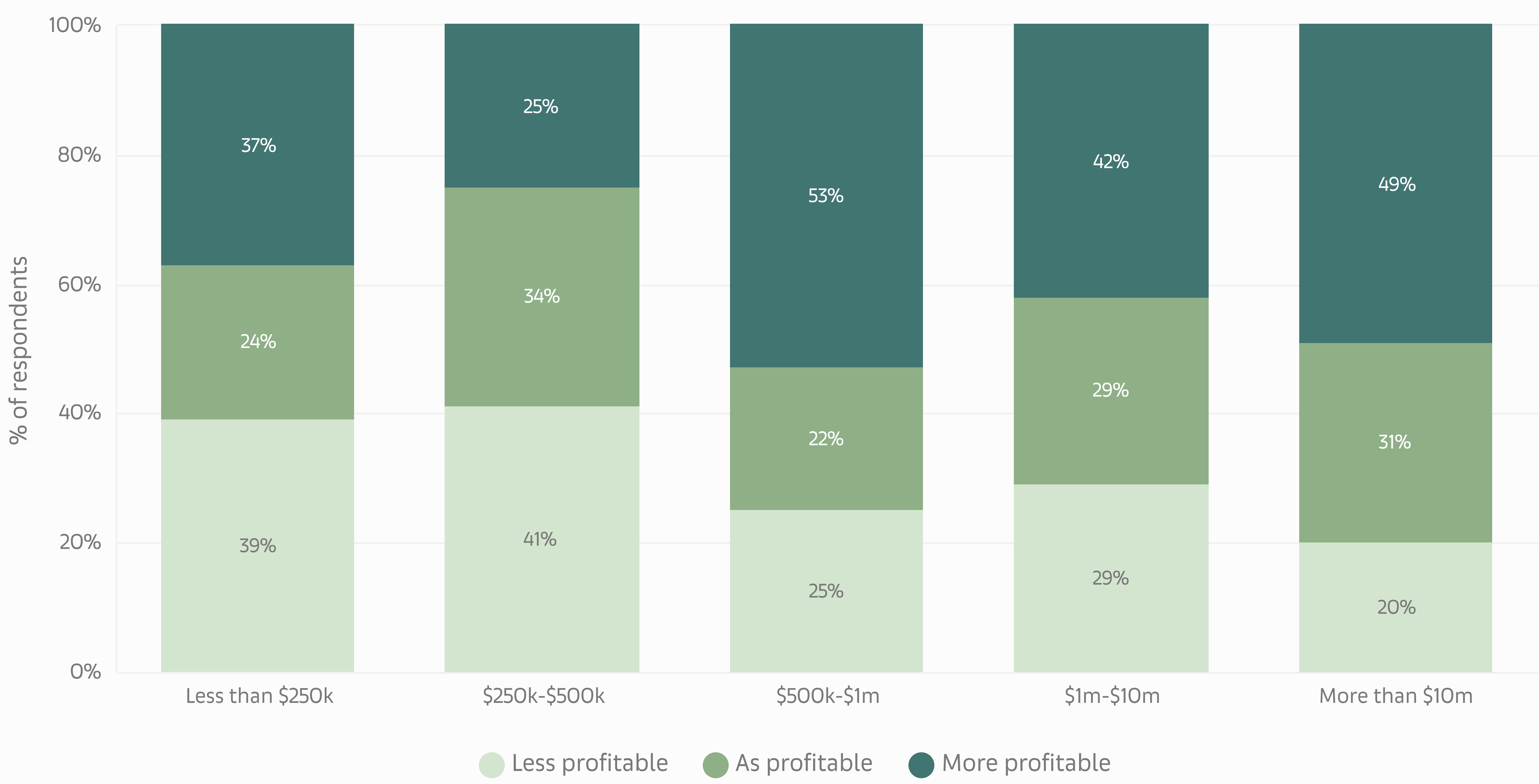
There were also considerable regional variations although in nearly all markets, the share of dealers reporting greater profits in 2022 was considerably less than the previous year. In 2021, 71% of dealers in the US had reported higher profits, but this fell to just under one third (32%) in 2022, while 29% reported a decline. The UK saw less of a decline, but fortunes were mixed, with 40% reporting a rise while one third were less profitable. The shares in the other largest markets in Europe were on par, with around 30% of both French and German dealers reporting a more profitable year. Dealers in Asia were fairly evenly split between those with increasing, decreasing, and stable profits, although in the largest Chinese market, a larger share of 51% reported lower profits.

Figure 2.24 Change in Profitability in 2022 versus 2021

a) All Dealers



b) By Dealer Turnover



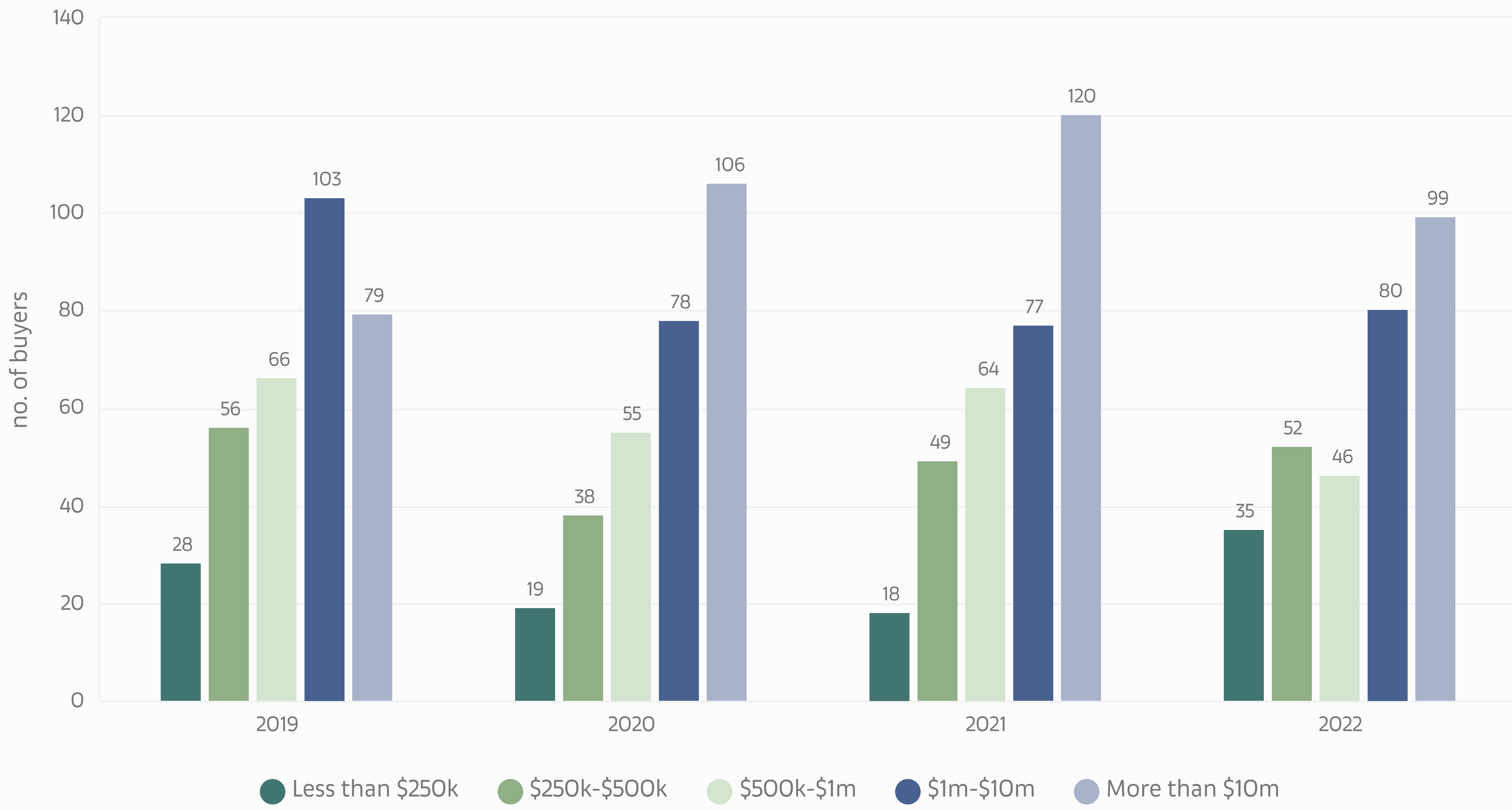
2.5 Buyers

The restrictions of the pandemic and slow evolution back to events since 2020 highlighted the importance for many dealers of maintaining strong relationships with existing clients who they relied on heavily for sales during the pandemic. It also served as a reminder of the central role that in-person events, exhibitions, and experiences had played in finding new clients and global outreach, with few dealers finding online alternatives on par.

In 2022, the resumption of a more regular schedule of events, and the combination of simultaneous online and offline programs may have helped dealers expand their reach, with the average number of buyers increasing to 57

Some limits on the expansion of their base of clients were evident in the surveys in 2021, with the average number of individual buyers declining to 50 from 55 in 2020 and 64 in 2019. In 2022, the resumption of a more regular schedule of events, and the combination of simultaneous online and offline programs may have helped dealers expand their reach, with the average increasing again to 57. However, increases were not universal across all segments. As in previous years, the average number of buyers tended to increase in proportion to the dealers' level of turnover: dealers with turnover of greater than $10 million, many of which had multiple premises in different locations, dealt with an average of 99 buyers, down from 120 in 2021. Some dealers in this segment noted that they had deliberately pursued a more focused strategy during the year, selling the highest value works to a relatively small group of collectors. Those with annual sales of less than $250,000, on the other hand, averaged 35 buyers, although this was almost double the level of 2021.

Figure 2.25 Number of Unique Buyers 2019–2022



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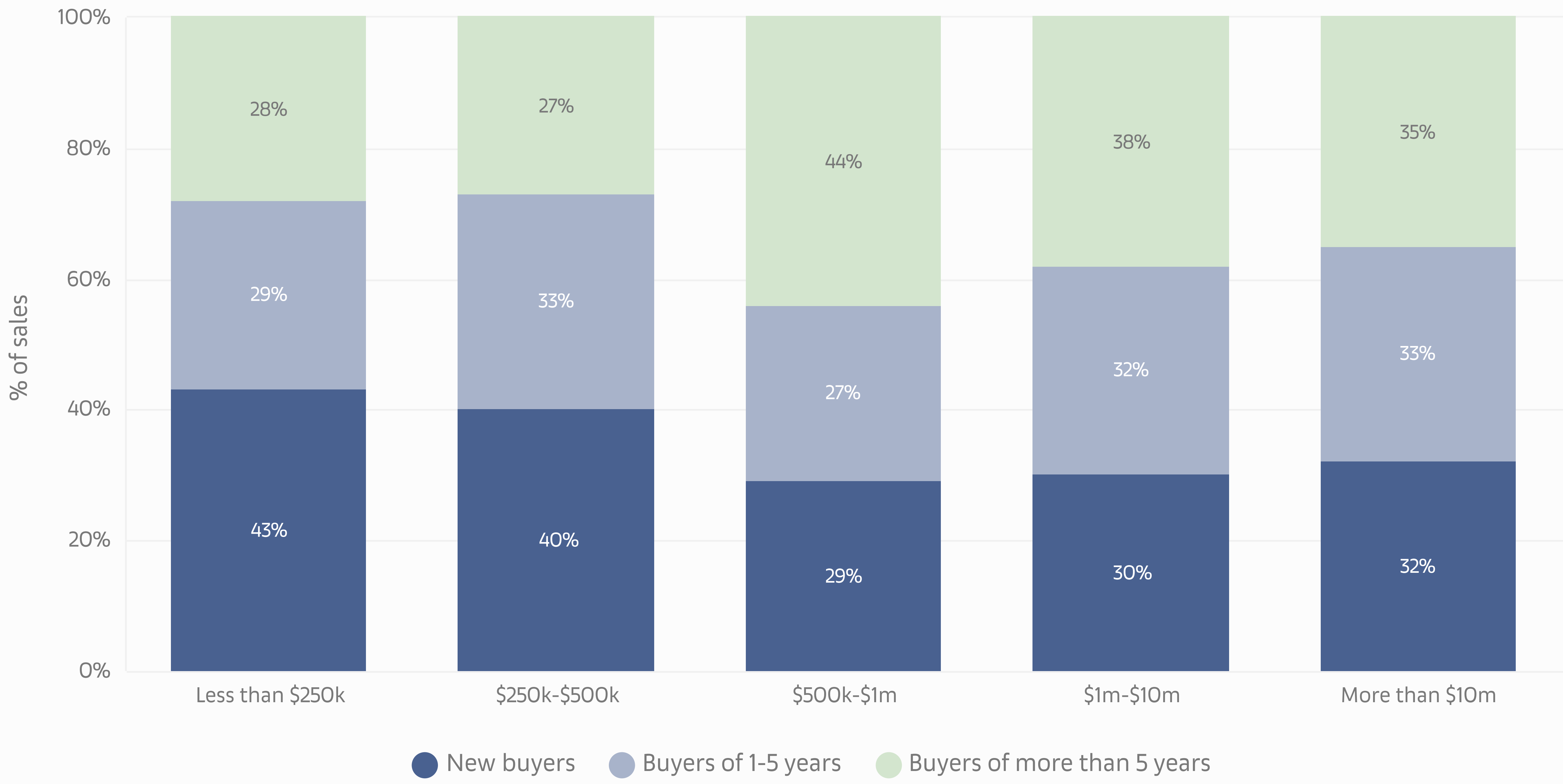
Dealers' focus throughout the year was relatively evenly divided between maintaining relationships and sales with their existing base of clients and finding new local and international buyers. Dealers reported that of their sales in 2022:

- 35% went to new buyers that were buying from them for the first time in 2022 (stable on 2021);
- 30% were buyers they had dealt with for one to five years (down from 33% in 2021); and
- 35% were buyers they had dealt with for more than five years (up by 3%).

The share of new versus established buyers differed by turnover level, and smaller dealers had the highest share of sales to new buyers, accounting for 43% of sales for those with turnover of less than $250,000 (up by 6% year-on-year but on par with 2020). As noted in previous reports, this higher share of sales to new buyers has often been due to difficulties in gaining repeat business and converting one-off sales into longer-term clients.

For all dealers turning over more than $500,000, the share of sales to new buyers declined. Dealers in the segment between $500,000 and $1 million showed the highest share of sales to longer-term clients of over five years (44%). This fits with the anecdotal evidence from the sector, where it was reported that despite strong sales, new 'middle-market buyers were thinner on the ground' through the year, and dealers had successfully relied on sales to regular clients, using fairs and other events to reconnect in person and introduce new artists and works. After a substantial boost in sales to new buyers for the $10 million-plus segment in 2021 as fairs and events resumed, these dipped again in 2022 and sales across all buyer segments were equally important.

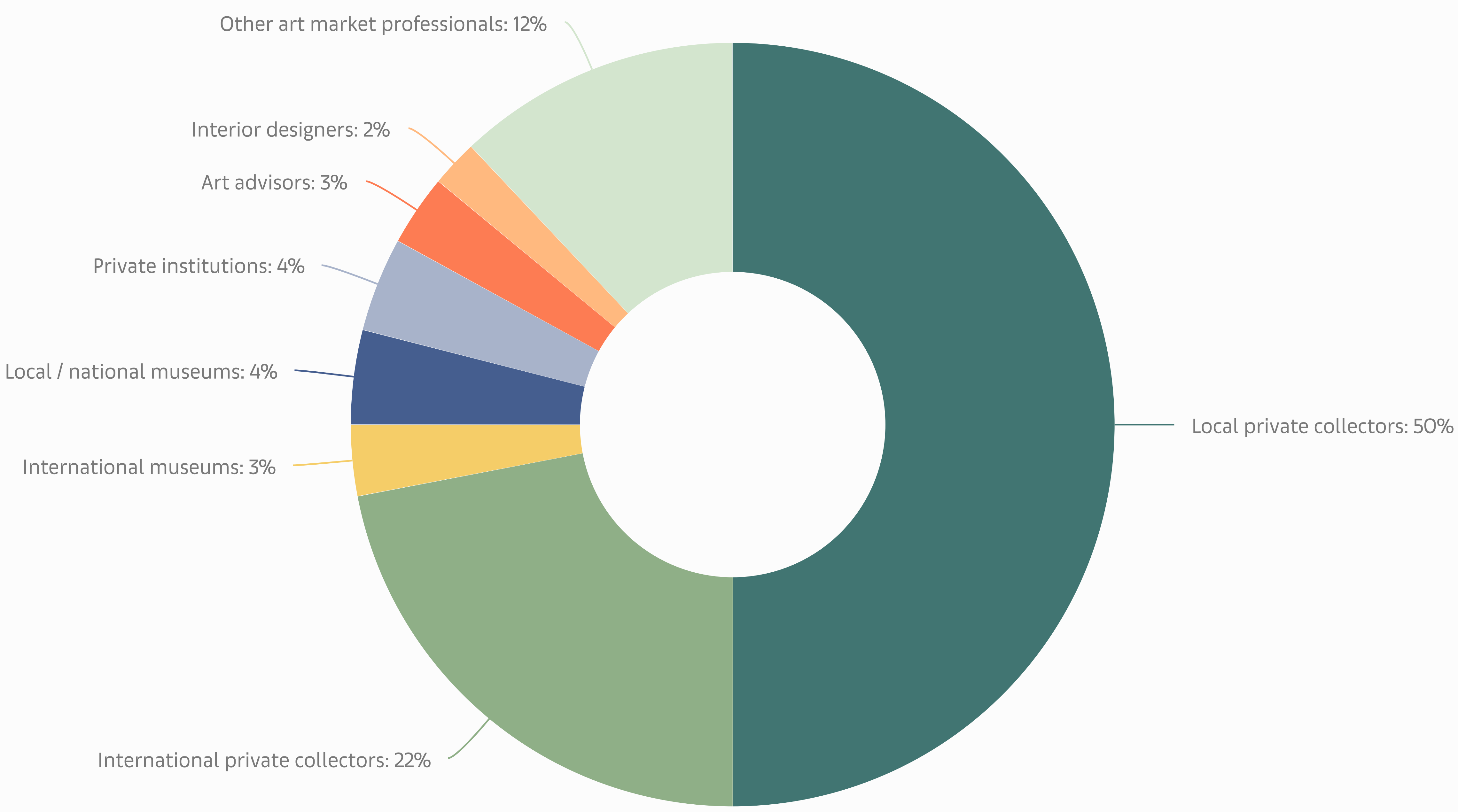
Figure 2.26 Share of Dealers' Sales to Buyers by Purchase History in 2022



Consistent with previous years, most of the sales in the sector in 2022 were to private collectors, with a share of 72% by value, down by 5% from 2021, but on par with the share in 2020. The majority of these (50%) were to local or national private collectors, with 22% to those from outside their region. A further 5% were made to interior designers and art advisors (both of whom predominantly worked for private clients), meaning that 77% of the value of sales made by dealers were to, or on behalf of, private individuals.[33]

Sales to other members of the art trade showed a substantial increase year-on-year (from 4% to 12%), which may reflect some changes in the sample (which contained a higher share of dealers in the antiques and decorative art sectors, from 11% in 2021 to 18% in 2022). Sales to trade buyers for this segment accounted for a high of 23% in 2022 versus only 6% for those working in the Post-War and Contemporary sectors (where 76% of sales were to private collectors).

Figure 2.27 **Share of Dealers' Sales by Buyer Type in 2022**



33 As noted in previous years, the 4% of sales made to art advisors may understate their role in sales, as some collectors work with advisors prior to a sale, researching the market and sourcing works from galleries before making a final purchase directly from a dealer.

The share of sales to corporations and private institutions was relatively stable year-on-year, as was the proportion made to museums, down by just 1% from 2021, with sales to international museums accounting for the loss. Figure 2.27 reports the average shares per business, unweighted by the amount of sales a particular business made, however, there were some significant differences when turnover was accounted for. For dealers at all levels, private collectors were the dominant buyers, although this ranged from a high of 78% for those with turnover of between $250,000 and $500,000 to a low of 66% for those with turnover of between $1 million and $10 million. The main reason for the decline in sales shares at the $1 million-plus level is due to a greater proportion of sales having been made to museums.

> **For dealers at all levels, private collectors were the dominant buyers, ranging from a high of 78% of sales for dealers with turnover of between $250,000 and $500,000 to 66% for those with turnover of between $1 million and $10 million**

The survey also revealed that as turnover rose, the share of sales to local buyers tended to decline. For businesses with turnover of less than $250,000, the majority (77%) of sales made to private collectors were to local buyers, but this fell to 56% for the largest $10 million-plus businesses. This was also the case for sales to museums: the smallest dealers with turnover of less than $250,000 had a low share of 5% of sales to museums, and 78% of those were to local institutions. For dealers turning over more than $10 million, the share of sales to museums was 11%, and only 45% of those to local museums.

This same trend towards greater internationalization of buyers at the higher end was also clear when dealers were asked directly what regions their buyers came from in 2022. In the US, where a strong and wealthy local market fuels the art trade at all levels, 80% of sales were made to North American buyers. However, for US dealers with turnover of less than $1 million, the share was 86% versus 67% for those at the highest $10 million-plus level.

Dealers in China were similarly focused on local sales in 2022, with an average of 76% to buyers in Mainland China or Hong Kong, but with less marked differences between larger and smaller dealers. It is notable, however, that this differed considerably between Mainland Chinese dealers, who made 87% of their sales to domestic buyers, versus those in Hong Kong where the local share was only 50%, with these dealers having a considerably wider international focus for sales. Local sales also dominated in other large Asian markets, including Japan where 81% of sales by value were to local Japanese buyers, and a further 7% to buyers in other parts of Asia. Elsewhere, in markets such as Brazil, regional sales within South America accounted for 81% sales by value.

UK dealers were a notable exception in this sample, with a considerably more international focus. Dealers reported that 40% of their sales were to UK buyers, with a further 24% to the US and 22% to the EU. For those turning over less than $1 million, UK buyers accounted for around half of the value of sales in 2022, but as the size of business expanded, the share dropped considerably, with those dealers with turnover of greater than $10 million only making 22% of their sales to local UK buyers.

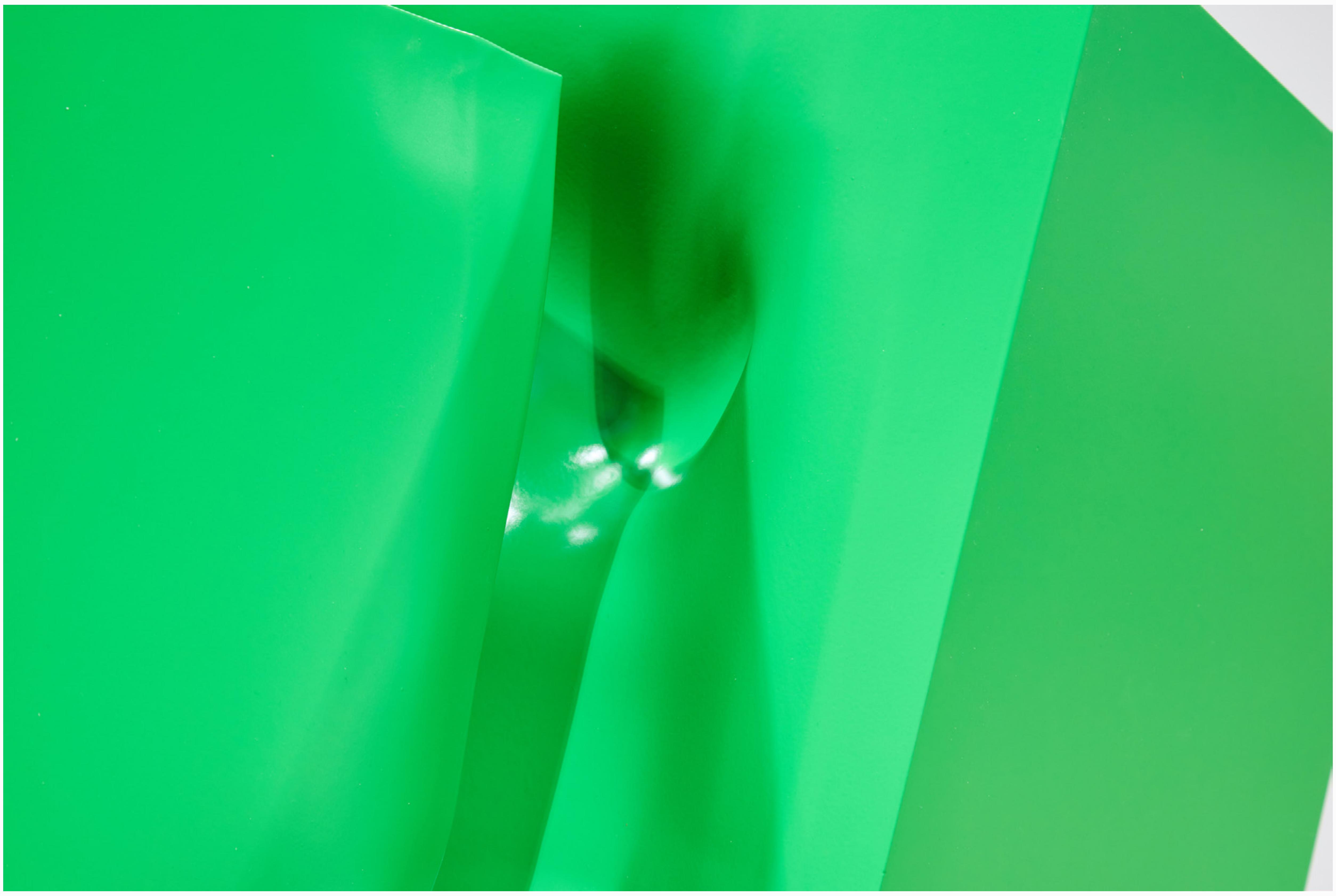
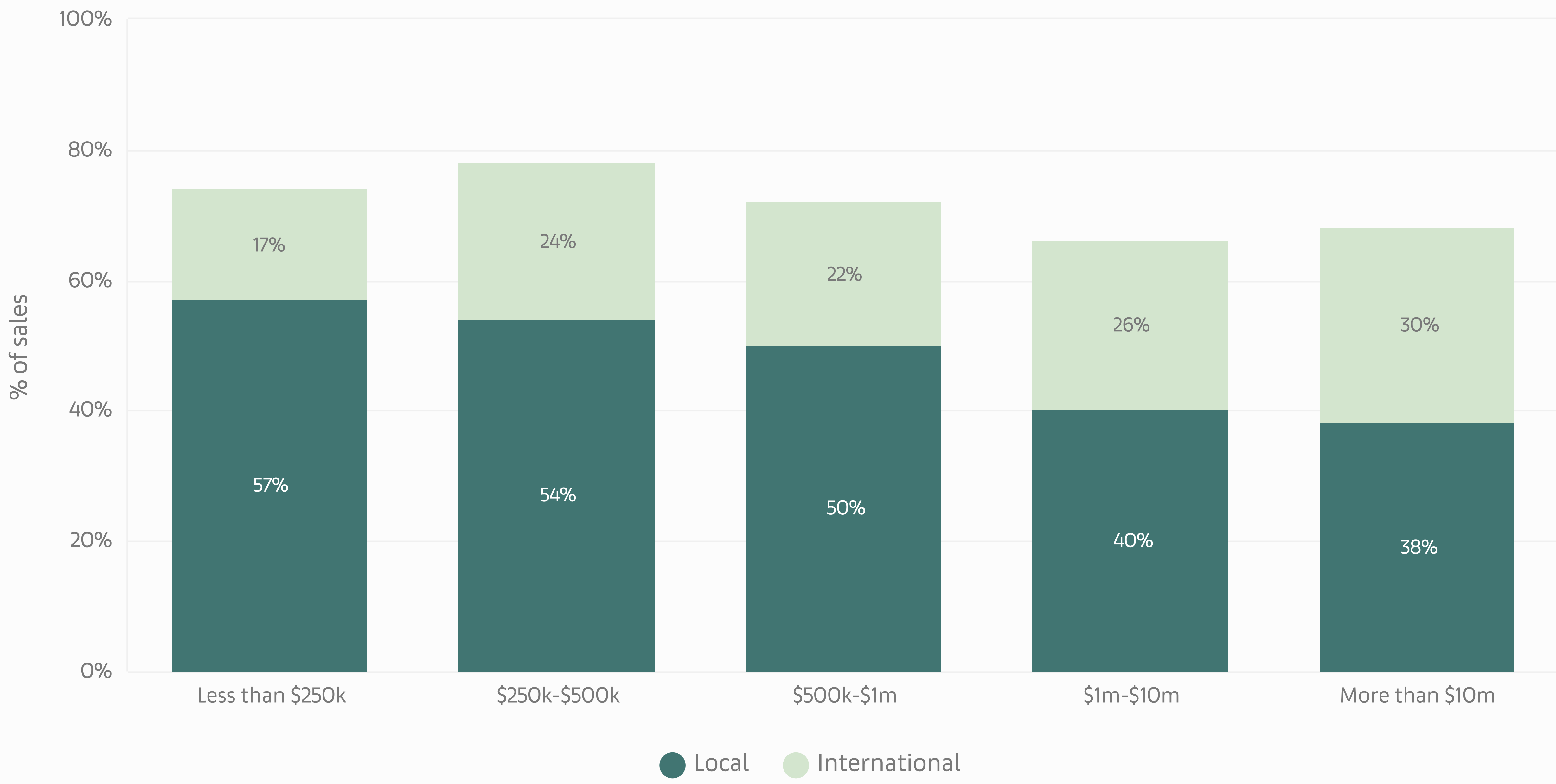


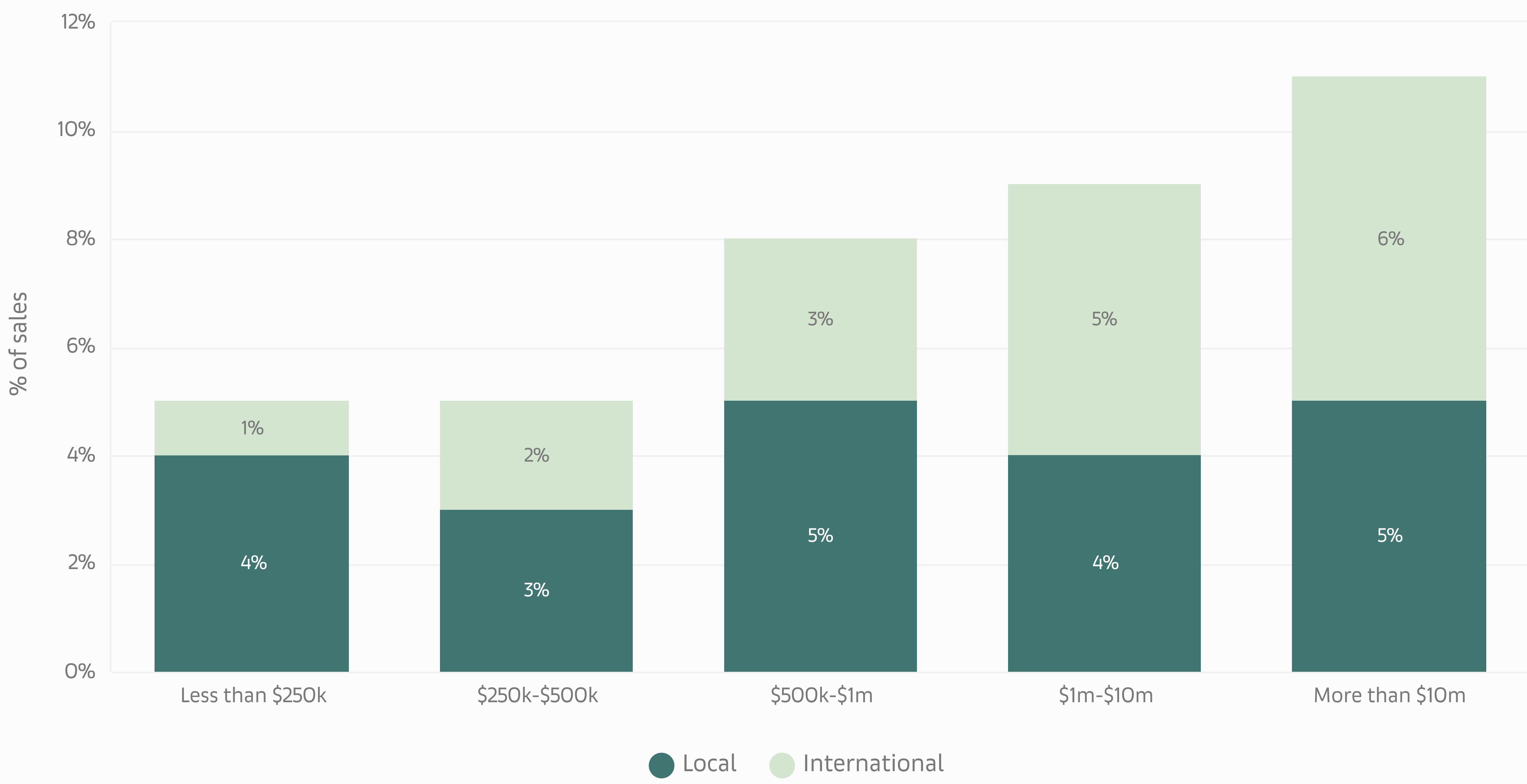
IMAGE Aria Dean, Château Shatto, image courtesy Art Basel

Figure 2.28 Share of Sales to Local and International Buyers by Dealer Turnover in 2022

a) Private Collectors



b) Museums



2.6 Sales Channels and Art Fairs

Apart from variations in the levels of sales, some of the biggest changes in the sector over the past three years have been how dealers have made those sales. Prior to the pandemic, a large and increasing share of sales took place at art fairs, rivaling those made in galleries and far exceeding digital channels. The cancellation of events in 2020 saw their share decline significantly, while e-commerce expanded dramatically, being, at times, the only available channel for dealers to transact in during lockdowns and travel restrictions. In 2021, there were some shifts back to selling in person in galleries and at events, although the full calendar had not yet been restored. Although lockdowns persisted in China in 2022, the year was seen as the first real test of how the new structure of sales might emerge 'post-pandemic.' To assess how sales evolved in 2022, the turnover-weighted share reported by dealers on their sales via various channels are set out in Figure 2.29, based on the following options:

- Gallery sales (transactions that were from or facilitated by an in-person visit to their gallery or premises);
- Overseas fairs (sales made at or directly connected to in-person art fairs outside of the reporting dealers' primary country of business);
- Local fairs (sales made at or directly connected to in-person art fairs within the reporting dealers' primary country of business);
- Online art fairs (sales carried out or originating from a fair's OVR or other online fair platform without any physical viewing);
- Online-only gallery sales (sales carried out online-only without viewing in person through the dealers' website, social media channels, OVR, or email);
- Other third-party online sales (sales carried out entirely online facilitated by a third-party or '3P' company or platform, other than an art fair); and
- Other (sales carried out through any other means).

In 2022, gallery sales still made up the largest share of sales by value at 47%, stable on 2021. Fairs gained significant share year-on-year, with sales from live events increasing from 27% in 2021 to 35%. However, this was still significantly below pre-pandemic levels in 2019 when live events accounted for 42% of sales, exceeding those taking place at galleries that year. Fair sales took a dramatic plunge in 2020 to just 13% due to the widespread cancellations during the year, but an additional 9% were made online through art fair OVRs. The rise in 2022 was accounted for by increasing sales at overseas fairs, which saw their share rise from 14% in 2021 to 22%, while the share reported at local fairs was stable.

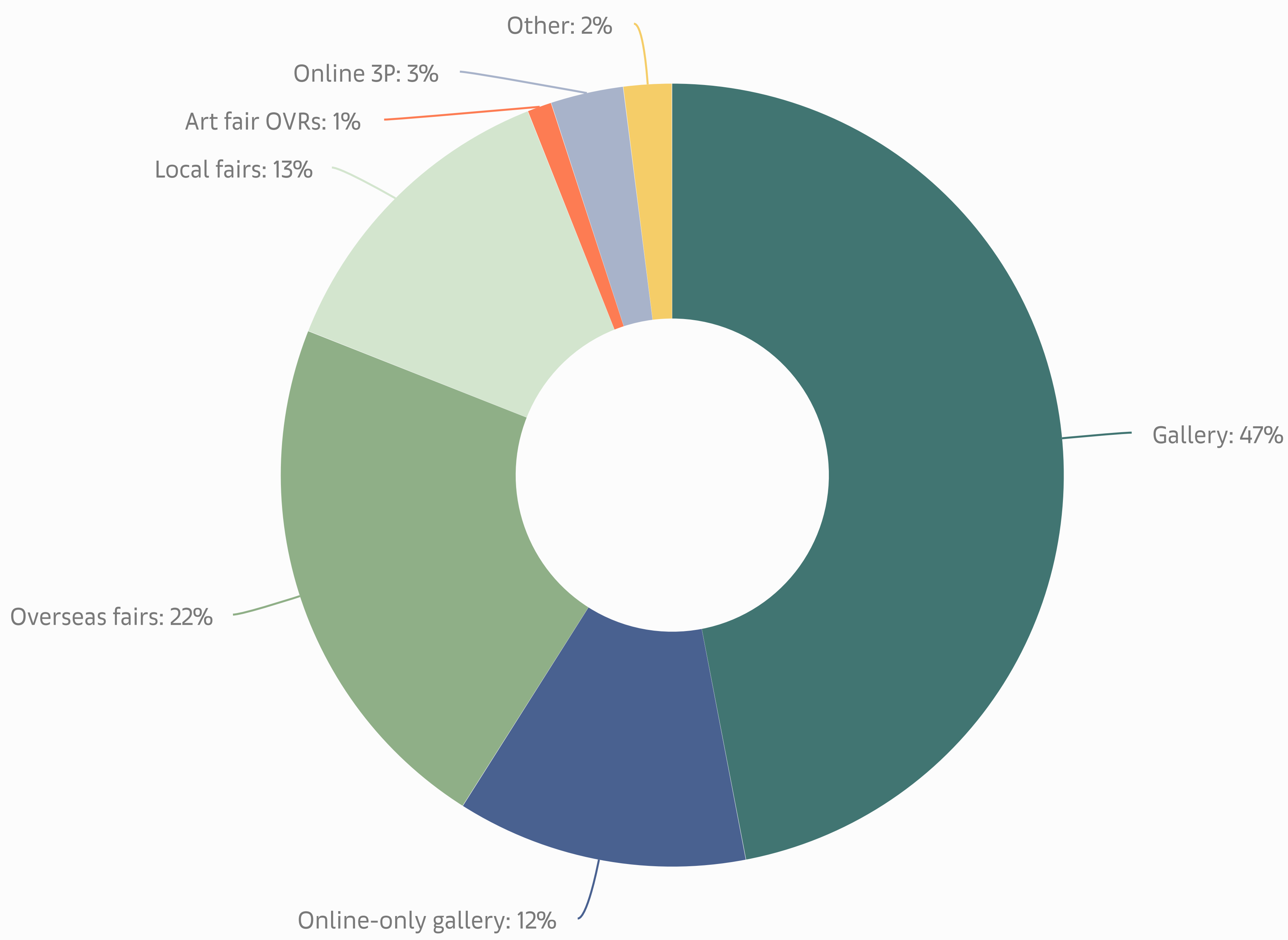
In tandem with the changes in fair sales, online sales have also seen a significant rise and subsequent moderation over the last few years. The share of sales made online fell by 5% in 2022 to just over 15% (or 16% including art fair OVRs), although remaining above levels prior to the pandemic in 2019. (Online sales are discussed in more detail in Section 2.6.)

The biggest gains in share therefore over the period of the pandemic appear to have been gallery sales, shifting up by 7% in share from their level in 2019.

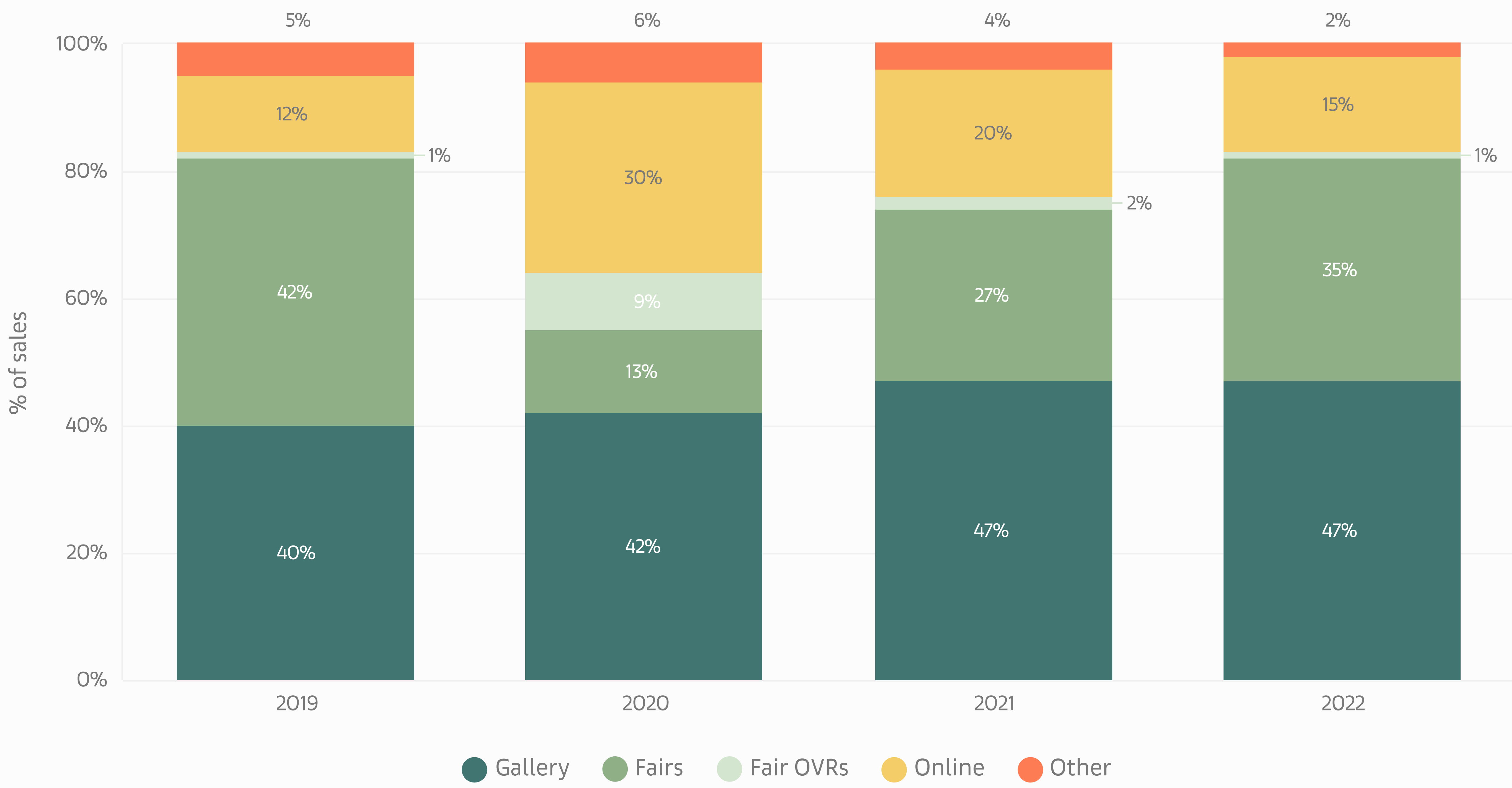
Fairs gained significant share year-on-year, with sales from live events increasing from 27% in 2021 to 35% in 2022

Figure 2.29 Share of Dealers' Sales by Value by Sales Channel

a) 2022



b) 2019-2022



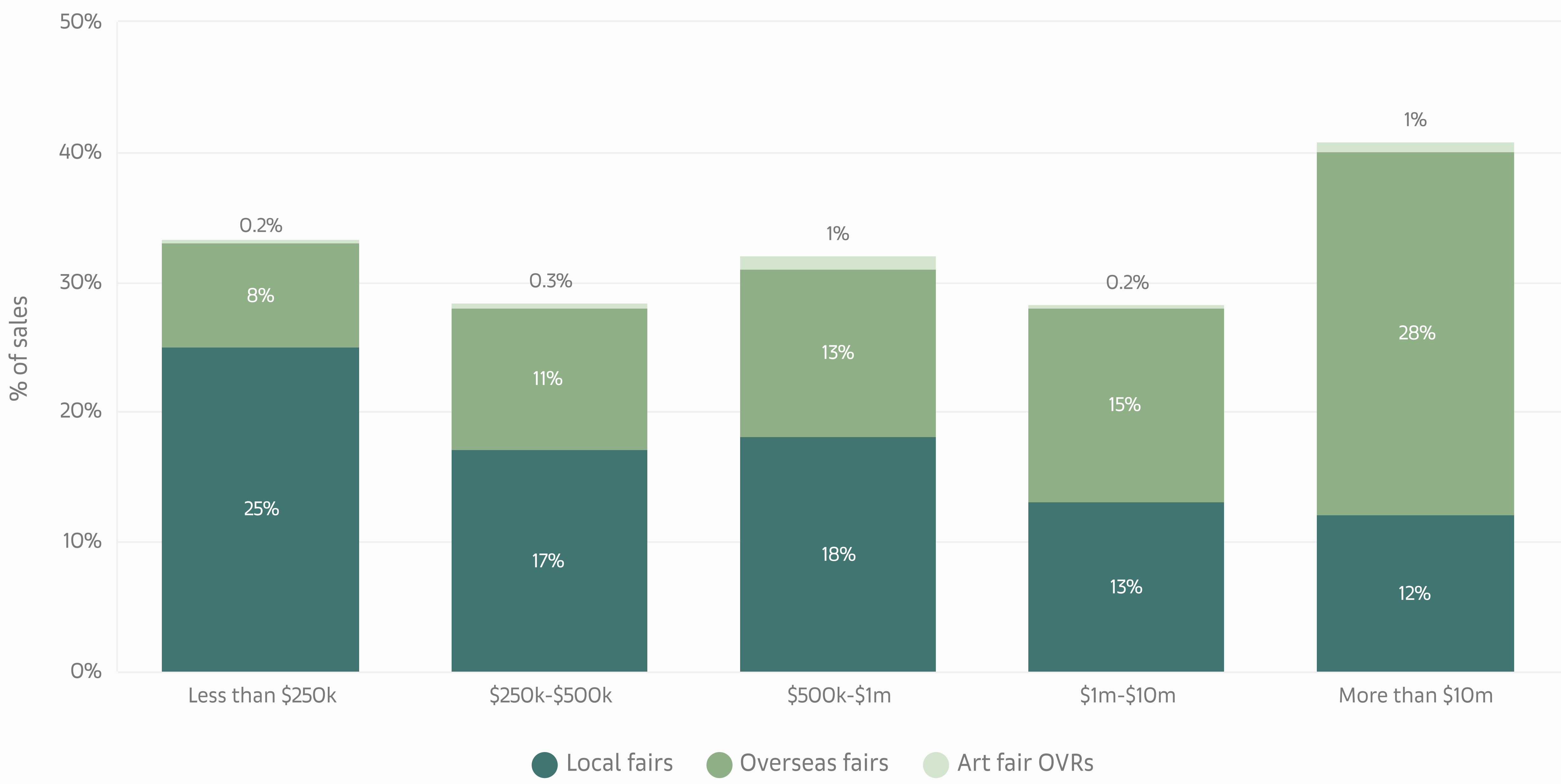
Focusing on art fairs, the largest share of sales at fairs was reported by the largest dealers, with those turning over more than $10 million making 40% of their sales from live events in 2022, with the majority being sales at international fairs. These largest businesses had some of the biggest declines in share during the pandemic, falling by 31% in 2020 to 13%, but also recovering strongly in 2021 to 30% of total sales. Although more share was regained in 2022, they had still not reached the same level as 2019, which was also the case for most other segments. The exception was the smallest dealers with turnover of less than $250,000, where a significant annual rise of 10% put their 2022 share roughly on par with 2019.

The largest share of sales at fairs was reported by the largest dealers, with those turning over more than $10 million making 40% of their sales from live events in 2022, with the majority being sales at international fairs

The lowest share of sales made at fairs was for businesses with turnover of between $250,000 and $500,000 (28%), although this represented a substantial increase of 13% on 2021. The largest channel for sales in this segment was through the gallery (47%), but online sales had stayed relatively high at 20%. This was also the case for the segment between $1 million and $10 million, where gallery sales were 49% and online-only was a larger-than-average component at 20%. Many galleries at this level explained that while they had welcomed the return to fairs, they were also maintaining their digital strategies alongside offline exhibitions due to both positive returns and the substantial investments they had made over the last two years.

Figure 2.30 Share of Art Fair Sales from Total Sales by Dealer Turnover Segment

a) Fair Sales in 2022



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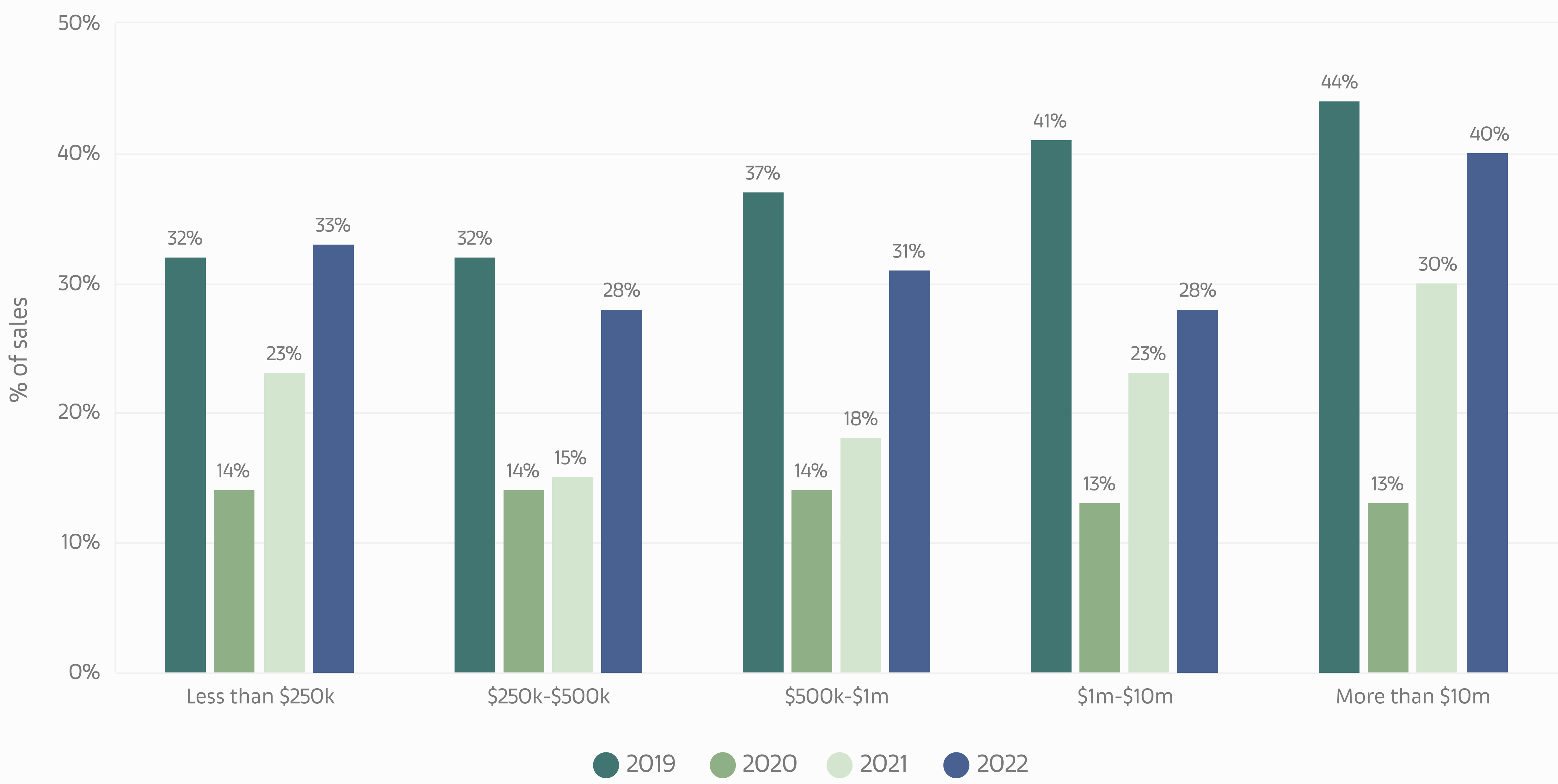
b) Live/In-Person Events Only 2019–2022



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The reporting of fair sales includes those carried out by dealers before, during, and after fairs. Besides sales at the event itself, there is also a considerable amount of business agreed prior to a fair, with dealers sending advance information about their forthcoming exhibitions to their most important clients often weeks before a scheduled event to allow them time to preview and consider their purchases.

Some galleries commented that presales at fairs can detract from the excitement and competitive tension of these events, arguing for more control of the timing of presale marketing materials. Views were mixed on this, however, with many dealers regarding these pre-fair sales as essential for their businesses, stressing their importance for ensuring their costs to exhibit were at least partially covered. Some also noted that they allowed purchasers of higher-priced items, such as large museums and private collectors, sufficient time to properly consider large purchasing decisions, which may often involve several decision makers and funders as well as considerable due diligence. Some dealers commented that previews and presales also allowed collectors to use their time at the actual fairs much more effectively. They felt this did not detract from the booth presentations as many collectors still wanted to see works in person before making their final decision, much as they would with any exhibition preview.

The share of post-fair sales declined from 21% in 2019 to 14% in 2022, indicating that the events themselves were key as dealers, collectors, artists, and others reconnected after the pandemic-induced break

There was little evidence of presales being used substantially more than they were pre-pandemic, with their average share of total fair sales at 14% in 2022 (versus 15% in 2019). These shares represent the unweighted or per business share of sales, however, there were differences taking turnover into account, with mid-sized and larger businesses having a larger proportion of presales than smaller ones.

Post-fair sales are also critical for many dealers, with the events playing a key role in future business development. As a result of contact with new (and existing) clients at fairs, some sales are also concluded after the event. These transactions may be works exhibited at the fair or alternative works by an artist introduced to the collector at the fair, but involve sales that would not have otherwise taken place without exhibiting at the fair. The share of post-fair sales declined more significantly from 21% in 2019 to 14% in 2022, indicating that the events themselves were key in 2022 as dealers, collectors, artists, and others reconnected after the pandemic-induced break. Unlike presales, post-fair sales declined in share as turnover rose and made up a larger component for smaller businesses. While some small to mid-size businesses commented on the success they had at new client generation at fairs, over and above what was possible through their online strategies, some larger galleries were somewhat more moderate:

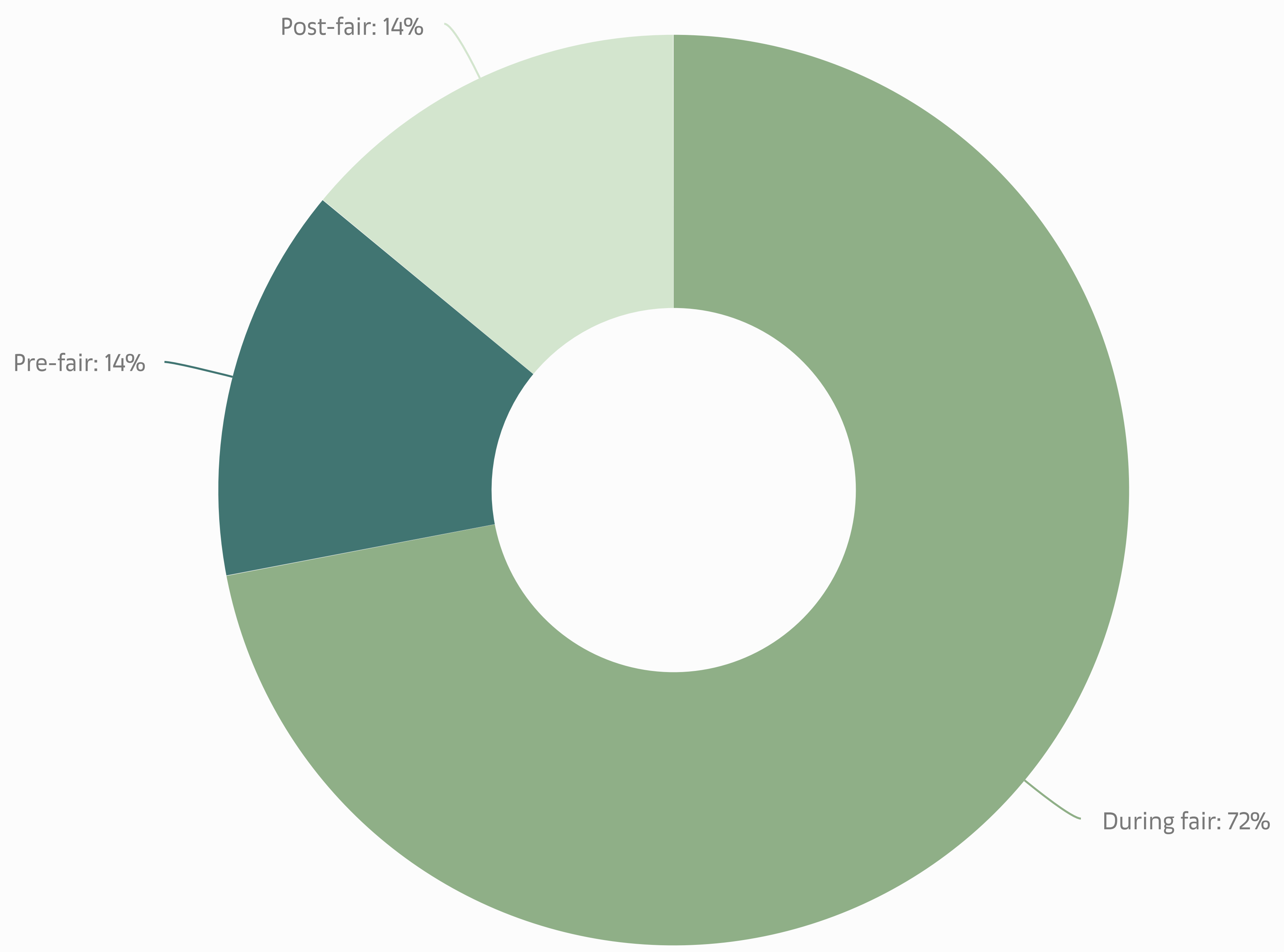
> *'The main purpose of fairs for us is to maintain visibility and see clients. We also do a lot of business and relationship building with other dealers through these events. The fairs in 2022 were not a frenzy, but we made enough sales to ensure that they satisfied these purposes.'*

Some dealers also described a hesitancy at some events in 2022 that they hoped would still translate to sales, not immediately post-fair, but further into the future:

> *'With art fairs returning after the pandemic, our experience is that collectors are hesitant to purchase right away, but have followed up later, using the art fairs to reconnect and visit dealers they may have not seen in a long time. My hope is that more purchasing will happen at fairs in the future.'*

Figure 2.31 Art Fair Sales Share Pre-, Post-, and During Events in 2022

a) All Dealers



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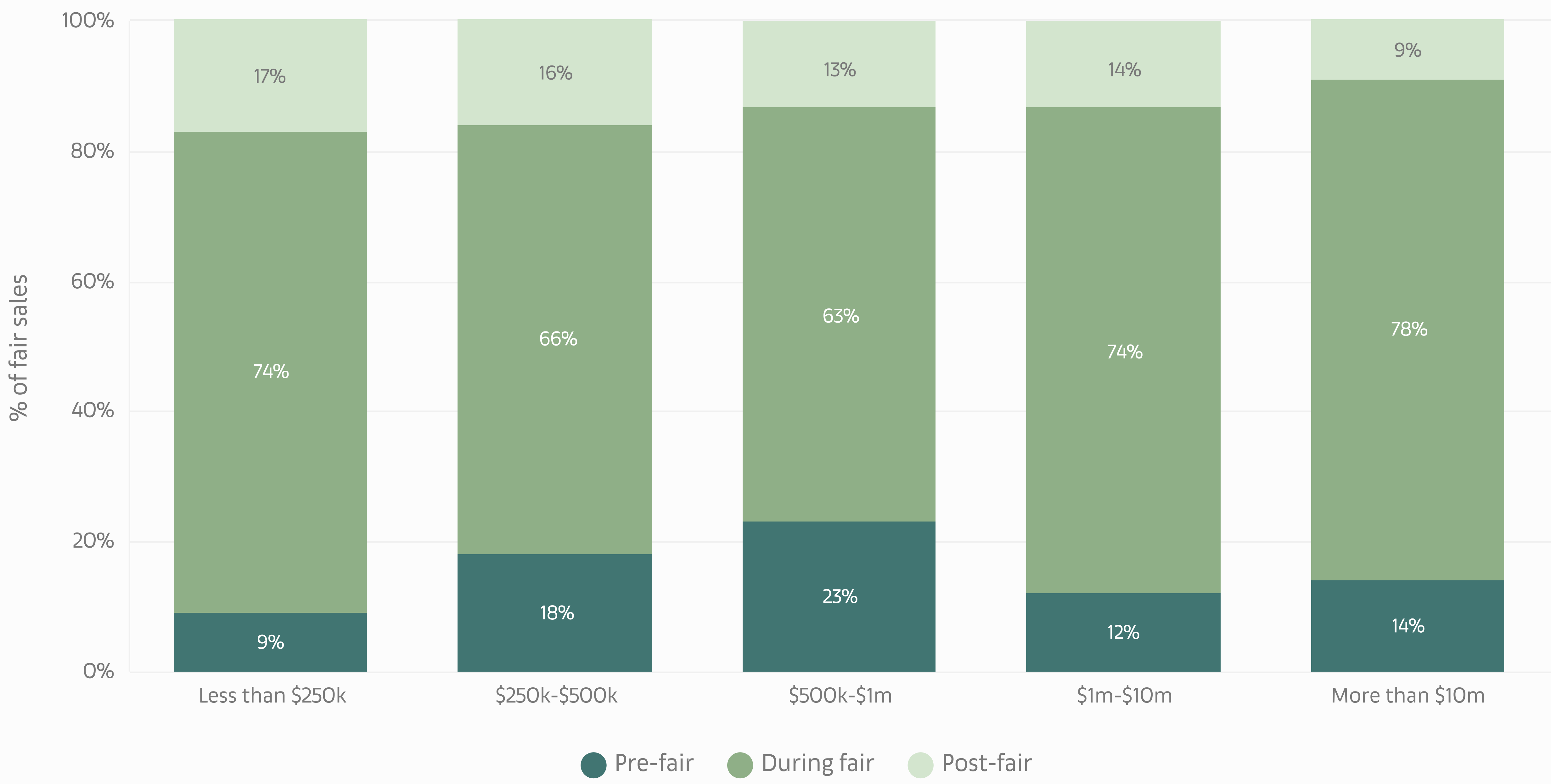
b) Dealers by Turnover Level



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Estimates for fair sales based on the reported data from previous surveys in recent years indicated they could have accounted for up to $16.6 billion in 2019. Given the turnover-weighted shares outlined above, the total sales attributable to fairs in 2022 (before, during, and after events), would not have surpassed a maximum of $13 billion.

