

## **Financial returns and price determinants in the Australian art market, 1973-2003**

**2005 Helen Higgs & Andrew Worthington, Queensland University of Technology**

**Some consider art an investment. Indeed, several self-managed superannuation funds hold paintings in their portfolio, although regulations for this have tightened recently**

**Higgs & Worthington created a useful index to track the overall price movement of Australian paintings which we can compare to other popular investment indices. Their data is from 37,605 auction sales of paintings from 60 well known Australian painters from 1973-2003**

**Building an index simply from averaging the annual sale prices of paintings each year wouldn't correct for differences in artist, physical characteristic, etc. The authors instead used a "hedonistic" approach whereby they valued paintings as a collection of attributes**

- **This allows us here to summarise both thirty years of "appreciation" (price increase) of Australian art and also the factors that determine price**

**Unless you capture financial reward for the aesthetic value of art (eg. through renting), this and other published work, suggests that other assets provide a higher, long term total return**

- **However, there will always be speculators who believe they can outperform the market through timing and spotting undervalued artists (including those not featured here)**
- **Others simply enjoy art and would be pleased to note that prices have beaten inflation**

## Investment characteristics of art

**Not liquid (delays typically exist in selling)**

**Not divisible (as with direct property, you can't sell a portion of the piece)**

**High transaction costs (selling costs can range from 10-30%)\***

**Limited opportunity for earnings (no dividends, no interest, limited rental opportunities)**

**Asymmetry of information (sellers may know more than buyers)**

### **Risk factors**

- **Physical risk of damage (insurance can lower returns about 1% pa)\***
- **Reattribution and fraud (work could be attributed to a different artist)**
- **Fashion (eg. artist or school become less in demand)**



**Higher risks and the typically unrewarded aesthetic value drives overall returns lower**

- **Art may also be considered a consumption good, which explains its correlation with other major investment indices**

\* transaction and insurance costs not factored in the following returns, this would further reduce estimated returns

