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"Art Investment in London"[1]

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Abstract

This article examines the growth of art investment through two key developments that mirror established practice in other areas of financial investment: the use of price indexes and the growth of specialized art investment funds. Building on my findings from ethnographic fieldwork in London and New York, the top cities for global art sales, I focus on activity in London in this paper. I review work in cultural economics related to art price indices, the role of London as a center for wealth, and provide a brief background on the use of investment fund structures. For both art pricing and art fund investment, I use examples of London-based firms, and briefly discuss the historical case of the British Rail Pension Fund. I argue that art investment activity seeks to understand art in the same ways as other forms of financial investing: numerically, future-value oriented, and in comparison with other investments, and discuss the accountability needs of institutional investors. I conclude with brief comments about the continuing role of place, through industry agglomeration and social networks of the art market in London, concluding that art pricing services are best used for specific purposes, rather than as primary decisionmaking tools. I suggest that individual and institutional investors who lack close access to art markets are better off using art experts, either by investing in specialized art funds or through hiring art advisors.

(240 words)

Note: This paper is a work in progress that I am preparing for journal submission, and I am in the process of adding more references. Comments and further sources will be welcome.

Interest Areas

Economic sociology, science studies of finance, economic geography

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Introduction

London and New York are primary centers for both finance (Sassen 2001) and the art market (Bates 1983; Watson 1992), indicating the continuing power of place, especially for global cities that are nodes in transnational exchange networks. Martin Irvine, director of the Irvine Contemporary art gallery, helps to explain this, suggesting that the art market will exist only in cities with enough financial and cultural capital to attract the ongoing concentration of market activity (Irvine 2008). In his assessment, he builds on Wriston's law of capital: Walter Wriston, former CEO of Citibank, has suggested that capital—in the form of money and ideas— "will go where it is wanted, and stays where it is well treated" (Karlgaard 2005), which has been the case with the art market, where London and New York vie for top position. Wriston's law also indicates the ability for this status to change, and in finance, London has become the city with the "the loosest slots in town" with respect to financial investment activity, and has attracted more investment as the U.S. has tightened restrictions with regulations like the Sarbanes-Oxley Act.

In this article, I discuss the rise of a new industry sector that further knits together the art market and financial services, the growth of art investment and its supporting industries. I focus on two key developments that mirror established practice in other areas of financial investment: the use of price indexes and the growth of specialized art investment funds. While this activity is taking place in a number of cities, it is most prominent in London and New York, the sites of my field research, but for the purpose of this article, I focus on activity in London. In this paper, I will examine London as a haven for wealth, wealth that has poured into the art market, some of which through the newer practices of art investment. Next I briefly describe the academic work that has theorized art as an investment, looking at how firms then took art investment from economic theory and operationalized it into successful practices, using the case of the British Rail Pension Fund, which I describe briefly. For the core of my argument, I give an overview of fund-based investing and some of the recent history of art investment in London, and then discuss art investment activity as a practice that seeks to understand art in the same ways as other forms of financial investing, both conceptually and by creating similar financial investment vehicles. I examine art pricing in terms of the particular needs of institutional investors, who must justify their investment decisions, the way that art indexes,[2] price services and dedicated art investment funds help to facilitate institutional investment, but my conclusion is that while art pricing services can be used for specific purposes, they are unlikely to be adequate as the sole decisionmaking tool for art investment. I make an argument about the locational advantages of London firms, and suggest that individual and institutional investors who lack detailed knowledge of the art market and close access to networks and institutions are better off using art experts, either by investing in specialized art funds or through hiring art advisors, due to the highly structured and opaque nature of the art market.

London as a Center of Art and Finance

London has historically been a city of both culture and finance. The modern art market rose to prominence in three key cities over time: New York, Paris, and then London (Watson 1992).[3] Today it is London and New York that vie for top position. This fight is helped by the surge of money pouring into London of late, some of which has then turned toward the art market. According to the Wall Street Journal, the United Kingdom is home to 17% of Europe's high net-

[2] In financial writing, indexes and indices are equally used.
[3] For various reasons, Paris has become a secondary center for art sales.

worth individuals, a group defined as anyone with more than $1 million in financial assets. Moreover, that number is growing, pushed by what the authors term the globalization of wealth: "As new multimillionaires are minted in Russia, India, the Middle East and Europe, many are coming to London, drawn by a combination of low taxes, historical ties and a geographical location that makes the city attractive for people doing business in Eastern Europe, Asia and the Middle East" (Bryan-Low and Whalen 2007).

