

Resilience in the Dealer Sector

A Mid-Year Review 2021

An Art Basel & UBS Report

Prepared by Dr. Clare McAndrew
Founder of Arts Economics

Art|Basel |  UBS

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Acknowledgments

Resilience in the Dealer Sector, A Mid-Year Review presents the results of research on the global dealer sector carried out by Arts Economics in 2021.

This research aims to provide some initial feedback on how the dealer sector has fared in the first half of 2021, focusing on employment and sales. As sales have continued to move online, and more art is sold outside of the traditional gallery and dealer framework, this report also offers an opportunity to reflect on why collectors still prefer to buy from dealers and the critical roles they play and value they add to the art market in 2021.

It is based on a global survey of dealers conducted by Arts Economics in July 2021, and will be followed by a second, follow-up survey in December 2021 as part of Arts Economics' annual art market report (The Art Market 2022), which will be published in March 2022.

The dealer survey was distributed to businesses in over 50 countries or regions. It was supported by dealer associations around the world, including CINO, ADAA, SLAD, BVDG, the CPGA, and many others, and I am extremely grateful to the presidents and staff of these associations who promoted the survey among their members. Thanks also to Art Basel for helping to distribute the survey to their exhibitors. My sincerest thanks to all of the individual dealers who made this research possible by completing the survey. I am very grateful also to those dealers and collectors who shared their valuable insights on the art market through interviews conducted in conjunction with the survey.

The report also presents the results of a survey of high net worth (HNW) collectors, conducted by Arts Economics and UBS Investor Watch, across five markets – the US, UK, Hong Kong SAR (China), Germany, and Switzerland – with a particular focus on their participation in the market in the first half of this year, and their interactions in the gallery and dealer sector. I am very grateful to UBS for their continued support of this collector research, which is an invaluable input for the report.

The report also contains new analysis based on data from Wondeur AI, a platform that analyzes the careers of artists using exhibition and other data from over 50,000 global sources. This analysis represented a small sample of the many possible applications of the data gathered by the platform, using objectively measured exhibition numbers to assess the critically important role commercial galleries at all levels play in artists' career development. There are many other aspects of performance, risk, and systematic bias tracked by Wondeur AI that provide exciting avenues for future research, and I am very grateful for the data and insights provided by Sophie Perceval and Olivier Berger of Wondeur AI for this report.

My sincerest thanks also to Gauthier Zuppinger of Nonfungible.com for sharing their fascinating data on trends in the sales of NFTs, and I look forward to highlighting more of their work in future reporting.

Dr. Clare McAndrew
Arts Economics

Director's Foreword

It gives me great pleasure to present our latest mid-year survey, which investigates the impact of the COVID-19 pandemic on the dealer sector vis-à-vis employment, sales, roles, and priorities through the first six months of 2021. Authored by Dr. Clare McAndrew, Founder of Arts Economics and presented in partnership with UBS, this report delivers an analysis based on surveys of nearly 700 international dealers and 500 high net worth collectors across five major art markets.

The findings reveal a remarkable degree of resiliency across the dealer sector, buttressed by an engaged and evolving collecting community. It is particularly encouraging to see that some of the job losses suffered in 2020 have been regained this year, returning average employment numbers in the sector to 2019 levels. A little over half of the dealers, meanwhile, reported increased sales, with the most significant gains coming from the largest galleries and those in Asia. The noteworthy rise of online sales made in 2020 was sustained through the first half of the year, and although the art fair calendar remains disrupted, survey results indicate a strong desire among collectors to return to these events, matched by an overwhelming desire on behalf of collectors to buy art in person.

The latest data from UBS Investor Watch underscores the vital importance of millennial collectors in today's market. This demographic was particularly active

through June, creating an important baseline of support for many galleries, as were female collectors, more generally, who considerably outspent their male counterparts according to the survey data. Digital art also entered center stage in the market discourse this year. The non-fungible token (NFT) craze catapulted this in the public consciousness, but the roots are deeper yet, with collectors expressing a broad-based interest in digital art, film, and video work as part of their collecting purview nowadays. Lastly, we are delighted to have benefited from Wondeur AI's excellent exhibition data on artists' careers, which further emphasizes the distinct supporting role that commercial galleries and fairs play at all stages of artists' development.

On behalf of Art Basel, I would like to wholeheartedly thank Dr. Clare McAndrew for her diligence and determination with this unique analytical research. We would also like to express our gratitude to our Global Lead Partner UBS for their research collaboration with Arts Economics on the collector survey and for their valuable economic perspective. Lastly, we would like to thank the wider gallery community and wish everyone a successful fall season while staying safe and well.

Noah Horowitz

Director Americas,
Art Basel

Foreword by UBS

The global economy rebounded strongly in the first half of 2021 compared to pandemic lows one year earlier. Vaccination efforts and the reopening of public life continue to progress, generating a positive outlook in the global equity markets and rapid improvement in consumer confidence.

We now see the recovery trickling into the art market, which was particularly hard hit in 2020. Digital acceleration continues apace and brings with it evolutions and challenges to traditional market structures, along with new business opportunities.

The intersection of art and technology made headlines in March with the \$69 million sale of a digital artwork by Beeple, pushing NFT artworks into the price range of blue-chip masterworks. Questions arose again around the opportunities and challenges of blockchain technology on the art market in the future – its potential to offer solutions around authenticity and uniqueness – but also the environmental impact of the technology.

This survey reviews the evolving role of galleries and dealers in shaping the market, as new formats and structures for the art market develop. How will dealers respond to new market needs and behaviors of their growing audiences?

UBS believes in the power of art to connect people for a better world. The fallout from the pandemic offers us a unique opportunity to take a fresh look at markets and help rebuild them in a more sustainable manner. Renewed attention is being paid to the carbon footprint of the art market. A recent Arts Economics and UBS survey revealed that 77% of collectors surveyed are thinking about sustainable options when it comes to purchasing works of art or the management of their collections. Out of crisis springs innovation and drive for change, and UBS aims to collaborate further with collectors to make advances in these areas.

UBS is proud to be Lead Partner of Art Basel for nearly three decades. 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 potential of the art market today.

Christl Novakovic

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

Key Findings

Employment

- 1.** The effects of the pandemic on employment was a major concern for businesses over the last year. However, there were promising signs that some of the job losses incurred during 2020 have been recouped in 2021, with the average number of those employed in the sector (seven) returning to 2019 levels after a dip in 2020.
- 2.** 23% of businesses downsized their workforce in 2020 as galleries were forced to lay off staff in response to the crisis, however, in the first half of 2021, the share of dealers hiring (25%) exceeded those losing staff (13%).
- 3.** The majority of dealers (78%) predicted that their employment numbers would remain stable for the rest of the year, with only 4% projecting further layoffs. 18% were looking to hire more employees and this was particularly high for the largest businesses (41% of dealers with turnover of greater than \$10 million).

- 4.** Despite the crisis, the sector continued to support a majority of gender-balanced, knowledge-based, and highly skilled jobs in 2021. In the primary market, 52% of the businesses surveyed had a female founder, and women made up the majority of employees at partner level (61%) and 76% of sales and commercial directors. Almost 80% of those working in the sector have a university degree, with just over one third holding a postgraduate qualification.
- 5.** In 2021, 52% of dealers reported having some employees working remotely, with 27% doing so occasionally and 25% more regularly. 54% of those businesses with remote work had introduced it in response to the COVID-19 pandemic.

Sales

- 1.** Just over half (51%) of dealers surveyed reported an increase in sales in 2021 versus the same period in 2020, 45% reported a decline, and the remaining 4% were stable.
- 2.** The largest dealers, who had the greatest average decline in sales in 2020, saw the most improvement over 12 months, with a rise in sales averaging 21%. Those remaining under the most pressure were the smallest dealers (with sales of less than \$250,000), where values were marginally below H1 2020, as well as mid-sized dealers in the \$500,000 to \$1 million segment where values were down 3%.
- 3.** Asian dealers reported the biggest improvement in sales in the first half of 2021, increasing 18% on average over 12 months, including a rise of 6% for businesses in Greater China. The poorest performance was reported by dealers in Europe, with an average decline of 7%.
- 4.** In the first half of 2021, the artworld's events calendar remained disrupted, with many art fairs still suspended. The share of sales made at fairs by dealers fell to just 7% at live events, or 11% including art fair online viewing rooms (OVRs).

- 5.** The shift to online sales continued, with this channel accounting for 33% of sales (or 37% including art fair OVRs), with the largest share made via dealers' own internal online channels (their websites and OVRs, social media channels, or via email).
- 6.** Although still a minority share in the first half of 2021, online sales to new buyers expanded, accounting for 38% of all online sales by value. A further 25% were to existing clients that were buying online for the first time in 2021.
- 7.** 37% of the respondents felt that, based on the year so far, they would be more profitable in 2021 than in 2020, with a further third predicting their profits would be stable. The largest dealers with turnover in excess of \$10 million were the most optimistic about their profitability this year, with 43% predicting higher net margins.
- 8.** Dealers were optimistic about sales over the next 12 months: 91% of respondents overall estimated that their sales would either increase or remain stable, with only 9% predicting a decline.

Collectors

- 1.** High net worth (HNW) collectors have been critically important in helping the market endure a less severe contraction: despite the crisis in 2020, the median expenditure by collectors rose 10% year-on-year from 2019, and the first half of 2021 has seen a substantial further increase of 42% on average (to \$242,000). The advance was driven by millennial collectors, who had the highest spending overall – more than three times the level of their older peers.
- 2.** Digital art was highlighted in 2021 with the growth of sales via NFT platforms. It remained a relatively small proportion of HNW individuals' collections compared to traditional art forms, however, overall, 16% of the works they owned were digital, film, and video art, showing the growing significance of these mediums.
- 3.** Paintings, sculptures, and works on paper accounted for 31% of the aggregate median expenditure by collectors in the first half of 2021, although digital art accounted for a significant 12%. Millennials had the highest level of spending in all categories, including an average of \$20,000 so far this year on digital art. 48% of HNW collectors were also interested in buying digital artworks over the next 12 months.

- 4.** Female HNW collectors spent more than their male counterparts, with expenditure up one third on 2020 levels to \$410,000, more than double the level of their male counterparts.
- 5.** Despite ongoing concerns and setbacks, there was only a slight decline in the number of art-related events HNW collectors planned to attend in 2021, averaging 40, just one less than in pre-pandemic 2019.
- 6.** Dealers and galleries were the most commonly used channels for purchasing in 2021, with 82% of respondents having purchased through a dealer in the first half of the year, and also the most preferred choice. Given the choice of buying works through a dealer versus an online marketplace, 80% of collectors preferred dealers. The quality of works and artists they offered was the main reason given for their preference, followed by dealers' trustworthiness and reliability, knowledge, and expertise.

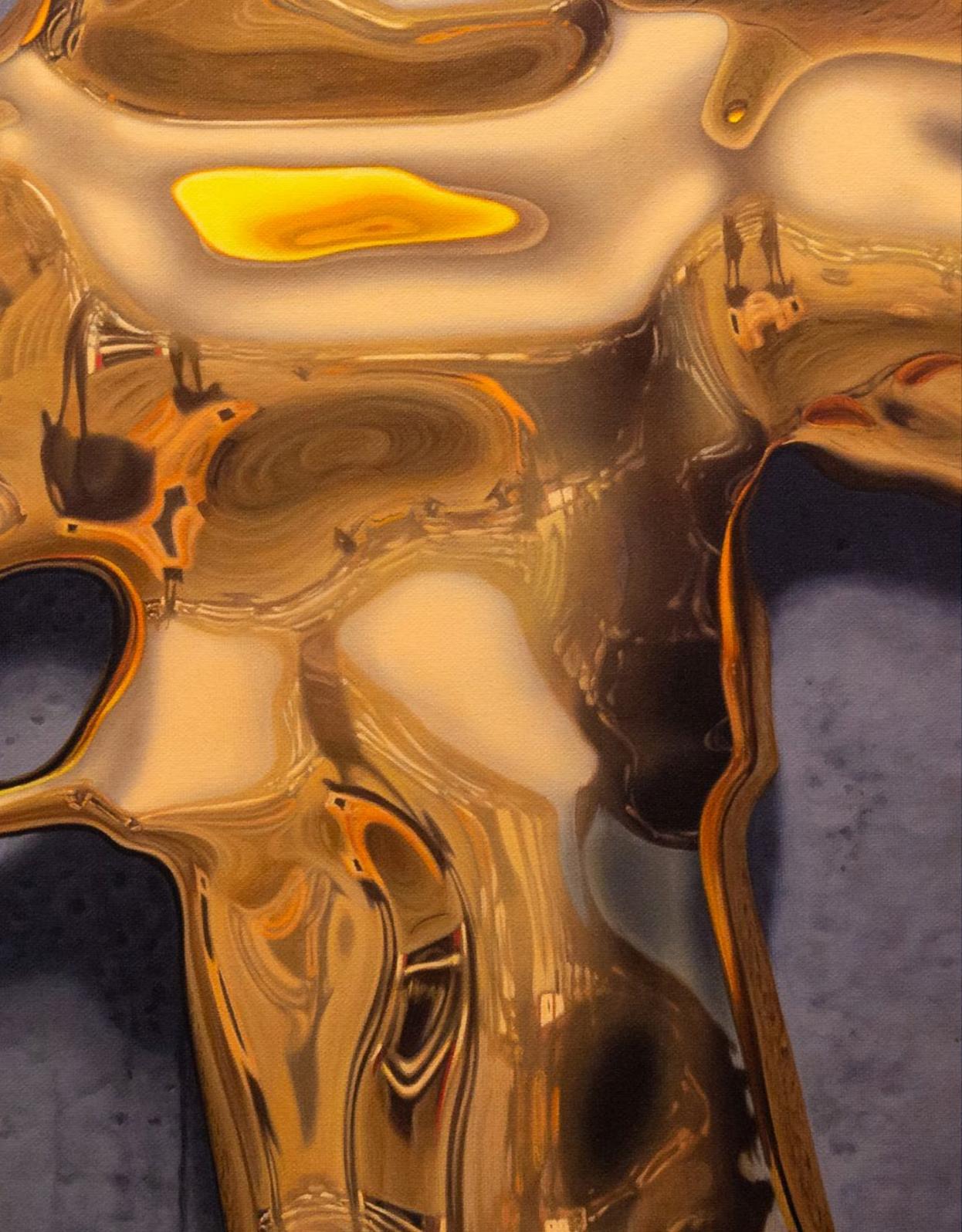
Dealers' Roles in Artist's Careers

1. Exhibition data from Wondeur AI on the careers of 2,700 top-tier contemporary artists showed the importance of commercial galleries in developing their careers. In the earliest emerging stage, commercial galleries accounted for an equal share of the number of exhibitions as nonprofit centers (at 36%). As their careers developed, museums played a larger role, however, even when artists reached the top 2% status, galleries still accounted for 26% of all exhibitions.
2. In the emerging phase of their careers, there were 4,060 commercial galleries and 84 art fairs exhibiting the works of artists, and these for-profit institutions accounted for close to half of those involved in running exhibitions by artists, with museums making up 20%. Even for the top 0.5% of all artists in the sample, there were over 1,500 for-profit institutions involved in exhibiting their work, including 1,457 commercial galleries.

Dealers' Priorities

1. In the first half of 2021, the health and stability of their existing collector relationships remained a key priority for dealers, with the rapidly evolving area of online sales in second place. Although the market has not returned to its pre-pandemic schedule of events, art fairs have shifted back up into the top three priorities of collectors both in 2021 and for the next one to two years.





**Introduction
and
Methodology**

The art market, like many other industries, has gone through a challenging and transformative period since early 2020, as the COVID-19 pandemic created new and unexpected demands for galleries and dealers. Along with the difficulties it presented, the crisis also created a window of opportunity for restructuring and innovation in the sector, as organizations were forced to look at new ways of operating because procedures of the past became untenable and new methods and technologies were required in order to survive. The event-driven market shifted online as businesses closed and events were cancelled, and dealers were forced to review their business models to adapt to new economic realities, which, for many, involved rolling out or significantly intensifying digital strategies in order to maintain sales and communications.

Although these efforts helped to reduce the impact, sales still slowed considerably during 2020, falling in value in the art market as a whole by 22% to an estimated \$50.1 billion. Although faring slightly better than the auction market, dealer sales fell by 20% and performance was impacted at all levels of the market, including the highest end top-tier galleries.

The first six months of 2021 have continued to be marked by uncertainty for the market, as new variants of COVID-19 and the variable rollout speed of vaccine programs in different regions has meant

a continued lack of clarity over the viability of many artworld events. While most businesses have been open during the last six months, periodic lockdowns have been common in some regions and the events that have gone ahead have done so under significantly different conditions than in pre-pandemic times. Early indicators are that, although improving on aggregate, sales have been mixed between segments and regions. While it was hoped that the continued transformation online could serve to reduce some of the hierarchies in the market, it is also becoming clear that the polarized nature remains engrained even in this more digital framework.

The art market has gone through a challenging and transformative period since early 2020, as the COVID-19 pandemic created new and unexpected demands for galleries and dealers

While art sales were relatively resilient compared to many other industries last year, one of the biggest fears for the sector was the closure of businesses and the loss of jobs. This report aims to provide some initial feedback on how the global dealer sector has fared in this area in the first half of 2021, focusing on the employment structure of the sector, and assessing if some of the projections of job losses and changes in business structures have actually been realized. Here, there are promising signs that some of the job losses incurred during 2020 have been recouped in 2021 in some regions, along with indications of ongoing transformations within the industry that will continue to affect employment and working practices. However, some of the key fundamental attributes of the sector have been maintained despite the crisis and it continues to support a majority of gender-balanced, knowledge-based, and highly skilled jobs in 2021.

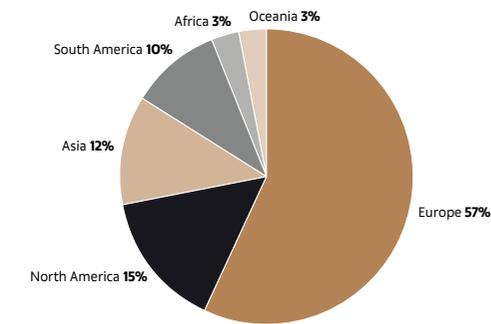
The report also looks at how sales have performed so far in 2021, focusing on the continued rollout of digital sales strategies in the sector, and also how changes in sales and costs are continuing to impact on dealers' profitability. As online platforms have continued to develop outside the dealer sector, selling art and collectibles directly from artists and between collectors, sometimes bypassing the traditional dealer framework, it also reviews the role of dealers and the unique and important values

While art sales were relatively resilient last year, one of the biggest fears was the closure of businesses and the loss of jobs

they add in today's art market. It is based on a survey of dealers and galleries in over 50 countries or regions who have each reported on sales and employment in the first six months of this year. The survey was carried out in July 2021 and received over 700 responses. A second, follow-up survey will be conducted in December 2021 as part of Arts Economics' annual art market report (*The Art Market 2022*), which will be published in March 2022.

The report also presents the results of a survey of high net worth (HNW) collectors conducted in July 2021 by Arts Economics and UBS Investor Watch, which elicited the views of this segment in five major art markets – the US, the UK, Hong Kong SAR (China), Germany, and Switzerland. The survey collected responses from 500 collectors, focusing particularly on HNW collectors' interactions with dealers and galleries in 2021 and seeking their views on the role that dealers play in shaping their collections.

Figure 1.1 | Geographical Distribution of Survey Respondents

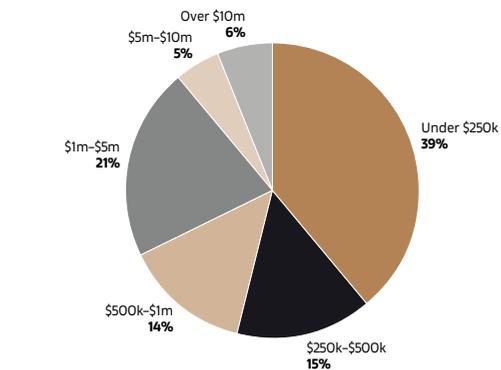


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1.1 | Description of the Dealers Surveyed

The survey of dealers which informs this report focused on businesses operating in art and antiques markets in 2021 in 54 regions or countries, with the highest share coming from Europe at 57%. Most dealers reported physical locations in just one country or market. Just over 4% maintained physical premises in two different national locations and 2% operated out of three or more (on par with the shares in the end of year survey in 2020 for *The Art Market 2021*¹).

Figure 1.2 | Annual Sales Turnover (in 2020) of Survey Respondents

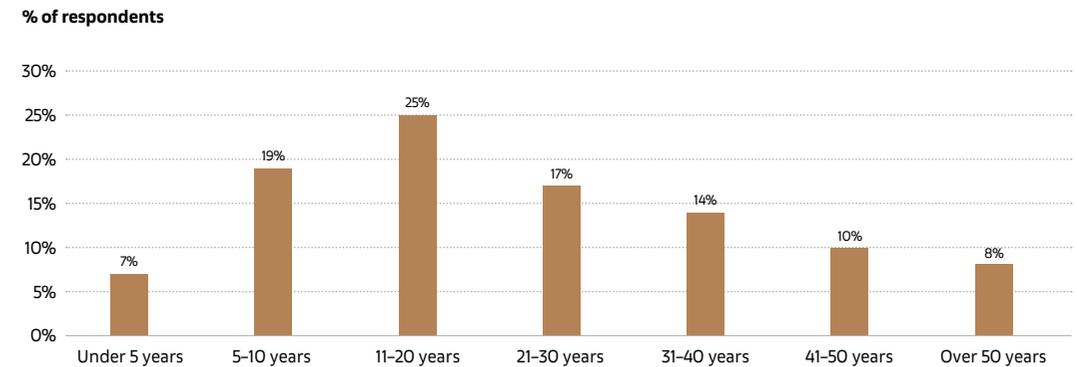


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Of those dealers responding to the survey, 56% sold contemporary art only, 25% sold both contemporary and Modern art, 2% sold only Modern art, 3% sold other older fine art (such as Impressionist or Old Master works), and 14% sold decorative art, antiques, or antiquities. Of those dealers operating in the fine art market, 57% operated in the primary market only (and represented an average of 19 artists in 2021), 6% operated in the secondary market only (and represented an average of nine artists), and the remaining 37% operated across both markets

¹ See Arts Economics (2021), *The Art Market 2021*, An Art Basel and UBS Report, available at <https://artbasel.com/about/initiatives/the-art-market>.

Figure 1.3 | Number of Years in Business



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(representing 32 artists, including 18 from the primary market which accounted for an average of 60% of their total sales).

Dealers also varied in the size of their sales turnover. Figure 1.2 shows the breakdown of respondents based on their turnover in 2020, which is used as a reference year to divide respondents into value segments for the analysis. In 2020, 68% had annual sales of less than \$1 million (including 39% of less than \$250,000), and 6% reported sales in excess of \$10 million.

Partially due to the sampling process for this survey, most responding dealers were relatively well established in terms of their tenure of operations.² The majority (74%) reported that they had been in business for longer than 10 years, with an average of 25 years and a median of 20. Only 7% had been in operation for less than five years.

² The survey was distributed by various national dealer associations to their members and to Art Basel exhibitors. As both of these groups require vetting and entry criteria, it is more likely that respondents would have been established for at least one or more years.



Gallery
Structures
and
Employment
Trends



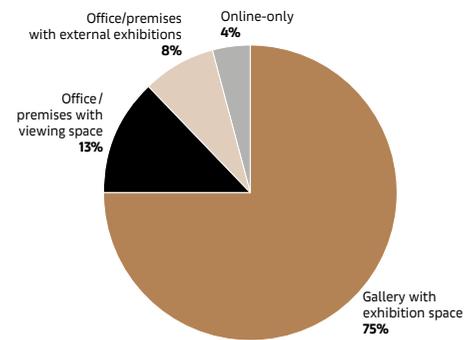
2.1 | Business Structures in the Dealer Sector

Even prior to COVID-19, the structure of businesses in the dealer sector was evolving. In the last two decades, there has been an increase in the diversity of business models in the sector in response to changing contexts for sales and rising costs, particularly vis-à-vis rents in some markets, as well as the greater proportion of sales carried out at external events and online. Despite some of these changes, when dealers were asked about how they currently operated their businesses, the most common business model for the majority (75%) of respondents in 2021 was still a gallery model, with a business working from a gallery or galleries with a dedicated exhibition space. 21% operated from alternative physical premises such as an office or shop – with 13% of these having premises where works of art or objects could be viewed by appointment (either on-site or elsewhere). 4% of the dealers responding to the survey operated online-only galleries (up 1% from the survey of Modern and contemporary dealers in mid-2020, and stable on the wider dealer survey at the end of 2020).³

These structures varied according to which markets and sectors businesses operated in, with primary market dealers considerably more likely to operate through a gallery, where new works of artists could

Figure 2.1 | Dealer Business Premises and Structures

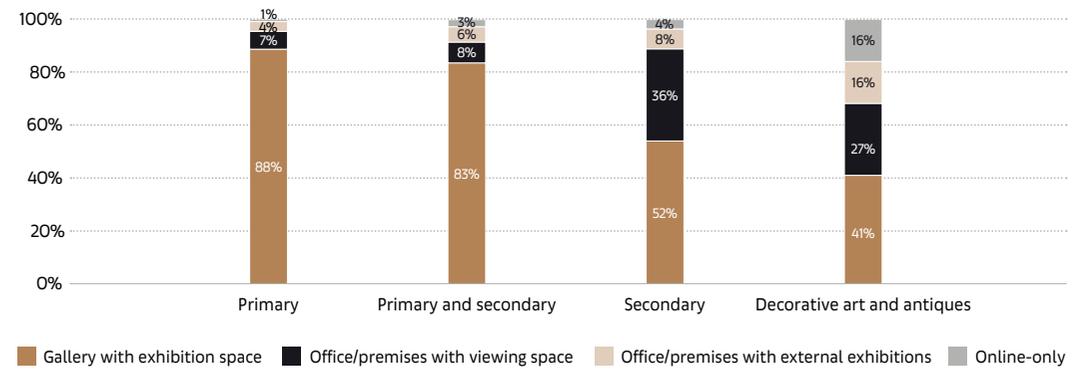
a. All Dealers



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be introduced to collectors through exhibitions, versus those working exclusively in the secondary market. Although some dealers anecdotally discussed the growing popularity of alternative or pop-up spaces for exhibitions, only a small share of dealers had actively switched to this model, with 8% across all sectors working from an office or other premises and holding exhibitions outside of this location.

b. Share of Dealers by Market Sector



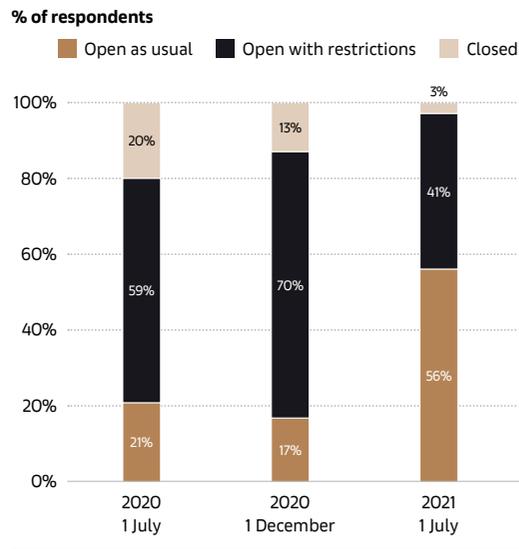
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Primary market dealers were also the least likely to have online-only businesses (only 1%), and some noted the difficulties in engaging collectors with new or challenging works or artists through an online-only exhibition format. The greatest share of online-only galleries was in the antiques and decorative art sector, where 16% of respondents operated without a physical premises. While the condition and quality of art and antique objects can be more difficult to

ascertain online, dealers in this segment noted that improvements in viewing technology had facilitated easier online sales, and that collectors were also willing to buy online once they knew and trusted the dealer to vet and guarantee the works or objects they sold. However, some also noted that pressure on sales in this segment had necessitated this shift as a cost-cutting measure.