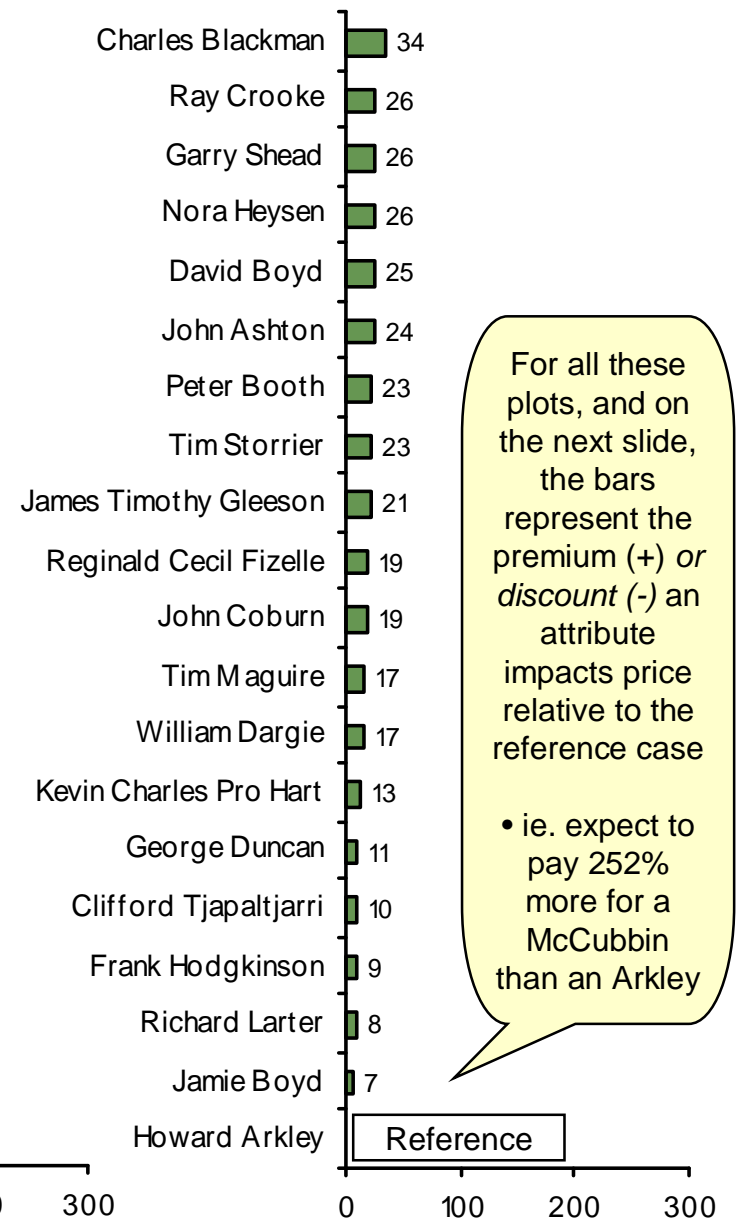
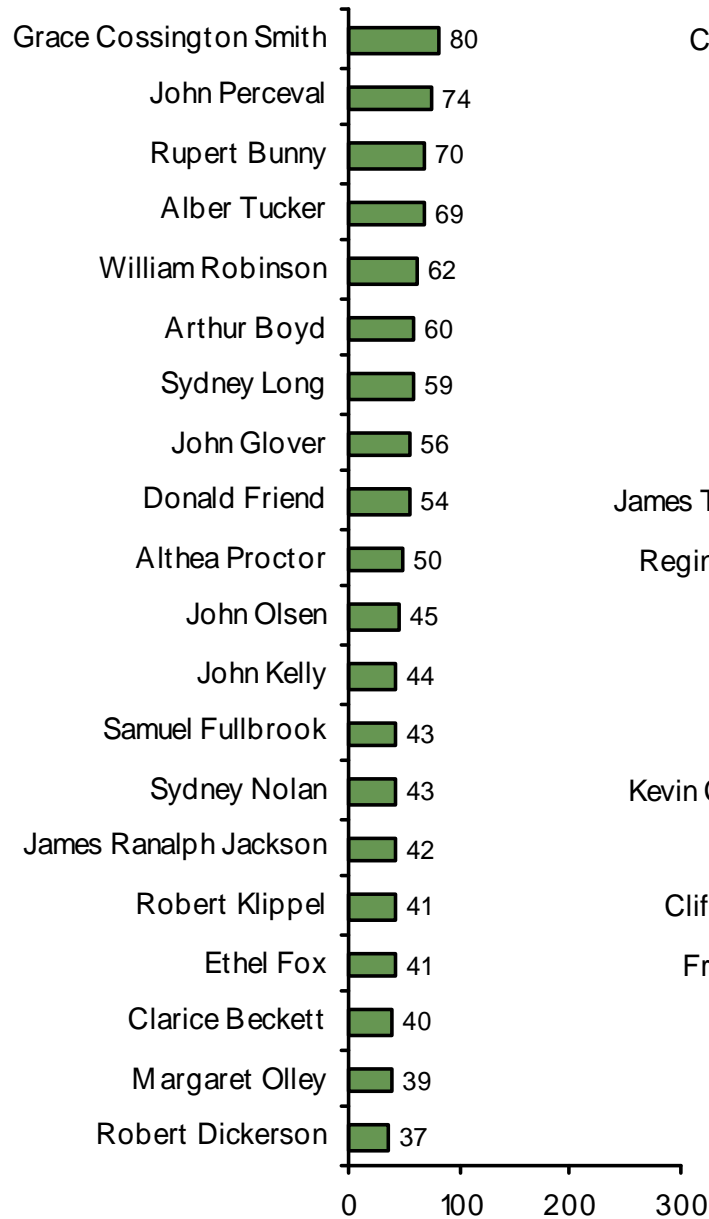