It is not just private wealth that is attracted to London- a number of factors are making London more attractive to foreign investors than New York. The London Stock Exchange has actively courted foreign investors, who are put off by the heightened security that make it ever more difficult to enter the U.S., along with the perception that foreigners are unwelcome, coupled with fears of litigation, Sarbanes-Oxley, the reach of the S.E.C., disclosure requirements and the penalties associated with false disclosure (Timmons 2006). These factors have had a direct impact on the number of deals being done: the U.S. share of global initial public offerings (IPOs done outside the company's home country) fell from 50 percent in 2000 to 5 percent in 2005, while in 2001, New York's stock exchanges accounted for half of the world's stock-market capitalization, with a total closer to 37 percent today (Gross 2007).

This surge in money and growth in high net worth individuals is a key part of the interest in art, both the traditional art market and art investment. There is a "new community of international collectors who have London as their base, and they feel comfortable buying here," according to Cheyenne Westphal, chairwoman of contemporary art for Sotheby's in Europe, who is based in London. In addition to collectors working in the London financial markets, Russians and Asians with homes in the city have become big buyers of artwork (Vogel 2007). According to an interview with a London art investment fund, buying art is attractive as a diversification tool, because it has typically not been correlated to traditional markets in stocks and bonds. Wealthy clients especially are "risk averse and want uncrowded investments" (LF1 2007), meaning that they want stable, less volatile forms of assets, and by uncrowded, meaning those assets that are not in an inflated price bubble.

Art Investment

The use of artwork as a financial investment sees art as a financial asset with returns comparable to stocks and bonds, "like a normal investment," except that the only dividend is the enjoyment of having a picture on your wall (Bolger 2006). This interest has historical roots: there have been various periods in American and European history where financiers have perceived artwork as a more stable form of investment than other commodities (Steiner 2001), and in the late 1800s, the steel baron Henry Clay Frick noted that "some paintings were seen to increase sometimes a hundred, thousand fold more rapidly than the certificates of the best-managed joint-stock companies" (Chancellor 2000). But the current trend in art investment is a more recent innovation, one that started as an academic interest by economists, makes use of numerical price indices, and typically uses the institutional and private investment fund structures as vehicles. This type of investing took hold in the 1960s and 1970s, and corresponds to technological shifts that have made sophisticated numerical art pricing services possible.

The work of cultural economics, sometimes called arts economics, has helped to conceptualize art as an investment class (e.g. Rush 1961; Baumol 1986; Pesando 1993; Throsby 1994; Galenson 1999; Mei and Moses 2002). The field has also addressed the question of where the value of art lies, typically taking a mixed economic view. Art is seen to provide satisfaction in the form of utility, which Chong (2005) suggests is a transformation of aesthetic value into economic value, and that cultural economics view fine art as offering two sorts of value, the investment value, which is a monetary return, and art as a consumption good that offers an aesthetic yield or psychic rate of return. Chong puts forward the category of art speculators, or in my terminology, art investors. In the ideal type, these speculators should have an 'aesthetic yield' of zero, but paradoxically, must also have the detailed knowledge of the value of artwork that is more typical of a connoisseur.

"Thinking of art as an asset class, and art funds, that's pretty recent," one of my interview subjects points out. "There has been academic writing about it since the 1970s. Economics professors have felt that it is a funky market. But only recently has it been a consumer product, where before it was an academic product…" (LP1 2007). The ongoing work of economists, investment professionals, and others seeks to make art recognizable as an investment in ways that were not typical of the art market in the past. For example, the Mei-Moses Fine Art Index—which tracks the sale prices of art auctioned in New York City since 1875—is being used to explicitly compare the financial returns of art to those of stocks and bonds (e.g. Bolger 2006).