³ See Arts Economics (2021), *The Impact of COVID-19 on the Gallery Sector*, and *The Art Market 2021*, both available at <https://artbase1.com/about/initiatives/the-art-market>.

Figure 2.2 | Operating Statuses of Dealers in 2020 and 2021



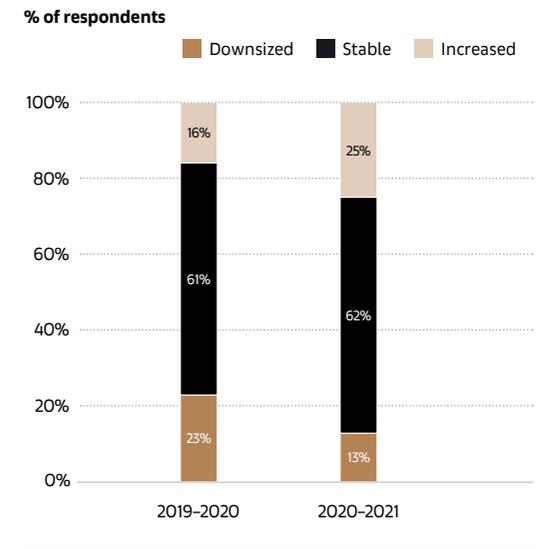
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2020 was marked by a series of lockdowns around the world, with significant economic consequences that differed by industry, region, and individual household. When surveyed in 2020, dealers reported that their businesses had been closed for 12 weeks on average, although this varied by region, and closures ranged up to a maximum of just over 30 weeks. Lockdowns persisted through the first half of 2021 in different parts of the world as new variants of COVID-19 emerged and vaccinations proceeded at variable rates. However, when the survey was distributed in early July, most dealers (97%) reported that their physical premises were open: 56% of those reported that they were open and running in the same manner as they had been in pre-pandemic times, and 41% were open with new restrictions and conditions implemented for visitors and staff. Only 3% of businesses were closed, compared to 20% at the same time in 2020. These findings again varied by region, as lockdowns were reinstated in some areas. While the share of temporary closures was just 3% or less in Europe, North America, and Asia, Oceania showed the highest rate of 20% as some Australian galleries were subject to reinstated lockdowns in 2021.

2.2 | Employment in the Dealer Sector

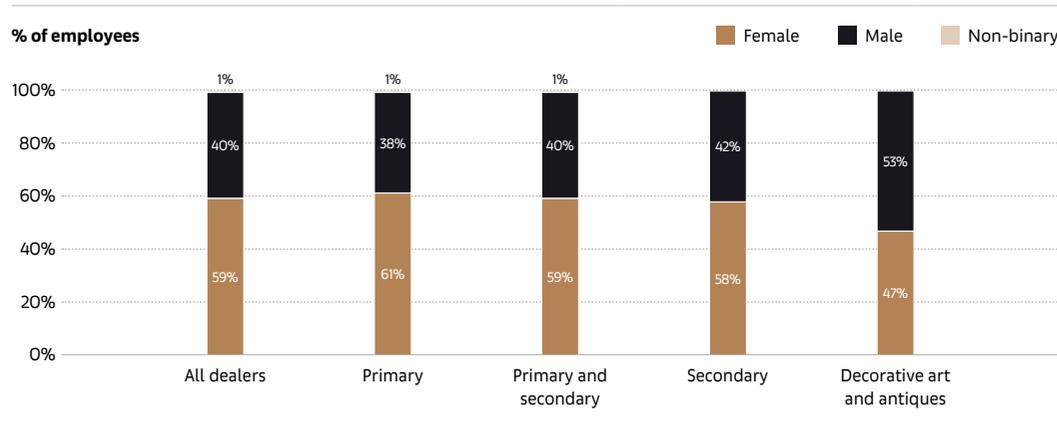
The effects of the pandemic on employment was a major concern for businesses over the last year. The dealer sector is predominantly made up of small businesses, with very tight employment structures that, in many cases, were already operating under pressure prior to 2020. Dealers responding to this survey reported that they employed an average of seven people in 2019 (averaging five full-time, one part-time, and one contracted or freelance worker). This average fell to six in 2020 but rebounded to seven in 2021. These relatively stable averages, however, mask some of the sector’s volatility, and over 2020, 23% of businesses downsized their workforce as galleries were forced to lay off staff in response to the crisis. The average number of employees laid off was four, although this was influenced by some substantial layoffs by larger galleries, with a median of two people overall. Some businesses hired staff despite the pandemic, with 16% of dealers reporting increases in staff numbers in 2020, with an average of two people added. In 2021, the majority of dealers maintained stable employment numbers overall, but there was evidence of some businesses recouping the losses of 2020, with one quarter of the sample increasing staff numbers, with an average addition of three people.

Figure 2.3 | Change in Dealer Employment in 2019–2020 and 2020–H1 2021



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Figure 2.4 | Gender Profile of Dealer Employment in H1 2021



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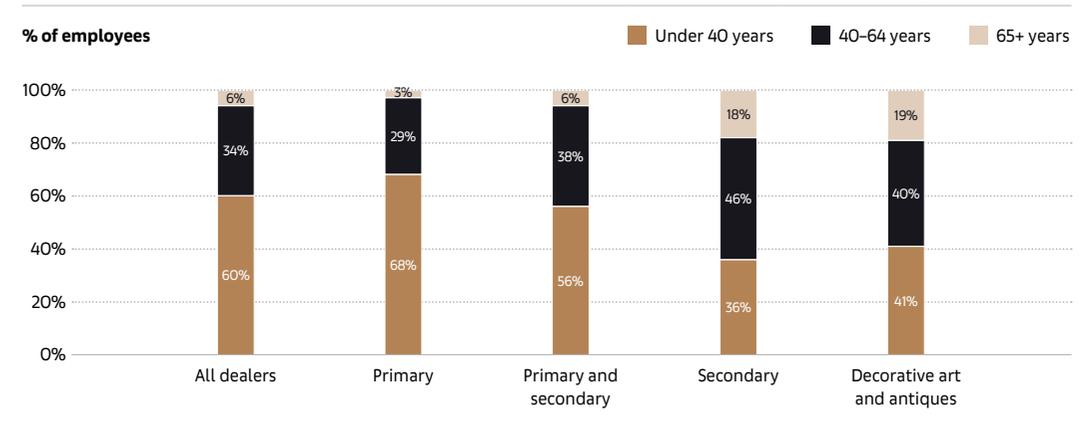
These fluctuations over the last year did little to alter some of the fundamental characteristics of the sector's employment framework, which continues to be based around gender-balanced, knowledge-intensive, and highly skilled jobs.

Most of these jobs are full-time, and the ratio of full-time work in the first half of 2021, at 73%, was stable on the share reported by this sample of dealers in 2019. The remainder of employment in the sector was part-time work (15% on average) and temporary or contracted positions (12%).

Unlike many other industries, the gender balance in the dealer sector continues to be predominantly female. This is also in contrast to gender ratios in the aggregate labor force in many regions which tends to favor male participation. The International Labor Organization (ILO) estimates that despite being 50% of the working age population, women made up only a 39% share of the global labor force in 2020, and a minority even in major economies such as the US (46%), the UK (47%), and Mainland China (43%).⁴ Previous surveys of the dealer sector, on the other

⁴ Labor force statistics from ILO databases, available from ilo.org.

Figure 2.5 | Age Profile of Dealer Employment in H1 2021



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hand, have shown that a majority of jobs are carried out by women, with a share of 61% reported in both the 2019 and 2020 surveys. This majority share was again evident in this sample, at 59% in 2021. There was some variation by sector, however, with the primary market supporting more women at work (61%) than the antiques and decorative art sector (47%).

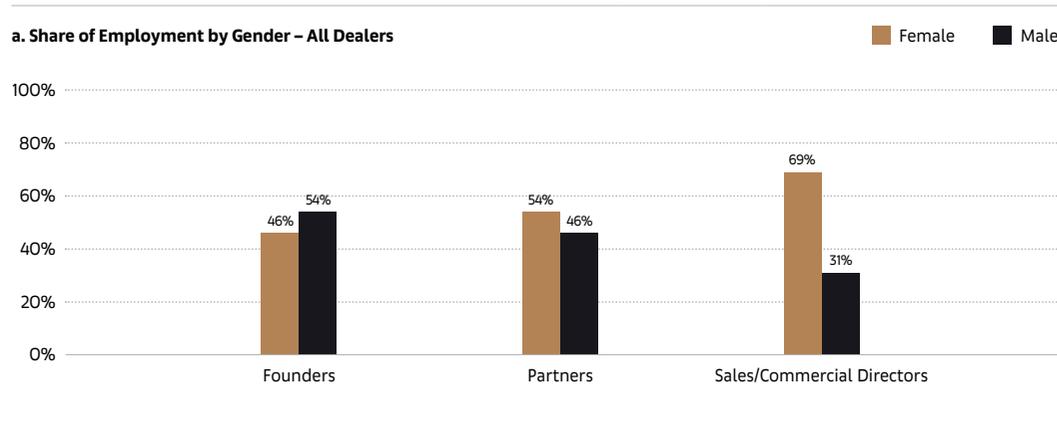
The primary market also supports a younger workforce than some of the older sectors, with 68% of those working in the sector aged under 40. This

young demographic was also reflected in the wider sector, with a share of 60% aged under 40 on aggregate. This is considerably higher than in the general labor force, including the US, UK, and the EU, where 45%, 46%, and 40% respectively of those employed were under 40 years.⁵

The survey also showed that the highest proportion of female employment was in the under-40 age segment, where women made up a share of 62%. This share declines with age, to 58% in the age bracket

⁵ Figures refer to 2020 and are from the US Bureau of Labor Statistics and Eurostat.

Figure 2.6 | Gender Profile of Senior Management in the Dealer Sector in H1 2021

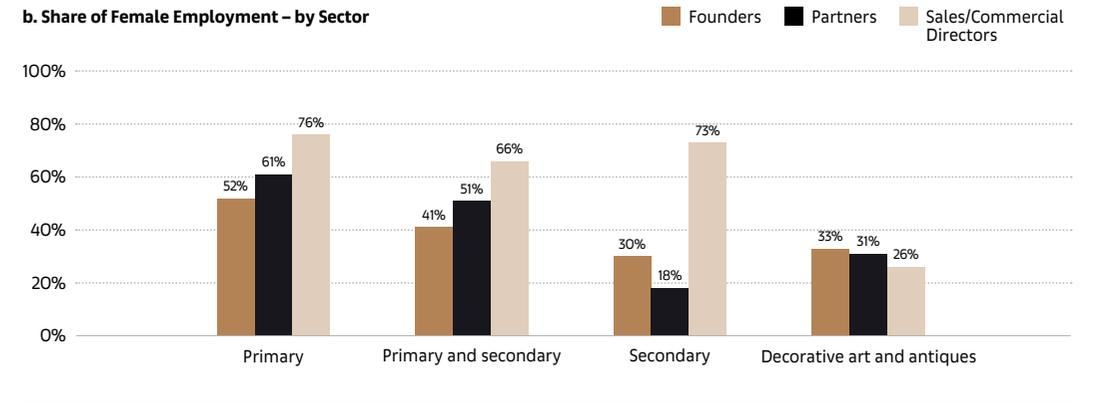


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from 40 to 64 years and 39% in the segment of workers aged 65 years and over. However, despite the decline, the share is still on par with wider benchmarks, with women representing a similar 38% of total employment in the EU in the 65-year-plus age group in 2021 and 36% globally.

Although high representation of women in employment is a positive indicator for the industry, the number of those employed is only a partial measure of gender equality, and women can still face

additional hurdles once in employment, in accessing decision-making positions and higher-level jobs. To assess vertical gender segregation of employment in the sector, dealers were also asked to report on the breakdown of employment in higher-level positions in their businesses. Just under half (46%) of the dealers surveyed had a female founder (who founded the gallery alone or with a male co-founder) and the breakdown at partner level and for sales and commercial directors was skewed towards women at 54% and 69% respectively. This shows a considerably



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greater share of female representation in higher level positions than in the wider labor force, where it is estimated that the share of women in management positions globally was just 28% in 2020, a share that has only increased by 3% since 2000.⁶ Women have even lower representation in top leadership positions, such as CEOs, at 20% globally, while just 8% of S&P500 companies were run by women at the end of 2020.⁷

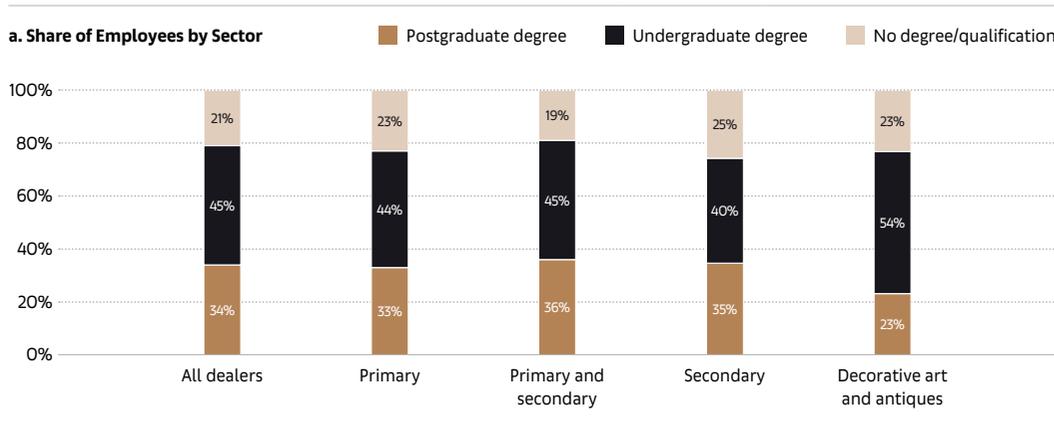
There were significant differences by sector within the dealer market, with a balanced share of women

founders or co-founders in the primary market versus a minority elsewhere. The lowest share of female founders and partners was reported by those businesses exclusively working in the secondary market. Similarly, there was a slightly higher share in smaller businesses, including 50% of founders in those with annual turnover of less than \$250,000, although even top-tier dealers with turnover of greater than \$10 million had a relatively balanced share of 47%. Although there are many differences across individual businesses, these results indicate that on

⁶ ILO estimates.

⁷ Figures for CEOs from Grant Thornton (2021), *Women in Business 2020*, available at www.grantthornton.global/en/insights/women-in-business-2020. S&P500 data from WBC (2021), *Women CEOs in America Report*, available at <https://womenceoreport.org>. Although these figures continue to show the underrepresentation of women, both shares improved year-on-year in 2020 (from 15% for female CEOs globally and 6% for S&P500 companies in 2019).

Figure 2.7 | Share of Employees with Third-Level Degrees in the Dealer Sector in H1 2021

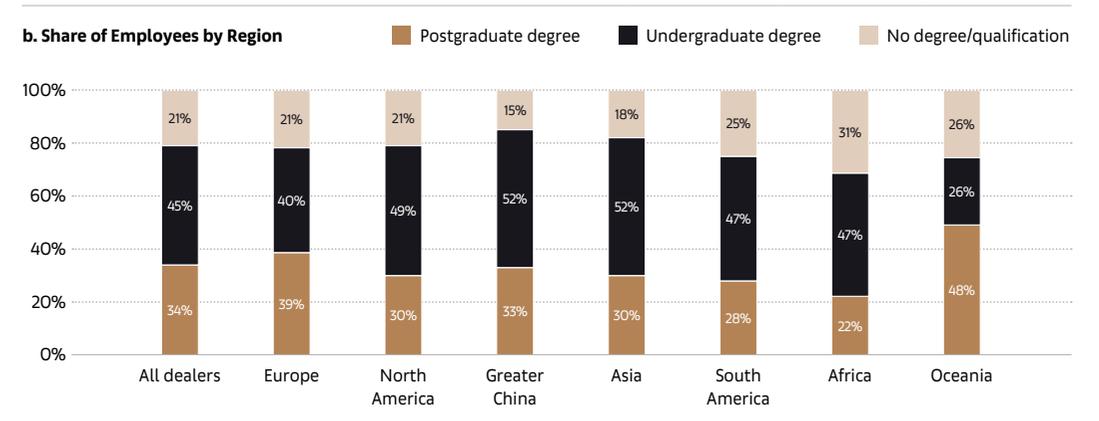


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aggregate, there is a high level of vertical integration in the dealer sector, particularly in the primary market. The sector employs a high proportion of women, and not just in lower- or mid-level jobs.

Employment in the dealer sector is also generally based on high-knowledge, specialized, and skilled jobs. In 2021, 79% of those working in the sector had a university or equivalent third-level qualification, including one third with higher, postgraduate

degrees such as Masters or PhDs. The high level of education was consistent throughout the market, with the lowest share of workers without degrees reported by those exclusively operating in the secondary market, although still a minority at 25%. Businesses that worked across both the primary and secondary markets had the highest level of qualified employees on the other hand (81%), including 36% with postgraduate degrees.



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These findings were also born out across regions and again were consistently higher than the general labor force. In regions such as the US, the share of those with a bachelor or higher degree was 41% in 2020 and in the EU, it averaged 36%, with the highest level in Ireland at 52%.

79% of those working in the dealer sector in 2021 had a university qualification, including one third with postgraduate degrees

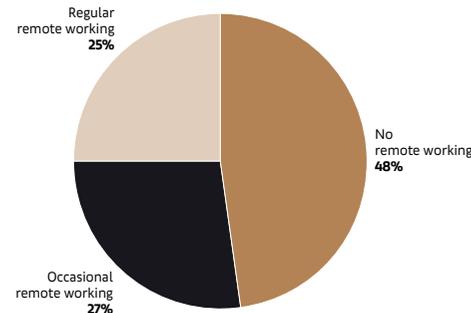


2.3 | Remote Working in the Dealer Sector

In general, a higher level of educational attainment has been associated with an easier shift to remote working in many industries. Before COVID-19, many workplaces were already being disrupted by new technologies and changing regional trade patterns. However, the pandemic caused a major change in working practices, shifting the focus onto the importance of the physical dimensions of work, with many companies forced to engage staff remotely in order to continue operations. In large economies such as the US, remote working escalated significantly during 2020, rising from 22% of the labor force in 2019 to 42% in 2020 (and 65% or higher for those with university degrees), with similar findings in the EU and Asia.⁸ Although many workplaces have reopened in 2021, some companies have adopted remote work as a more mainstream business model. The dealer sector, although dominated by knowledge workers, is based on in-person services and physical exhibitions and populated by a majority of small and micro-level businesses, which does not always allow for a high level of remote work in normal circumstances. However, there was evidence of this expanding over the last year for some businesses. In 2021, 52% of dealers reported having some employees working remotely, with 27% doing so occasionally and 25% more regularly. Just below half (46%) of respondents that had staff working remotely in 2021 reported

Figure 2.8 | Share of Businesses with Employees Engaged in Remote Work in the Dealer Sector in H1 2021

a. All Dealers

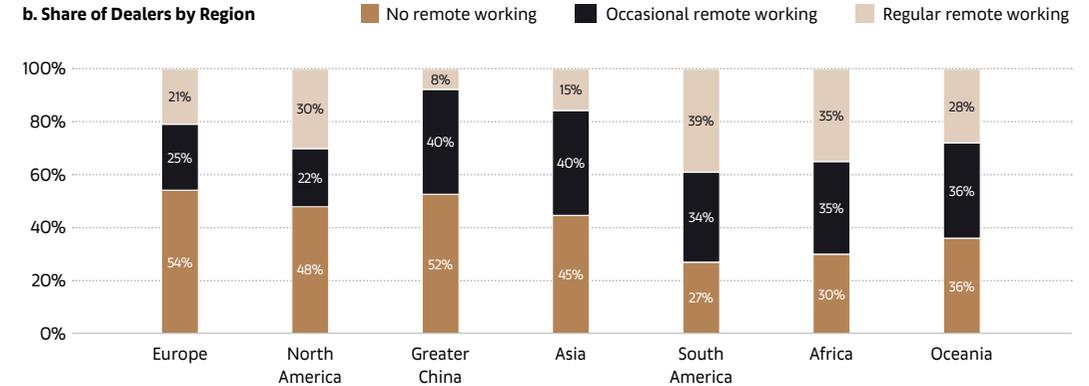


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that they had done so prior to the COVID-19 pandemic, with the remainder bringing in remote work in response to it. This indicates that, despite the difficulties it entails, the industry has followed wider global trends and roughly doubled the number of businesses engaged in remote working.

⁸ Data from the Bureau of Labor Statistics 2021.

b. Share of Dealers by Region



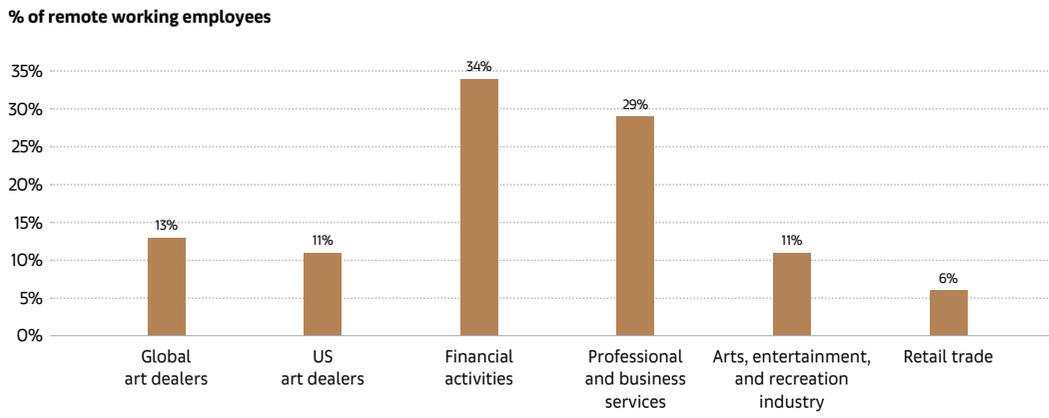
© Arts Economics (2021)

There were regional variations, with the lowest levels of businesses engaged with remote working recorded in Asia and Europe and the highest in South America. Dealers with higher turnovers also tended to have a greater share, with 77% of businesses with sales in excess of \$10 million allowing remote work (including 36% with staff working out of the gallery or office on a regular basis). Only 29% of those businesses had done so prior to 2020. Around half of the dealers with

turnover of less than \$500,000 had remote working, although for those that did, 55% had this work arrangement in place prior to the issues encountered with COVID-19.

Respondents were also asked what share of their total employees worked remotely. Across all respondents (including those with no remote workers), the aggregate share of those working

Figure 2.9 | Share of Remote Working as a Percentage of Total Employment in the US in June 2021



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remotely in the sector was 13%.⁹ However, for those companies that had at least some staff working remotely, the share of employees doing so was significant, with an average of 55%. To put this into context, Figure 2.9 sets out the share of remote employment in 2021 across a range of sectors in the US. Dealers there reported that just under 11% of total employees were currently engaged in remote work, which is roughly on par with the industry average for the arts, entertainment, and recreation

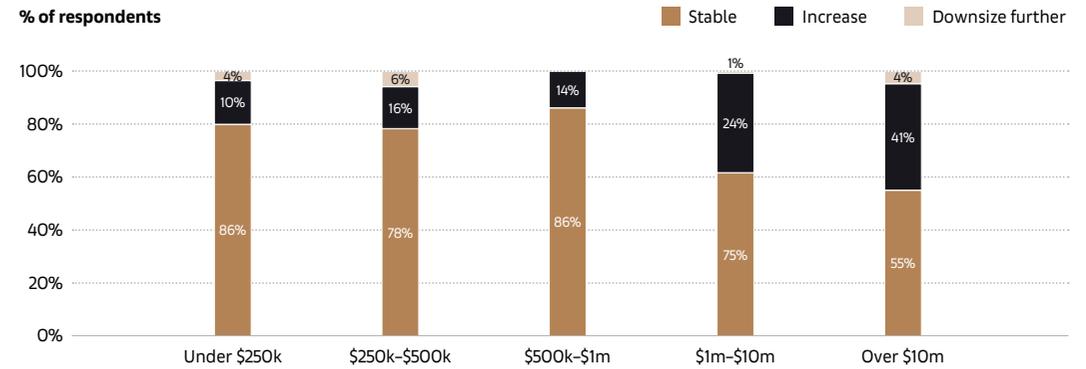
sector in the US in 2021, although below professional and business services.¹⁰

As noted above, despite the reopening of the majority of businesses in 2021, some companies have adopted remote work as an ongoing business model as benefits have emerged from the crisis, notably increased employee and company productivity as well as cost and time savings. For those dealers engaged in remote work in 2021, by far the most common reasons given were factors relating

⁹ This share excluding contracted or temporary workers from the total is slightly higher at 15%.

¹⁰ It is worth noting, however, that of those companies that did have employees currently engaged in remote work, the share of those working remotely was 28%.