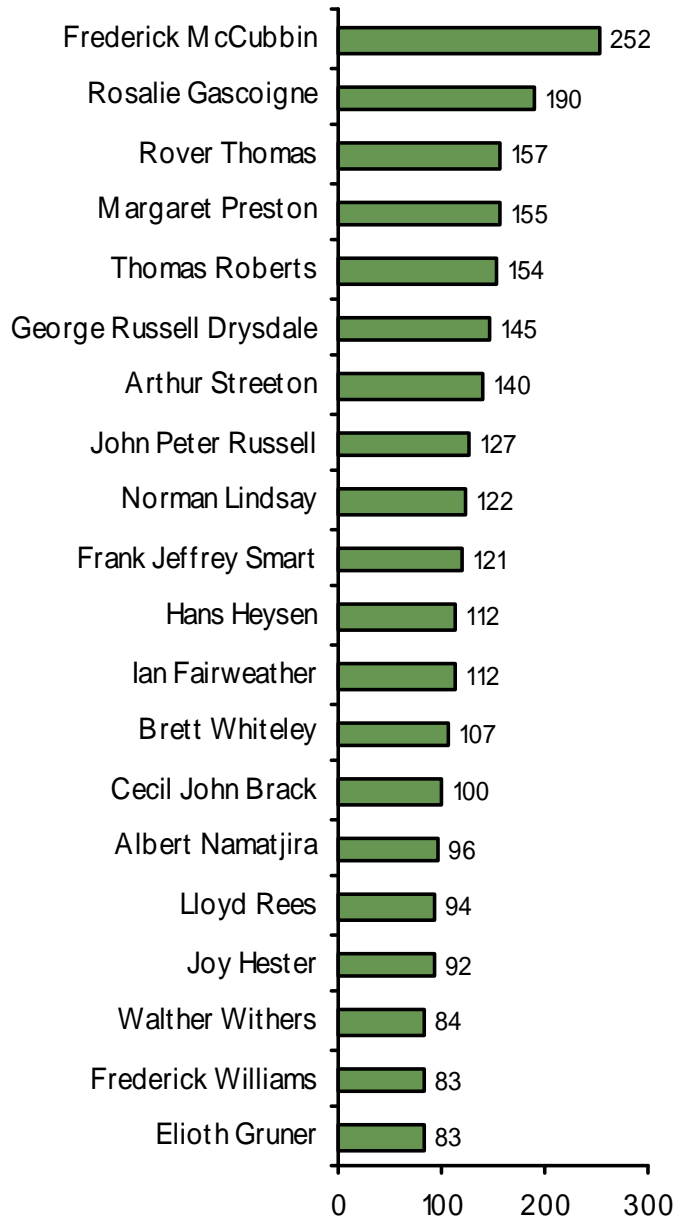
## What determines price?