The primary example for more modern, strategic investment in art is the British Rail Pension Fund, which was Britain's first (and it is believed only) large pension fund to enter the collectibles market (Trucco 1989). From 1974 to 1999, the fund invested in more than 2,400 works of art of various types, including Old Masters and Impressionist works, books and manuscripts, medieval art and sculpture, and Chinese ceramics (Baram 2005) to supplement more conventional investments and serve as a hedge against inflation, which was extremely high in Britain at the time (Trucco 1989). But while enjoying returns above 11%, when the British press discovered that the fund was "gambling pensioners' money on artworks," the pension fund pulled the plug on its art investment activities (Baram 2005).

The fund structure for investments is what most clearly differentiates the new type of investment activity in artwork from the historical examples. An investment fund is a pool of assets that is managed by a financial services organization, from banks to investment firms, and investors each buy a stake in a fund. Some of the financial organizations are dedicated to running only one fund, while others may have funds of varying types, often with different mixtures of assets, different levels of volatility within those assets and so forth. The assets themselves are typically financial securities—stocks, bonds, commodities futures and other derivatives—but may also include so-called hard assets like property, precious metals, collectibles and artwork,[4] which are bought for the purposes of portfolio diversification.[5] Funds have different structures, different types of clients, and varying degrees of regulation. They run the gamut from the more speculative hedge funds (or private equity funds) to the more familiar mutual funds.

Since the British Rail Pension Fund began buying artwork,[6] other investment funds have bought works of art to include amongst their assets for the purposes of diversification. There are several types of different investors who are putting money into artwork. Setting aside individuals who directly make their own investment-type art purchases for the moment, the key distinctions are whether the firms are directly buying art, and if so, how much of their investment portfolio is in art, differentiating dedicated art funds from other types of institutional investors who are not specialized in artwork, but may either begin to buy art, typically with the help of an art specialist, or may channel some portion of their investment monies into one of the specialized art funds.

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[4] Some readers may have heard of REITs, or real estate investment trusts. These are the financial security form of real estate.
[5] The pool of assets managed by a fund or owned by an individual investor is called an investment portfolio.
[6] Subsequent efforts at art investment have taken to heart the need to change the perception of this as a legitimate type of investment class.

Art investment funds that have *only* works of art among their assets are a fairly new innovation, and I would argue, are crucial to making art a like other financial investments. Art funds allow an investor to buy art in security form: a share of a diversified pool of artwork,[7] where the individual is not in contact with any of the problems of the physicality of art, storage, security and maintenance. The distance from the work is also important in making a share more like traditional investments, because the buying decisions for which pieces of art to buy are informed by the advice of specialists, while the management structure focuses on financial returns in the buying and selling.

Successful funds are typically started by groups with the unique combination of art market and financial experience, due to the highly structured nature of the art market. Many of the art funds opened by firms without significant expertise in artwork have failed, perhaps because the art market requires such a high degree of insider knowledge. For example, the bank ABN AMRO attempted to start a fund of art funds, but that effort folded only two years later (Adam and Maso 2005). On the other hand, for those firms that successfully ran one art fund, starting another type of fund is likely to build upon that success.

The organizational structure of these art funds is typically that of a hedge fund, or private equity fund, sometimes called a private investment fund. According to the Investopedia,[8] a private investment fund is generally exempt from United States federal securities regulations and is included under the label of hedge funds, with the criteria of either having less than 100

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[7] Diversification is useful because it allows higher performing assets to counterbalance lower performing ones. Of course diversification alone does not necessarily lead to higher returns, which in the case of an art fund, require skill and knowledge in buying and selling art, but assuming good buying decisions, diversification is standard practice in financial investment, because of the natural fluctuations in markets and other reasons.