Figure 2.10 | Dealers' Projected Change in Employment in H2 2021



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to COVID-19, with 61% of respondents reporting that remote working was to allow for social distancing and other measures related to COVID-19. 39% of respondents also engaged in remote work for personal reasons related to family commitments, to reduce commuting times, or as a perk for staff. Just over one quarter reported that it was a necessity due to travelling to see clients, attending art fairs, and other activities requiring them to be out of the office or gallery for lengthy periods of time. Although it has

been cited in many other industries as a means to increase the quality of work or reduce costs, only around 10% of the sample reported either of these as important reasons for staff working remotely. A small share of respondents also cited particular issues related to staff visas that have arisen both in the US and UK over the last year, preventing staff from working in the gallery and necessitating remote work.

2.4 | Employment Outlook

As well as their recent employment history, respondents were also asked about future projections for the remainder of 2021. The majority of respondents (78%) predicted that their employment numbers would remain stable, with only 4% estimating that they would be downsizing further, a more optimistic outlook than the 7% reported in the surveys of the sector at the end of 2020 regarding 2021. A significant 18% were looking to hire more employees in their businesses and this was highest in North America (27%, including 32% in the US) and South America (31%). Although the majority of dealers in Asia predicted stability for the rest of the year, the largest share of businesses planning to downsize during the rest of 2021 were in Greater China at 25%.

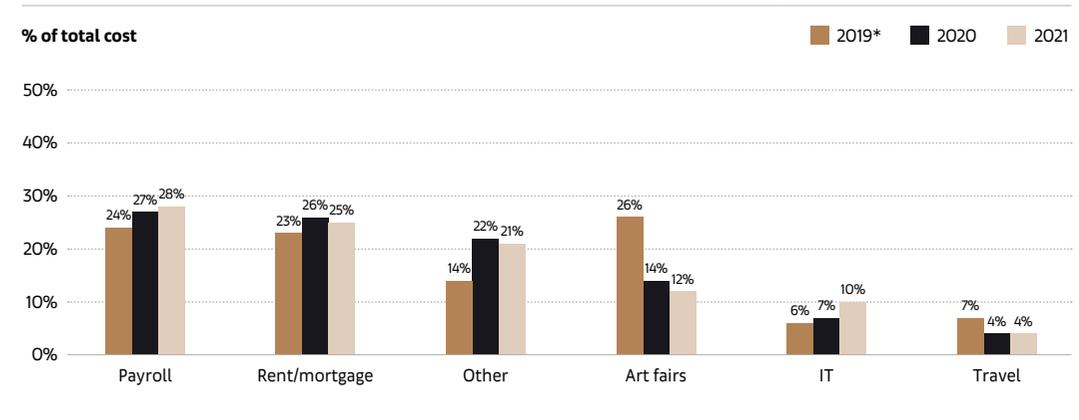
It is also notable that galleries with the highest sales turnover (in excess of \$10 million) were more likely to be adding to their employees in the second half of 2021. Apart from having the most improved sales, this is also likely to be in response to this segment having had the largest share of downsizing over the last year. Smaller dealers were unlikely to downsize further, with many already operating with the lowest feasible functional level of employees, and a high majority predicted no change in numbers from July through December 2021.

The ability of some businesses to maintain employment was dependent, in many cases, on government-led wage support programs. These were phased out in

many regions in early 2021, leaving dealers in a difficult transitional phase where their operating conditions had not yet returned to full capacity, but they were no longer receiving financial support. Only 7% of the sample reported that they were still receiving the same level of wage supports they had in 2020, with a further 7% receiving some support, but a reduced amount compared to 2020. The remaining 86% were not receiving salary or wage financing, and 42% of those claimed they had never received any support even in 2020. Although this was the case for a minority of the businesses in North America, Europe, and Oceania, over half the respondents in Asia, South America, and Africa reported never receiving any wage support in 2020 (or 2021).

Payroll was the largest element of dealers' costs in 2021, with respondents reporting an average of 28% of their total costs accrued to wages and salaries, up from 24% reported in 2019. Despite the evident job losses during the pandemic, anecdotally, dealers underlined the importance of retaining their best employees during the challenging period of 2020 and early 2021, where roles changed and bonus structures were altered as targets shifted or became difficult to achieve. As hiring has begun again in 2021, despite the digital transformation of many businesses, the key focus has remained on hiring and retaining strong sales staff that either already have a strong network or can foster new and long-term relationships with clients. (See Exhibit 1.)

Figure 2.11 | Share of Dealers' Total Operating Costs 2019-2021



© Arts Economics (2021). * 2019 data from December 2020 survey

Payroll was the largest element of dealers' costs in 2021, with 28% of their total costs accruing to wages and salaries

Exhibit 1: Recruitment Trends in the Gallery Sector 2021

Rosie Allan, Managing Director, SML | Sophie Macpherson Ltd

The COVID-19 pandemic had a significant effect on the level and types of job offerings in the gallery sector in 2020 and 2021. Hiring completely stopped for most galleries from April into the summer of 2020, with galleries only seeking sales staff. For the remainder of the year, revenue generators became key, both in terms of hiring and retention. Despite job losses, candidates with strong sales records and client networks were still among the most highly sought-after for positions within galleries. Effectively, when galleries stopped looking to source talented registrars, administrators, exhibition managers, and artist liaisons, they doubled up on recruitment plans for their sales teams. It is interesting to note that while there was a larger-than-usual number of offers made to sales candidates, an above-average number of those offers were declined. The reasons for those declining attractive offers varied, but some

candidates were reluctant to make major changes during a period of such instability in the market, while for others, without travel and art fairs, the prospect of proving themselves in a new position or achieving targets was more daunting. Another notable reason was the strength of counter-offers, with existing employers working harder than ever to keep the revenue-generating staff that they had.

While the number of placements made on aggregate fell by almost 60% in 2020, the share of sales positions increased from 22% of total placements to 29% and has continued to advance in 2021. As the world started to reopen in 2021, there was a surge in logistics roles, including registrar and technician positions. In many instances, galleries are filling gaps that were created by redundancies necessitated by the economic effects of the pandemic.

Between April and July 2021, there has been a sharp increase in weekly enquiries and new recruitment briefs have tripled. Total placements across all positions from January to June 2021 are already over 70% of the total placements for the year in 2020, and are expected to reach over 50% of 2019 levels by the end of the year.

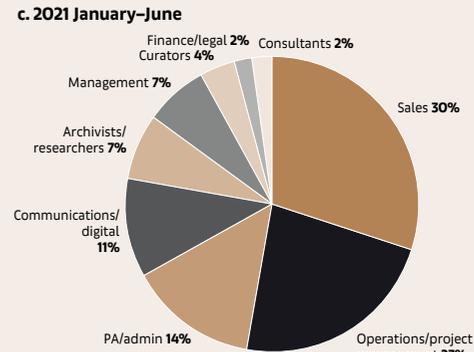
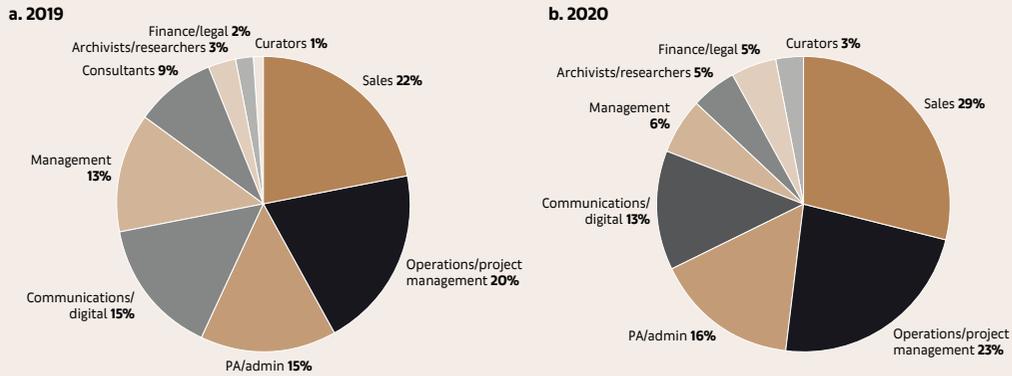
Another notable shift, particularly in the US and the UK following the Black Lives Matter movement, was galleries showing an increased commitment towards promoting diversity and inclusion in their teams and wanting to learn and adopt new strategies for attracting a diverse candidate pool. Galleries have recognized that this work starts from the ground up, and some are engaging with diversity specialists to assess how they can best address any future imbalances through their own grassroots efforts and new hires.

New Geographies

An interesting development over the last 12 months has also been an increased open-mindedness to hiring regional representatives, a strategy that many galleries have used in the past to open up access to pockets of collectors in specific geographies. There has been a notable shift by some galleries towards a ‘follow the client’ approach. If clients are spending the summer in the south of France or the Hamptons, then galleries are realizing that this is where their sales teams need to be to secure sales and maintain strong relationships. Without being able to rely on art fairs to reach new geographies, regional representatives have served to bring galleries closer to collectors, and requests for regional representatives over the last 12 months have centered on locations such as Palm Beach, Aspen, the Hamptons, Seoul, Monaco, and the French Riviera.

On the labor supply side, galleries have recognized that those working in the industry want to strike a work-life balance, and many sought-after employees reassessed their living situations during the pandemic and moved their families outside of cities on a semi-permanent or permanent basis. A parallel trend that arose during the peak of the pandemic was that some candidates were willing to consider more radical life changes, offering to relocate nationally or internationally for the right role. This reaction to the rapidly changing crisis in the sector as well as the desire to reassess work-life balance meant that there was a much greater interest in opportunities abroad or outside some of the key art cities. As things have started returning to normal in 2021, however, it has again become more challenging to find candidates willing to relocate.

Figure 1 | Share of Job Placements in the Gallery Sector (SML | Sophie Macpherson Ltd)¹¹



© Arts Economics (2021), with data courtesy of SML | Sophie Macpherson Ltd.

¹¹ Share of job placements refers to the share of jobs successfully placed in commercial galleries in each year by SML | Sophie Macpherson Ltd.

Another surprising trend during the pandemic was that while the escalation of remote working necessitated by the crisis brought with it an expectation of a rapid rise in opportunities offering these practices, there was only a relatively small number of galleries open to a hiring arrangement that meant total remote working for new candidates. In most instances, galleries continued to mandate that new employees spend at least some time in the office or gallery, with the industry continuing to predominantly rely on in-person interactions.

Skills Required and External Hires

Over the years, most galleries have become more willing to embrace outside-of-industry experience, with many relying on hiring from other sectors to find the right talent and effectively scale their businesses. Galleries with large teams operating across several continents are more regularly looking outside of the art market to find staff with experience overseeing operations of that scale, and most commonly in areas such as hospitality, finance, and luxury industries.

The artworld has been slower than other industries to adopt and operate in the digital space but caught up quickly during the pandemic in order to survive in a non-traditional format. Demand for candidates with digital and e-commerce experience grew significantly during the last 12 months, with galleries relying on e-commerce to replace in-person sales. Even at the entry- to mid-level, many candidates are now prioritized if they can demonstrate some basic design, social media, or SEO skills as well as familiarity with Adobe and CAD programs such as Sketch-Up and Rhino.

Overall, the majority of top-end placements have been in sales while digital roles, whether related directly to e-commerce or digital media, have tended to be more mid-level. Despite many changes in the sector, many of the fundamental traits that galleries are seeking have remained constant. Key traits that many galleries have historically sought in candidates have been flexibility and adaptability – for example, acceptance of new responsibilities or rapidly shifting priorities. This became even more essential during the pandemic as companies operated with reduced teams.





Sales



3.1 | Sales in the Dealer Sector in 2021

The business model of dealers which is based fundamentally on discretionary spending and strongly dependent on travel and in-person contact has been uniquely positioned to struggle in the realities of the COVID-19 pandemic over the last year. While dealers have managed to continue trading, sales values dropped significantly in 2020, by 20% on aggregate in the dealer sector, and the first half of 2021 has seen mixed results.

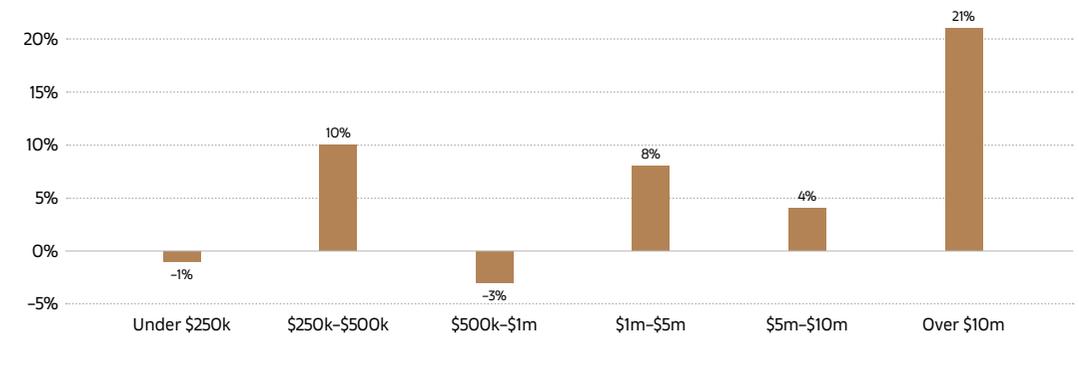
At the end of 2020, dealers were optimistic about their sales in 2021, with 58% expecting an increase this year. Comparing the first six months of 2021 with the same period in 2020, this optimism was on track for some, with 51% of the respondents to the current survey reporting an increase in sales, versus 45% reporting a decline and the remaining 4% a stable.

Aggregating all responses to better assess how the sector has performed as a whole, sales increased 10% on the first six months of 2020.¹² However, there were considerable differences based on the size of businesses, with the positive trajectory overall boosted by growth in sales at the higher end.

To analyze how businesses fared within different segments, Figure 3.1 shows the average change in sales reported by businesses in each segment. This shows that the largest dealers, who had the greatest average decline in sales in 2020, saw the most improvement from that low point, with a rise in sales averaging 21% across businesses in the segment. All segments of the market with sales in excess of \$1 million reported improvements in 2021 after double-digit declines of over 20% at the end of 2020. Those remaining under the most pressure, on the other hand, were the smallest dealers (with turnover of less than \$250,000), where values were marginally below 2020, as well as mid-sized dealers in the \$500,000 to \$1 million segment where sales were down 3%. However, even in these poorest performing segments, individual businesses fared differently: while a majority in each segment saw a decline in sales, 44% of respondents in the segment of dealers with turnover of less than \$250,000 reported an increase, as did 41% of dealers with turnover between \$500,000 and \$1 million. At the highest end, 21% of respondents in the \$10 million-plus segment said their performance was down, although the majority reported stable (15%) or increasing (63%) sales.

Figure 3.1 | Average Change in Sales by Dealer Turnover Segment H1 2020 to H1 2021

% change in sales values



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The largest dealers, who had the greatest decline in sales in 2020, saw the most improvement, with a rise in sales of 21% from H1 2020 to H1 2021

¹² The average reported loss or gain over all businesses was 3%, however, weighted by turnover to assess how the sector performed, the change in sales in the sector as a whole between the two periods was 10%. Figure 3.1 reports the average reported percentage loss or gain per segment.

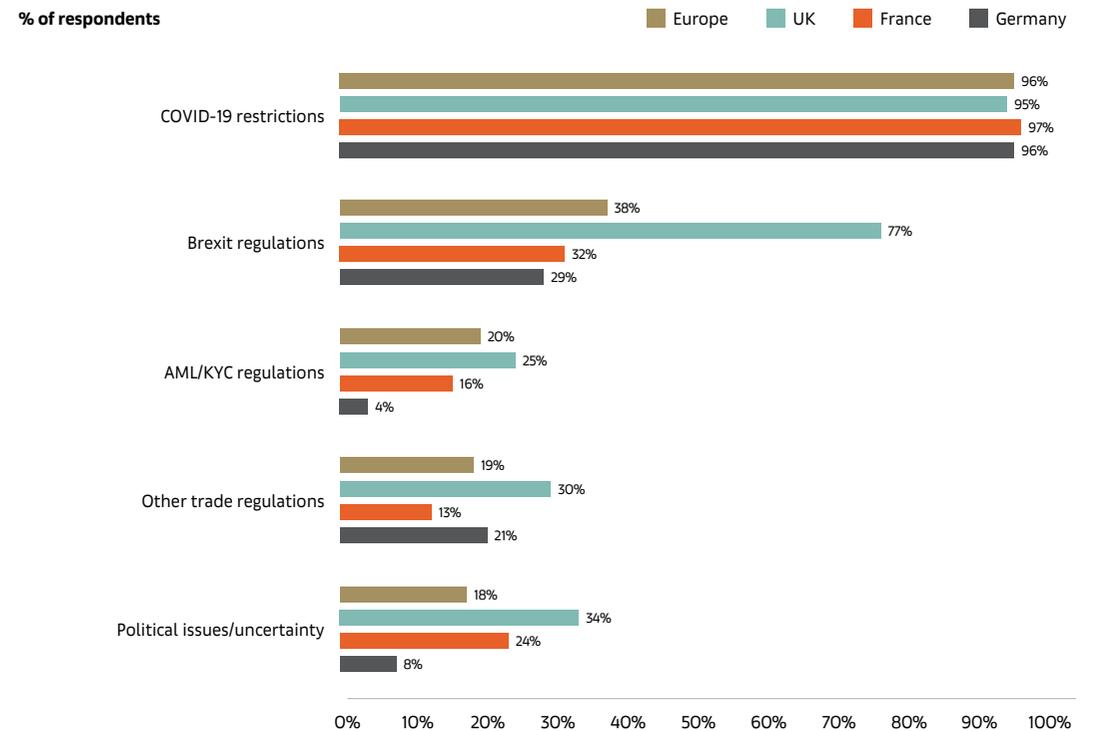
There were also differences by region, with Asian dealers reporting the biggest improvement on the first half of 2020, with sales increasing 18% on average, including a rise of 6% in Greater China. Although Asian dealers had a stronger second half in 2020, they had been among the worst affected in the first six months of last year, being the first to experience lockdowns and closures due to COVID-19. When surveyed in mid-2020, dealers in Asia reported sales being down 41% in the first half of the year compared to the same period in 2019, so, like the top-tier dealers, some of their outsized performance in 2021 reflects a bounce-back from this worse-than-average decline. Dealers in North America also reported positive growth, with respondents from the US reporting an average increase in sales of 15%, while other regions showing improvements included South America (11%), Africa (11%), and Oceania (10%). The poorest performance was reported by dealers in Europe, with an average decrease in sales for businesses across the region of 7%. Dealers in the UK reported a decline of 3%, while those in the EU fared worse, including negative trajectories for France (-6%) and Germany (-20%).

When dealers were asked what factors had negatively affected their sales over the last 12 months, the most commonly cited (95% of the sample) was, unsurprisingly, the travel regulations and other

restrictions related to COVID-19. Other important factors included Brexit regulations (25% of respondents) and political issues or uncertainty in their region (13%). Focusing on European dealers who reported the poorest performance between 2020 and 2021, again, COVID-19 restrictions and regulations were critical, however, Brexit regulations were an important factor for 38% and for 77% of dealers in the UK.

Several dealers also commented on economic problems in their region, as well as the prevailing uncertainty that was lingering in 2021 on the future of events, art fairs, and travel. They noted that although restrictions had been lifted in many areas and travel was feasible, some collectors and dealers were still unwilling to travel, even if permitted to do so. Some also discussed the detrimental effects of the mounting stress on their staff due to the pandemic, while others commented on the challenges in recruiting staff, and supply chain issues related to labor shortages or employment turnover in ancillary services that their businesses heavily relied on, such as framing and shipping.

Figure 3.2 | Factors Negatively Affecting Dealer Sales in Europe



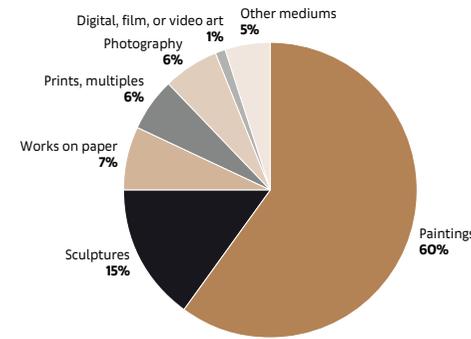
Of the sales made in the dealer sector in the first half of 2021, the bulk of value remained in the more traditional mediums of paintings, sculptures, and works on paper, which accounted for 82% of the value of sales. Prints, multiples, and photography accounted for a further 12% and digital, film, and video art just 1% by value. Figure 3.3b shows that the share of sales in different mediums varied according to the sector the dealer operated in, however, even in the primary market, more traditional mediums dominated. Digital art sales accounted for less than 0.5% of the value of sales in the primary market, which underlines that a significant portion of the activity in sales of non-fungible tokens or NFTs related to digital art was outside the traditional gallery framework in 2021 (see Chapter 5).

3.2 | Dealers' Sales Channels

One of the biggest changes over 2020 in the dealer sector was how sales were made. As events were suspended, the share of sales made by galleries at art fairs dropped dramatically and surveys at the end of the year showed that sales from art fairs globally fell from 43% of dealers' total sales (42% at live events and 1% via art fair online viewing rooms or OVRs) to 13% at live events, with some of the biggest declines for top-tier galleries who had the highest share of art fair sales pre-2020. Art fairs compensated for the

Figure 3.3 | Dealers' Share of Sales by Value and Medium in H1 2021

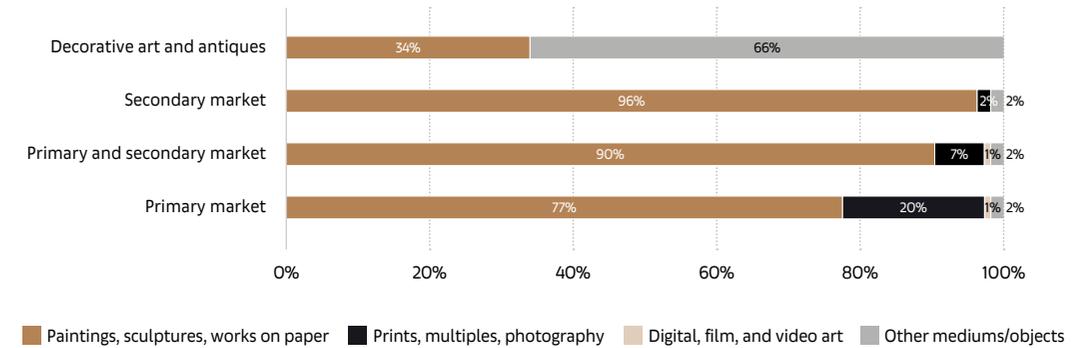
a. All Dealers



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lack of events through the expanded rollout of art fair OVRs, which although widely used, did not make up the shortfall, although added a further 9% to sales attributable to fairs in 2020. In the absence of events and business as usual at galleries, the growth of online sales accelerated, with dealers moving online strategies and tools to the forefront as a critical means for survival in some cases. Online

b. Share of Dealers by Sector

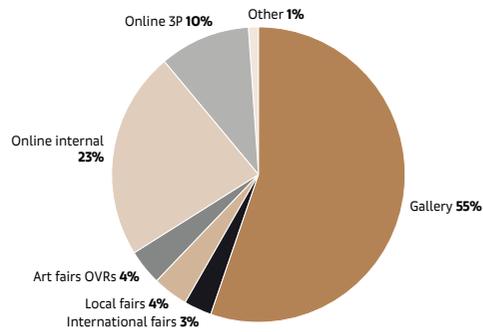


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sales had an equally notable rise over 2020, with their share expanding to three times its size, from 12% in 2019 to 30% in 2020 (or 39% if art fair OVRs are included). To assess how this breakdown had developed in 2021, dealers were asked how they had made their sales in the first six months of the year. In the first half of 2021, the artworld's events calendar remained disrupted, with many art fairs still

suspended, and most of those that did go ahead, did so with limited capacity. This was reflected in the share of sales made at fairs in 2021, which fell to just 7% at live events (or 11% including those made via art fair OVRs). While international art fair sales have usually dominated the share of sales by value, with continuing restrictions on travel, local fairs accounted for a higher share in 2021.

Figure 3.4 | Share of Dealer Sales by Value by Sales Channel H1 2021



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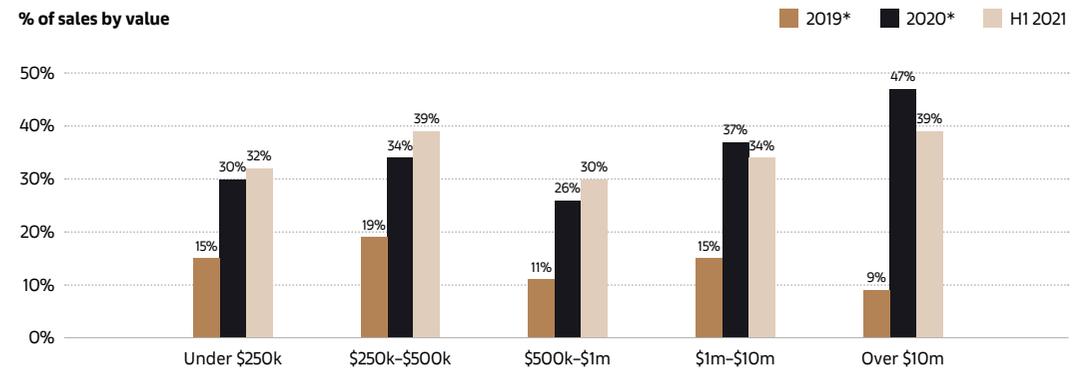
The share of gallery sales also expanded in 2021, from a reported 42% in surveys at the end of 2020 to 55% in the first six months of 2021. Gallery sales were defined in the survey as transactions that were from or facilitated by a visit to the dealer's gallery. This shift was also reflected anecdotally by some dealers, who noted that one positive outcome of the pandemic and restrictions on travel and events was that some collectors had begun to visit galleries more, particularly local collectors. Others noted that due to COVID-19, their businesses had shifted to operating through viewing by appointment, which, although reducing the volume of foot traffic, had attracted more serious buyers who also valued the less crowded and more personal format of an appointment, and were more likely to finalize a purchase.

3.3 | Online Sales

Figure 3.4 also shows that the shift to online sales was by no means transient, with this channel accounting for 33% of sales (or 37% including art fair OVRs), with the largest share made via dealers' own internal online channels (that is their websites and OVRs, social media channels, or via email but without a visit to the gallery). A further 10% were facilitated entirely by a third-party company or platform ('Online 3P'), with 4% carried out or originating from an art fair's online viewing room or other online fair platform.