To construct their index the authors were able to explain the price of a painting at auction according to a number of factors

- **Who the artist was (see next)**
  - **The most influential factor**
    - **A McCubbin commands a 252% price premium compared to the standard, reference work of Howard Arkley**
  - **Deceased artists commanded only a 1% price premium**
- **The medium painted on (see next)**
  - **Longer lasting oil and acrylic command a 6% price premium**
- **The auction house who sold the painting (see next)**
  - **Which may account for a modest 3% swing in price**
- **Size**
  - **Bigger is better, up to 6.7 m<sup>2</sup>. Afterwards the price falls, as only galleries become able to hang large pieces**

Unfortunately for speculators, there is no information on which artists, mediums, etc... will appreciate faster in the future (ie. represent buying opportunity). It also isn't clear what are the prices or price trends for lesser known artists

# % price premium by artist ....

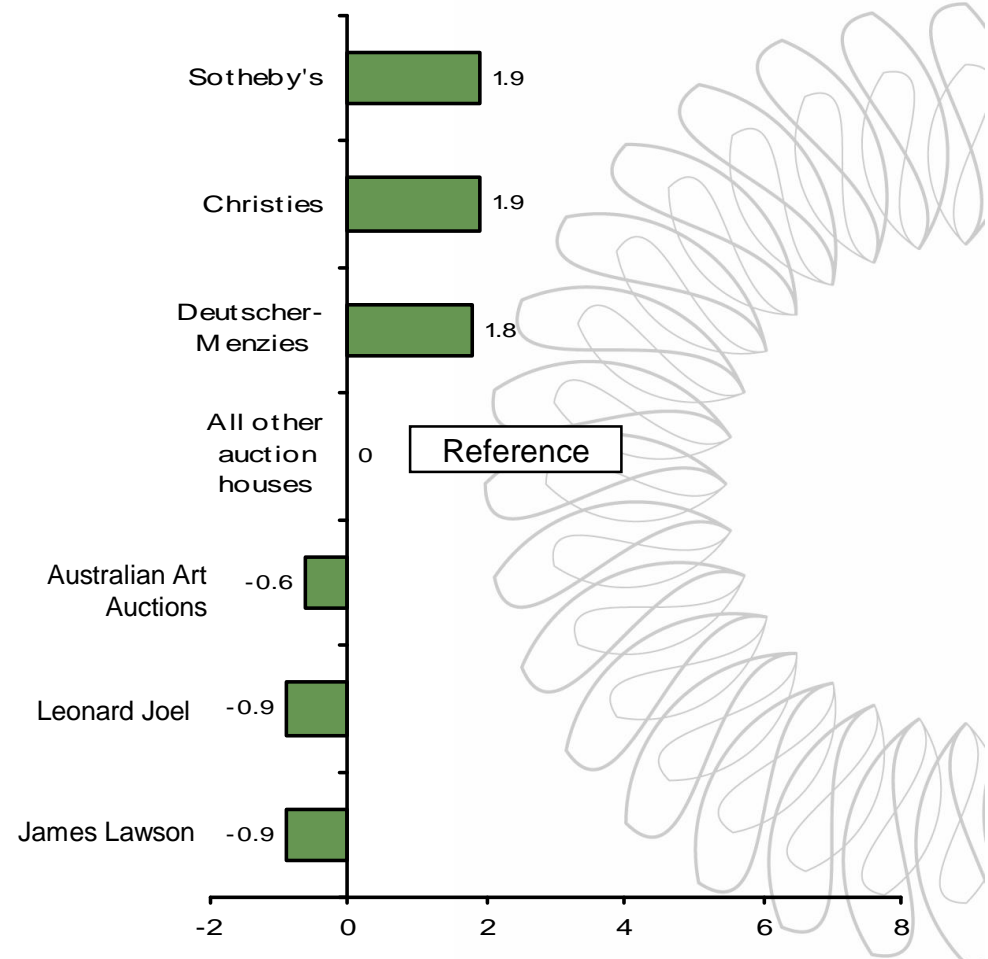
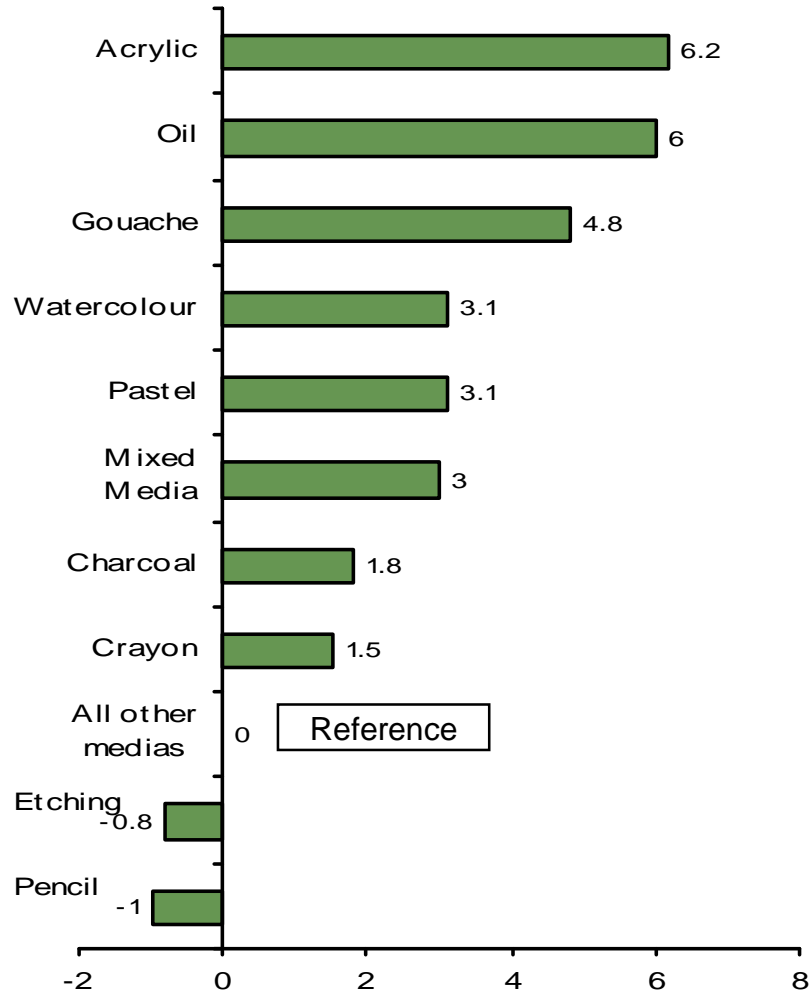


For all these plots, and on the next slide, the bars represent the premium (+) or discount (-) an attribute impacts price relative to the reference case

- ie. expect to pay 252% more for a McCubbin than an Arkley

Reference

# ... and by media and auction house



Note expanded scale vs previous (ie. % range is much less than for artist)

## About art “appreciation”

The following two slides compare ...