[8] Definition source: Investopedia.com

investors or that the member investors have substantial funds invested elsewhere.[9] Clients (or members) of the art funds are typically some mixture of high net worth individuals and institutional investors, which can even include other investment funds. An institutional investor is an entity such as an insurance company, investment company, pension fund, or a trust department that invests large sums in the financial securities markets (Scott 2003). These individuals or organizations trade securities in large enough quantities that they qualify for preferential treatment and lower commissions, in addition to having the benefit of lower protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves,[10] although there are accountability and transparency measures for pension funds and insurance companies that operate at the firm level.[11] To make this more clear, the clients of one art fund that I interviewed are mostly high net worth individuals, with some private equity houses and hedge fund managers, and my interviewee though that the hedge fund managers were taking money out of financial markets and putting them into hard assets like art as a diversification strategy (LF1 2007).

The landscape of investment is complex and is very much an evolving discipline, one that is evolving in pieces as firms attempt different strategies for investing, with changing market conditions and face successes and failures. As a newer type investment activity, fund-based art investment has more unknowns, meaning greater potential for failures, but with greater rewards for firms that are able to make it when entering this niche. According to Peter Hoffman of

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[9] The definition points out that "due to the nature of these investment companies, their member investors generally have significant personal wealth and are considered sophisticated enough to not require the same level of regulatory protection accorded to small investors by law. This designation provides added flexibility for private investment funds."

[10] Investopedia.com. Copyright © 1999-2005. (Sourced 3/2/08).

[11] Some might argue that institutional investors would perhaps benefit from increased regulation, particularly with the problems in the housing and mortgage markets of late.

London’s Fine Art Fund, “there's a learning curve, just like (real-estate investment trusts) were 20 years ago… The first property fund had zero subscriptions, the fourth one was 200 percent oversubscribed” (quoted in Baram 2005). So while a number of art-based funds opened between 1999 and 2003, a number of them had folded by 2005, while Hoffman’s Fine Art Fund is one of the more successful examples. Having built on the success of the Fine Art Fund I, the firm is gathering investors for two new art investment funds, one in Indian art (Sinha 2008) and one in Chinese art (Cheng 2006).

Hoffman and other London professionals have taken steps to formalize the idea of art investment, turning academic theory into a practical operation. A variety of firms cater to the growing interest in art investment, with a mixture of different offerings in each one, from art price services, to collection management, to full investment funds like the Fine Art Fund. One mixed firm, Fine Art Wealth Management (FAWM) is a London-based management and investment firm that also runs an online investment service. The firm provides “specialists in wealth structuring for art assets and provide art fund identification, assessment and selection services to industry professionals,” with a secure online platform for “art fund managers seeking to gain broad based exposure for their funds to qualified investors” by providing an aggregation service of art funds.[12] This last service is interesting in the way that it attempts to provide a service common with other investment categories, but this service may not work. According to one of my interviews at an art investment fund, “people are trying to speed the market, with things like art derivatives, like this fund of funds of ABN [AMRO], but that this was way too soon, possibly 20 years too soon to recommend this, because you want to have a bunch of funds

[12] Source: Company website (sourced 3/1/08)
http://www.fineartwealthmgt.com/

and want to be able to make choices between them and need track records to do this" (LF1 2007), which is difficult given that most art funds are only a few years old and so there is too little data for thorough analysis. The analysis of art investment is the next section.

Price Indexes and Recognizable Investments

The availability of price indices, data and other financial tools helps to enable art investment because "buyers are inclined to look at the market in a similar way to markets they're already in" (LP1 2007). In my research, I hypothesize that art investment activity strives to understand art in the same ways as traditional investments: numerically, future-value oriented, predictably, and in comparison with other investments. I suggest that the growth of numerical indices and economic measures is a crucial factor in establishing artwork as a "knowable," and thus legitimate, financial investment, due to the role that numerical evaluation plays in the "culture of finance" (Abolafia 1998). In this section, I will focus on two standard forms of financial evaluation: price indices and comparisons between different investment types.