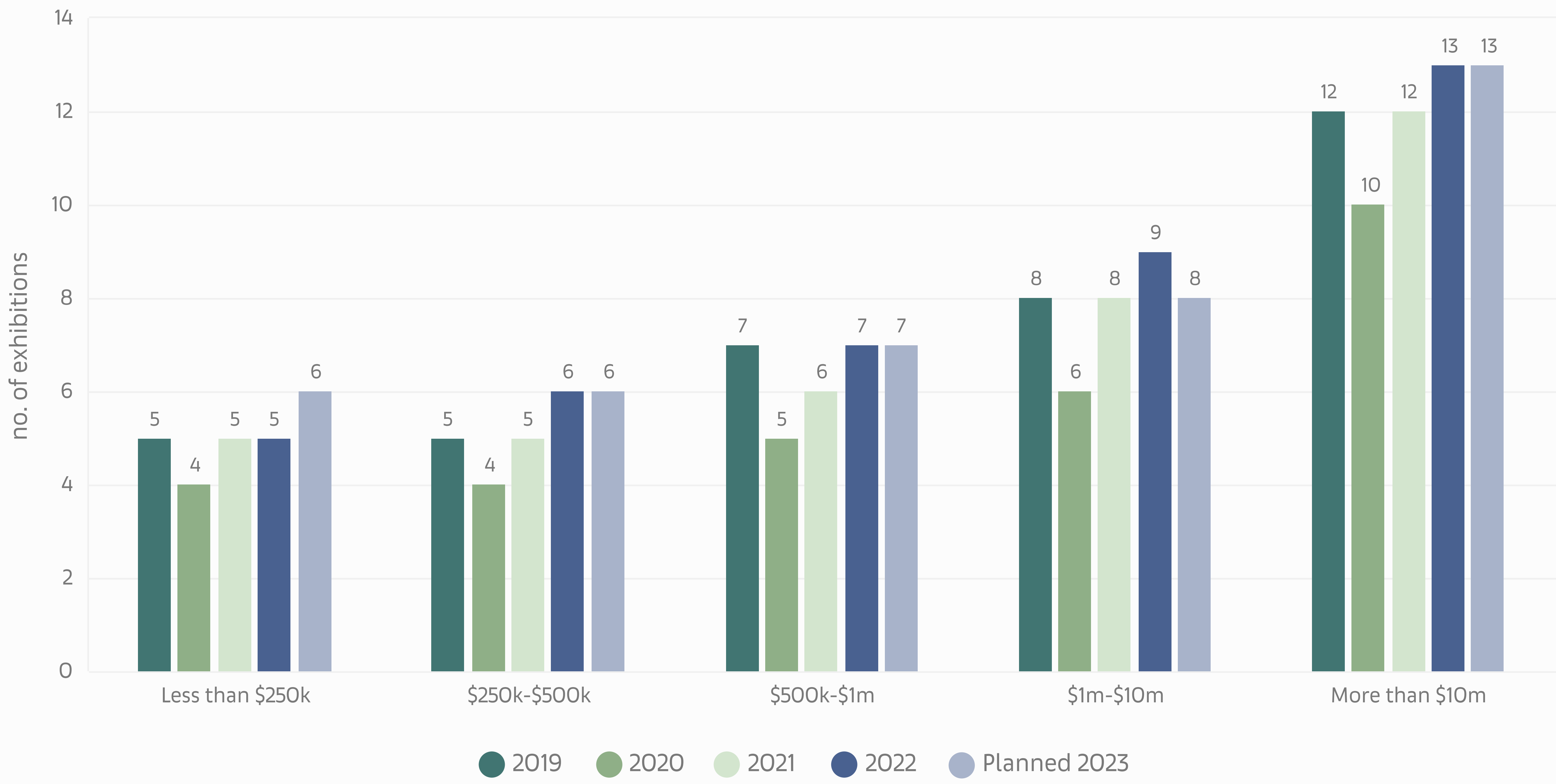
Exhibitions and Fairs in 2022

The return of collectors and dealers to in-person exhibitions and events after the restrictions in place during 2020 and 2021 was very evident in research carried out over the last three years. In 2019 prior to the pandemic, dealers held an average of seven exhibitions in their galleries, ranging from five for the smallest businesses with turnover of less than $250,000 up to 12 for those with sales in excess of $10 million. As the pandemic restricted most live events in 2020, the average number fell to five, with declines across all segments of the market.

Although 2021 was still marred by lockdowns in many regions, most galleries managed to boost their programs, with an increase in the average to six exhibitions. However, it was not until 2022 that galleries returned to their pre-pandemic levels, with most segments of the market even showing a slight increase in the number of shows from 2019 and an overall average of seven, with galleries maintaining digital formats and live exhibitions.

Looking ahead, dealers were also expecting to do a relatively stable number of exhibitions in 2023, with most planning the same number or more shows than they had done in 2019, and the only segment seeing a reduction from 2022 being dealers in the $1 million to $10 million range.

Figure 2.32 Average Number of Gallery Exhibitions by Year and Level of Turnover 2019-2023



Looking outside the survey at the art fair calendar itself, although 2022 was supposed to be the first 'normal' year of scheduling, in practice there has been considerable change, including more cancellations and closed events, but also new fairs. Data on the art fair calendar was supplied for the report by the global art fair database, Artfairmag.com, which allows for an assessment of these changes from 2019 to 2023 based on a comprehensive database of close to 475 fairs.

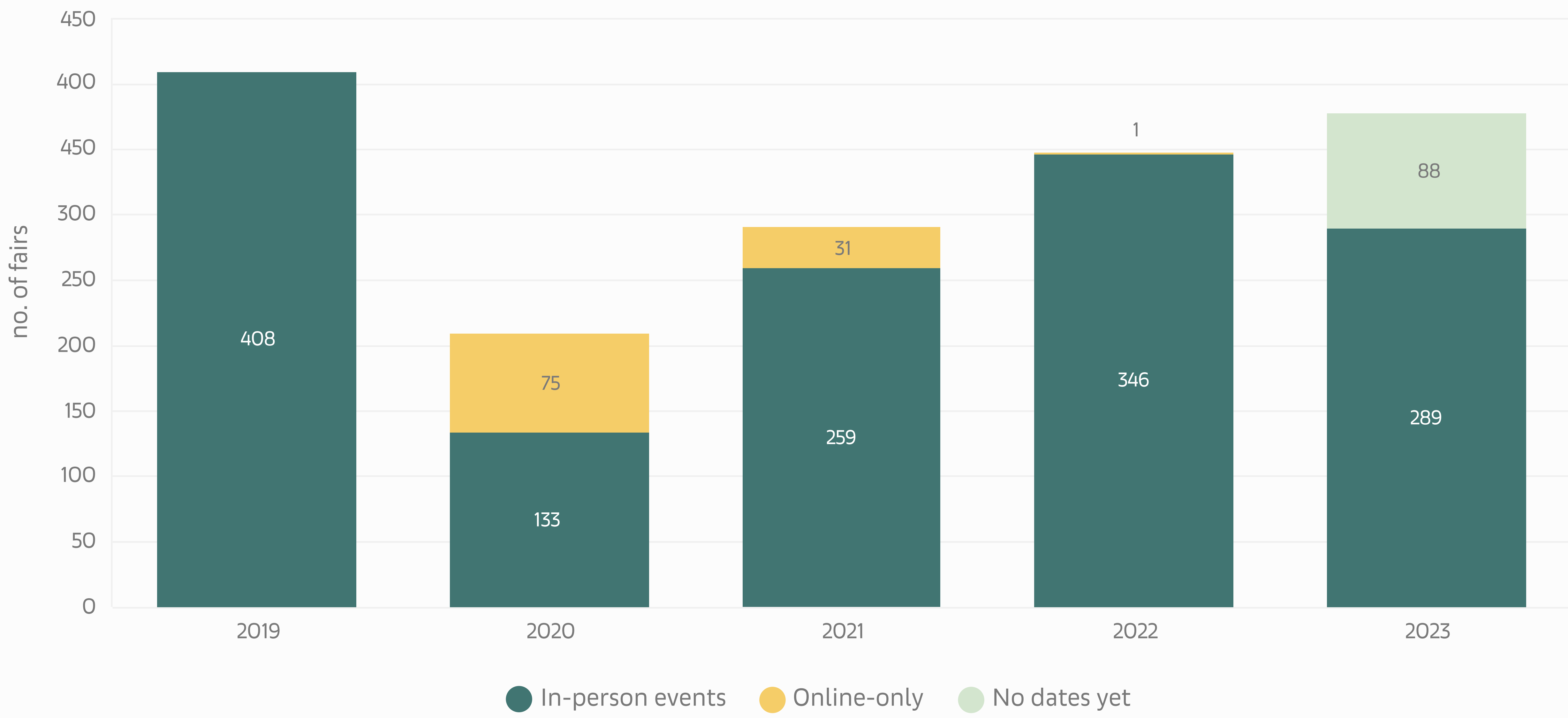
Figure 2.33 shows that there were 408 in-person events held in 2019. In 2020, the global pandemic caused the cancellation of the majority of these events after the first quarter, and this dropped to just 133 live events, but an additional 75 took place as online-only fairs or OVRs. While 2021 saw an improvement, it was nowhere near the pre-pandemic schedule of events, with more than one third less live events taking place, while the online-only events dropped to half the level of 2020, with many dealers seeing these as an adjunct only rather than a viable alternative to live shows.

Although most countries were free from lockdowns and restrictions in 2022, there were important exceptions, most notably Mainland China where several events were cancelled or postponed. Some that went ahead were also cut short after opening, including the two major Shanghai fairs ART021 on its second day and WestBund on its closing day. Despite this, the number of live shows taking place globally in 2022 reached 346, which was a substantial increase of one third in number on 2021 but still 62 fairs short of 2019.

Looking at the bigger picture and including new fairs that started over the last few years, at least 82 fairs that were active at some stage between 2019 and 2022 have completely ceased operation. This includes 15 events that closed specifically in 2022. However, some new events were launched despite the crisis: four new fairs in 2020, 17 in 2021, and 19 in 2022, with notable new international events including Paris+ par Art Basel and Frieze Seoul, plus smaller fairs in the US, Europe, South America, Africa, and Asia.

Looking ahead in 2023, at the time of writing there were already 289 events that had either taken place or had confirmed dates, and a further 88 that are believed to still be operating but have not announced dates or exhibitors. Cancellations for 2023 included the two London fairs, Masterpiece London and the summer edition of Olympia Art & Antiques Fair, both citing rising costs and Brexit as key reasons for their decision. Equally, new fairs have been added, notably in Asia, including Art SG which was held in January in Singapore and Tokyo Gendai scheduled for July. Even with these events, the provisional total for the year (at 377) indicates that the pandemic may have had some lasting effects on the art fair infrastructure, with 31 events less than in 2019.

Figure 2.33 Art Fairs Held or Scheduled 2019–2023



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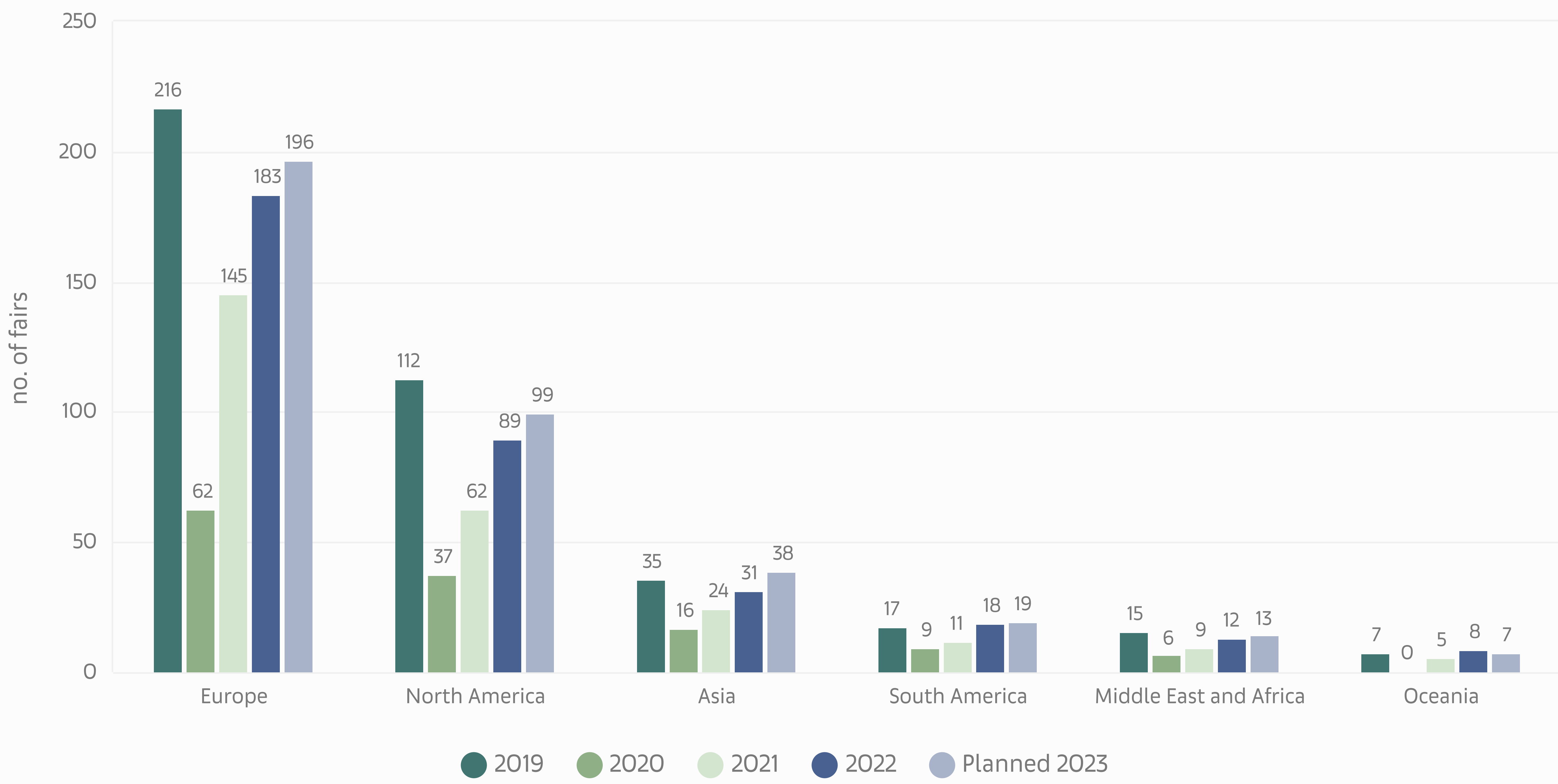
Within different regions, the changes in the calendar are evident and have followed a broadly similar pattern. The number of live events in Europe has declined by 15% from 2019 to 2022, and fairs are down by 21% in the US. Although both regions should see a net increase year-on-year in 2023, they will still be below the pre-pandemic level of 2019. There was a small increase in South America and Oceania, both with one net addition over the period from 2019 to 2022, although from a considerably smaller base.

The US was still the largest individual market for fairs accounting for 24% of the total number of events that took place around the world in 2022. Just over half (53%) of the fairs taking place were in Europe, including 12% in the UK and 10% in France. Asia accounted for 9%, with China making up 3% of the total. Despite new art fairs launched in this region in 2022 and 2023, including Frieze Seoul and Art SG, the total number of fairs in Asia has declined by 11% (or four fairs) from 2019 to 2022.

Figure 2.34 Art Fairs Held by Region 2019–2023 (Live Events Only)



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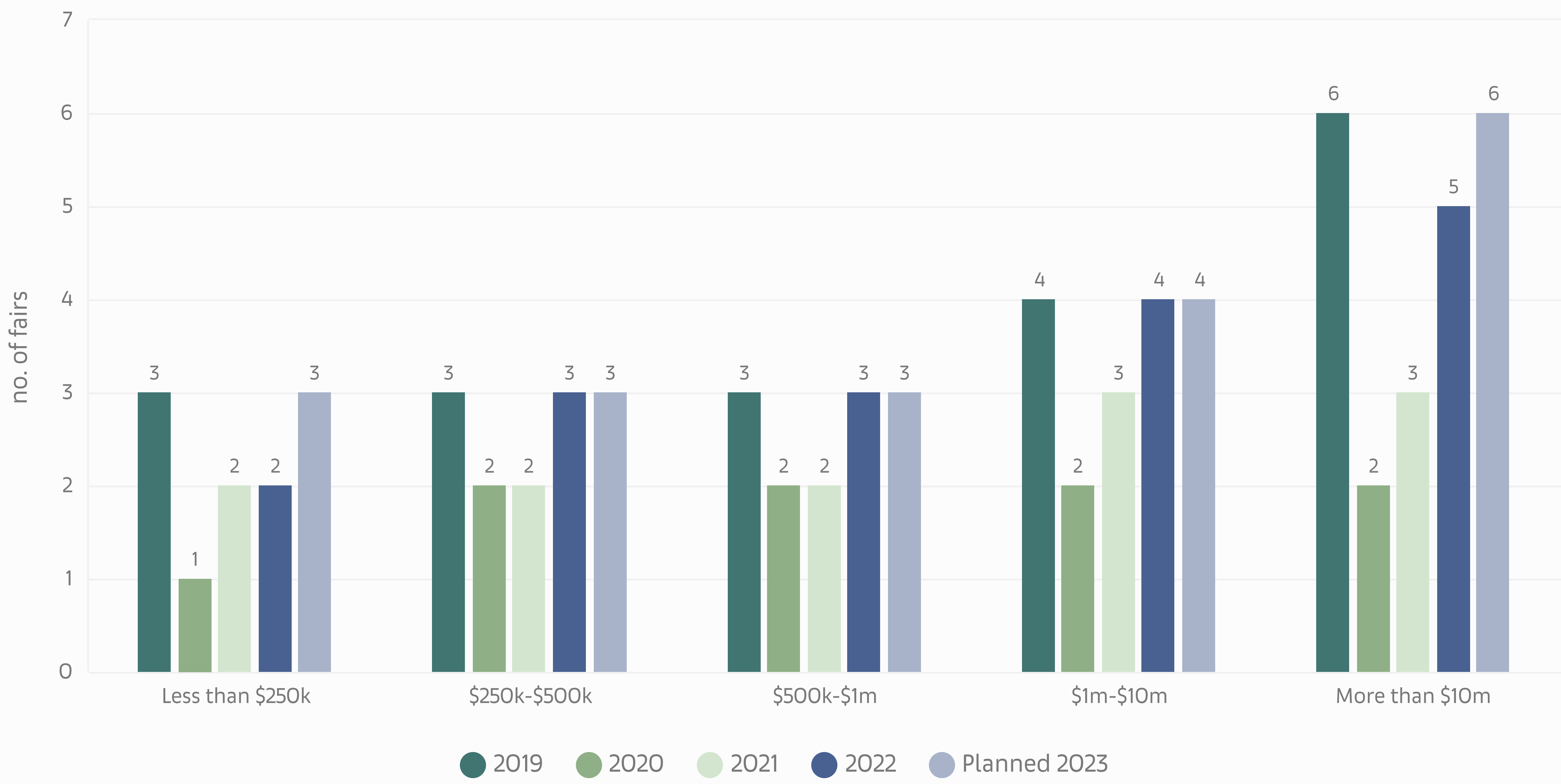
Despite the lower number of fairs, dealers' reporting of their art fair exhibitions showed that despite disruptions in some areas, the average number of art fairs they exhibited at in 2022 returned to its pre-pandemic level. An analysis of the responses from dealers who exhibited at a minimum of at least one fair in 2019, showed a new average of four art fair exhibitions in 2022, up from three in 2021 (and only two in 2020), bringing them back on par with 2019. As in other years, dealers with the highest turnover exhibited at the most fairs, with those in the $10 million-plus segment averaging five fairs in 2022, more than double the level of all those with turnover of less than $500,000. Dealers in this $10 million and over range steadily increased the number of fairs they exhibited at since the pandemic, but by 2022, had still not quite reached the 2019 average of six. In all turnover segments, dealers planned to be as active at fairs in 2023 as they were before the pandemic.

Figure 2.35 Average Number of Art Fairs by Year and Level of Turnover 2019-2023



Dealers' anecdotal comments and views on art fairs in 2022 and their future were mixed. Some commented on the positive aspects of returning to fairs and doing more of their sales offline, as well as the increase in both geographical diversity and types of collectors at fairs, noting that travel had not seemed to be as much of a barrier to attracting buyers as it was in 2021.

Many commented on escalating costs, both of the fairs themselves and the associated expenses of travel and entertaining, which in some cases had not balanced as favorably against sales as in previous years.

> *'Post-pandemic, the costs of participating in art fairs has skyrocketed and it is becoming no longer economically viable for us to exhibit as they don't bring in enough business to justify the high cost of a booth.'*

> *'The ratio of the sales versus the costs to exhibit did not balance for us, and we will not do some of the same fairs next year. We will still visit these regions to see collectors but without taking on the huge costs associated with exhibiting.'*

Some dealers noted that they were spending a minimum of between 15% and 20% more than in pre-pandemic times specifically on fairs and their related costs, and that the costs of exhibiting were among the most substantial of the bundle of escalating expenses and operating costs that had been difficult to manage in 2022.

> *'We believe the model is being tested, partly through the pandemic-induced changes of habit and buying preferences, but also due to challenges surrounding transport and travel and the general rise in costs.'*

Some smaller dealers also commented on issues they had encountered with the selection process at art fairs, and felt that they had become dominated by large, international galleries with 'less room for medium-sized galleries'. Some felt they have become 'too political, favoring entrenched regions and businesses', while others held a somewhat opposing view that there was a trend in the last two years toward fairs not being selective enough and overly focusing on galleries and artists that were 'transiently popular or topical rather than assessing their longer-term programming'.

There were also many comments on the general atmosphere at fairs, some noting a return to more social events in 2022, and reports of an increase in more investment-motivated collectors buying at fairs. Some dealers commented on the quality of collectors, noting that, versus 2021, increasing numbers had not necessarily translated into more sales, and that fairs had tried to build numbers at the expense of the quality of visitors and their customer experience, for example, allowing too many VIP attendees.

> *'Some art fairs have become ineffective at attracting qualified collectors and unproductive at producing sales. Organizers have become more focused on increasing numbers of attendees (to generate saleable lists) rather than attracting qualified collectors.'*

> *'It's all advisors and consultants, collectors are only interested in hot young things, there's no risk taking or adventurousness.'*

Others noted that fairs had evolved into more social events, which although not negative, could be difficult to manage as costs rose:

> *'Our experience is that post-COVID, buying patterns of collectors have shifted and art fairs are seen as places of experience, engagement, and relationship building, where buying is not the foremost imperative. Collectors have built up the confidence to buy work digitally and the sense of urgency to buy at an art fair has diminished.'*

Many dealers commented more generally that inflation, other economic issues, political concerns, and the war in Ukraine had all had a negative impact on collector enthusiasm at events.

Looking ahead, 12% of the dealers surveyed said they were unsure about how their art fair sales would progress over the next 12 months. Of those that took a view, around half (51%) predicted they would increase, down from 65% in 2021. 13% expected a decline and the remaining 36% thought they would remain stable.

The outlook was less optimistic for nearly all segments than at the end of 2021, with the lowest share expecting improvement in the $1 million to $10 million turnover segment. The exception was the largest dealers with turnover of greater than $10 million, where 58% felt their sales at fairs would increase in 2023 versus just 40% the previous year.

Figure 2.36 Dealers' Outlook for Art Fair Sales in 2023

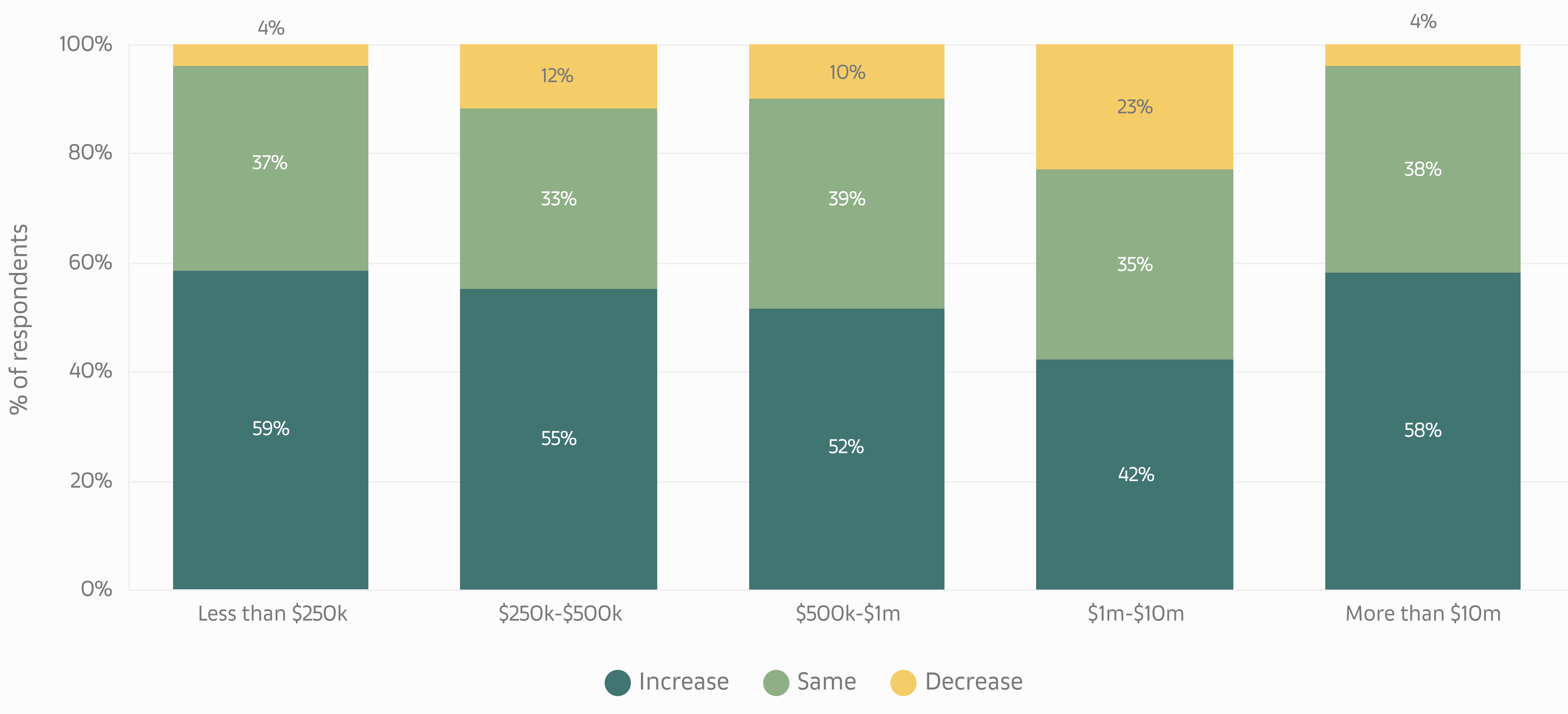


IMAGE Ruth Asawa, David Zwirner, image courtesy Art Basel

2.7 Online Sales and Strategies

The surveys of the dealer sector over the last few years have documented the significant advance of sales via online channels. The rapid escalation in the growth of e-commerce kick-started by the pandemic led to an unprecedented shift in the share of sales made online by dealers from just 13% of total sales on average in 2019 (including art fair OVRs) to 39% in 2020 (with 9% accounted for by art fair OVRs). In tandem with the partial return of fairs and gallery exhibitions in 2021, this decreased to 22%, and the decline continued in 2022 to 16% of total dealer sales.[34] Online sales in this survey were accounted for by the following categories of transactions:

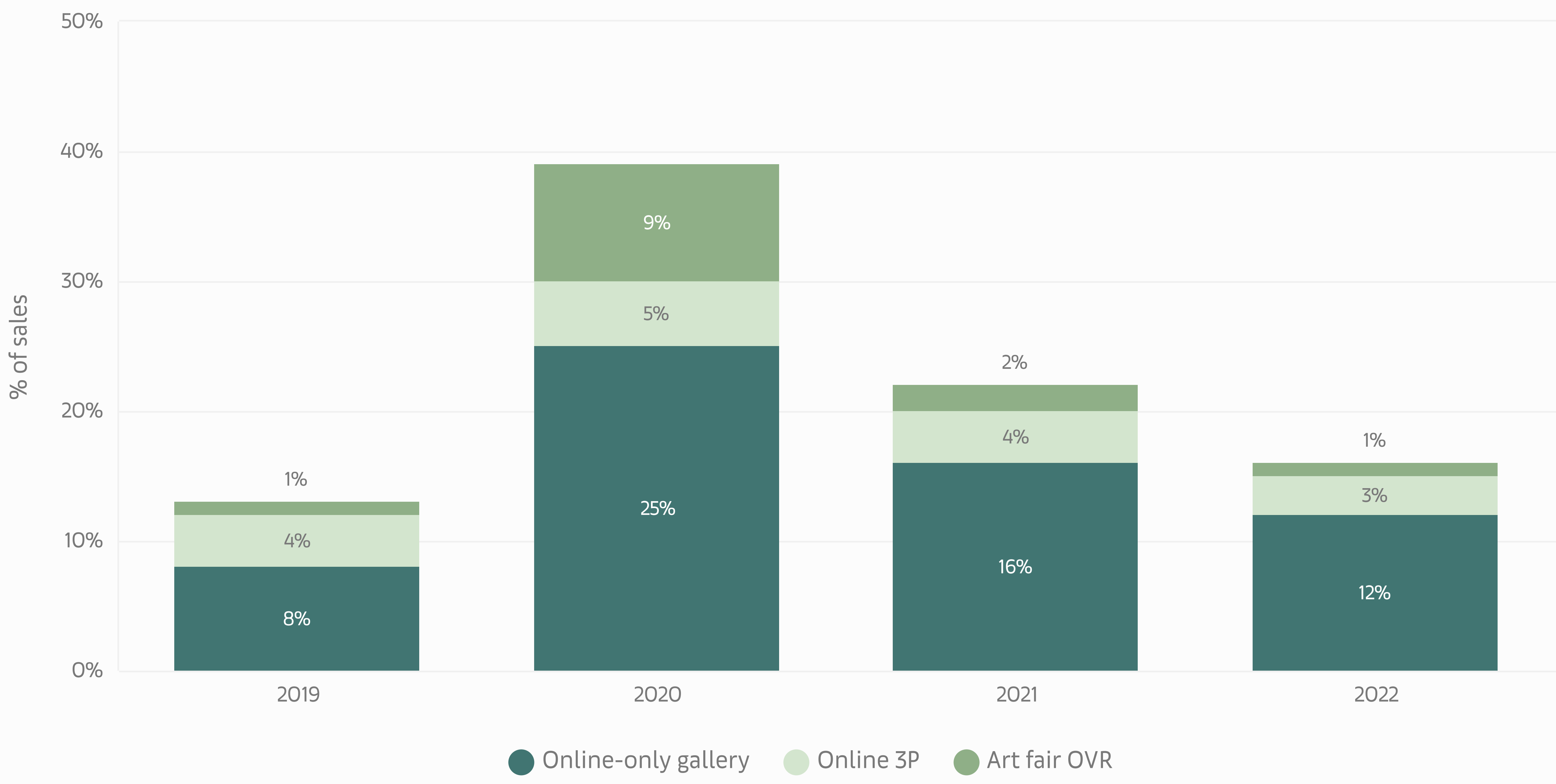
- Dealers own online-only gallery sales, which includes transactions that were carried out entirely online through the dealers' website, social media channels, OVR, or email, without viewing works in person (12%);
- Online art fair sales which were carried out or originated from a fair's OVR or other online fair platform without any in-person viewing (1%); and
- Online third-party sales, where the sales transactions were carried out entirely online or facilitated by another type of third-party or '3P' company or platform (3%).

It is notable that sales via third-party platforms and art fair OVRs, which both increased during the pandemic, have since reverted to their previous levels or less. The main growth in online sales has been sales via dealers' own websites, OVRs, or other online platforms. Although the share of these sales in 2022 dropped to around half the level of 2020, they remained above levels in 2019, and many dealers continued to comment on the maintenance of internal digital marketing and sales strategies alongside their return to live events and exhibitions.

In tandem with the partial return of fairs and gallery exhibitions in 2021, the share of dealers' online sales decreased to 22%, and the decline continued in 2022 to 16%

34 It is worth noting that this turnover-weighted average includes galleries that reported no online-only sales at all in 2022. Including only those businesses that engaged in online sales in 2022, the total was larger at 22% including art fair OVRs.

Figure 2.37 Dealers' Share of Online Sales 2019–2022



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The increase in online selling was relevant across all segments of the market over the last three years, with some of the largest dealers, who had accounted for the smallest shares of e-commerce before the pandemic, seeing the biggest changes. Dealers in the $10 million-plus segment more than tripled their online sales from 9% in 2019 to 47% in 2020, while smaller dealers with turnovers of less than $500,000 saw much more moderate increases of around 10%. However, this appears to have been a specific reaction to the unique set of circumstances presented by the pandemic in 2020. For the last two years, the share of online sales for dealers in the $10 million-plus segment has declined as offline values have risen, falling to 22% in 2021 and halving again to just 11% in 2022, the vast majority of which were through the gallery's own online programs and not third parties.

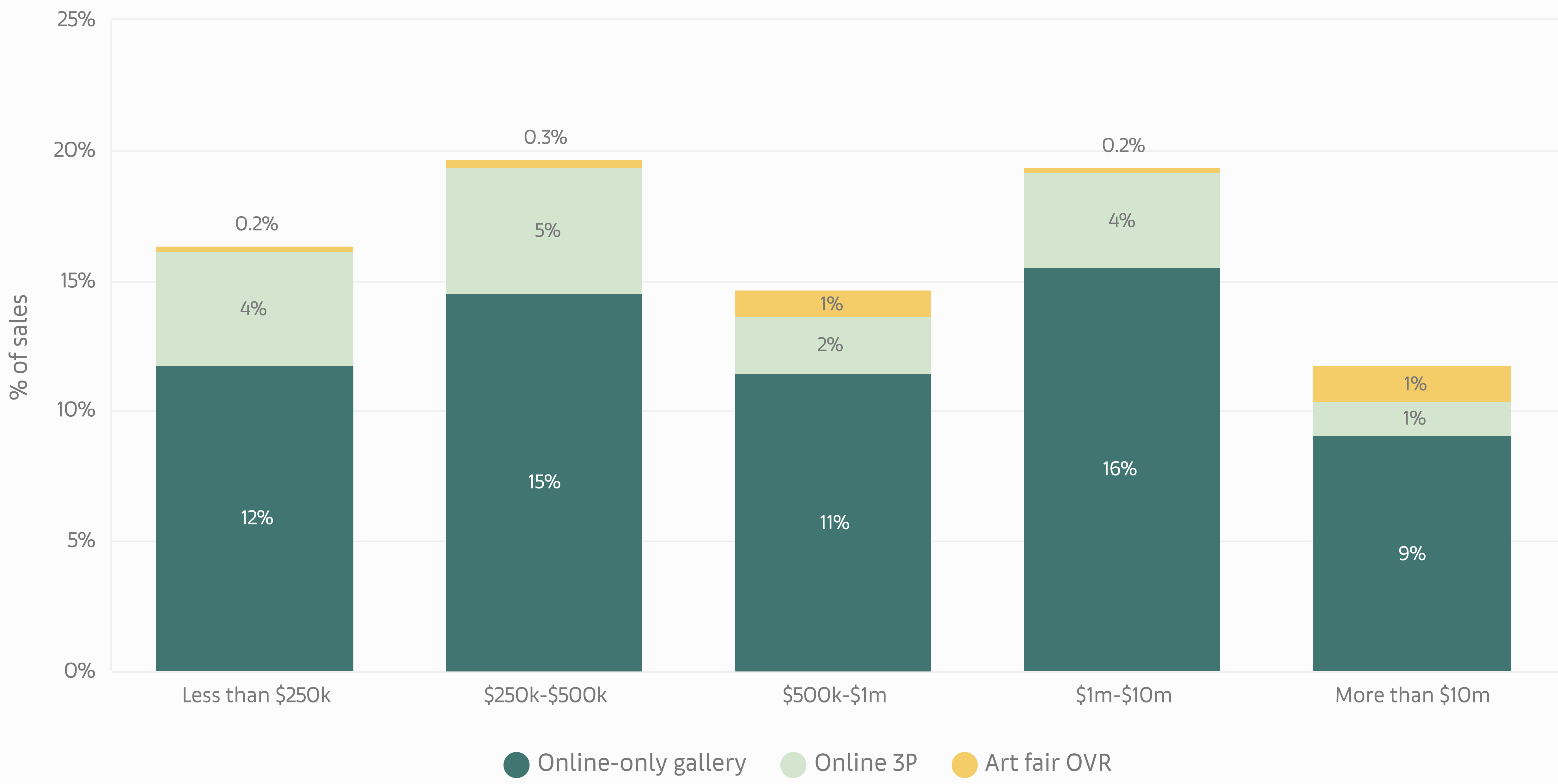
This trend parallels evidence from collectors which has shown that despite a higher uptake of buying online, the more expensive a work was, the more they wanted to see it in person prior to purchasing. The previously mentioned survey in 2022 of HNW collectors revealed that most (95%) had, at some stage, purchased works of art without viewing them in person first, with just over half (51%) regularly doing so. Whether they did so regularly or not, it was not always their preference, and despite the increasing activity online of the last few years and significant advances in viewing and e-commerce functionality, nearly all (93%) thought it was important or very important to see a work in person before purchasing it. The level of importance depended on the context, and price was still the most significant factor: the more valuable the work, the more they needed to see it. The medium was also important, as was their familiarity and trust with the seller; collectors were happier to buy online from dealers they had already established relationships with.

30% of HNW collectors' spending on art and antiques was directly through dealers, with one third through their online channels

As noted earlier, 30% of HNW collectors' spending on art and antiques was through dealers, with an additional 15% through art fairs. Spending via dealers' online channels accounted for one third of the direct spending through dealers (or 10% overall). Among the majority of collectors who preferred to buy from dealers, 42% would favor buying in person at their gallery or premises (down from 44% in 2021 and 57% in 2020). 37% preferred buying online (up by 2% from surveys in 2021 and by 8% from 2020), revealing an increase in the acceptance of buying sight unseen.

One of largest shares of e-commerce and the smallest decline in share year-on-year was for dealers in the tier of turnover between $1 million and $10 million, at 20% (down by just 4% on 2021). Some dealers in this segment noted that digital sales and strategies were already escalating prior to the pandemic, but they had invested significantly in these areas over 2021 and 2022, improving their digital strategies, platforms, and associated tools. Alongside greater confidence buying online, this had helped maintain a high level of sales via digital channels in this segment.

Figure 2.38 Average Share of Dealers' Sales Made Online by Level of Turnover in 2022



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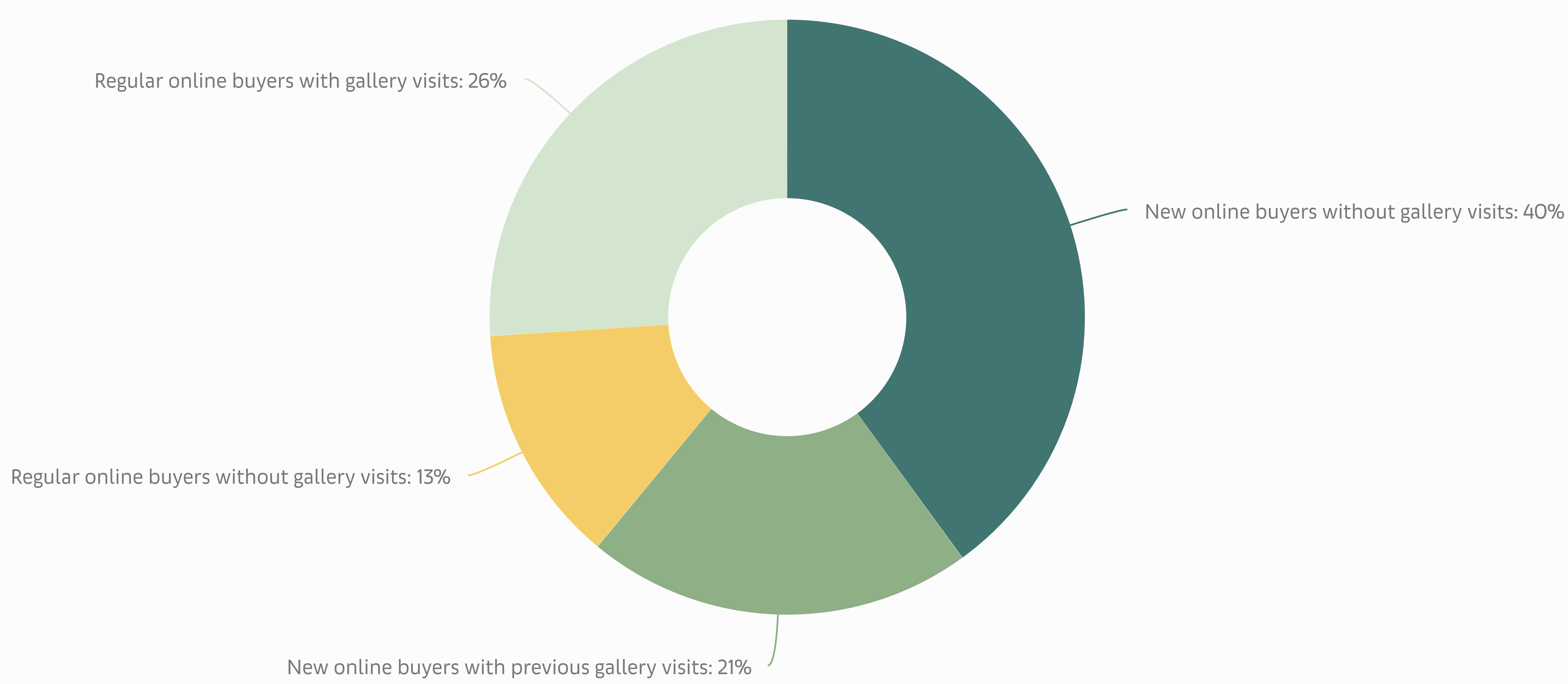
Research of online sales in the sector in 2020 showed that as in-person access was restricted, online channels became a key access point for sales to established collectors as well as a means to reach new buyers. In 2019, over half of online sales by dealers (57%) were to new buyers who had never been to their gallery or met the dealer in person. However, this fell to an average of 32% in 2020 as dealers reported that most of their online sales were to existing clients. From that low, the share to new clients has slowly increased, to 35% in 2021 and again to 40% in 2022.

The share of sales made to regular online buyers dipped by 5% in 2022, with a lower share of sales to buyers who had previous gallery visits (dropping by 7% to 26%) and a slight increase in regular but exclusively online-only buyers (to 13%).

The share of sales to new-to-online buyers from dealers' established client bases edged down, falling from 31% in 2020 to 21% in 2022. This is likely due to the decreasing pool of buyers who have never bought online, with many collectors who had not tried online-only purchasing having been forced to do so during the pandemic's restrictions. As noted by dealers in this and previous surveys, how positive some of these initial experiences were has been a determining factor in whether the buyers continued to buy online regularly. However, many commented also that their core collectors were very keen to get back to in-person purchasing once it was possible again and although online channels were continuing to be used, it was often for necessity or convenience, as reflected in the decrease of regular online-offline buyers.

Figure 2.39 Share of Online Sales by Dealers by Buyer Category in 2022



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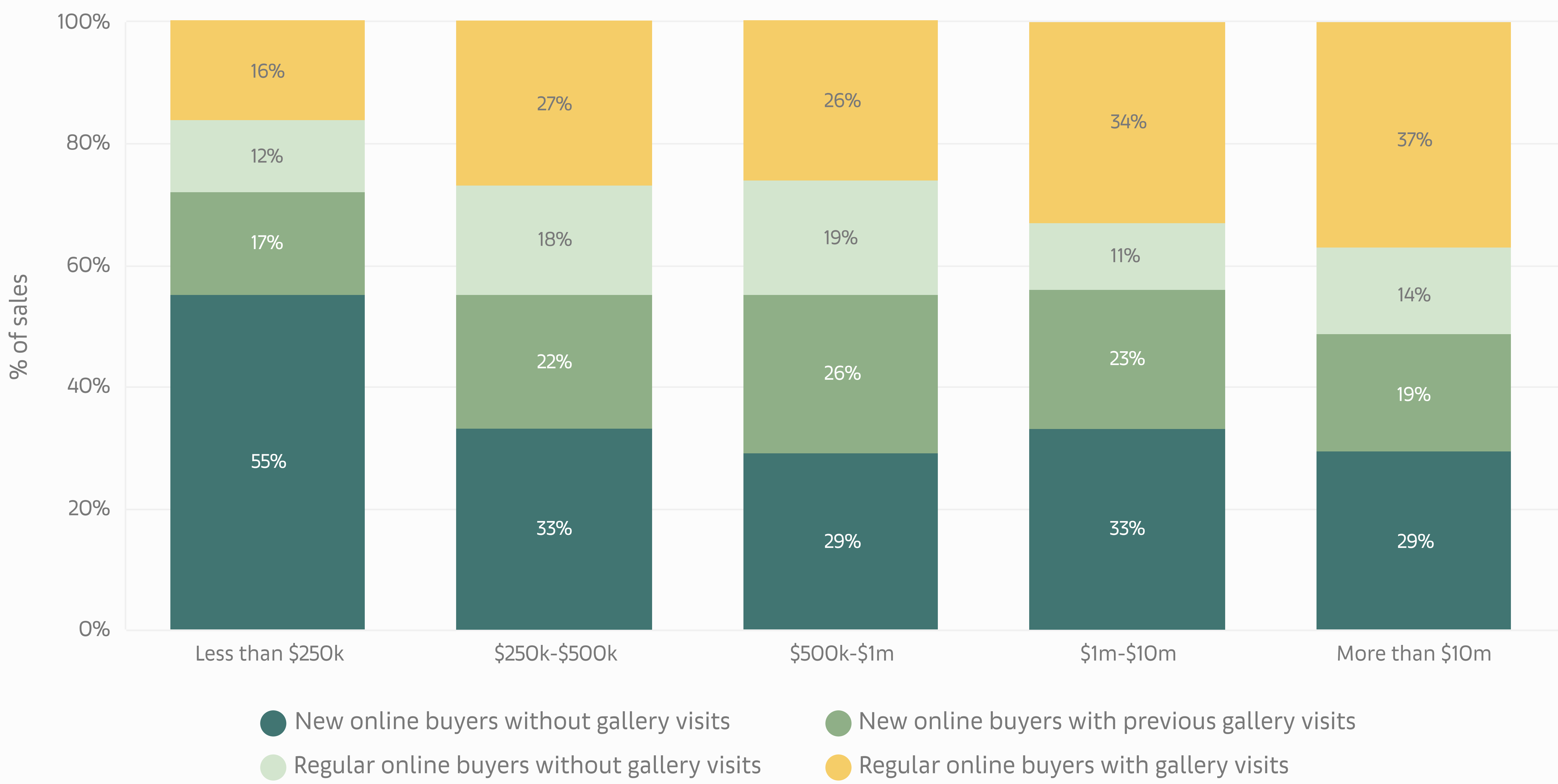
The difficulty converting one-off online buyers into more regular clients continued to be most acute for smaller galleries. As in 2021, new online buyers accounted for a greater portion of online sales by smaller galleries in 2022, with a 55% share for those businesses with turnover of less than $250,000. Dealers in this segment continued to cite the challenges faced in getting repeat business online, necessitating more sales to new customers. The share of online sales of larger galleries was more focused on established clients, which made up the largest segment for those dealers with annual sales of greater than $10 million. Sales to new online buyers from these dealers rose by 4% year-on-year to 29%. The challenge here as opposed to that of their smaller peers was finding ways to reach new clients online in order to refresh their buyer bases and widen their geographical reach, particularly as some of their regular clients cut back after high levels of spending in 2021. Regular clients that were new to online fell significantly in this segment from 29% to just 19%.

Dealers at all levels also maintained sales to buyers who regularly only bought online but did not have other offline contact with the gallery. Although this remained a minority share, it did significantly increase year-on-year from 2021, including a 10% rise in the $10 million-plus segment. Dealers noted that some of these sales included buyers only gained in the last three years, who were now purchasing regularly or intermittently but had not yet been to the gallery or met the dealer in person.

Figure 2.40 **Share of Online Sales by Buyer Category and Level of Dealer Turnover in 2022**



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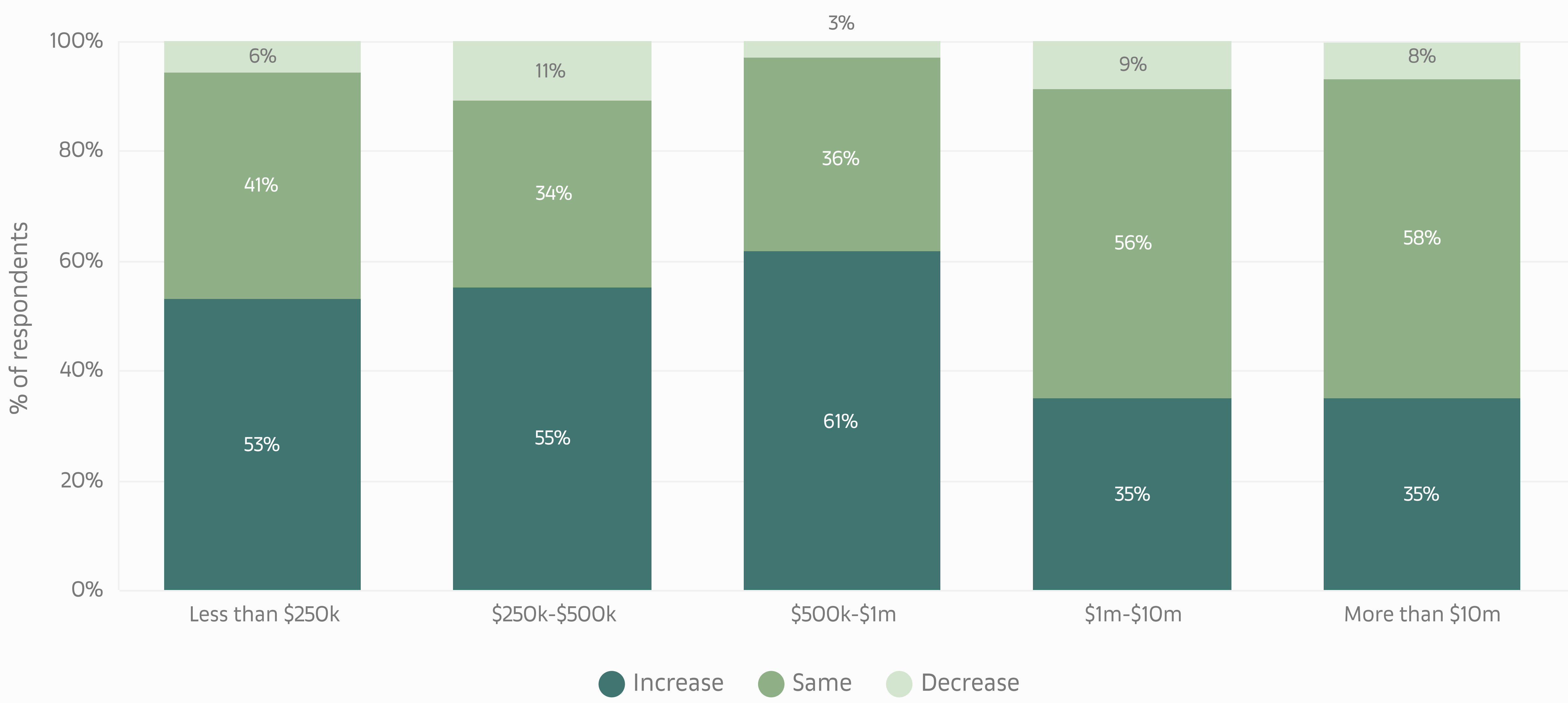
The increase in online sales has made significant changes in the sector, but there are indications from both dealers and collectors that the rapid growth over 2020 was in reaction to the specific set of circumstances created by the pandemic. The boost in growth did, however, result in the sector catching up with other industries, having lagged behind in terms of the share of e-commerce for several years. The views of most dealers tended to be that while growth in their share of online sales may have plateaued, very few saw it reverting or declining in future. When they were asked their opinions on the growth of online sales for their business over the next 12 months, 42% felt e-commerce would increase (with just 4% expecting a significant increase), versus a 67% majority at the end of 2020. A further 50% expected sales to remain around the same through this channel, while only 8% anticipated a decline (although this was up by 3% year-on-year).

Larger businesses were the least likely to expect their online sales to increase, with just over one third (35%) expecting greater sales through this channel for those with turnover of greater than $1 million, a substantial fall from 60% at the end of 2021. Optimism regarding e-commerce was highest, on the other hand, for mid-sized dealers in the $500,000 to $1 million range, with 61% expecting an increase, stable on the share in 2021. The smallest dealers with sub-$250,000 turnover also saw an increase in positive expectations of about 5% year-on-year to 53%.

Figure 2.41 Dealers' Outlook for Online Sales in 2023



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At all turnover levels, a relatively small minority of dealers felt that online sales would diminish, with the future expected to continue to be based on combined online and offline strategies. Dealers continued to remark on how digital channels had allowed them to survive the challenges of the last few years and how they will continue to adapt to these changes in future.

> *'A quick pivot to creating online content for our pandemic times made exhibitions accessible to those not willing or able to come to the gallery. As early adopters of selling artwork online, the shift was less daunting for us. It felt like sales were less affected by the pandemic, unlike parties and events – which hadn't always resulted in sales anyway.'*

Many were now focused on how they might continue to integrate new technological developments and innovations around Web3 in particular to better serve both artists and collectors. (See Exhibit 2 for a discussion on some of the applications of new technologies in the sector in 2023.)

It is notable that the increased tolerance for buying online from dealers was also reflected in the research of collectors. In the HNW collectors survey carried out in 2022, 42% of respondents reported that when buying from a dealer, they would prefer to do so in person at their gallery or premises, down from 57% in 2020. 37% preferred to buy from a dealer online (up by 8% from 2020), revealing an increase in acceptance of buying sight unseen, with the remaining 21% indifferent between online and offline.

It is notable that when asked about buying from art fairs, there was a stronger preference for in-person engagement, with the majority of HNW collectors preferring live events (66%) versus art fair OVRs (34%), reinforcing the anecdotal evidence from dealers that these tended to be useful only as an additional tool and not in a standalone context. Overall, despite changes in behaviors and options over the last three years, given a choice between offline and online experiences, most collectors still preferred to view art for sale at a physical exhibition at a gallery or fair. In this sample of more than 2,700 HNW collectors across 11 global markets:

- 73% preferred live or in-person viewing at a gallery or fair, up by 4% on similar surveys in 2021 and by 7% on 2020;
- 17% preferred OVRs or exhibitions (down by 2% on 2021); and
- 10% were indifferent to one over the other.

IMAGE Maxwell Alexandre, A Gentil Carioca, image courtesy Art Basel

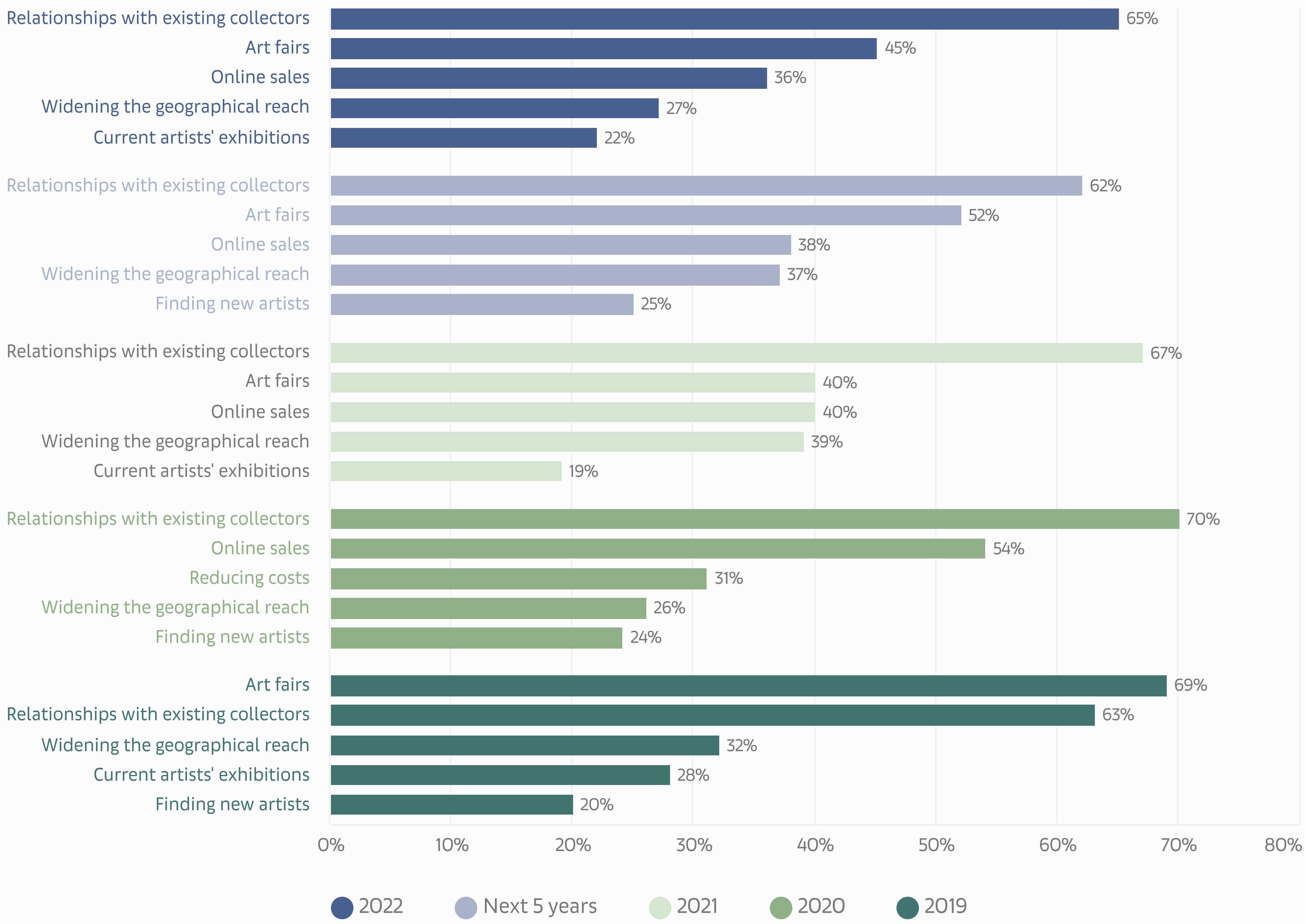
2.8 Priorities for Dealers in 2022 and Beyond

While aggregate sales continued to grow in 2022, it was clearly a challenging year for many dealers. The return to a more normal schedule of live exhibitions and events provided a boost in sales, but brought with it increased costs and time pressures, with many businesses also keeping up the digital programs and strategies. This was evident in the changing priorities dealers reported for their business in 2022. In 2019, the top three priorities for dealers were their art fair presentations, maintaining relationships with their existing clients, and widening the geographical reach of their client base. This changed significantly in 2020, with a new focus on retaining existing clients, boosting online sales, and finding ways to cut costs and maintain profitability. In 2022, sustaining relationships with existing clients was still the number one priority, however, art fairs were once again the next highest, ahead of online sales and exhibitions which ranked third, revealing the dual focus of most businesses in pushing forward their online and offline strategies. Looking ahead for the next five years, these top priorities were unchanged, with the need to widen the geographical reach of their client base in close fourth position as a future goal.

In 2022, sustaining relationships with existing clients was still the number one priority for dealers, however, art fairs were once again the next highest, ahead of online sales and exhibitions

The top priorities set out in Figure 2.42 are those with the highest-ranked choices from a list of 10 to 15 options each year. Reducing costs was the sixth-highest priority in 2022 and, outside the listed priorities, dealers also mentioned prioritizing human resources, ensuring a stable management team, and securing long-term employees. Some also mentioned the importance of collaborations with artists and institutions over the next five years.

Figure 2.42 Top Five Business Priorities for Dealers



When asked about their outlook for the next few years, an overarching concern for all of the businesses surveyed was the prevailing context of political and economic volatility at the end of 2022 and the effects this could have on demand in the coming year: nearly all dealers said this was relevant to their business and 71% were moderately or extremely concerned about it. Many dealers relayed their fears about heading into a recession in 2023 and the effect this could have on their sales, while others pointed to the specific political climate in their region and bigger drags on sentiment such as the ongoing war in Ukraine. The economic context is clearly not a new issue for dealers and was also cited in 2019 as a top concern, but was in second place after finding new clients.

Increasing regulations and other barriers to the cross-border trade in art and antiques (including mounting administrative costs and burdens) were also seen as relevant to most dealers (95%) and the majority were moderately or extremely concerned about them. Around half the sample were equally worried by the growing burdens of due diligence and identification requirements when transacting, including 'know your customer' (KYC) and anti-money laundering (AML) regulations as well as the protection of confidential information online and cybersecurity. Concerns about the impact and complexity of regulations have also been ongoing for dealers over many years, but as the burden on some businesses has increased, these have shifted to the forefront, moving from a ranking of fifth place in 2019 to the second-highest ranked concerns for dealers in 2022 (with identification requirements in third place).

Some dealers discussed the complexity of the regulations themselves, such as import and export licensing in Europe, while many felt the key issue was the burden of administration and red tape associated with regulations that small businesses were being increasingly forced to deal with.

> *'Our business will not be sustainable in future with the number of staff required for the administration burden of AML, GDPR, TA, European trading, export licenses...with a government which is actively increasing and passing its own administrative responsibilities to the art market. It is also targeting us for not being the same as other industries with no understanding of why or any appreciation of how good an industry we once had.'*

VAT and sales tax issues were also commented on by dealers both in the US and in Europe, and again, it tended to be the complexity, lack of a level playing field, and varied and mounting reporting requirements that were necessary that were the problems most identified. (See Exhibit 4 for a discussion on some of the key legal and regulatory issues facing dealers in 2022).

Although only 29% of dealers overall were very concerned about disintermediation in the art market, including artists selling directly to collectors and bypassing dealers, some did comment more anecdotally on their concerns about the threat to the role and importance of the gallery in the market's commercial system. Disintermediation was also a bigger concern for smaller galleries, with over 40% of those with turnover of less than $500,000 moderately or extremely concerned.

Competition with auction houses followed an opposite trend, being more of a worry for larger dealers than their smaller peers, and in all turnover segments, it was a bigger concern than competition with other dealers. Three-quarters of the sample were concerned at some level about auction house competition and when these respondents were asked to explain why, their highest-rated concerns were:

- The blurring of boundaries between dealers and auction houses in terms of sales, such as auction houses conducting a higher portion of private sales (a concern for 70% of the sub-sample);
- Auction houses engaging in primary market sales (52%);
- The price differentials between the auction and dealer sector (49%); and
- Collectors reselling works quickly on the secondary market at auction or 'flipping' (36%).