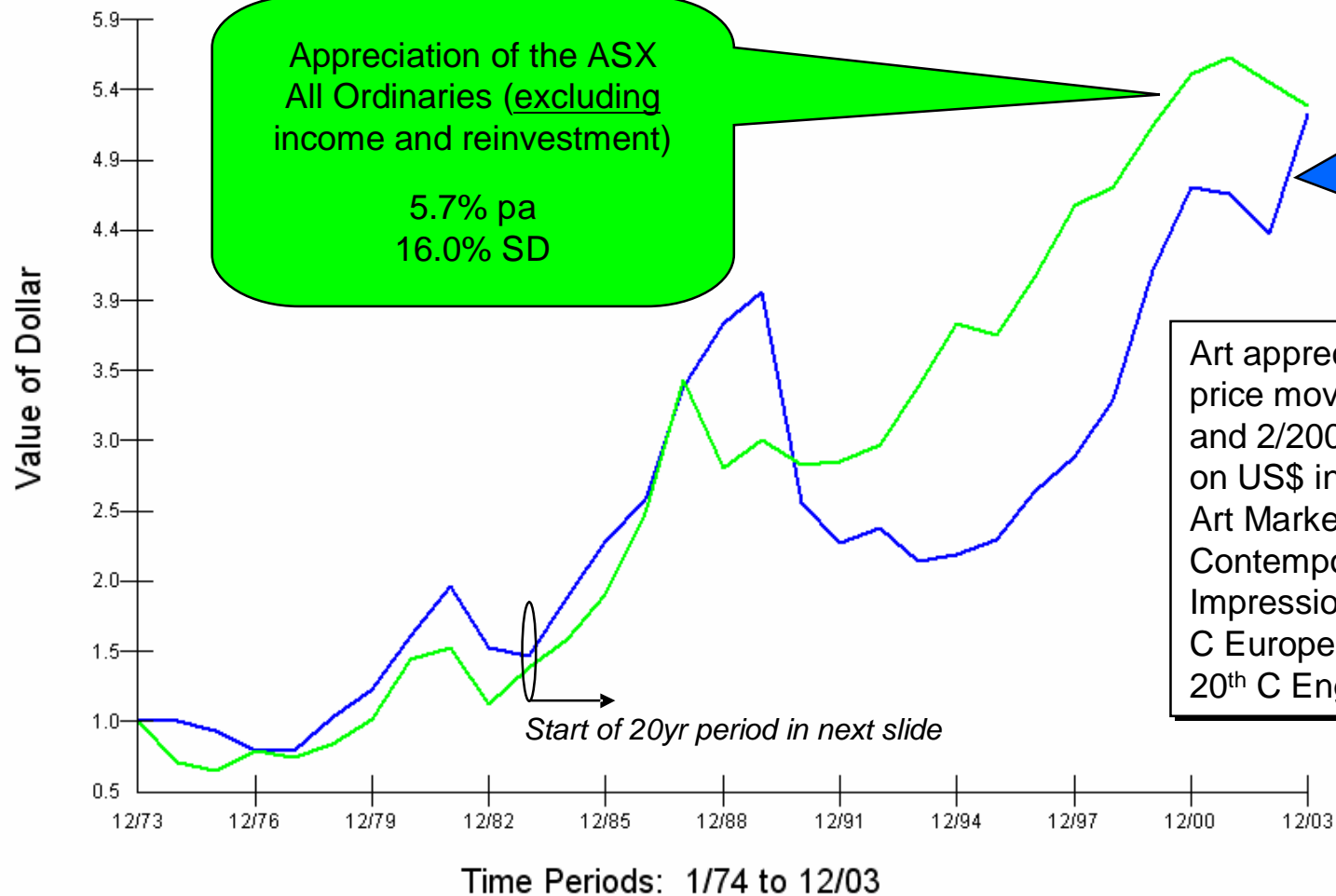
- **Price returns from art vs. price return of the ASX (excluding income)**
  - Based on data published in the author’s article
- **Price returns from art vs. a broader set of investment indices including accumulation indices which account for income from various sources (dividends, interest paid, rent)**
  - To capture the total returns from the latter asset classes
  - If an art collection is “appreciated” and not rented out for income, as often is the case, comparing the price only returns of art with these accumulation returns is appropriate