The shift to online sales was by no means transient, with this channel accounting for 33% of sales or 37% including art fair OVRs

Figure 3.5 | Average Share of Online Sales by Dealer Annual Turnover Level



© Arts Economics (2021). * 2019 and 2020 shares based on December 2020 survey

The share of sales made online varied by gallery turnover level. While previous surveys had tended to show a decline in the share of online sales as turnover increased, this was reversed from 2020, and dealers with the highest turnovers showed the biggest increases in share. Without fairs and other events to make sales, dealers in the \$10 million-plus segment more than tripled their share of online sales in 2020, with a fivefold increase in share once art fair OVRs were included. Although the share declined in this segment in 2021 (with a concurrent rise in gallery-attributed sales), these dealers along with smaller

businesses with turnover between \$250,000 and \$500,000 reported the highest share of online sales at 39%. Figure 3.5 shows that the share of online sales for dealers at all levels remained more than double the level of 2019, proving again that the shift to online was not a temporary phenomenon.

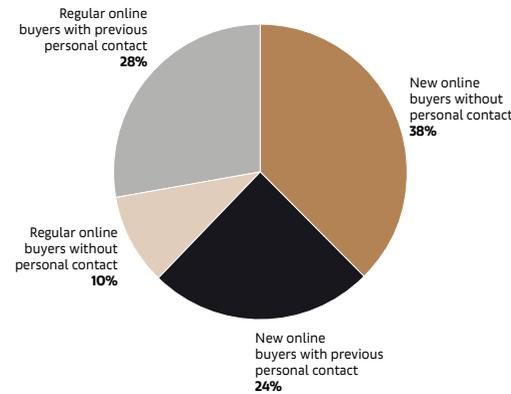
Online channels have remained a critical means of communication for dealers and provided a way for them to connect with new buyers as live events were cancelled and restrictions were in place. However, while previous research showed that a high share of

online sales were made to new buyers, in 2020, this channel became critical over a range of buyers, including those who would have usually bought offline. Of those dealers making sales online in 2020, less than one third were to brand new buyers that the gallery or dealer had not been in touch with before. This trend was noted by dealers anecdotally, who reported the most success making sales online to existing clients. It was also echoed by HNW collectors who were sticking more to galleries and artists they knew or had relationships with.

Although still a minority share, online sales to new buyers expanded in the first half of 2021, accounting for 38% of all online sales by value, up 6% on the share accounted for at the end of 2020. A further 24% were to existing clients that were buying online for the first time from them in 2021. As has been the case in previous surveys, new buyers made up a larger share of the online sales of smaller galleries, with those businesses with annual turnover of less than \$250,000 having the highest share at 45%. However, even at the highest end, dealers turning over \$10 million-plus significantly increased their share of new online buyers, from 18% in the survey at the end of 2020 to 35% in 2021. While this could be an indicator of a widening buyer base in this segment or the success of digital strategies, for some dealers, it was also an indicator of the difficulties they encountered in retaining repeat business online. This was reflected on anecdotally by dealers, who noted that while it

Figure 3.6 | Share of Online Sales by Buyer Category in H1 2021

a. All Dealers

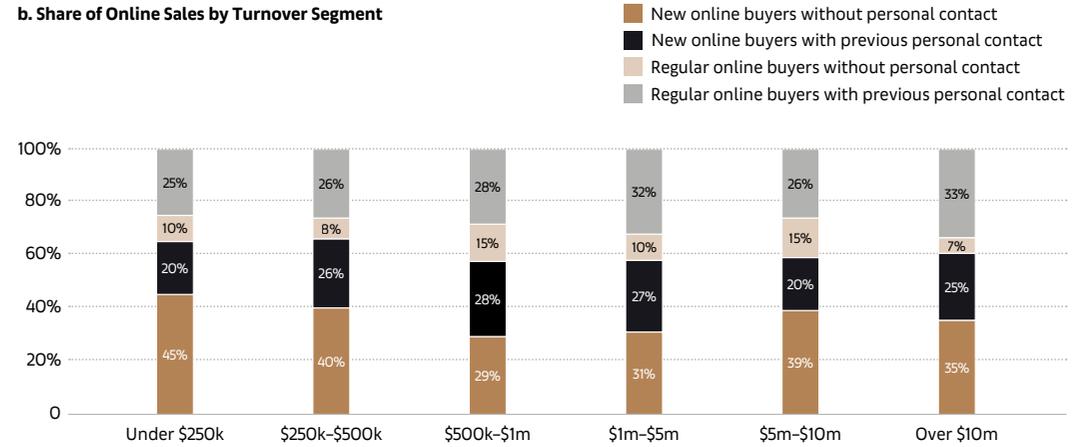


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was relatively easy to sell to established clients online or make a one-off sale based on particular inventory or programs to new buyers, establishing repeat business and longer-term relationships remained more challenging in the online-only format.

Looking ahead, the majority of dealers (64%) felt that their online sales would continue to increase over the next 12 months, with only 5% predicting a decline

b. Share of Online Sales by Turnover Segment



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through this channel. There were no significant differences in this outlook by turnover level, indicating that there is a broad acceptance throughout the sector that the movement online will continue, regardless of the context of other sales. While a majority (66%) also predicted an increase in art fair sales, there was a slightly higher share predicting declines (13%), and larger dealers were significantly more optimistic about their fair sales than smaller businesses.

When asked about the impact of greater online sales and communications on their business over the next one to two years, 28% of dealers felt it would not have any significant impact. This share was lower (20%) for the largest dealers with sales of greater than \$10 million versus 32% of those with turnover of less than \$500,000.

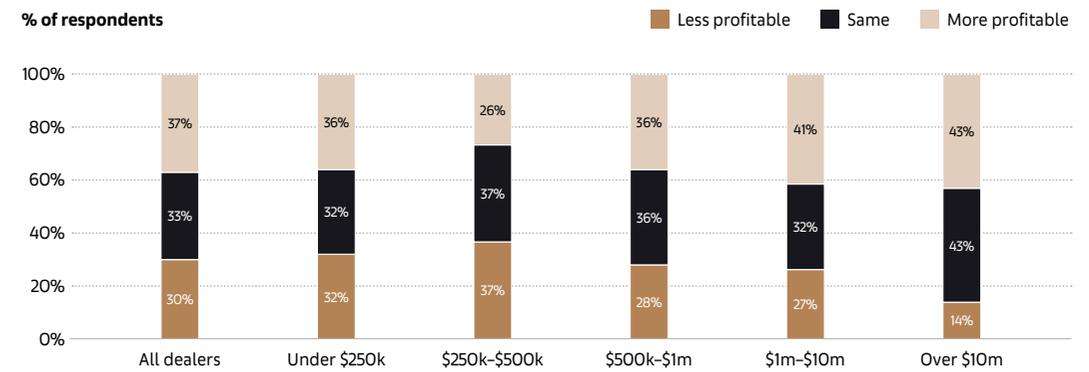
For the remaining majority who predicted that they would be impacted by greater online sales, 61% felt that the biggest changes would relate to the skills required and type of employees their business might hire. Just under half (49%) felt it would change the number of fairs exhibited at, although a smaller share of 31% felt that it would make any significant impact on the number of gallery exhibitions they held. Although the shift to a greater share of online selling has been discussed as a contributory factor in the decline of the retail gallery model, less than one third of respondents felt the advance of online sales and communications would impact the requirements they had for maintaining a physical gallery space or premises. Many dealers commented on their need to invest greater time, capital, and human resources to their online strategies and platforms.

Views were mixed over the advantages and disadvantages of increased online sales. Some smaller galleries commented that they felt they were being

put on a more level playing field with larger galleries, and others saw the potential to reach and attract new global clients online, as well as opening up new opportunities for the artists they represented. However, others feared that the increase in online sales and reduction in face-to-face contact with clients was serving to reduce the importance of the dealer-client relationship and trust that it entailed. Some were also concerned that as more sales moved online, the trend to a greater share of artists selling directly through social media and other digital channels would escalate, bypassing the gallery system altogether. Many were focused on trying to achieve a balance between online and offline strategies, particularly in the provision of content. For some galleries, this meant staging fewer and longer gallery shows and only exhibiting at the 'best and most necessary art fairs', while simultaneously strengthening their online presence and content delivery.

Considering how the balance of costs and sales might affect their profits, 37% of dealers expected to be more profitable in 2021

Figure 3.7 | Predicted Change in Net Profitability in 2021 versus 2020



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3.4 | Profitability and Outlook

Figure 2.11 showed that dealers were already investing a greater share in IT in 2021, with IT costs accounting for 10% of total operating costs (versus 6% reported in 2019). Art fair costs were, on the other hand, halved from their 2019 share to 12% in 2021. As sales came under pressure over the last year, many dealers were highly focused on costs and how to maintain their bottom line through reducing expenditure and outlays. While the loss of art fair sales resulted in a substantial loss of revenue, some dealers noted that by reducing

the costs of travel and exhibitions, they were able to maintain profitability (with 18% of dealers reporting stable profits in 2020 and 28% noting an increase despite the loss of sales). Considering how this balance of costs and sales might affect their profits in 2021, a much greater share of 37% felt that, based on the year so far, they expected to be more profitable in 2021, with a further third predicting that their profits would be stable. Although the picture was more optimistic across all segments than in 2020, there were differences by gallery size. The largest

dealers with turnover in excess of \$10 million were the most optimistic about their profitability in 2021 (with only 14% predicting lower net margins), while smaller dealers with sales of between \$250,000 and \$500,000 predicted the most financial pressure, with 37% estimating that profits would be lower than in 2020 and just 26% expecting them to improve.

When asked to consider how their sales might fare over the next 12 months, most dealers were considerably more optimistic: 91% of respondents overall estimated that their sales would either increase or remain stable, with only 9% predicting a decline. The majority of dealers in most regions predicted growth, with the noticeable exception of Europe, where just less than half (48%) of respondents thought sales would improve. This lower-than-average share of optimism about the next 12 months was driven mainly by countries in the EU, with less than half of the respondents from the larger markets such as France, Germany, and Spain predicting better sales, while a higher 64% of British dealers thought sales would improve.

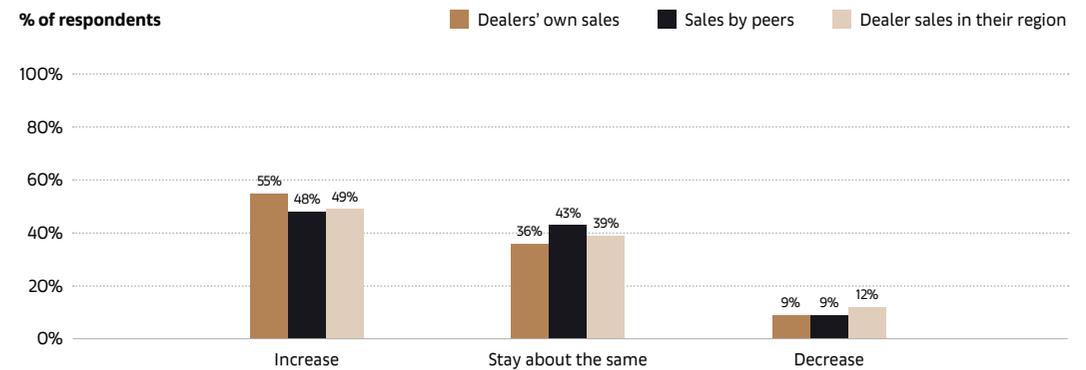
It is notable that, as in previous surveys, dealers were somewhat more confident about their own prospects than those of peer galleries of the same size and in the same sector as well as of those in their region. Overall, 55% of respondents expected an improvement for their own businesses in the next year, but less

than half expected improvement in sales of peer galleries. This was a consistent feature regardless of the size of the business, although on average, higher-end dealers tended to be more optimistic about their own business' performance, whereas smaller dealers' expectations were more aligned for both their business and their peers. 73% of dealers with turnover in excess of \$10 million thought their sales would improve, but 53% considered their peers would too, whereas for dealers with turnover of less than \$500,000, the shares were closer (and lower) at 50% and 45% respectively. This difference in confidence between personal and peer performance was consistent for dealers operating in the primary or secondary markets (or both). However, for those dealers operating in the antiques and decorative art market, the share of those expecting improvements for their own business was on par with positive expectations for their peers, and also the least optimistic of all sectors (with 39% predicting increased sales).

The higher margin of optimism for larger dealers may be due to a greater sense of awareness and control over the outcomes for their businesses in the next year,¹³ as well as greater belief in their abilities to drive sales due to, for example, superior capital or financing, which in turn affects optimism. Although optimism does not guarantee results,

¹³ The \$10 million-plus segment had a considerably smaller share that were unsure of how the performance of their peers would pan out, at 10% versus 30% for dealers with turnover of less than \$500,000.

Figure 3.8 | Dealers' Views on Future Sales



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how businesses feel they are faring relative to their peers and their perceived self-efficacy has been shown in other wider organization studies to impact longer-term success, and can have a potentially positive effect on performance in the long run, which may be particularly important in the continuing uncertainty of 2021.¹⁴

91% of dealers estimated that their sales would either increase or remain stable, with only 9% predicting a decline

¹⁴ For example, individuals and organizations with high self-efficacy have been shown in studies to tend to set challenging goals and persist toward their achievement, even under difficult and stressful circumstances; and recover more quickly from failure. See Bandura, A. (1997), *Self-Efficacy: The Exercise of Control*, W.H. Freeman: New York. Outcomes have been found to be most likely when entrepreneurial self-efficacy is combined with moderate and not high optimism or over optimism. See for example, Hmieleski, K. and Baron, R. (2008), *When Does Entrepreneurial Self-Efficacy Enhance Versus Reduce Firm Performance?*, *Strategic Entrepreneurship Journal*, 2, 1:57-72.



Collector
Perspectives



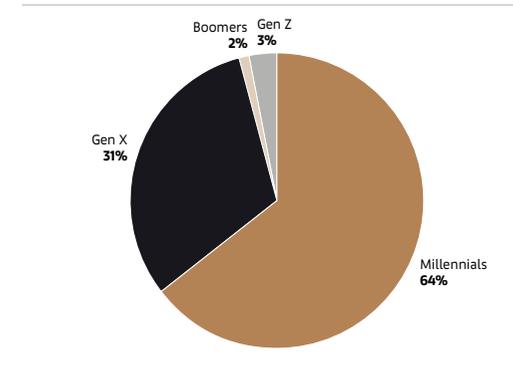
The COVID-19 pandemic brought significant disruption to the ways in which collectors were able to interact with dealers and artists, with their primary means to view and access art for sale being online channels. While the digital strategies employed by galleries were successful in maintaining relationships and driving sales, research has shown repeatedly that, when given a choice, most collectors opt for viewing and buying art in person. However, in 2021, as the feasibility of live and in-person interactions gradually returned to the art market, it became clear that more permanent changes are developing in how collectors can and choose to purchase art.

To assess the level of collector participation and interaction in the dealer sector and art market generally, Arts Economics and UBS Investor Watch distributed a short survey to HNW collectors across five different markets in July 2021: the US, the UK, Hong Kong SAR (China), Germany, and Switzerland. This survey was also supplemented by interviews with HNW and ultra-high net worth (UHNW) collectors, including those from the UBS Collectors Circle, which focused particularly on their relationships with dealers and their perceptions of their role in the art market in 2021.

4.1 | Description of the HNW Collector Sample

For inclusion in the survey, respondents were screened according to their level of wealth as well as their activity and spending in the art market over the last two years. To be included, respondents were required to be HNW individuals, which we have 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 in the art market, they were also required to have purchased fine or decorative art over the last two years. To increase the likelihood that they would have been active enough in the market to have relevant insights into the effects of the pandemic on their purchasing and behavior and how this may have altered in 2021, they were also excluded from the survey if they had not spent more than \$10,000 on art and collectibles in each of the years 2019 and 2020, and if they had not spent at least \$5,000 in the first six months of 2021. The screening process continued until there was a minimum of 100 suitably qualified responses for each market, giving a total of 500 fully qualified responses to the survey.

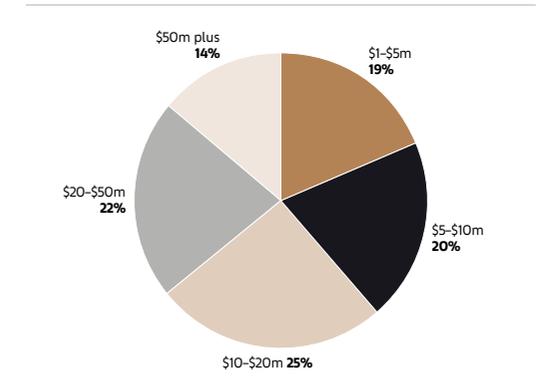
Figure 4.1 | Age Profile of HNW Collectors Surveyed (All Markets)



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As in previous HNW collector surveys, the age breakdown of qualified respondents was dominated by younger collectors. In this particular sample, due both to the populations surveyed and the screening process, millennial collectors and Gen X were particularly dominant, reflecting the most active collecting segments in the market.¹⁵

Figure 4.2 | Wealth Level of HNW Collectors Surveyed (All Markets)



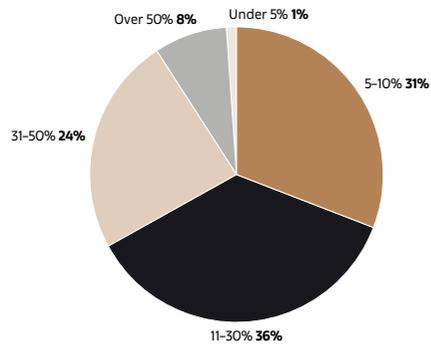
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All respondents had personal wealth in excess of \$1 million, with 39% in the segment of up to \$10 million. 61% of respondents had wealth in excess of \$10 million, a considerably higher share than in previous collector surveys, including 14% in the ultra-high net worth category of over \$50 million.¹⁶

¹⁵ For the purposes of this survey, Generation Z or Gen Z are defined as those collectors who are under 25 in 2021, millennials are 25 to 40 years old, Gen X are 41 to 56 years, Boomers are 57 to 75 years, and the Silent generation are 76 years and over. The share of millennials in the entire population of HNW individuals sampled from (including those screened out or disqualified) was 45%.

¹⁶ In the corresponding surveys of HNW collectors in 10 regions in December 2020, the share with wealth in excess of \$10 million was 49%, while the survey of three regions in July 2020 reported just 35%, indicating a wealthier sample in this study.

Figure 4.3 | HNW Collectors' Allocation to Art in Overall Portfolio of Wealth

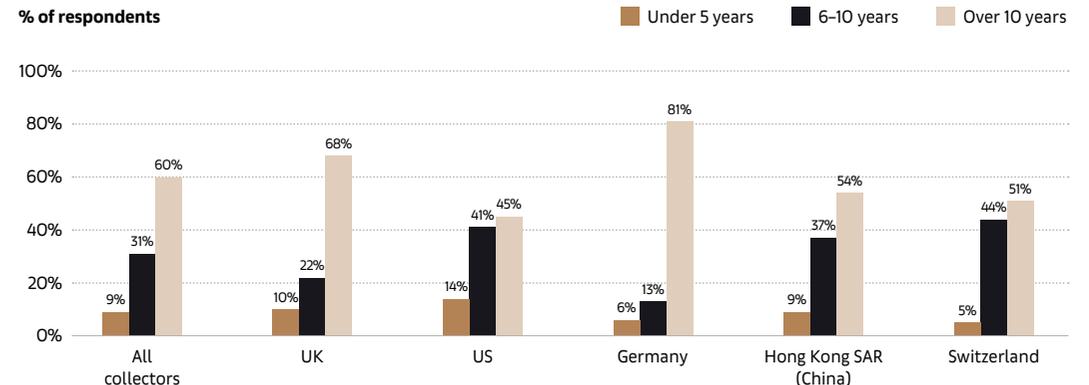


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HNW collectors had a relatively high proportion of their wealth held within their art collections. The majority of respondents (69%) reported an allocation of over 10% to art in their wealth portfolios (with wealth measured in this instance as including real estate and private business assets), and the average was 23%. One third of respondents reported that over 30% of their wealth was accounted for by their art collections, with younger collectors tending to have a higher share. 35% of millennial collectors had more than 30% of their wealth held in art, 10% more than their Gen X peers and more than double the level of Boomers. This is likely to be related to lifecycle factors and the buildup of business, property, and other assets over time, but it clearly indicates that art has a very significant position in the wealth portfolios of some young collectors.

35% of millennial collectors had more than 30% of their wealth held in art, 10% more than their Gen X peers and more than double the level of Boomers

Figure 4.4 | Length of Time Collecting By Market



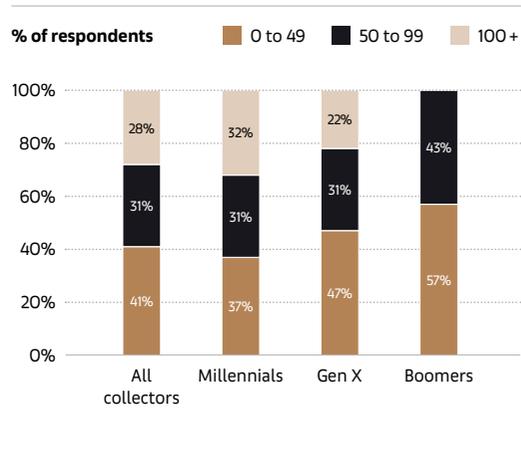
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Although this was a relatively young sample, most respondents had been collecting art for a substantial number of years. 60% of the overall sample had been collecting for longer than 10 years, including 12% for over 20 years. Only 9% were new collectors active in the market for less than five years, and this was

a minority across all regions and generations, even for Gen Z collectors (24%). While this activity may relate to family collecting activities or collecting at a relatively minor level, it reinforces previous findings that many collectors show an interest in the market from an early age.



Figure 4.5 | Size of HNW Collectors' Collections (Number of Works)



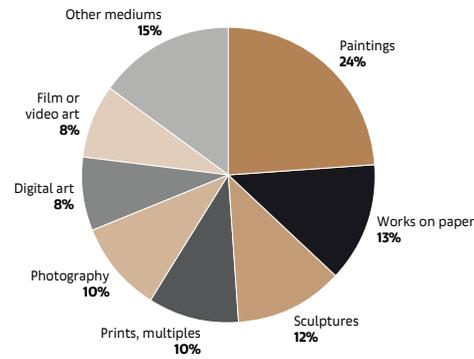
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4.2 | Description of Collections

A majority (59%) of the HNW collectors in this sample had relatively large art collections with 50 or more works, with a median size of 48 works. Collectors in Hong Kong SAR (China) had smaller collections on average (36 works), and the largest collections were in the UK (64 works). German collectors (averaging 58 works) also had larger

Figure 4.6 | Collection Content: Share of Works Purchased by Medium

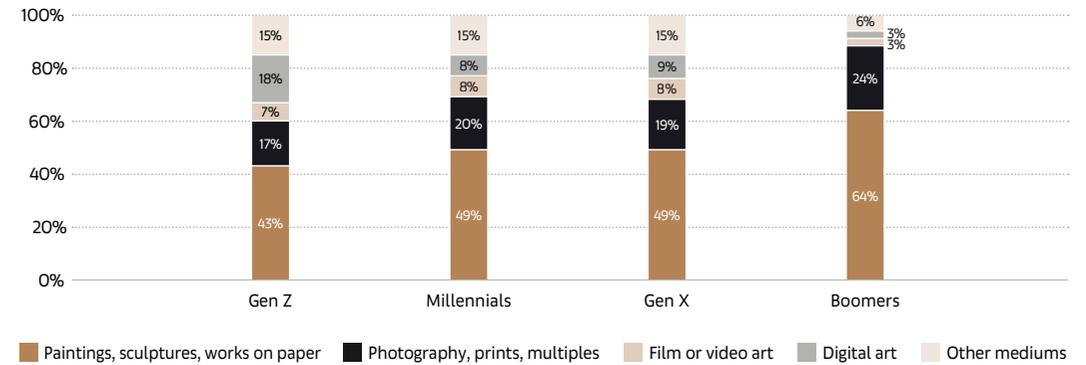
a. Share of Works in Collection - All Respondents



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collections than their counterparts in the larger art market of the US (42). Collection sizes increased significantly and in direct proportion with the collector's level of wealth. They also tended to increase with the length of time collecting, although millennial collectors had the largest collections of all generations, with a median of 52 works.

b. Share of Works in Collection - By Generation



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An analysis of the content of their collections revealed that HNW collectors held a balanced selection of living and deceased artists' works, with the highest share of living artists' works held by collectors in Hong Kong SAR (China) at 57% and by millennials (52% versus 40% for Boomer collectors).¹⁷

Collections were less balanced when it came to gender, and across all regions and generations,

collections tended to be dominated by the work of male artists, at 58% of the total on average.¹⁸ However, there are indications that the share of female artists' works in collections is rising over time. The 42% share in this survey represents a 3% increase on 39% reported in the HNW collector survey in 2020, 37% in 2019, and 33% in 2018. While many collectors have reported anecdotally that both the race and gender

¹⁷ These shares measure the breakdown of works where the status of the artist was known with certainty by the collector. Collectors reported overall that they did not know whether the artists were living or deceased for 20% of the works in their collections.
¹⁸ The share of works of male versus female artists cited here compares only those works where gender could be assigned as male or female. On aggregate in the sample, around 25% of the works held were those where the gender was not known or identified as non-binary.

of artists are most often irrelevant when considering works to purchase, the level of diversity in the range of artists' works for sale in the auction and gallery sectors will ultimately play a large part in what they are able to buy, and hence the indications of a slow but progressive shift to greater gender diversity in private collections may also indicate greater diversity in the market.

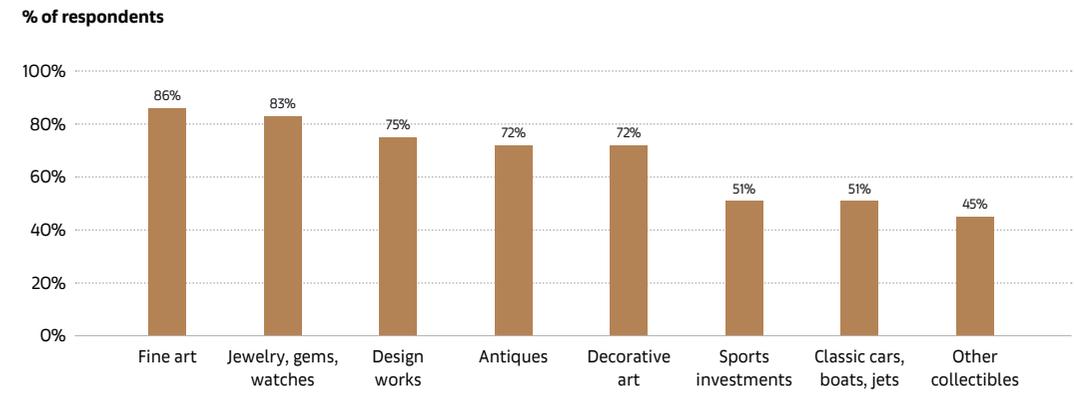
HNW collectors also owned works covering a range of different mediums. Although there were significant individual differences, on average, just under half (49%) of the works collected were unique works in traditional fine art mediums (paintings, sculptures, and works on paper), with a further 20% in editions and photography. Digital art was highlighted in 2021 with the growth of sales via NFT platforms and a number of high-profile sales within the art market. It remained a relatively smaller proportion of collections overall, at 8% on average (although considerably higher for the youngest Gen Z collectors at 18%). Although these shares do not rival more traditional art forms, this survey indicated that, overall, 16% of the works in the collections of this sample of HNW collectors were digital, film, and video art, showing the growing significance of these mediums.