Some of the biggest issues centered on pricing, although these varied. Some dealers believed that auction houses setting estimates too low was damaging their artists' markets.

> *'Constant lot underestimation by auction houses in their sales is misleading, and gives the buying public a false sense of current values. The competition from auction houses that end up selling works at too-high prices is destroying the prices and careers of many of our artists.'*

However, others felt the rapid path of inflation of some prices at auction, which could be more damaging to artists' careers.

> *'Auction house sales cause rapid rises in prices fuelled through speculative buying that would be better controlled by art dealers representing artists. This rapid rise in prices will result in market crashes that will cause great instability. Auction houses will dispirit buyers by pushing prices up only to not have to take any responsibility for sustaining those price levels.'*

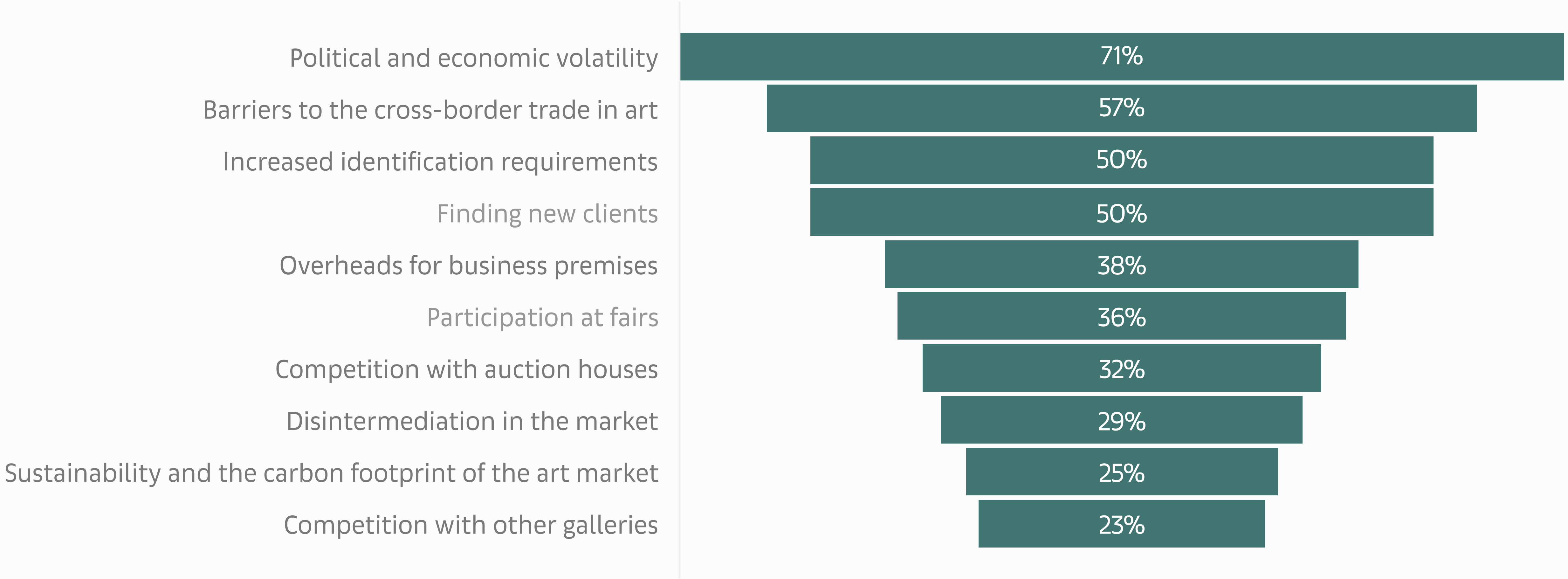
Although this was identified as a problem primarily with auctions, some dealers noted that this was also an issue among dealers themselves and expected some 'unproven' artists that were currently selling well to be susceptible to 'damaging price crashes in future due to overzealous marketing and sales'.

Many dealers noted their general concerns about the size and power of auction houses and their ability to draw in new clients through extensive marketing budgets and a wide variation in offerings. The increasing diversity of content in sales through auction houses was also concerning for some, with dealers believing some discretionary spending, particularly at the high end, was being diverted to other luxury markets via the auction channel and away from unique art.

> *'The unique luxury art market for paintings is not directly comparable with other luxury markets, such as handbags. The uniqueness should be the predominant selling point but due to success bias in all sectors of the auction industry, the market is beginning to be dominated by multiples and homogeneity.'*

Some dealers discussed the different legal and tax obligations required by auction houses versus dealers, while others felt there were issues around fake and damaged works being sold, particularly by smaller auction houses or online-only auction platforms, which acted as a deterrent to new buyers who often entered through this channel.

Figure 2.43 Issues of Concern for Dealers in 2022 (Share Extremely or Moderately Concerned)



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Despite the concerns and the many challenges faced over the last few years, most dealers were optimistic that 2023 would bring stable or improving sales, and only a minority (20% or less) predicted a drop in sales for either their own business or their peers in the gallery sector. Dealers' outlook for 2023 and their assessment of their performance over the last few years are discussed in more detail in Chapter 4.

IMAGE Mina Katsuki, Yumiko Chiba Associates, image courtesy Art Basel

3.
AUCTIONS

Key Findings

1. Despite many record-breaking sales in 2022, aggregate values in the public auction sector were stagnant, showing a slight dip of 1% to $26.8 billion. With a much fuller auction calendar absorbing supply and some strong sales at the high end of the dealer sector, private sales also declined to just under $3.8 billion. Total sales by auction companies, including both public and private sales, were estimated to have reached $30.6 billion, down by 2% on the previous year ($31.2 billion), but still 46% higher than 2020, and 11% up on pre-pandemic 2019.

2. The US, China, and the UK remained the dominant auction markets, with a combined share of 76% of public auction sales by value, stable on 2021. The US regained its leading position in 2022 with 37% of sales. The majority of the highest-priced works of art were sold in New York during the year, including 41 of the top 50 lots at fine art auctions. China fell back to second place (26%, down by 7%) and the UK was the third-largest auction market with a stable share of 13%, just ahead of France at 9%.

3. Despite the stagnant results overall, strength at the top of the market meant that some of the top-tier auction houses reported significant increases in sales values. Including private sales and other revenue streams, Christie's, Sotheby's, and Phillips posted a record high in their combined annual revenues of $17.7 billion. Considering public auctions only, sales at these three houses rose 11% in 2022, the second year of growth following a 70% uplift in 2021.

4. In the fine art auction market, works selling for more than $1 million accounted for 60% of the value of sales in just 1% of lots sold, with 32% from works sold for over $10 million. While virtually all other price segments experienced a drop in value year-on-year in 2022, sales of works priced over $10 million increased by 12% despite a smaller number of lots sold, revealing an increasingly thin but strongly performing high end.

5. In the period from 2009 to 2022, the $10 million-plus segment grew in value by close to 700% while the lower end (works priced at less than $50,000) saw a much more moderate increase of 10%. If these figures were adjusted for inflation, while the highest end still grew to more than five times its size over the period, sales below $50,000 declined in value.

6. The share of online-only sales at top-tier and mid-tier houses declined in 2022. At Christie's, Sotheby's, and Phillips, these accounted for 7% of total public auction sales, down by 4% year-on-year but still higher than in 2019 (2%). However, considering all sales, live and online, online bidding has evolved from a minority alternative to the dominant method of accessing sales, accounting for 91% of bids at Sotheby's and 75% at Christie's in 2022. Across all fine art auctions, including mid-tier and other auction houses, online-only lots made up 20% of transactions in 2022, double the number in 2019, but their share by value was considerably lower at 3%.

7. Post-War and Contemporary art was the largest sector of the fine art auction market in 2022, accounting for 54% of the value of global fine art auction sales (down by 4% on 2021). Aggregated sales in the sector totaled $7.8 billion – a decline of 8% year-on-year from a peak in 2021. While sales within this sector saw a double-digit decline in 2020, the recovery in 2021 was stronger for the newer segments. Contemporary art (artists born after 1945) and works created in the last 20 years both doubled in value, driven in part by strong sales of ultra-contemporary artists. However, in 2022, the older segment of Post-War art was more successful, with values up by 3%, versus declines of 26% for Contemporary art and 17% for works created in the last 20 years.

8. Modern art was the second-largest sector in the fine art auction market in 2022, accounting for a stable 22% of sales by value. Modern art sales posted a strong recovery in 2021, but growth was not sustained in 2022 and values fell by 8% year-on-year, reverting to their pre-pandemic 2019 level of $3.1 billion.

9. Although considerably smaller in size than the newer fine art sectors, sales of Impressionist and Post-Impressionist art showed the strongest performance at auction in 2022. Sales increased by 25% year-on-year to reach $2.6 billion and included several of the highest-priced auction lots of the year.

10. European Old Masters maintained growth in 2022, with sales increasing by 14% year-on-year to $574 million, bringing the market to its highest level since 2017. However, the cancellation of sales in China dragged down values in the wider Old Masters sector, with sales values falling by 17% year-on-year, leaving the market just below 2020 levels at $963 million.

3.1 Auction Sales in 2022

2022 was a year full of headline sales for the auction sector. The Paul Allen sale at Christie's New York represented the largest total figure for a sale in the market's history at $1.6 billion. Six works of art sold for over $100 million at auctions throughout the year, and each of the largest multinational auction houses posted record total sales. However, away from these headlines, many sales were much more subdued, and the cancellation and postponement of a large number of major auctions at the end of the year in Mainland China, due to a stringent zero-COVID policy and a resurgence of infections, created a significant drag on growth. These negative factors created a stagnant market year-on-year with aggregate values declining marginally on 2021.

During the first major outbreak of COVID-19 in 2020, the value of the global public auction market fell to just under $17.9 billion as the restrictions in place altered the frequency and format of sales, and vendors held back, reducing supply. 2020 was the second year of declining sales in the auction sector, with the market also having slowed in 2019. These two years of decline brought values to their lowest point in a decade, just below the level in 2009 when the market fell to $18.3 billion in the aftermath of the global financial crisis. However, just like the rapid recovery in 2010, the market came back strongly in 2021, with public auction sales increasing by just over 50% in value year-on-year, and private sales also expanded by around a third to $4.1 billion.

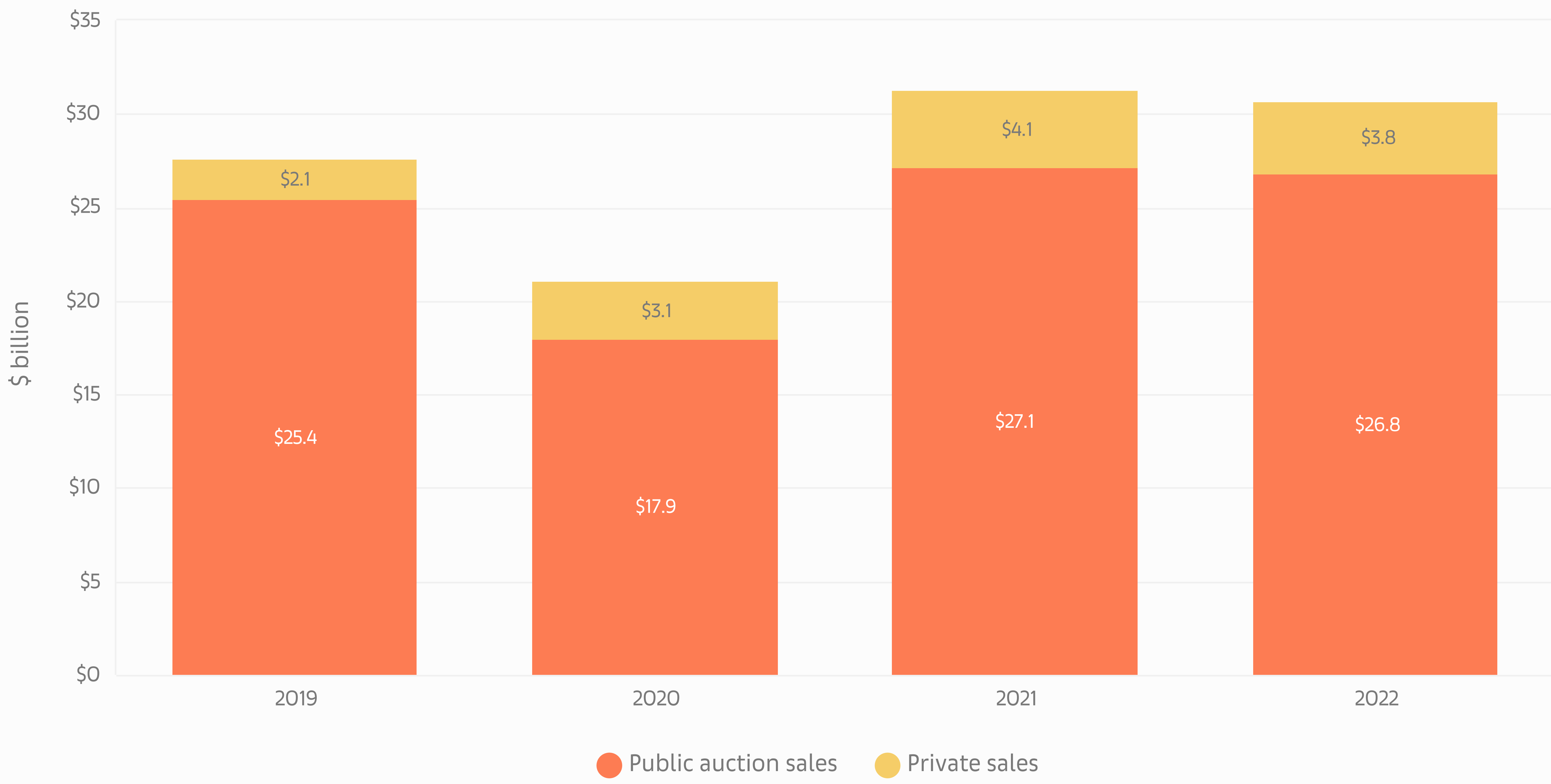
In 2022, sales at public auction of fine and decorative art and antiques were stagnant, showing a slight dip of 1% to $26.8 billion, marginally below the figure for 2021. With a much fuller public auction calendar absorbing supply and some strong sales at the high end of the dealer sector, private sales also declined and were estimated globally at just under $3.8 billion. Total sales conducted by auction companies, including both public and private sales, were estimated to have reached $30.6 billion, down by 2% on the previous year ($31.2 billion in 2021), but still up by 46% on 2020 and 11% higher than pre-pandemic 2019. While the pandemic had a more globally cohesive effect on sales in 2020 and 2021, during 2022, there were marked differences between the performance of sales in different regions and sectors of the market.

The top-selling lots of the year at auction came from a variety of sectors, including Post-War, Modern, and Impressionist and Post-Impressionist works, and from some of the most established and historically top-selling artists in each category. The highest selling lot, breaking a record for the artist, was Andy Warhol's *Shot Sage Blue Marilyn* (1964) which sold at Christie's New York in May as part of the sale from the estate of Swiss dealers Thomas and Doris Ammann. At a price of $195.0 million, the work became the second-most expensive work to ever sell at auction (next to Leonardo Da Vinci's *Salvator Mundi* (c. 1499-1510) sold for $450 million at Christie's New York in 2017). Georges Seurat's *Les Poseuses, Ensemble (Petite Version)* (1888) sold for $149.2 million at Christie's in November as part of the collection of the late cofounder of Microsoft, Paul Allen – a record for the artist and for a Post-Impressionist work at auction. In the same sale, Paul Cezanne's *La Montagne Sainte-Victoire* (1888-1890) sold for $137.8 million – another artist's record – along with Vincent van Gogh's *Verger avec Cyprès* (1888) for $117.2 million; Paul Gauguin's *Maternité II* (1899) for $105.7 million; and Gustav Klimt's *Birch Forest* (1903) for $104.6 million. Aside from setting price records for each of these artists, the sale on November 9 reached $1.5 billion, the highest-ever total for a single sale. Combined with a follow-up sale from the collection on November 10, the total of $1.6 billion was also the largest single-owner collection sale and accounted for 22% of Christie's public auction sales revenue.

In 2022, sales at public auction of fine and decorative art and antiques were stagnant, showing a slight dip of 1% to $26.8 billion

All of the top 50 works by lot price were at Christie's, Sotheby's, or Phillips, and all sold at prices of above $30 million, leading to a record year for these three auction houses. Some other regional and national auction houses in Europe also reported strong sales, including larger mid-tier houses in France and Germany. However, the significant drop in the value of the Euro vis-à-vis the US dollar over the year presented a less favorable view of their performance when aggregated in dollar terms. Above average inflation in parts of Europe, particularly in the energy sector sparked by the war in Ukraine, and general worries about recession, all contributed to a major fall in the Euro against the relative safe-haven US dollar in 2022. The Euro dropped to a 20-year low during the year, falling from highs of over $1.20 in mid-2021 to below parity in September 2022. While exchange rate fluctuations are an issue every year when measuring sales, a much more significant drag on growth in the sector was the relatively poor performance of the Chinese auction market, with some spring auctions cancelled in Shanghai and lockdowns at the end of the year stalling several of the most important autumn auction sales in Mainland China, including those at major houses such as Poly Auction and Yongle.

Figure 3.1 Global Auction Sales 2019–2022



© Arts Economics (2023) with data from auction houses, Artory, ARAA, and other sources

The US, China, and the UK remained the dominant markets in the sector, with a combined share of 76% of public auction sales by value, stable on 2021. While China edged ahead in 2021, the US regained its leading position in 2022, with most of the highest-priced lots all sold in New York during the year. The US share of the global auction market expanded to 37%, up by 6% year-on-year, while China fell back to second place with a share of 26%, down by 7%. The UK was the third-largest auction market with a stable share of value of 13%, just 4% ahead of France at 9%.

The US auction market experienced a significant decline of 46% in 2020 to just over $5 billion, but recovered strongly in 2021, increasing by almost 70% to $8.5 billion, with growth driven by strong sales at the high end of the market. This was again the case in 2022, with an 18% increase in values to just over $10 billion driven by multimillion-dollar sales and auction records in a number of sectors. Of the highest-priced lots sold during the year, 41 out of 50 took place in New York, and these accounted for 86% of the value of the top 50 lots. The majority of sales by value at the largest international auction houses, Christie's, Sotheby's, and Phillips, continued to be based there, including many of their highly successful single-owner sales, featuring the collections of older generation US and other collectors, which are accounting for an increasing portion of sales at these multinational houses.

China had a significantly worse year in 2022, with lockdowns stalling economic activity, restricting access, and weighing heavily on demand. Supply was also restricted as several major auctions were cancelled. In the earliest phases of the pandemic, sales in China were somewhat less affected, with values falling less than other leading markets in 2020 (by 11% to $6.3 billion). They also showed among the strongest advances in 2021, increasing by 40% to $8.8 billion. In 2022, however, sales fell substantially by 22% year-on-year to just $6.9 billion and put China back into second place behind the US. Much of this decline was driven by the cancellation of several auction sales in the important autumn auction season at the end of the year. While auctions went ahead at China Guardian and the major Western houses, such as Sotheby's and Christie's in Hong Kong, there were cancellations at Poly Auction, Yongle Auction Company, and a number of others. Despite a much more substantial drop in sales, the greatest share of live sales by value took place in Mainland China (67%), with 33% in Hong Kong.

> China had a significantly worse year in 2022, and sales fell substantially by 22%

Within the Chinese market, sales in ceramics and other wares (which accounted for 28% of the market by value) and oil painting and contemporary art (20%) both saw substantial declines of 36% and 31% respectively. The largest sector of Chinese painting and calligraphy (which makes up 47% of the market), also declined by 11%.

A contributor to the drop in value was that a significantly lower portion of lots sold at high prices during 2022. The number of lots selling for over 100 million RMB (around $15 million) was less than half that of 2021 (just 14 lots), while those sold for over 10 million RMB ($1.5 million) declined by 20%. The number of lots sold at live auctions at all prices declined, with a drop of just over one third year-on-year in 2022. Those offered for sale, on the other hand, fell by 28%, indicating that some of the drop in the market was also due to buyers holding back because of uncertainty in the market. Including both live and online auctions, another indication of buyer hesitation and possible variation in the quality of works coming to the market was the continuing high rate of buy-ins at 52%, implying that over half of the works coming onto the auction market in 2022 did not sell.[35]

35 It is notable that data from Artron Research Academy of Arts (ARAA) showed that buy-ins were significantly higher at live auctions (59%, up from 49% in 2021) than in online-only auctions. While this may be due to factors such as greater time to research and view works for sale online, it is important to note that due to difficulties in establishing price information, Artron currently only tracks the online-only sales of 12 auction houses, which tend to be larger houses with potentially lower buy-in rates.

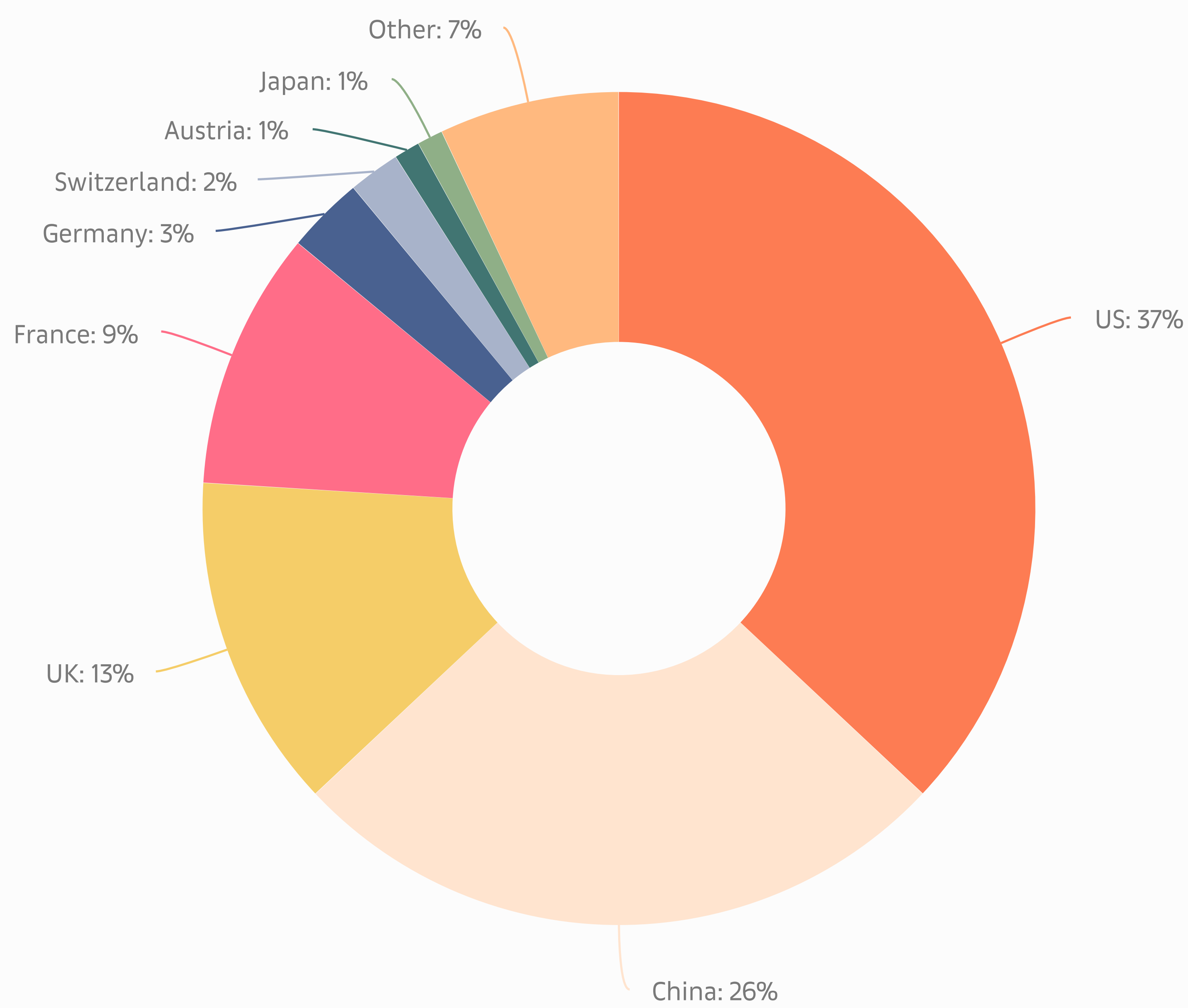
Aside from the high rate of buy-ins, the issue of late- and non-payment at auction persisted in 2022, and even the larger auction houses had issues with delayed payments and recovering debt. While the figures published by the China Auctioneers Association (CAA) in 2020 showed signs of improvement, this regressed again over the last two years. According to data from the CAA published at the end of 2022, just 46% of the value of lots sold in the auction market due to be paid in 2021 were paid by May 2022 – in other words, 54% were six months past due. This has been a persistent issue in the market, but the late-payment rate had fallen to just over 40% in 2016. By 2019, the share had increased to 47%, and it continued to edge up each subsequent year, accounting for over half the lots in 2021 and 2022.[36]

The issue was particularly acute for some higher-value lots. From a sample of 126 auction houses with lots sold for over 10 million RMB (around $1.5 million), the number of unpaid lots at this level rose from 64 in 2020 (31% of the sampled lots) to 181 in 2021 and again to 201 in 2022. These unpaid lots represented 60% of the 304 lots sampled and 63% of their value. Clearing rates varied by sector, but unpaid lots represented between 40% (for ancient books and inscriptions) to a high of 50% (for contemporary art). As noted in previous reports, although late- and non-payment at auction is not unique to China, it is a persistent feature of the market, and implies that the sales figures reported for China, particularly those at the high end, include a significant and varying portion of works where payments remain outstanding. The reasons for lots remaining not fully settled are likely to vary, but they indicate that even in a declining market such as in 2022, auction houses have continued to extend flexible payment arrangements to buyers in China. (See Exhibit 3 which examines this issue along with other regulations in the auction market in Mainland China.)

Sales in the third-largest market, the UK, were stable year-on-year, inching forward by just 1% on 2021 to $3.5 billion and maintaining a stable global share of 13%. This was below its pre-pandemic share of 18% in 2019 when sales reached $4.0 billion. Elsewhere in Europe, performance was mixed. After a record year in 2021 with sales increasing by more than 60%, the French auction market was stable in 2022, with values increasing by 1% in US dollar terms to just under $2.5 billion, maintaining its 9% share (from 6% in 2019). The German market increased by 4% to $795 million, and both markets showed more muted changes year-on-year measured in dollars due to the declining value of the Euro.

36 China Auctioneers Association (2022) *China Antiques & Artworks Auction Market Statistical Annual Report 2021.* Beijing: CAA.

Figure 3.2 Global Public Auction Market Share by Value in 2022



© Arts Economics (2023) with data from auction houses, Artory, ARAA, and other sources

After building momentum in 2021, the number of lots sold at auction declined in 2022. Focusing only on fine art auctions, the number of lots sold decreased by 6%, with a fall in both the number of offline transactions (down by 4%) and online-only transactions (down by 11%).[37] The three biggest global markets of the US, China, and the UK also accounted for the largest number of fine art transactions, with a much less dominant combined share than values at 45%, down by 5% year-on-year. The US accounted for 20%, China 13%, and the UK 12%, just marginally ahead of France with 10%.

37 Changes in the volume of aggregate auction sales are often less conclusive indicators of market performance than trends in values, with many auction houses selling large volumes of decorative art and collectibles that can vary widely over time as well as between different sale types and regions. To compare the lots sold across countries on a consistent basis, fine art auctions offer a clearer benchmark.

IMAGE Lesley Vance, David Kordansky Gallery, image courtesy Art Basel

3.2 Top-Tier Auction Houses

Despite the stagnant results overall, the strength at the top of the market meant that some of the top-tier auction houses had a significant increase in sales values in 2022, including the top international auction houses of Christie's, Sotheby's, and Phillips. Considering public auctions only, after a slump of nearly 30% in 2020, sales increased by close to 70% in 2021, with a further rise of 11% year-on-year in 2022. Including private sales and other revenue streams, these three houses posted annual revenues of $17.7 billion, a record high in each of their businesses. These strong results meant that values in the auction market continued to be highly concentrated among these houses, with the top five auction houses accounting for close to 55% of the value of global public auction sales in 2022.

Despite the stagnant results overall, the strength at the top of the market meant that some of the top-tier auction houses had a significant increase in sales values in 2022

Christie's reported their highest gross sales ever at $8.4 billion, up 17% from a reported $7.1 billion, (including public auctions and private sales). This was close to double their revenue in 2020 and exceeded their pre-pandemic total of $5.8 billion.

Aggregate public auction sales reached $7.2 billion – up by one third in value on 2021 ($5.4 billion) and more than double that of 2020 ($3.1 billion). These sales were buoyed by the previously mentioned Paul Allen sale which achieved $1.6 billion, the most valuable single collection sale ever, and included five works for over $100 million. A number of other collections also added substantially to revenues, including the collection of Thomas and Doris Ammann ($359.2 million, including the highest-priced lot of the year by Andy Warhol mentioned above) and that of Anne Bass ($363.1 million), both at Christie's New York, as well as that of Hubert de Givenchy in Paris totaling €118.1 million ($123.7 million).

After massive growth for the two years from 2019 to 2021, online-only auctions declined in value by 17% year-on-year to $368 million. However, they continued to be the most important channel for gaining new buyers, with the total number of buyers expanding by 9% in 2022, and online channels attracting 64% of new purchasers.

The majority of Christie's sales by value (62%) were in the US, with 25% in Europe and 12% in Asia. Buyers were more globally diversified, although the highest share of their sales was to those from the Americas which accounted for 40% by value (up by 5% year-on-year). 34% of sales were to buyers in Europe, the Middle East, and Africa, and 26% to those in Asia (down by 4%).

After reaching a peak of $1.7 billion in 2021, Christie's private sales dropped to $1.2 billion, also below the 2020 total of $1.4 billion, but back on par with 2019. Private sales accounted for a smaller portion of the company's gross revenue in 2022 (14%) which was 10% down on 2021, and half that of 2022, but again back on par with 2019 (15%).

Values in the auction market continued to be highly concentrated, with the top five auction houses accounting for close to 55% of the value of global public auction sales in 2022

Sotheby's reported gross sales of $8 billion, including all public and private channels, from $7.3 billion in 2021 and just over $5 billion in 2020. This exceeded 2019 ($5.8 billion) and also represented the highest-ever total in the company's history. This consolidated figure includes the results of RM Sotheby's and Concierge Auctions included for the first time in 2022. Without these, across Sotheby's core sales for fine art and luxury, the consolidated total was the company's second highest, reaching $6.8 billion (versus their historical peak in 2021).

Reported public auction sales totaled $5.5 billion, which was down slightly from $5.9 billion in 2021, but up by 57% on 2020 ($3.5 billion). These sales exclude some of the $2.4 billion in luxury auction sales conducted by Sotheby's during 2022 through their newly-acquired RM Sotheby's, which specializes in car auctions, as well as Sotheby's Concierge Auctions dealing in luxury real estate. The top lots sold at Sotheby's overall in 2022 were in these luxury categories, including €135 million ($142 million) for a Mercedes Benz, the most expensive car ever sold. This underlines the continuing expansion of Sotheby's and other auction houses into high-end, non-art-based sales.

In terms of fine art, the highest-priced work (and third-highest lot sold by the auction house in 2022) was Andy Warhol's *White Disaster (White Car Crash 19 Times)* (1963) sold for $85.4 million in New York, with René Magritte's *L'Empire des Lumières* (1961) for $79.7 million in London. These two lots, along with the remaining top 10 lots of fine art accounted for sales of just over $580 million. As was the case with Christie's, single-owner collection sales were also key, accounting for $800 million of the fine art auction total, including three sales achieving over $100 million each (David Solinger, Sir Joseph Hotung, and The Macklowe Collection).

While live sales increased slightly, online-only sales reached a reported $580 million, down from 16% in 2021. However, Sotheby's identified their digital channels, along with their increasingly diverse offerings, as important factors attracting new buyers, with 40% of bidders new to the company in 2022 (from 44% in 2021). The majority (68%) of these new bidders were from Asia, and Sotheby's reported that their buyers from Asia spent 20% more than collectors from elsewhere, as well as bidding 40% more than the average.

Although the value of public auction sales in the US was still the highest (accounting for half of the value of Sotheby's reported public auction sales), those in Asia accounted for almost 20% and were stable at $1.1 billion including Hong Kong and Singapore. Sales in Europe accounted for around 31% of the total, including $435 million in Paris, their strongest year in the region to date.

Private sales were reported as $1.1 billion, down by 15% on $1.3 billion in 2021, but still greater than 2019 (at $990 million). This brought their share of total sales to 14%, down by 4% year-on-year and around half the share of 2020, when private sales peaked at 30% in the middle of the pandemic.

Phillips achieved sales of $1.3 billion through all channels in 2022, up by 8% year-on-year from 2021, and achieving a second consecutive historical peak in sales (substantially above their previous highest record prior to 2021 of $916 million in 2018).

Public auction sales reached just over $1 billion, an increase of 2% year-on-year, while their private sales accounted for $250 million, up by 20% from $208 million in 2021, and more than double the level of 2020.

Some of their strongest sales included those in 20th Century and Contemporary art, including the company's highest-ever grossing sale of $225 million in this category in New York, and their top lot Basquiat's *Untitled* (1982) selling for $85 million, the highest price paid to date at the auction house.

Phillips were also very successful at attracting new buyers in 2022, with 47% of buyers at auction new to the company in 2022. The US was still the largest base of sales, accounting for 54% of the value of public auction sales. 18% of the company's sales in 2022 were based in Asia, but just over one third of those made worldwide were to buyers from Asia.

Bonham's sales also surpassed $1 billion in 2022, up by 27% on 2021 ($816 million). The uplift in results was based on a series of international acquisitions by the company, including Swedish firm Bukowskis, US-based Skinner, Danish auction company Bruun Rasmussen and Cornette de Saint Cyr in France. Their sales also included auctions of collectible cars, which represented some of the highest-priced lots sold by the auction house in 2022, including three out of their top 10 lots. In art and antiques, the highest-priced objects included a Chinese Yangcai painted 'Imperial poems and landscapes' ceramic vase which sold for $4.1 million in Hong Kong. Sales in the Asia-Pacific region accounted for 16% of their total, Europe accounted for just over half, and one third were based in North America. Having been purchased by a private equity firm in 2018 and rapidly expanding its geographical coverage through its series of acquisitions, reports in early 2023 also stated that the company was again up for sale, signaling potential further changes in ownership to come.[38]

As noted above, 2022 was a much more challenging year for the auction houses in China, including the top-tier businesses. Two years after the start of the pandemic, the region was still grappling with a series of COVID-19 outbreaks, as its zero-COVID policies and severe lockdowns imposed right up until the last months of the year caused auction delays and cancellations as well as significantly reduced auction attendance for those that went ahead. Although delayed, China Guardian managed to launch most of their auctions and posted the highest results of all of the domestic Mainland Chinese-based houses, with sales of just over $603 million, including Beijing and Hong Kong, down by almost 40% on their 2021 sales. 81% of their sales by value were in Beijing (from 88% in 2021), with the remaining 19% in Hong Kong (up from 12% in 2021 and just 9% in 2020).

Poly Auction, which was the largest auction house in China in 2021, saw their results plummet to less than one third of their previous size, with public auction sales totaling just under $450 million versus reported public auction sales of $1.8 billion in 2021 and $1.4 billion reported in 2019 before the pandemic. The majority (66%) of their live sales by value were in Mainland China (primarily Beijing), down from 81% in 2021, with the remaining 34% in Hong Kong. Other major companies in China included Beijing Zhongzang Yisheng International Auctions with sales of $276 million, Xiling Yinshe Auction ($259 million) and Sungari ($227 million).[39]

38 See for example, 'Bonhams Owner Taps JPMorgan for $1 Billion Sale of UK Auction House,' *Bloomberg,* available at: bloomberg.com/news/articles/2023-02-06/bonhams-owner-taps-bank-for-1-billion-sale-of-uk-auction-house.

39 Results from these companies are supplied for this report by Artron Research Academy of Art (ARAA).

It was notable that sales by Yongle Auction Company, which only relaunched operations in 2020 and had posted strong results of $511 million in 2021, fell to just $145 million in 2022. Beijing Council also ceased trading temporarily. The CAA confirmed that the auction house is still registered with them but had closed its Beijing operations and ceased auctions, although was operating at a much smaller scale through Shanghai Council.

As noted above, non- or late settlement of payments at auction continued to be an issue in 2022, including at some of the larger auction houses. Some of the highest rates of non-settlement were at Beijing Poly Auction and Yongle Auction Company, where a respective 74% and 65% of lots sold for over 10 million RMB had not been paid within their settlement period by mid-2022. China Guardian had again the highest clearing rates, and just 39% of their lots at this level were not settled in mid-2022, again also putting them in a leading position in the auction sector in terms of commissions received and total corporate tax generation.

IMAGE Keith Haring, Van de Weghe, image courtesy Art Basel

3.3 Second-Tier Auction Houses

The value of sales at auction in 2022 was highly concentrated in the top-tier auction houses, however, there was also considerable activity and changing dynamics in the middle tier of the market. In this next tier below the top 10 or so businesses, there are more than 500 medium to large businesses that also generate substantial sales, dominating in their own domestic markets or regions, but with most also engaging with international buyers and sellers.[40]

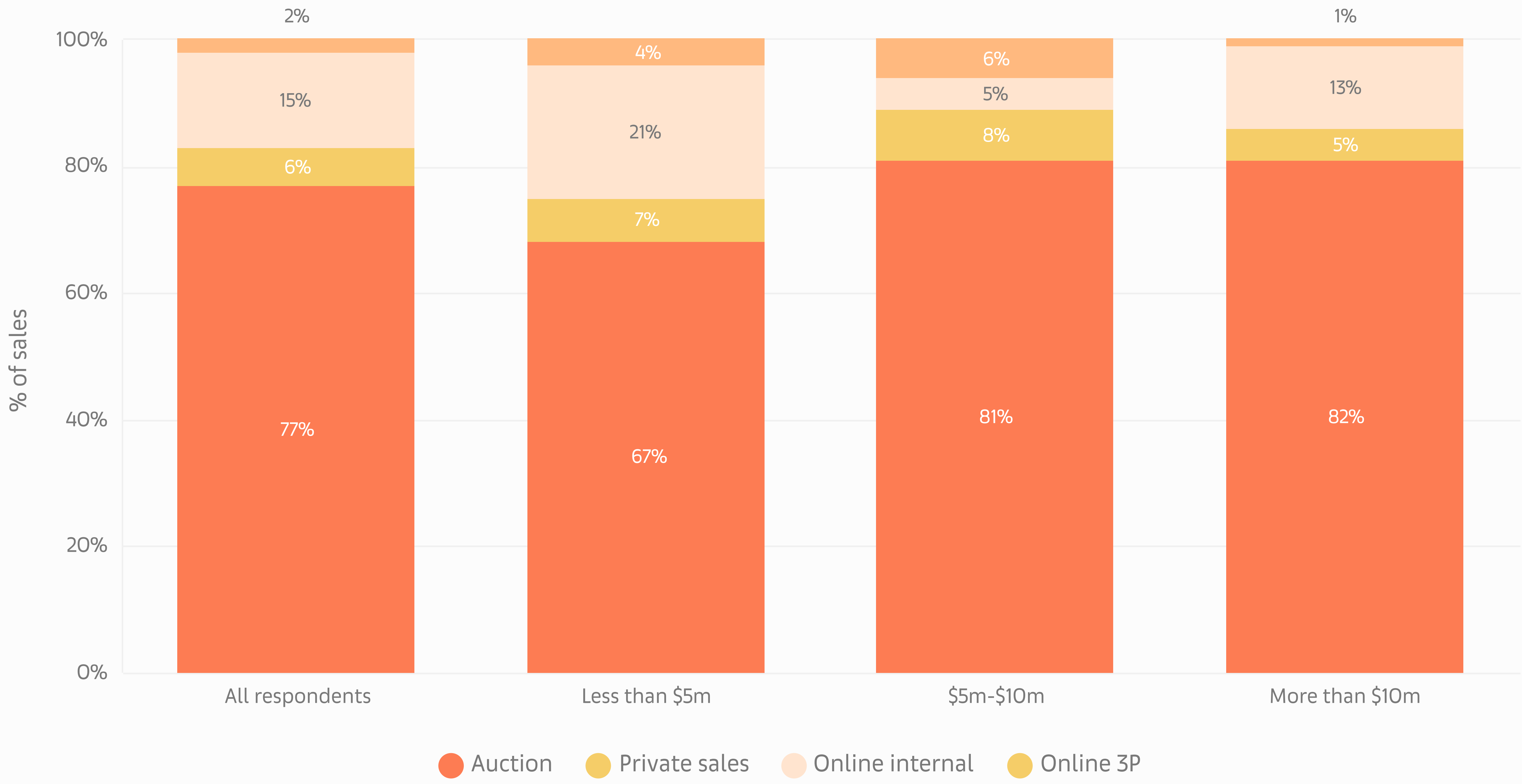
A survey of mid-tier auction houses in 2022 by Arts Economics revealed that according to responses from around 100 businesses, the majority (55%) saw an increase in sales (down from 63% in 2021), 15% were stable, and 30% experienced a decline. These businesses were relatively well established, averaging 41 years in business, and a majority (61%) operated from a single premises in one location, while 39% had multiple regional or global locations.

The mid-tier houses reported that their public auction sales accounted for an increased share of sales in 2022, up by 10% year-on-year to 77% of their total sales. As in previous years, this share was dependent on the size of the business, with smaller businesses having a slightly lower proportion of public auction sales. Online-only auctions accounted for 17% of sales, down from 23% reported in 2021, but again this was dependent on the size of the business and other factors, with those with annual turnover of less than $5 million reporting a 25% share versus 14% for those with sales of greater than $10 million.

Private sales accounted for a reported 6% share over all respondents, a substantially smaller share than at any of the top-tier multinational auction houses. It was notable that businesses with sales of less than $10 million per year tended to report slightly higher shares of private sales. One reason for the higher share was that bought-in lots were often sold at some point during the year directly to private clients, contributing to their private sales totals, as well as sales on 'buy-now' platforms that some companies had introduced alongside online auctions. Although these 'buy-now' sales were online-only, they were not conducted via an auction, and sold directly to private clients, and therefore classified as private sales in Figure 3.3.

40 The sector also includes third-tier auction houses, which are smaller businesses in domestic markets that tend to specialize in their own national art and related areas. There are also many lower-tier auction houses that regularly sell art alongside other property, such as real estate, cars, and collectibles.

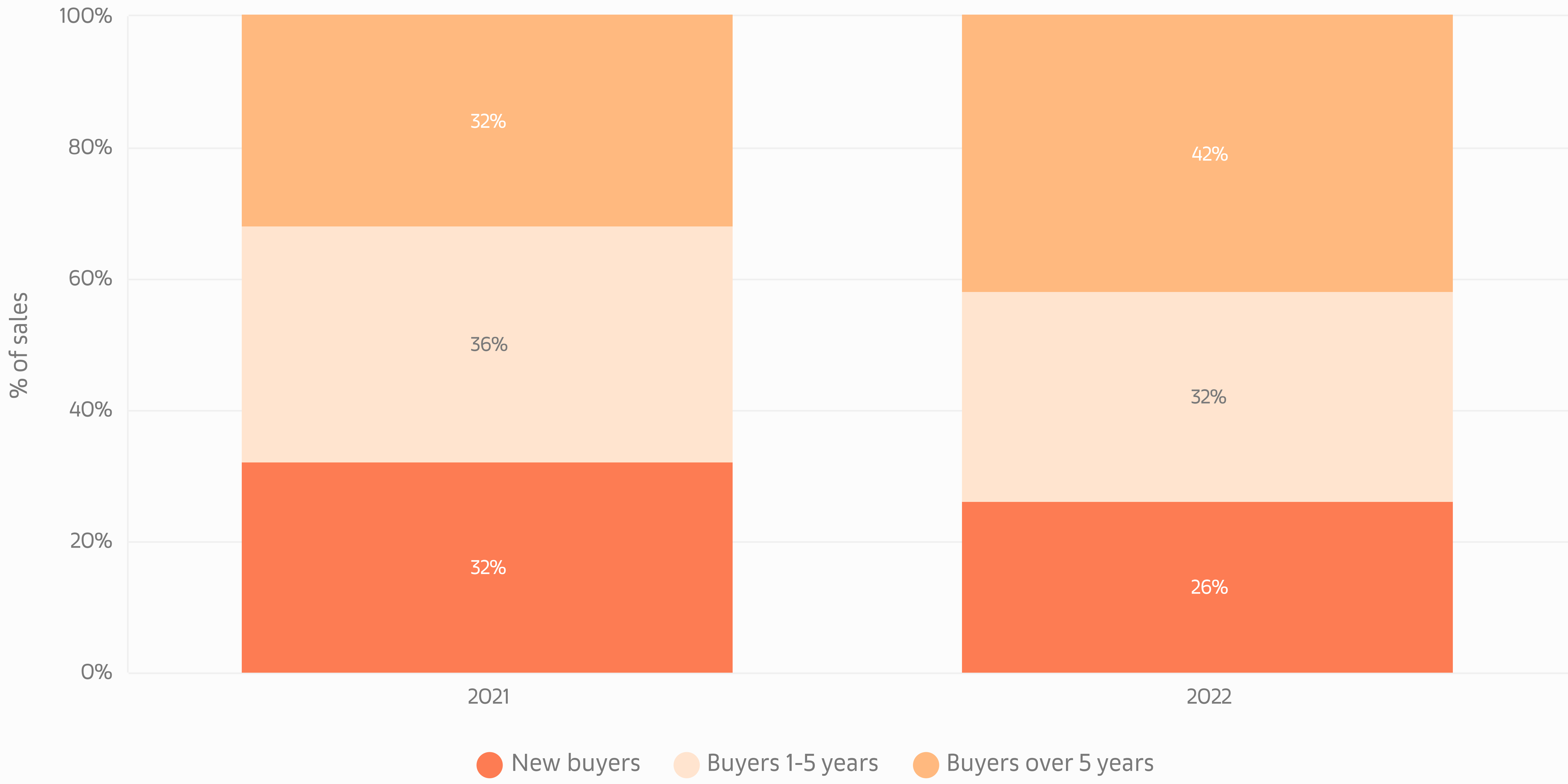
Figure 3.3 Share of Total Sales by Sales Channel (Mid-Tier Auction Houses) in 2022



While the majority of mid-tier houses had relatively small buying bases of 500 or less in 2022, around 40% of the sample dealt with more than 500 unique buyers, both global and local. While the top-tier auction houses sell to an international client base over multinational salesrooms, auction houses in the middle tier tended to deal predominantly with local buyers, and 74% of the sales they made to private collectors in 2022 were to those within their region. Overall, 71% of sales were made to private collectors (with a further 3% to interior designers and advisors working on their behalf), 3% to museums, 5% to private companies or institutions, and 18% to other art market professionals.

While top-tier auction houses continued to be highly successful in attracting new buyers in 2022, the survey respondents from the middle tier reported relying more heavily on established buyers. On average, 26% of their sales were to new buyers in 2022, a decrease of 6% year-on-year, bringing the share back to the level of 2020 (and also higher than the 22% reported in similar surveys in 2019). The share to long-term buyers (of over five years) rose to 42%, with the remaining 32% to buyers that they had been dealing with for one to five years (down by 4%). New buyers were especially important for smaller auction houses (with turnover of less than $5 million), representing 37% of the sales, versus 21% for those at the higher end, where long-term buyers were more significant.

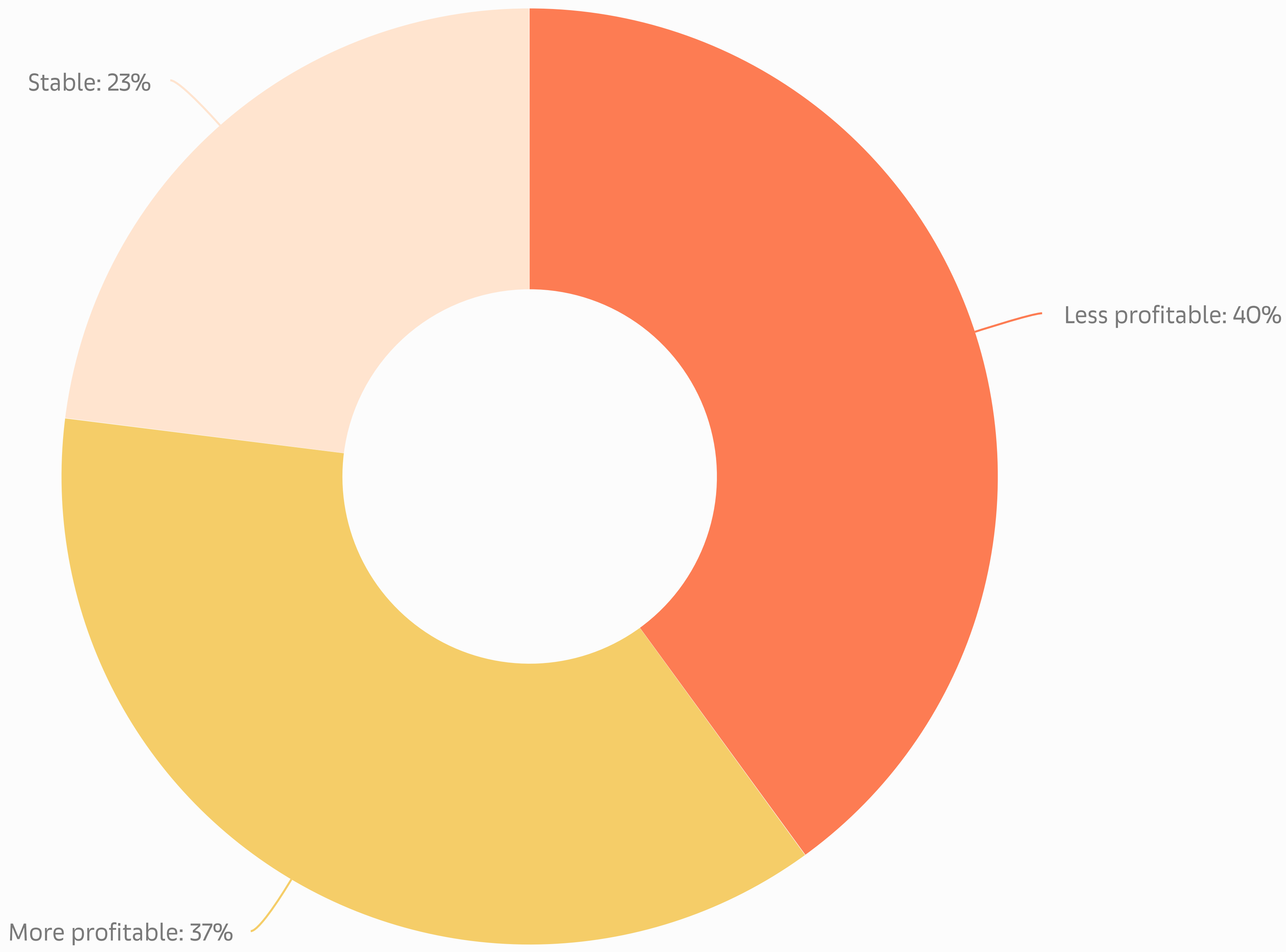
Figure 3.4 **Share of Sales by Mid-Tier Auction Houses to Buyers by Purchase History 2021-2022**



As in the dealer sector, many auction businesses were faced with rapidly rising costs in 2022 that impacted significantly on profitability. While some could be passed on to buyers, experts in the sector noted that increased fees for shipping, packing, and other services had made it more competitive and difficult to gain repeat sales. Aside from these external costs, rent and payroll costs were also rising for many and accounted for an average of 34% and 40% of total operating costs respectively in the sector in 2022.

Considering their costs and sales in 2022, only 37% of the businesses responding to the survey reported being more profitable than in 2021, versus just over half (52%) the previous year. There was a significant rise in those less profitable to 40%, (almost double the level of 21% reported in 2021), and the remaining 23% were much the same.

Figure 3.5 **Change in Net Profits for Mid-Tier Auction Houses in 2022 versus 2021**



While costs were discussed as being key, when asked about the challenges they faced for the next few years, as in the dealer sector, regulatory issues and administrative burdens were primary concerns. While nearly all (95% or more) respondents had some level of concern about the general state of the economy and competition with other auction houses, some of the biggest challenges centered on the increasing barriers to the cross-border trade in art and antiques (including regulations and administration), with 85% concerned on some level about these issues and 48% extremely or very much so. Similarly, 93% were concerned about the increased administrative burdens, due diligence, and identification requirements when transacting, including 41% moderately or extremely concerned.

While many dealers expressed apprehension about auction houses encroaching on their market, this appeared to be one-sided, and competition with galleries and dealers was one of the lowest-ranked issues of all by mid-tier auction houses: one third of respondents did not consider it at all significant and the remainder were only somewhat or slightly concerned.

3.4 Online Auction Sales

The auction sector was already considerably more ahead in terms of digital sales and e-commerce than the dealer sector, with online auctions starting more than 20 years ago and developing at a much more rapid pace over the last five years. As many live auctions were stalled in 2020, the number and value of online-only sales spiked and the strong recovery of auction sales in 2021 was in part due to the seamless rollout of supply through online platforms alongside the return of live sales, many of which were livestreamed to a global audience, most of whom were bidding online. In 2022, the number and value of online-only sales moderated to some degree, however, they still surpassed pre-pandemic levels in many regions, and gained new momentum in China as lockdowns persisted.

Top-Tier Auction Houses

The international top-tier houses had all developed a regular schedule of online-only sales prior to the pandemic, although these remained a tiny fraction of the value of their businesses. The restrictions of the pandemic led to a dramatic increase in both the number of these sales and their value in 2020, which slowed over 2021 and 2022, but remained above levels in 2019 and has resulted in a more continuous year-round schedule of sales.

Despite a drop in the value of total auction sales at Christie's, Sotheby's, and Phillips of 30% in 2020, online-only sales increased by 455%. This rapid increase in value brought their share of total sales from less than 2% in 2019 to 13%. In 2021, online-only sales continued to increase in value, totaling $1.4 billion at these three auction houses, a 52% increase year-on-year from 2020, and eightfold from 2019 (when they were under $170 million). However, as the growth in live sales was even stronger, their share of total auction sales dropped slightly to 10%. In 2022, this share moderated more significantly. While total sales rose (by 11%), online sales fell by just over one third to $910 million – a decline in value of 35%. The share of online-only sales by value across the three businesses totaled 7%, down by 4% year-on-year but still larger than in 2019.

Apart from the changing value of sales through online channels, online-only sales have also increased their share of the schedules of major auction houses. These three global auction houses held just over 220 online-only sales in 2019, but these peaked at 650 in 2020 – 65% of the total number of auction sales taking place. As live sales were restored in 2021, this fell to 553 and the decline continued in 2022 (to 481). However, they still represented twice as many online sales as pre-pandemic 2019 and accounted for just over half the sales that took place (versus only 26% in 2019).[41] The increased number of online-only sales, along with their considerably longer durations, also created a more continuous and year-round schedule of auctions. The length of online sales in 2021 ranged from one to 31 days, with an average length of 12 across all three houses. In 2022, the range was slightly wider (from one to 37 days) but the average was stable at 12. This is down from an average of 14 in 2019 (over a similar range from one to 30 days) but with far fewer sales. The aggregated total days of online-only sales in 2019 across the three businesses (regardless of overlap) was about 2,980, and by 2022, the equivalent figure had increased to just under 5,590.

After reaching an historical peak of close to $445 million in 2021, Christie's online-only sales fell by 17% year-on-year to $368 million. Much of this decline was accounted for by the outlier online sale of Beeple's *Everydays: The First 5000 Days* (2021) in March 2021 for a record $69 million. Even with the drop in value, online-only sales were more than four times the level of 2019 (at just under $85 million) and double the share of total sales (at 5% versus 2% in 2019). Christie's held 158 online-only sales, four more than in 2021 – again a significant expansion from 2019 (85), accounting for just under half (48%) of the auction sales conducted. Apart from expanding e-commerce, the channel remains a key source of new clients for the business, attracting 64% of all new clients in 2022. As noted in Chapter 1, apart from online-only sales, the majority (75%) of bidding at auction at Christie's is now online, up from 45% in 2018. Christie's also launched a fully on-chain NFT platform, Christie's 3.0, which enabled it to conduct auctions on the blockchain, two of which were held in 2022. The company reported selling 87 NFT lots in total in 2022 for just less than $6 million.

The share of online-only sales by value at Christie's, Sotheby's, and Phillips totaled 7%, down by 4% year-on-year but still larger than in 2019

Sotheby's online sales reached a reported $580 million, representing 9% of the company's public auction sales, down from 16% in 2021.[42] Sales declined by 32% year-on-year from $850 million in 2021, an historical peak, and were just below the level of 2020. Despite the decline, the total remains seven times the value of sales through this channel in 2019 ($77 million), when they represented just 2% of the company's overall public auction sales. With a fuller calendar of live events, the number of online sales also decreased significantly (from

41 For consistency with value comparisons, these sales numbers include only those sales with published results, excluding live or online sales where lot price is not given. In 2022, across the three companies, alongside the 934 reported sales, 38 individual sales did not publish prices, including 26 live sales and 12 online.

42 Data from Sotheby's in 2023. Full sales data was available for online-only sales totaling $518 million from Sotheby's. This was used in Figure 3.6.

375 in 2021 to 293 in 2022 with published results), but still represented over half (57%) of the company's sales (versus just 30% in 2019). Online bidding has also expanded dramatically at Sotheby's over time, from just 18% in 2012 to 91% of all bids placed at auction in 2022.

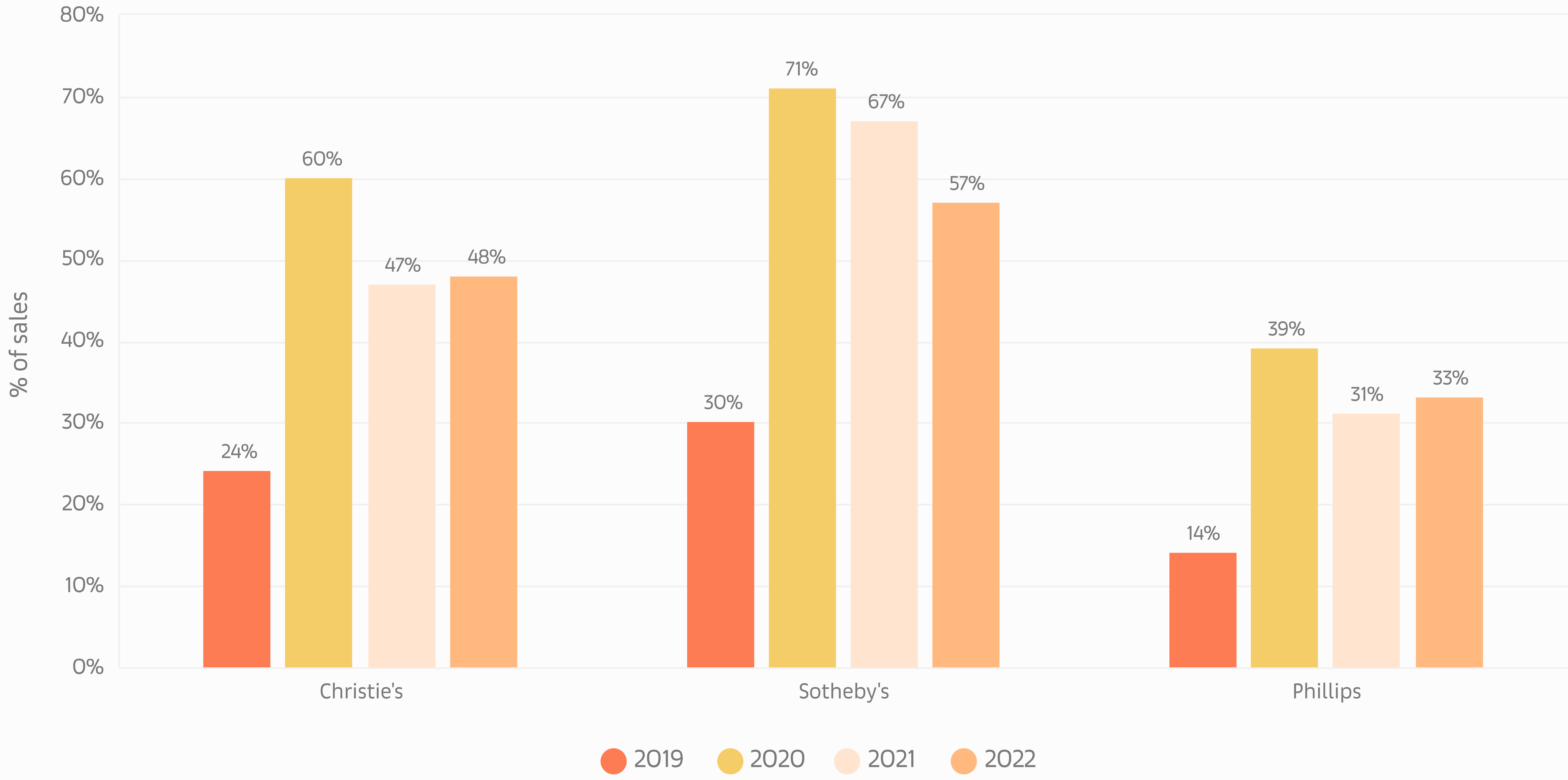
Sotheby's have also continued their Buy Now platform for online sales (included in their private sales totals), allowing immediate purchases primarily in luxury collectibles. They expanded the platform in Asia in 2022 and increased sales by a reported 100%, with an average unit value increase of 30% year-on-year (to $7,000). They also continued to expand Sotheby's Metaverse, their platform for NFT sales, and signaled the launch of a fully on-chain solution for transactions via the platform in 2023. The company reported that their NFT sales volumes had increased by nearly 25 times over the course of 2021.

Phillips also saw a significant increase in online-only sales during the pandemic, tripling in number from 10 to 30 in 2020. While these decreased to 24 in 2021, the company again held 30 sales in 2022, one third of their total auction events. Values also rose significantly from just over $4 million in 2019, representing only 1% of sales to a peak of $35.6 million in 2020 (5% of their total public auction values). In 2022, reported sales were $25 million, stable on 2021 and accounting for a relatively small share of their sales (at 2%).