The Australian art market, over the 30 year period from 1973-2003, appreciated at roughly the same rate as the price of stocks in the All Ordinaries index

- However when income is considered, art returned less than other asset classes
- Art increased in value above inflation. If art is only considered a consumption good, then it beats out modern luxury cars as a store of value

# Art and ASX price comparison (per H&W)

## GROWTH OF DOLLAR



Appreciation of the ASX All Ordinaries (excluding income and reinvestment)

5.7% pa  
16.0% SD

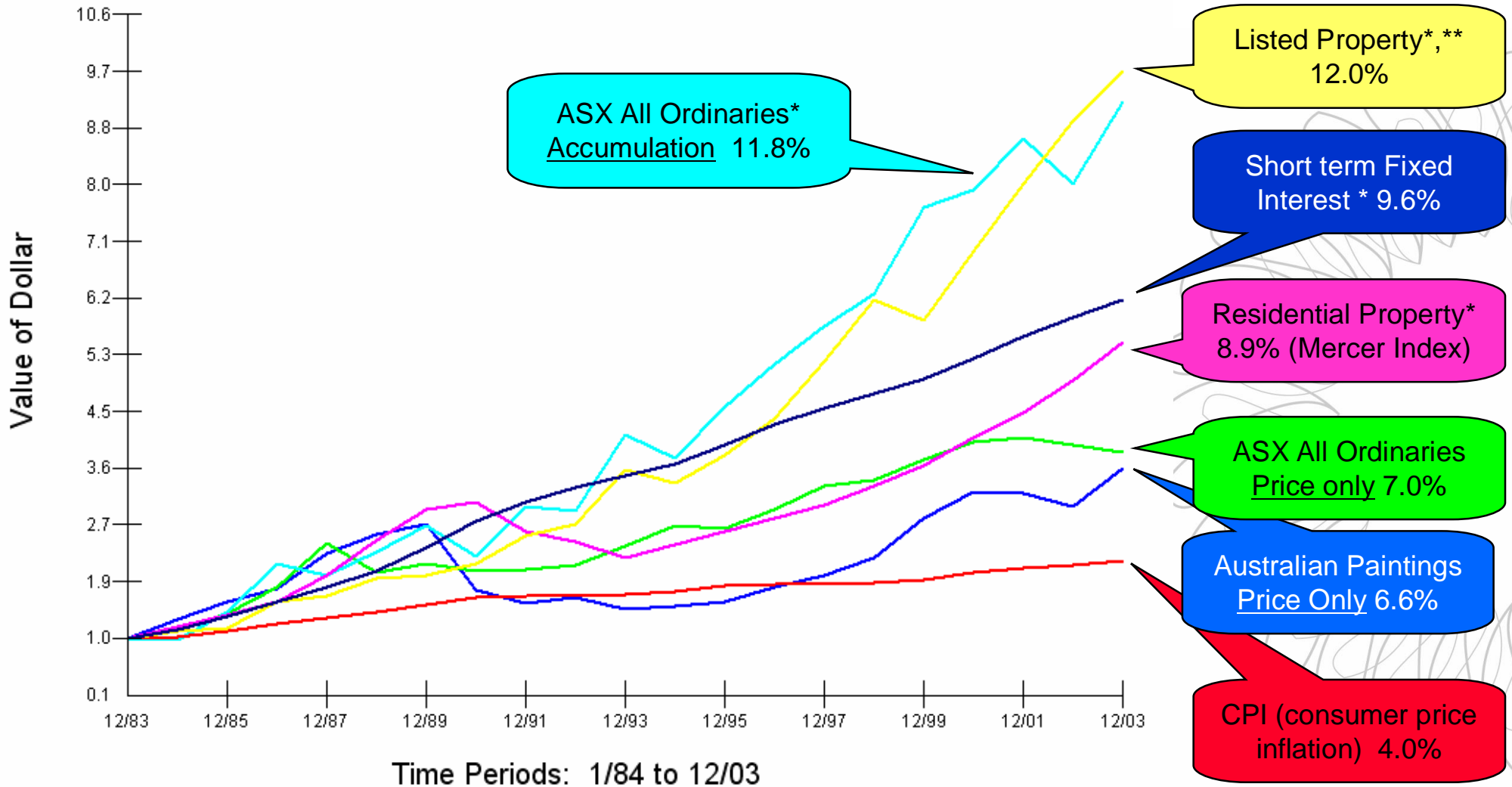
Appreciation of prices for leading Australian paintings