4.3 | HNW Collector Expenditure

Collectors had purchased across a range of different markets in the last two years. Due to the screening criteria described above, all respondents had purchased either fine art (86% of respondents), decorative art (72%), or antiques (72%). Other popular collectible markets included jewelry, gems, and watches (83%), while 75% of the sample had purchased design works, and the majority of collectors across all generations showed evidence of cross-collecting over these five segments.

Again, due to the screening criteria described above, all respondents had spent over \$10,000 on works of art and antiques in 2019 and 2020 and more than \$5,000 this year, however, many averaged considerably more. The majority of collectors had spent more than \$100,000 in all three periods, including 70% in the first six months of 2021. The data indicates that HNW collectors have been critically important in helping the market endure a less severe contraction than may otherwise have been the case: despite the crisis in 2020, the median expenditure by collectors rose 10% year-on-year to \$170,000, and this has increased substantially further over the first half of 2021, with the median spending in this sample rising 42% to \$242,000, higher than either 2019 or 2020 in just six months.

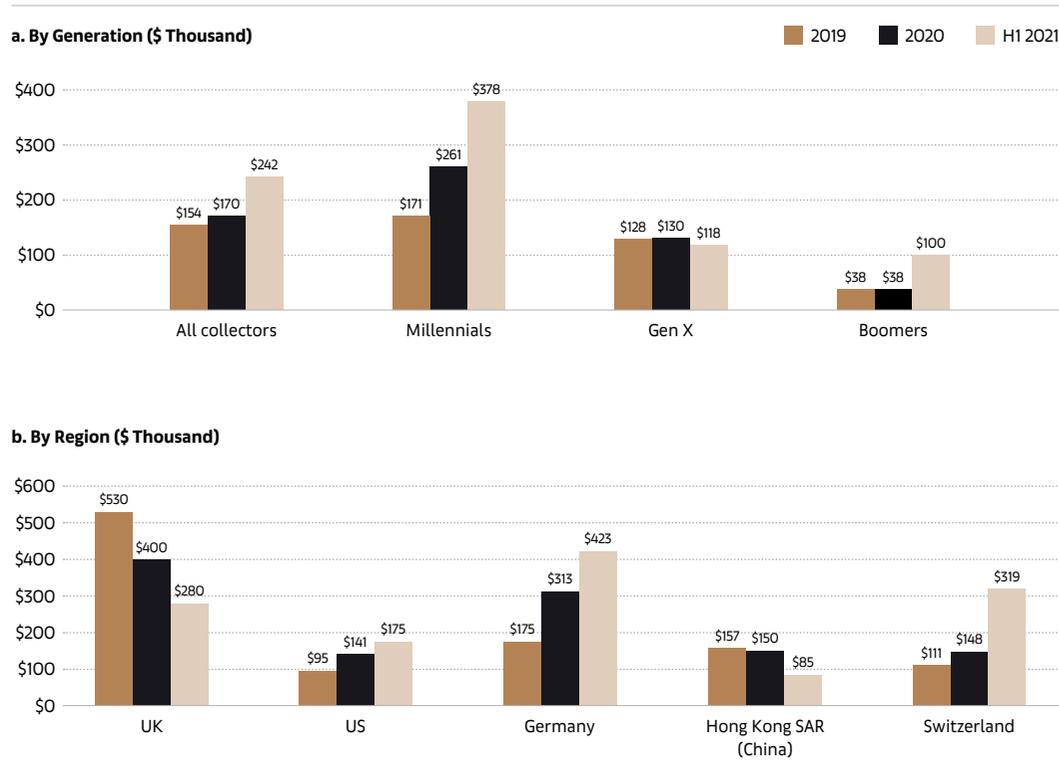
Figure 4.7 | Share of HNW Collectors Having Purchased Art, Collectibles, and Luxury Assets in Last Two Years



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There were some interesting generational differences year-on-year, with the advance in spending driven by millennial collectors. Figure 4.8 shows that millennial collectors had the highest spending overall in all of the periods shown, and their spending in the first half of 2021 was more than double the level of 2019. In 2021 so far, the median expenditure for millennial collectors on art and antiques was \$378,000, significantly higher than their Gen X peers (\$118,000) and close to four times that of Boomers.

Boomers reported a substantial uptick in spending while Gen X collectors were more stable across the three periods. Gen X collector spending was down 9% in the first six months of this year compared to the full year in 2020, however, if this level of spending continued for the remainder of the year at the same pace, it would also represent a substantial increase on both 2019 and 2020, showing a remarkable advance in spending by HNW collectors despite the difficult context.

Figure 4.8 | Median Value of HNW Collector Expenditure on Art and Antiques

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It is interesting to note, by comparison, there were less significant changes in the number of works purchased over the respective periods. The median number of works purchased by collectors fell from only 15 to 13 from 2019 to 2020, and already in 2021, collectors reported purchasing 13 works on average. Millennials reported the largest number of works purchased in each period and this was stable at 15 in 2021 (versus nine for Gen X and just two works for Boomers). The stable volume of expenditures indicates that the rise in the total value of spending was driven by collectors purchasing higher-priced works in 2021. This was indicated also by the high shares of spending in the million-plus segment: in the first six months of 2021, 29% of the HNW collectors surveyed had spent over \$1 million on art and

antiques, with the highest share in this segment accounted for by millennials (with 35% of these younger collectors already having spent more than \$1 million this year). This high-end spending was distributed throughout the three segments of fine and decorative art and antiques, and 11% of millennial collectors had spent over \$1 million on antiques in 2021.

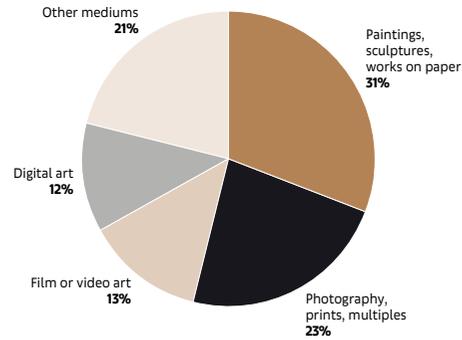
Regional differences were also evident, with declining spending by collectors in the UK and Hong Kong SAR (China), while US, German, and Swiss collectors all increased in both 2020 and 2021. German collectors were the highest spenders, on average, in the first six months of 2021, with a median of \$423,000, more than four times the level of spending by HNW collectors in Hong Kong SAR (China).

In the first six months of 2021, 29% of HNW collectors had spent over \$1 million on art, with the highest share in this segment consistently accounted for by millennials

The highest share of spending by HNW collectors in the first half of 2021 was on works in traditional mediums. Paintings, sculptures, and works on paper accounted for 31% of the aggregate median spending by collectors, although digital art accounted for a significant 12%. Millennial collectors had the highest level of spending in all mediums, including digital art, averaging \$20,000 in the first six months of the year. The share of millennials who had spent \$1 million or more on digital art in this period was around the same as those who had spent at this level on paintings (6%), with a slightly higher share of those spending at this level on photography (9%).

Figure 4.9 | HNW Collector Expenditure on Art by Medium in H1 2021

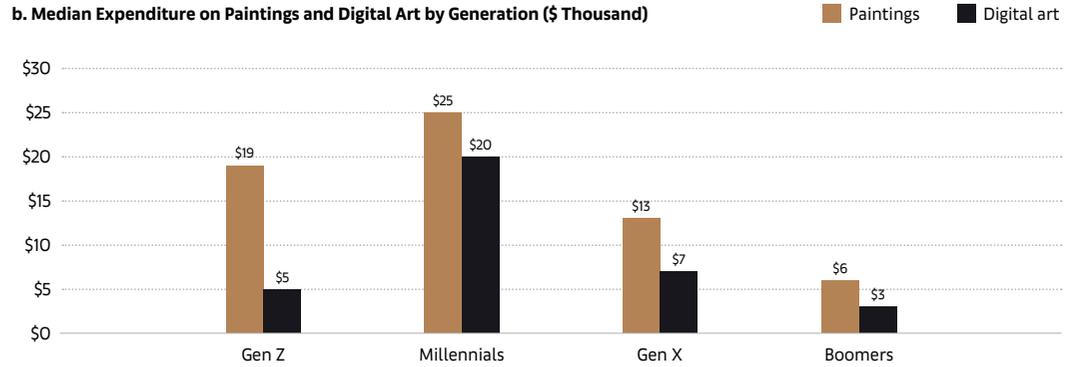
a. Share of Expenditure - All Respondents



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The highest share of spending by HNW collectors was on works in traditional mediums, although digital art accounted for a significant 12%

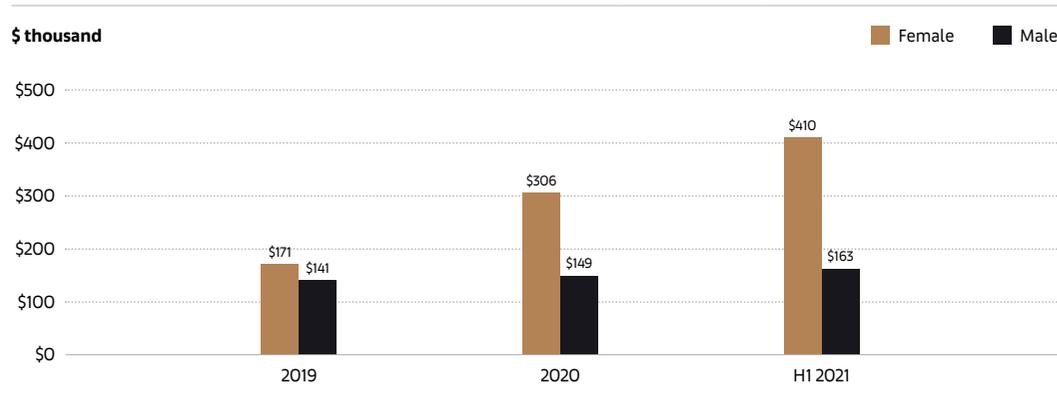
b. Median Expenditure on Paintings and Digital Art by Generation (\$ Thousand)



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Millennial HNW collectors had the highest level of spending in all mediums, including digital art, averaging \$20,000 in the first six months of 2021

Figure 4.10 | Median Expenditure 2019 to H1 2021 by Male versus Female HNW Collectors (\$ Thousand)



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In the first half of 2021, spending by female HNW collectors increased by just over one third to \$410,000, more than double the level of their male counterparts, which saw growth from 2020 of just 9%

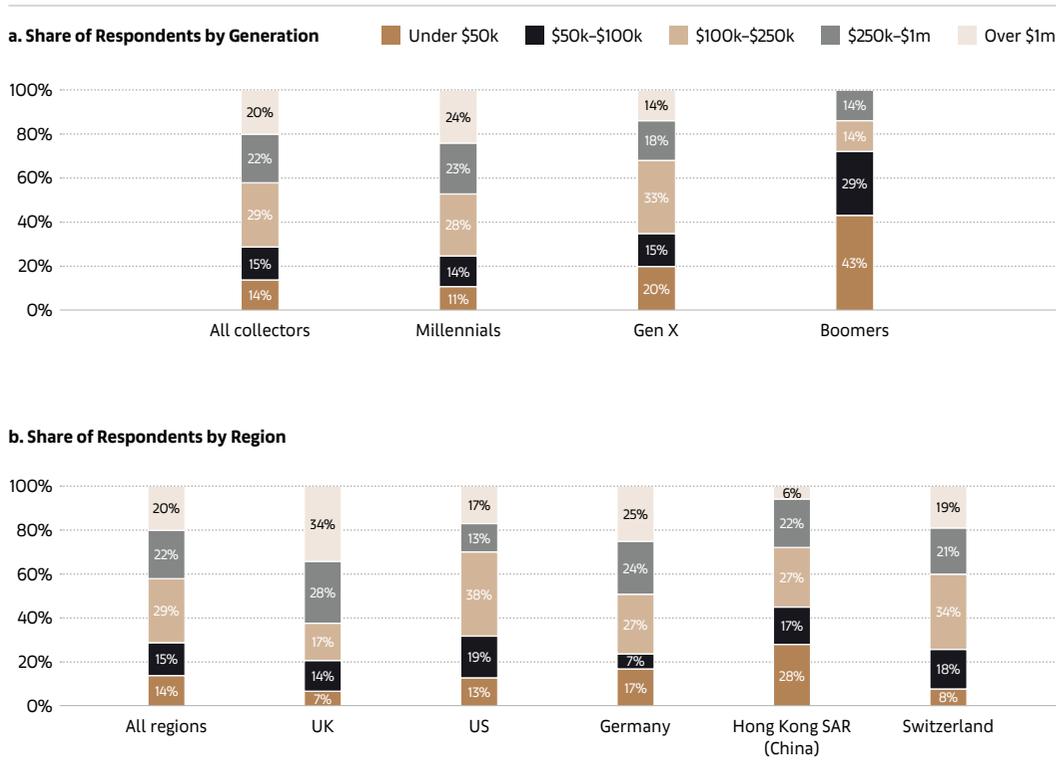
It is notable also that female HNW collectors in this sample spent more than their male counterparts. While the margin was relatively small in 2019, it increased considerably in both 2020 and 2021 as the level of expenditure for women advanced at a much greater pace. In the first half of 2021, spending by female collectors increased by just over one third to \$410,000, more than double the level of their male counterparts, which saw growth from 2020 of just 9% to \$163,000.

HNW collectors purchased works across a range of prices in 2020 and 2021. A relatively small share of collectors (14%) reported that they most frequently purchased works priced at below \$50,000, while 71% transacted at prices of greater than \$100,000.

Despite the distractions and challenges it posed, the COVID-19 crisis did not deter some collectors from making major purchases, with 20% transacting most frequently at prices in excess of \$1 million (and 4% of those over \$10 million). As in previous surveys, price ranges were proportional to wealth, with 60% of the UHNW collectors with wealth of greater than \$50 million most frequently purchasing at prices of over \$1 million versus just 3% in the \$1 million to \$5 million wealth bracket. There were also regional differences, with a higher-than-average share of \$1 million-plus spenders in the UK and Germany and a lower proportion in Hong Kong SAR (China), where spending at prices between \$100,000 and \$250,000 was stronger.

Despite the challenges it posed, the COVID-19 crisis did not deter some HNW collectors from making major purchases, with 20% transacting most frequently at prices in excess of \$1 million

Figure 4.11 | Most Common Price Range for Purchasing Works of Art in H1 2021



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Younger collectors were the most active at high price levels. Across all regions, 24% of millennial collectors regularly transacted at over \$1 million in 2021 versus just 14% of Gen X collectors and no Boomers in this sample. Overall, across all generations, there was little indication that the pandemic had significantly changed or subdued the price levels collectors generally transacted at, and there was evidence of a slightly higher share of collectors active at higher levels of prices, which could be connected to the boost in the wealth of the UHNW population and billionaires over the last year.

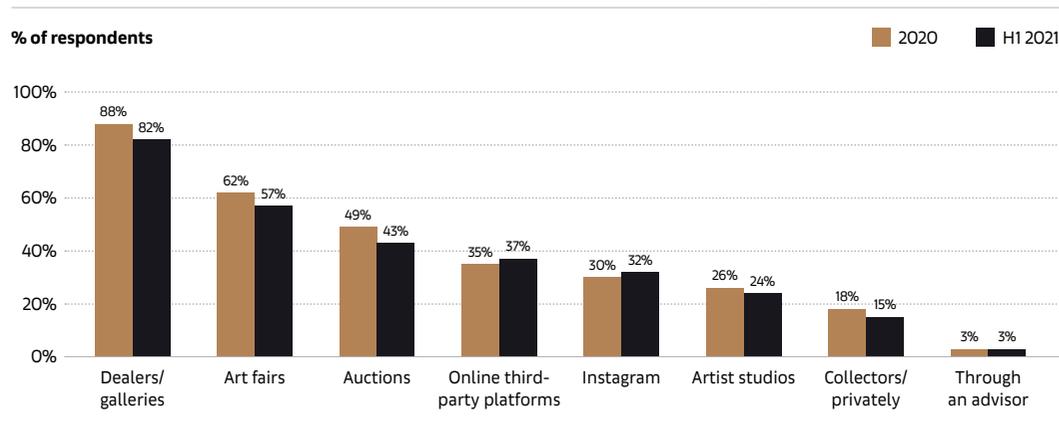
4.4 | Purchasing Channels

HNW collectors bought across a range of different channels in 2020 and 2021, including both online and offline. Dealers and galleries were the most commonly used channel for purchasing in both periods (as they have been consistently in collector surveys over the last three years), with 82% of respondents having purchased through a dealer in the first half of 2021. The most common method of accessing dealer sales was through their gallery or physical premises (49%) or buying directly through a gallery website or OVR (47%). 37% of collectors had finalized a purchase by phone or through emailing the gallery or dealer. Collectors in Germany and Hong Kong SAR (China)

tended to access dealers more online, while those from the UK and US purchased more at their gallery or premises. Millennials favored gallery sales while Gen X were more ambivalent. The youngest Gen Z collectors were more likely to have bought online through a gallery’s website or OVR (47%) than offline (35%).

Auctions were also used to purchase art by 43% of collectors in the first half of 2021 and used more widely by collectors in Germany (55%) than other regions. Auctions were also more popular for Boomers, with 57% having used them to purchase art. Across all collectors, online platforms were used by over a third of the sample, and 32% had bought directly using Instagram, that is, had bought an artwork found on Instagram and purchased it directly or through a link on Instagram to an artist, gallery, or other seller. While there has been a distinct generational component to the prevalence of use of both of these online channels in previous surveys, in this sample, Gen X collectors were the most active on these online channels, with 45% having bought via online platforms and 36% from Instagram, higher in each case than their younger millennial and Gen Z peers. Boomers were, however, still the least likely of the sample to have bought online.

Figure 4.12 | Sales Channels used for Purchasing in 2020 and H1 2021

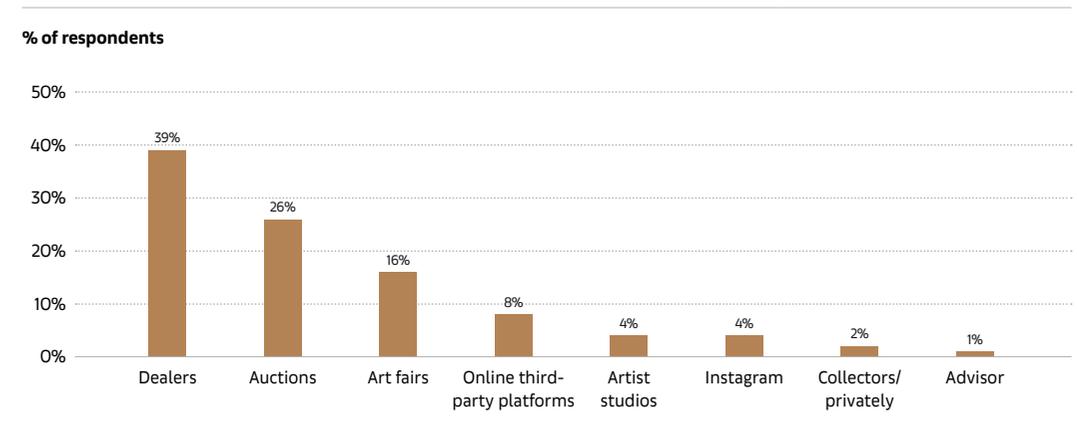


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As in previous surveys, buying through an advisor was the least frequently reported channel, used by only 3% of collectors in 2020 and the first half of 2021. UHNW collectors used advisors more than other collectors (6%), as did more established collectors that had been building their collections for more than 20 years (5%). The relatively low level of use may be due to many factors including the easier facilitation of online trades with galleries, dealers, and auction houses over the last 18 months as they have expanded their digital strategies and outreach. It may also be

that collectors use advisors for many different aspects of transacting, from the searching and accessing of new works, valuations, legal and regulatory advice, and appraisal, but still carry out the transaction directly with the vendor, which means these figures may understate their use as they relate to purchases only.

Figure 4.13 | HNW Collector First Preferences for Purchasing Art



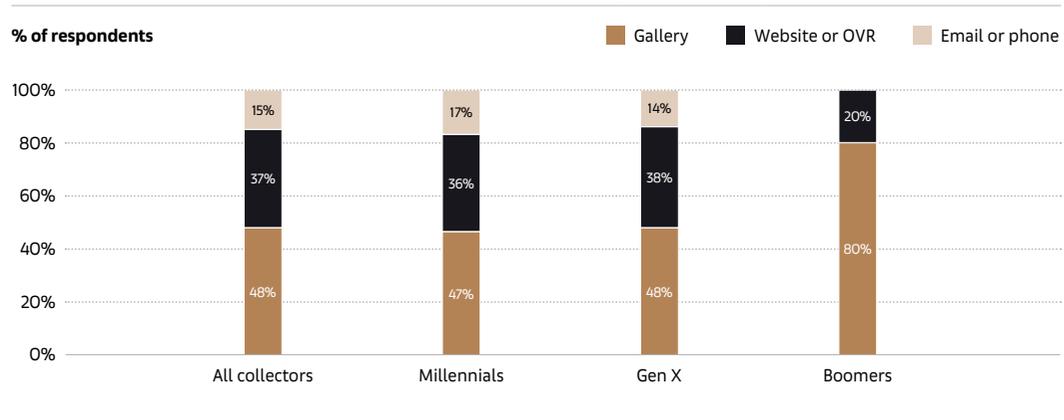
© Arts Economics (2021)

Apart from being the most commonly used channel for purchasing, dealers and galleries have consistently also been the most preferred channel in surveys of HNW collectors. This was also the case in 2021, with 39% of respondents reporting that a dealer or gallery was their first preference, and a further 16% opting for buying from dealers at art fairs. Of those respondents who preferred dealers, just under half (48%) preferred buying in person from their gallery or premises, with 37% preferring to purchase from them online and 15% by phone or email. Buying at the gallery was the

first preference regardless of the age of the collector, and also in most regions, with a notable exception of Hong Kong SAR (China), where collectors showed a higher preference for buying online through a gallery website or OVR (54%).

The second most popular channel was auctions, with 26% of respondents overall opting for this as their preferred sales method. Auctions were the most preferred method of transacting, ahead of galleries and dealers, in Germany.

Figure 4.14 | HNW Collector Preferences for Purchasing Art through a Gallery or Dealer



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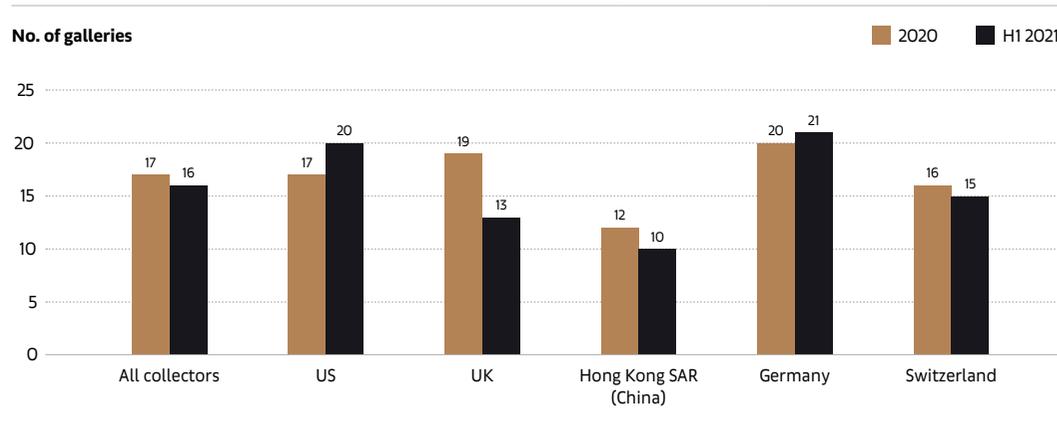
Although collectors were highly active online in both 2020 and 2021, it is still not necessarily their preferred means to view and buy art. When asked how they would prefer to view art for sale, of those that had a preference either way, 82% of the collectors surveyed opted for attending a physical or offline exhibition at a gallery or art fair versus 18% who preferred using online viewing rooms or other online exhibitions.¹⁹

This high majority was consistent across collectors regardless of their region, age, wealth, or spending levels. Similarly, if they had a choice of buying works through a dealer or gallery versus an online marketplace, of those that had a preference either way, 80% preferred dealers and this was again consistent across the board and regardless of location or generation.

¹⁹ When asked for their preference for viewing art for sale, 11% of collectors said they had no preference of one over the other (with 73% preferring physical exhibitions and 16% opting for online).