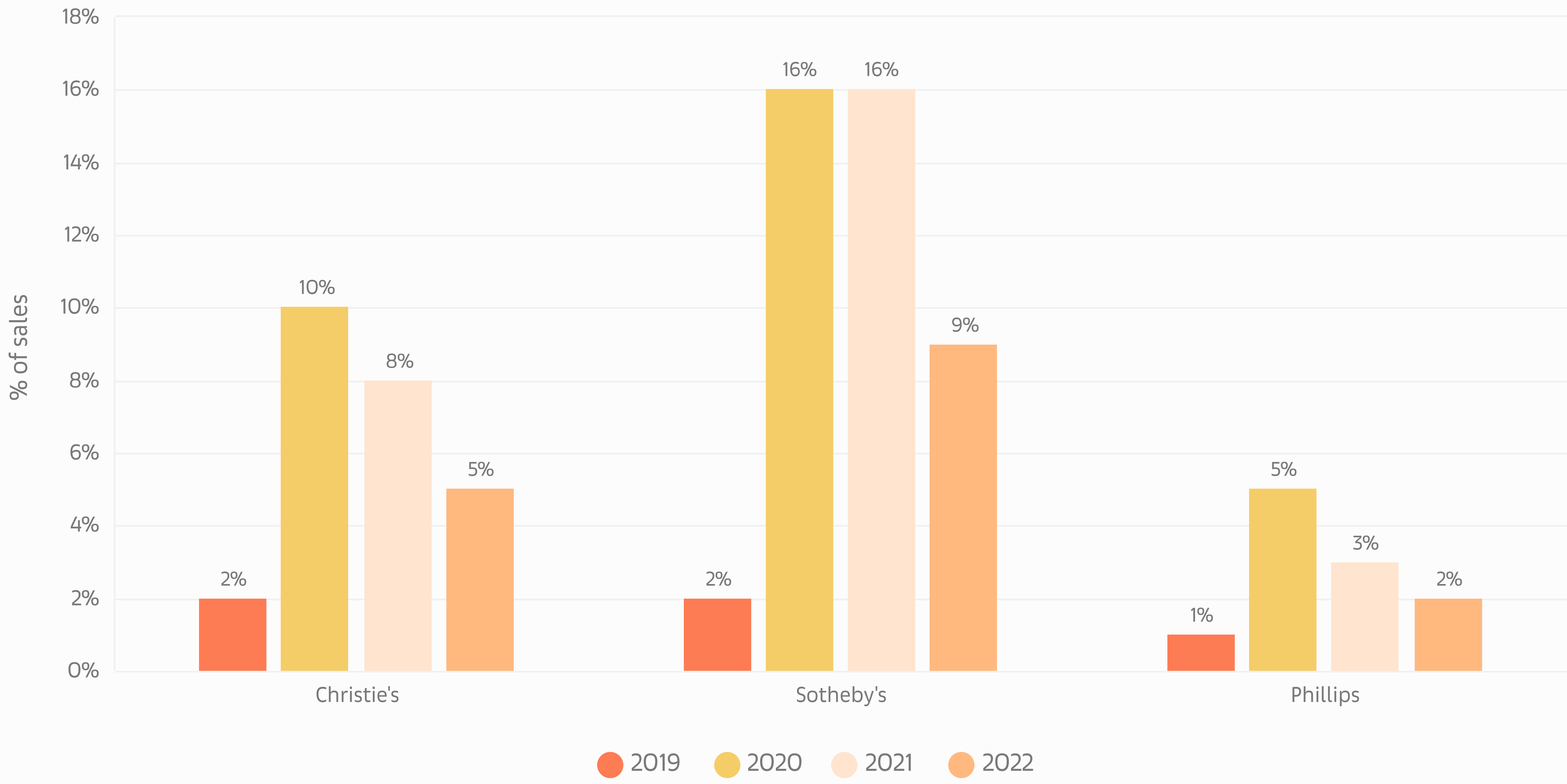
IMAGE Ju Ting, Galerie Urs Meile, image courtesy Art Basel

Figure 3.6 Share of Online-Only Sales: Sotheby's, Christie's, and Phillips 2019–2022

a) By Number of Sales



b) By Value of Sales



Against the trend in these top-tier multinational auction houses, online sales continued to build at some other auction houses, particularly in China. While online-only sales have made up a traditionally very small component of most auction businesses in Mainland China, the pandemic, and in particular the restrictions in place in 2022 both on sales and movement of buyers, promoted many companies to increase their online sales. Tracking the results of some of the top five auction companies in Mainland China and Hong Kong, Artron estimated that their online-only sales reached over $207 million in 2022 and represented 7% of their total turnover. Although online-only sales values are still not available for many of the smaller auction houses, the CAA commented that due to the pandemic and the cancellation of many live sales, simultaneous online and offline auctions became much more widespread in 2022. They estimated that direct in-house online-only auctions could have reached at least $300 million, with the format significantly helping to boost access and interest in sales during a difficult time in the market.[43]

Aside from online-only sales at auction houses, a huge amount of online art trading occurs in China on platforms, including, most notably, Yitiao. Yitiao had already been building an art auction platform prior to the pandemic in 2019 and gained considerable attention from the sector through hosting a major charitable online-only auction in collaboration with key museums and galleries in 2020. In 2021, it set up a dedicated online art channel with 80 galleries and 500 artists which has continued to gain momentum in 2022.

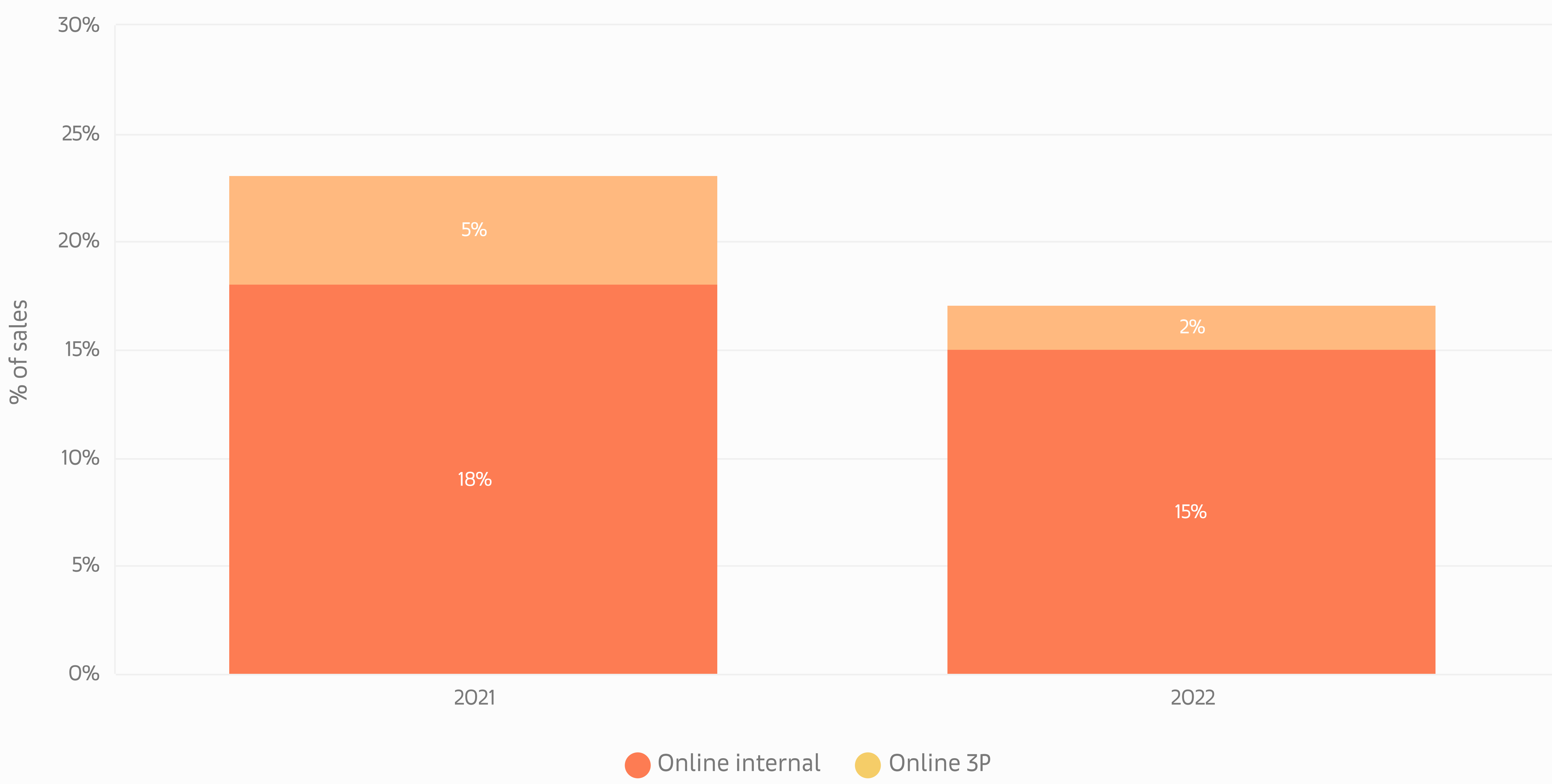
Other Online-Only Auctions

Online-only auctions continued to be an important format for auction houses in other segments of the market, although like the top-tier, there was some indication of their growth in share having plateaued. The total share of online-only sales made by mid-tier auction houses was reported as 17%, a decline of 6% in share from similar surveys in 2021. The share of online-only sales made internally and on third-party platforms both declined to give way to a greater share of live sales.

Despite this moderation in share, and as costs escalated in 2022, many businesses noted the continued importance of this channel in terms of operating efficiencies, cost reductions, and geographical reach. The auction houses surveyed were confident that online channels would continue to be important in future, with 60% predicting their online sales would increase over the next few years (versus 91% in 2021), with 36% expecting them to remain stable. Only 4% of those surveyed predicted they would decline.

43 Thanks to Emily Lui at CAA for her insights and comments on this and other issues related to the Chinese auction market.

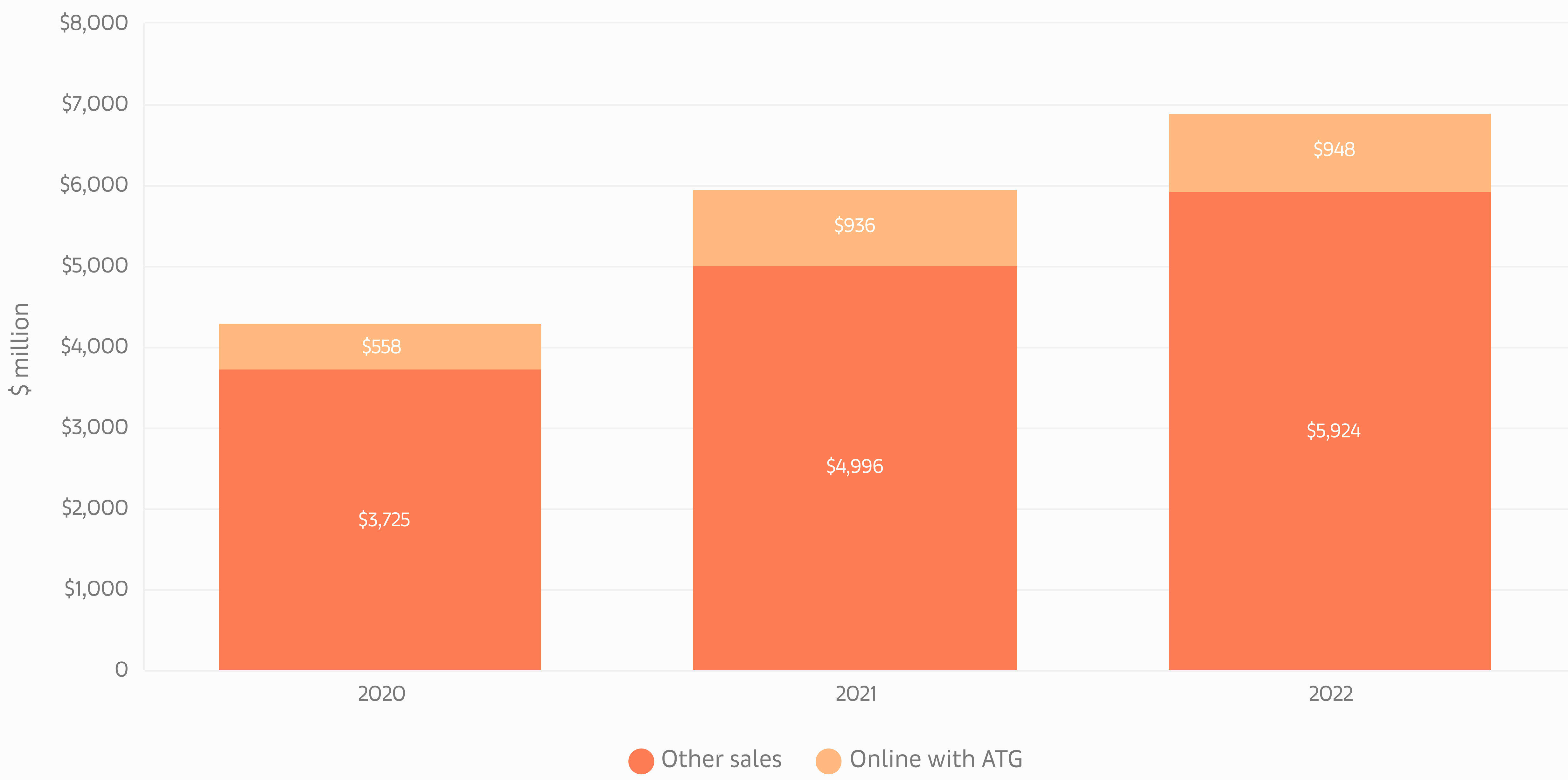
Figure 3.7 Share of Online Sales by Mid-Tier Auction House Annual Turnover in 2022



While many auction houses have begun to conduct more sales online via their own platforms, this has run in parallel with substantial sales on some third-party platforms. The largest platforms such as ATG, Invaluable, and Artsy continued in 2022 with varying success. ATG continued its dominance in this sector, having acquired LiveAuctioneers.com in 2021, which joined its other businesses including the-saleroom, lot-tissimo, and Proxibid, along with BidSpotter and i-bidder for commercial and industrial auctions, as well as listing on the London Stock Exchange.

Data supplied by ATG showed that after a large increase of 68% in the absolute value of sales made through their platforms in 2021, sales were stable in 2022, increasing slightly by 1% year-on-year to $948 million. The total hammer value of all art and antiques that were sold by the auction houses listed on the platform rose by over 18%, which meant the share of online ATG sales fell slightly from 19% to 16% of the total. The remaining 84% were sales that were made offline, as well as potentially those made online by an auction house's own platform (or a competitor third-party platform), indicating that the share of online-only sales in this mid-tier segment of mainly European and US-based businesses could be considerably higher.

Figure 3.8 Share of Sales via ATG's Art and Antiques Platforms 2020–2022



©Arts Economics (2023) with data from ATG

Although many auction businesses have now incorporated their own online bidding and sales platforms, a key advantage of third-party aggregators is the access they offer to a much larger online audience than might be accessible to smaller businesses through their own marketing. Table 3.1 shows website traffic metrics for some of the auction platforms currently operating in the art and antiques market. It is important to note that the selection of businesses given in the table does not compare like-for-like platforms, as some offer editorial and other services as well as direct sales, and in some cases sell in other industries apart from art and antiques. However, it shows that platforms such as Invaluable and Liveauctioneers rival some of the top-tier auction houses in the sector. Some platforms like the-saleroom continued to show a high level of traffic combined with long visit duration and high page views, showing a strong level of visitor engagement. Despite having lower traffic, Lot-tissimo had the longest visits, the most pages viewed, and lowest bounce rate.[44] Also, despite an increase in the total number of active websites to compare against, the ranking of the majority of these sites was either stable or had improved over the period between 2017 and 2022.

44 The bounce rate in this table measures the number of visitors who view only one page and take no further action before leaving a website.

Table 3.1 Website Metrics of Selected Auction Aggregators October–December 2022

	Global Traffic Rank	Average Monthly Visits (million)	Average Visit Duration (mins)	Pages per Visit	Bounce Rate
Invaluable.com	12.822	4.67	03:51	4.7	52%
Liveauctioneers.com	12,826	4.13	05:21	6.5	46%
Proxibid.com	13,398	3.13	09:16	10.8	32%
Auctionet.com	16,228	3.00	05:51	8.5	39%
Auctionzip.com	18,116	1.84	07:21	18.0	28%
Artsy.net	22,423	3.13	02:22	3.3	59%
The-saleroom.com	22,691	2.03	08:30	13.2	32%
Drouot.com	38,904	1.12	06:56	9.8	42%
Lot-tissimo.com	59,564	0.61	08:52	16.5	31%
Auction.fr	68,857	0.82	02:38	4.4	57%
Bidsquare.com	160,801	0.36	02:17	4.9	58%
Epailive.com	1,627,394	0.03	01:59	5.1	17%
Sothebys.com	18,301	3.67	02:06	3.5	61%
Christies.com	24,776	2.18	02:56	4.0	59%

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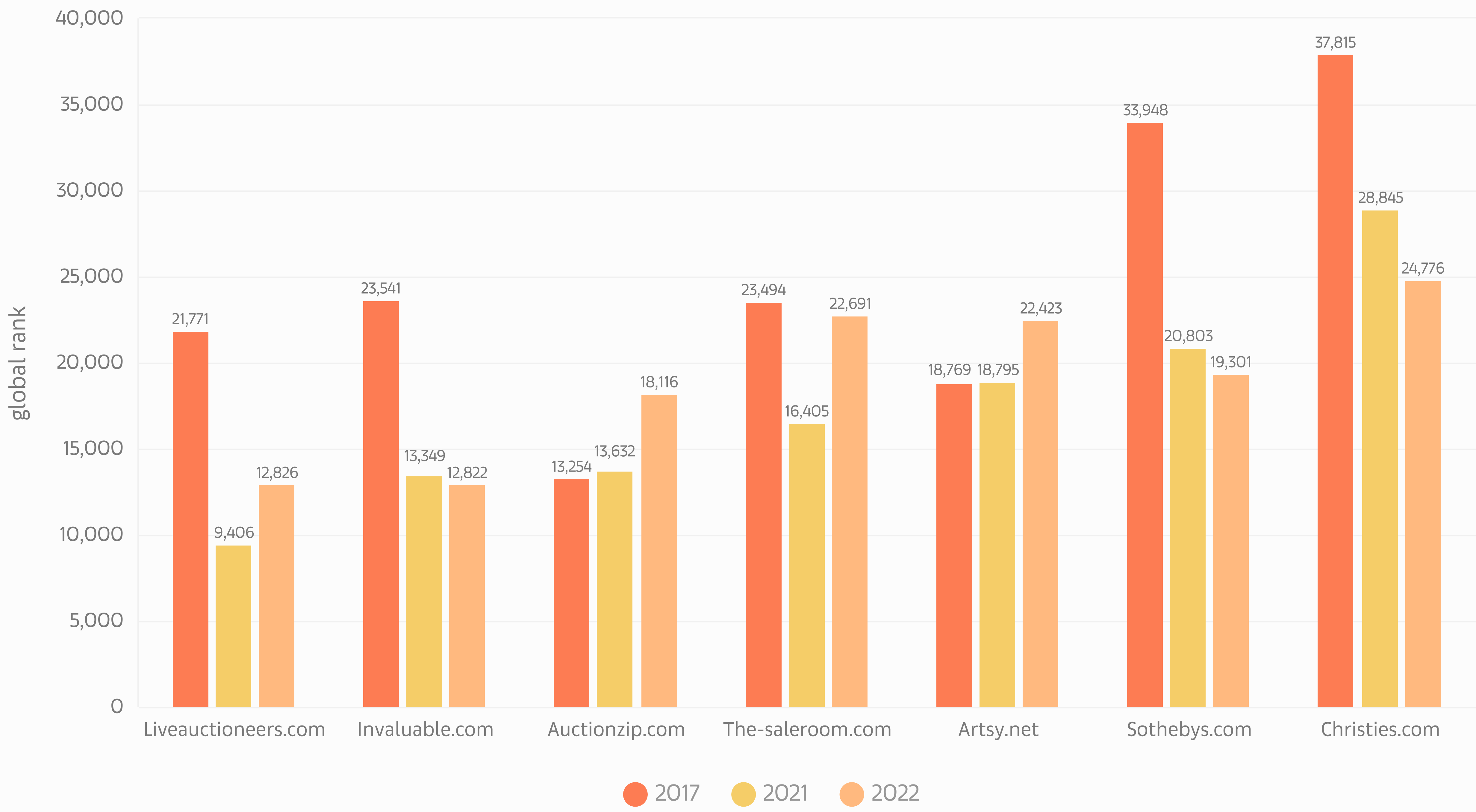
Figure 3.9 Change in Global Website Traffic Ranking in 2017, 2021, and 2022[45]



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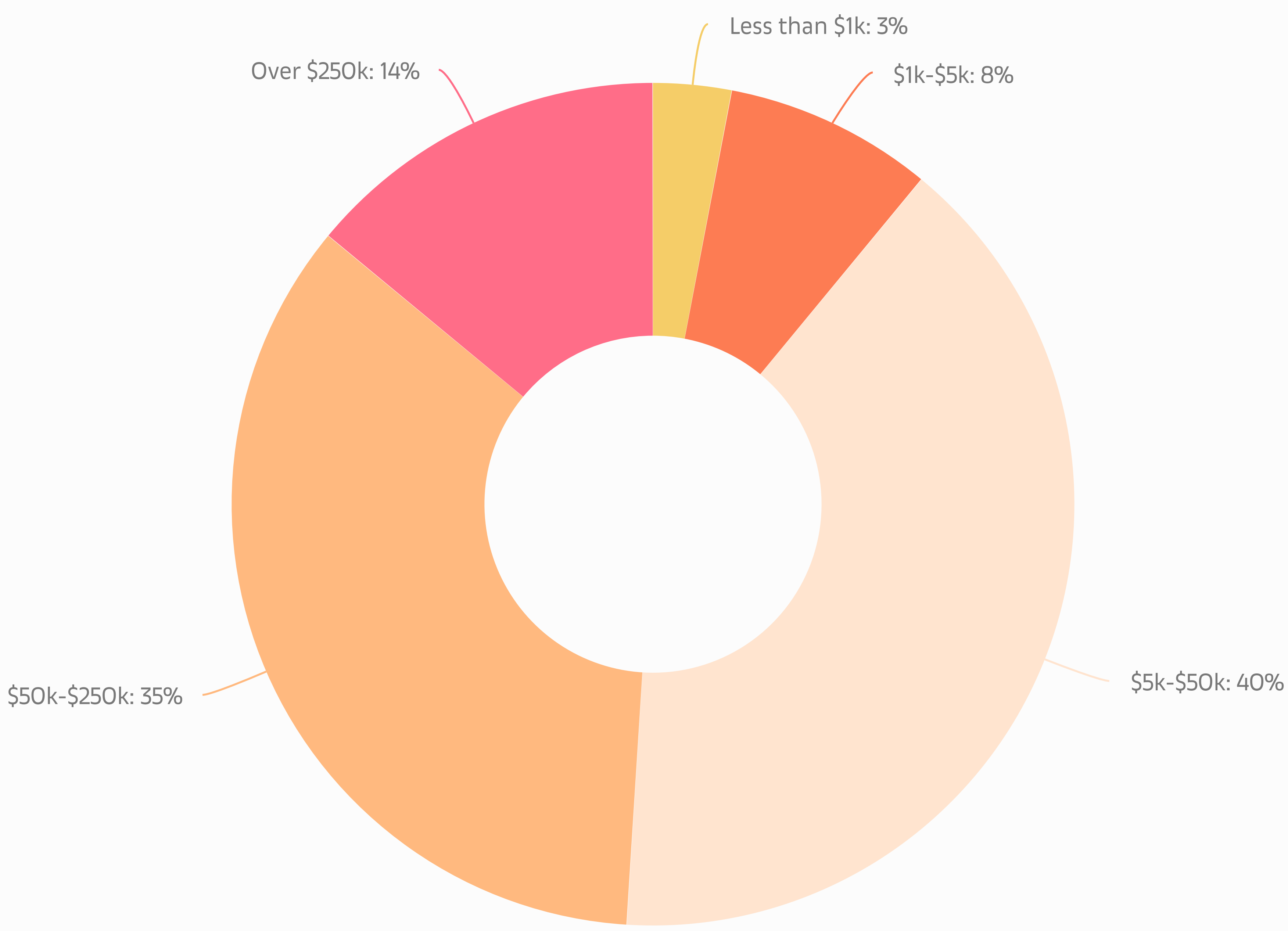
45 Global rank measures the traffic rank of the website compared to all other sites in the world, with a lower number indicating an improvement in rank. (Companies are ranked in ascending order, 1 being the highest rank and lower ranks indicated by increasing numbers.) In the period from January 2017 to January 2022, according to according to data from NetCraft.com the number of active websites rose by 15.5%.

Fine Art Auctions Online

Data on fine art sales at both mid- and top-tier auction houses indicates that, despite the wider embrace of online-only formats, their share of total sales remained relatively low. In 2022, they accounted for just 20% of lots sold at fine art auctions, a relatively stable share on the previous two years, although double that of 2019. However, their share by value was considerably lower, at just 3% of the value of lots of fine art sold. While their proportion of the value of the market under $50,000 was higher at 17%, they made up less than 2% of the market above that price level, with transactions for the most part still at lower price levels than offline. Figure 3.10b shows that more than half of the fine art lots sold in 2022 were for less than $1,000, and the majority (78%) for less than $5,000 (compared to 66% of offline lots). In terms of values, half of the value of the online-only sales were from transactions in the sub-$50,000 level versus less than 10% for offline lots. While almost 80% of offline auction sales by value were at prices greater than $250,000, this higher segment accounted for only 14% of the value of online-only auction sales of fine art. The largest segment by value, accounting for 40% of online-only sales, was works sold between $5,000 and $50,000.

Figure 3.10 Share of Online Lots Sold (Fine Art Auctions) by Price Segment in 2022

a) By Value of Sales



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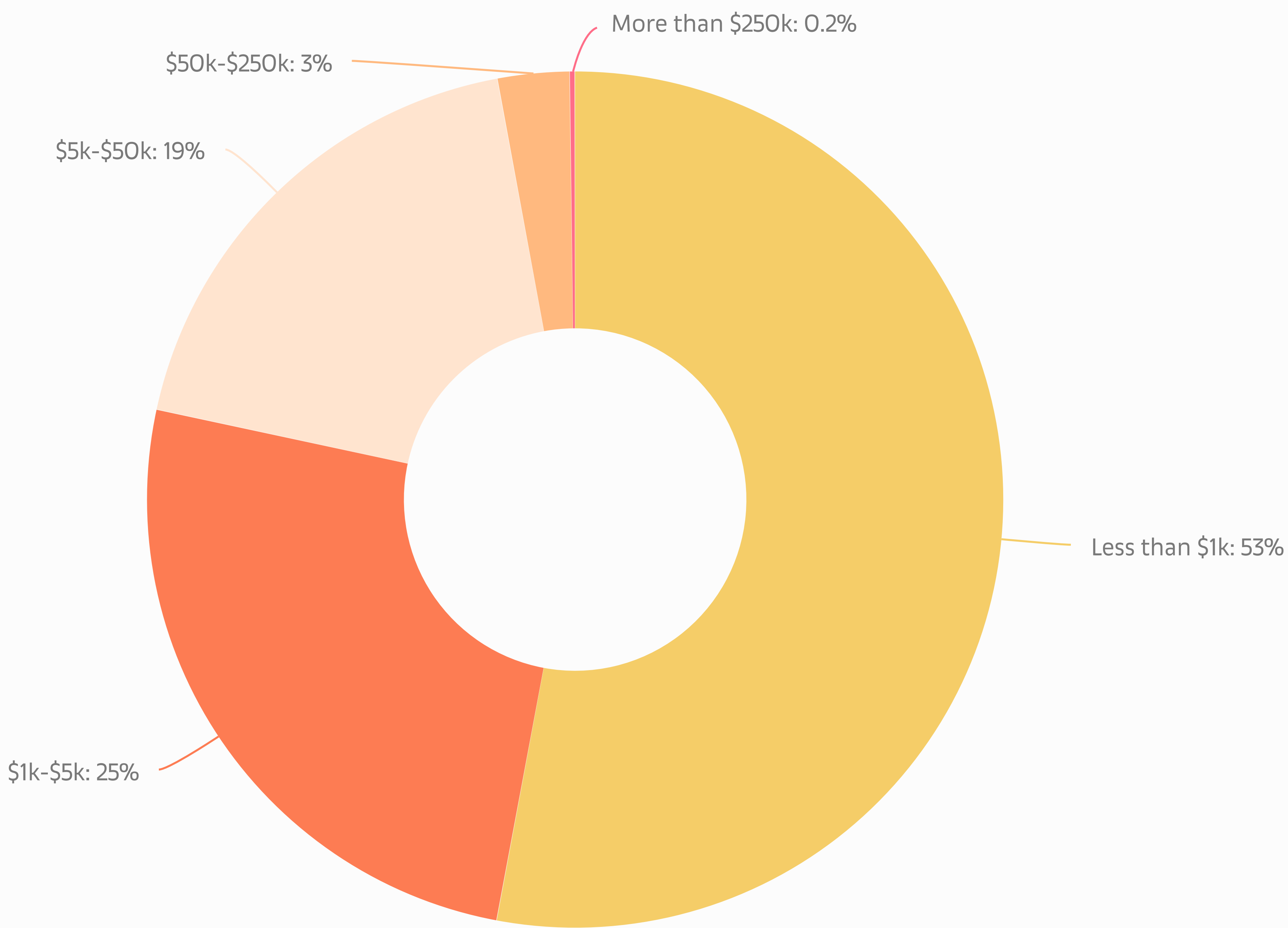
b) By Volume (Number of Lots)



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Online-only sales made more of an impact in some regions than others. Of the larger auction markets, the UK had the highest share of online-only fine art lots (21% of those sold in the UK in 2022, down by 10% year-on-year and just 7% by value, less than half the level of 2021). The share of online-only lots sold in the US was also down (by 5%) to 20% of the total number sold, and values were down to just 2% (from 7% in 2021 but only 1% in 2019). As noted above, online sales in China were not as dominant, but saw an increase from 3% to 5% year-on-year in 2022, although with a stable 1% by value. It is important to note that the decorative art and collectibles sectors have in fact added some of the highest volume of transactions to auctions online and dominated in terms of value. Hence, these figures understate the full impact of this channel in auctions overall.

IMAGE Tau Lewis, Stephen Friedman Gallery, image courtesy Art Basel

3.5 Price Segmentation in Fine Art Auctions

While the decline in the auction market during 2020 was felt across all segments, the recovery in 2021 was weighted towards the high end of the market. All price segments increased in value, but the largest advance was at the top end of the market, with sales of fine art lots priced at over $10 million showing the strongest growth. In 2022, this trend of out-performance at the high end was even more extreme, with the $10 million-plus segment being one of the only ones to show an increase in value year-on-year.

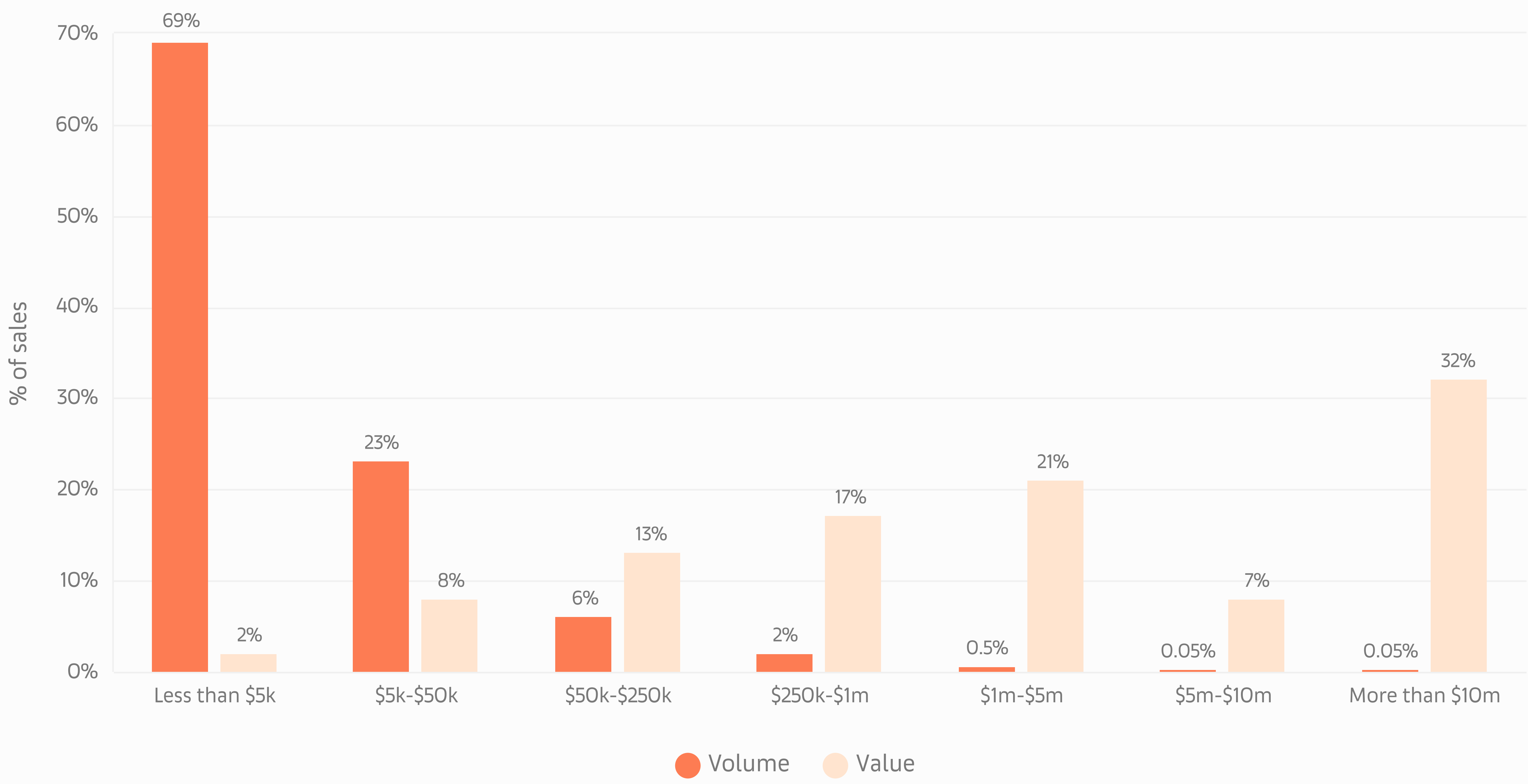
Figure 3.11 shows the distribution of fine art auction sales in 2022 by price segment.[46] As in previous years, the largest number of works sold were those at lower prices. Works sold for less than $50,000 accounted for 92% of all sold lots with a share of 10% by value, both roughly on par with 2021. The majority of works sold (69%) were at prices below $5,000, although these made up less than 2% of sales values.

In 2022, this trend of outperformance at the high end was even more extreme, with the $10 million-plus segment being one of the only ones to show an increase in value

In contrast, at the high end of the market, works selling for more than $1 million accounted for 60% of the value of the market in just 1% of lots, up from 57% in 2021 and 54% in 2020. The largest segment by value was works sold for prices over $10 million, at 32%, up from 28% in 2021 (and 20% in 2020). While virtually all other price segments experienced a drop in values year-on-year in 2022, works sold for over $10 million increased by 12%, despite a smaller number of lots being sold in this segment, a trend also noted anecdotally by those working in the sector of a thin but strongly performing high end. This increase in 2022 was also following a very large advance in this segment the previous year, again the highest of all the price segments, with values growing 140% and the number of transactions doubling. The strength of these highest sales in 2022 buoyed the wider $1 million-plus segment, helping it to remain stable (growing 1% in value year-on-year) despite the fact that works sold in the $1 million to $10 million range actually declined in value by around 10% in both value and volume.

46 For the purposes of this analysis, fine art includes paintings, sculptures, and works on paper (including watercolors, prints, drawings, and photographs). Decorative art includes furniture and decorations (in glass, wood, stone, ceramic, metal, or other material), couture, jewelry, ephemera, textiles, and other antiques.

Figure 3.11 Share of Lots Sold and Total Value at Global Fine Art Auctions by Price Bracket in 2022



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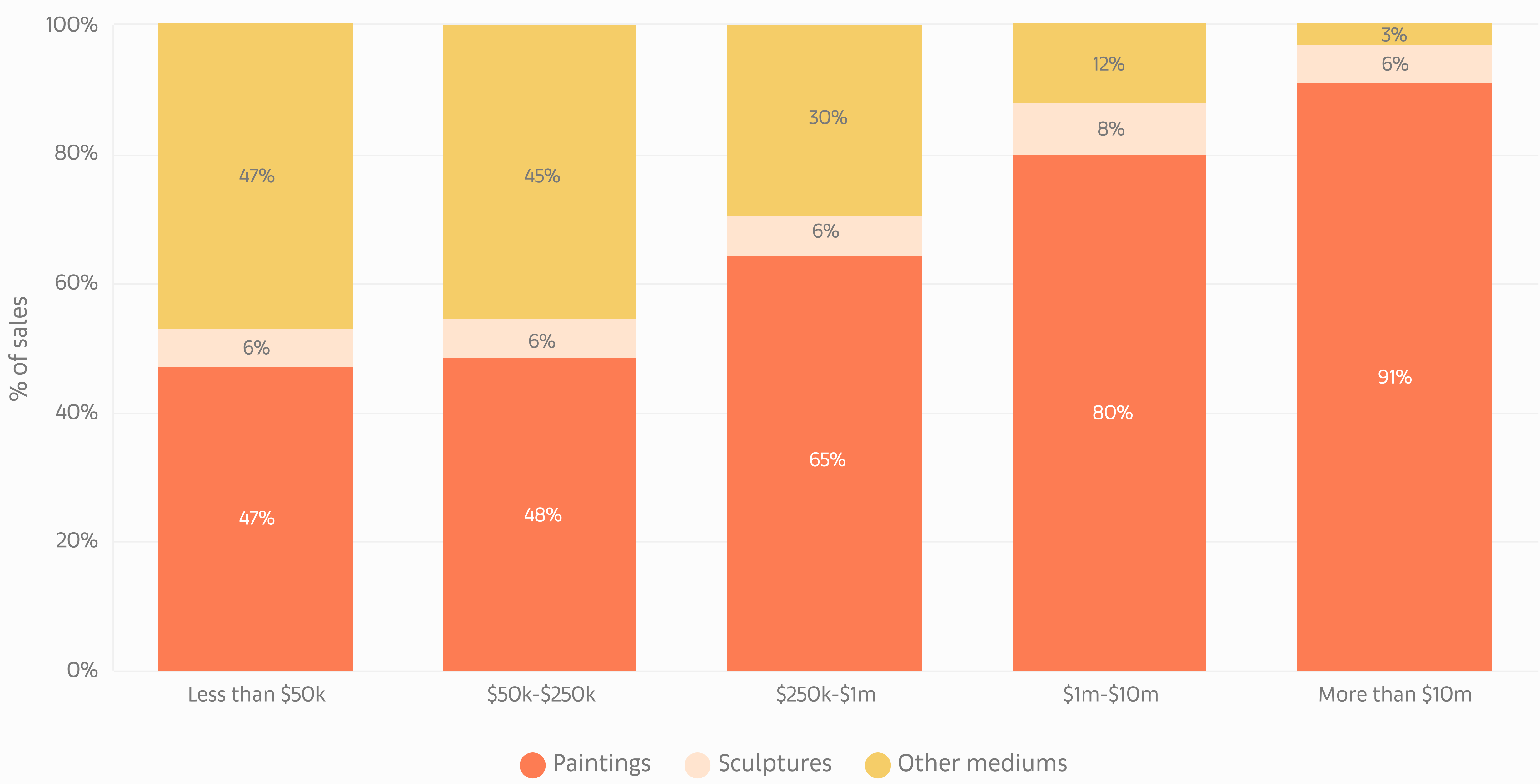
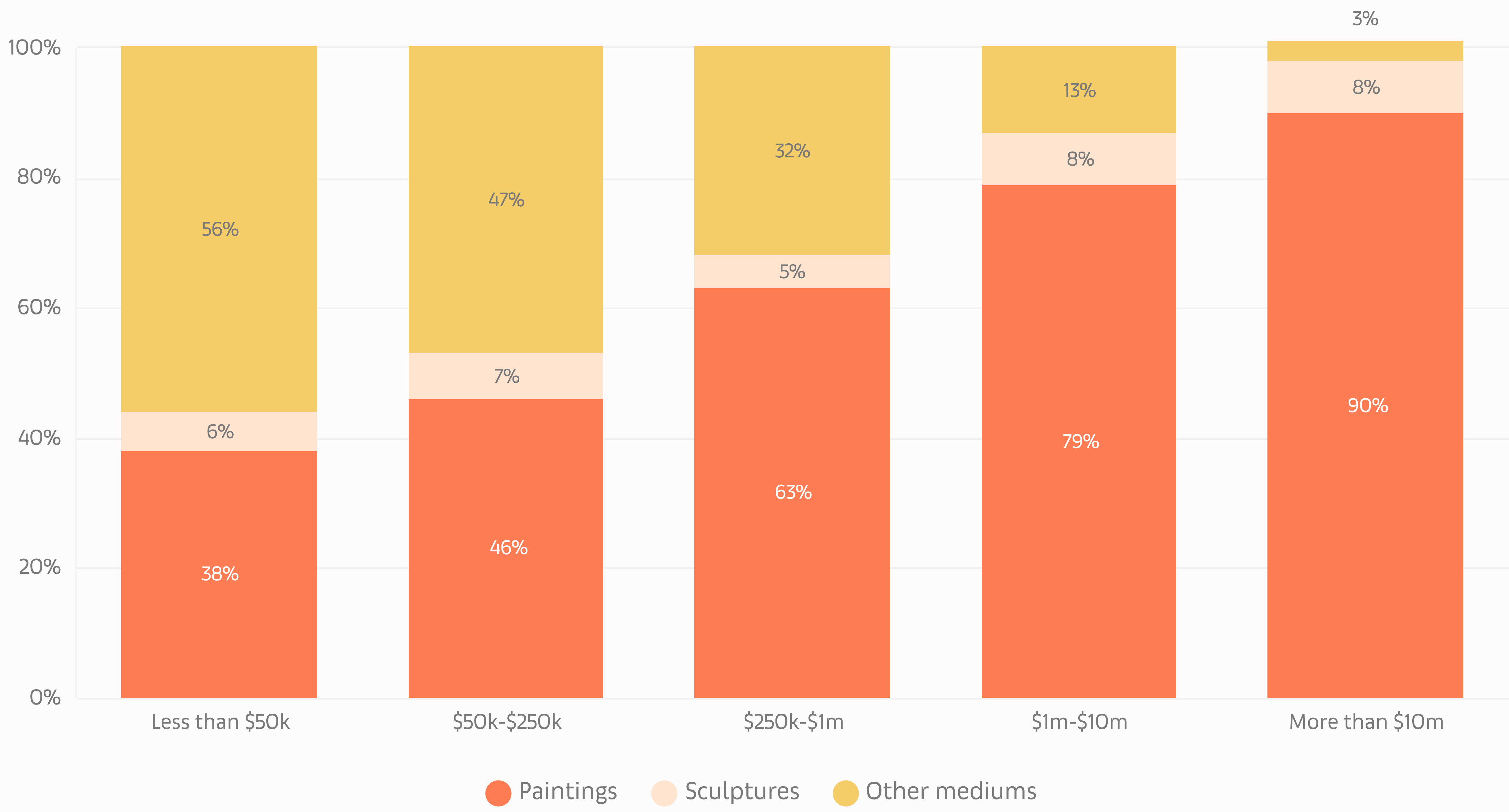
While there has been an increase in focus on digital art, particularly in relation to NFTs over 2021 and 2022, painting and sculpture continued to be the dominant mediums of fine art purchases at auction. This was particularly notable as prices rose. Paintings and sculptures accounted for just over half (53%) of the market for works priced at under $50,000. However, as prices surpassed $1 million, their dominance increased, accounting for 93% of the value of the market at this level and 88% of transactions. When prices surpassed $10 million, only 3% of the lots sold in 2022 were not paintings or sculpture.

Figure 3.12 Share of Fine Art Auction Sales by Medium in 2022

a) By Value of Sales



b) By Volume (Number of Lots)



To further analyze the performance of the different value segments of the market, the following definitions are used to categorize sales:

1. The Low End: prices up to $50,000;

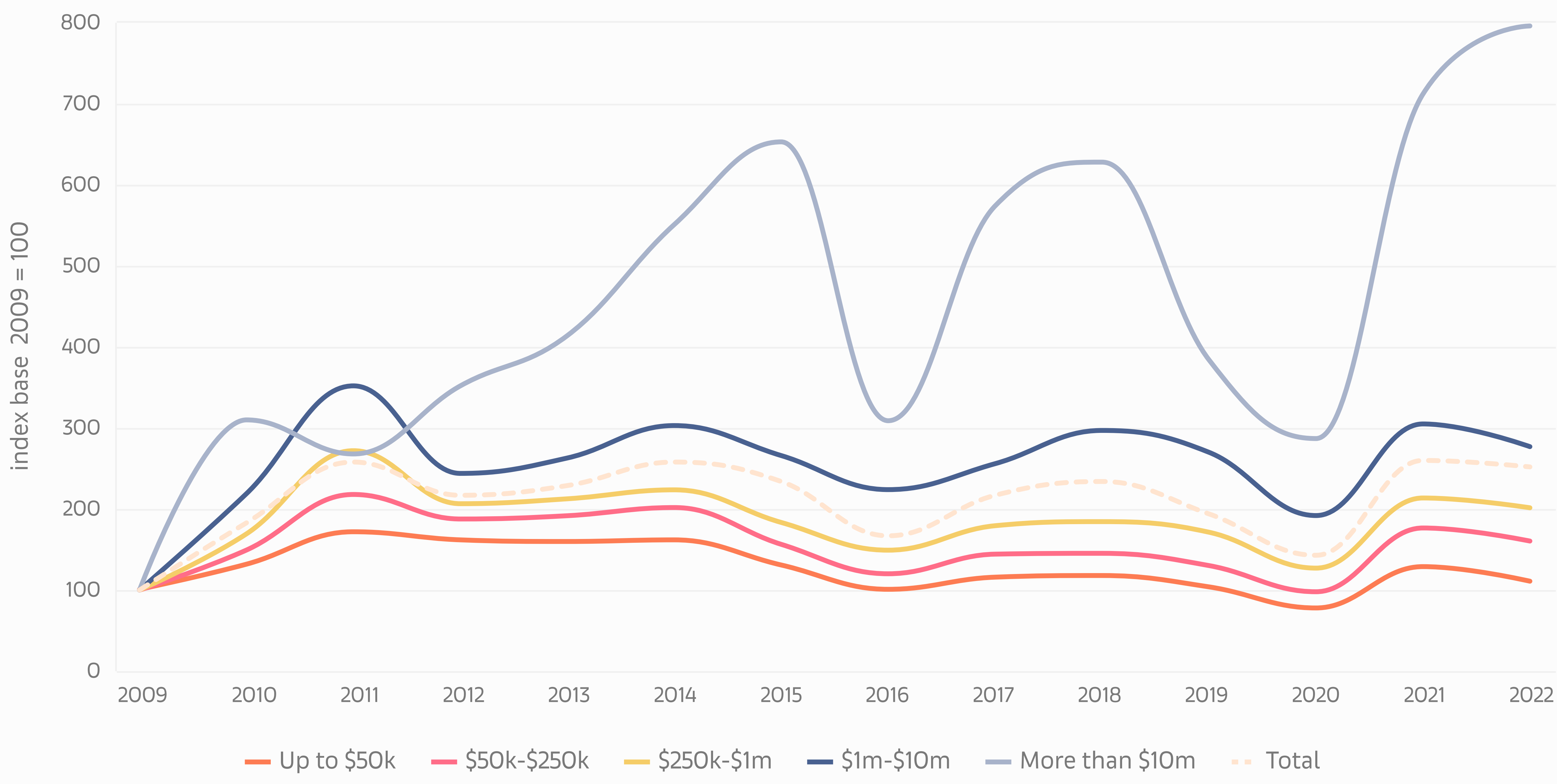
2. The Middle Market: price segments ranging from $50,000 to $250,000 and from $250,000 to $1 million; and

3. The High End: prices in excess of $1 million, including the Ultra-High End, with prices in excess of $10 million.

Figure 3.13 shows the performance of sales in the different segments over time using an index tracking the growth in values from a base year of 2009. This shows both the substantial growth and the volatility of the Ultra-High End which has driven the key peaks and troughs in the market since its low point in 2009. This segment is particularly influenced by the supply of a small volume of multimillion-dollar lots which magnify the ups and downs of the market. It clearly shows how it both pulled away from other segments in 2021, with an outsized growth in sales, and its divergent performance in 2022 versus the rest of the fine art market. While the market recovered to a level roughly on par with its previous 2014 peak in 2021 in nominal terms, after its dip in 2020, the $10 million-plus segment has continued to surpass any previous levels of sales and in 2022 was far above any level of sales ever achieved.

In the period from 2009 to 2022, the index for the Ultra-High End ($10 million-plus segment) reached almost 800 (that is, growth of close to 700%), more than double its level in 2020. The Low End showed a much more moderate increase over the period to just 120 (or 10% growth over 14 years). If these figures were adjusted for inflation instead of in nominal terms, while the Ultra-High End has still grown to more than five times its size, sales in the segments below $50,000 have declined in value when comparing 2009 to 2022. The escalating growth at the top of the market has been driven by the scarcity of the highest-value works at this level coming on to the market, which, as noted above, represent a tiny fraction of less than 1% of the works sold each year. On the demand side, as wealth has continued to increase at the top, UHNW collectors, who are slowly increasing in number, tend to often focus on these same, small number of unique lots, creating an excess of demand over supply, thus maintaining prices and in some cases driving them higher.

Figure 3.13 **Growth of Sales by Value in Auction Price Segments 2009–2022**



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Over the last decade, the growth of different segments of the market has tended to increase as price levels increased, with the higher end outperforming middle and lower price tiers. Table 3.2 shows that over the decade between 2012 and 2022, the aggregate value of sales for segments of less than $1 million has fallen. The combined Low End and Middle End decreased in value by 15%, with the sharpest decline in the value of lots below $50,000. Sales of works priced at over $1 million at auction grew by 54%, again with the highest growth in the Ultra-High End segment (126%).

The Table also shows that during the pandemic in 2020, values were driven down across the board in a more uniform decline as sales and supply were restricted (with volumes also falling in all segments). This was unlike previous recessions when it has often been a contraction specifically in the highest-priced lots that has driven down values. However, in the recovery since 2020, the High End has pulled away again with a return to the superior performance at higher prices. While all segments advanced in value from 2020 to 2022, the Ultra-High End showed by far the highest uplift in sales, and values have doubled their pre-pandemic 2019 level versus a much more moderate increase elsewhere. In 2022, this trend was reinforced even further as the $10 million-plus segment was the only one showing growth year-on-year.

The volume of works sold in the Ultra-High End from 2012 to 2022 also increased by 74%, although they still represented a tiny fraction of the works sold (just 0.1% in 2022). Although inflation has lowered the bar to enter the segment, the growth in sales at this level has also been driven by demand for key artists and incentives from auction houses encouraging vendors to bring works to the market. However, the number of fine art lots sold in all segments declined year-on-year in 2022, and accessing supply of high-quality works has remained a key challenge in the sector. Some auction house experts commented that this decline has come alongside an increase in spending on other luxury items and collectibles sold at auction as many companies have significantly diversified their offerings over the last five years.

IMAGE Cajsa von Zeipel, Andrehn-Schiptjenko, image courtesy Art Basel

Table 3.2 Annual Growth of Auction Sales by Price Segment 2012-2022

a) By Value of Sales

	Low End	Middle Market		High End		
	Less than $50k	$50k-$250k	$250k-$1m	$1m-$5m	$5m-$10m	More than $10m (Ultra-high end)
2012-2022	-32%	-15%	-3%	11%	20%	126%
2019-2020	-25%	-25%	-26%	-27%	-34%	-25%
2020-2022	42%	63%	58%	51%	30%	177%
2021-2022	-14%	-9%	-6%	-7%	-15%	12%

b) By Volume of Sales

	Low End	Middle Market		High End		
	Less than $50k	$50k-$250k	$250k-$1m	$1m-$5m	$5m-$10m	More than $10m (Ultra-high end)
2012-2022	10%	-18%	0%	8%	14%	74%
2019-2020	-35%	-24%	-25%	-26%	-34%	-23%
2020-2022	54%	62%	60%	50%	26%	100%
2021-2022	-5%	-10%	-5%	-9%	-18%	-9%

The stronger growth of higher-priced segments over lower ones has also changed the distribution of sales considerably over time, expanding the High End, and reducing the Middle Market. At the low point in the market during the financial crisis in 2009, the market share accounted for by lots sold at over $1 million was just 35%, with the Middle Market the largest segment at 42%. The share of high-end sales has grown in most years since that point, accounting for just over half of the market by 2014 and pushing up to its highest level in a decade of 60% in 2022, while the middle sank to just 30% and the lowest segment shrank to half its share at 10%. While some of this change is due to inflation, these lots still make up a tiny proportion of transactions in the market which has not advanced in share, and has therefore primarily been driven by faster growth at the top relative to other segments. The volume of sales has in fact changed very little over time. The High End of the market accounted for 1% of the number of fine art lots auctioned in 2022 versus 92% of lower-end lots, the same share as in 2009. Most of the day-to-day transactions within the auction market take place at the Low End, and this has remained stable at 90% over 10 years.

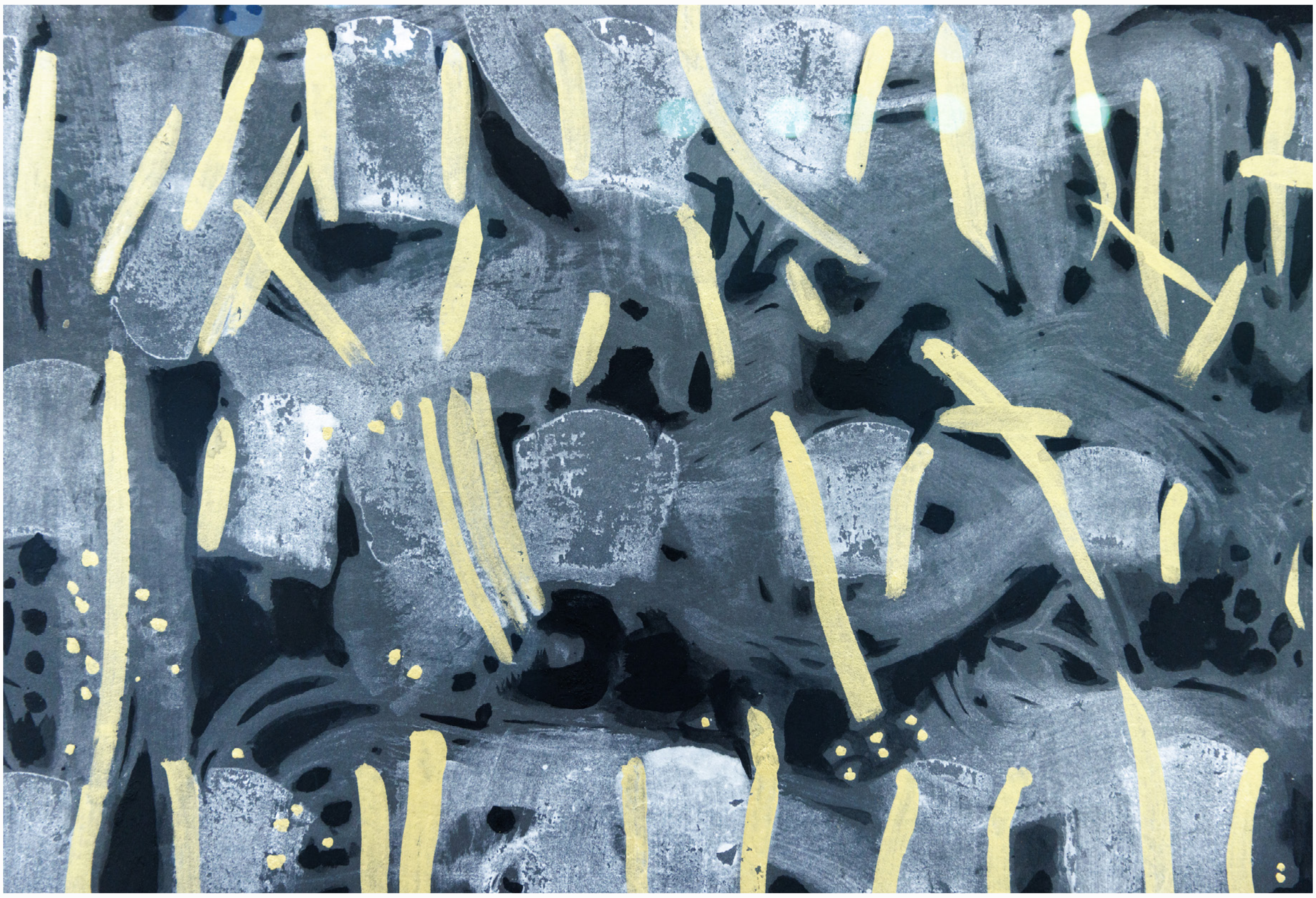
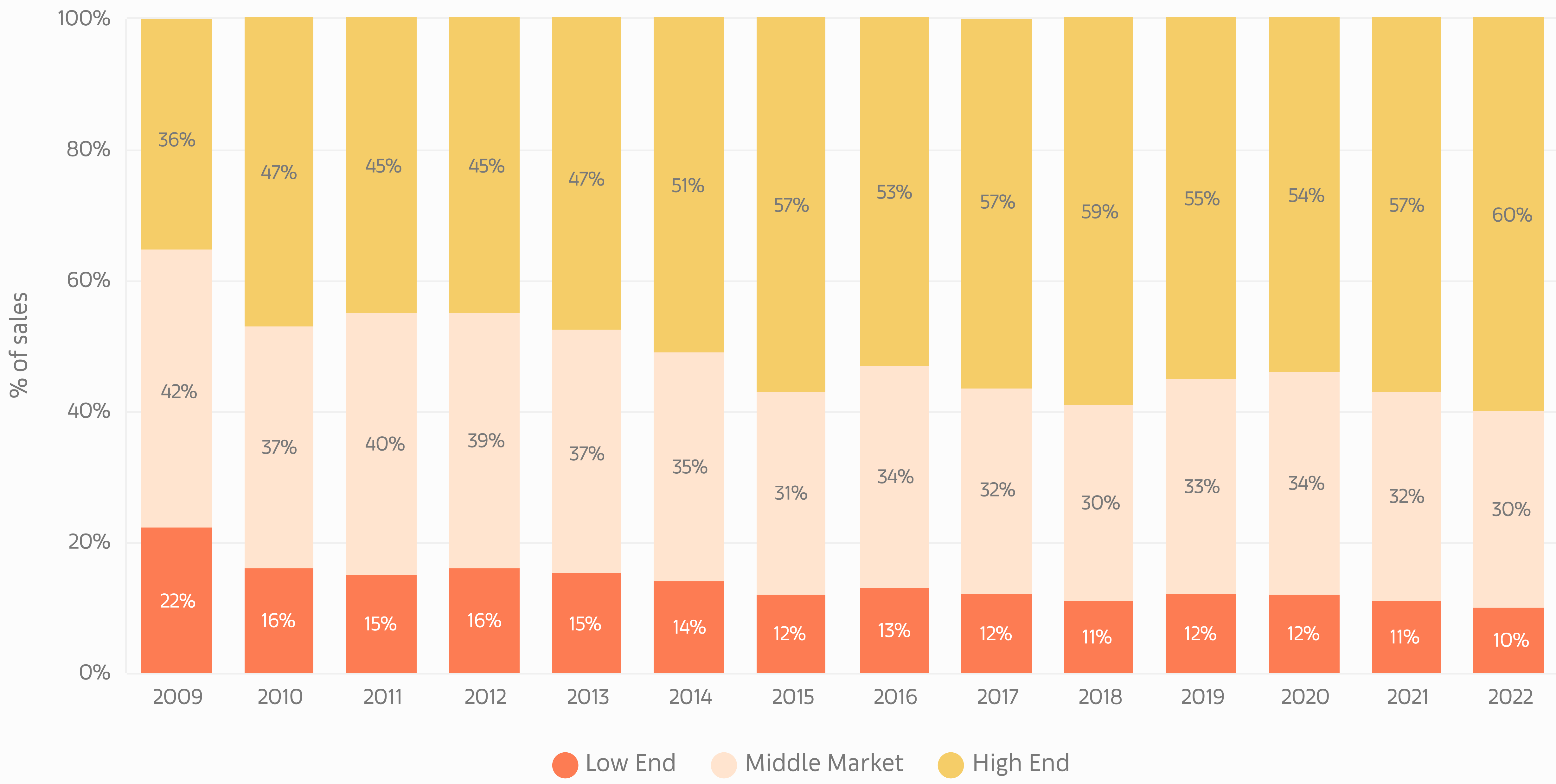


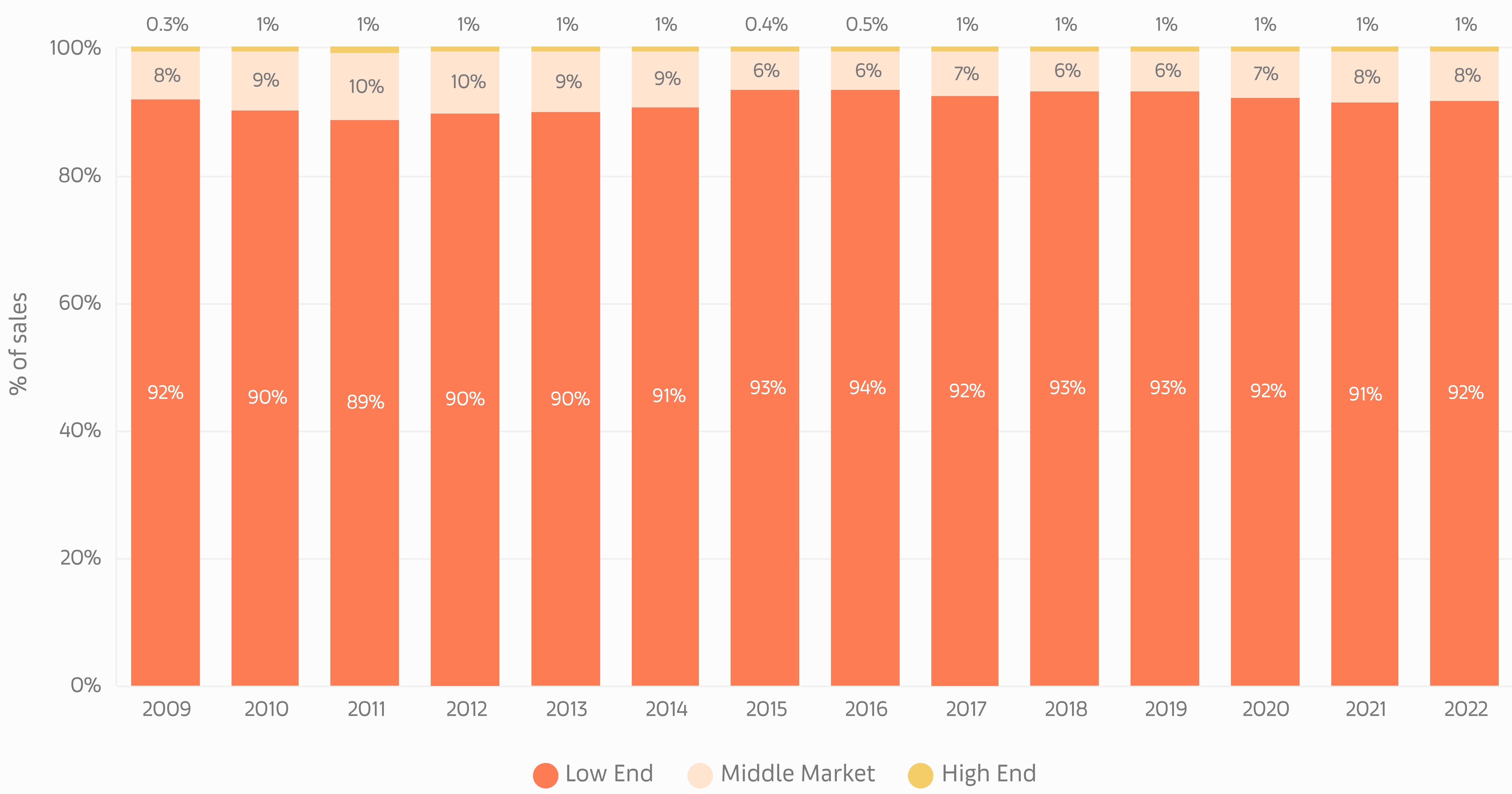
IMAGE Yuan Jai, Vitamin Creative Space, image courtesy Art Basel

Figure 3.14 Market Share in Auction Price Segments 2009–2022

a) By Value of Sales



b) By Volume (Number of Lots)



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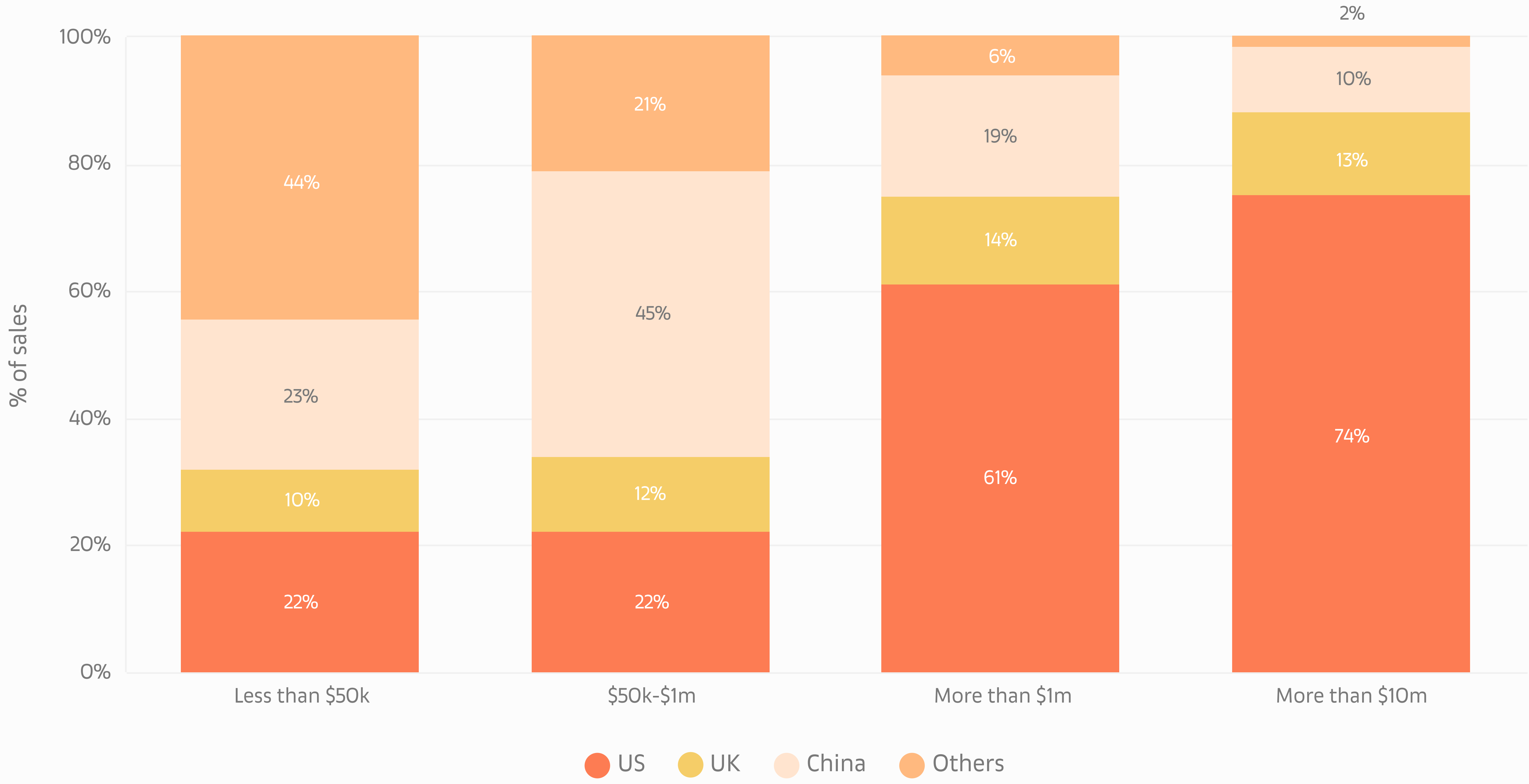
The dominance of the high end of the market also helps to show why the three largest auction market hubs of the US, China, and the UK account for the majority share of the value of sales, being where most of the highest-priced works are sold each year. It has also meant that their combined market share increases as prices rise, and this continued to be the case in 2022, although there were significant changes in the share among these three markets.