While the many categories of financial investments differences and similarities, art is a bit more difficult to conceptualize for a couple of reasons. Cultural economist William Baumol (1986) has identified five key factors that differentiate works of art from traditional financial securities: uniqueness, ownership structure, frequency of transactions, the availability of price information, and the efficiency of the market. Uniqueness has to do with the physical nature of artwork: while stocks from the same company are homogenous, works of art are imperfect substitutes, not the same even if they are by the same artist. This relates to the second factor, because with a unique work of art, an owner has a monopoly, while stock ownership is a collective structure, with different shareholders who can act as independent and competitive traders. A key difference with art is that while stock trades are frequent, art sales are not, and also have high transaction costs. As we will see in the rest of this section, stock prices are public, and easily available, while the price of artwork can be difficult to determine, with the details of private sales not necessarily disclosed to outside parties. Finally, Baumol suggests that the theory of efficient markets does not necessarily apply to works of art, because while the equilibrium price of a stock is known, the existence of private art sales means that we may not make the same assumption for art. (also based on summary in Chong 2005). These differences between traditional securities and works of art are highlighted in the following example.

One primary category of art used for investment is that of Old Masters paintings, which some people call the "blue chip" of the art world, a painting that is likely to be a safe bet, similar to the idea of blue chip stocks, which are stocks for companies that are leaders in their fields and in strong financial standing. Sotheby's gives a comprehensive definition of the category: "Old Master Paintings and Drawings sales include every imaginable subject painted on canvas, panel or metal by the great European masters and their followers from Giotto to Goya, from the early Renaissance (circa 1350) to circa 1800. These sales feature works by European artists on paper and vellum, in black, red and colored chalks, ink, watercolor, gouache or pastel, spanning the early Renaissance to the end of the 18th century. Subjects include landscape, marine, religious and mythological scenes, figure studies and preliminary ideas for paintings, prints and sculpture."[13] Christie's gives the more abbreviated definition of "masterpieces by the most famous Western artists from the 14th to the early 19th century."[14] The longer definition gives some indication of the problem of looking at artwork as an investment. Leaving aside the issue that paintings are in themselves unique objects, there are also a great number of categories and

[13] http://www.sothebys.com/app/live/dept/DeptGlobal.jsp?dept_id=31 (Sourced 10/10/07).
[14] http://www.christies.com/departments/omp/overview.asp (Sourced 10/10/07).

factors that can be considered for placing the artwork into a set of comparables. The many differences between fine art and financial securities should be kept in mind with my discussion of price indexes and investment comparisons.

In the financial markets, an index is a "statistical indicator providing a representation of the value of the securities which constitute it. Indices often serve as barometers for a given market or industry and benchmarks against which financial or economic performance is measured."[15] Indices typically take the average, weighted average, or otherwise aggregated dollar value of what is being measured, and when looked at over time, show price movements and trends, particularly when the numbers are turned into graphs. Price indexes (indices) for art are thus a clear direction to help make art investment more recognizable to financial investors, and have primarily been constructed by aggregating price data from art sold at auction.[16] The translation of art into dollar values over time also allows the comparison with the indexes of other investments—numerically, over time, and graphically—as seen in the Mei-Moses chart below, which compares an aggregate of all of the categories of art included in the index against the Standard and Poor's 500, which is a weighted index that was first created in 1957 and comprises a basket of 500 widely held stocks, for companies that are selected based on market size, liquidity and sector.[17]

[15] http://www.investorwords.com/2426/index.html (3/2/08)
[16] There is an important caveat to the use of auction sales data, because according to my sources, some 60% of sales are private transactions, and thus not available to outsiders (LF1 2007). While most economists will suggest that these auction sales are indicators that reflect the market, Baumol's suspicion of the efficient markets theory would suggest otherwise.
[17] http://www.investorwords.com/4378/SP_500.html (3/2/08)