Figure 4.15 | Number of Galleries HNW Collectors Purchased from in 2020 and H1 2021



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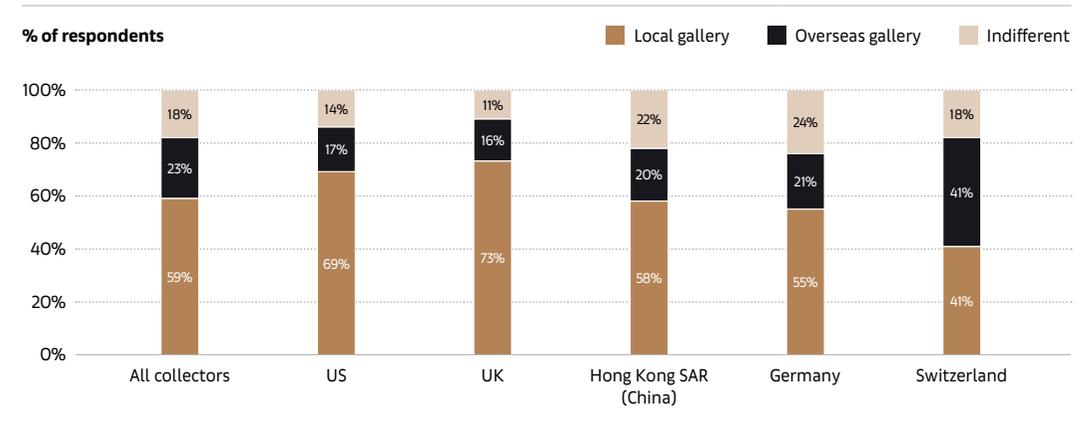
4.5 | HNW Collectors' Interactions with Galleries in 2021

Previous surveys of HNW collectors at the end of 2020 showed that they purchased from around 15 different galleries in 2019. The crisis does not appear to have reduced this in any way, and the current sample showed a slightly higher average of 17 in 2020, and 16 in the first half of 2021. Collectors in Germany dealt with the most galleries, averaging 21 in 2021, and Hong Kong SAR (China) the least at 10. Millennial

and Gen X collectors were roughly on par with the average, however, Boomers in this sample focused on significantly fewer dealers – buying from five in 2020 and just three in the first half of 2021.

Collectors in most regions dealt with a relatively stable number of galleries from year to year, however, there was a notable decrease for UK collectors (from 19 to 13 galleries), and the share of local galleries they dealt with also dropped from 70% to 54%.

Figure 4.16 | HNW Collector Preferences for Local versus Overseas Galleries in H1 2021



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Despite discussions over the course of 2020 in the sector about 'buying locally', the opposite trend was evident in the behaviors of HNW collectors in 2021. Overall, the share of local galleries that collectors had purchased from dropped from 59% in 2020 to 53% in the first half of 2021. This may be related to some collectors' increasing ability to travel over the last few months or simply improved digital outreach from overseas galleries or fairs. However, when they were asked where they preferred to buy from, a majority

(59%) still opted for a local gallery, 23% preferred those from outside their region, and 18% were indifferent to where they came from. Despite British collectors' shift to purchasing from less local galleries, they reported the strongest preferences for buying locally, with 73% preferring a local gallery if available. Swiss collectors, on the other hand, reported the lowest preferences for buying from local galleries at 41%.

Across generations, preferences for working with local galleries were highest among Boomers (86% preferring local dealers), although still a majority for millennials (61%) and Gen X collectors (55%). Less than half of Gen Z collectors, on the other hand, preferred buying locally, although this still outweighed preferences for overseas galleries, as, in this case, there was a higher proportion who were indifferent (29%). Overall therefore, while there is evidence that HNW collectors were working with a higher share of overseas galleries in 2021, most would still prefer to purchase from local dealers.

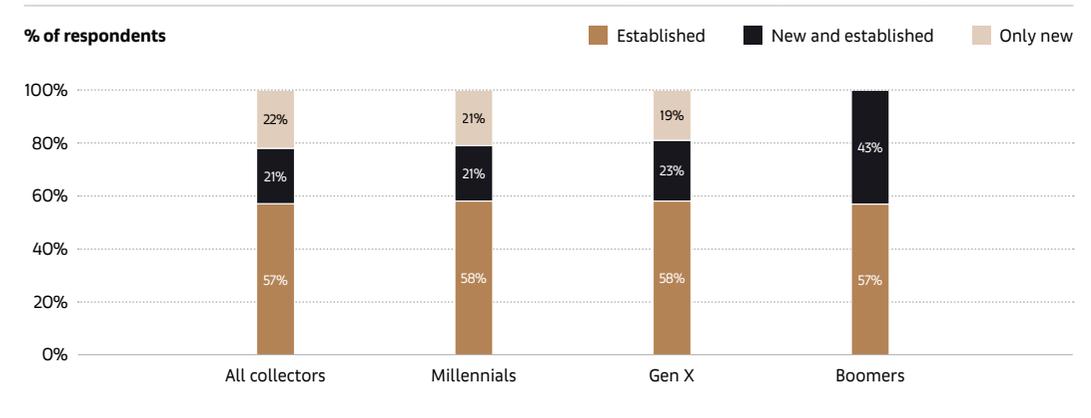
In the uncertainty of the last year, many collectors reported anecdotally that they were sticking primarily to working with dealers they already knew and had established relationships with. While some of this was undoubtedly due to risk aversion during uncertain times, in many cases, it was also a deliberate choice to offer support to the businesses and artists they had relationships with during the difficult context of the pandemic. Collectors noted that some dealers had been very proactive about keeping up both formal and informal communications over the course of the year, which encouraged them to purchase more from them and not look elsewhere. There was a high level of awareness among collectors about the precarious position of many businesses, and the closure of galleries was the top-rated concern for HNW collectors overall, with a majority (71%)

very or extremely concerned about this in 2021, particularly in the US and Switzerland (80% each).

Wider surveys of HNW collectors at the end of 2020 showed that 46% were focused only on galleries they had bought from before and had established relationships with at that time. This tendency to 'buy from who you know' continued and intensified further in 2021, with the majority (57%) of this sample only buying from galleries they knew, while a further 21% did this alongside being open to working with new galleries. The drive to discover new galleries stagnated, on the other hand, with only 22% of the collectors surveyed actively looking for new galleries in 2021, and this was a minority in all markets and across all generations. While the wider sample at the end of 2020 showed around 30% of Boomer collectors

This tendency to 'buy from who you know' intensified further in 2021, with the majority (57%) of HNW collectors only buying from galleries they knew

Figure 4.17 | HNW Collectors' Focus Regarding Galleries during H1 2021

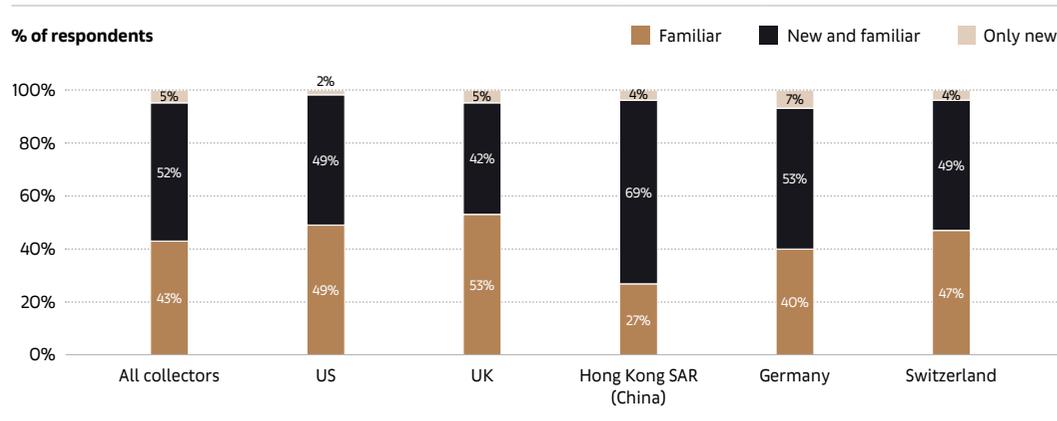


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actively seeking new galleries, in this considerably smaller sample of Boomers in 2021, none were doing so, and all were sticking with the businesses they had worked with before. Although there may be a variety of reasons for this, related to supporting businesses as they continue to face a challenging operating context, it does tend to indicate continuing risk aversion in the market on the part of collectors, and a preference for the familiarity and trust that longer-term relationships with dealers offer.

Backing up these findings, collectors commented that their commitment to dealers that they had relationships with had intensified in some cases over the last year, as the dealers themselves, being mindful of the distractions and uncertainty faced by collectors, had become much more proactive in maintaining relationships. This included making it easier to access works of art (online or in person) as well as engaging in more frequent and in-depth personal communications, which had helped to solidify relationships as well as specific sales.

Figure 4.18 | Collectors' Focus regarding Artists during H1 2021

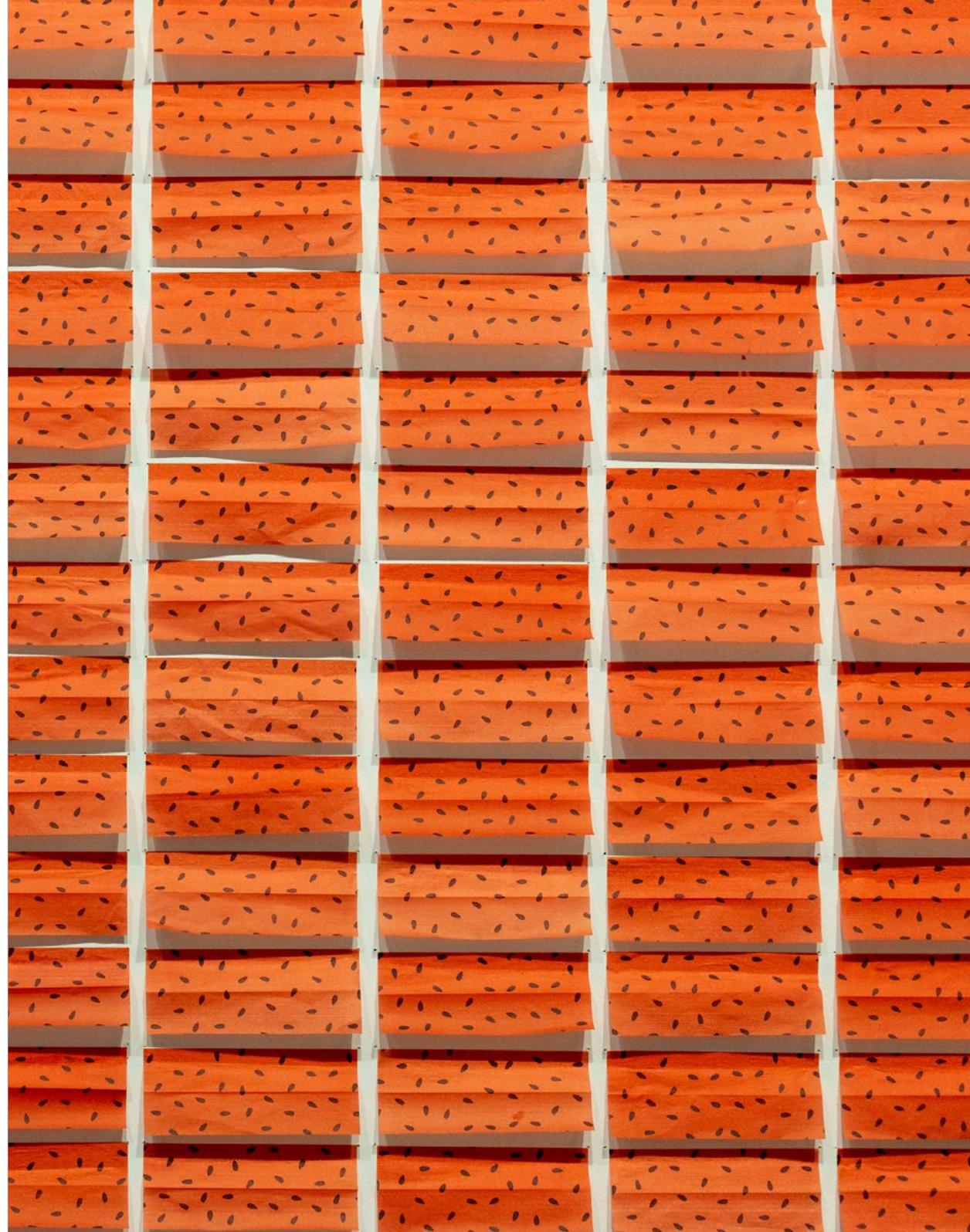


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A significant share of collectors (43%) were also only buying the work of artists familiar to them or whose work they had bought before. However, a larger share (52%) were focusing on artists they knew but also remaining open to discovering new ones. Only 5% of the HNW collectors from this sample were actively looking to discover new artists in 2021. In this instance, Boomer collectors were the most open to new artists, however, there was a consistently small

minority across all generations only focusing on new artists in the first half of 2021.

There were some regional variations, with collectors from the UK most likely to be sticking to familiar artists and those in Hong Kong SAR (China) the least. But in all regions, very few collectors were only actively looking for new artists.



4.6 | HNW Collectors' Plans and Outlook 2021

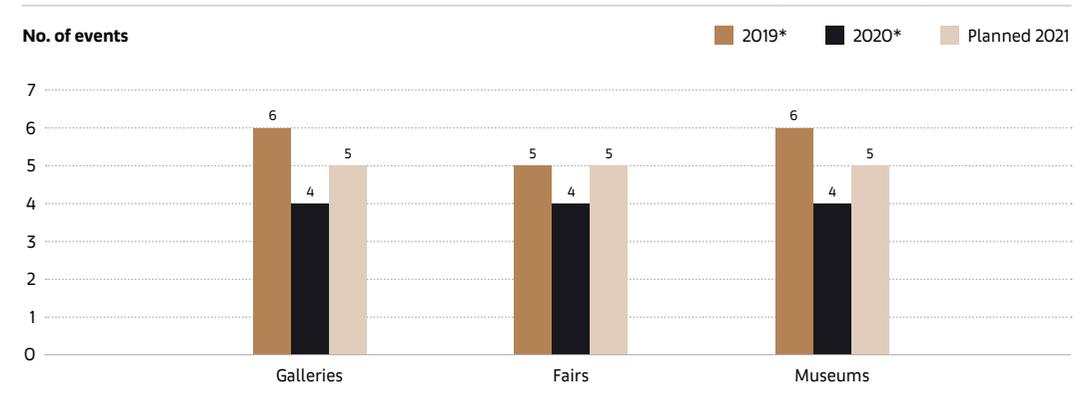
The COVID-19 pandemic significantly changed the calendar of events in the art market in 2020, with many major exhibitions postponed and cancelled, and these effects have lingered well into 2021, with some fairs and exhibitions still on hold while others have proceeded in alternative formats. New variants of COVID-19 and other concerns have further reduced the willingness of some collectors to travel or attend some of the exhibitions and events that have gone ahead, although many collectors have been eager to reconnect in person with dealers and artists.

Previous surveys of HNW collectors revealed their frenetic level of activity in the event-driven art market. The survey of HNW collectors across 10 markets at the end of 2020 showed that collectors attended an average of 41 art-related events in 2019, including six gallery exhibitions and five art fairs. This fell substantially in 2020 to 33, however, at the end of last year, HNW collectors were keen to get back to seeing art in person, and most planned to attend both local and international events, at least in the second half of 2021. Only 8% of those sampled in December 2020 reported that they would not attend a local event during the course of 2021, while 18% were only willing to put overseas events back on their agendas in 2022 or beyond.

In this survey, collectors were asked about their plans for events for 2021, and there were indications that despite ongoing concerns and setbacks, there was only a slight decline in the number of planned events for the year compared to pre-COVID-19. Across all events, including live auctions, artists' studio visits, art fairs, museum and gallery exhibitions, biennales, and others, HNW collectors in this sample planned to attend 40 events in 2021 in total, just one less than the average reported in 2019. Figure 4.19 shows that while they planned to attend one less gallery and museum exhibition, their planned attendance at art fairs was on par with 2019, although these were biased to local events (three local fairs versus two overseas). Given the reduction in the number of events that could actually go ahead in the first half of this year, these projections reflect considerable enthusiasm on the part of collectors to visit exhibitions in the second half of 2021. How these plans actually materialize over the course of 2021 and how they compare to 2019 will be assessed in a wider survey at the end of 2021.

A local bias was evident across all events, with the majority of planned attendance (60% on average) being at local or regional events. For gallery exhibitions in particular, there was evidence of a bias towards more local events, increasing with age. Younger Gen Z collectors' plans were split between local and overseas gallery shows, whereas Boomers were primarily focused on local exhibitions (80%).

Figure 4.19 | HNW Collectors' Attendance at Exhibitions and Events in 2019, 2020, and Planned in 2021



© Arts Economics (2021). *Results from 2019 and 2020 are from the December 2020 survey

When they were asked about some of their concerns about the art market going forward, many collectors (68% of the total) were very or extremely concerned about reduced access to international art fairs due to the COVID-19 pandemic, with a higher share of 71% for Gen Z collectors (versus a minority of Boomers). Reduced access to museum exhibitions was also a key concern for collectors, the second-highest-ranking concern overall, and of most concern to US and Swiss collectors. Reduced opportunities to network and

socialize at fairs, galleries, art-related events, and dinners was also a concern (being seen as very or extremely important for 66% of the sample), and highest for Gen X collectors (69%) and collectors from the US (80%). It is notable, however, that an even greater concern and the highest-ranking concern overall for HNW collectors was the closure of galleries (with 71% of the sample very or extremely concerned about this in 2021, and ranking highest across all generations).

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不要问一次。
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Table 4.1 | Outlook of HNW Collectors over the Short, Medium, and Long-term**a. Outlook for the Global Art Market**

Next 6 months	Total	US	UK	Hong Kong SAR (China)	Germany	Switzerland
Optimistic	77%	82%	85%	54%	71%	93%
Pessimistic	7%	7%	6%	15%	5%	1%
Not sure	16%	11%	9%	31%	24%	6%
Next 12 months						
Optimistic	84%	89%	80%	74%	85%	92%
Pessimistic	4%	7%	2%	7%	3%	2%
Not sure	12%	4%	18%	19%	12%	6%
In 10 years						
Optimistic	80%	83%	70%	80%	74%	94%
Pessimistic	6%	6%	9%	4%	9%	1%
Not sure	14%	11%	21%	16%	17%	5%

© Arts Economics (2021)

Although uncertainties regarding events and travel have persisted in 2021, most collectors feel that the art market is back on track this year. A majority of 77% of HNW collectors were optimistic about the global art market's performance over the next six months and only 7% were pessimistic, with more optimism in Switzerland, the US, and UK (all over 80%) than Hong Kong SAR (China) at 54%. However, one of the main reasons for the lower level of optimism in Hong Kong

SAR (China) about the rest of 2021 appeared to be a lack of certainty about performance, with 31% unsure of how the market would fare over the next six months, indicating the continuing lack of clarity over how the course of the subsequent waves of the pandemic might still affect travel, lifestyle, and other areas. The optimism of these Chinese HNW collectors grew over time, with 74% optimistic about the next year and 80% about the next 10 years.

b. Outlook for the Global Stock Market

Next 6 months	Total	US	UK	Hong Kong SAR (China)	Germany	Switzerland
Optimistic	79%	83%	82%	62%	72%	96%
Pessimistic	7%	10%	11%	7%	4%	1%
Not sure	14%	7%	7%	31%	24%	3%
Next 12 months						
Optimistic	81%	84%	78%	73%	76%	94%
Pessimistic	5%	8%	5%	5%	6%	0%
Not sure	14%	8%	17%	22%	18%	6%
In 10 years						
Optimistic	77%	80%	65%	77%	73%	91%
Pessimistic	7%	7%	11%	6%	11%	1%
Not sure	16%	13%	24%	17%	16%	8%

© Arts Economics (2021)

Boomers and millennial collectors were the most confident about the next six months, and for collectors of all ages, optimism increased over a longer 12-month horizon. Considering the longer-term period of 10 years, Boomers and Gen X collectors showed the highest levels of optimism, while the youngest Gen Z collectors reported the lowest levels of confidence in the market over 10 years, with 24% pessimistic about its performance and 18% unsure. This may reflect greater breadth of experience in the art market and

its cycles up and down over time on the part of older collectors, with optimism also positively related to the collectors' reported length of time collecting.

It was also notable that the outlook of collectors was roughly aligned with the outlook for the global stock market over these periods, and the increased confidence in the art market over the next year mirrored more general increases in optimism for the future (with the global equities outlook following a similar trajectory).

Reflecting their high levels of optimism about the market in the next year, the majority of collectors (60%) were planning to purchase more art works for their collections, and just over one third (34%) were planning to sell works. There was a consistent majority planning to buy across all generations, with a slightly greater share of potential millennial collector activity than Boomers. It was also relatively consistent across most regions, with the notable exception of the UK, where only 43% of British HNW collectors planned to purchase works of art and a lower-than-average 25% planned to sell.

One quarter of respondents over all regions reported that they would be holding off on selling due to financial implications, which were most commonly connected to the belief that there might be changes to capital gains or transfer taxes in the near future

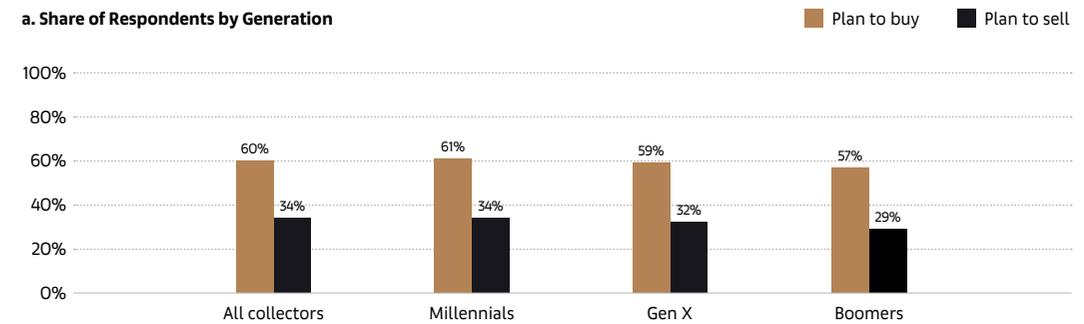
(particularly in the US), or that the prices for their artists' works were low and would hopefully improve in future. These plans were somewhat connected to the wealth of collectors, with 35% of UHNW collectors with wealth in excess of \$50 million planning to hold off selling some works versus 17% of those with wealth between \$1 million and \$5 million.

It is notable also that 37% of the sample planned to donate or gift works to a museum or other charitable institution in the next year, with the share increasing as collectors' wealth increased, from 34% of those with wealth between \$1 million and \$5 million to 41% of UHNW collectors with wealth in excess of \$50 million. There was also a slightly higher-than-average share in Switzerland (43%), Germany (42%), and the US (41%), while the UK again showed one of the lowest levels of planned activity (27%).

Reflecting their high levels of optimism about the market in the next year, the majority of HNW collectors (60%) were planning to purchase more art works for their collections

Figure 4.20 | HNW Collectors' Intentions for Purchases and Sales of Art in 2021

a. Share of Respondents by Generation



b. Share of Respondents by Region

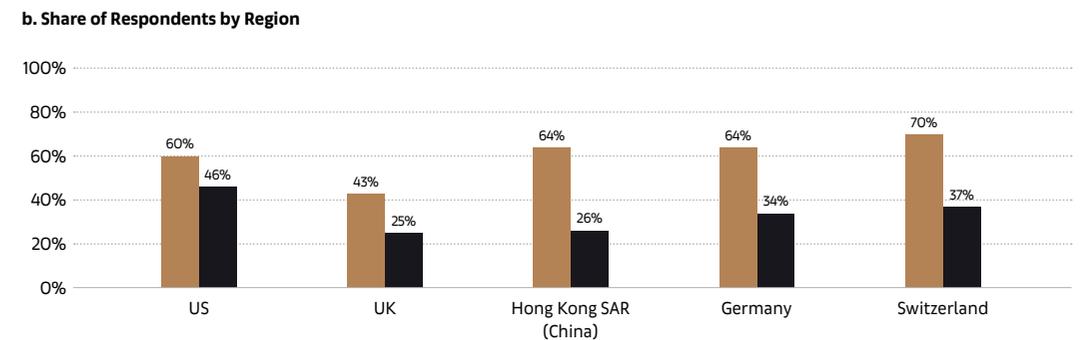
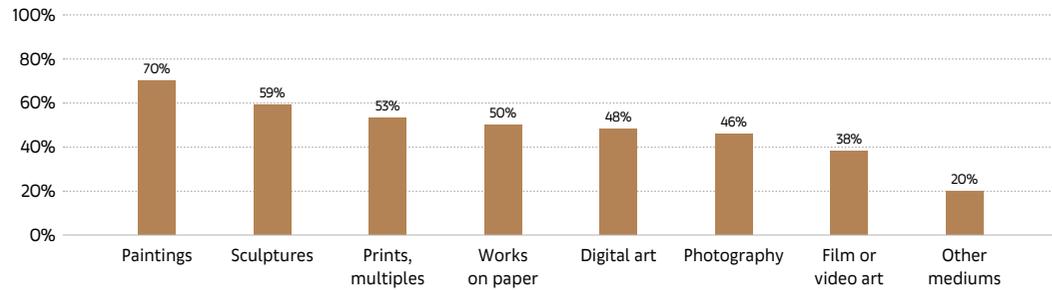
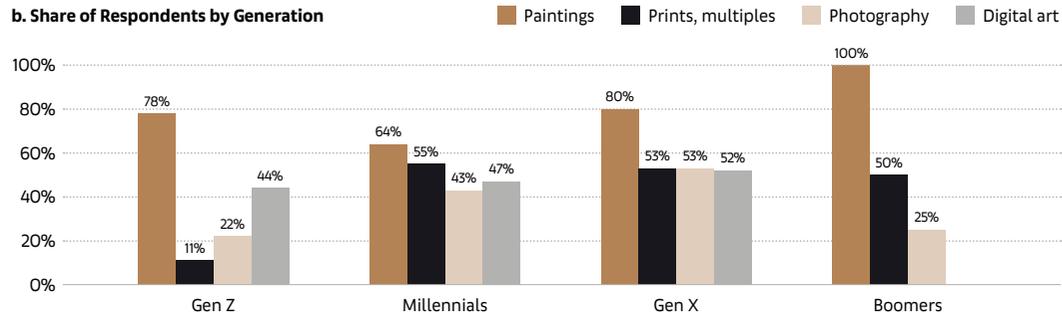


Figure 4.21 | HNW Collectors' Intentions for Purchases of Art by Medium in 2021

a. Share of All Respondents



b. Share of Respondents by Generation



Finally, HNW collectors were also asked what kind of art they were interested in purchasing over the next 12 months, with the growing interest in digital art very evident in this sample, particularly for younger collectors. Overall, a majority of collectors were interested in paintings, sculptures, and prints, however, just under half of the sample (48%) were interested in buying digital artworks. While paintings were the key medium for collectors of all ages, the survey revealed that the highest share of interest in digital art came from Gen X collectors (52%). No Boomers in this small sample were interested in this medium, preferring to stick to paintings and other more traditional works. Digital art was also of interest

to a majority of collectors in both the US (53%) and Hong Kong SAR (China) (55%) versus just less than half the collectors from other regions.

Overall, among HNW collectors, there is a significantly increased level of optimism about the market than was indicated at the same time last year, and evidence of strong levels of interest in purchasing art across a relatively wide range of mediums, including a notable increase in interest in digital art. This outlook coupled with evidence of strong purchasing by HNW collectors already in 2021 will undoubtedly help sales improve further in the second half of the year.