At the Low End of the market of works sold for less than $50,000, the US, China, and the UK accounted for 56% of sales by value in 2022 (down by 7% year-on-year) and 40% of the lots sold. In the Middle Market, their share increased to 79% (and 74% by volume). In this segment, as in previous years, China accounted for by far the largest share, with 45% of total sales by value. However, once prices passed $1 million, the share of the top three markets advanced considerably, and the US began to dominate. Considering sales of works priced over $1 million, the top three regions accounted for 94% of sales by value (with the fourth-largest market of France accounting for a further 4% or more than half of the remainder). During the pandemic and contraction in the auction market, the US had fallen behind China in this segment with a 36% share in 2020. This rose to 47% in 2021 and further to 61% in 2022, the majority of the market and significantly above both the UK and China. While the UK saw an advance in share of 7% year-on-year, China's share more than halved from 36% to just 19% as significantly fewer top lots were sold.

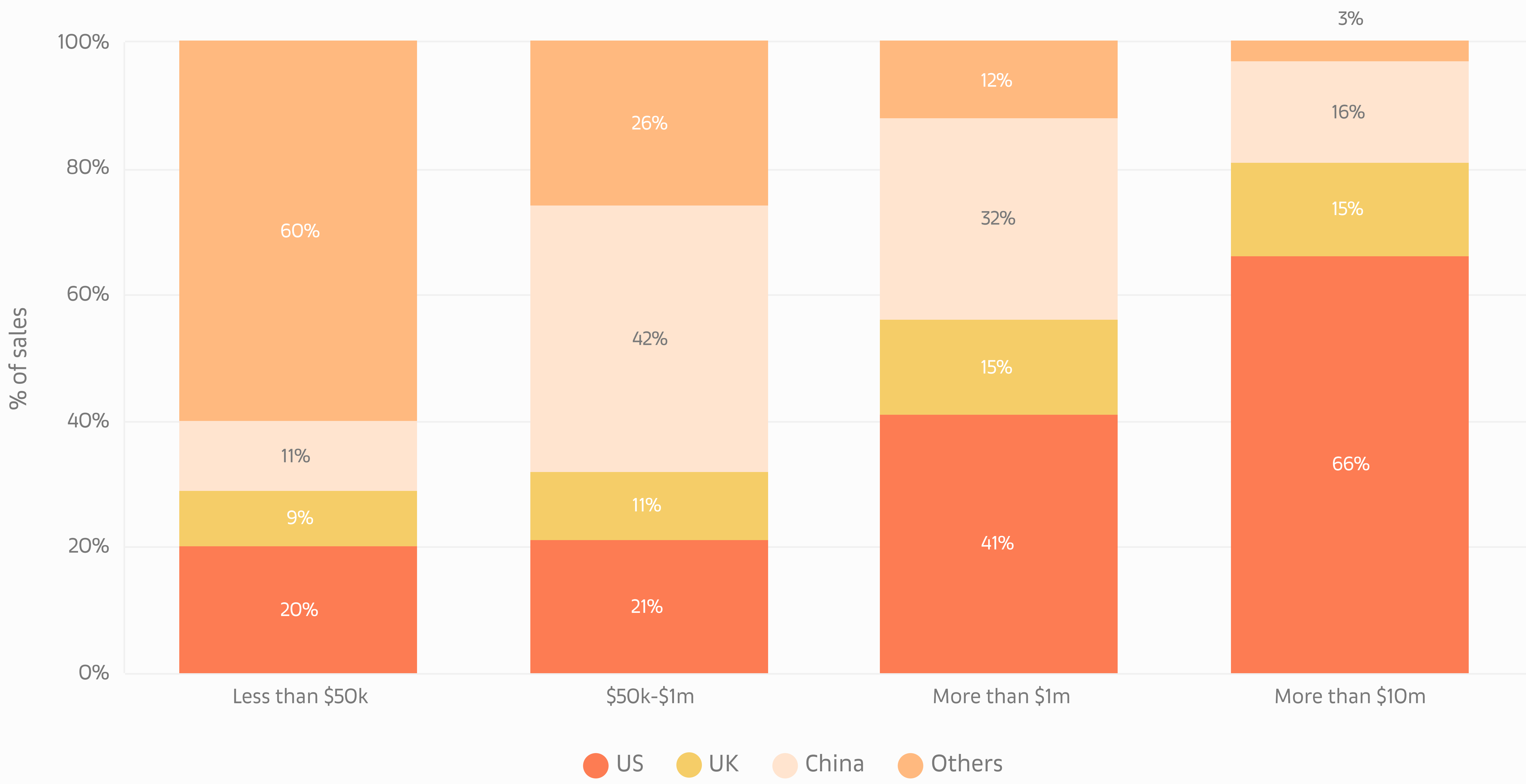
At the Ultra-High End, 98% of the value of sales came from these three top markets, stable on 2021, and 97% of lots sold. The US held the largest share in this segment in most previous years, again, with the exception of 2020 when it temporarily fell slightly behind China. The US restored its premier position in 2021 with a share of 63% and this advanced further to 74% in 2022. The UK, which had been significantly smaller in share than China in 2021 (at 9% versus 28% respectively), regained second place in this segment in 2022 with an increase to 13%, while China fell back to 10%.

Figure 3.15 Market Share of the Fine Art Auction Market by Price Segment in 2022

a) By Value of Sales



b) By Volume (Number of Lots)



3.6 Fine Art Sectors

Fine art accounts for the majority of the value of sales in the auction market as well as most of the highest-priced transactions. In order to assess the performance of fine art sales by sector, definitions of sectors are based on specific, measurable criteria such as an artist's date of birth, the date of creation of works, as well as factors including the importance of artists to a particular movement. While definitions vary widely in the market, for the purposes of this analysis, we have used the following:[47]

a. Post-War and Contemporary, defined as artists born after 1910;

b. Post-War, a subset of Post-War and Contemporary, defined as the artists within the sector that were born between c. 1910 and 1945;

c. Contemporary, a subset of Post-War and Contemporary, defined as the artists within the sector that were born after 1945;

d. Modern, defined as artists born between 1875 and 1910;

e. Impressionist and Post-Impressionist, defined as artists born between 1821 and 1874;

f. Old Masters, defined as artists born between 1250 and 1821; and

g. European Old Masters, defined as Old Master artists of European origin, analyzed separately as a subset of the Old Masters sector.

To ensure the most consistent analysis of sales over time, a central database is used to gather price information from Artory, with some data for Chinese sales supplemented by Artron. The Artory database covers sales from 4,000 auction houses, with consistent auction results gathered for around 250 businesses in more than 40 countries. The database comprises results from major sales in first- and second-tier auction houses around the world and does not restrict inclusion by final price or estimate value, hence offering coverage of the full range of prices that occur at auction. The data by sector in the following analysis is based on a sample of 250 auction houses, and it only includes data where a

47 Most artists' categorization is based on date of birth, but there are a small number of artists who are included in different sectors because of their relevance to a particular movement, for example, Francis Bacon (b. 1909) and Mark Rothko (b. 1903) are both included in the Post-War and Contemporary sector despite the cut-off date of 1910.

specific artist (or group of artists) can be fully attributed to the particular sale, and the date of birth and/or death is clearly established so that it can be accurately classified into one of the sectors. This means that the analysis does not contain all lots sold in each sector (or any lots that fall outside these sectors) but allows for consistent estimates over time of the key trends.

The sales and shares of different sectors discussed throughout the chapter refer to the proportionate share out of the main sectors of the art market listed above: Post-War and Contemporary, Modern, Impressionist and Post-Impressionist, and Old Masters, including European Old Masters. These sales exclude transactions that cannot be classified within these distinct sectors, or that predate Old Masters (that is artists born before 1250). While these tend to make up a very small portion of sales in most markets, there are certain regions where they account for a higher share. For example, within the Artory database, just 1% of fine art sales fell outside these sectors in the US in 2022 and 2% in the UK, but there was a larger share of around 25% of excluded sales in China. This is due, in part, to the fact that ancient artists predating 1250 made up a more significant portion of sales, and also that some artists merged from Artron's data could not be fully attributed or a date of birth or death could not be assigned.

In 2022, the Post-War and Contemporary and Modern art sectors accounted for just over three-quarters (76%) of the value of sales in the fine art auction market, down by 5% from 2021, and 82% of the number of lots sold. These two sectors have dominated the fine art market for the last 20 years in terms of aggregated values and are where the most record prices are achieved each year. While Modern art was a larger share of the market 20 years ago, Post-War and Contemporary has grown more rapidly, with rising prices and an expanding number of artists. Post-War and Contemporary art has led the market consistently since 2011 and accounted for more than half the value and volume of fine art sold at auctions in 2022.

In 2022, the Post-War and Contemporary and Modern art sectors accounted for just over three-quarters (76%) of the value of sales in the fine art auction market

As the sector has grown in terms of the number of artists it includes, it is possible to further divide the sector into Post-War art and newer Contemporary art. There has been much discussion over the last few years about the expansion of newer Contemporary art at auction, with many young artists featuring in the secondary market early in their careers. This sector includes what has been termed 'ultra-contemporary' artists and 'red-chip' artists, discussed in more detail below, many of whom saw record sales in 2021 and continued to feature in several high-profile auctions during 2022, despite being still highly active in the primary market. Despite the focus on these artists and many record prices at auction, the Post-War subsector was the larger by value, accounting for 68% of the Post-War and Contemporary sector (and 37% of the fine art auction market overall) while the Contemporary segment made up a smaller 32% (or 17% of fine art auction sales).

Figure 3.16 **Market Share by Value of the Fine Art Auction Market 2000–2022**

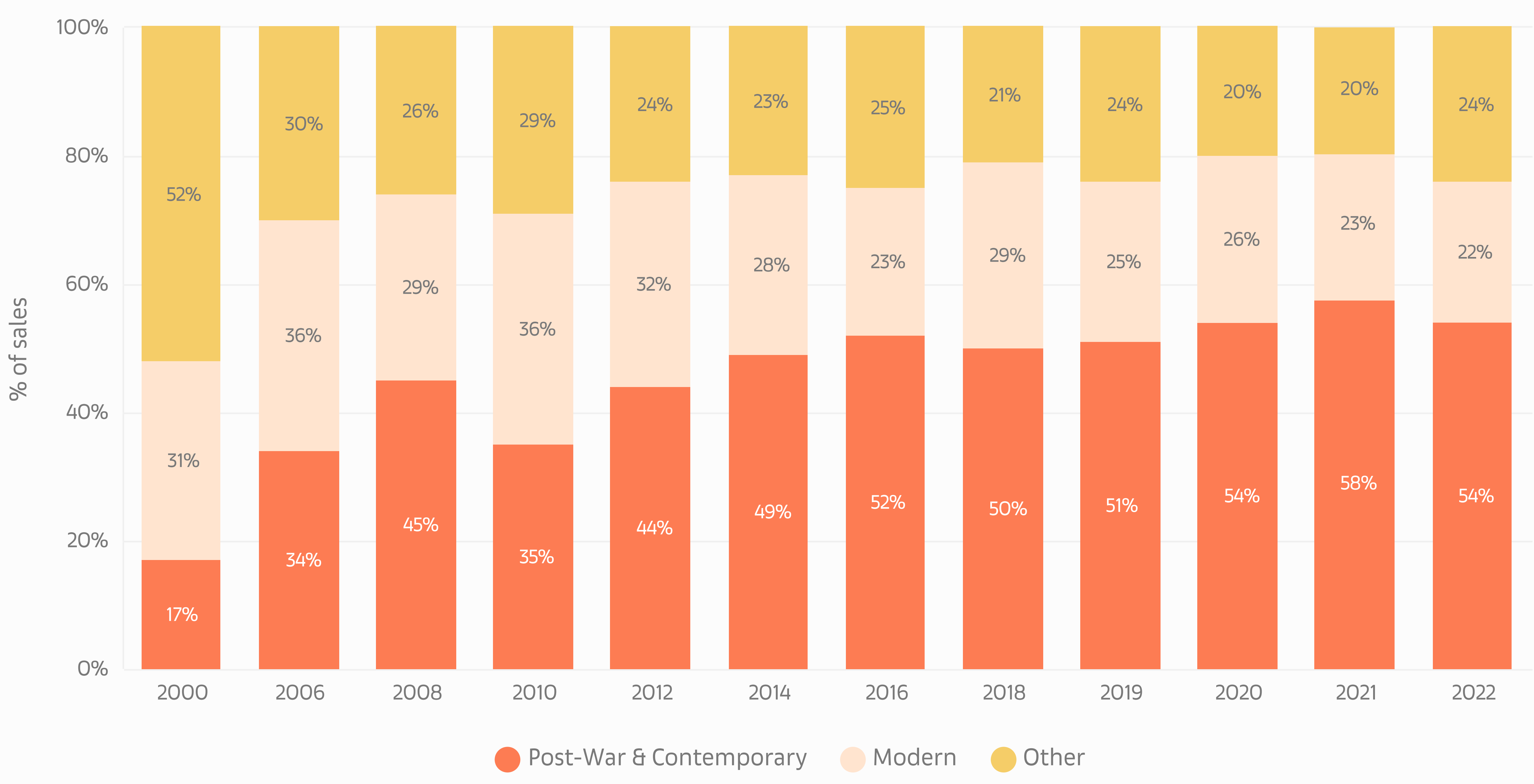


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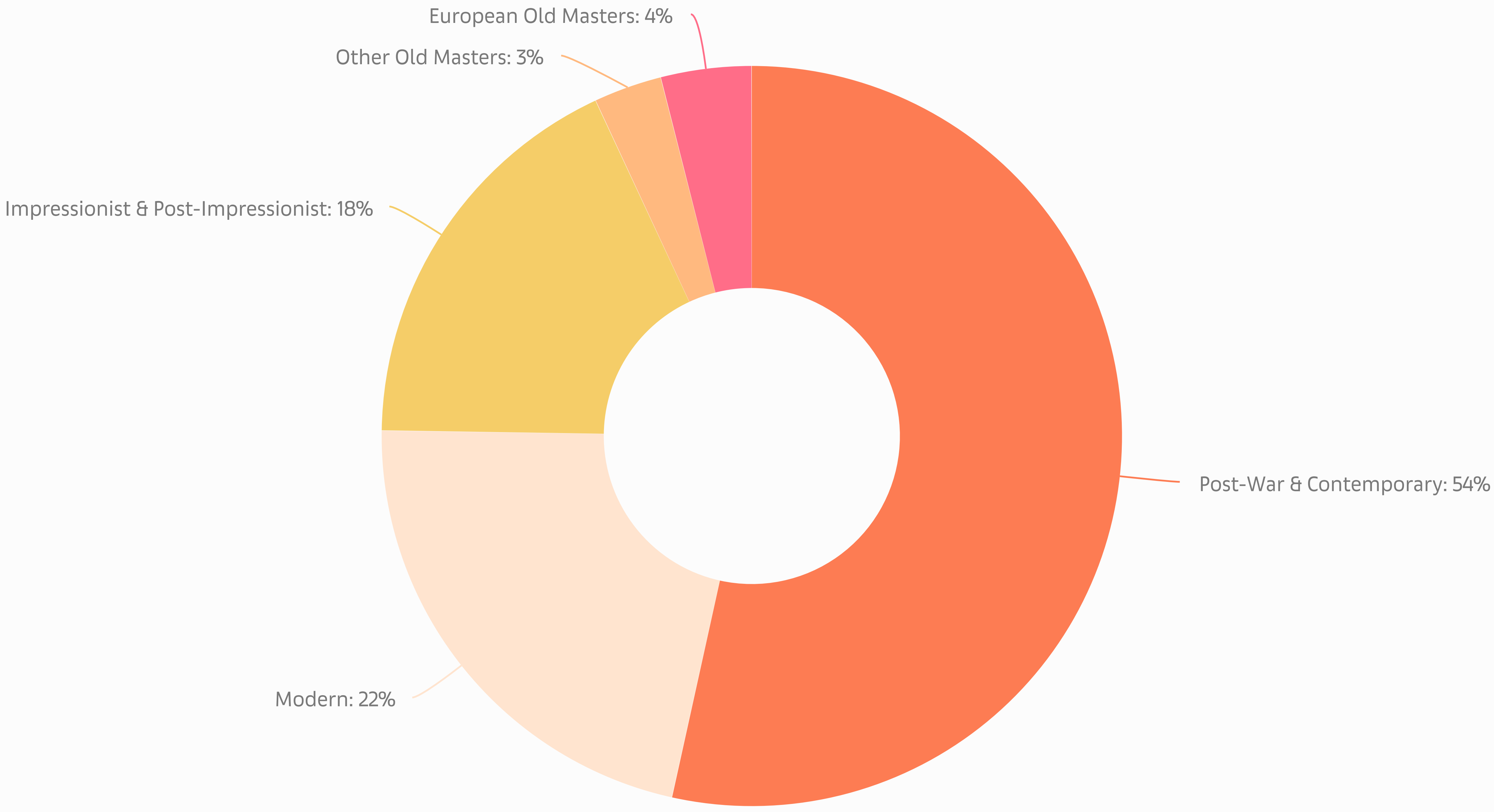
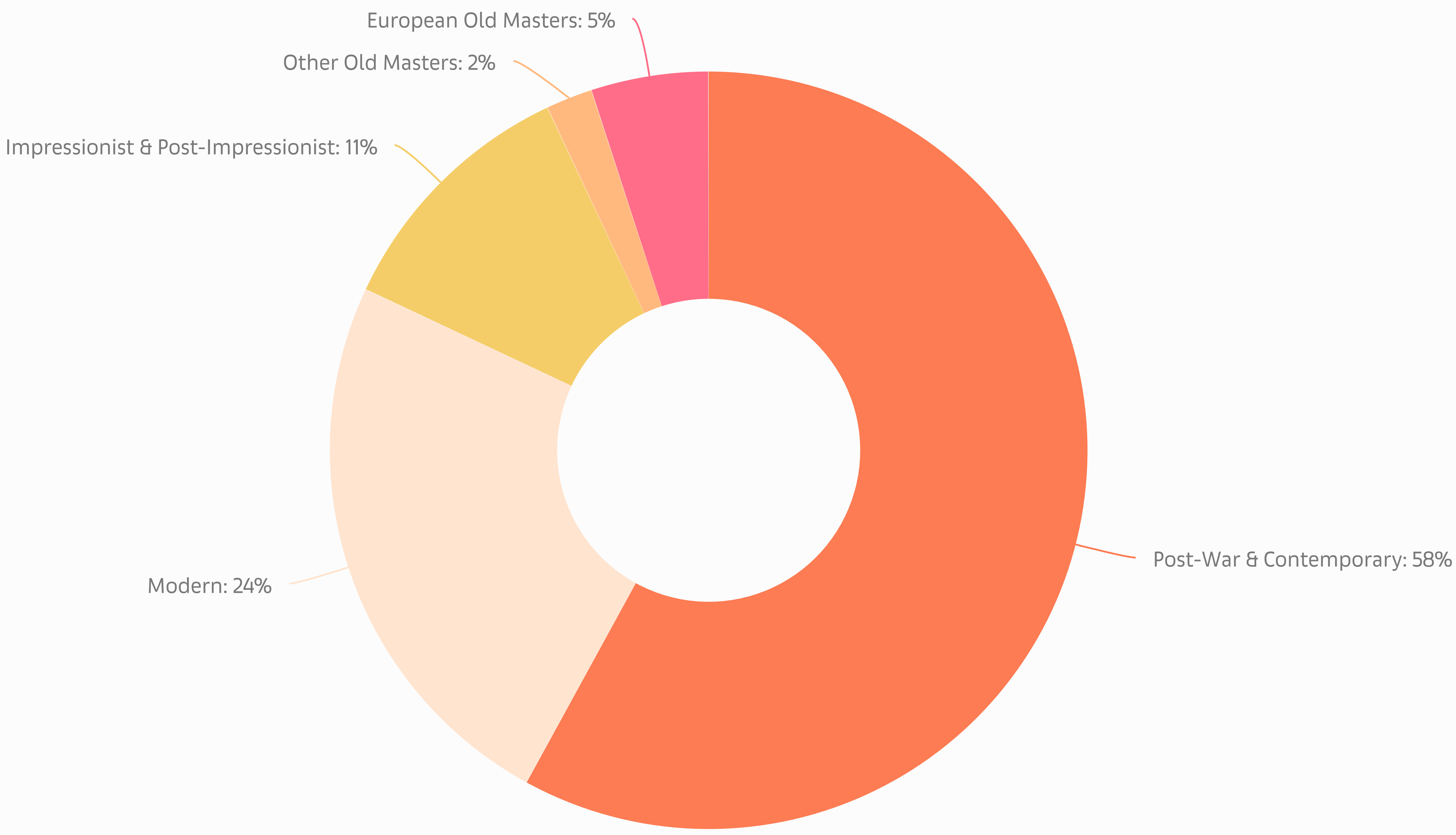
Figure 3.17 Market Share by Sector of the Fine Art Auction Market in 2022

a) By Value of Sales



b) By Volume (Number of Lots)



3.7 Post-War and Contemporary Art

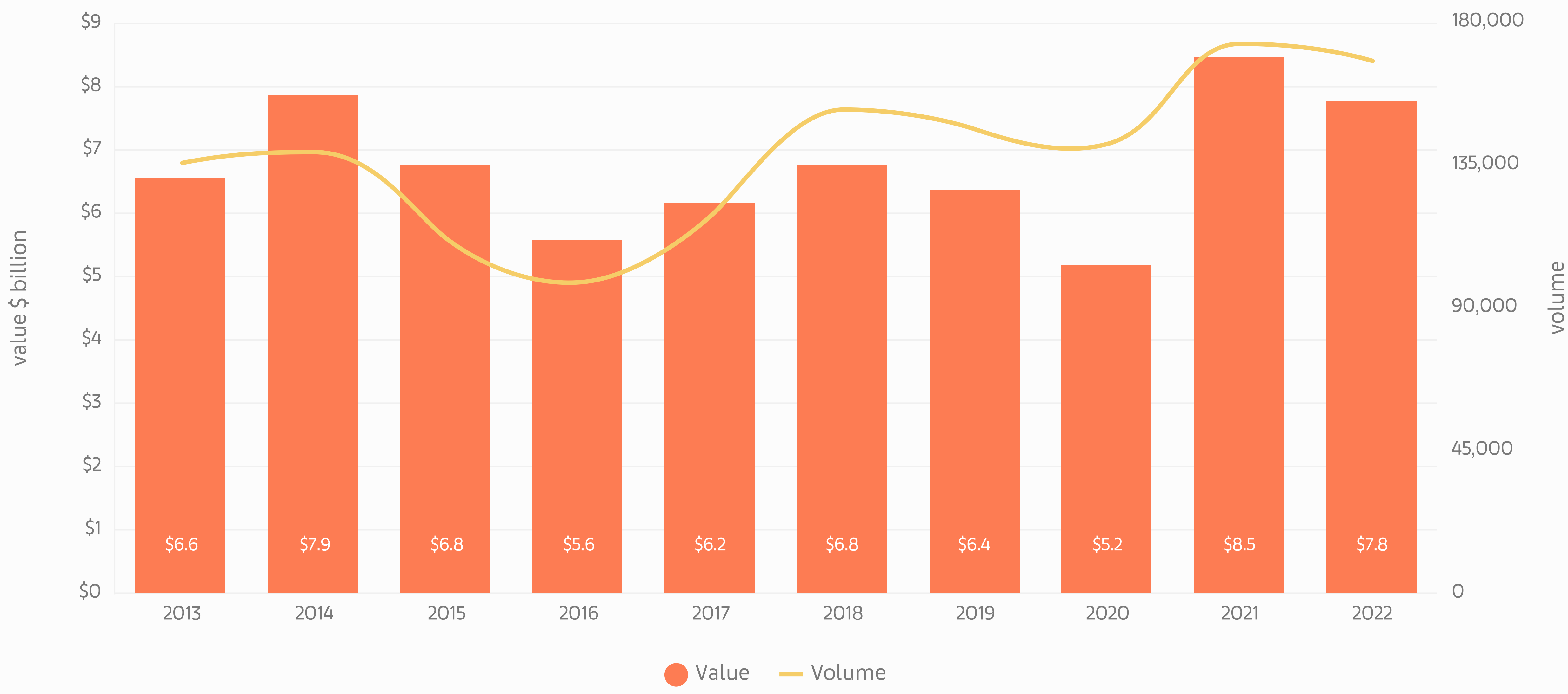
Post-War and Contemporary art was the largest sector of the fine art auction market in 2022, with a share of 54% of the value of global fine art auction sales (down by 4% on 2021) and 58% by volume. Aggregated sales in the sector totaled $7.8 billion, declining by 8% year-on-year from a peak in 2021, with the number of lots also falling slightly (by 3%).

Post-War and Contemporary art was the largest sector of the fine art auction market in 2022, with a share of 54% of the value of global fine art auction sales

Sales of Post-War and Contemporary art have grown significantly over 20 years, but the path of growth has been one of the most volatile of all sectors, influenced heavily by supply at the high end of the market. Sales grew rapidly until 2007, but then declined by 58% in the fallout of the global financial crisis between 2007 and 2009 as the supply of the highest-priced works declined. From this low of just $2.0 billion, the sector recovered rapidly, reaching a peak of $7.9 billion in 2014. The next few years were mixed, and sales had already begun to decline in 2019 with a lower supply of lots in the $10 million-plus segment that year. During the pandemic in 2020, supply contracted in all segments, and values fell by 18% to a low of $5.2 billion. Sales boomed in the recovering market in 2021, reaching a high of $8.5 billion, surpassing their peak in 2014 and their highest level to date. The decline in 2022 brought the market back to just below this level again, although sales were still up by 19% in a decade and by almost 300% since the global financial crisis in 2009.[48]

48 As well as new fine art auction data for 2022, auction data from 2019 through 2021 has been updated here and throughout the report to reflect new auction houses that were added to the Artory database in this period and improvements in artist mapping for China. Figures are adjusted wherever relevant to account for any of these improvements in the data.

Figure 3.18 The Post-War and Contemporary Art Sector 2013–2022



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As noted above, the Post-War and Contemporary sector can be divided into more distinct markets separating older Post-War art versus newer Contemporary art. In 2022, the majority of sales by value (68%) were in the older Post-War subsector, with Contemporary accounting for 32%, roughly the same share as in pre-pandemic 2019. During 2020, both of these subsectors fell by equivalent amounts (around 18%), leaving shares still unchanged. Then in 2021, the newer Contemporary sector saw a much stronger recovery, with values doubling in size year-on-year versus a rise of 43% in Post-War art.

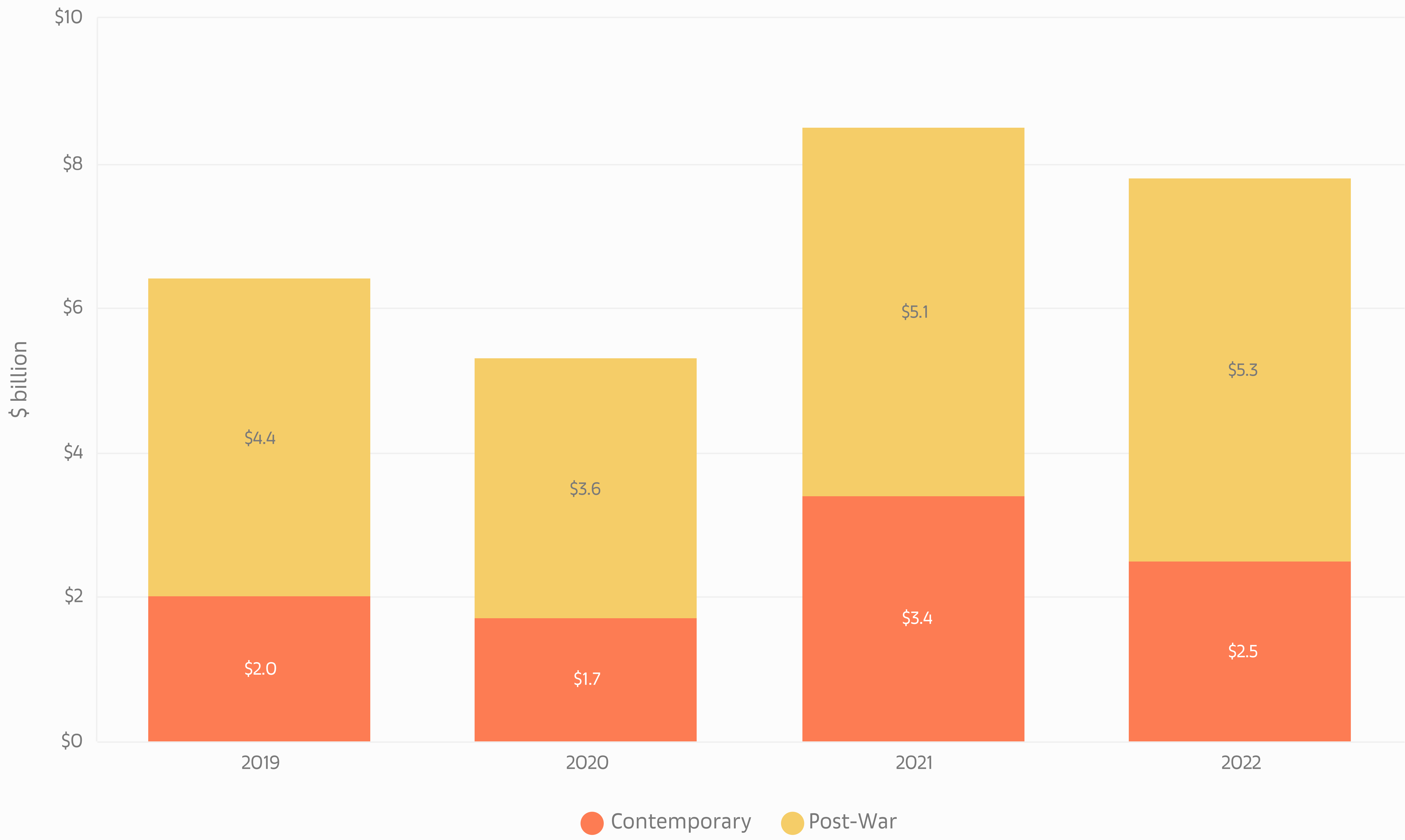
This escalation in the value of younger artists has been a widely discussed topic in the art trade in 2021 and 2022, with new auction records set for many 'ultra-contemporary' artists in this segment, such as Matthew Wong (1984–2019), Avery Singer (b.1987), Christina Quarles (b.1985), and others. The record prices achieved in this sector, along with the strength of some individual NFT sales, notably Beeple's $69 million *Everydays: The First 5000 Days* (2021), helped to push the share of Contemporary art up to 40% in 2021. Although this declined again in 2022 (as Contemporary art fell by 26% and Post-War rose by 3%), the year was still marked by a number of record prices and auction debuts for very young artists, still relatively early in their careers. Works by Anna Weyant (b.1995) and Lucy Bull (b.1990) reached prices in excess of $1 million in 2022, despite being the first time these artists had appeared at auction.[49]

Besides the high auction prices, a notable trend with some of these sales is also the large disparity between presale estimates and hammer prices. *Falling Woman* (2020) by Anna Weyant sold for $1.6 million at Sotheby's during the year, which was more than eight times its presale high estimate. Another two of her works selling for over $1.5 million at Christie's, *Loose Screw* (2020) and *Summertime* (2020), were also two to four times their high estimate. While auction houses use estimates as a marketing strategy to drive up maximum prices for young artists with little price history, in the dealer sector, estimates are regarded as an indication of value. This can cause a significant disjuncture between the two sides of the market when estimates are set at significantly lower prices than would be usual in the primary market for dealers. While the reasons for these differences may be understood reasonably well by established vendors and collectors, they are often not recognized by new buyers or in the media when reporting on these sales.

A key driver of prices for these young and new-to-auction artists has also been the very limited access to their works through galleries in the primary market for many collectors, particularly those new to the market and without longer-established ties to dealers. This relative scarcity coupled with strong demand has also pushed the prices of these artists up to record highs when they do appear, offering collectors a limited opportunity to buy into their markets.

49 Two of Anna Weyant's works on paper sold in 2021 at a Phillip's auction (totaling $65,520). However, 2022 represented the debut of her paintings on the secondary market, with sales totaling just under $10 million. Lucy Bull's sales totaled just under $7 million in her first year of selling at auction in 2022.

Figure 3.19 Sales of Post-War Art Versus Contemporary Art 2019–2022



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Returning to the wider Post-War and Contemporary sector, a regional analysis of sales shows that the top three markets (the US, China, and the UK) accounted for 84% of the market by value in 2022 (up slightly by 2% year-on-year) and a stable 37% of the lots sold. The US was the largest market in this sector in most recent years, aside from a temporary dip in 2020 during the pandemic, when China's market was marginally larger. The share of US sales increased again in 2022 to 48% by value (up by 8% year-on-year) and 20% of global volumes.

After a decline of a third in value during the pandemic to a low of $1.7 billion in 2020, their lowest level since 2010, sales in the US boomed in 2021, doubling in size to $3.4 billion, restoring the market to levels just below their peak in 2015. Growth continued in 2022 with an increase of 11% to $3.8 billion. With these two years of strong advances, the market had increased by just over 30% in 10 years and to five times its value in 2009 ($721 million). The growth in sales in the last two years was driven by many multimillion-dollar lots sold at the major auction houses in New York, including the aforementioned Andy Warhol's *Shot Sage Blue Marilyn* (1964) sold at Christie's New York for $195 million. The Paul Allen sale at Christie's in New York also supplied seven of the top 50 lots in the sector, notably including Lucien Freud's *Large Interior, W11 (after Watteau)* (1981-1983) for $86.2 million. Nine works sold for over $50 million in 2022 and all but one of these in New York, as well as the majority of those sold for more than $10 million (56 of the 85 lots). While Warhol and Freud accounted for the top lots in the Post-War segment of this market, Jean-Michel Basquiat had the highest-selling Contemporary artwork at auction, with *Untitled* (1982) selling at Phillips in New York for $85 million.

After a very strong year of sales in 2021, China's Post-War and Contemporary market lost one third of its value in 2022, falling to $1.7 billion, with its market share by value decreasing for a second year to 22%, its lowest level in more than a decade. Sales in this sector in China fared better during the pandemic initially, with low growth in 2020, while other major markets all suffered significant declines. The market then grew by 40% in 2021 to reach $2.6 billion, a more moderate increase than the US but just surpassing its peak in 2011 (of $2.2 billion). Despite the significant fall in sales in 2022, China's Contemporary market had higher sales than the US (with a share of 40% versus 33% in the US), but its share in the much larger Post-War sector was significantly less (14% versus 55% in the US). Works by artists such as Fang Lijun (b.1963), Huang Jiannan (b.1952), and Liu Wei (b.1972) all sold for multimillion-dollar prices, including Fang Lijun's *Series 2. No. 4* (1992) sold for $9.5 million at China Guardian Beijing, a record for the artist.

The share of US sales of Post-War and Contemporary art increased again in 2022 to 48% by value, up by 8% year-on-year

Elsewhere in Asia, performance was mixed. While dealers reported strong sales, auction sales in this sector declined in Japan, South Korea, and some other smaller markets. Singapore was a notable exception in 2022, with double-digit growth, albeit from a low base, driven by the Sotheby's sale of Modern and Contemporary art, its first auction in the region after a 15-year hiatus.

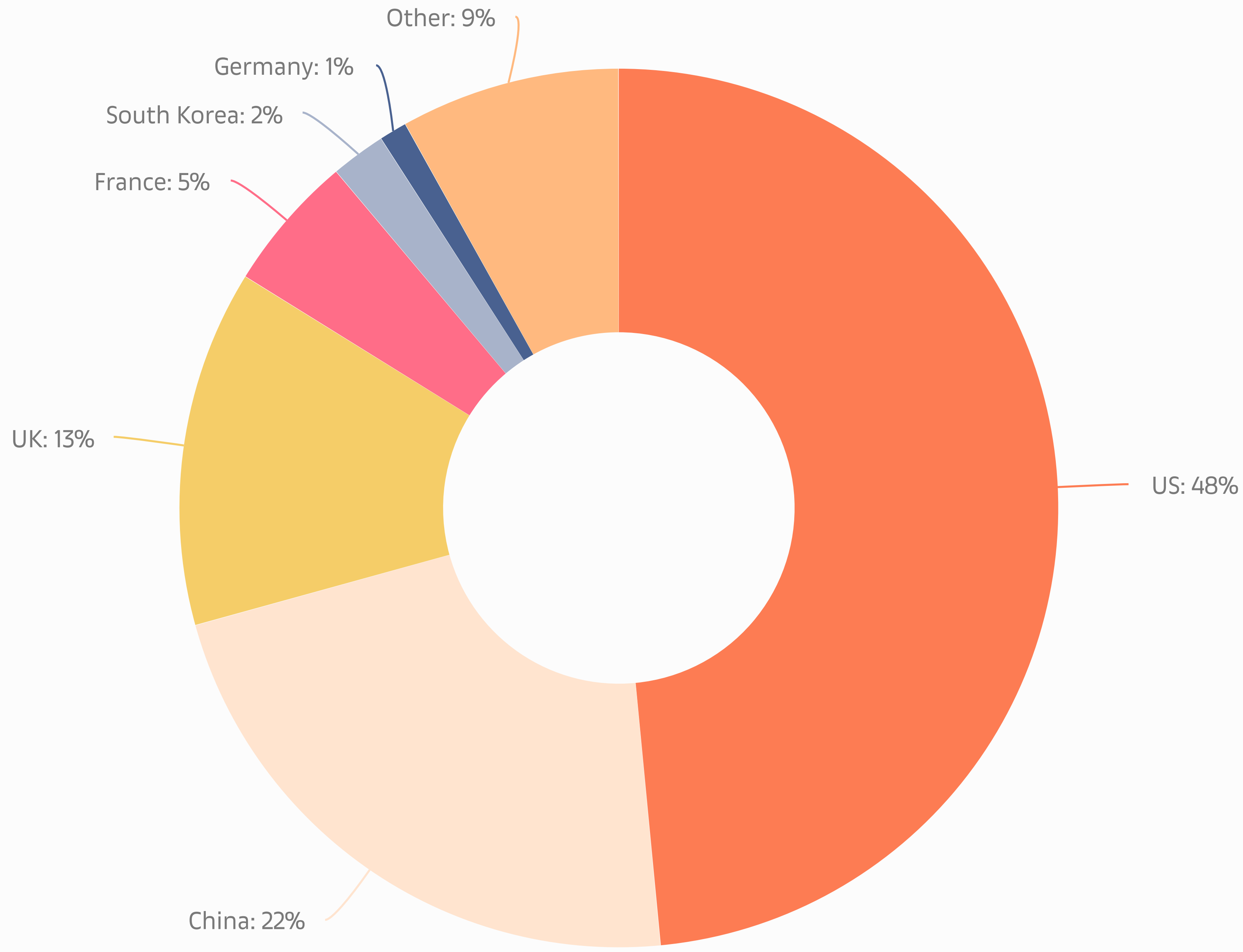
The UK was the third-largest market in the Post-War and Contemporary sector and its share increased slightly by 2% to 13% of sales by value in 2022. After a two-year decline to $737 million in 2020, the lowest level in a decade, sales grew strongly in both 2021 and 2022. Sales in the sector totaled just over $1.0 billion in 2022, up by 11% year-on-year from 2021, restoring values to their pre-pandemic 2019 levels.

After a substantial decline in 2020, Post-War and Contemporary art sales in France reached their highest level in 15 years in 2021, increasing by almost 80% to $429 million. However, measured in dollars, sales in 2022 were weaker, declining by 13% to $374 million, resulting in a slight fall in France's global share by value to 5% (down by 1% year-on-year). Sales also declined in Germany and some other mid-sized markets in the EU, although performance was mixed with double-digit growth in smaller markets such as Belgium and Austria. After strong growth of close to 60% in 2021, sales in the EU slowed in 2022, declining by 14% in US dollar terms, with a stable share of 9% of global sales.

IMAGE Carl E. Hazelwood, Welancora Gallery, image courtesy Art Basel

Figure 3.20 Global Market Share of the Post-War and Contemporary Sector in 2022

a) By Value of Sales



b) By Volume (Number of Lots)

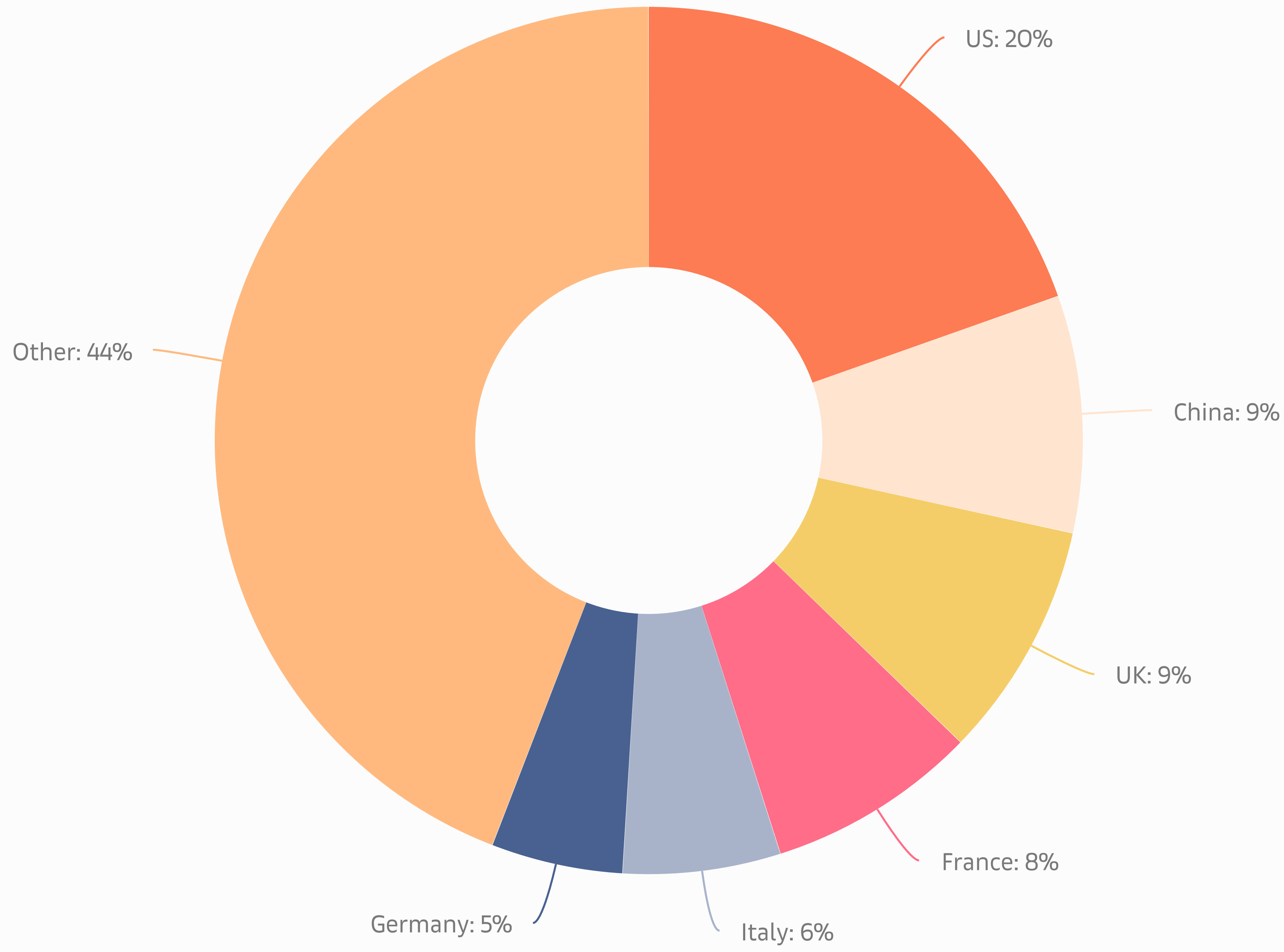
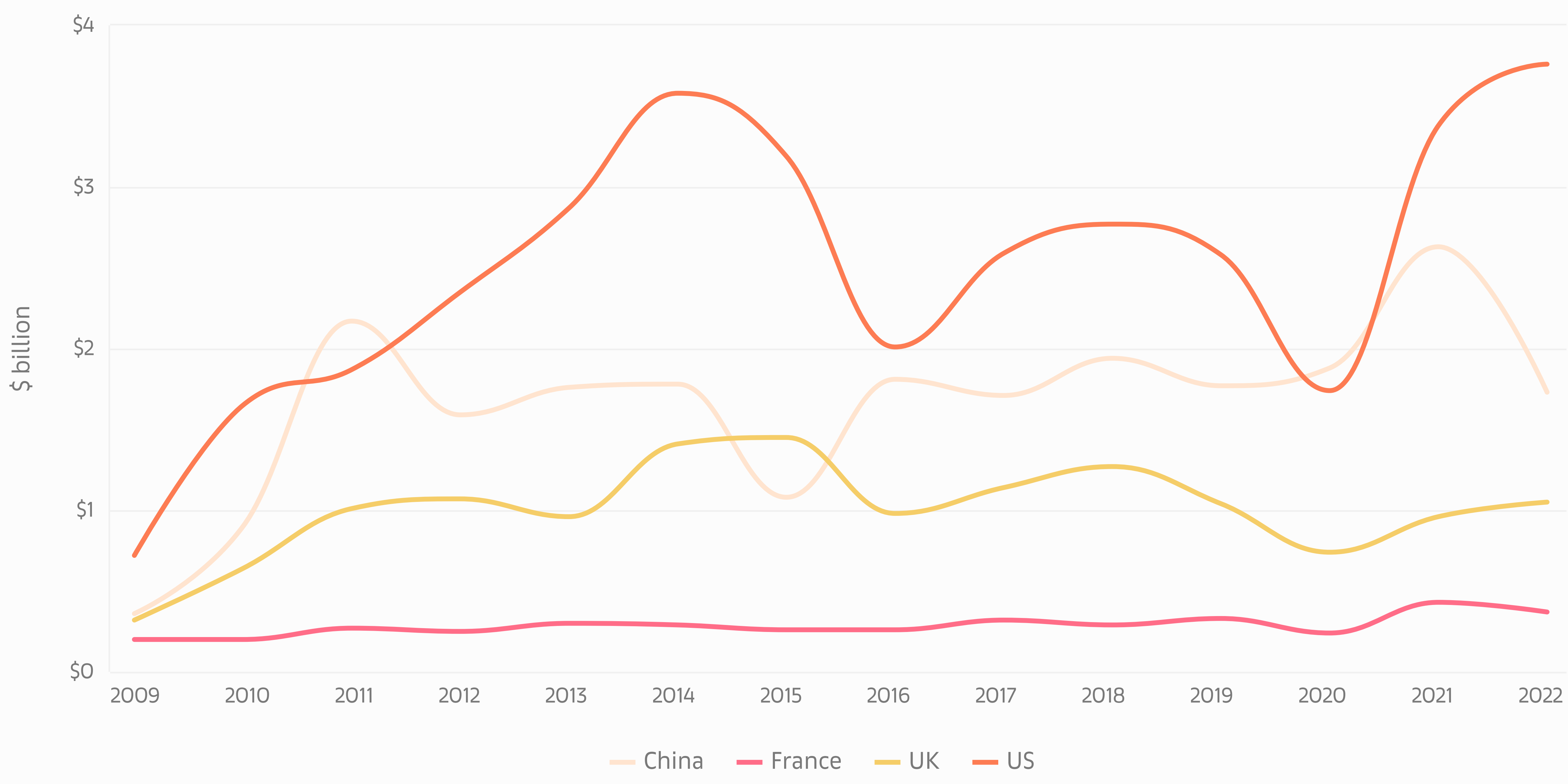


Figure 3.21 Sales in the Post-War and Contemporary Sector Key Markets 2009–2022



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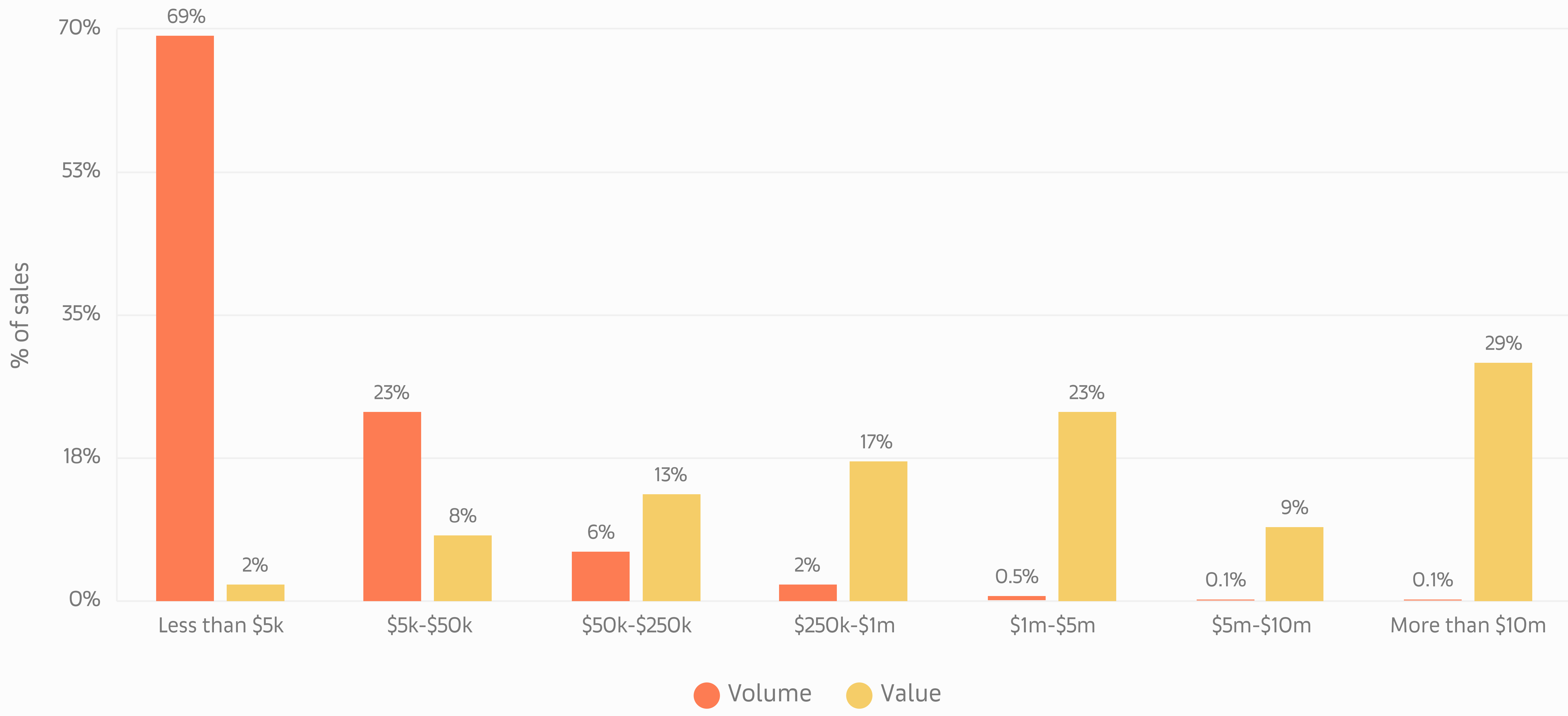
Some of the highest-priced lots sold at auction are in the Post-War and Contemporary sector each year, but most of the sales that take place continue to be at lower price levels. In 2022, 92% of works sold were priced at below $50,000 and 69% were less than $5,000 (up by 4% in share year-on-year). Works priced at over $1 million accounted for the majority (59%) of value in 2022 in just 1% of lots sold. The number of lots sold in this segment declined by 11% year-on-year, and values fell by 7%. However, after the very substantial boost in 2021, the $1 million-plus segment was still substantially larger than before the pandemic (with the number of lots up by 10% and values having increased by 29% since 2019). The proportion of works sold at the very highest end of the market over $10 million accounted for a significant 29%, the largest segment of the market by value. Despite a decline in value of 4% year-on-year, there were still significantly more lots sold in this segment than in 2019 and at higher prices, with values up by 70%.

Figure 3.22 **Sales by Price Bracket in the Post-War and Contemporary Sector in 2022**



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The Post-War and Contemporary market covers an increasingly broad range of art from older Post-War artists to their newer Contemporary peers, both living and deceased. As the auction market represents mainly secondary market sales, most are of works by artists that are reasonably well established. There is, however, an increasingly wide variety of levels and stages, including younger artists early in their careers as outlined above.

Works by living artists have gained an increasing share of this sector in recent years and have often been among the highest-priced lots sold. In 2022, 62% of the lots sold at auction in the Post-War and Contemporary sector were works by living artists (an increase from 56% in 2019) and these artists made up just under half the value of the market – a relatively stable share over the last couple of years but rising from a low of 37% in 2017.

Along with the influx of younger artists, there has also been a rising share of relatively new works being sold at auction. This has been a developing trend in recent years, but it was particularly evident in 2021, with more NFTs and other new works sold and for higher prices. The share of newly created works in the last 20 years peaked at 33% of the Post-War and Contemporary market in 2021 (and 24% of the lots sold). This share dropped to 30% of total sales values in 2022, however, it remained above 2019 levels (25%) and was significantly larger than in 2017 (at 14% of sales values).

Figure 3.23 shows sales in these different components of the Post-War and Contemporary market from 2019 to 2022. While all of the segments saw a double-digit decline in sales in 2020, the recovery was stronger for the newer segments in 2021, with Contemporary art and works created in the last 20 years both doubling in value, versus a lower rise of 43% for Post-War art. However, Post-War art was the most successful market in 2022, with values up by 3%, versus declines of 26% for Contemporary art, 12% for works by living artists, and 17% for works created in the last 20 years. Despite a relatively worse year, considering the period from 2019 to 2022, the segment of newly created works has increased most in size. While the other segments were roughly on par, increasing by 21% to 25%, works created in the last 20 years grew by 50% over the period, showing the sustained rise of these works at auction. It is notable also that while New York dominated as a location for Post-War and Contemporary sales generally, in this particular subsector, close to half (nine) of the top 20 lots sold were sold in China. These included the very recent work by Cui Ruzhuo, *Landscape* (2021) which sold at Yongle Auction Company for $15.3 million, as well as two works by Yoshitomo Nara, *Oddly Cozy* (2013) sold at Sotheby's Hong Kong for $14.3 million and *Wish World Peace* (2014) at Christie's Hong Kong. The highest-priced lot in this sector was a work by Cy Twombly created six years before his death in 2011, *Untitled* (2005) which sold for $41.6 million at Phillips in New York. Three David Hockney lots were the next under these, selling for between $18.7 million and $23.3 million in both New York and London.

Overall, however, these newest works still make up just 20% of the lots sold in the Post-War and Contemporary sector in 2022, and only 9% of those sold for over $10 million. Older Post-War art accounted for the majority (75%) of the value of sales in the $1 million-plus segment in 2022, and most (88%) of the value of works sold at prices over $10 million.