Sample Chart from Mei-Moses Index

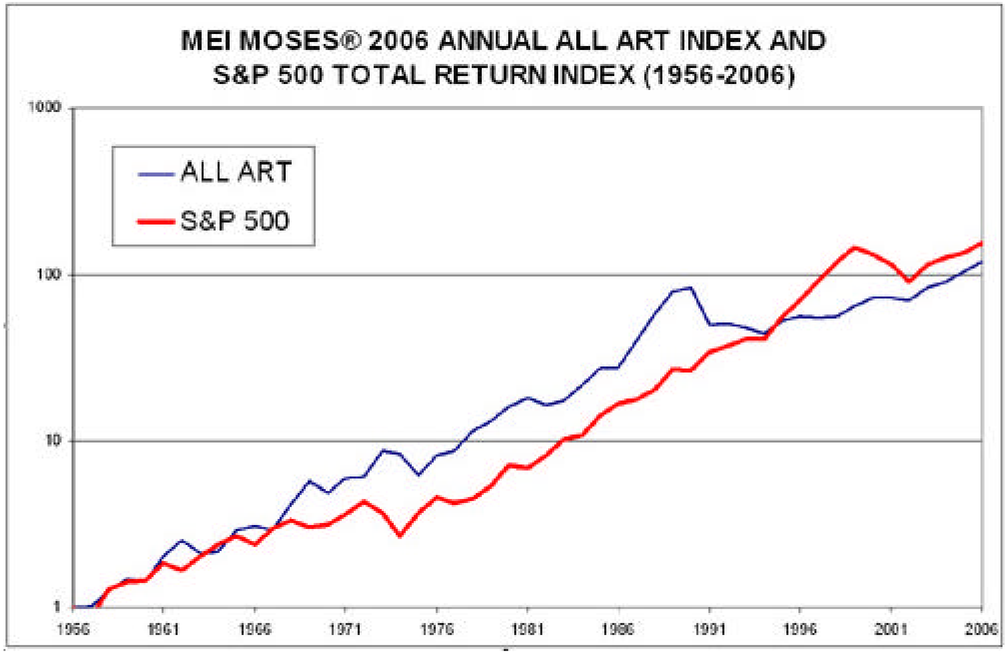

Chart source http://www.artasanasset.com/indices/ (10/22/07)

While indexes can provide flashy graphics and comparisons, I should note that using a record of sales prices in art to look at trends and changes is not a new innovation. Historical price checking has long been a part of the traditional art market, with auction sale price books from the Art Sales Index and Gordon's Art, where an appraiser might look up other sales by the same artist, for example. "We've had the Art Sales Index for how long? Before it was in books, volumes to look at prices. With the internet you get graphs from online, probably by the end of the 1990s, when that became a very useful tool" (LP1 2007). The turn toward online pricing serves was both was preceded and then helped by academic theory, as cultural economists built up a now sophisticated ability to create price indexes, both for individual artists and for different categories, such as Old Master's paintings (e.g. Goetzmann 1993; Pesando 1993; Goetzmann and Spiegelb 1995; Czujack 1997; Galenson 1999; Mei and Moses 2002; Worthington and Higgs 2006).

The newer developments for art investing are the online price index services and the more explicit comparison of the returns of art with other types of investments. Comparability between investments is particularly important, because “when people are faced with other investments that are better marketed, better explained, they’ll go for other things” (LP1 2007). In other words, numerical price indexes and indicators help investors to decide whether to buy art or another investment, by showing which way the art market moves in relation to other investments,[18] and using the comparison with known investment types to frame art and render it more understandable.

Whatever the motives, there is also considerable demand for art investment services, both from “pure” investors and from investment value-minded art collectors, and helps to explain the growth of online and subscription art price services. According to one pricing service representative, “in 2003 or 2004 things really accelerated. Before, the people using the art sales [price] index were mostly dealers or real collectors. But then new buyers have been entering the market and they need information more quickly and that helps explain things like ArtNet,” (LP1 2007) which is a subscription-based online art pricing service. The demand for art price information is such that there are various competitors. One London-based firm is Art Market Research, which provides a numerically driven service of 500 art price indexes. According to the company, these are “accepted as the definitive measure of price-movements in the art and related markets world-wide,” and the firm’s online service allows subscribers to “select their own parameters (currency, inflation and market segment etc) and create on-line over 100,000 indexes showing trends in markets ranging from Italian Old Masters and French Impressionists to

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[18] The lack of correlation with traditional securities is typically put forward as an advantage of investing in artwork as a part of a diversified investment portfolio.