48% of HNW collectors were interested in buying digital artworks over the next 12 months, including 52% of the Gen X collectors surveyed

Exhibit 2: Economic Perspective from UBS

The first half of 2021 has been a story of economic recovery, lifting stock markets to record highs in June. Economic output in the US, Europe, the UK, and China is expected to grow over 5% this year.²⁰

The economic patterns, however, differ greatly from a classic recession-recovery cycle. Consumers in developed economies left 2020 with significantly higher savings because of their restricted mobility and limited potential to spend during national lockdowns. It has been estimated that there could be over \$800 billion in excess savings in Europe and the UK.²¹ Wealth overall has also grown over the past eighteen months.²² Neither of these things are normal in a traditional recession, and these trends have allowed consumption to rapidly recover as restrictions on public life have eased.

The initial focus of spending has still been primarily on goods, which has allowed global trade and manufacturing to exceed pre-pandemic levels. In the luxury goods market, stronger companies are expected to return to pre-COVID-19 sales levels this year. International tourism, however, continues to play an important part in luxury demand, especially in Europe, where it was estimated to account for around 50% of luxury goods sales before the pandemic. Travel restrictions and consumer caution mean that tourism is likely to be the last service sector to recover from the pandemic.

Yet overall, there is a switch underway as people regain confidence and restrictions in countries like the UK and the US are lifted. People are increasing their spending on services such as restaurants and entertainment as they seek to resume normal life and

enjoy themselves again. In the second quarter, US retail spending at restaurants and bars grew at almost four times the rate of spending on aggregate goods in the economy. Foot traffic indices show that retail and services in the US had returned to pre-COVID-19, early 2020 levels by the end of July 2021, however, galleries were still down by around 15% and museums had around half as many visitors (see Figure 1).

Labor demand is also relatively strong as businesses scramble to get back to normal staffing levels. In June, the confidence of US consumers in the prospects for finding a job was the highest in UBS Evidence Lab survey data going back to February 2020 (see Figure 2). There has also been a surge in new business start-ups worldwide in the last year, many of which are small enterprises or sole proprietors. In the US, the year-on-year growth in weekly applications for new businesses averaged over 70% in the period between December 2020 and the end of June 2021 as lockdown restrictions began to ease.²³ Aside from signaling improved confidence in the economic recovery, the boom in new business creation also hints at a potential rise of the new 'gig economy' in a post-COVID-19 world, with an increased demand for freelance, contracted, and independent workers and more flexible working practices.

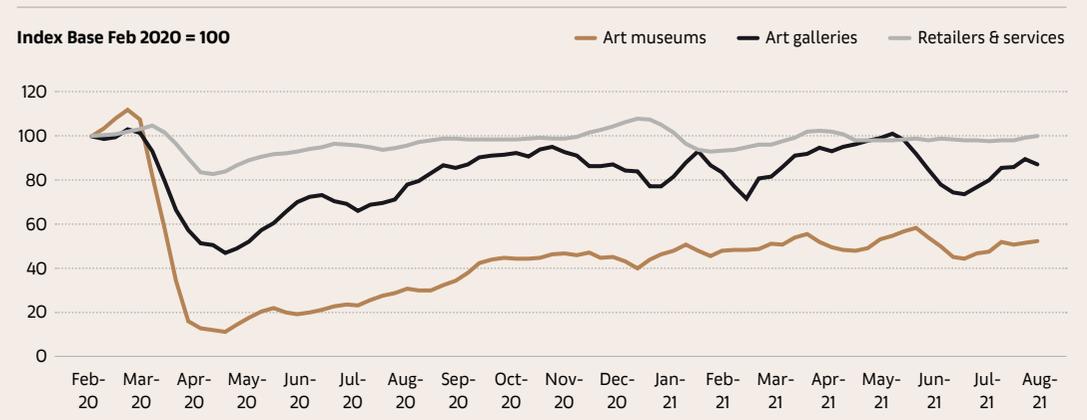
Lockdowns as well as rising unemployment may have inspired people to embark on entrepreneurship, while online businesses have lower entry barriers which have helped facilitate more start-ups. As smart technologies have enabled many tasks to become more automated and greater interconnection between people and production, workers have looked

²⁰ UBS IB estimates.
²¹ Estimates from UBS Evidence Lab. See *UBS Evidence Lab Inside: How will Europeans Spend their c.€700bn Excess Savings?*, available on request.
²² According to Boston Consulting Group (2021), despite the COVID-19 pandemic, global financial wealth increased by 8.3% in 2020 to reach an all-time high of \$250 trillion, with growth expected to continue up to 2025. An increase in savings and strong stock market performance supported the rise. See Boston Consulting Group (2021), *Annual Global Wealth Report June 2021*, available at www.bcg.com/publications/2021/global-wealth-report-2021-delivering-on-client-needs.
²³ Data from the Federal Reserve Economic Database (FRED).

UBS Evidence Lab COVID-19 Insights: Evolving Insights on the Global Impact of the Coronavirus

<https://www.ubs.com/evidence-lab-latest-insights>

Figure 1 | Foot Traffic Index 2020–2021 (Trailing Four Weeks)



© UBS Evidence Lab

Figure 2 | Confidence of US Consumers: Ease of Finding a Job in the Next Six Months



© UBS Evidence Lab, Civic Science (2021)

towards diversifying income sources, which is seen as a key trend of the structural changes developing in the fourth industrial revolution.

The Future

The challenges going forward will include managing divisions between vaccinated and unvaccinated economies as concerns about the Delta variant intensify, as well as dealing with structural economic changes as pandemic support measures start to be withdrawn. In June, central bankers around the world generally succeeded in striking a balance between preparing markets for an eventual withdrawal of stimulus, while providing reassurance that this process was some way off. The ongoing social costs of the pandemic also need to be tackled, with lingering unemployment in sections of society that have been hardest hit. The post-COVID-19 world will be more indebted.

It will also be more digital. The pandemic has accelerated the adoption of disruptive technology from retail to healthcare, and encouraged the continued development of automation and connectivity. Many consumers and businesses have fundamentally altered the way they buy and sell goods with a significant acceleration in e-commerce. Increased automation may also increase flexible working and leisure time in the future, potentially leading to further growth in small businesses, and increased use of the service sector, including entertainment and the arts.

The last year has also been a period for many to reflect and take stock. In the face of rapid change, there has been an opportunity to take a fresh look at markets and help to rebuild them in a more

sustainable manner. The recent Arts Economics and UBS Investor Watch survey revealed that 77% of HNW collectors surveyed in 2021 were thinking about sustainable options when it came to purchasing works of art or the management of their collections (see Figure 3).

Looking to the future, one of the biggest hurdles to be faced is what economists call the 'environmental credit crunch'. The world's current standard of living and overall level of consumption are unsustainable in relation to the planet's finite natural resources. As global citizens, consumers and investors are stewards of the Earth, and have the power to shape a more sustainable path that will allow their quality of life to continue to evolve while preserving the planet for the next generation. As policy momentum towards climate goals continues to build globally, there has been a shift in interest by investors towards sustainable investment strategies. Climate change is visibly impacting the economy, both directly and by changing behavior.

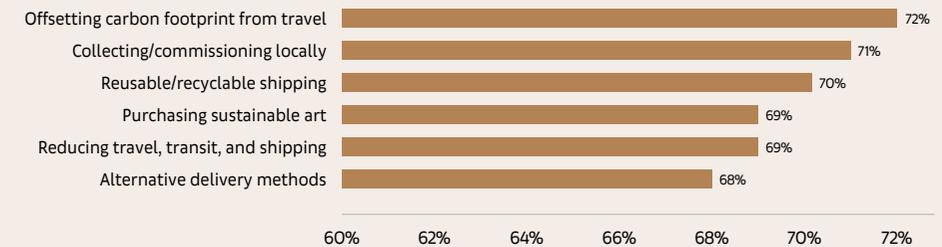
Greater diversity has also been recognized as a key input for future economic development and slowly, progress is being made towards further gender equality in wealth distribution. The 2020s will be a defining decade for women's wealth. Over the next four years, their wealth will grow faster than ever before. The number of female billionaires has been increasing faster than men, following growth in the number of female entrepreneurs.²⁴ Along with the shift of assets to the millennial generation in the coming years, this development could have a significant impact on markets in the future.

Figure 3 | HNW Collectors' Concerns in 2021

a. HNW Collectors' Top Concerns in 2021*

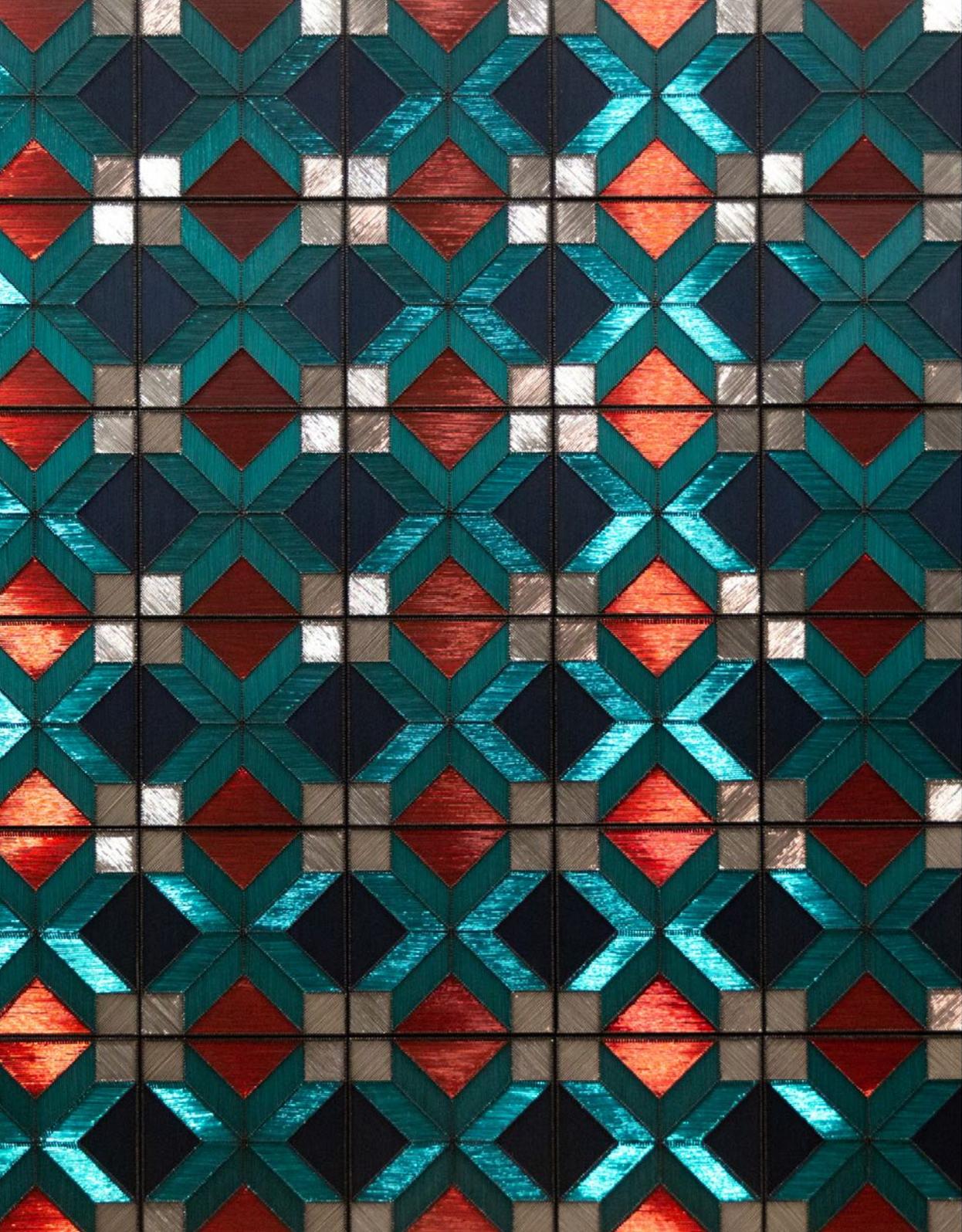


b. Share of HNW Collectors Considering Sustainable Options as an Essential or High Priority



© Arts Economics (2021). *Share of respondents extremely or very concerned about each issue

²⁴ UBS and PWC (2019), *The Billionaire Effect: Billionaire Insights 2019*, available at <https://www.ubs.com/global/en/global-family-office/reports/archive.html>



The Role
of the Dealer
in 2021



Apart from the immediate changes in working practices brought about by the global pandemic, the first half of 2021 has also seen an escalation in the development of some more long-term shifts that were already underway in the dealer sector. The digital revolution has had profound and long-term effects on the consumption, production, and distribution of all cultural goods and services, as well as altering important factors related to their costs, pricing, and content. Producers and intermediaries have developed strategies for marketing goods online, and in some art forms have been able to transform cultural products into intangible services that are digitally delivered, having significant effects on pricing and opening up debates on how revenues can be fully appropriated by artists. Digital technologies have also had an impact on art market infrastructures, with 'platformization' and 'disintermediation' potentially reducing the importance of intermediaries, as online platforms allow more direct communications and exchanges between consumers and producers.

As the focus shifted online in 2020 and 2021, collectors and new buyers were presented with a range of online platforms from which to buy art and collectibles, including many outside the traditional dealer framework. NFT platforms, in particular, generated substantial sales in the first half of 2021 and spawned

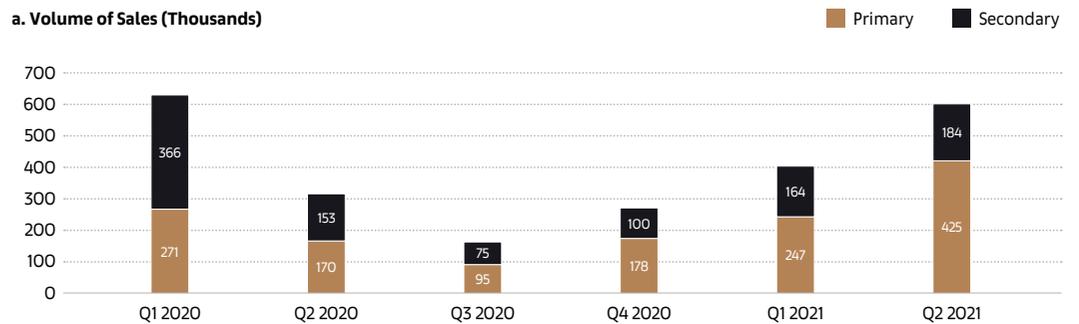
an active secondary market. The data in Figure 5.1 supplied by Nonfungible.com, which tracks the sale of all NFTs on the Ethereum network, shows the substantial increase in sales by both value and volume in 2021 on this blockchain.²⁵ The dollar value of sales expanded from \$17.4 million in the first half of 2020 to almost \$1.3 billion in the same period in 2021, with an estimated 25% of those sales by value (or over \$324 million) attributable to art in that period. The number of buyers in this market also increased from just over 9,100 to 53,198 at the end of the second quarter of 2021, while sellers have more than doubled in number to 18,429.

NFT platforms cover multiple categories of collectibles including art, sports, music, and entertainment collectibles and a range of in-game and in-world digital items. For those relating to art, the certificate of authenticity represents the collectible's store of value (just as it has done in the past for conceptual art) and as this is digital and stored on the blockchain, these certificates are instantly tradable via smart contracts. This has helped to catalyze the bubble-like secondary market that appeared on these platforms in the first six months of this year, with speculators trading in and out of NFTs at a much more rapid pace than would ever have been possible in the traditional secondary art market. In 2020, the bulk of art-related NFTs related to primary market sales, which accounted

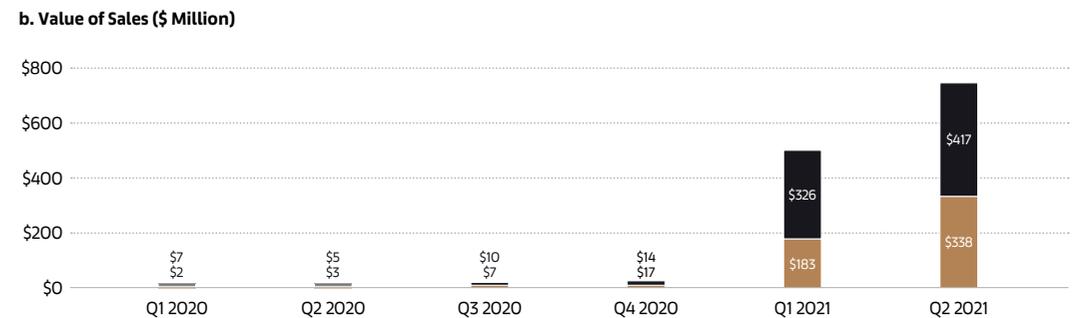
²⁵ The data includes only the activity on the Ethereum blockchain and hence excludes significant sales of NFTs outside that network. Notably, these include sales via Nifty Gateway which is a large NFT marketplace selling art and collectible-related NFTs that had sales in the second half of 2020 of \$51 million and just over \$200 million in the first quarter of 2021. It also excludes the sales of NFTs within the art market at auction houses or dealers, which is where some of the highest prices have been achieved this year.

Figure 5.1 | Sales of NFTs on Ethereum

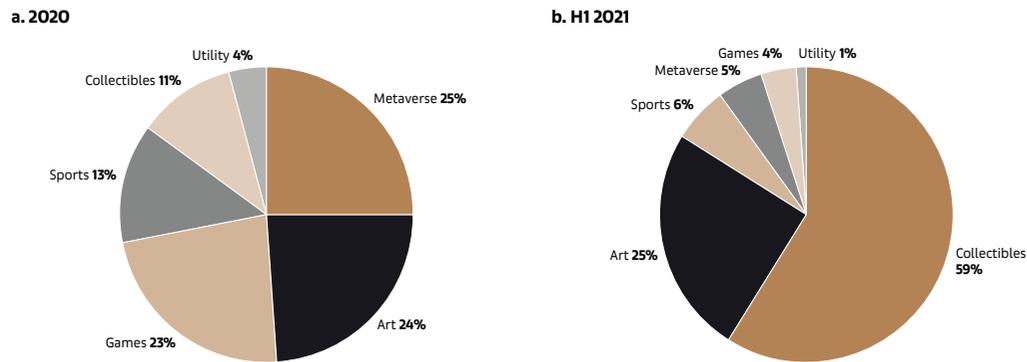
a. Volume of Sales (Thousands)



b. Value of Sales (\$ Million)



© Arts Economics (2021), with data from nonfungible.com

Figure 5.2 | Share of NFT Sales on Ethereum by Value and Category

© Arts Economics (2021), with data from nonfungible.com

for 65% of the value of sales and 71% of the volume. By the end of the second quarter of 2021, however, while the volume of primary market sales still dominated, secondary market values were split 50-50 with primary market sales.

Most dealers and collectors were very positive about the impact NFTs have had in expanding interest in art and collectibles among a wider segment of collectors. Similarly, the increased focus on digital art and how it is bought, collected, and protected has also been

welcomed by many dealers and has helped to fuel some of the latest collecting trends charted in the preceding chapter. The development of NFT platforms for art, much like that of the online art space generally, have been themed towards the democratization of art, bridging the gap between the elite world of top collectors, artists, and galleries and the general public and making art more accessible, as well as disintermediation, bringing artists into direct contact with buyers. In other cultural industries such as film, books, and music,

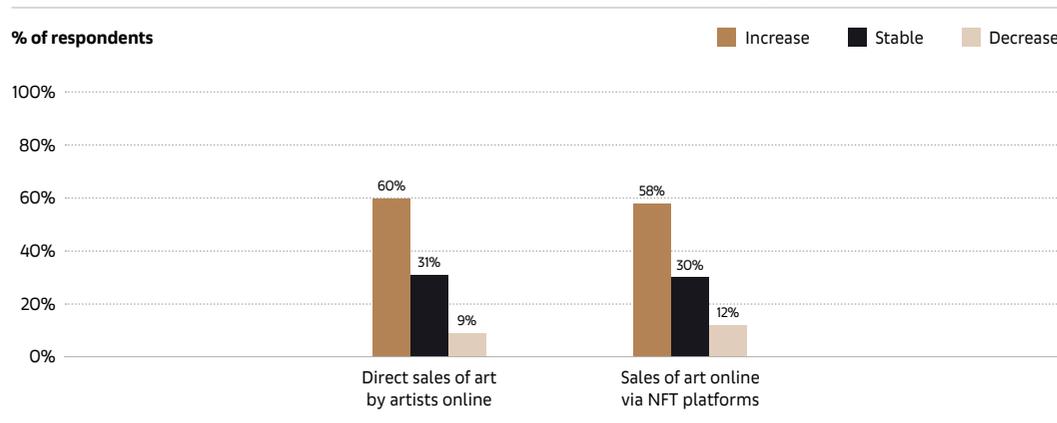
increased digitization posed many threats to the market, including the loss of control and revenues for artists and intermediaries, as well as the potential for an over-supply of low quality, amateur products. However, what has tended to happen in practice is a large growth in creative output, as digitization has offered cost reductions which enable cultural production and sales without the control of traditional gatekeeping intermediaries. It has been argued in other industries that even if this advance in production creates a 'slushpile' of unpopular, derivative, or lower-quality work which is unappealing to some consumers, it also includes a significant amount of work that would not have come to the market otherwise and that some consumers highly value, creating a cultural 'digital renaissance'.²⁶

The effects of this 'unfiltered production' on the art market are still unfolding, and there are mixed views on how these platforms will affect sales in the traditional market. In the current framework, where buyers are not fully informed about the quality of artists and there are search and transaction costs for purchasing elsewhere, the intermediation of dealers or other parties in vetting quality and sorting information is still highly beneficial to both artists and collectors. While some of these platforms have been important in directing new interest to buying art and offered a platform for some artists to market

their works without representation, their role in disrupting the traditional gallery infrastructure through removing the need for intermediation is more questionable. In practice, their most visible impact so far has been to add a new layer of sellers and intermediaries into the market and expand the base of buyers interested in art and collectibles. The existence of such a high level of sales outside the dealer sector has also prompted some reflection on the role that dealers and galleries play outside simply facilitating transactions, such as providing knowledge and expertise and developing long-term relationships with artists and collectors.

Most dealers and collectors were very positive about the impact NFTs have had in expanding interest in art and collectibles among a wider segment of collectors

²⁶ See Waldfoegel, J. (2020), *Digitisation in the Cultural Industries*, in Towse, R. and Navarrete Hernández, T. Handbook of Cultural Economics, Edward Elgar: Cheltenham; and Waldfoegel, J. (2017a), *How Digitisation has Created a Golden Age of Music, Movies, Books and Television*, Journal of Economic Perspectives, Volume 31(3).

Figure 5.3 | Dealers' Views on Sales on External Online Platforms

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When asked for their views on direct sales by artists online, of those that had a view either way, 60% of dealers responding to the survey felt that these would increase in the next year and only 9% predicted a decline. Similarly, the majority of dealers felt sales of art online via NFT platforms and marketplaces would continue to increase over the

next 12 months. It is notable that in both cases, there was a significant share of dealers (37% and 43% respectively) that were unsure about how sales via these two channels would progress, reflecting continuing uncertainty regarding their impact on their businesses.

5.1 | The Role of the Dealer

The role of dealers in the market extends considerably beyond facilitating transactions. Dealers play a key role in intermediating between collectors and artists and improving the efficiency of the market through reducing knowledge gaps and the search and inspection costs of transacting directly. In the fine art market, dealers play a critical role for collectors and artists by reducing uncertainty about the future of the artists they represent. Unlike the relatively diversified model of an auction house or online platform, a dealer's business model is often built around specializing in a few very highly defined fields where they have built up a high level of expertise and a strong vertical presence, combining personal and institutional knowledge and experience. While specialization can be a financially successful strategy, it also entails considerably higher risks, being reliant on the performance of one or a few artists or sectors. However, dealers have a number of competitive advantages over other sellers that have mitigated some of these risks and enabled their success over time.

When asked what they perceived were the key advantages of buying through a dealer, the most important advantage cited by dealers themselves was their knowledge and expertise on artists and their works (71% of respondents), while the quality of the works and artists they offered was also in the top five. Other key advantages were their trustworthiness and reliability (55%), along with their focus on

long-term relationships with collectors and building collections with them over time (48%). Finally, flexibility on the terms of their sales and the ability to negotiate on price were also seen as important in giving dealers a competitive edge over online platforms or other sellers. Anecdotally, many dealers noted that while all of these factors were important, it was the relationship-based approach to their business and personal engagement that their collectors valued most, with a focus on long-term ties rather than one-off sales. Trust and professionalism were seen as key in these relationships:

'My doctor, my lawyer, my gallerist...the focus is the same - on professional, expert consulting, trust, and reliability over time.'

Some also commented that a lack of understanding of the depth of knowledge and skills in the sector and how this differentiated art dealers as a profession versus other retailers was a key problem when dealing with governments and other stakeholders in explaining how they operated.

'The art trade needs more than anything to start seeing itself as a profession. Politicians see all of us (regardless of how many millions a gallery turns over) as people who make a living through anything but a profession. Art and antique dealing is seen as a brokering sort of business - we buy at auction and then sell on for a higher price - in their eyes, anyone can do it. Nothing could be further from the truth.'

Others noted the more practical advantages of dealer sales, such as the ability to view and handle works and even the option for collectors to keep them in their homes prior to a sale. Dealers felt that this allowed collectors to make a more informed and much less pressured decision on whether and what they would like to purchase.

Focusing on the contemporary market, one of the most important roles of a dealer centers on nurturing and supporting the careers of the artists they represent. Dealers working in the primary market work closely with their artists to promote and develop their careers over time. They establish prices for the artist's work, support its production, control the supply, and act as important gatekeepers, administrators, and promoters, especially for artists that may not be well established.