Figure 3.23 Share of Sales in the Post-War and Contemporary Sector by Living Versus Deceased Artists 2019-2022

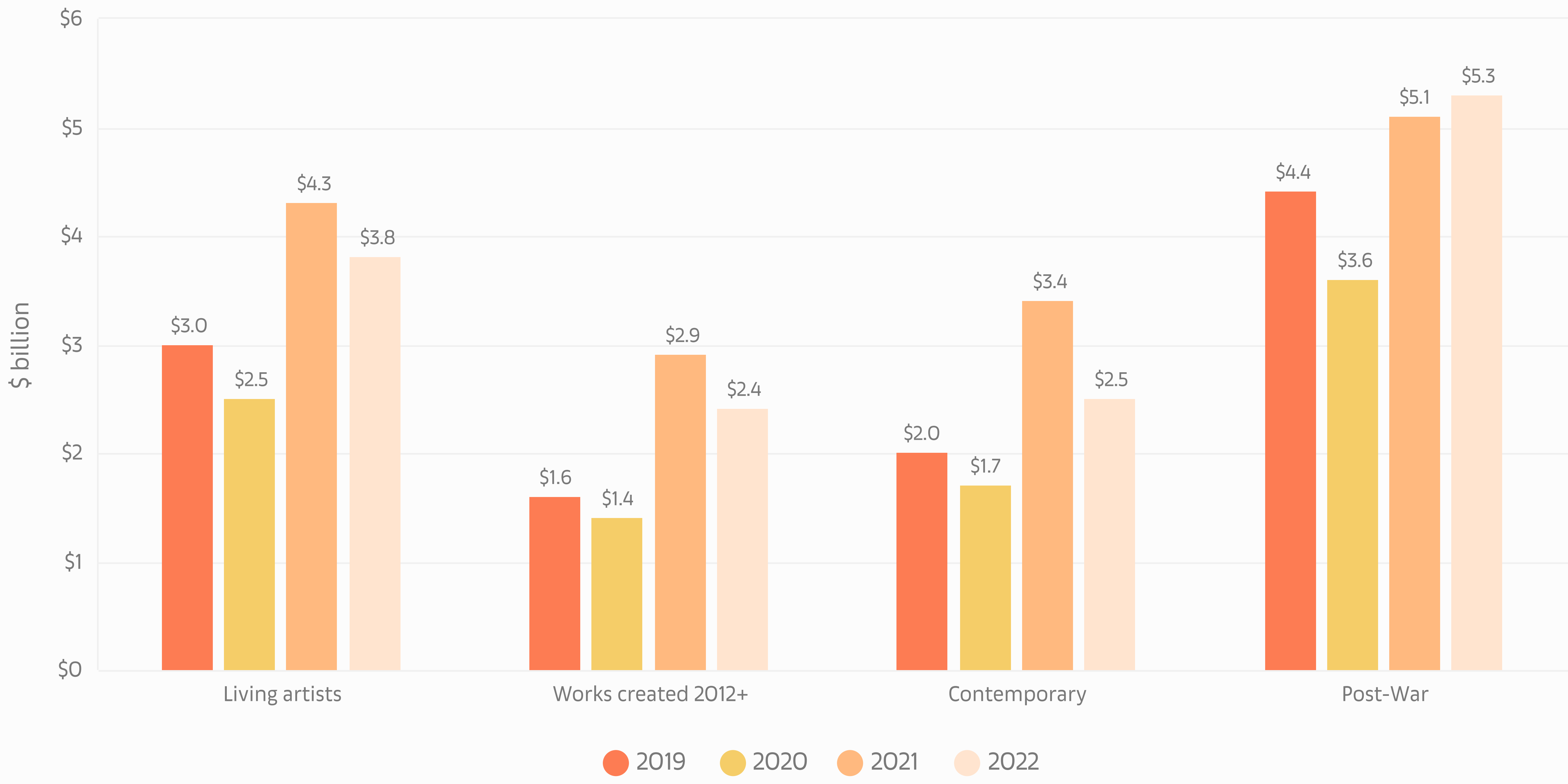

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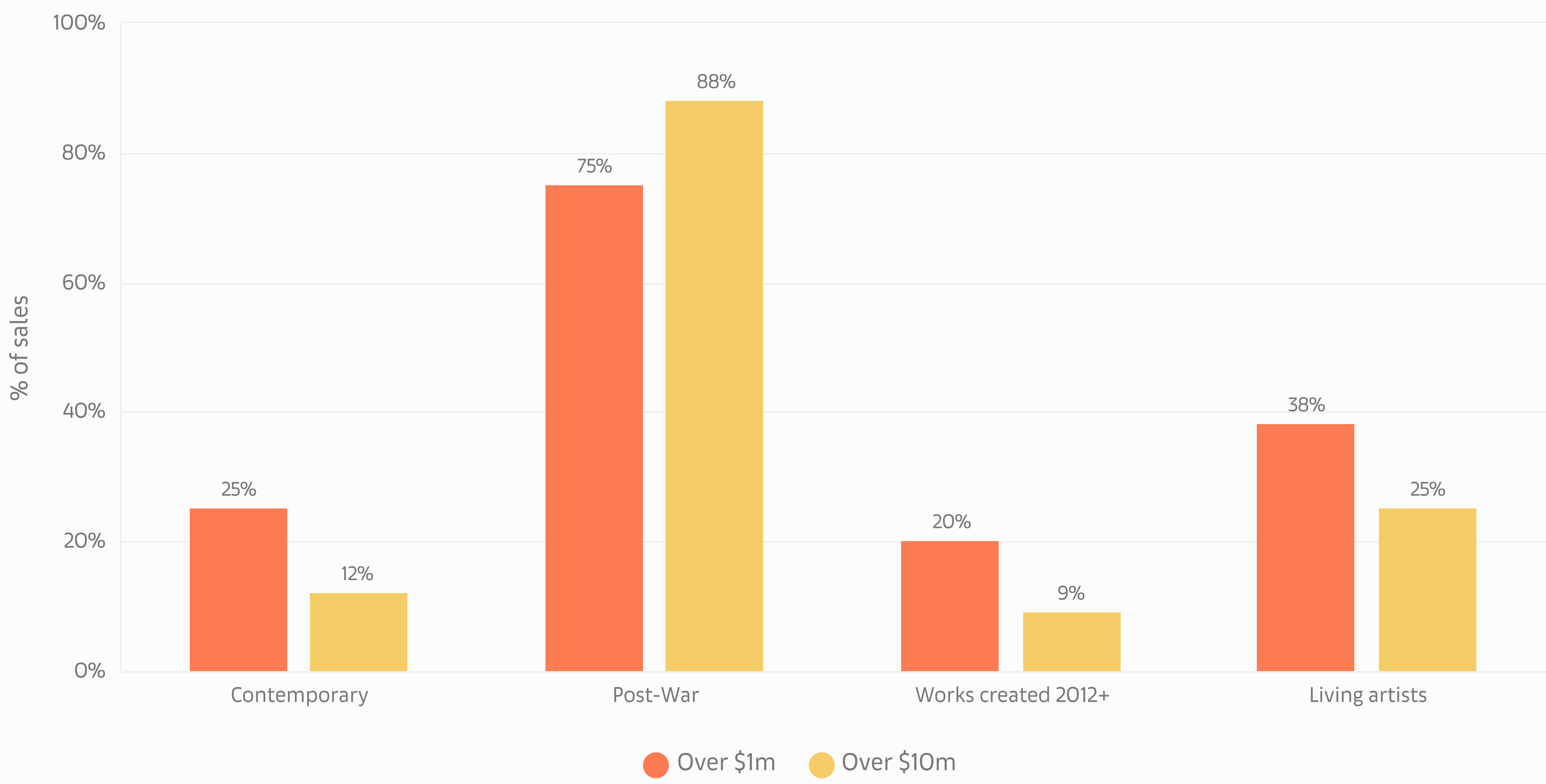
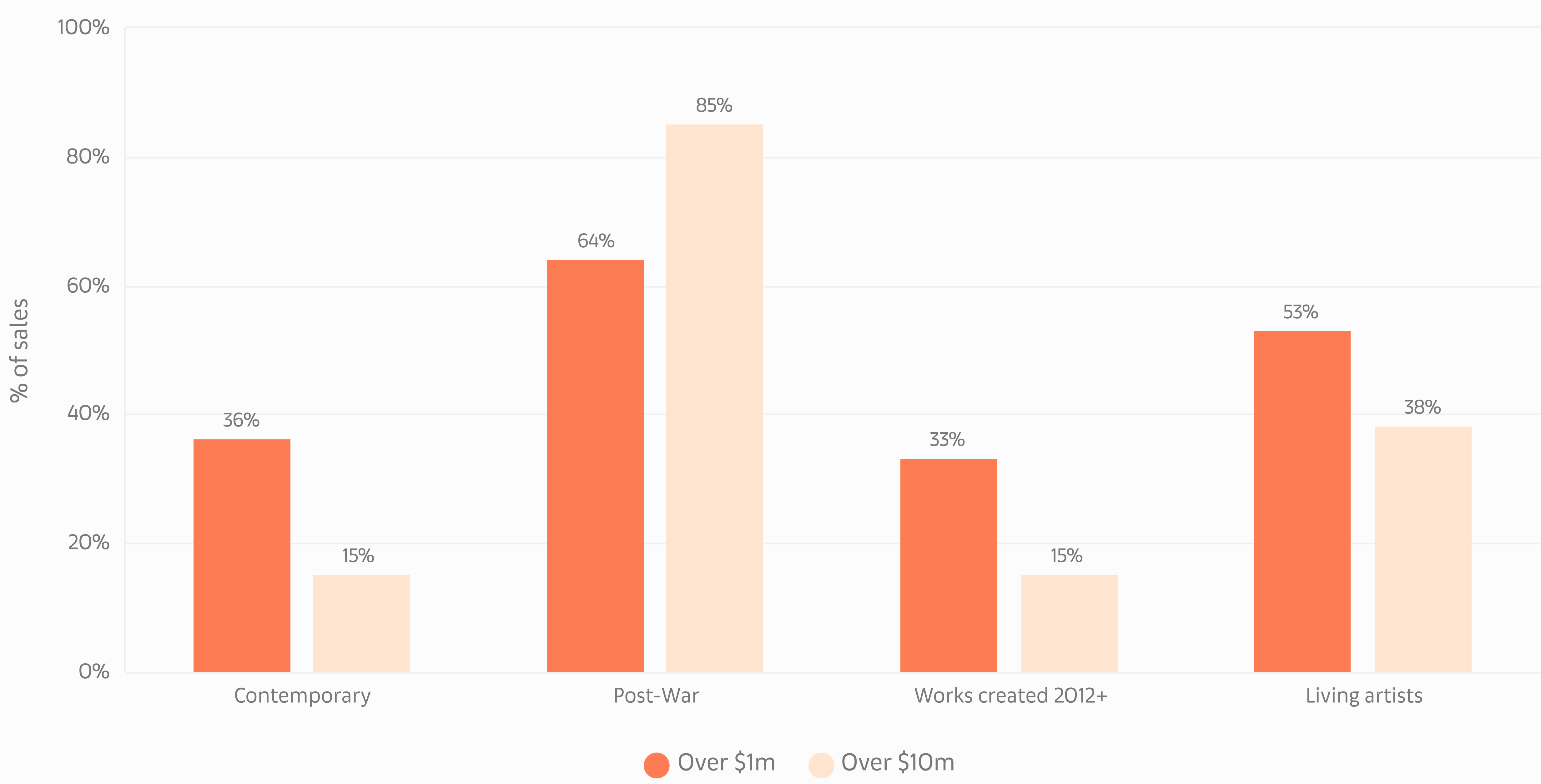
Figure 3.24 Share of Sales Over $1 Million in the Post-War and Contemporary Market by Subsector in 2022

a) By Value of Sales



b) By Volume (Number of Lots)



The highest-selling artist at auction in the Post-War and Contemporary art sector in 2022 (and overall, at auction) was Andy Warhol, with close to $570 million in sales. Alongside Francis Bacon, Gerhard Richter, Jean-Michel Basquiat, and Mark Rothko, the top five artists accounted for 27% of the value of sales in the sector, an increase from 23% for the top five in 2021. Values have become more concentrated in this sector around a relatively small group of established Post-War artists. In 2022, the top 20 artists accounted for 56% of the value of sales, up by 7% year-on-year and from 47% in 2019. The top-selling living artist was Gerhard Richter, with sales totaling $226 million, with David Hockney and Yayoi Kusama also in the top three.

The majority (70%) of Post-War and Contemporary sales by value in 2022 were at Christie's and Sotheby's, with Christie's slightly ahead with a 48% share. Along with Phillips, China Guardian, and Bonhams, the top five auction houses made up 83% of the value of sales (and 37% of the number of lots sold).

IMAGE Maha Malluh, Galerie Krinzinger, image courtesy Art Basel

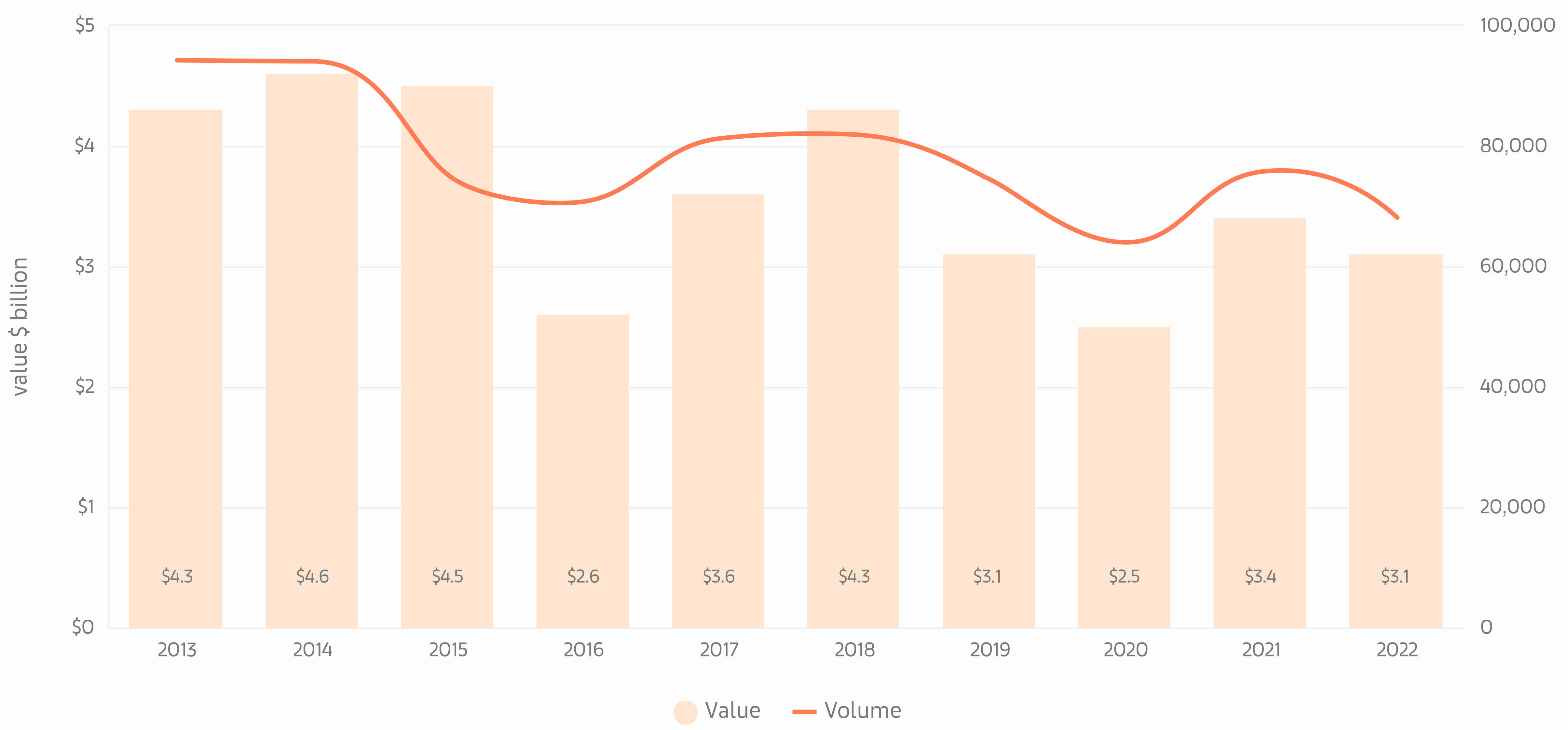
3.8 Modern Art

Modern art was once again the second-largest sector in the fine art auction market in 2022, accounting for a relatively stable 22% share of sales by value and 24% of the number of transactions. While Modern art sales historically dominated Post-War and Contemporary sales in 2000 and prior years, they have been consistently lower since 2012, with the margin widening over the last few years as finite supply and scarcity at the high end has been unable to keep up with the expanding Contemporary art sector and its ever-higher prices.

Modern art sales posted a strong recovery from their pandemic-induced low of $2.5 billion, increasing by just over one third in value to $3.4 billion in 2021. However, this growth was not sustained in 2022 and values fell by 8% year-on-year, reverting to their pre-pandemic 2019 level of $3.1 billion, with a drop in the number of lots sold by 10%. The market remained well below its historical peak of $5.4 billion in 2011, driven up by booming sales in China and a strong recovery elsewhere from the global financial crisis. During the last few years, sales in the two largest markets of the US and China have tended to perform very differently, leaving the aggregated growth in values much more muted.

Modern art sales posted a strong recovery in 2021 from their pandemic-induced low, however, this growth was not sustained in 2022 and values fell by 8% year-on-year

Figure 3.25 The Modern Art Sector 2013–2022



The US Modern art market suffered two years of double-digit declines in 2019 and 2020, bringing sales to their lowest point since the contraction of the market during the global financial crisis in 2009, at $557 million. It bounced back equally strongly in 2021, doubling in value to $1.1 billion, and increasing again in 2022 by 18% to reach a high of $1.3 billion, its highest level since 2018. The boost in sales restored the US market to its premier position in the sector, having fallen behind China since 2019, with a market share by value of 40%, up by 9% year-on-year (and 22% of lots sold).

The boost in sales in 2022 restored the US Modern art market to its premier position, having fallen behind China since 2019, with a market share by value of 40%

Sales were buoyed by a number of high-value lots sold in New York at the major auction houses, including Pablo Picasso's *Femme Nue Couchée* (1932) sold for $67.5 million at Sotheby's in May along with his sculpture, *Tête de Femme (Fernande)* (1909) for $48.5 million at Christie's, as well as four lots by other artists for over $20 million from the Paul Allen sale. Despite the strong recovery, values remained below their peak in 2015 of just over $2.0 billion, and only 8% above their level 10 years previously in 2012 ($1.2 billion).

After faring better than the US up until 2020, sales in China's market decreased significantly in 2022, falling by 36% to $860 million, their lowest level since 2009. This decline resulted in a decrease in its global share of 12%, putting China in second place with 27% of sales by value. Sales remained just less than one third of their peak size in 2011, when China was also the largest market worldwide in the sector, with $2.7 billion in sales and a global share of 50%. Despite the drop in value, there were several individual lots selling at high prices in both Hong Kong and Beijing, including Zhang Daqian's *Landscape after Wang Ximeng* (1947) which sold for $47.2 million at Sotheby's in Hong Kong.

Like the US, the UK market for Modern art had seen two years of consecutively declining sales up to 2020, bringing the market to a low point of $456 million, its lowest level since 2009. Its recovery was less dramatic than in the US in 2021, however, growth continued in 2022 with sales advancing by 10% year-on-year to just over $500 million, slightly surpassing 2019, but still 38% below their level a decade before. Part of the rise in 2022 was driven by record lots sold in London, including the highest-priced work sold at auction in the sector, Rene Magritte's *L'Empire des Lumières* (1961) which sold for $79.7 million, a new record for the artist, nearly three times the previous highest price, at Sotheby's in London. Franz Marc's *The*

Foxes (Die Füchse) (1913) also sold in London at Christie's for $56.8 million – another record price for the artist.

The UK market's global share by value was up slightly at 16%, on par with 2019, with France the fourth-largest market with an 8% share. After an exceptionally strong recovery in France in 2021, with sales increasing by more than 60%, values were stable year-on-year in 2022, increasing by just 1% to $242 million. Sales in Germany were buoyant, increasing by 33%, although elsewhere in Europe performance was mixed, including a decline in Italy and Spain, leaving the EU as a whole with just 5% growth to $414 million.

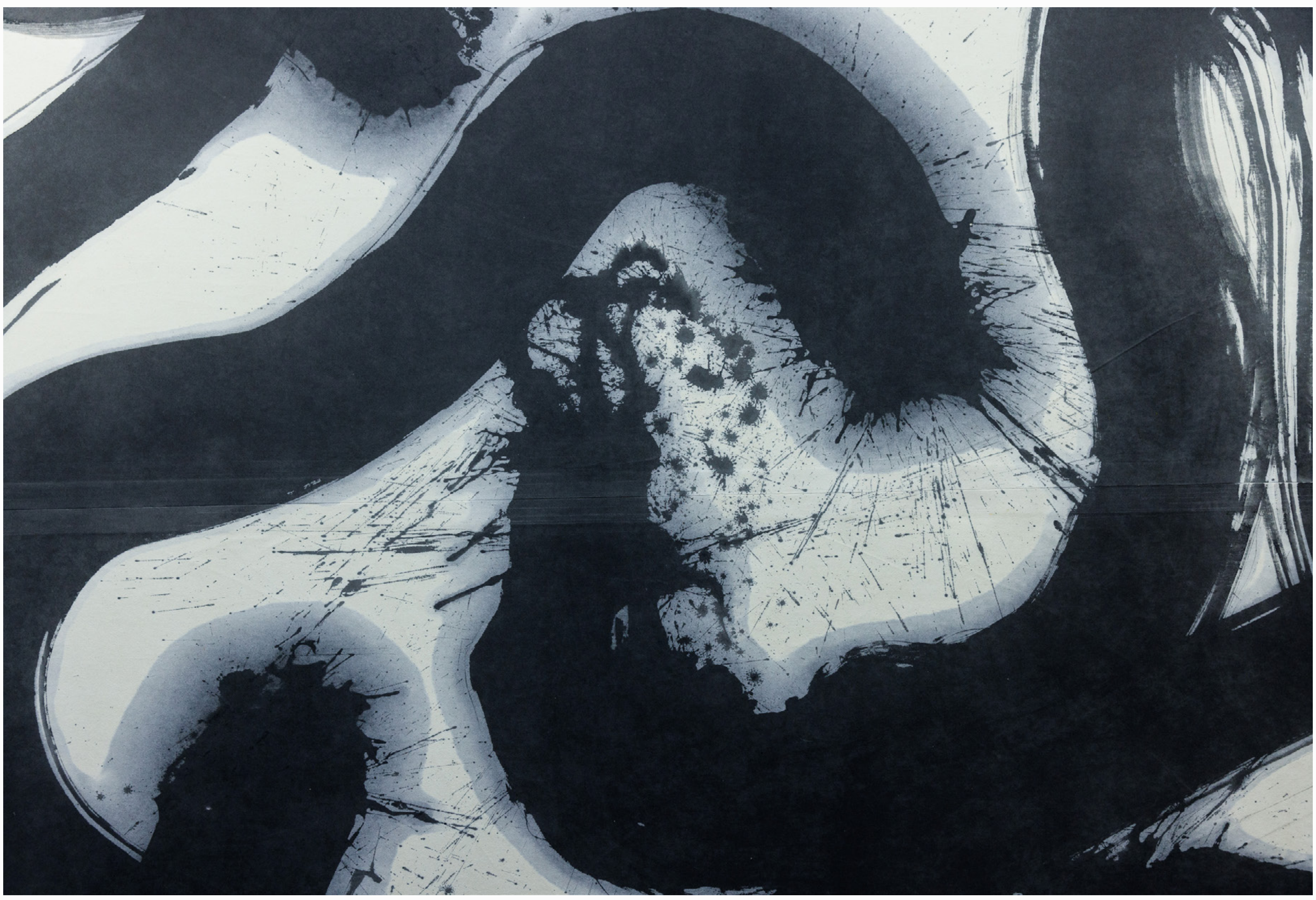
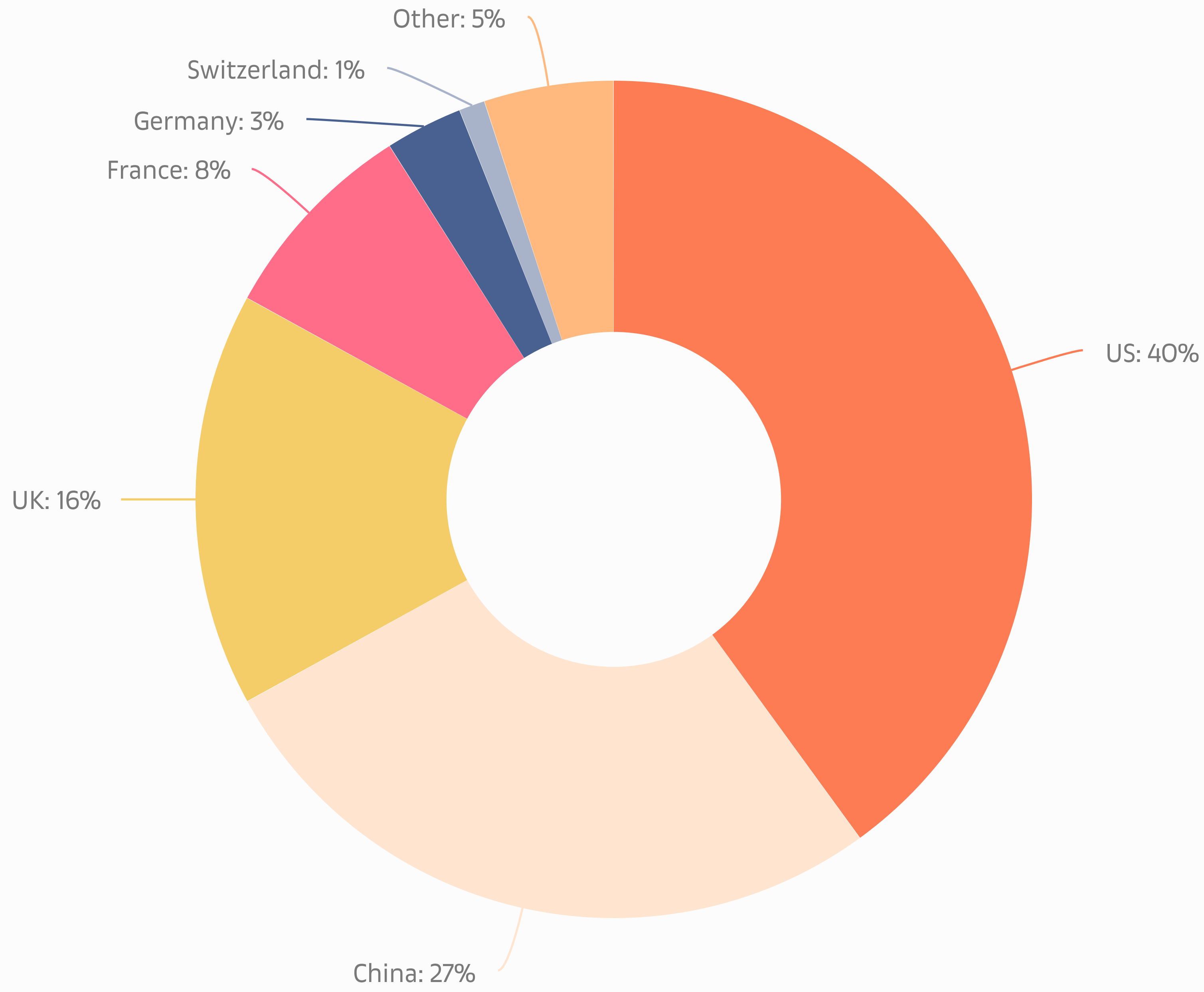


IMAGE Qin Feng, Leo Gallery, image courtesy Art Basel

Figure 3.26 Global Market Share of the Modern Art Sector in 2022

a) By Value of Sales



b) By Volume (Number of Lots)

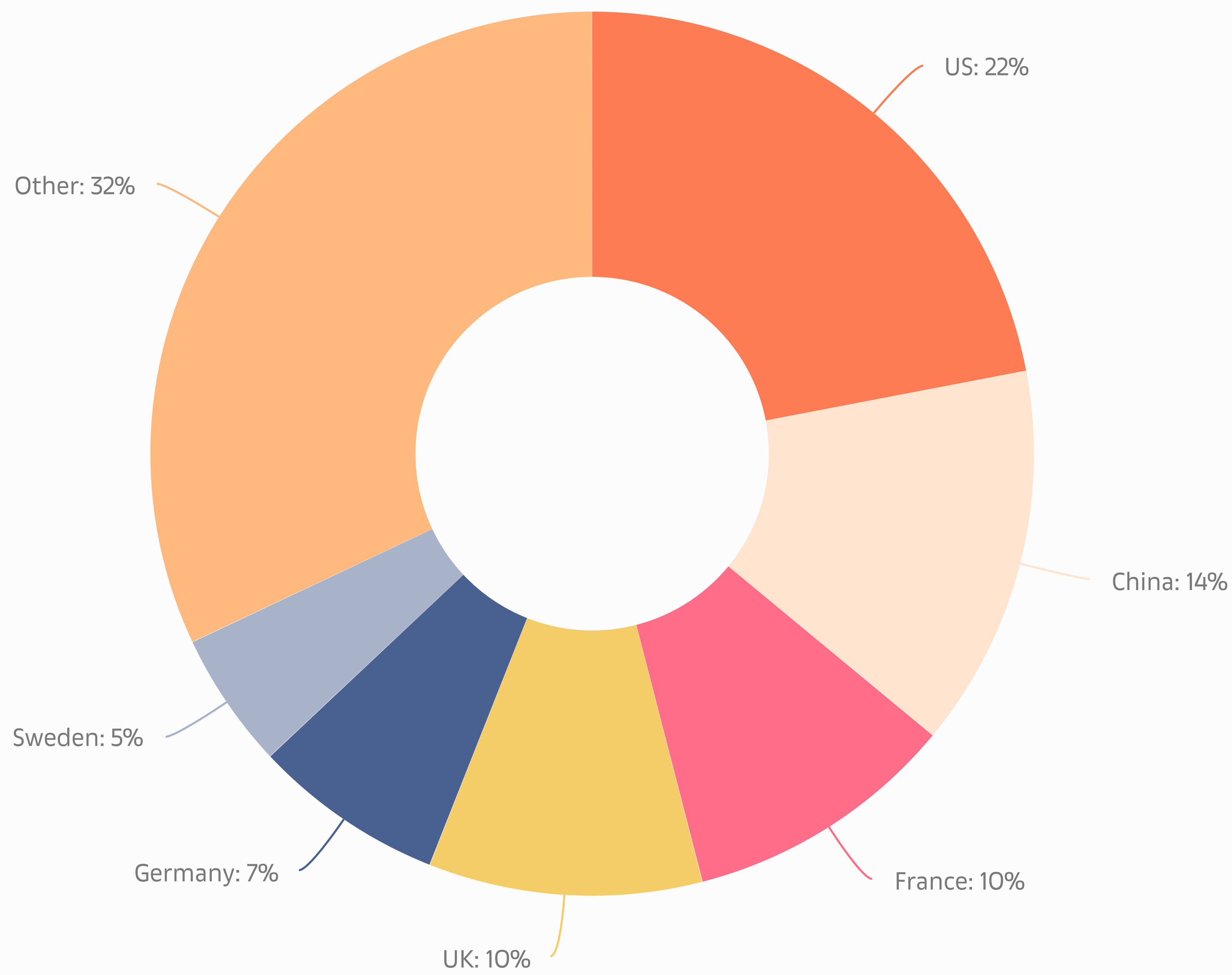
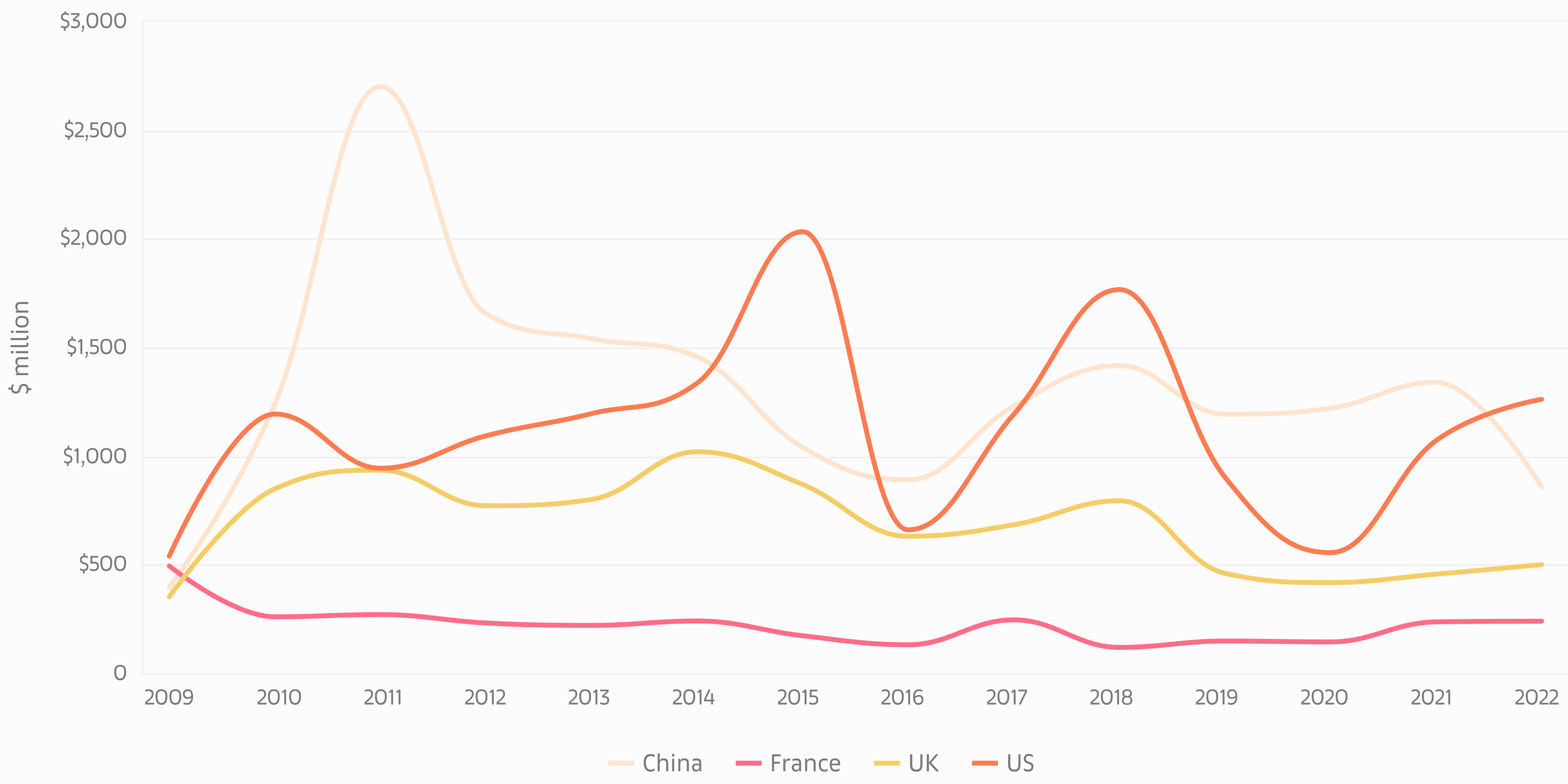


Figure 3.27 **Sales in the Modern Art Sector Key Markets 2009–2022**



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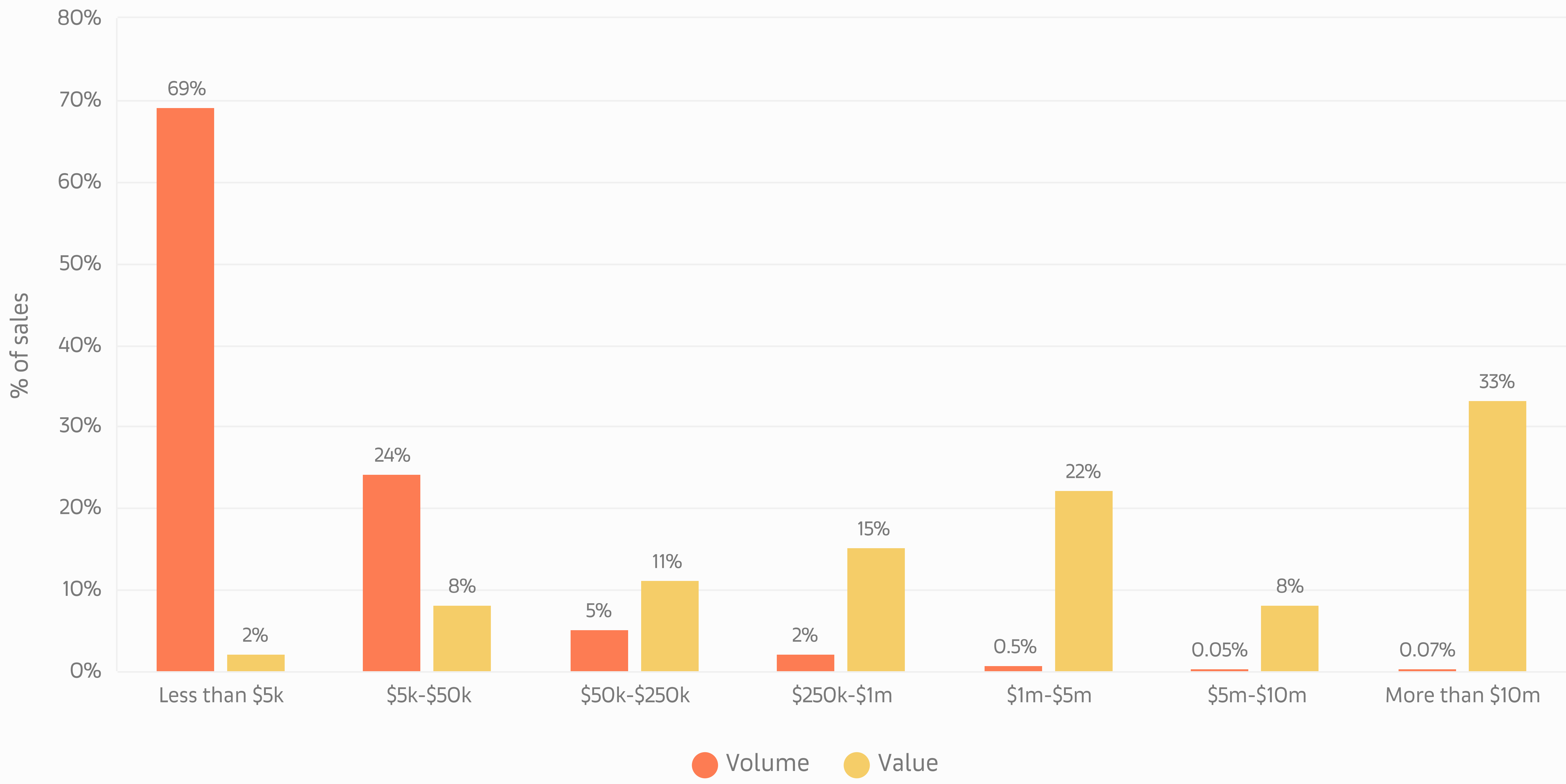
Picasso was once again the highest-selling artist in the Modern art sector for the fifth consecutive year, with sales of $507 million, accounting for six of the top 20 lots, all of which were over $10 million. The top five artists (which also included Magritte, Zhang Daqian, Alberto Giacometti, and Li Keran) comprised 43% of the market by value, down from 45% in 2021. The top 20 artists accounted for 72% of the total value of sales, up by just 2% on 2021, but more than in 2019 (at 66%) and significantly more concentrated than the Post-War and Contemporary art sector.

The dominant share of value of these high-selling artists is also evident when segmenting the market by price level, with the majority of value (63%) accounted for by works sold at over $1 million. This share increased by 6% year-on-year, with the share of works sold at over $10 million reaching 33%. Sales in the $1 million-plus segment grew by just 2% year-on-year, driven entirely by sales of above $10 million (which grew by 11% year-on-year, while those in the $1 million to $10 million range declined). Lower-priced segments also saw decreasing sales values, with works priced at under $1 million falling by 21% and reductions in all individual price segments below this level. Most works (93%) in the segment were still sold for prices below $50,000. These made up 10% of the value of Modern art auction sales, stable year-on-year, with this segment seeing a fall in value of 22% from 2021.

Figure 3.28 **Sales by Price Bracket in the Modern Art Sector in 2022**



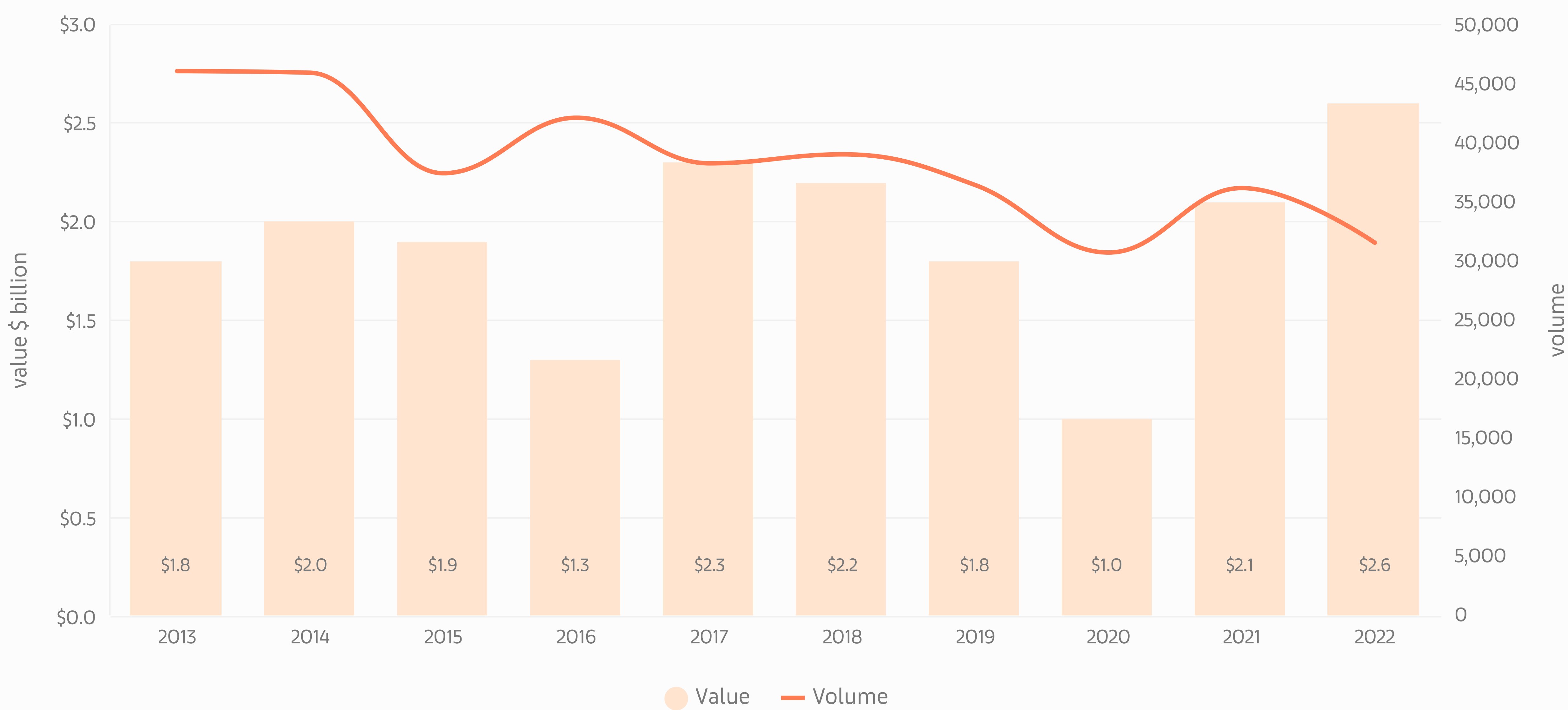
Christie's and Sotheby's accounted for a combined 70% of sales by value in the Modern art market, with Christie's marginally ahead with 37%. Along with China Guardian, Beijing Dongxing Hanhai, and Bonhams, the top five houses accounted for 78% of the aggregate value of sales, but just 38% of the lots sold in 2022.

IMAGE Shuang Li, Peres Projects, image courtesy Art Basel

3.9 Impressionism and Post-Impressionism

Although considerably smaller in size than the newer sectors, sales of Impressionist and Post-Impressionist art were the best performing in 2022, with sales increasing by 25% year-on-year to reach $2.6 billion, its highest level to date, and including several of the highest-priced auction lots of the year. Sales had almost halved to $1.0 billion in 2020 during the pandemic, their lowest level since the previous low point in 2009, which followed three years of consecutive declines in value. However, after a very strong recovery in 2021 which saw sales double in value, and continued growth in 2022, the market reached a new peak, surpassing 2011, when, buoyed by a booming Chinese market, the sector had reached a high of $2.4 billion. These strong sales helped boost the sector's share of the global fine art auction market to 18% by value, up by 6% year-on-year, with a smaller advance of 2% in the number of lots sold to 11%.

Figure 3.29 Impressionist and Post-Impressionist Auction Sales 2013–2022



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After falling to a 15-year low of $288 million in 2020, sales in the US saw two exceptionally strong years of growth. Sales tripled in size in 2021 and advanced by a further 83% in 2022 to reach a record high of $1.8 billion, surpassing their previous peak in 2018 (at $1.1 billion). Sales in this sector in the US have advanced by more than 200% over a decade, by far the strongest growth of any of the major markets. The US share of the global market also increased and in 2022 accounted for 69% of the value of sales in the sector (from 47% in 2021). This majority share is due to the boost in sales from a small number of very high value lots sold in New York auctions, and the US share by volume is considerably lower at 22% (stable on 2021). All of the top 10 lots sold in the sector were in New York, and these included five works sold for over $100 million, with the rest over $50 million. In total, 17 of the top 20 lots were also sold in New York, with eight from the Paul Allen sale, underlining the importance of successful single-owner collection sales in driving up values. These highest-value lots included Georges Seurat's *Les Poseuses, Ensemble (Petite Version)* (1888) for $149.2 million, Paul Cezanne's *La Montagne Sainte-Victoire* (1888-1890) for $137.8 million, and Vincent van Gogh's *Verger avec Cyprès* (1888) for $117.2 million, all at Christie's New York.

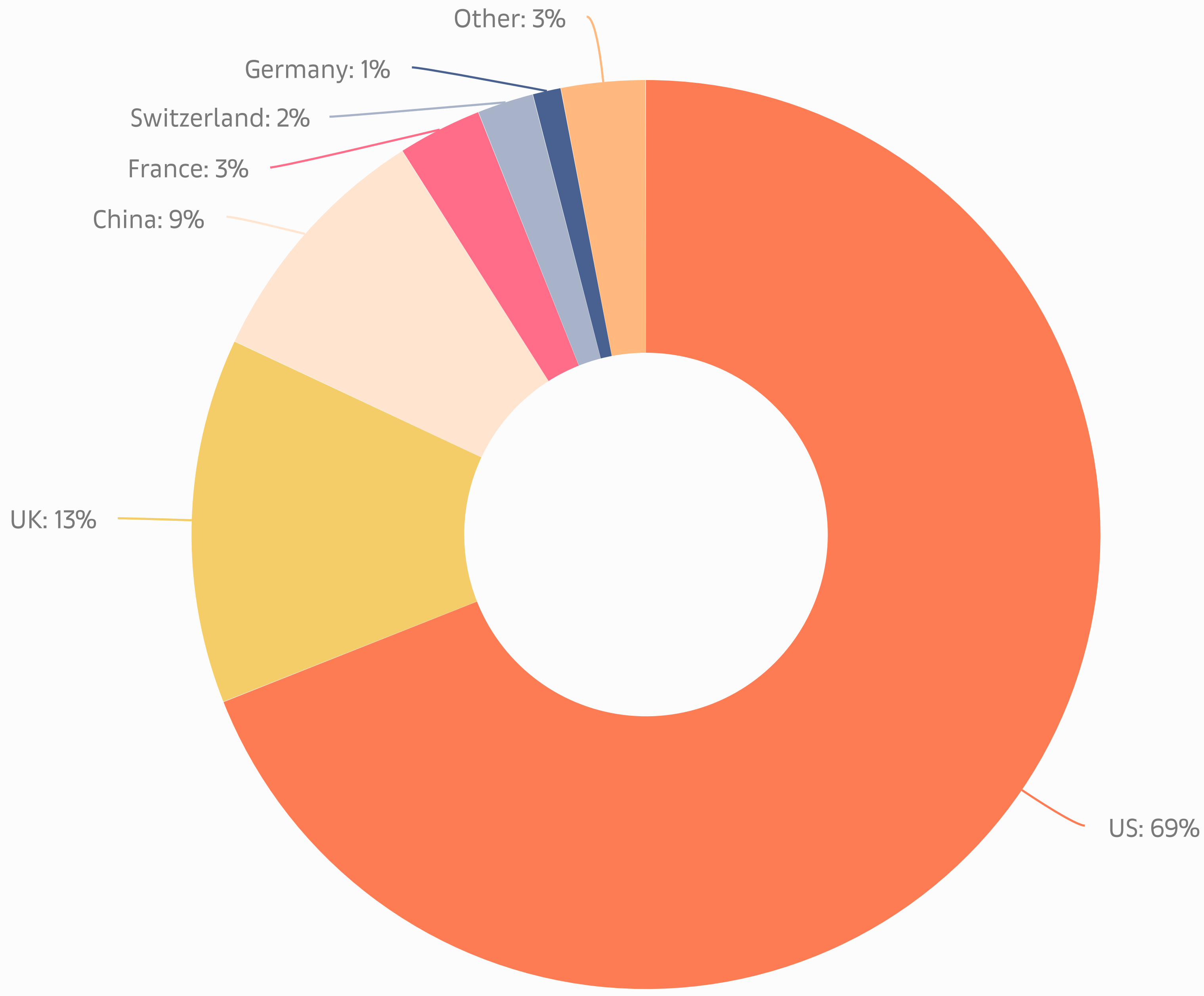
Although not as strong as the US, sales in the UK also saw double-digit growth, increasing by 29% from 2021 to $328.3 million. This was the second year of growth, with values having increased by 57% in 2021 from a 15-year low in 2020, when they had fallen to $162.8 million. Despite this two-year recovery, values were still below the level of 2019, and the UK's global share remained stable at 13% by value (and 12% of all lots sold). Three of the top 20 lots in the sector were sold in London, all works by Claude Monet: *Waterloo Bridge, Effet de Brume* (1899-1904) for $36.6 million and *Nymphéas, Temps Gris* (1907) also for $36.6 million at Christie's London and *Nymphéas* (1914-1917) for $31.1 million at Sotheby's London.

Also from a 15-year low in 2020, sales in France rose by 67% in 2021 to $90.5 million, the highest level since 2013. However, this growth was not sustained in 2022, and measured in US dollar terms, sales dropped by 10% year-on-year to $81.5 million, 15% below values 10 years prior. France accounted for 3% of global sales by value and 11% of the number of transactions. Aggregates sales in the EU accounted for 7% of global values and a significant 45% of all transactions in the sector.

China was the third-largest market in the sector in 2022, with a significant decrease in global share from 22% in 2021 to 9%. China's market peaked in 2011 at almost $1.1 billion, however, performance was mixed from then onwards. From a relative high point in 2017, the market experienced three consecutive years of declines to $345.0 million in 2020. Although sales recovered in 2021, growth at 33% was more moderate than in the UK and US, and this faltered again in 2022 as values dropped by 49% year-on-year to $236.4 million, their lowest level since 2009.

Figure 3.30 **Global Market Share of the Impressionist and Post-Impressionist Sector in 2022**

a) By Value of Sales



b) By Volume (Number of Lots)

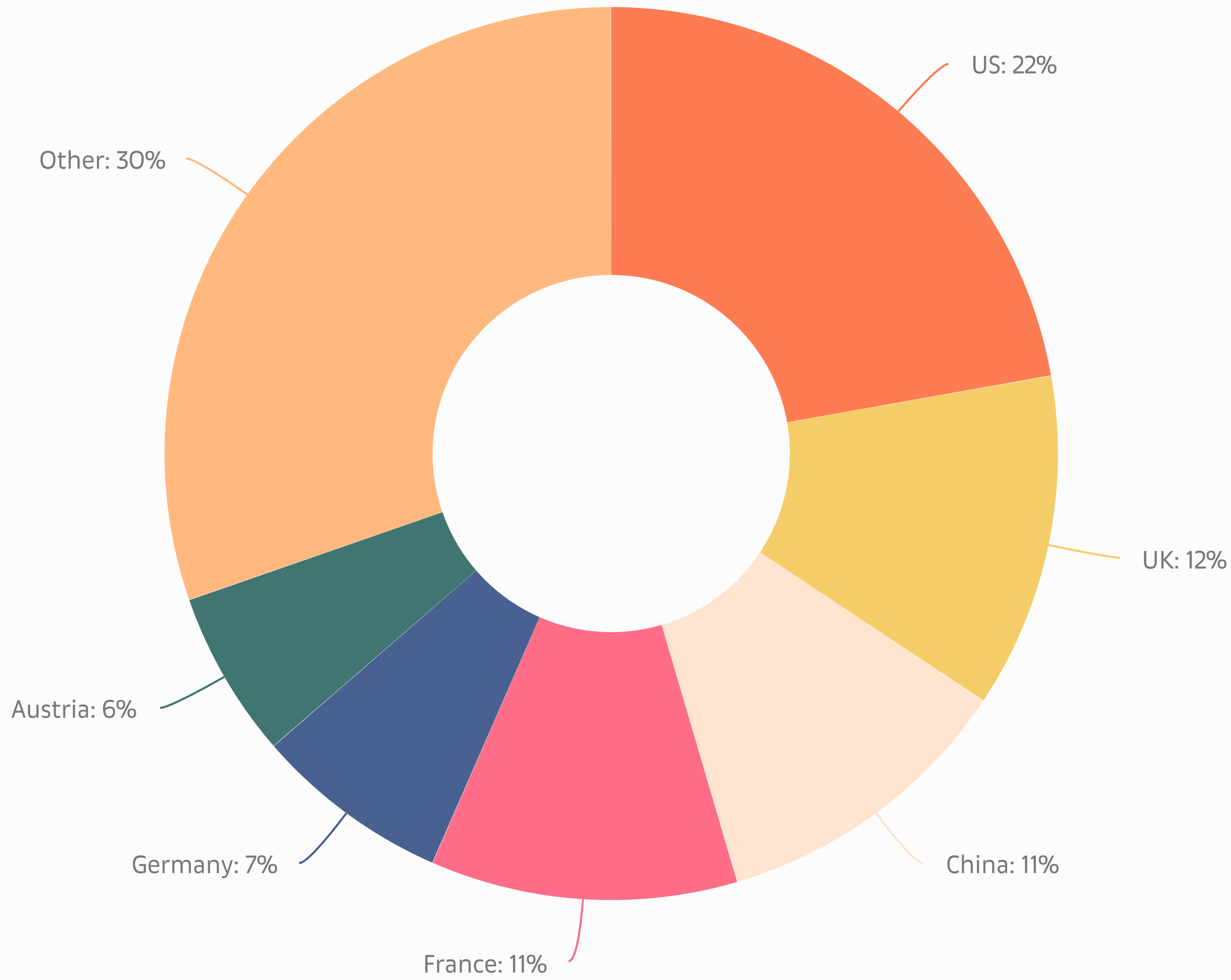
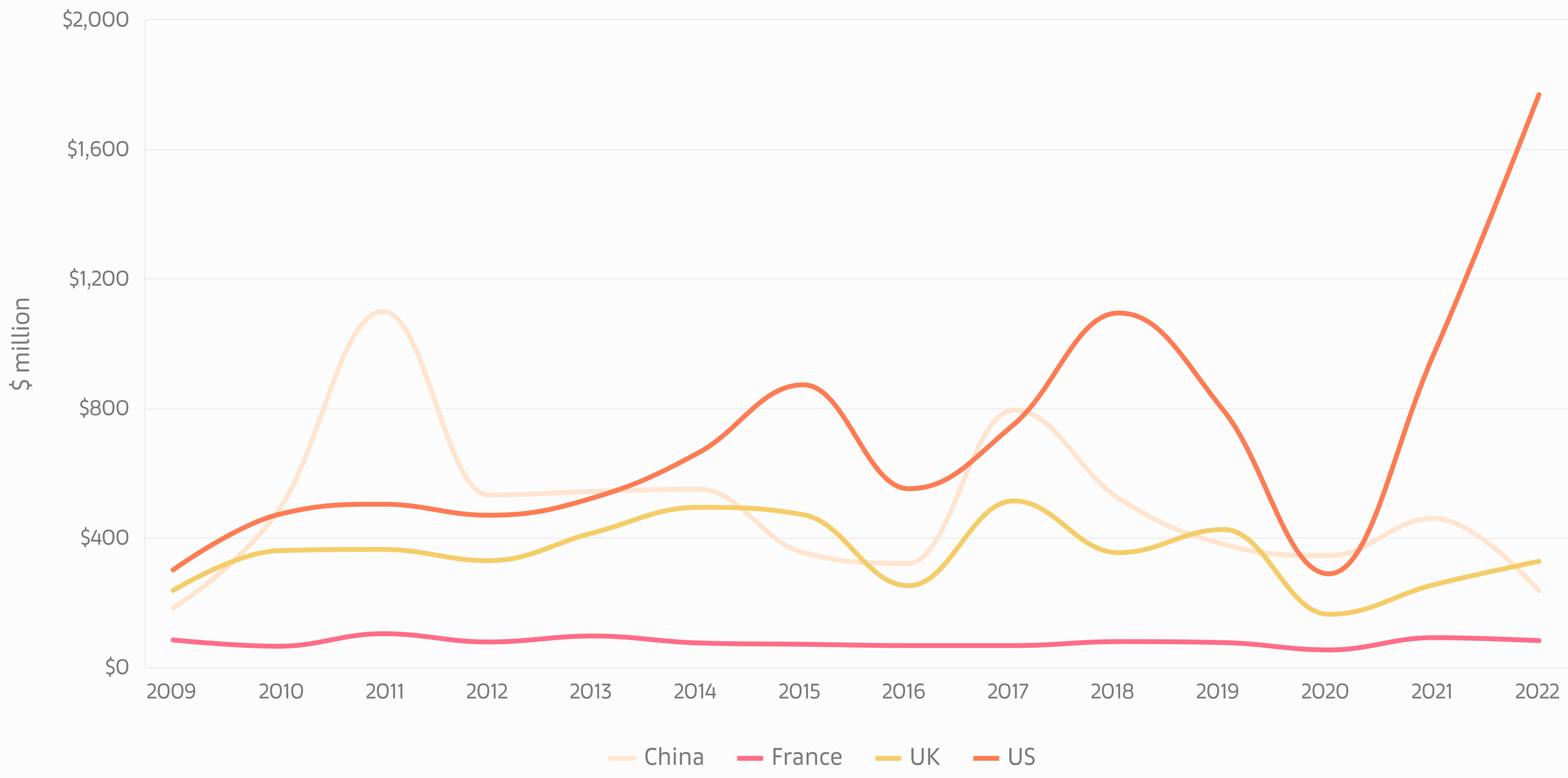


Figure 3.31 Sales in the Impressionist and Post-Impressionist Sector Key Markets 2009–2022



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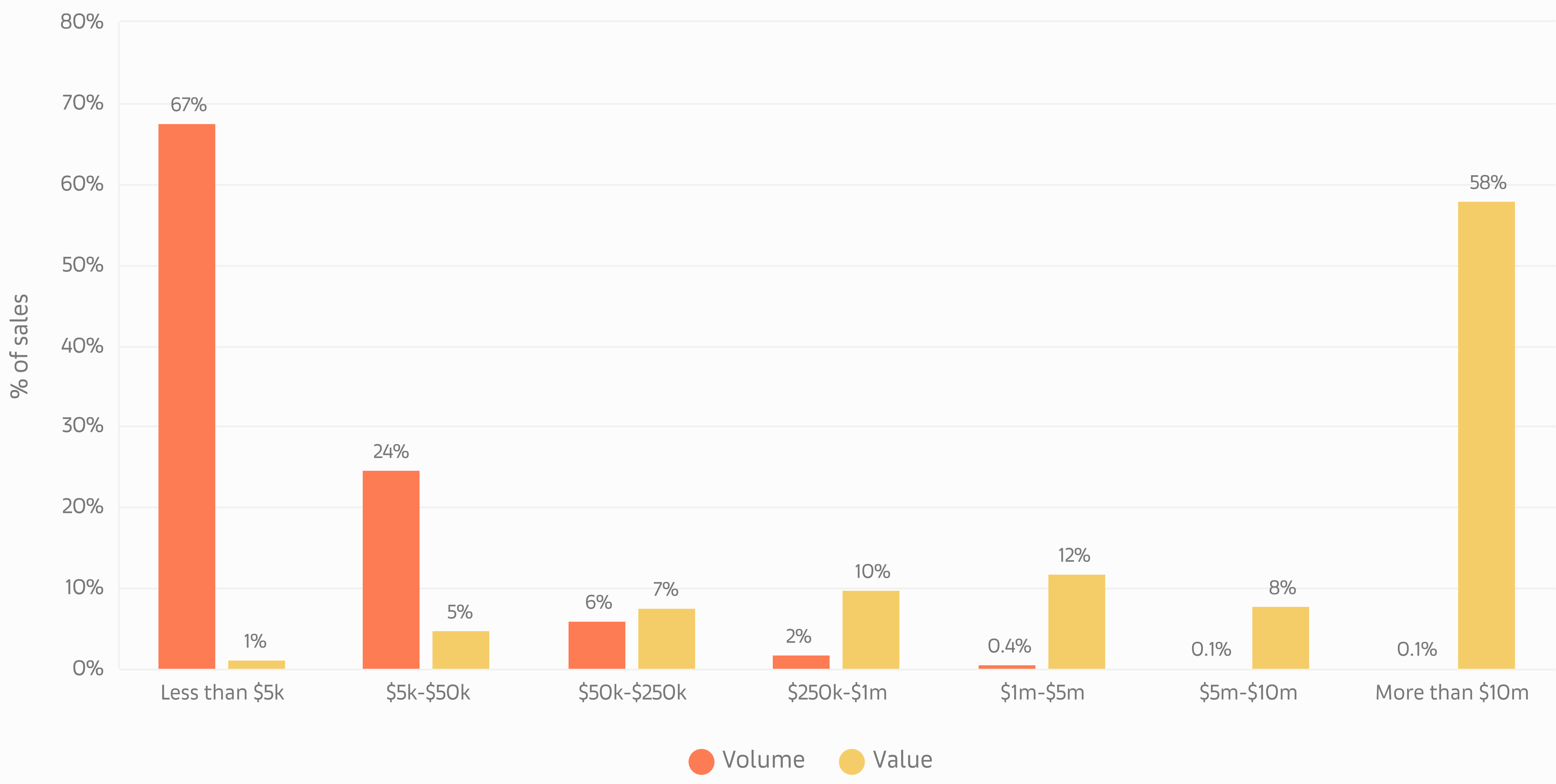
For the second consecutive year, the highest-selling artist in this sector in 2022 was Claude Monet, with sales of close to $539 million, including nine of the top 20 works sold, four for over $50 million and 10 over $20 million. The highest-priced lot by Monet was *Le Parlement, Soleil Couchant* (1900-1903) which sold for $76.0 million at Christie's in New York. Along with Cezanne, van Gogh, Seurat, and Gauguin, the top five artists accounted for 50% of the market, up from 46% in 2021. The top 20 accounted for 83%, showing a higher level of concentration of sales at the top, from 75% in 2021.

77% of the Impressionist and Post-Impressionist market's value was in the $1 million-plus segment and the majority (58%) accounted for by sales of over $10 million

The record prices in the sector in 2022 meant that values were even more heavily concentrated in the highest segment of the market, significantly skewing the distribution of prices. During the pandemic, supply at the high end contracted sharply as vendors were more cautious about bringing works to the market. Lots sold for over $1 million accounted for 40% of the market in 2020, and those for more than $10 million were just 6% of total values. This rose in share in 2021 as the market recovered (63% in the $1 million-plus range, and 38% in the segment over $10 million). In 2022, there was a further and dramatic escalation, with 78% of the market's value in the $1 million-plus segment and the majority (58%) accounted for by sales of over $10 million which made up only 0.1% of total transactions (31 lots). Most lots (92%) continued to be sold for less than $50,000 but the share of value this segment accounted for dropped to just 6%, indicating a very top-heavy market.