Vintage Wines, Art Deco Jewellery, and Pop Memorabilia. Each index appears instantaneously, complete with underlying figures and statistical analysis."[19]

These new firms have found willing partners in the financial services sector. For example, Hiscox insurance has partnered with Art Market Research to create the the Hiscox Art Market Research Index (HAMR Index), a "unique tool designed to track of the value of homeowners' belongings including art, books, clocks, furniture, silver and other collectible items, which are frequently underinsured," that "index-links the value of Hiscox customers' fine art, ensuring their cover is automatically consistent with current market values in order to help prevent underinsurance."[20]

In contrast to the numerically driven price services online, many of whom are headquartered in New York, there are other firms specialize by giving more opinion-based research. It was collector-driven demand that prompted the opening of ArtTactic, a London-based price firm, which provides "unbiased art market research, analysis and advice for art collectors, art professionals, art institutions and art funds" and was the first firm to create an index of art market confidence.[21]

Requirements of Institutional Investors

The needs of institutional investors help to make clear some of the popularity of art pricing services, as the metrics of financial investing logic are most clearly delineated in this area. The existence of such services, however, is almost inadequate for institutional-level investment, in

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[19] Source: Comapny website (sourced 3/2/08) http://www.artmarketresearch.com/amr_fr.html

[20] Source: Company press release (sourced 3/2/08) http://www.hiscox.com/ViewCMSPage.aspx?viewmode=Live&viewtype=ViewPressReleaseDetail&pressreleaseID=b85ef332-841a-4b58-9c83-10615e5d4014

[21] Source: Company website (sourced 3/2/08). http://www.arttactic.com/

part because of the opacity of the traditional art market. "Transparency is one reason big institutions shy away from art funds. While stocks and commodities are sold publicly, the only available information about art prices comes from auction sales, and that represents only a third of the market; the rest is private undisclosed deals" (Baram 2005).

Despite the problems, art price indices provide the ability for the numerical comparison between artwork and other investments, as well as the indication that the value of art will increase over time, which is reassuring to investment professions.[22] The charts, like the Mei-Moses graph above, may have been too clear, hiding some of the complexity of the traditional art market. According to one art price service representative, "the market wasn't mature enough to deal with on an institutional level. The art world wasn't ready to be transparent. The skill sets in the individuals are not there, it's very much a non-transparent world and information is not easily shared," which is notable because "institutions need more transparency for investors" (LP1 2007). In other words, investment activity is typically set up to be accountable in a specific way, and the development of art price and other financial type services caters to this need, but the accountability measures for institutional investors are pushing for more ways to evaluate the profitability of art investment, both in general, and for specific art investment funds.

One area of the traditional art market that has welcomed the entry of financial investment is the auction houses, who provide easily available price data and have taken on additional services as art advisors. This is clearly a profitable service, because art is an asset with high transaction costs, including the difficulty of finding appropriate buyers, and in the high auction premiums themselves.

[22] There are various critiques of numerical analysis, which will be the subject for a later paper.

Auctions

The auction world follows the same pattern of the art market that I described above: consolidated into major world cities, but with a global scope. The dominant players are Christie's and Sotheby's, which have held that position since at least the 1960s (Ringshaw 2007), and capture some 95% of the market for premium fine art sales,[23] followed by the smaller auction houses Bonham's and Phillips de Pury. Christie's and Sotheby's turned over approximately $6 billion in sales volume in 2007 (The Economist 2008).

Both Christie's and Sotheby's continue to develop New York and London as the major sales centers for fine art. Auctions are temporally limited events, with major fine art sales happening for one or two days at a time, with a five day viewing period beforehand. The fine art sales are typically organized by the type of art (Old Masters, Contemporary, etc.) with occasional sales of the entire art collection of a single significant art collector. Major auctions in both New York and London happen around November and May, though both houses tend not to overlap the actual sales days for a category, either between the London and New York sales, or with one another.[24] It is also typical practice for the auction houses to coordinate sales with important exhibitions and events, for example, if one of the New York museums is having a major exhibition, the auction houses are likely to add a sale of important art in the same category, which helps for additional publicity (NG1 2007).[25]