5.7% pa  
16.5% SD

Art appreciation rate compares with price movements of 1-6% between 1/76 and 2/2001 for other art markets based on US\$ indices compiled by UK based Art Market Research, including: Contemporary Masters, French Impressionists, Modern European, 19<sup>th</sup> C European, Old Masters, Surrealists, 20<sup>th</sup> C English, Modern US

# Broader investment indices comparison

## Executive Summaries



\*includes reinvestment of dividend income/interest/property-rent  
 \*\*Listed property includes commercial, office and retail property classes excl. residential  
 All returns are annualized %. Shorter 20 yr period used because of data availability. Australian markets only

To learn more, read the articles

---

<http://www.bus.qut.edu.au/schools/economics/research/documents/DPNo184-WorthingtonHiggs.pdf>

## Financial returns and price determinants in the Australian art market, 1973-2003

HELEN HIGGS & ANDREW C. WORTHINGTON\*

*School of Economics and Finance,  
Queensland University of Technology, Brisbane, Australia*

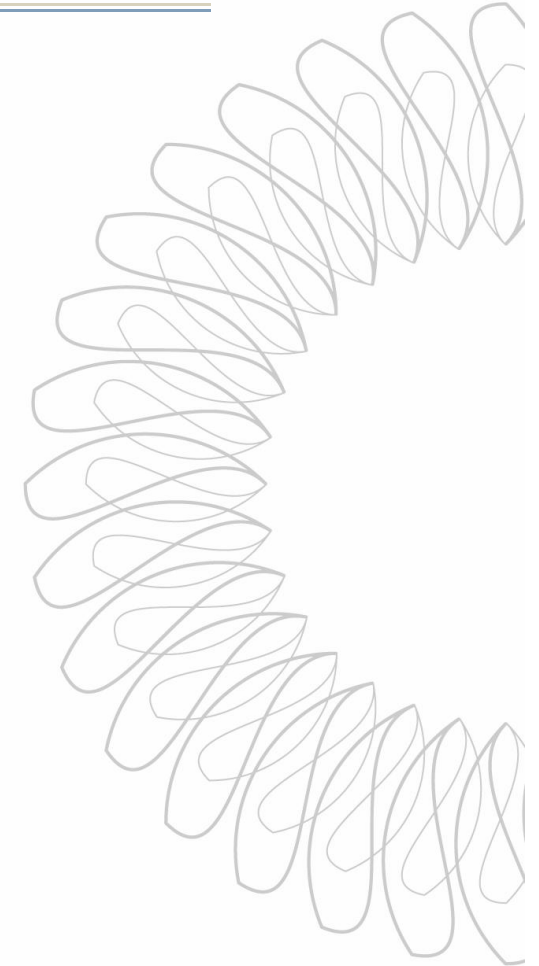
---

<http://www.bus.qut.edu.au/schools/economics/documents/DP%20No%2093.pdf>

## Art as an Investment: Risk, Return and Comovements in Major Painting Markets

ANDREW C. WORTHINGTON<sup>1,\*</sup> & HELEN HIGGS<sup>1</sup>

<sup>1</sup>*School of Economics and Finance, Queensland University of Technology, Brisbane, Australia*



## About Professional Wealth and these summaries

### About Professional Wealth

We are an independent personal wealth advisory business serving clients in Sydney and Melbourne

Our focus is on individuals in professional service, executives and small business owners

We strive to set a new level of professionalism, by

- providing unbiased high quality advice
- being free to recommend a broad range of investment and insurance solutions
- being remunerated only by our clients, refusing all commissions and rebates
- making education an important part of our offer

### About our Executive Summaries

We regularly review interesting writing on wealth topics that we think our clients will find useful

Our summaries are of the authors' views and not ours, though they often align with our beliefs

These should not be considered personal advice as your needs and circumstances will vary

Please contact us or your personal advisor to explore further how you can *Make Work Optional*™

*If you have received this from a friend and would like to receive future summaries directly, please send us your email address*

© Professional Wealth Pty Ltd, 379 Collins Street, Melbourne Australia  
Ph 03 8620 9915, [info@professionalwealth.com.au](mailto:info@professionalwealth.com.au), [www.professionalwealth.com.au](http://www.professionalwealth.com.au)  
Corporate Authorised Representative of Money Managers Partners Solutions, AFSL No. 289573