Figure 3.32 **Sales by Price Bracket in the Impressionist and Post-Impressionist Sector in 2022**



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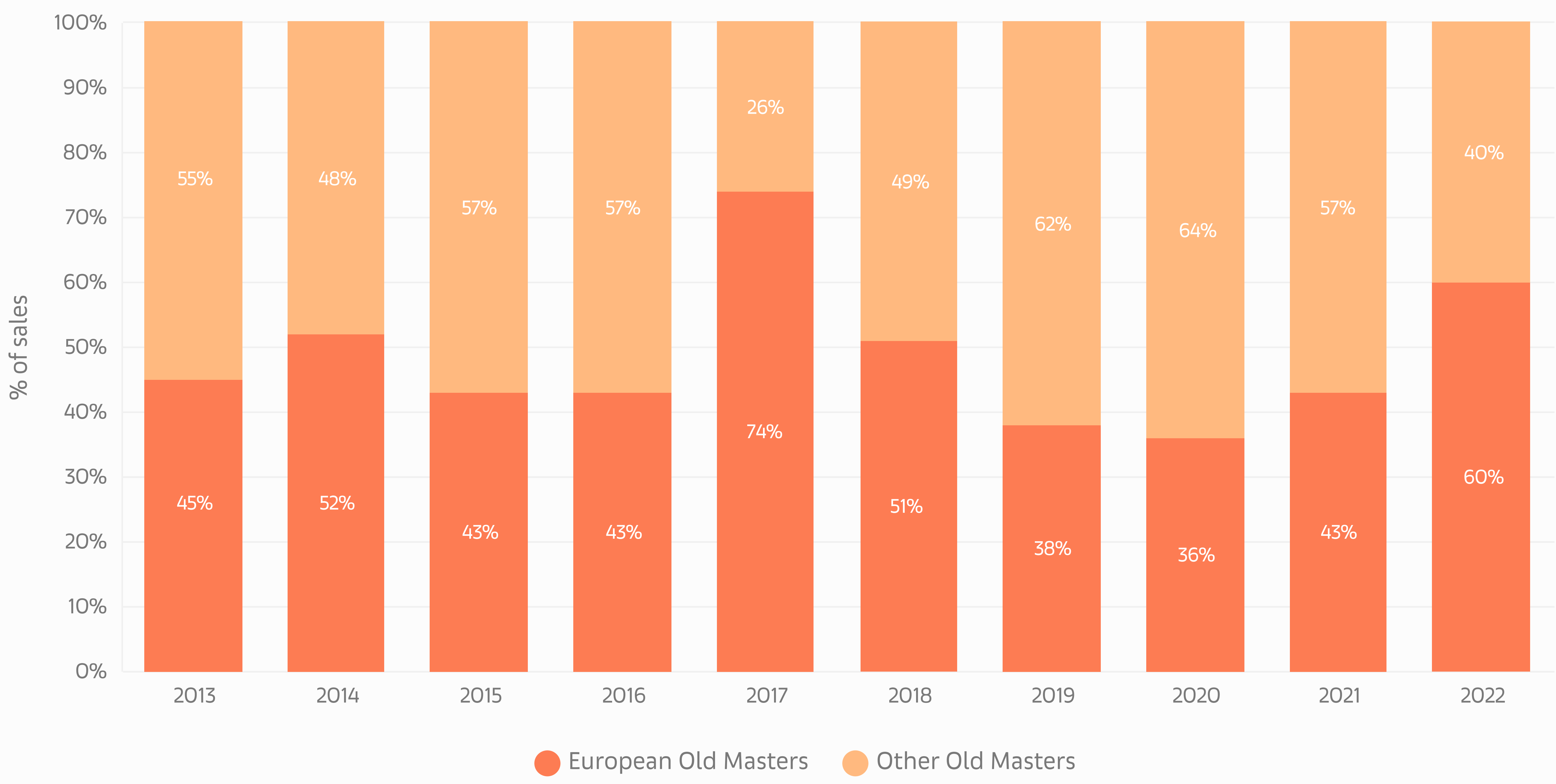
The Paul Allen sale and other high-value transactions ensured that Christie's was the leading auction house in the sector in 2022, accounting for 64% of sales, with Sotheby's responsible for a further 21%. Along with China Guardian, Bonhams, and Xiling Yinshe Auctions, the top five auction houses accounted for 90% of the value of sales in the sector and 41% of the number of works sold.

3.10 Old Masters and European Old Masters

The Old Masters sector covers works sold by artists of all nationalities born between 1250 and 1820. However, the term 'Old Masters' is most commonly associated with the works of European artists. The wider Old Masters sector was the smallest of the fine art sectors in 2022, accounting for 7% of both the value and volume of sales, both relatively stable year-on-year. The share of European Old Masters was 4% by value (from 3% in 2021) and a stable 5% of the number of transactions.

While the market was dominated almost entirely by European Old Masters 20 years ago, over the last decade, sales of Chinese Old Masters have had a substantial impact on the wider sector, with high-selling lots in this sector in China reducing the share of sales by European artists. High prices for Chinese Masters and a relatively more subdued market in Europe and the US in 2019 and 2020 pushed European Old Masters to a minority share in both years, reaching a low of just 36% in 2020. However, in 2021, record prices achieved for works by Sandro Botticelli and other European Old Masters boosted the share back to 57%. The deterioration of Chinese sales and continuing strong prices for European Masters in 2022 meant further gains, with its share reaching 60% by value, the highest level in 10 years, with the exception of 2017 when the $450 million sale of Leonardo da Vinci's S*alvator Mundi* (c. 1499-1510) created an exceptional uplift.

Figure 3.33 **Share of European Versus Other Old Masters by Value 2013–2022**



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Like all sectors, values in the Old Masters market are driven by the availability of works coming onto the auction market. However, in this sector, the very thin supply of high-quality masterpieces that are in commercial circulation each year has limited growth, despite there being very ample demand and buyers willing to pay high prices when they do appear. While the market is slightly less affected by prevailing economic conditions, like other sectors, the restrictions and other factors related to the pandemic caused a decline in sales in 2020 by 16% to $970 million. The sector recovered well in 2021 with values increasing by 21% to $1.1 billion, driven by sales of a small number of highly priced works with a much more moderate increase in volume (with the number of lots sold up by 9%). However, in 2022, while European Masters maintained growth, the cancellation of sales in China dragged down values in the wider sector and sales values fell by 17% year-on-year alongside a 10% drop in the number of transactions, bringing the market just above 2020 levels again at $963 million. Although above the bottom of the market in 2018, the sector has shrunk in size and value over 10 years, with values falling by 37% from 2013 and the number of lots sold also down by 27%.

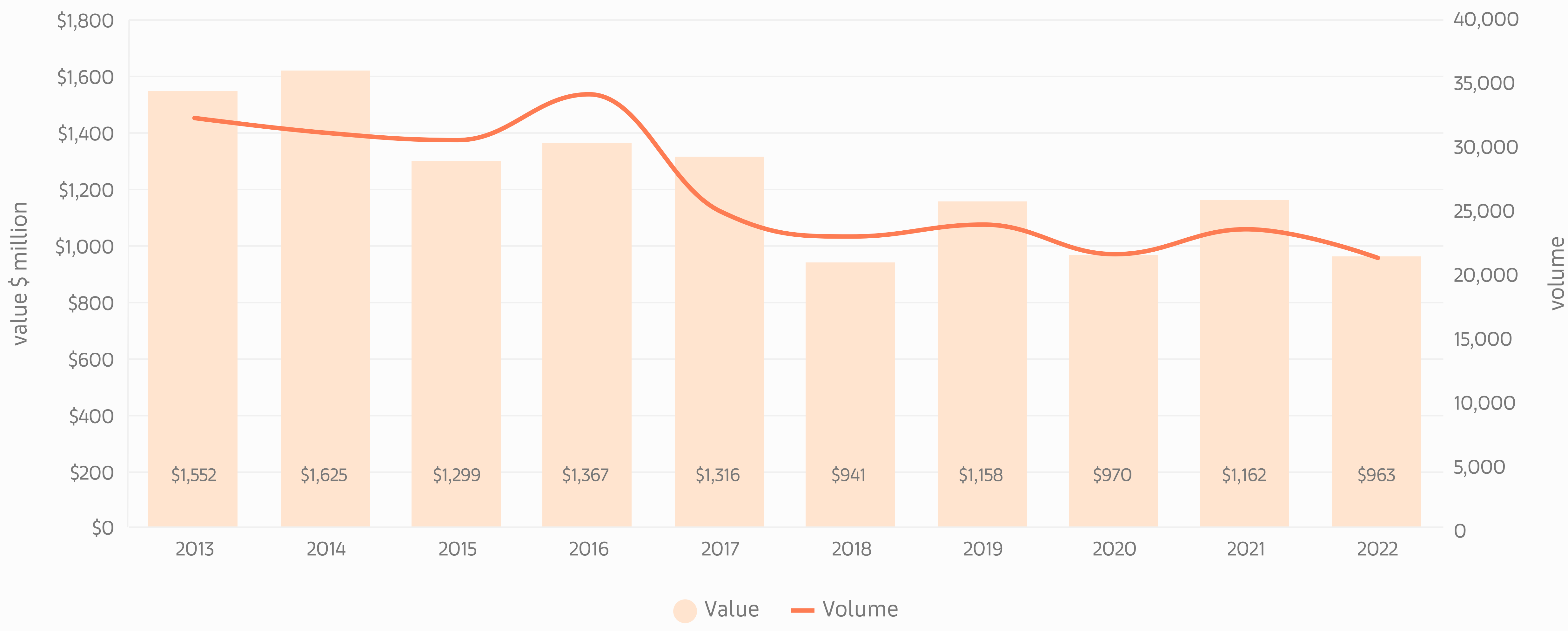
The European Old Masters sector fared better in 2022, with sales increasing by 14% year-on-year to $574 million

The European Old Masters sector fared better in 2022, with sales increasing by 14% year-on- year to $574 million, its second year of advancing sales, bringing the market to its highest level since 2017. This rise in sales came alongside a drop in the volume of works sold at auction, driven by a very small number of lots achieving high prices. Works by Sandro Botticelli helped to boost the market in 2021, notably with *Portrait of a Young Man Holding a Roundel* (c. 1480) selling for a record price of $92.2 million at Sotheby's, the second-most expensive Old Master work ever sold. In 2022, two Botticelli works were at the top of the sector again, with *Madonna of the Magnificat* (c.1481) selling for $48.5 million at Christie's in New York, along with *The Man of Sorrows* (c. 1500-1510) for $45.4 million also in New York at Sotheby's.

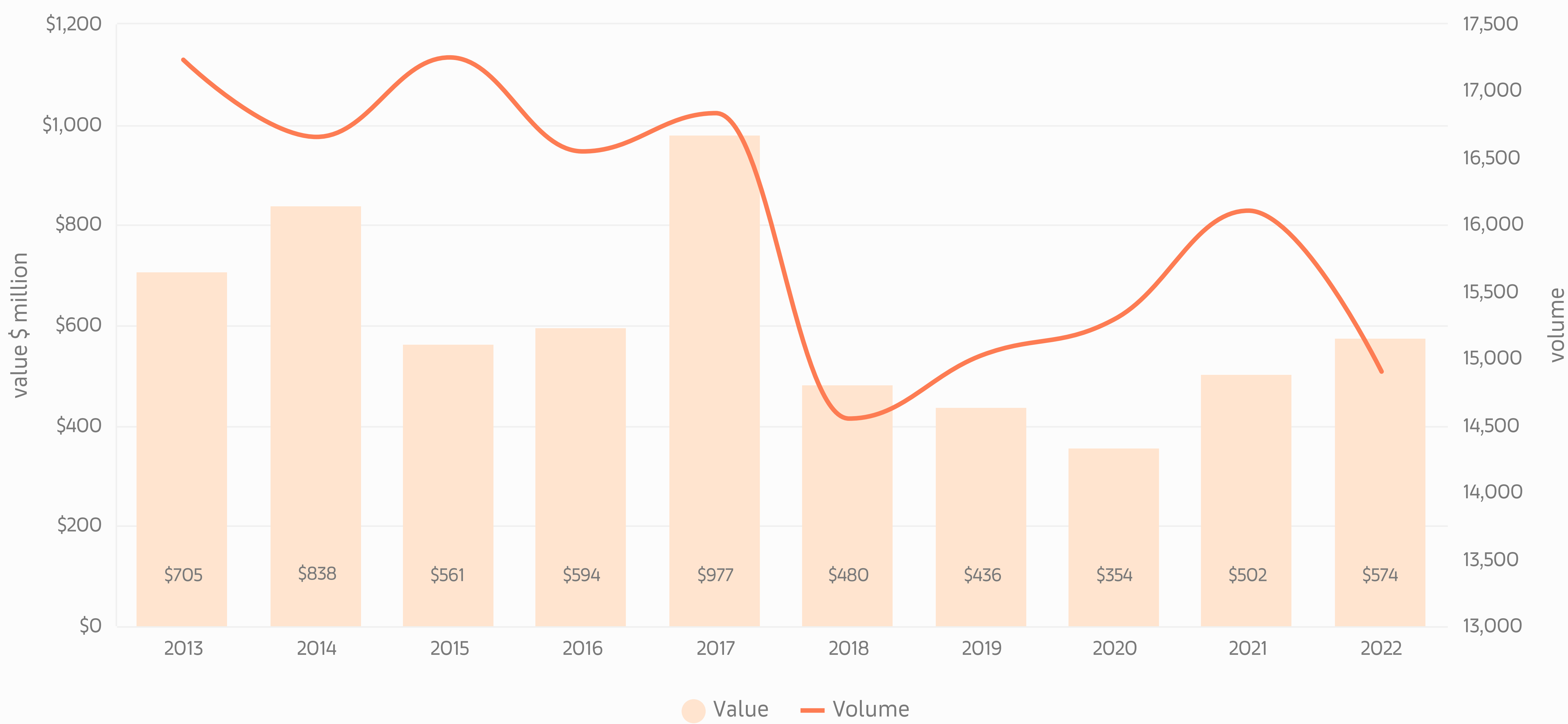
IMAGE Thaddeus Mosley, Karma, image courtesy Art Basel

Figure 3.34 Old Masters Painting Sales 2013–2022

a) All Old Masters



b) European Old Masters



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Sales in the US Old Masters auction market increased by 58% year-on-year in 2022 to $374 million. After two years of double-digit growth, values reached their highest level since the peak in 2017 of $646 million, when the market increased by 162% in value, driven solely by the previously mentioned da Vinci lot (without which sales would have declined by 21%). Nine of the top 20 works in the sector were sold in New York, including five from the Paul Allen sale. Aside from the Botticelli works, Emanuel Leutze's *Washington Crossing the Delaware* (1851) sold at Christie's for $45.0 million and Joseph Mallord William Turner's *Depositing of John Bellini's Three Pictures in la Chiesa Redentore, Venice* (1841), also at Christie's for $33.6 million. These and other strong sales helped to boost the global share of the US market to 39%, up by 18% year-on-year from 2021, and regaining premier position as the largest market in the sector.

China's market lost share, falling by 23% to 27% and moving to second place behind the US. It was the largest market for sales in the wider Old Masters sector in 2021, although its share by value declined by 15% to 43% (and 15% of lots sold). After a moderate increase of 7% in 2021, sales in this sector in China fell by 57% in 2022 to $255.2 million, their lowest level since 2008 and less than one quarter of the level at their peak in 2011 at $1.1 billion.

The UK was again in third place in the wider Old Masters sector, and its share of global sales by value dropped four percentage points to 15%. Following three years of declining sales to a low of $148.3 million in 2020, sales increased by 37% to $203.4 million in 2021. However, this growth halted in 2022 bringing the market to a new 15-year low of $140.4 million.

After almost halving in size in 2020 and reaching a 15-year low, sales in France have seen two years of strong growth, with values increasing by just over 140% in 2022 to reach $113.8 million, the highest level achieved since 2011 ($114.5 million). Two lots in the top 10 helped to boost sales with Jean-Siméon Chardin's *Le Panier de Fraises des Bois* (1761) selling for $26.8 million at Artcurial in Paris, and Michaelangelo's *A Nude Young Man (after Masaccio) surrounded by Two Figures* (15th century) sold for $24.3 million at Christie's Paris.

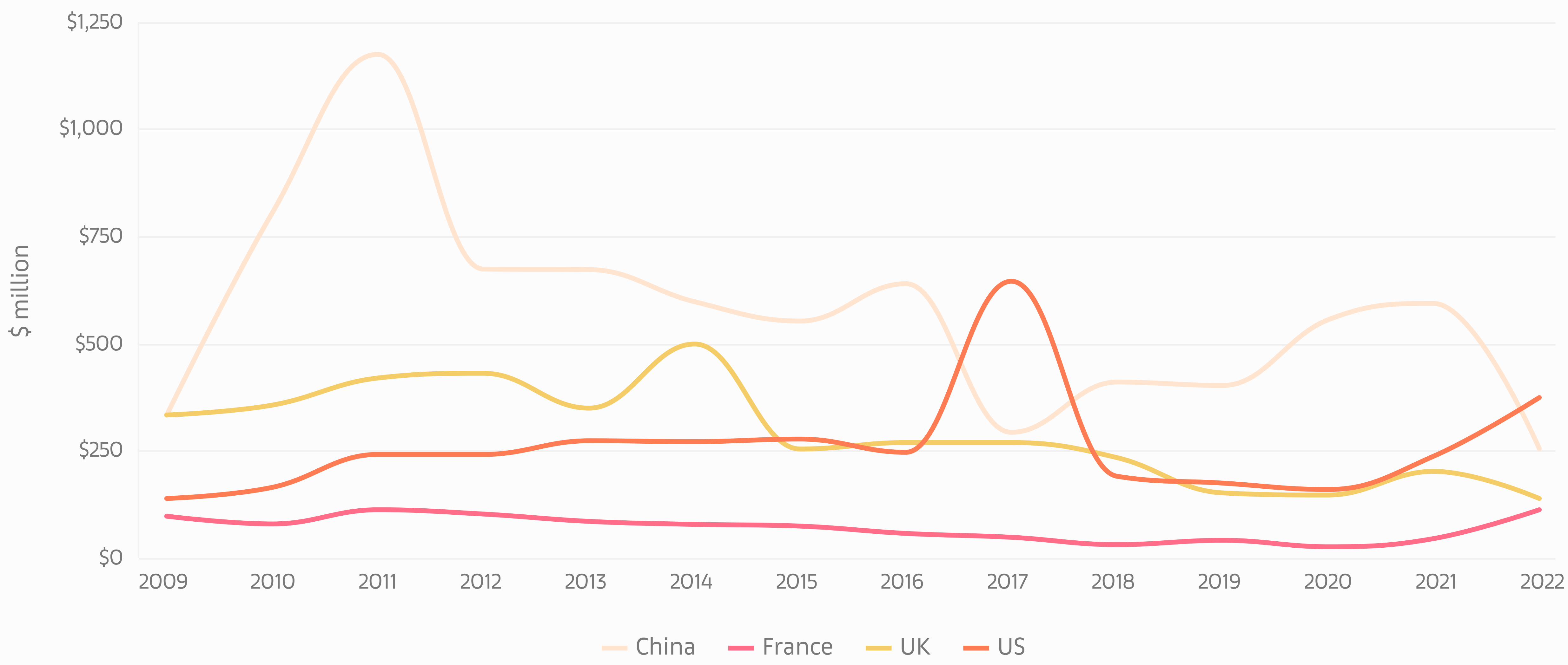
In the European Old Masters sector, the US was also the largest market, with 48% of sales by value, up by 5% year-on-year. Sales increased by 38% to $274.2 million, while those in the second-largest market, the UK, fell by 31% to $129.6 million. While the UK was historically the global center for European Old Masters sales, it has lost significant share to the US in recent years and accounted for 23% of sales by value in 2022, down from 40% in 2021, and as high as 52% in 2014.

Table 3.2 Old Masters Paintings Global Market Share in 2022

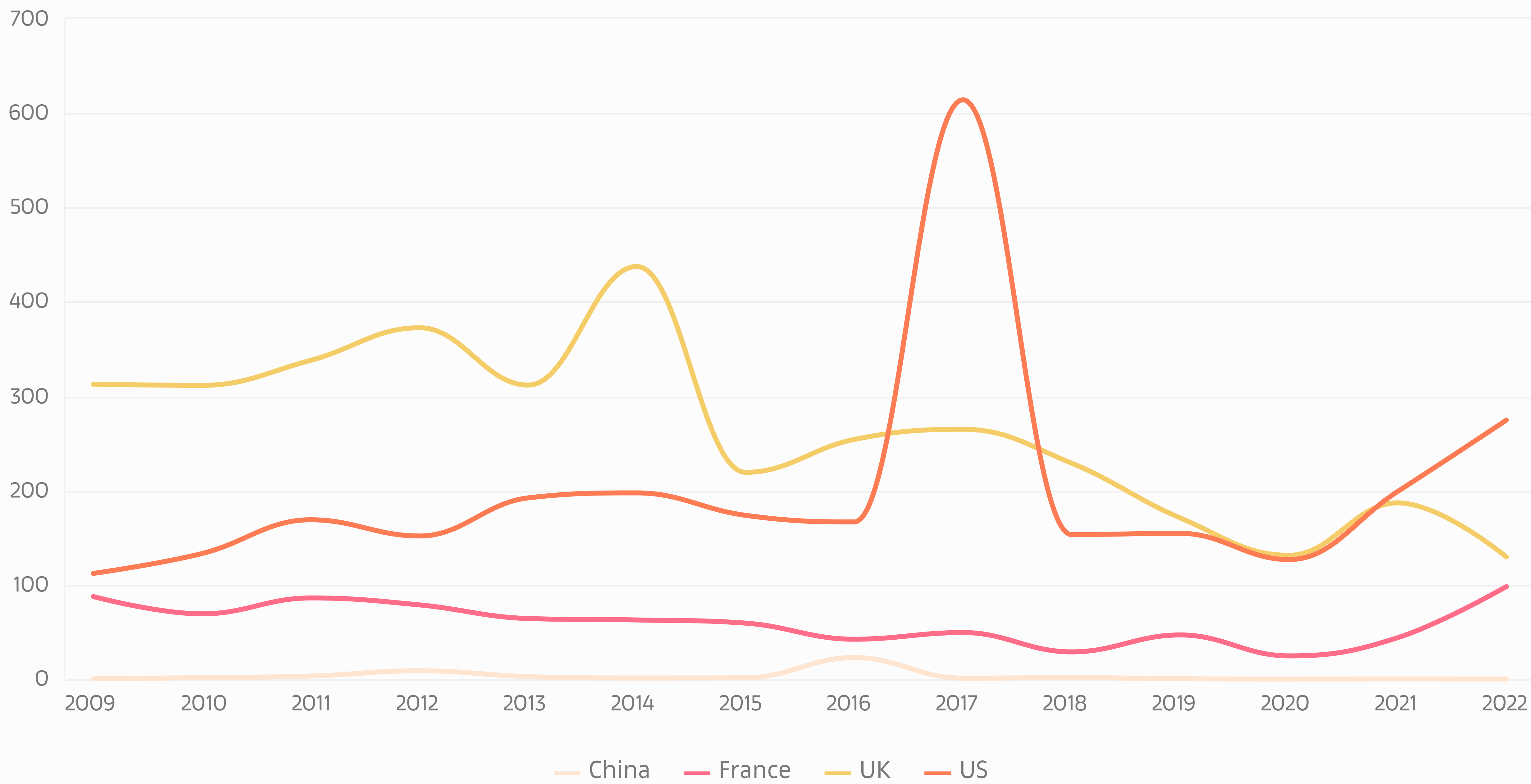
Old Masters			European Old Masters		
Country	**Share of Value**	**Share of Volume**	**Country**	**Share of Value**	**Share of Volume**
US	39%	16%	**US**	48%	14%
China	27%	16%	**UK**	23%	22%
UK	15%	18%	**France**	17%	13%
France	12%	11%	**Germany**	4%	18%
Germany	2%	13%	**Austria**	3%	8%
Other	6%	26%	**Other**	5%	25%

Figure 3.35 Sales in the Old Masters Sector Key Markets 2009–2022

a) All Old Masters



b) European Old Masters



The highest-selling artist in the sector for the second year was Sandro Botticelli, whose two top lots generated sales of $93.9 million. Along with Emanuel Leutze, Joseph Mallord, Canaletto, and Jean-Siméon Chardin, the top five artists represented a 31% share of the market by value, and the top 20 accounted for 54%. Although this was up from 51% in 2021 and 46% in pre-pandemic 2019, it is significantly less concentrated than other fine art sectors.

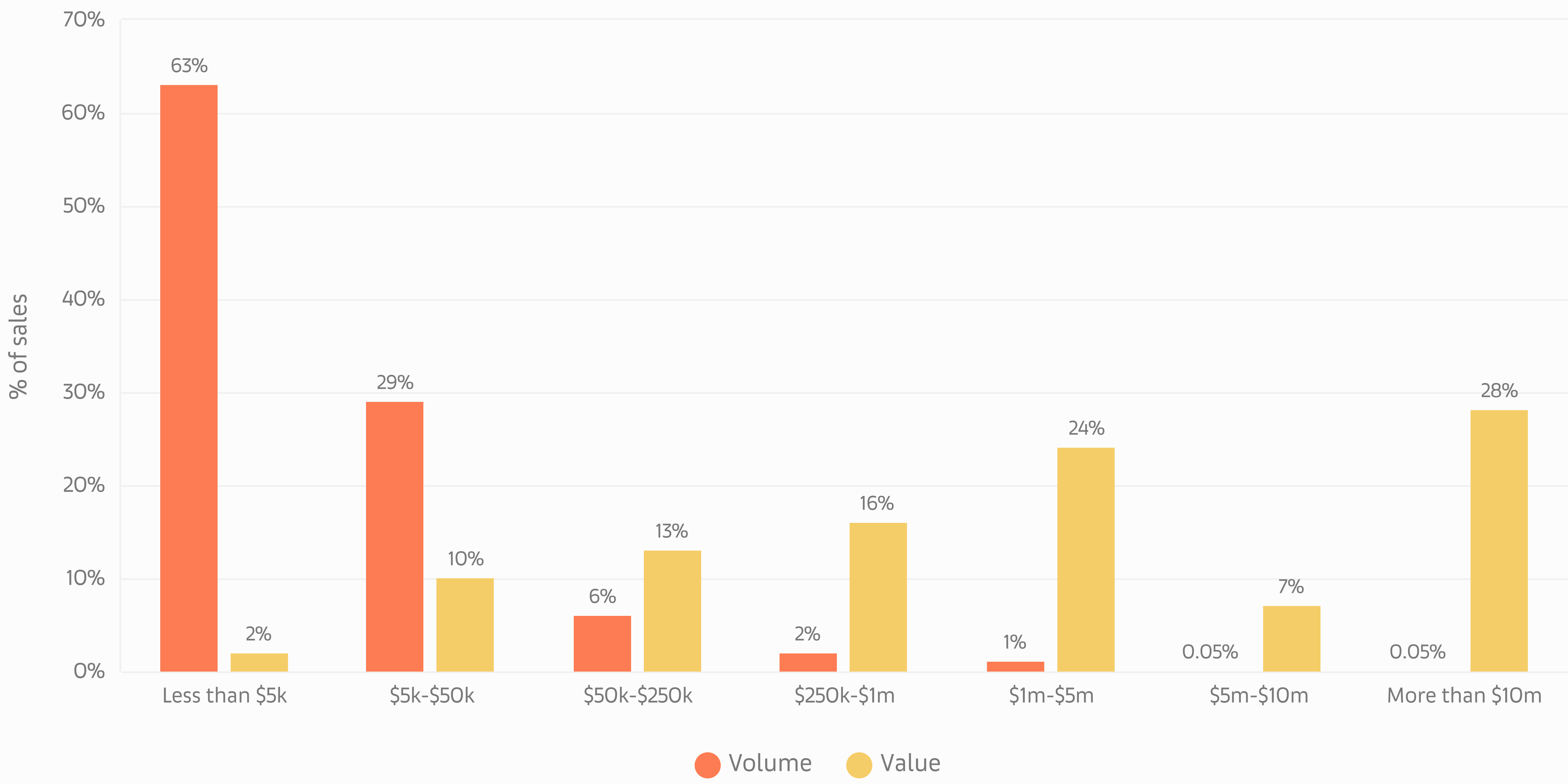
European Old Master works sold at prices over $1 million accounted for 64% of the value of sales, with 39% from those over $10 million

Although less concentrated on the top few artists, values in the sector were still skewed towards the high end in 2022. In the wider Old Masters sector in 2022, 59% of sales by value were accounted for by works sold at over $1 million, up from 55% in 2021 and 52% in 2019. The highest-priced lots sold at over $10 million accounted for 28%, which has also risen over the last few years from 19% in 2019. Even in this sector, however, most lots (92%) are sold at auction for prices of less than $50,000. These accounted for 12% of the value of sales, which although still a minority, is a significantly larger share than other fine art sectors.

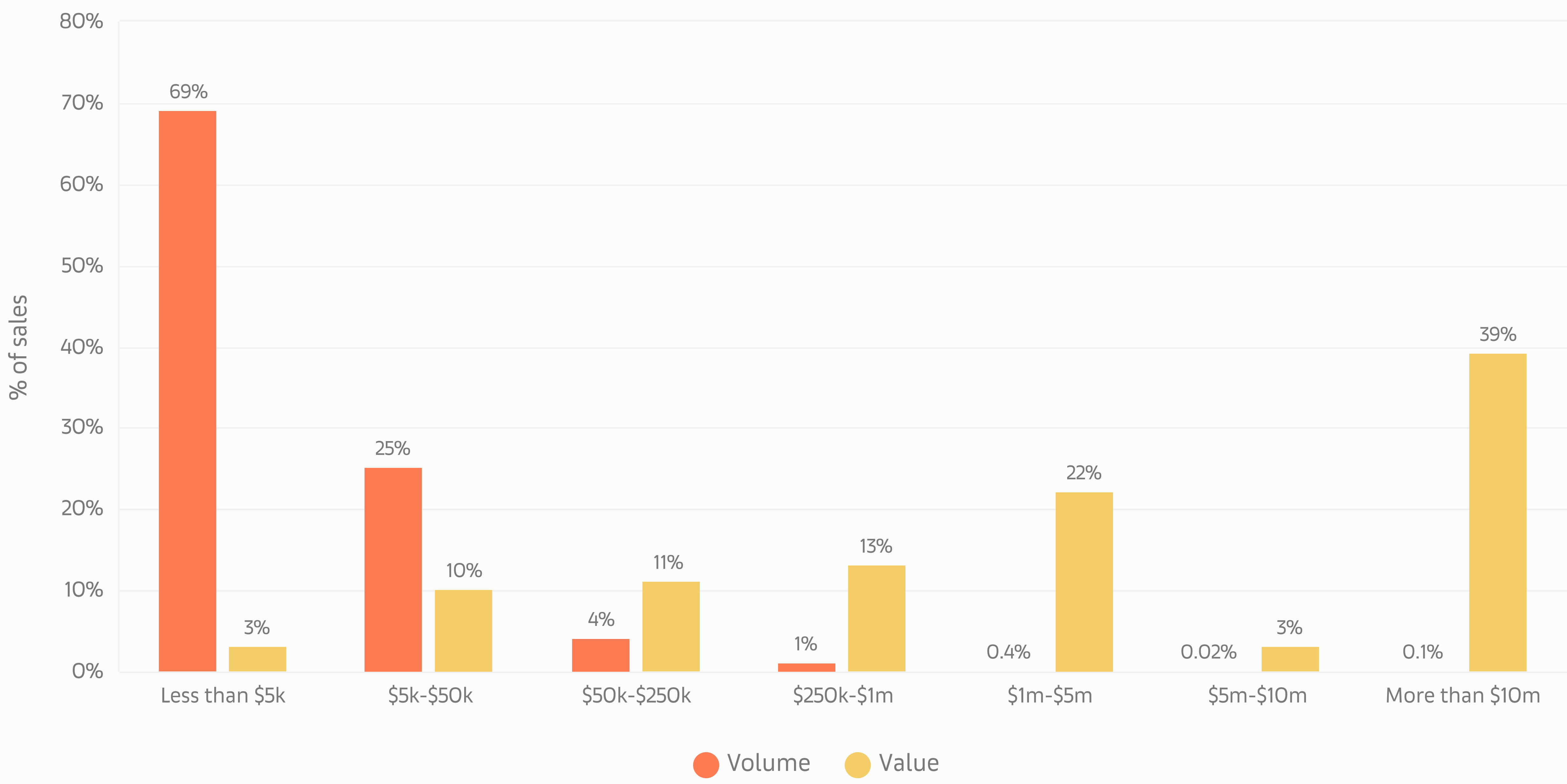
The scarcity of masterpieces in this sector means that the appearance of one or a small number of works on the market can have a dramatic effect on sales in a specific year, but bear little relation to the bulk of trade in the sector taking place at much lower prices, with 2017 providing a case in point. However, even in 2022, the dominance of the high end was evident and even more pronounced in the European Old Masters sector. Works sold for over $1 million accounted for 64% of the value of sales, with 39% from those over $10 million, up from 24% in 2021 and only 9% in 2019. Like the wider sector, every other price segment saw a decrease in aggregate sales values year-on-year in 2022, while the $10 million-plus segment rose by 90%, enough to boost the aggregate market to positive growth despite only accounting for less than 0.5% of the sales that took place.

Figure 3.36 Sales by Price Bracket in the Old Masters Sector in 2022

a) All Old Masters



b) European Old Masters



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Sotheby's and Christie's were the largest auction houses by value of sales, with a combined share of 47% in the wider Old Masters segment and 61% of the European Old Masters market. Together with Artcurial, Xiling Yinshe, China Guardian, and Shanghai Jiahe, the top five auction houses accounted for close to 76% of sales values (and 94% by value for the top 20). Sotheby's, Christie's, Artcurial, Dorotheum, and Lempertz were the top five houses by value in European Old Masters, accounting for 89% of the value of sales and one third of the lots sold in 2022.

IMAGE Puppies Puppies (Jade Guanaro Kuriki-Olivo), Balice Hertling, Francesca Pia, Barbara Weiss, Hannah Hoffman Gallery, image courtesy Art Basel

Exhibit 3. Unroll the Scroll: The Past and Present of Mainland China's Auction Sector

*Yuhao (Zach) Dai**

When Mainland China held its first public auction of cultural relics and art in 1992, just over 900 lots sold for $2.35 million. 2022 marked the 30-year anniversary of the auction market. In those three decades of growth, China topped the global public auction list, with a 33% market share in 2021 (including Mainland China and Hong Kong), although this faltered in 2022 as the market shrank back to just 17%. Along with the rise of domestic auction businesses, with 680 currently registered by the CAA, foreign top-tier houses have also accelerated their pace of expansion into the Asian market, as indicated by Sotheby's announcement that it would establish its Mainland China headquarters in Shanghai in early 2023. Having had offices there since the mid-1990s, Christie's became the first foreign auction house in Mainland China to acquire an auction license in 2013 and held its first auction in Shanghai in the same year. In 2022, Christie's sales in Mainland China topped over $38 million.

The relative success of the auction business in Mainland China over the gallery sector relates to a feature of the Chinese art market which sets it apart from many others, where the secondary market has dominated the primary art market. Although boundaries even in Western countries have become more blurred in recent years, agents operating in the primary and secondary markets have tended to take on separate and distinctive roles. However, in Mainland China, much of the art market's resources and expertise have been concentrated on the auction market. Auction houses have also had a long history of tapping into the primary art market, by selling works directly from artists and also slowly expanding their private sales.

Although there have been exponential increases in both value and infrastructure since its inception in the 1990s, the growth of the auction business in China has not been a smooth upward curve. China's art market temporarily became the world's largest in 2011, but this success was immediately followed by severe contraction and the Chinese bubble abruptly burst. In 2012, the volume of transactions at art auctions fell more than 53% as a significant number of short-term investors realized that the art market was not an avenue for them to achieve quick returns on capital, foreshadowing their subsequent exodus of the market. The decline was also associated with the anti-corruption campaign initiated in China in late 2012, which helped to shake out a lot of art-based money laundering and cracked down on bribery to government officials who sold artworks at an inflated price to bribers.

This turning point also prompted the Chinese art market to start its transition from a phase where auctions had been the only real driver of growth to the current stage in which the importance of the primary market is increasingly recognized. International blue-chip galleries have seen great market potential in Mainland China and have continued to expand their businesses there. While the market at all levels stagnated in 2022 as major art fairs and exhibitions were delayed or even canceled due to the central government's zero-COVID policy, some galleries continued to grow their sales, and most businesses saw the downturn as a temporary and direct result of the specific context. In a sign of optimism for the future, Lisson still opened its permanent space in Beijing last year, complementing its 2019 opening in Shanghai.

One factor that has fed the growth of the auction business is easy market access and a relatively lax regulatory landscape. Unlike the highly restricted media industry, the auction business in Mainland China is much more welcoming to foreign investors, as indicated by the strong presence of Christie's and Sotheby's in Mainland China. Foreign investment is allowed in all sectors of the art industry except certain antiques-related businesses. An auction license is required for both domestic enterprises and foreign-invested enterprises (FIE) planning to do auction-related business. However, the threshold for FIE to acquire the license has been lowered to the same level as that of domestic enterprises since 2019 when the Ministry of Commerce of PRC amended the Auction Administration Regulation. Today, the requirement for licensing includes initial capital of at least 1 million RMB (roughly $160,000), at least one auctioneer, a physical premises, by-laws, and a set of auction procedures. The PRC Auction Law is not a major compliance concern since it mainly outlines overall auction procedures and sets out some very general rights and obligations for bidders, buyers, and auction houses. Apart from certain overlapping provisions with the PRC Civil Code and the PRC Consumer Protection Law, the Auction Law also contains a safe harbor rule that benefits auction houses. This provision allows them to fall short of guaranteeing works they sell and protects them against any forgery claim or product claim as long as they make a prior good faith disclaimer on the authenticity or the quality of the lot to be sold – something most businesses include in their conditions of sale. While there have been multiple lawsuits arising out of claims of art forgery, most have ended with courts affirming the enforceability of the disclaimer, pushing risk-averse art collectors who have concerns over the authentication to the primary market, where galleries are working directly with the artists they represent.

Overall, rather than government-directed regulation, self-regulation has played a more important role in the auction sector. The industry association, the CAA, established in 1995, has played a more important role in regulating the industry, formulating various industry standards for art auctions, ranging from lot collection to information disclosure requirements to best practices for auctioneers. However, individual companies have varied in their practices and standards, and new companies posting false sales still appear online, falling outside the coverage of the CAA in many cases.

One of the challenges that plagues the auction sector is overdue payments. The CAA reported in 2022 that for all auctions only 46% of the total payment due in 2021 had been settled by mid-May 2022 (and an even higher rate for lots at the top end of the market as previously noted). This means that a great number of buyers had failed to complete their account payments six months past the due date. The delayed payment also partly explains why companies such as Poly Auction prepaid around $270 million – two-thirds of its total receivables – to sellers in advance before buyers had made the full payment, according to its 2021 annual financial statements. One of the key factors behind this phenomenon is the relationship-based culture in the auction industry. Most domestic auction houses rely on a relatively thin segment of regular clients to keep their business afloat and sometimes need to extend more favorable terms to them, including waiving bidding deposits, which are otherwise an industry norm in China for regular buyers. When these clients delay the payment for various reasons, auction houses are very cautious about rushing or suing them because their longer-term priorities are centered on maintaining good relationships with these clients.

Despite these issues, there are many optimistic signs in the market. Sotheby's selection of Shanghai for its mainland headquarters shows that the agglomeration effect and synergy happening in this metro are empowering both the secondary and primary market. Although 2022 was a difficult year for art fairs in Mainland China with several fairs postponed and the two major Shanghai fairs ART021 and WestBund closed prematurely due to COVID-19 outbreaks, there have also been positive developments. A notable example includes Shanghai's 4th International Art Transaction Week, led by the Shanghai Municipal government and supported by the lower district governments, which came up with various favorable or facilitating policies. The five-day event featured five art fairs in different art districts and more than 20 auctions, gathering 150 art dealers, including many renowned blue-chip galleries and auction houses, and attracting a large number of millennials and Gen Z buyers and visitors, who are emerging forces in the market. This event was also run simultaneously in Shanghai with China's 5th International Import Expo. One of the most appealing policies for art dealers was the tax exemption for up to five artworks or cultural relics sold during the Expo, regardless of their value.[50] Major auction houses such as

50 Under the current tax regime, each imported good is subject to both value-added tax (VAT) and tariffs and the total tax rate for the sale is calculated as (1+VAT rate) × (1+tariff rate) -1. The current VAT is 13% and the tariff rate depends on the media and the year of the artwork, ranging from 6% for prints to 1% for less-than-100-year-old original hand-drawn paintings to 0% (temporarily) for over-100-year-old paintings.

Christie's, Sotheby's, and Phillips reportedly sold 37 pieces of artwork totaling 490 million RMB (roughly $70 million) during the Expo, resulting in tax-exempted savings of more than $10 million.

Amidst the backdrop of a relatively favorable regulatory landscape, a growing population consuming art, and the agglomeration effects in certain key cities, despite the setbacks in 2022, the art industry in Mainland China is gaining momentum. With the lifting of the zero-COVID policy and the reopening of borders last December, it seems reasonable to predict that Mainland China's art market may recover relatively soon, with pent-up demand and supply helping it to return to the pre-COVID-19 status quo. However, compared with other major hubs such as Hong Kong and Seoul with their signifincantly more favorable tax regimes, longer histories of commercial art trading, and freer creative industries, Mainland China's art market might not be able to realize its full potential in the absence of these factors. Also, an emerging emigration wave of intellectuals and elites from Hong Kong and larger mainland cities to other developed countries might put a question mark or ceiling on the speed of Asia's art market growth. Looking ahead to 2023, it remains to be seen whether these major art hubs will cooperate or compete with each other for Asia's future art deals and what dynamics or ecosystems will arise as a result.

** Yuhao (Zach) Dai, Sheppard, Mullin, Richter & Hampton LLP (Century City office), J.D. Candidate at UCLA School of Law.*

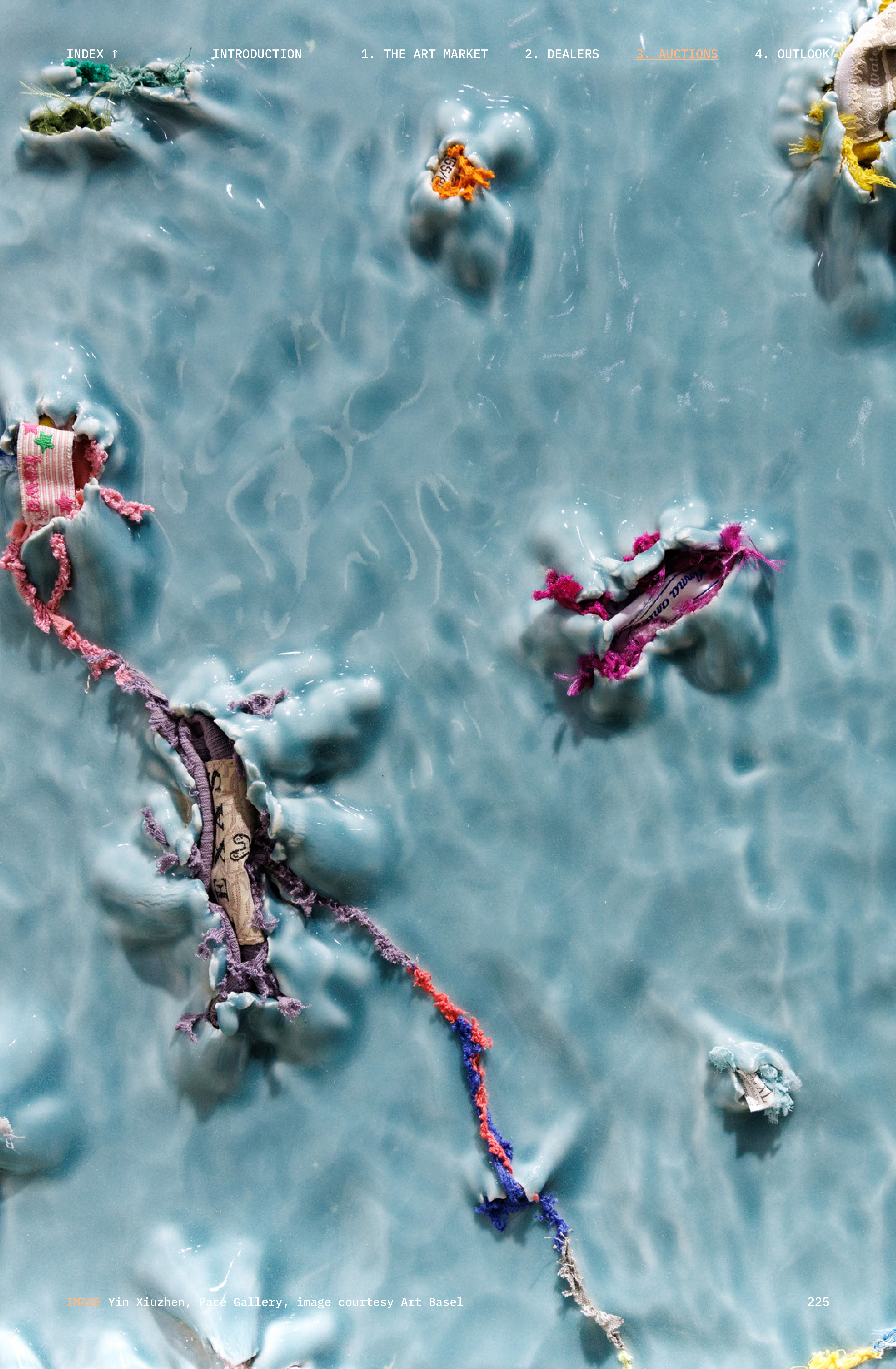


IMAGE Yin Xiuzhen, Pace Gallery, image courtesy Art Basel

4. OUTLOOK

Key Findings

1. At the end of 2022, looking forward to 2023, 45% of dealers expected an improvement in sales, including 10% predicting a significant improvement; 39% thought sales would be stable; and 16% anticipated a decline (against only 11% in 2021). The smallest dealers with turnover of less than $250,000 were the most optimistic about sales heading into 2023, with just over half (52%) expecting an increase.

2. In the auction sector, surveys of the mid-tier businesses revealed that just under half of respondents were optimistic for an improvement in sales in 2023, although 24% predicted a downturn. Confirming the ongoing importance of digital sales in this sector, 60% expected their online sales to increase and only 4% predicted a decline.

3. Surveys of HNW collectors by Arts Economics conducted in collaboration with UBS, showed that collectors were spending more in 2022 than they had prior to the pandemic, including a greater share at the high end of the art market. The surveys revealed that while their share of spending at prices under $50,000 had more than halved between 2019 and 2022, the proportion in the $1 million-plus range increased from 18% to 31%, and at the $10 million-plus level had doubled (to 12%). HNW collectors remained optimistic about the global art market in 2023, with a majority of 77% positive about its outlook, and only 6% pessimistic. The surveys also indicated strong spending plans for this year, with a majority (55%) planning to buy art in 2023, including 65% in the US.

4.1 Outlook for 2023

As the market returned to a more regular pattern of sales and events in 2022, it became clear that the pandemic has had some lasting effects. Like any crisis, this exogenous shock to the market encouraged new working practices as well as providing an impetus to accelerate changes in the sector that were already underway.

As was to be expected as the exhibition and fair calendar revived, online sales subsided in 2022, however, their share of total sales at 16% was still considerably higher than in 2019 (at 9%). The value of e-commerce also increased by 85% over the period. When online platforms were gaining some momentum in the 2010s, newly emerging companies in this space promised ‘disruption’ and ‘democratization’ of the traditional offline art market. Evolving technologies and the conditions of the pandemic helped introduce a new ‘d’ to the online space – disintermediation – particularly with the proliferation of NFT platforms offering artists and creators the chance to sell directly to interested buyers outside the traditional gallery and auction house framework. These platforms alongside other digital and social media channels have created new marketing and direct sales opportunities for artists, but as yet, there is still fairly limited evidence of a major impact on sales in the art trade, with these avenues creating more sales outside the art market’s infrastructure rather than replacing them. Surveys of HNW collectors in 2022 also showed that sales from dealers and auction houses still made up the majority of their spending, while purchases directly from artists, whether commissioned or already created works, accounted for only 10% in 2022. However, this is an issue that may gain momentum in the coming years, with over a third (38%) of dealers in the primary market (and 43% across all markets) forecasting that in future, artists may bypass dealers for some sales and sell more of their work directly to collectors.

As the frenzy of activity has subsided on NFT platforms in 2022 and the share of sales via third parties has declined or plateaued, it has become apparent that in fact there had been little significant or radical disruption of the incumbents in the traditional art market, and most platforms simply continued to do what was already being done offline, with the new online channels complementing traditional offline businesses.

But by making art more accessible online, there certainly has been more evidence of progress in the trend towards democratization. Online access to dealers, auction sales, and fairs has allowed much wider access to new audiences, with 40% of dealers’ online sales being to brand new buyers. Online bidding and buying have been identified as the key channel for gaining new buyers in the auction sector, as well as providing a means for existing collectors to access the market in more sustainable ways, without the pressure of attending every event in person. Aside from e-commerce, online channels and technological advancements have also been central to the market's development and continue to impact the sales process. One of the clearest examples is in the auction sector, where online bidding has evolved from a minority alternative 10 years ago, to the dominant bidding method today at all of the major auction houses.

However, an equally important outcome of the pandemic is that it also afforded businesses and collectors the opportunity to reflect on what they valued most and to thoughtfully adapt some of their priorities to new contexts that were emerging. In particular, the restrictions and limits on contact and travel was a reminder of the highly social and personal nature of sales in the art market. Both collectors and businesses continued to underline the importance of offline contact for long-term relationship building and trust in 2022, and most embraced the return to travel and events, even if in a more edited format than in 2019 and before. While evidence of the increased use of e-commerce was found in both surveys and sales data, research on HNW collectors conducted in 2022 also clearly indicated that the preferences of the majority of collectors remain for offline sales and experiences if given a choice.

Another interesting trend in 2022, running at odds with the increase in digital sales and the rapid escalation of operating costs, was the expansion of physical premises in both the dealer and auction sectors, both within regions and across more geographically diverse boundaries. As noted in Chapter 2, galleries of various sizes expanded the number of premises they operated in 2022, and some announced plans to expand to new regions in 2023, with notable examples including Perrotin's announcement of a new gallery in Dubai, Hauser & Wirth's expansion to Paris. Similarly in the auction sector, Christie's, Sotheby's, and Phillips all announced major plans for new headquarters and expanded premises in Hong Kong in 2023 and 2024, with Sotheby's also planning a new Shanghai base for their business in Mainland China.

In a list of top 10 priorities, expanding their physical premises was ranked highest for just 6% of dealers in 2022, but this widened to 16% when asked to consider priorities over the next five years, and ranked sixth-highest priority overall, just behind finding new artists. While the surveys did not indicate any significant increase in the average number of artists represented by dealers, there was evidence that galleries had become slightly less reliant on their very top artists, which some reported was a conscious and prudent shift toward ensuring greater security of their bottom line.

These changes hint at greater proactivity in the sector, which may have also contributed to a more optimistic outlook for some dealers, although this was tempered by an uncertain economic and political context in many regions at the start of 2023. When dealers were asked at the end of 2021 about the year ahead, a majority of 62% expected an improvement in sales. By the end of 2022, the mood was less optimistic, but most dealers still expected at least stable results over the next year. At the end of 2022 and looking forward to the year to come in 2023:

- 45% of dealers expected an improvement in sales, including 10% predicting a significant improvement;
- 39% expected sales to be about the same as in 2022; and
- 16% expected sales to decrease (up from 11% when surveyed in December 2021).

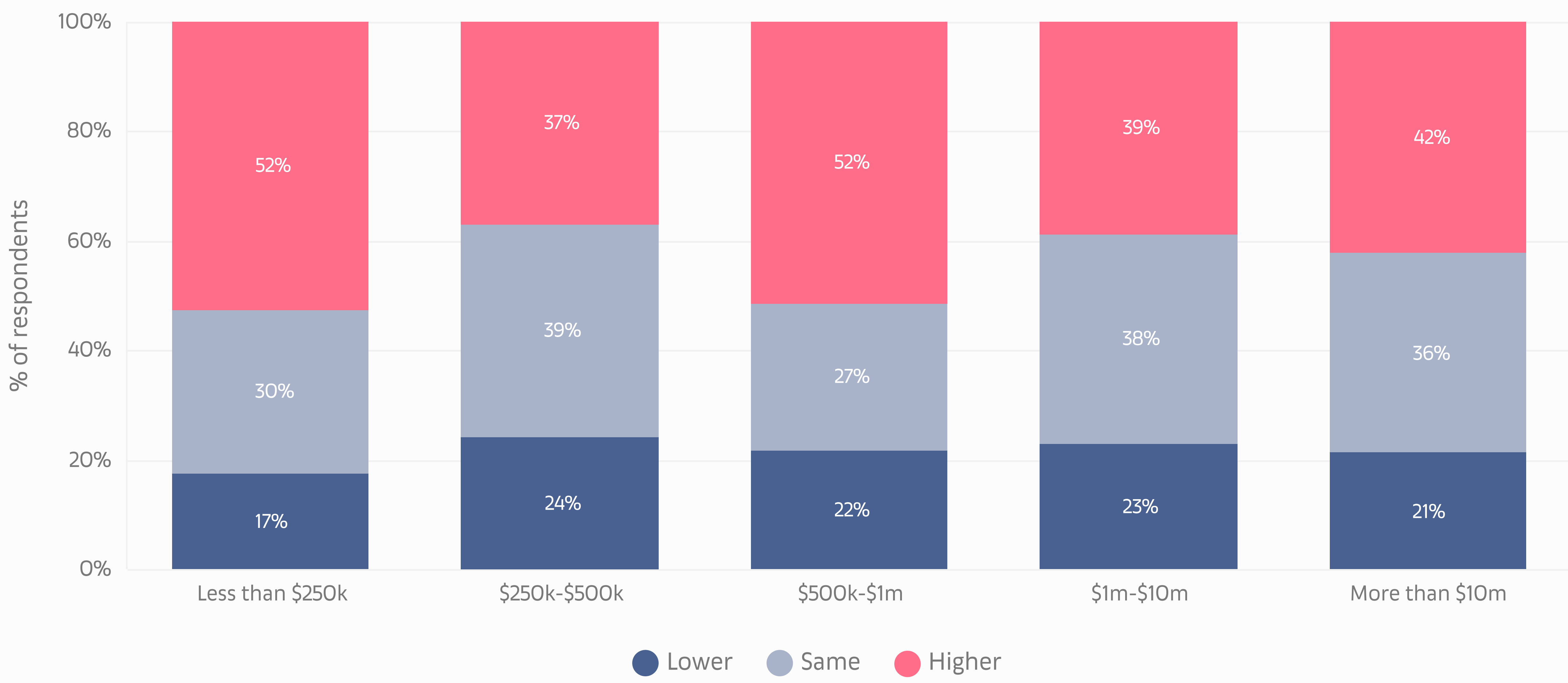
Interestingly, the smallest dealers with less than $250,000 in annual turnover were among the most optimistic about sales heading into 2023, with just over half (52%) expecting an increase. However, their peers in the range between $250,000 to $500,000 were the most pessimistic, with only 37% hopeful for better sales this year. In all segments, less than a quarter of dealers thought sales would decline, and most felt they would be stable or increase in 2023.

Some of the highest levels of optimism about the year ahead came from dealers in China, where 68% were expecting a better year in 2023, bringing up the average share of optimism in Asia. (Measured without this market, the share of dealers in Asia expecting a rise in sales was only 35%.) Dealers in South America were similarly hopeful for greater sales, with 67% predicting an increase (and 19% a significant increase). Throughout Europe and the US, expectations were more moderate, although still only a minority of dealers expected their business to decline this year. The least optimistic in the sample were dealers responding from African countries where 60% predicted sales could deteriorate in 2023.

Dealers also had a more optimistic view of the future prospects of their own businesses versus peer galleries within their region and globally. The majority forecasted that most of their global peers of similar size would see a stable year. Only 27% predicted that peer sales would rise, with just one third expecting a rise for other dealers in their country or region.

Figure 4.1 Dealers' Views on Future Sales in 2023

a) Outlook by Dealer Turnover Segment



b) Outlook by Dealer Region

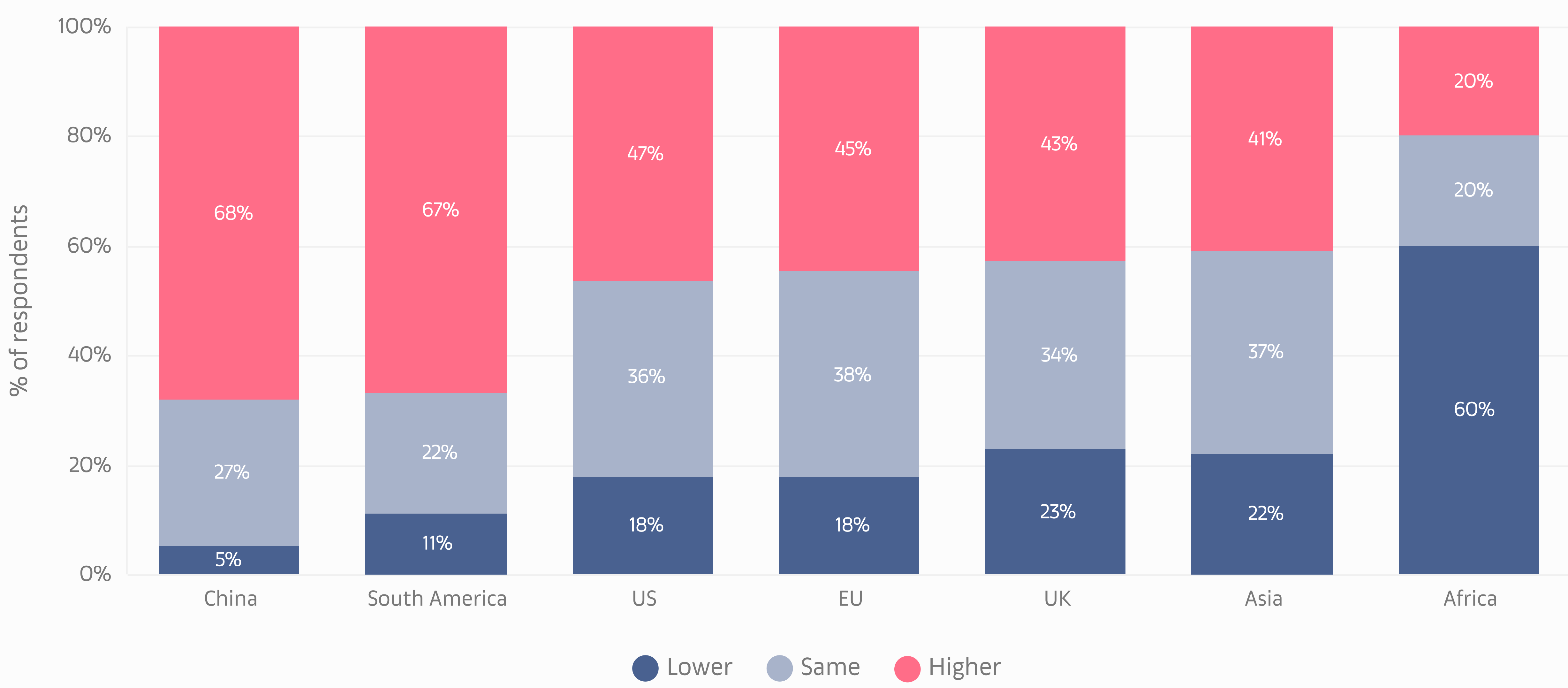
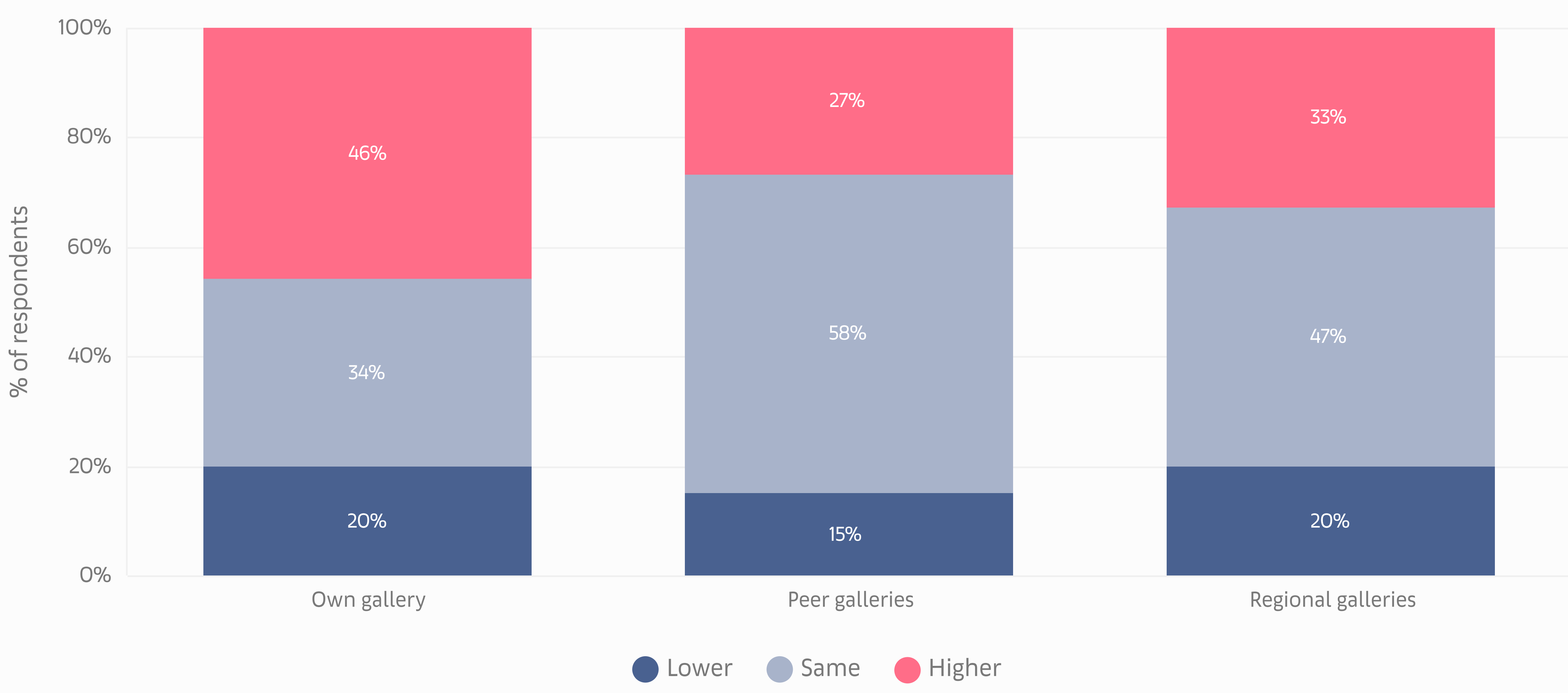


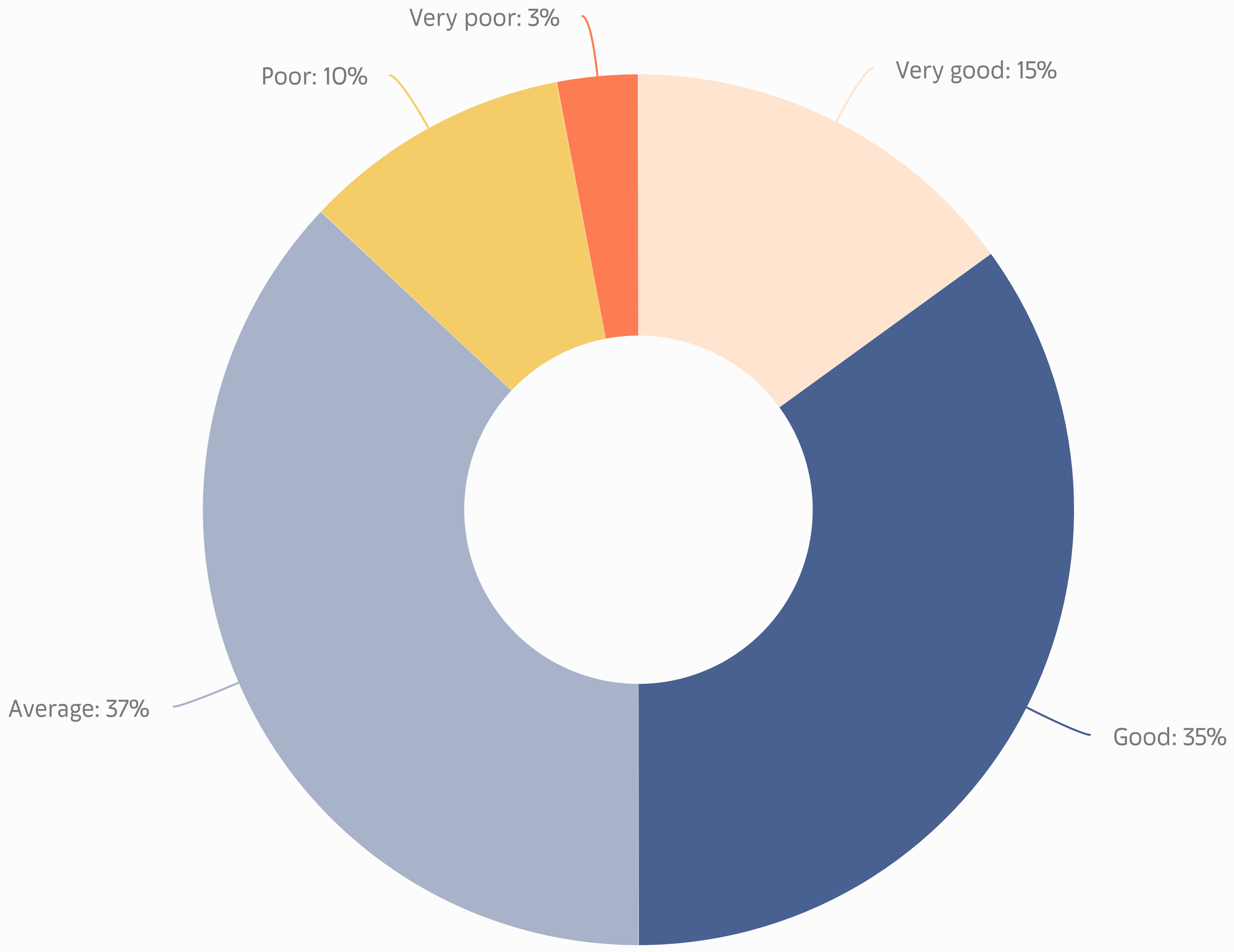
Figure 4.2 Dealers' Outlook for their Own Sales versus Peers in 2023



This higher degree of self-belief was also evident when dealers were asked to look back at their performance over the pandemic. When they were asked how they considered their own business fared in 2022 relative to their global peers, taking into account the COVID-19 pandemic and any other challenges they may have faced over the last couple of years, half of the respondents thought they were doing well in comparison. A further 37% considered their performance roughly on par and 13% felt they had not done as well as their peers.