Although we live in an age of virtual markets and buying behavior, the geography of the art market is still important, in part because of the physical nature of the pieces, as well as the

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[23] This excludes first-time sales, which are almost exclusively the domain of art galleries (Velthuis 2005)
[24] Their collusion even resulted in a price fixing scandal in the U.S., where the two houses paid $512 million in a civil suit (Ringshaw, 2007).
[25] This is also likely the case for major art fairs.

fact that people prefer to see such expensive pieces in person prior to purchasing them. While the auction houses have developed integrated online bidding services, at the sales I attended, most pieces were sold to people in the room, followed by phone bidders and then online bidders.[26] From my early ethnographic work, the online bidding processes is somewhat awkwardly integrated into the live (in person) bidding, and often causes delays in the otherwise fluid flow of bidding.

The strength of New York and London as primary auction centers is shown in the following table, where I have calculated the percentage of the total number of Christie's auctions that are held in those two cities. This primacy is also seen by the fact that the auction house has multiple showrooms in each of the two cities.

TABLE: Number of Auctions in New York and London for Christie's (aggregated)

Year / Sale Location	1998	1999	2000	2001	2002	2003	2004	2005	2006
New York	117	156	156	160	117	114	115	130	139
London	332	512	469	390	342	321	324	355	336
	449	668	625	550	459	435	439	485	475
% of total number of auctions worldwide	81.6%	85.5%	82.5%	76.9%	77.1%	77.7%	76.3%	76.9%	78.0%

Source: Data taken from Christie's online site, aggregated by the author.

[26] My impression was that busy clients would be more likely to call or to send a delegate to bid on their behalf, which may also be due to older art buyers being less comfortable with online bidding. The 4-5 day viewing period of works before the sale makes proxy bidding possible while still viewing the piece in person.

Conclusion: Continuing Locational Advantages

Despite the strong interest in numerical, investor type price services, and the clear market for these services, there is still an advantage for firms that are highly embedded in the art market, physically and socially close to other firms. “If we could have every transaction in the art market, a numerical tool would be useful,” says my art fund representative, but this is impossible with private sales accounting for some 60% of the market (LF1 2007). Art dealers have an incentive to keep sales information private, so there is little published information. Sociologist Olav Velthuis found in his ethnographic study that art in galleries is priced differently than that at auctions, often lower, as with his example of contemporary artists’ work in New York and Amsterdam (2005).

This opacity and embedded nature of the traditional art market still works more like Geertz’s bazaar economy, where information search cost are high, and buyers navigate this market through relationships with trusted sellers (Geertz 1978). Going back to the model of the bazaar economy also helps to suggest why a social network model of market activity must be combined with the idea of a geographically located industry cluster, at least if we are to understand the art market. Firms that want the best and fastest access to the privileged sales information of the traditional art market, and perhaps now the emerging art investment activity, need to be able to access people they know in galleries, museums, and the collector’s circuit.

My argument here suggests a locational advantage for firms in London, especially if they are involved in art investment activity and want the best returns. This is because the social and institutional networks of the city allow greater access to information, and price discounts. According to one art fund representative, they are continually monitoring the art market to see where it is going, but instead of using online price indexes, as I had initially thought, this work entailed calling people, networking and talking to major players to get a "consensus of views" from people that are usually right in predicting the art market. In their work, online price services are less useful for them because they want to buy an artist or a work before it gets reported to places like ArtPrice, in order to buy before the work goes up in value, such that they can realize greater profits when selling the work (LF1 2007). Firms that work closely with art collectors, auction houses and other parts of the art market, will be able to access better information about the market, and faster than if they were not actively involved in the institutions and social networks of London's art market. This finding also suggests that art pricing services should be used for specific purposes, but may not be effective as a primary decisionmaking tool. Individual and institutional investors that want to add art to their portfolios and lack the close access to art markets are thus better off using art consultants or investing in specialized art funds.[27]

[27] I have no data at this point about whether art investment funds would be better than hiring an art advisor or consultant, so I will not make any assertions about whether one is better than the other.

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