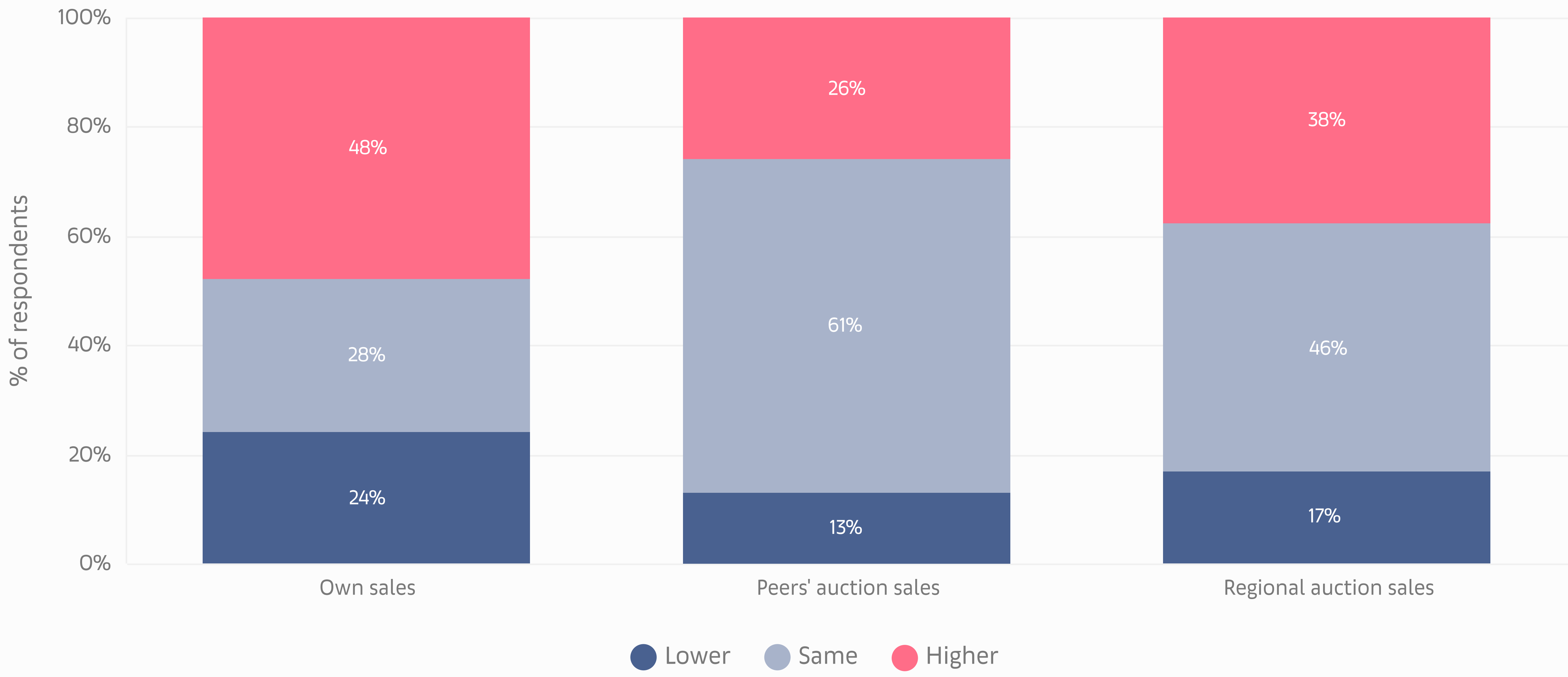
It is notable that despite showing relatively positive sales results on average for 2022, dealers in Asia had the lowest ratings of their own performance. Only 34% rated themselves good or very good relative to dealers elsewhere, while 25% thought they had done poorly in comparison. This inferior ranking was particularly high in Mainland China and Hong Kong (33% rating their performance as relatively poor) with the effects of the pandemic and the policies in place in 2022 likely to have had an impact on these perceptions. In the US, on the other hand, dealers were much more confident about how they had performed, and only a small minority (5%) felt they had done worse than their global counterparts. In the UK, just over half (52%) of the dealers surveyed thought they had done well, a little higher than the EU (46%), and only 10% of dealers rated their performance as poor (versus 14% in the EU). However, looking ahead, British dealers were less optimistic for 2023 than in other regions, with many voicing concern about the difficult economic conditions that might lie ahead.

Figure 4.3 How Dealers Believe they Fared in 2022 Relative to Global Peers



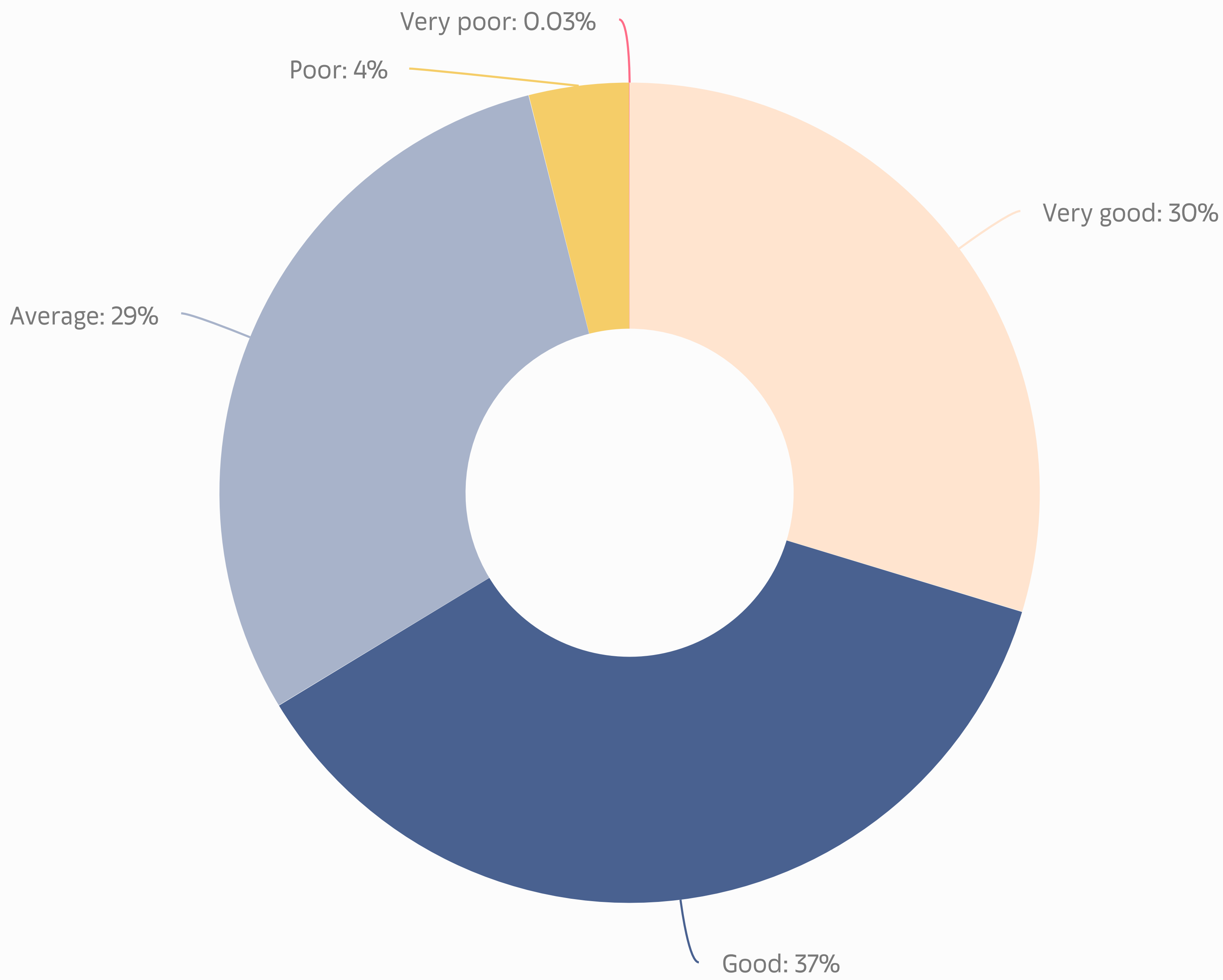
In the auction sector, the surveys of mid-tier businesses revealed a similarly optimistic outlook for 2023. When asked how they predicted their own sales would fare over the next 12 months, just under half of the respondents expected an improvement, with significantly more optimism about their own businesses than their global or regional peers. However, 2023 could prove to be another year of mixed outcomes in this sector with a significant 24% of respondents predicting a drop in their own auction sales. This was a relatively larger share than expectations of declining sales for peer businesses (13%), indicating that some businesses thought they were not only in for a difficult year, but could fare relatively worse than their competitors in the sector. Confirming the ongoing importance of digital sales in this sector, 60% felt their online sales would increase and only 4% predicted a decline.

Figure 4.4 Mid-Tier Auction House Views' on Future Sales Versus Peers in 2023



However, like the dealer sector, and despite some mixed performance in terms of sales and profitability in 2022, considering all the challenges of the pandemic and other issues over the last few years, the majority (67%) of mid-tier businesses in the auction sector thought they had managed to do well or very well when compared to their global peers.

Figure 4.5 How Mid-Tier Auction Houses Believe they Fared in 2022



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The reports of superior performance relative to peers by both dealers and auction houses may be related to some extent to them having a greater sense of awareness and control over their own performance and outcomes. However, it also indicates a degree of optimism and entrepreneurial self-efficacy that may have benefited some of these businesses through the last few difficult years and could continue to do so in the longer term, especially in the continuing dynamic and volatile economic context of 2023. Studies on the behavior of companies during crises have shown that when the environment is changing and unpredictable, high entrepreneurial self-efficacy can have a positive influence on performance, as long as it is combined with a realistic outlook. (Entrepreneurial self-belief combined with an unrealistic or over-optimistic outlook can, on the other hand, produce negative outcomes.)[51] The pandemic offered an opportunity to study how entrepreneurial disposition and the ability to adapt helped firms overcome exogenous shocks. Research in this area across different industries indicated that optimism was positively associated with a successful adaptation of businesses to pandemic-related challenges, helping companies to behave more proactively, and giving them greater ability to reimagine their strategies in

51 Hmieleski and Baron (2008) showed that in dynamic environments, entrepreneurial self-belief could yield very positive results but only when combined with moderate optimism, and these became negative if optimism was too high or unrealistic. In stable environments, in contrast, the effects of self-efficacy were relatively weak. Their research concluded that high self-efficacy was a positive driver but only under some conditions, while in others it could exert negative effects. See Hmieleski, K. and Baron,R. (2008) 'When Does Entrepreneurial Self-Efficacy Enhance Versus Reduce Firm Performance?' *Strategic Entrepreneurship Journal*, 2, 1: 57–72.

new and changing contexts, as well as to undertake the necessary organizational changes and innovations.[52] Positive forward thinking and adaptability have undoubtedly helped many dealers and auction houses through the challenges of the pandemic, as well as promoting a greater recovery over the last two years for some businesses over others.

However adaptable businesses have been, having the financial resources necessary to make changes has also been a critical factor in recovery. Many dealers commented that how financially prepared they were going into the crisis was pivotal to how they emerged. An outcome becoming clear in 2022 is that the pandemic and movement online did very little to level the playing field as many hoped, and if anything, increased the divide between the high and low ends of the market, with the position of some smaller businesses weakened through possibly not having had the same resources to deal with some of the challenges faced. Smaller galleries turning over less than $250,000 saw aggregate sales decline in 2022, and sales at auction under $1 million declined on aggregate, including a drop of 14% for fine art under $50,000 – a much more significant component of sales for smaller businesses. These poor and volatile sales against a backdrop of rapidly rising costs has undoubtedly put many of these businesses in a difficult financial position. Further, as noted by some smaller dealers, their buyers have also been more affected by the cost-of-living crisis and fears of recession in the US and other markets, causing a strain also on demand. Apart from the size of businesses, there has also been a regional dimension to the challenges, with specific economic, political, and cultural issues in different markets. More generally, with businesses and collectors remaining present in and focused on their own regions during the pandemic, some smaller galleries and other businesses operating outside of the main art hubs may have faced greater challenges, and the unique conditions over the last few years marginalizing them further as the art trade (by value) continues to concentrate around global hubs.

At the top end of the market, on the other hand, the growth of HNW and UHNW wealth has helped to support sales and generate growth. Since 2009, billionaire wealth has grown by over 380%, far outpacing the growth of the aggregate art market which has increased only around 75% between 2009 to 2022. However, focusing on sales over $10 million at fine art auctions, growth has been close to 700%, showing that to the extent that advances in billionaire wealth have fed into the art market, they have most evidently been channeled into supporting the outsized growth of the high end. While this has buoyed the market as a whole, it presents a much less stable path of growth, and severely belies the pressure in other segments: the parallel rate of growth for the sub-$50,000 segment – where 92% of

52 Amore, Garofalo and Martin-Sanchez study of UK firms during the pandemic showed that those led by optimistic entrepreneurs had a higher likelihood of innovation and organizational changes, which were useful to weather the pandemic shock and translated into actual higher growth. They note however that if this optimism or self-belief is to the extent that it creates a false sense of control, it could also subject firms to biases and errors in judgment. See Amore, M. Garofalo,O. and Martin-Sanchez, V. (2022) ‘Dispositional Optimism and Business Recovery during a Pandemic.’ *PLOS ONE* 17(6), available at: doi.org/10.1371/journal.pone.0269707.

all of the individual lots sold took place in 2022 – was only 10% since 2009. Adjusting for inflation over the period, the contrast is even more stark, with this lower end having lost almost one quarter of its value, while the $10 million-plus segment has still grown in real terms by over 450%.

Focusing on the established HNW collectors that were surveyed in 2022, there were clear indicators that they were spending more in 2022 than they had prior to the pandemic. However, while their share of spending at prices under $50,000 more than halved between 2019 and 2022, the proportion in the $1 million-plus range increased substantially from 18% to 31%, and at the $10 million-plus level had doubled (to 12%).

These HNW collectors remained optimistic about the global art market in 2023, with a majority of 77% positive about its expected performance, and only 6% describing their outlook as pessimistic. The surveys also indicated strong spending plans, with a majority (55%) planning to buy art in 2023, increasing to a high of 65% in major art markets such as the US.

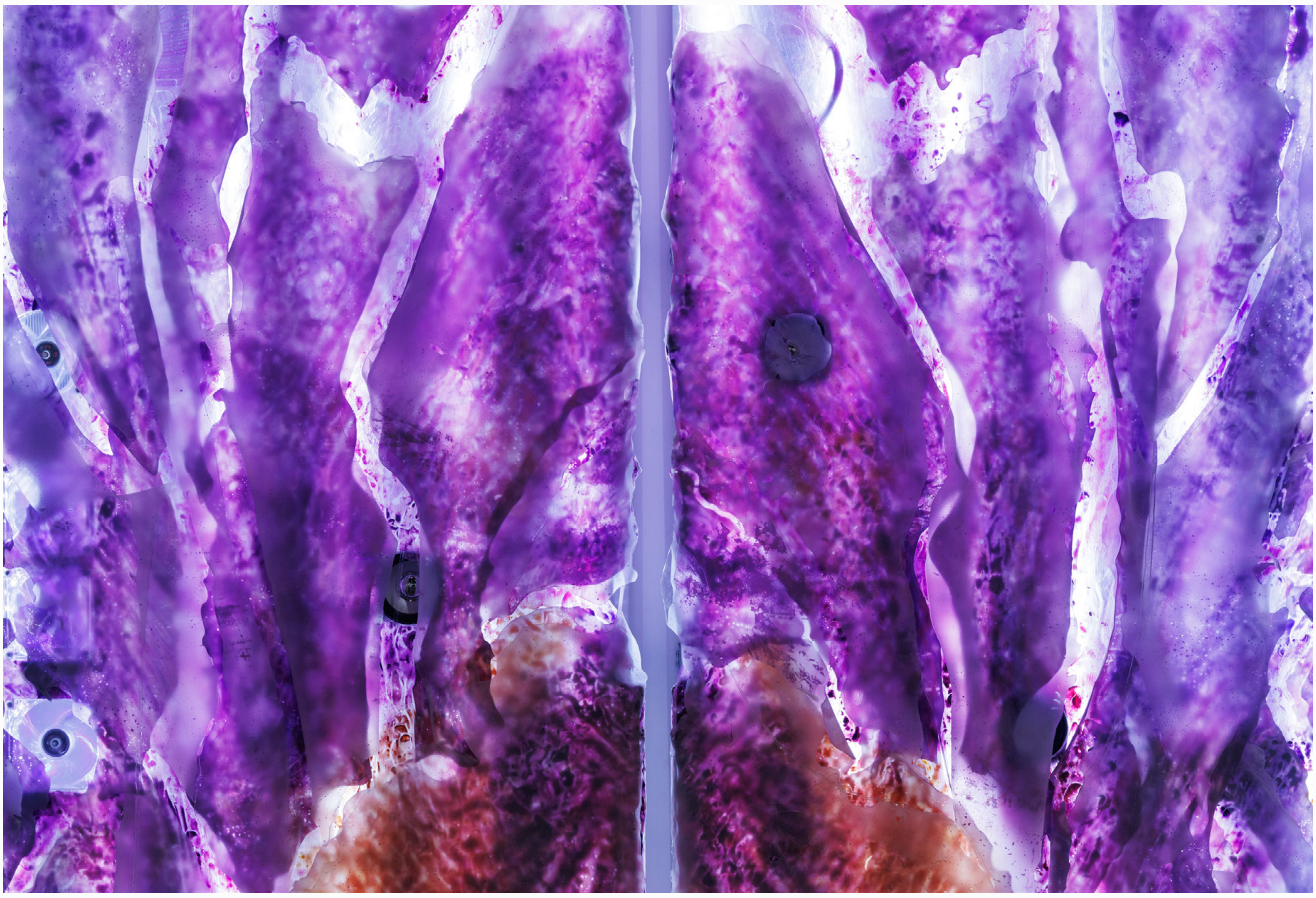
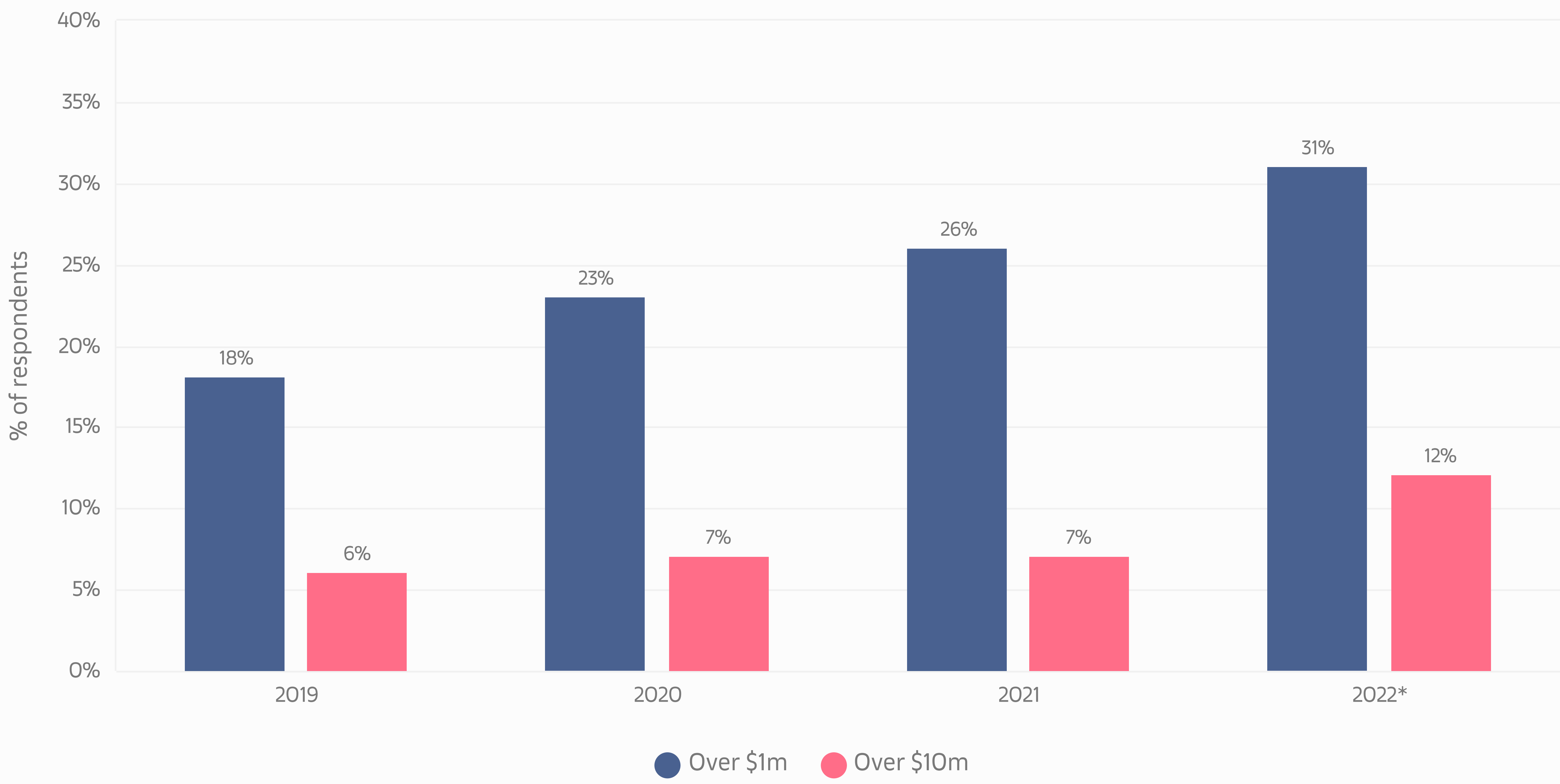


IMAGE Heemin Chung, P21, image courtesy Art Basel

Figure 4.6 Share of Spending by HNW Collectors by Price Level 2019–2022



*2022 is the reported share of spending for the first half of 2022 and collectors' estimates for the second half.

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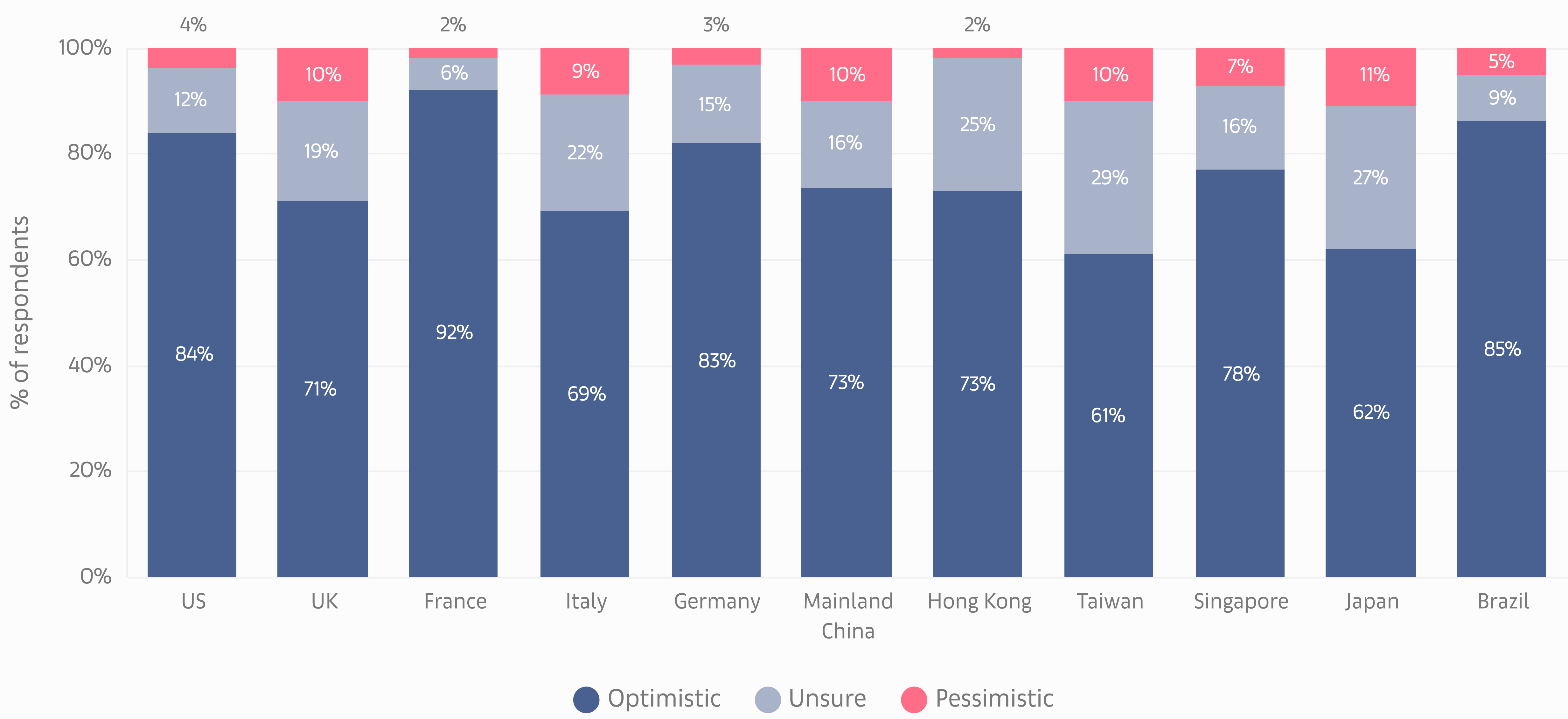
Figure 4.7 HNW Collectors' Outlook for the Global Art Market in 2023



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How these plans pan out and how they impact the market more generally remains to be seen. While the global economic outlook at the start of 2023 is slightly less gloomy than at the end of last year, most forecasts are still for slower growth as the fight against inflation, continued supply chain pressures, and the impact of Russia's war in Ukraine continue to weigh heavily on activity in many sectors. The slowdowns are most likely to have a more pronounced effect on advanced economies, including the key US market. The reopening of the economy in China, on the other hand, could provide a boost to growth, with China and India together forecast to account for half of global growth in 2023, versus just one tenth for the US and the EU combined.[53] These varying contexts for art sales, both regionally and over different wealth levels, are likely to protect the market's downside when measuring aggregate sales. However, they also limit the market's real growth versus a context of more balanced and equitable progress.

How different economies fare and the distribution of wealth within them in the coming years will crucially depend on policy measures taken by different governments, which will filter down to the art market both directly and indirectly. (Exhibit 4 summarizes some of the key regulatory concerns that impacted the global art market in 2022.) Whereas economic and geopolitical worries were at the forefront for much of the trade at the end of 2022, HNW collectors identified increased regulations on transacting and international trade as well as the rise of legal issues in the art trade (such as restitution cases, fakes, and forgeries) as their top three concerns in 2022. Next to political and economic volatility and their effects on demand, increasing regulatory barriers to cross-border trade and escalating administrative burdens, due diligence, and other legal requirements when transacting were the top issues identified by dealers and mid-tier auction houses. Legal and regulatory issues continued to evolve in 2022 in the major art markets and beyond, shaping how and where business was and will continue to be conducted.

53 IMF (2023) *IMF World Economic Outlook Update*, January 2023, available at: www.imf.org.

IMAGE Kennedy Yanko, Vielmetter Los Angeles, image courtesy Art Basel

Exhibit 4. Run Rabbit Run

*Till Vere-Hodge and Katalin Andreides**

In 2023, we are in the Year of the Rabbit. In art, rabbits symbolize rebirth and resurrection. The zodiac sign symbolizes longevity, peace, and prosperity. All are good omens for predictability and stability in global affairs. Following recent upheavals, the international art trade, too, will be glad to hear the coming year is predicted to be an auspicious one. What lies beyond the horizon, however, will also be colored by the recent past, including legal and regulatory developments underpinning the international art trade.

Ethical Considerations and Ownership Restrictions

Any transaction involving the sale and purchase of an artwork requires the buyer to 'beware' (the often-cited principle of caveat emptor). Most buyers know that their contractual counterparties must be capable of conferring legal title on them. Most buyers also expect that all rights and interests in the artwork must pass to them when payment is made. But due diligence doesn't end there. Legal title alone is not enough. There may be third-party interests that could prevent the work from being freely marketable and saleable. This has huge implications on market value and the ability to do anything to or with the artwork once it has entered the buyer's collection.

The issue has been highly topical over the last year. 2023 marks the 25th anniversary of the Washington Principles on Nazi-Confiscated Art and the 80th anniversary of the London Inter-Allied Declaration. These two international accords are seen as milestones in setting up an international regime to deal with the vast number of artworks, which are still subject to potential 'moral claims' because their previous owners were illegally dispossessed during the Nazi era. Regardless of whether legal title continues to vest in the original owner or not (which is subject to a legal analysis), a moral claim will typically turn an artwork into a type of 'frozen asset.'

Today's framework for dealing with claims to Nazi-looted art has historically been rooted in Western Europe and North America. However, we should not discount nascent trends in Central and Eastern European countries aimed at finally addressing the issue in a more proactive way. The Russian invasion of Ukraine may reinforce the desire in some Central and Eastern European countries to adopt more demonstrably Western policies, including in the approach to Nazi-looted art. Newly-established initiatives such as the journal *Eastern European Holocaust Studies* may point in that direction, even though change may be slow and incremental. Nonetheless, an Eastern European dimension will affect countless artworks, including in the US and Western Europe.

The ongoing conflict in Ukraine has reminded us that the looting and destruction of artworks and antiquities is by no means limited to the past. Military campaigns and conflicts invariably lead to more legal issues and ‘red-flag’ artworks in the future.

Limitations on collectors’ ownership rights stemming from moral, rather than legal considerations, have proliferated and continue to be incorporated into law or at least market practice. The expanded scope of looted art claims now includes categories of looting and dispossession well beyond the context of World War II – for example, objects suspected of having been looted during the colonial era and/or in the context of military campaigns in many cases more than a century ago.

Some ethical standards which will impact on collectors’ ownership rights are also unequivocal legal standards. There have long been international (almost global) controls on importing, exporting, or trading in objects containing material which is made from any living or dead plant or animal. Objects, ranging from pianos featuring ivory keys to furniture made from rosewood, reptile skin accessories, and tortoiseshell boxes, have long required so-called CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) licenses in order to be moved across borders. On June 6, 2022, it became illegal in the UK to deal in items made of or containing ivory, including antiques, which has had a significant effect on some dealers in this sector.

While not (yet) law, other environmental considerations are gathering force and may require the art trade to act accordingly. The shipping of artworks is under increasing scrutiny in terms of CO2 emissions and NFTs have been much criticized for the perceived waste of energy in storing the underlying code protocols.

While these ethical considerations are well-intentioned, it is important to stress that they have to be thought through and sensible. For example, in relation to claims to looted art, the corresponding provenance research needs to be carried out properly. A case-by-case analysis is absolutely essential. Shortcuts can lead to an inversion of the ethical standards that the artworld is aspiring to. While ethical requirements are developing fast, over-zealous activism may not always result in honoring the original intention.

Transparency and Confidentiality

The artworld's propensity to treat confidentiality as something akin to a belief system has come under increasing pressure from an ever-expanding anti-money laundering regime on both sides of the Atlantic. Yet more compliance obligations flow from the international sanctions regime in response to Russia's invasion of Ukraine.

High-value art has come under particular scrutiny. Enforcement agencies have treated with suspicion the fact that eye-watering sums can be exchanged for objects traded in the much-maligned 'unregulated art market.' (Notwithstanding the fact that the art market is, of course, subject to a whole plethora of rules and regulations, though not subject to oversight by one regulatory body.)

In January 2022, the US Department of the Treasury considered to what extent further rules might be required. While the study found little evidence of money laundering or other related activities in the art market, it suggested that certain art market professionals are more vulnerable to money laundering than others. The authority flagged in particular online marketplaces, social media platforms, and encrypted messaging services that sell art, as well as the digital art market.

Rejecting a 'one-size-fits-all' approach and mindful of the burden on smaller players in its domestic art market, the US Treasury made recommendations which included 'non-regulatory options.' The US Treasury also concluded that there was a range of generic economic activities which were more susceptible to financial crime risks than the trading of art and antiquities.

In December 2022, the US Senate added further to America's reputation for light-touch regulation (or at least 'lighter-touch' than in Europe): The Senate rejected the *US Enablers Bill,* which would have expanded the definition of a financial institution to include persons who provide certain professional services that are viewed to be susceptible to money laundering, with dealers, galleries, advisors, auction houses, and museums expressly referenced in the bill.

The digital space has become one of the main arenas for the perennial battle between transparency and confidentiality. General interest in art-related NFTs appears to have held up well among collectors although perhaps not to the extent initially anticipated. NFTs may be said to pose a particular money-laundering risk, given volatile valuations, the instantaneous transferability with no geographical restrictions, a perceived lack of regulation in the digital space, and the incentive to trade NFTs repeatedly in rapid succession.

Issues around NFTs may well have added a degree of urgency to the EU's desire to regulate the digital space. On December 7, 2022, the EU Council agreed to proceed with the drafting of a Regulation which will be directly applicable in each of the 27 Member States (as opposed to a Directive). The Regulation will form the bedrock for the proposed 'EU AML Rulebook.' There will also be a new *Sixth AML Directive.*

On the basis of these plans, EU money-laundering and terrorist-financing rules should be expected to extend into the entire cryptosector, obliging all cryptoasset service providers to conduct due diligence on their customers and to apply customer due diligence measures when carrying out transactions amounting to €1,000 or more. The rules are also expected to cover third-party financing intermediaries, persons trading in precious metals, precious stones, and cultural goods, jewelers, horologists, and goldsmiths. Beneficial ownership rules are expected to require yet more transparency and harmonization across the trading bloc.

In addition, the EU has adopted an Action Plan to fight the trafficking of cultural goods, as well as related crimes such as fraud, fencing, smuggling, and corruption. The plan envisages a centralized electronic system, to be up and running by June 2025, on the basis of the *2019 EU Import Regulation* which prohibits importation of cultural goods illegally exported from third countries. The system will interconnect customs, cultural authorities, and databases. Sales registers have been recommended to help detect instances of trafficking and to trace them within the single market, which will undoubtedly increase the administrative burdens on small businesses in the art and antiques sectors in the EU. These efforts will be mirrored by combating online trafficking (by virtue of the *Digital Services Act*). Member States will be required to procure certain reporting and registration obligations.

Post-COVID-19?

Following the end of the COVID-19 lockdown, many people have enjoyed socializing, and attending in-person events, once again. The past year or so has resulted in a palpable sense of relief, even if this is not (yet) universal with disruptions from regional COVID-19 spikes continuing in the Asian art trade.

COVID-19, Russia's war against Ukraine, and high inflation, driven by the sharp increase in energy costs have produced much economic doom and gloom. Overall, this has hurt the art trade. Even in troubled times, however, there are always opportunities. Some of the most high-profile auction results in the past year have included philanthropic elements, which appear to be much on buyers' minds. There are potentially interesting tax implications of art auctions for charity, even though buying at a charity auction may distort valuations, as buyers may be happy to give more for charity.

While some of the large international art fairs appear to have bounced back, London in particular has been hit by a couple of high-profile cancellations, including the 2023 editions of Masterpiece London and the summer edition of Art & Antiques Fair Olympia. Generally, there have been voices of discontent in London that more needs to be done to protect the UK art market following the onslaught of negative sentiment which has accompanied Brexit, COVID-19, and high inflation exacerbated by Russia's invasion of Ukraine. Partly in response to these issues, and longer-term concerns, in January 2023 the House of Lords criticized the UK government for 'jeopardizing the creative industries.'

In the US on the other hand, New York City Council appears to have 'received the memo.' In the context of rolling back red tape to allow for a business-friendly environment post-COVID-19, the world's leading hub for the art trade has repealed regulations viewed to have held back the auction industry. New York City Council removed rules on conduct of auctioneers and auction houses, including licensing and disclosure requirements and allowed auctioneers and auction houses to operate without having to obtain a license.

As part of this package of measures, auction houses will no longer be required to notify buyers if they have a stake in a lot offered for sale. Equally, 'chandelier bidding' will now be allowed without restrictions. Previously, where auction houses wanted to get the bidding underway, they were only allowed to put forward fictitious bids up to the reserve price. With the repeal of subchapter 13 of chapter 2 of title 20 of the Local Laws of New York City, as amended under Mayor Bill de Blasio, this practice will be possible even beyond the reserve price of any given lot.

The changes aim at creating a more pro-business climate in New York's auction market. However, some of the major players have already poured cold water over the idea. For the top auction houses in New York, it appears as though trust and consistency with established practice is more important. While the major players may not make use of the relaxed rules in the foreseeable future, smaller and medium-sized auction houses in New York City very well may do so.

The regulatory mood from the European continent hasn't matched New York's effort. Article 316 of the (old) *2006 EU VAT Directive* was amended in April 2022. As a result, the revised Directive makes clear that businesses cannot claim VAT reductions in a cumulative way by first applying a reduced VAT rate on art imports, and then charging VAT on the margin between the purchase price they paid and the sale price they achieve when selling on the artwork. As always, the business sentiment flowing from these developments may be just as important as their economic net effect.

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IMAGE Chino Amobi, Fitzpatrick Gallery, image courtesy Art Basel

APPENDIX

Primary Data Sources Used in The Art Market 2023

The information and data compiled for *The Art Market 2023* comes from a range of different sources, and is gathered and analyzed directly by Arts Economics. The primary sources of data include dealers, auction houses, art fairs, art and antique collectors, art price databases, NFT platforms and aggregators, financial and economic databases, industry experts, and others involved in the art trade and its ancillary services.

For the purposes of this research, the art and antiques market includes sales of fine and decorative art, antiques, and antiquities. Fine art includes paintings, sculptures, and works on paper (including watercolors, prints, drawings, and photographs), tapestries, installations, as well as film, video, digital art, and other new media. Decorative art, antiques, and antiquities covers objects such as furniture and decorations (in glass, wood, stone, ceramic, metal, or other material), couture (costumes and jewelry), ephemera, textiles, other antiques, and antiquities.

I. Auction Data

The auction sector provides the main large-scale, international, and publicly available information source on individual transactions in the art market. Although the results of many auction sales are in the public domain, aggregating data in this part of the market is not without issues, particularly on a global scale, with some auction houses publishing limited, selective, or no results at all. There is no single comprehensive source or database that covers the entire global auction market for fine and decorative art and antiques. Auction data for 2022 used in this report therefore comes from five main sources:

A) Artory
Global auction data is supplied by Artory (artory.com). Artory's database covers 4,000 auction houses with over 36 million records, with consistent auction results gathered annually for 250 businesses in 40 countries and 500,000 artists. The database comprises results from major sales in top- and second-tier auction houses around the world, and it does not restrict inclusion by final price or estimate value, hence, offering coverage of the full range of prices and sales. Combining their leading technology, art expertise, digital certification, data, and tokenization, Artory secures verified artwork information from expert partners on the blockchain to accelerate the liquidity and investment opportunities

for the most trusted physical artworks. Their process prepares these artworks and other real-world assets to be incorporated in traditional financial instruments, next-gen digital-first financial products, and other Web3 opportunities. Artory has built a unique global database that includes public auction records as well as an estimated value of over $1.5 billion in expert-verified and registered physical and digital artworks.

B) ARAA

Both fine and decorative auction data for the Chinese art market is supplied by ARAA (Artron Research Academy of Art). Artron.net was founded in 2000 as an interactive online community devoted to Chinese works of art. ARAA is a market-data service platform for Chinese works of art and the research institution of Artron Art Group, focusing on data search, artwork valuation, indexing, data reporting, and other relevant services of the Chinese market. It has the most comprehensive and reliable available database on the Chinese art market, with over 7.1 million results from more than 37,000 sales from over 1,400 auction houses since the first art auction in China in 1993.

C) ATG

Data on sales via third-party auction platforms was supplied for this report by ATG (Auction Technology Group, auctiontechnologygroup.com). ATG operates seven industry-leading digital marketplaces across the art and antiques and industrial and commercial sectors (the-saleroom, lot-tissimo, Proxibid, BidSpotter US, BidSpotter UK, i-bidder and, since 1 October 2021, LiveAuctioneers). Together, the marketplaces connect 800,000 bidders from 170 countries to around 3,800 auction houses hosting over 70,000 auctions per year.

D) Auction Houses' Published Results

To supplement the coverage provided by these databases, Arts Economics has also developed its own internal, international auction database, collecting data directly on an annual basis from the published auction results and press releases of auction houses. As Artron does not cover online auction sales, these were also collected directly by Arts Economics from all of the major auction houses in China.

E) Auction House Survey

Arts Economics distributes two surveys in the auction sector: a comprehensive top-tier survey of the top 10 auction houses worldwide plus a second-tier survey of around 500 national second-tier auction houses (with a response rate of 20%). The auction surveys provide additional sales data as well as a range of other more in-depth information on employment, buyers, profit margins, debts, and other aspects of the auction market that are used in the report. The surveys are sent directly to the auction houses from Arts Economics' database.

For historical auction data, various sources were used in compiling previous reports, including Auction Club (2017), Collectrium (2016), Artnet (2011–2015), and Artprice (2008–2010).

II. Dealer Data

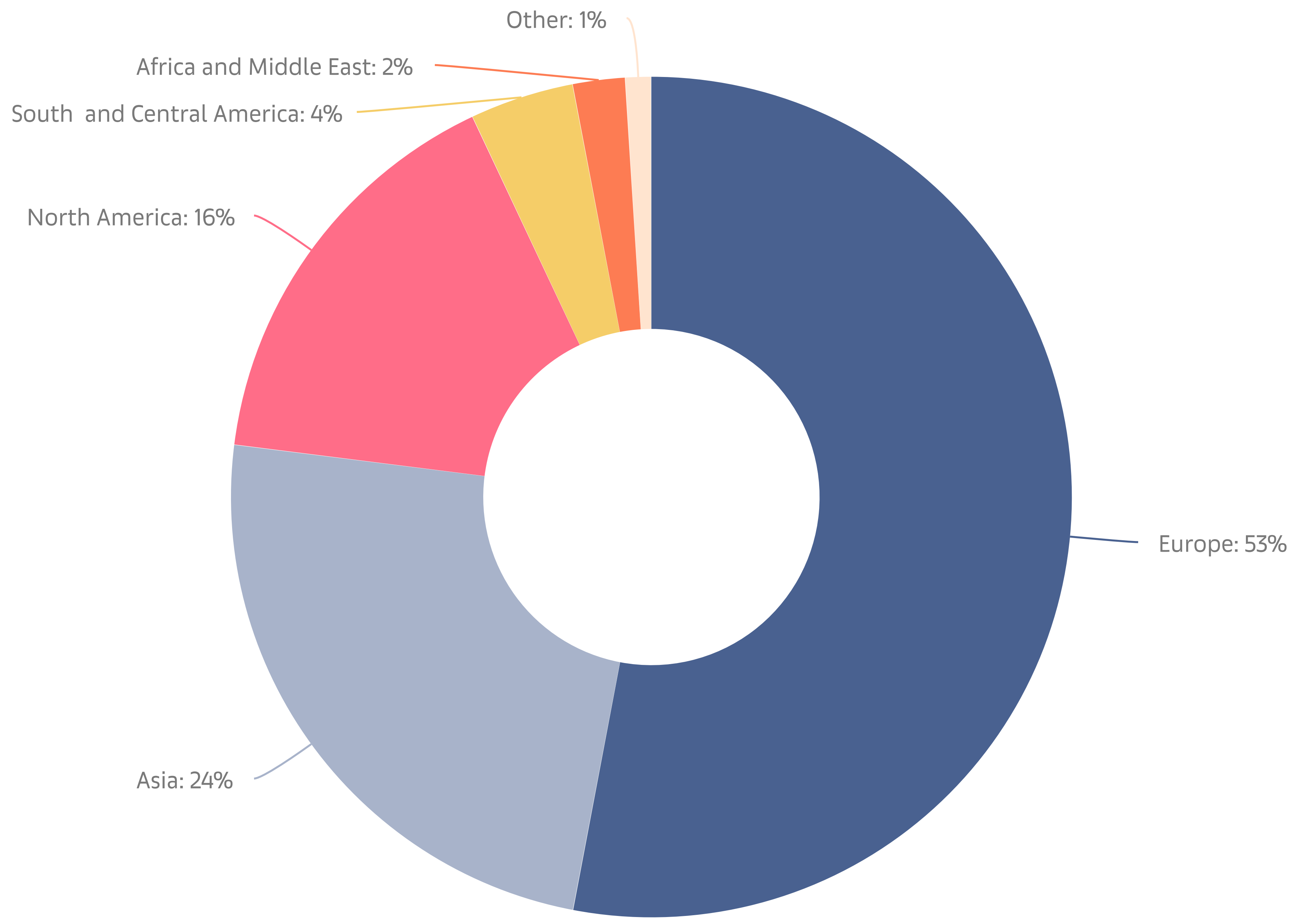
Data on dealer sales is more complex to gather due to the private nature of transactions in the sector. Most of the companies in the sector are small businesses with only a very small number of publicly listed companies, which means detailed information and financial results in public and private databases is limited.

Numerous government and company reports are used in compiling figures on the sector. These include Eurostat, the US Bureau of Labor Statistics, the Office for National Statistics in the UK, Companies House, Insee, Infogreffe, the National Bureau of Statistics of China, and many others. Some of these sources are limited in scope and coverage and, in some cases, publish data with a significant lag and only for a very small proportion of companies relevant to this report. Comparisons are also problematic between nations due to differences in recording, classifications used, the records required and how they are defined and recorded, and the classification of companies by sector and activity.

To overcome the lack of publicly available data, surveys of this sector are an essential element of the research process. These surveys have been carried out by Arts Economics on the dealer sector consecutively for over 15 years, providing a means for tracking and analyzing trends in the sector over time. To compile data on the dealer sector, Arts Economics conducted an online survey in December 2022. An online, anonymous survey was distributed to the memberships of some of the main dealer associations around the world, including CINOA, ADAA, CPGA, SLAD, FEAGA, and other national associations. Coverage in Asia was expanded in 2022, notably in Japan with the assistance of the Agency for Cultural Affairs, Government of Japan (Bunka-cho Art Platform Japan); Japan Art Dealers Association; the Contemporary Art Dealers Association Nippon (CADAN); and the Association for the Promotion of Contemporary Art in Japan (APCA). Data on the Korean dealer market was also supplied for the report by KAMS (the Korean Art Management Service). The survey was also distributed by Art Basel directly to over 540 individual galleries who participated in their shows in Basel, Miami Beach, Paris, and Hong Kong.

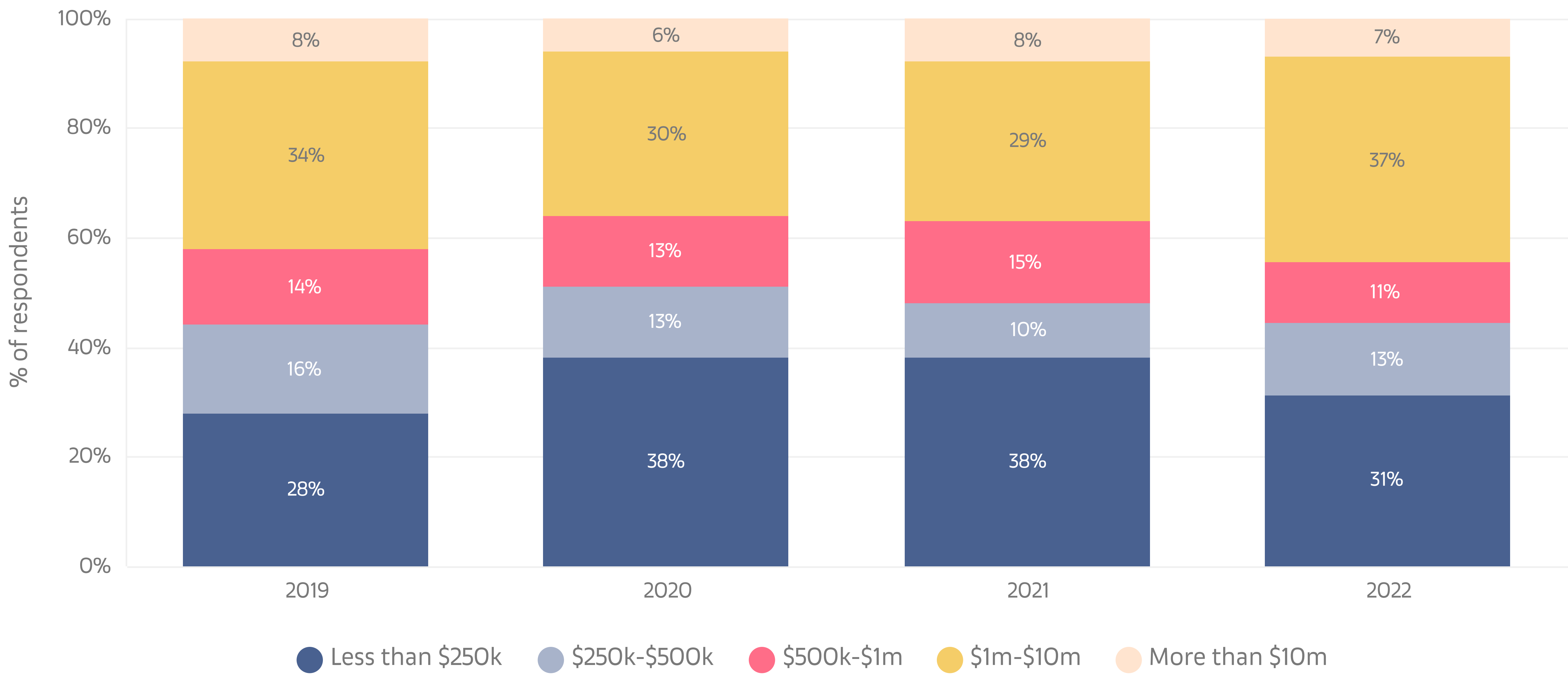
The galleries covered in the end of year survey were geographically diverse, covering around 60 different markets (including those businesses with multiple premises). The highest regional share of respondents was galleries and dealers from Europe (53%), with 24% from Asia, and 16% from North America. 82% of the dealers responding were fine art dealers and 18% were businesses working in antiques, antiquities, and decorative arts sectors.

Figure A1. Geographical Distribution of Respondents in 2022



Respondents to the survey varied in the size of their annual sales turnover. 55% had annual sales of less than $1 million, including just under half (44%) with sales of less than $500,000 (down from 48% in 2021). 7% reported sales in excess of $10 million. A further breakdown of the past three years is provided in Figure A2.

Figure A2. Share of Respondents by Reported Annual Turnover 2019-2022



The dealers covered in the survey are estimated to account for between 70% and 80% of the value of sales in the sector, depending on the country. The survey allows us to estimate the value and changes in this core majority share of the market, while the addition to sales from the remaining numerous small businesses are very conservatively estimated based on official statistics and censuses that report sales by industry, business, or sector, as well as results from the survey for smaller businesses. As some of the highest-selling dealers may not answer surveys, the survey results are also checked and adjusted using the reported turnover of the highest-selling galleries and dealers as reported in sources such as Companies House and other databases of company records. The survey was supplemented by a series of interviews with dealers in different sectors and countries conducted from June 2022 to January 2023 to gain in-depth insights on the art market, which were used to inform the analysis in the report and help interpret the findings.

III. NFT Data

Data on sales of NFTs on NFT platforms and marketplaces was supplied for this report from NonFungible.com. NonFungible.com was initially launched in 2018 to track real-time transactions of Decentraland, but has evolved into the largest NFT database worldwide, covering all of the NFT sales on Ethereum, Flow, and Ronin blockchains.

Sales reported by NonFungible.com correspond to the 'qualified' volume of NFT transactions, that is, any transaction or activity that can be associated with legitimate market activity or an existing project. For example, the total value of activity identified over 2021 amounted to $55 billion, for approximately $18 billion of qualified trading, the rest being unqualified activity or 'noise' in the industry. NonFungible.com currently only supports transactions that occur on the Ethereum (in the main standard of NFT, the ERC-721), Ronin, and Flow blockchains which are estimated to cover over 90% of the value of all sales of NFTs. They do not cover sales that occur off-chain or side chain activity or sales supported by alternative technological standards that have developed on the Ethereum blockchain, such as the ERC-1155 (Semi Fungible) and the ERC-998 (Composable NFT), or some less frequently used blockchains such as EOS, Tezos, Solana, WAX, or Bitcoin SV.

The main data reported in Chapter 1 was sales of art and collectibles NFTs as defined by NonFungible.com. NonFungible.com tracks sales across a range of segments including art, collectibles, metaverses, gaming, and utilities.

IV. Art Fair Data

Data on the art fair calendar was supplied by artfairmag (artfairmag.com). Artfairmag is a database tracking over 400 regional and international fairs around the world, including information on timing, location, date, and type of art sold. Artfairmag was founded by Pauline Loeb-Obrenan in 2019, who prior to starting the database worked at Galerie Kugel in Paris for eight years. Artfairmag also provides insights from interviews with art fair directors and gallerists about their events and exhibitions.

V. Contributions from External Authors

Caroline Taylor

Caroline Taylor is the Founder of Appraisal Bureau (appraisalbureau.com), a data and analytics firm providing regulatory compliant valuations of fine art and digital assets. The proprietary Appraisal Bureau NFT valuation methodology is used by major international insurance markets. Appraisal Bureau's work additionally focuses on the development of valuation solutions utilizing distributed ledger technology, including a tokenized appraisal system in partnership with Arweave, a Decentralized Storage Network.

Caroline is a certified member of the Appraisers Association of America and serves as Co-Chair of the association's NFT Committee. She has extensively written valuations for purposes of insurance, equitable distribution, tax and estate planning, asset management, and charitable donation. Previously, Caroline was a Curatorial Associate for the Deutsche Bank Collection, and has additional experience at Phillips, The Metropolitan Museum of Art, and the Felix Gonzalez-Torres Foundation.

Caroline regularly speaks on panels and lectures on the topics of Web3, NFTs and Contemporary art. She holds a BFA in Painting from Pratt Institute and additional Financial Math and Statistics coursework from New York University.

Vejay Lalla, Peter Hart, Monica Kim, and Kevin Kirby

For more than 50 years, Fenwick has helped some of the world's most recognized and market-leading technology companies, from emerging enterprises to large public corporations. These clients have included compelling early disruptors as well as some of the biggest technology and content businesses in the world, who have turned to Fenwick for forward-looking, practical, and actionable advice.

Vejay Lalla, co-lead of Fenwick's digital media and entertainment group and consumer technologies group, is paving the way for entertainment, media, gaming, and consumer businesses as well as a rapidly growing celebrity and athlete talent client base to engage with the new creator economy. His extensive advertising, media and entertainment, transactional, and product counselling experience allows him to counsel a broad range of consumer technology companies, from advising public companies on acquiring businesses, technology, or other content, and entertainment or gaming assets to complex commercial transactions. He is also one of the leading experts advising multinational businesses and startups on the changing regulatory landscape on a range of issues surrounding talent endorsements, advertising, copyright, trademark, right of publicity, and privacy issues in the context of rapidly evolving technologies.

Vejay regularly speaks on panels and lectures on the convergence of entertainment and technology, including topics of Web3, NFTs, and the evolution of consumer technology. He holds a BA in Political Science from Boston University, and a JD from Cardozo School of Law and is based in Fenwick's New York office.

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Zach earned his LL.B. degree from East China University in Political Science and Law, passed the Chinese bar exam, and achieved the Chinese Talent Agent License. During his internship at a leading law firm in Shanghai, he gained exposure to art law and contributed to the research for *Art Law – China Chapter* (Getting the Deal Through, 2018). The article appearing in this report continues research published on Sheppard Mullin's Art Law Blog (artlawgallery.com), entitled 'Unroll the Scroll Painting: Inside the Chinese Art Market and Its Regulatory Landscape,' where Zach published other articles discussing legal trends and dynamics happening in the art industry.

Till Vere-Hodge

Till Vere-Hodge (tvere-hodge@phb.co.uk) is a Partner specialising in art and cultural heritage law at Payne Hicks Beach LLP. Till advises international private collectors, art dealers and auction houses, galleries and museums, as well as art investors and advisors on any legal issues pertaining to art, cultural property, and other collectibles. He has built up a particular expertise in handling restitution claims to looted artworks. He regularly lectures at various Art Law forums and comments in the media on matters pertaining to Art and Cultural Property Law.

Prior to his career in the law, Till worked for a Member of Parliament at Westminster and as a Public Diplomacy Officer at the German Embassy. He is a member of PAIAM (Professional Advisors to the International Art Market), ICRA (International Catalogue Raisonné Association), TIAMSA (the International Art Market Studies Association), and serves as an Officer on the Art, Cultural Institutions, and Heritage Committee of the International Bar Association. He is a Fellow of the Royal Asiatic Society of Great Britain and Ireland.

Katalin Andreides

Katalin Andreides (katalin@andreides.tv) is a Rome-based EU art lawyer who advises HNW clients, art dealers, galleries, financial institutions, artists, and artists' studios and estates in a number of regions including Italy, France, Monaco, and Hungary. Her practice includes the full spectrum of transactional, advisory, and dispute resolution services pertaining to art. Katalin's focus has been the Contemporary art market in Europe, but she has also advised her clients on legal issues surrounding antiquities, Old Masters and Modern works of art. She has particular experience in navigating the European export license regime and cross-border inheritance management involving art and other collectible chattels.

Katalin is a CAfA-appointed (Court of Arbitration for Art) Arbitrator. She is a member of the Institute of Art and Law, London, TIAMSA (the International Art Market Studies Association), and the British Institute of International and Comparative Law. She serves as an Officer on the Art, Cultural Institutions, and Heritage Committee of the International Bar Association.

VI. Other Online Data Sources

Data on website traffic was taken from SimilarWeb in the months between December 2021 and January 2022. This data is dynamic and changes over time. It should therefore be considered only as a relative view of the companies presented at a point in time. Other data was taken directly from social media sites, including Facebook, Instagram, and Twitter.

VII. UBS HNW Collector Survey

To help better understand if HNW collectors' patterns of behavior have changed during and after the pandemic, Arts Economics and UBS conducted a global survey of HNW collectors across 11 markets. Arts Economics and UBS have monitored the behaviors and interactions of collectors in the market for the last seven years covering a range of different global markets. This survey in 2022 was the largest to date, with qualified responses from more than 2,700 HNW collectors covering the US, the UK, France, Germany, Italy, Mainland China, Hong Kong, Taiwan, Singapore, Japan, and Brazil.

The survey was distributed in August 2022, and the full report of its findings were published in *A Survey of Global Collecting* in 2022, An Art Basel and UBS Report, published at the end of 2022, with key findings also used in this report.

Potential respondents were screened according to their wealth and activity in the art market from 2020 through to the end of the first half of 2022. Respondents were required to be HNW individuals, defined here as having a current net worth, excluding real estate and private business assets, in excess of $1 million. To ensure they were active enough in the market to be able to offer insights on potential changes in spending, sales channels, and other behaviors, they were required to have purchased fine or decorative art in 2020, 2021, and 2022, spending a minimum of $10,000 on art and collectibles in each of the years 2020 and 2021, and a minimum of $5,000 in the market in the first half of 2022. This screening ensured that the survey captured only actively collecting respondents.

This screening process continued until there was a minimum of 400 suitably qualified responses for the US, 300 from Mainland China, and 200 from each of the other markets surveyed, with a total of 2,709 fully qualified respondents used for the analysis and reporting.

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