Dealers in the primary market often play a critical role in the establishment and management of an artist's career and therefore they tend to represent a limited number of artists at any one time. As noted in Chapter 1, on average, primary market dealers represented 19 artists in 2021 (versus 32 for those working across the primary and secondary markets). Previous research has also shown that in many instances, only a relatively small number of artists that a dealer represents are commercially successful, and the profit they make through the sales of their

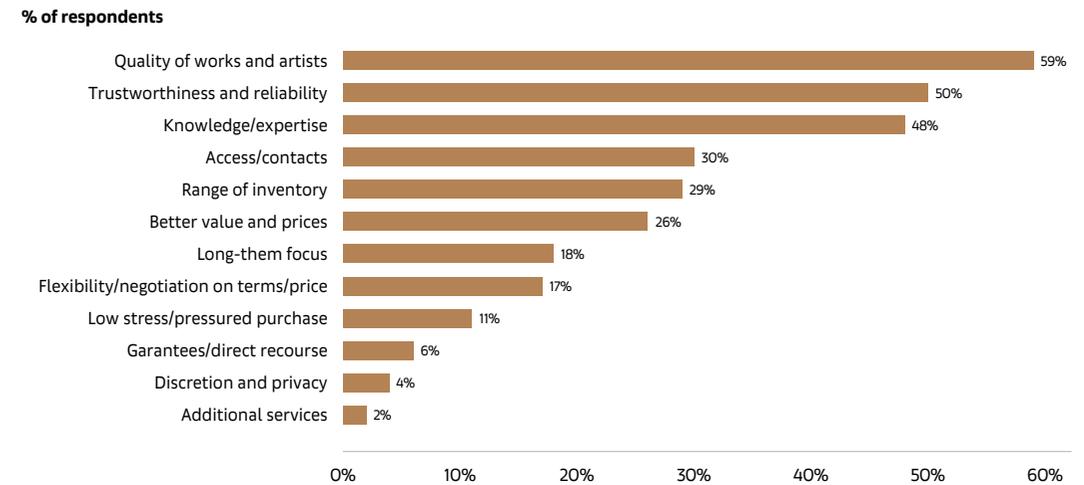
work is often invested in the careers of others as a form of cross-subsidization.²⁷ By reinvesting their profits in the careers of artists, galleries play a critical role in helping to build their reputations and it signals commitment and continuance of their activity to collectors, which helps to support their markets.

Dealers noted that unlike other platforms, they had a long-term commitment to an artist's market as well as deep knowledge of their careers and projects. As they support and protect their careers, they act as the key mediator and facilitator between the artists and collectors, aligning both of their interests over the long-term. A dealer's long-term relationship with their artists means that their primary goal is also to safeguard the long-run stability of their prices, including restricting supply to secure better future prices. An auction house or online platform, on the other hand, has no such relationship and primarily pursues more immediate sales and profit-focused objectives.

HNW Collectors' Views on the Role of a Dealer

Despite the existence of more options from which to purchase art both on- and offline, surveys of HNW collectors consistently show that galleries and dealers are the most commonly used channel for purchasing art as well as the most preferred. As noted in Chapter 4, this was again the case in the first half of 2021, and

Figure 5.4 | Main Reasons for HNW Collectors Preferring to Purchase from a Dealer



© Arts Economics (2021)

many collectors were also keen to stick with dealers they knew and trusted rather than looking for new galleries, reinforcing the importance of these trusted relationships during times of relative uncertainty. Anecdotally, collectors have cited the importance of building up long-term relationships with dealers and working within a trusted network of experts, rather than '*navigating a whole new world of platforms and unknown sellers*'.

When HNW collectors were asked about the main reasons they chose to buy from a dealer versus other options for making a purchase, the top-rated reason was the quality of the works and artists that they offered. As dealers typically specialize in a few highly defined fields or sectors, they have both a high level of expertise as well as strong bonds with the contemporary artists they work with. Collectors

²⁷ Surveys of the sector in 2019 showed that in the primary market, 57% of the value of sales made by dealers came from their top three artists and 43% from just one artist. See Arts Economics (2020), *The Art Market 2020*, Art Base/UBS available at <https://artbase1.com/about/initiatives/the-art-market>.

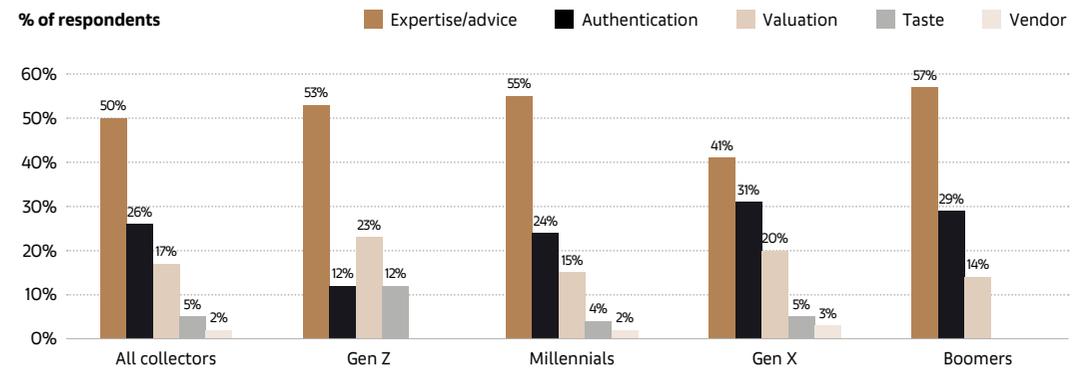
noted that because of this level of specialization, they can often be more focused on getting the best works in their particular areas and hence offer more choice from particular artists, despite having a less broad range of items for sale versus an auction house or online third-party platform. Having access to a vetted selection of works was therefore seen as a key advantage of working with a dealer, and their access to specific artists was also important. Collectors noted that they could also work closely with dealers to build up their collections over time in specific areas rather than having to wait and take up whatever came on offer during a particular auction season.

Their trustworthiness and reliability was ranked second highest, and some collectors also noted that dealers could offer better value and more flexibility than other channels. Collectors commented anecdotally that unlike other sales platforms, they felt they could also ask dealers to explain their margins and there was often some scope for flexibility over prices and the terms of payment, particularly spreading payments over time. Many also valued the fact that some offered an option to return or resell the works in future should they no longer fit their collections. Even if they did not intend to take it up in practice, this was seen as an added stamp of approval and source of recourse that added to the attractiveness of working with a dealer.

Although dealers can offer much greater discretion than buying (or selling) publicly, this was one of the lowest-rated reasons for purchasing from a dealer. It was, however, rated higher by Boomer collectors, with 17% rating it as their main reason to purchase from a dealer versus just 2% of Gen X and 5% of millennial collectors.

Collectors were also asked to reflect on what had been the most important role for dealers in helping them to build their collections of art over time. Across all regions and generations, the dealer's role as an expert for advice on the quality and importance of individual works and artists and helping collectors decide which ones to buy was the highest-rated role. Even for those collectors who had been amassing collections for over 20 years, a majority of 60% opted for this as the most important role, stressing the importance of dealer expertise over the long-term for collectors. The second-highest ranked was their role in providing a means to verify the authenticity of works of art, although this was opted for more by older collectors than their younger counterparts, which could be related to the content of their collections and the split between older sectors versus contemporary art (which can, in some cases, be easier to verify directly). The dealer's role in providing an accurate guide to the present or future valuation of a work of art was most important for 17% of the

Figure 5.5 | Most Important Role of a Dealer in Building Collections



© Arts Economics (2021)

sample, and in this case, rankings were inversely related to the age of the collector and their length of experience in the market.

While collectors saw dealers as playing a critical role in advising on quality, only 5% of respondents felt the key role of a dealer was as a guide for taste

and aesthetics, although this was slightly higher for the youngest Gen Z collectors at 12%. The smallest share of 2% of collectors overall felt that a dealer's role was simply as a vendor from which to buy and sell works (and no Boomer or Gen Z collectors felt this was the main role for their collections).



5.2 | Dealers' Roles in Artists' Careers

The importance of the role of the dealer in developing and nurturing the careers of artists was especially highlighted in the dealer and collector research. Although there are many important agents in the development of artists' careers, galleries are pivotal at all stages and essential in an artist's rise to fame.

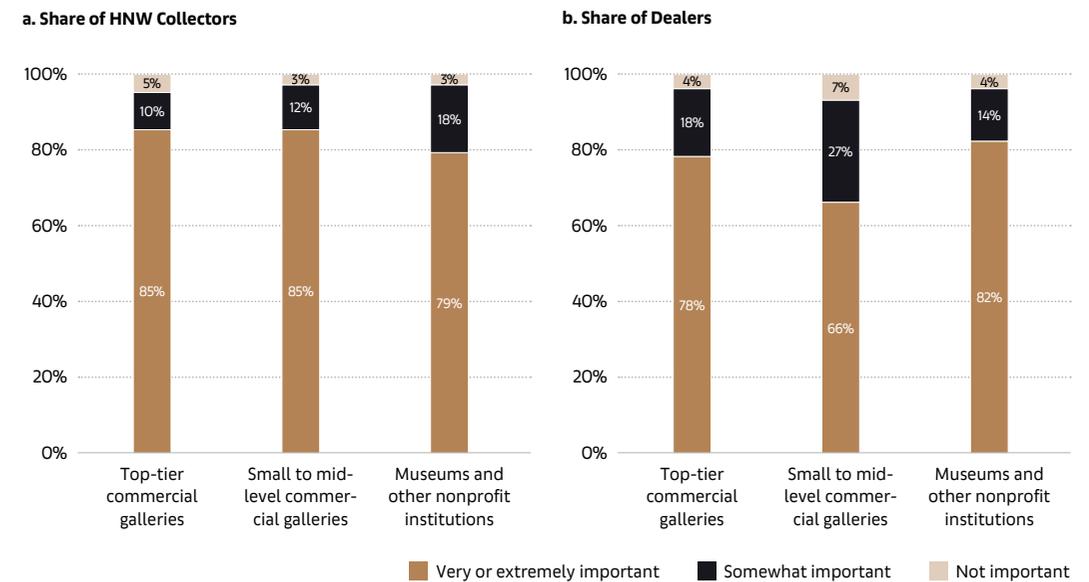
'The investments galleries make in managing the careers of artists simply cannot be matched by anyone working for an auction house or other platform. At galleries, we work for the artists we represent, not sellers.'

When they were asked what they saw as the main role of a dealer in helping them build their collections and why they still preferred to buy from dealers, HNW collectors commented that they felt dealers had a critical role in building and sustaining the careers of artists they collected, and that the continuity of their relationships with artists was seen as running in parallel with their development of a long-term relationship with them and their collections over time.

'One of the most important parts of a relationship with a gallery is continuity and it has been really important to develop close and long-term relationships over time. The only negative experiences I have had are when I have been heavily sold an artist's work and often paid a premium, only to find out some time in the near future that the gallery no longer represents them. While it is understandable that artists may move on, it is important to communicate that to the collector. The ultimate hope is that dealers have a long-term commitment to nurture artists' careers, and hence also the future of your collection.'

The HNW collectors surveyed in 2021 were asked how important different institutions were in terms of the development of artists' careers. Most collectors felt that both galleries and museums were important, with galleries scoring slightly ahead of museums. It is notable that top-tier and small to mid-tier galleries were equally ranked by collectors, however, dealers themselves ranked top-tier galleries slightly higher and museums highest of all. For both collectors and dealers, Figure 5.6 shows that there is a wide level of understanding of the importance of galleries in developing artists' careers and that for the majority, they are perceived as being as important as museums and other nonprofit institutions.

Figure 5.6 | Perceived Importance of Institutions in Artists' Careers



An Empirical Assessment of Galleries' Roles in Artists' Careers

While the perceptions of dealers and collectors above points to a wide recognition of the importance of dealers in building artists' careers, more objective data can also be used to assess the influence of different institutions in the career trajectory of artists. To assess careers in the primary market, data from Wondeur AI was supplied for this report on a sample of just over 2,700 celebrated and star artists, whose exhibition careers started after 1985. Celebrated and star artists were defined for the purposes of this study as all artists that were in the top 4% in 2021 according to their exhibition status (from a population of close to 250,000 artists), with the added condition that their exhibition careers began after 1985. Wondeur AI is a platform that analyzes the careers of artists using exhibition and other data from a range of over 50,000 global sources and covering around 95% of all exhibited artists born after 1900. While Wondeur AI analyzes the performance of institutions based on a wide range of different factors, such as performance, risk appetite, and systemic bias, this analysis is based on just one objectively measurable feature, that is the number of exhibitions. This data was analyzed to reflect on the roles played by institutions at

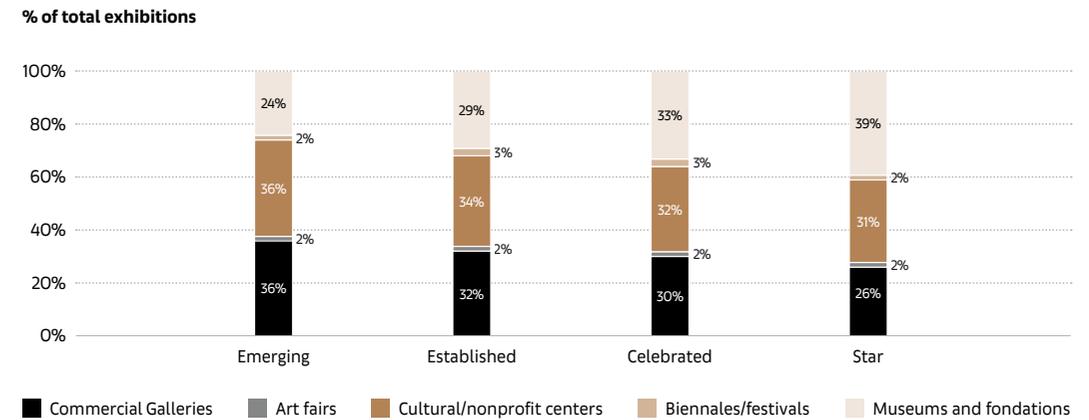
different stages in the careers of successful artists to determine how they got to their position in the market, and how many and which kinds of institutions were instrumental in getting them there.

For the purposes of this analysis, the artists were classified into four career stages or categories based on their level of fame or critical acclaim as observed through historical data and quantitative analysis:

- Star artists (top-tier artists or the top 2% of artists);
- Celebrated artists (the next 2%);
- Established artists (the next 12%); and
- Emerging and underrepresented artists (the remaining 84%).

Each artist passed through these stages on their way to their status as star or celebrated artists. In terms of their current career stage, the data represents just under 1,098 artists in the highest category or star artist tier (the top 2%) and a further 1,605 in the celebrated category, the next 2%. These artists entered their categories at different stages between 1985 and the present (with the vast majority in each case prior to 2005), and the breakdown by gender across all artists was 37% female and 63% male.

Figure 5.7 | Share of the Number of Exhibitions by Institutions at Artists' Career Stages



© Arts Economics (2021), with data from Wondeur AI

Figure 5.7 sets out the share of the number of exhibitions carried out by different institutions at the various career stages of the artists in the sample. This shows that commercial galleries represent a critical part of the exhibition programs of artists all the way through their careers. In the earliest stage when these artists were still emerging and underrepresented, commercial galleries accounted for an equal share of the number of exhibitions as nonprofit centers, such as cultural and artist-run centers and university

galleries (at 36% each). As their careers developed, museum collections and foundations began to play a larger role, however, even at the star stage when artists have reached the top 2% status, galleries still accounted for 26% of exhibitions. It is notable also that art fairs (defined by the number of fairs) are a low but consistent 2% of exhibitions, which shows that some of these events support a range of artists at different levels.²⁸

²⁸ In this analysis, art fair exhibitions are counted per fair and not per gallery within each fair. An artist may be exhibited at several galleries within one fair, but this is still counted as one exhibition in this analysis.

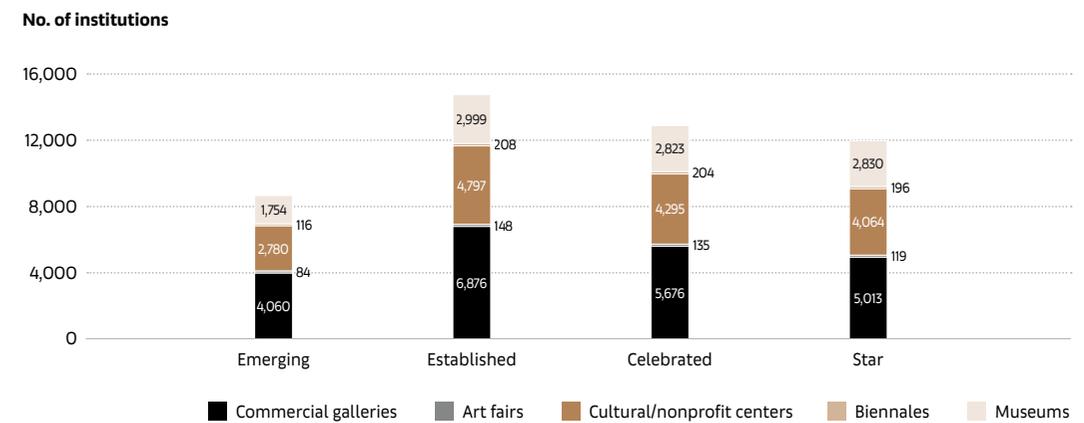
Although the gallery sector is top-heavy in terms of sales and revenues, focusing on exhibitions and the support of artists' careers reveals a very distributed system

It is informative also to determine not only the number of exhibitions but also the number of different institutions that have been involved in exhibiting works of artists at various career stages. Figure 5.8 shows how many institutions were involved in exhibiting works from this sample of artists at various career stages, revealing a number of interesting facts. Firstly, rather than being tied to one particular type of institution, the breakdown of institutions involved in establishing artists' careers is based around a wide range of both profit and nonprofit institutions. The share of for-profit institutions ranges from 47% of the total at the earliest stages of artists' careers to 42% at their highest, star stage.

In the emerging phase of their careers, there were 4,060 commercial galleries and 84 art fairs exhibiting artists' works, and these for-profit institutions accounted for close to half of the institutions involved in running exhibitions, with museums only making up 20%. The number of museums expands as the artist's career develops, up to 31% at the star stage, which is still less than the share of commercial venues. This shows the importance of the market and commercial galleries both at the early stages and throughout the careers of artists.

It also shows that although the gallery sector is top-heavy in terms of sales and revenues, focusing on exhibitions and the support of artists' careers reveals a very distributed system. Although these top 2% artists were only exhibited in 494 commercial galleries in 2020 and 2021, there have been 5,013 different commercial galleries involved in exhibiting their work since they became stars, and a further 1,904 galleries involved in their careers since 1985. Even for the top 0.5% of all artists in the sample, there were over 1,500 for-profit institutions involved in exhibiting their work, including 1,457 commercial galleries. Therefore, although the number of commercial galleries does decline at this stage, the notion that only a handful of galleries exhibit top artists is not evidenced in this sample.

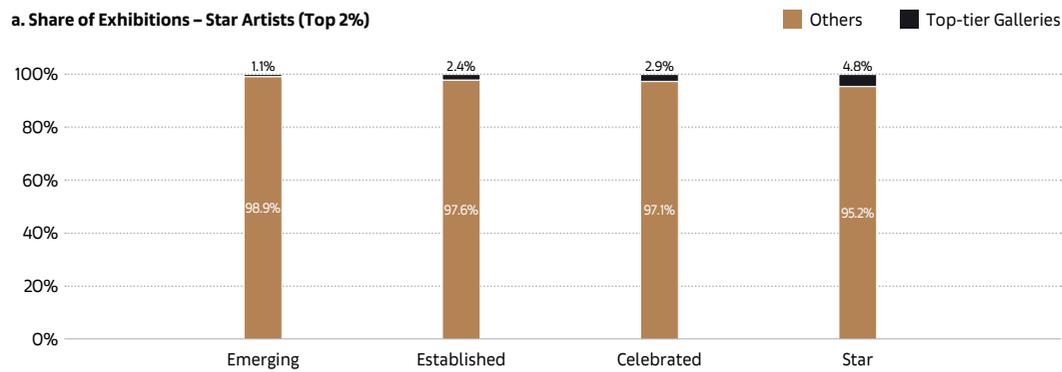
Figure 5.8 | Number of Institutions Exhibiting at Artists' Career Stages



© Arts Economics (2021), with data from Wondeur AI

In the emerging phase of their careers, there were 4,060 commercial galleries and 84 art fairs exhibiting artists' works, accounting for close to half of the institutions involved in running exhibitions

Figure 5.9 | Share of Exhibitions of Top-Tier Galleries versus All Other Galleries for Star Artists



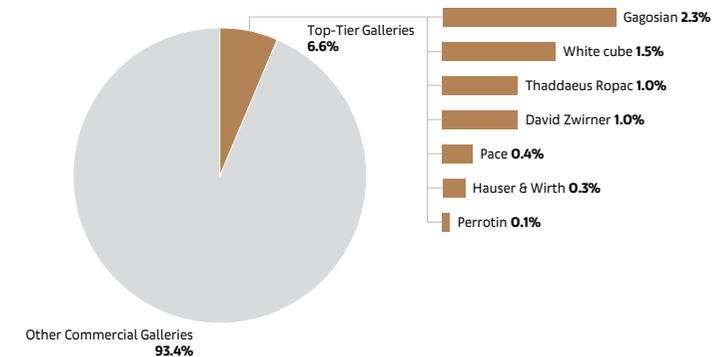
© Arts Economics (2021), with data from Wondeur AI

To investigate the role of top-tier galleries in artists' careers, exhibitions across seven of the largest global galleries were analyzed, taking into account all of their multiple locations globally and focusing only on the star artists in the current top 2% of the sample. The galleries included were:

- David Zwirner;
- Gagosian;
- Hauser and Wirth;
- Pace Gallery;
- Perrotin;
- Thaddaeus Ropac; and
- White Cube.

While all of these top-tier galleries played a role in the exhibitions of these artists, their share of exhibitions was a tiny fraction of the total at commercial galleries, ranging from accounting for 1% of their shows in the emerging phases of their careers to just under 5% at the top, star phase. In other words, of these 1,098 star artists who currently rank in the top 2% of all artists worldwide, whose exhibition careers started after 1985, this selection of seven top-tier galleries has accounted for 5% or less of their exhibitions at commercial galleries on aggregate, even when they reached the peaks of their careers.

b. Share of Exhibitions – Star Artists (Top 0.5%)



© Arts Economics (2021), with data from Wondeur AI

Even narrowing the artists down within the star category to the top 0.5%, these top-tier galleries still only accounted for a combined 7% of commercial gallery shows.

Looking further at which galleries were most involved in the star artist category since the start of their careers (based on single gallery locations), while some of the aforementioned galleries do feature (White Cube London and David Zwirner New York), the various top 10 lists at each stage are much more diverse and include a variety of galleries (including Tanya Bonakdar Gallery, Sean Kelly, Gladstone

Gallery, Regen Projects, Sadie Coles HQ, Lehmann Maupin, Galerie Buchholz, Friedrich Petzel Gallery, Gavin Brown's Enterprise, Air de Paris, Victoria Miro, Andrea Rosen Gallery, Andrew Kreps Gallery, Greene Naftali Gallery, Deitch Projects, Anton Kern Gallery, Lisson Gallery, and others). Similarly, though, these top 10 galleries at each stage only represent 5% of the total commercial gallery exhibitions of these artists at any stage in their careers, again underlining the diversity of agents involved in the development of artists' careers.



5.3 Dealers' Priorities in 2021

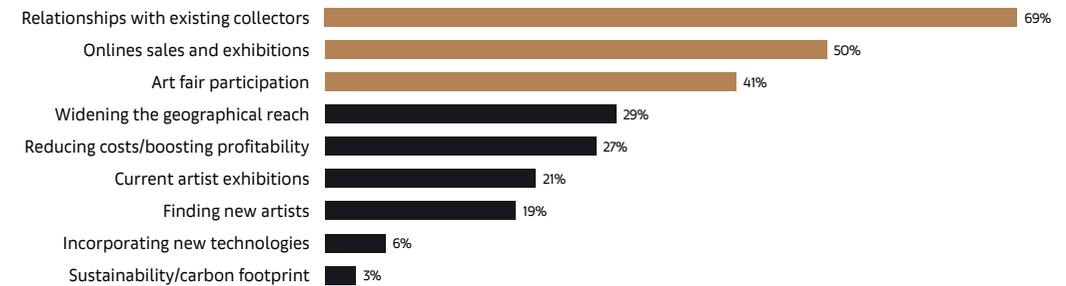
Aside from their expertise and the quality of the artists and works they supply, the research carried out on both collectors and dealers points to the importance of close, long-term, and personal relationships dealers have with both collectors and artists. Dealers were therefore in a particularly vulnerable industry for the COVID-19 pandemic, as their ability to connect and communicate in person was severely limited in 2020 and is still subject to considerable restrictions and complexities in 2021. Many businesses have worked hard to maintain communications and sales over this difficult period, as well as finding ways to establish new connections despite the challenges of doing so purely online. Despite shifts in the competitive landscape over the last 18 months, maintaining relationships has remained a key priority for dealers.

In the first half of 2021, the health and stability of their existing collector relationships remained dealers' key priority

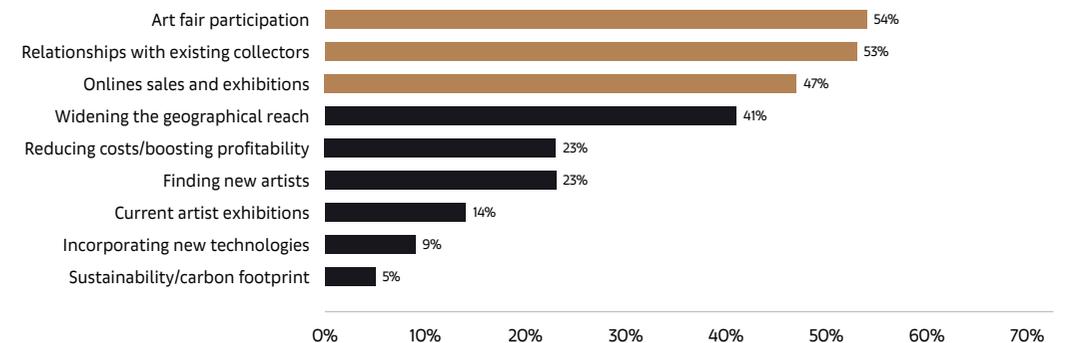
While many dealers were focused on the survival of their businesses in 2020, the pandemic's lingering effects are still affecting their current and future priorities. Dealers reported that their key priorities in 2019 were their art fair exhibitions and widening the geographical reach of their client base. These priorities shifted in 2020 to maintaining relationships with existing clients who were seen to be critical to their survival as well as trying to boost online sales and cutting costs to maintain profitability. In the first half of 2021, the health and stability of their existing collector relationships remained key. Although the market has not returned to a pre-pandemic schedule of events, art fairs have shifted back up in the priorities of dealers both in 2021 and especially when looking forward to the next one to two years.

Figure 5.10 | Dealers' Top Priorities for their Businesses (Share of Respondents)

a. In 2021



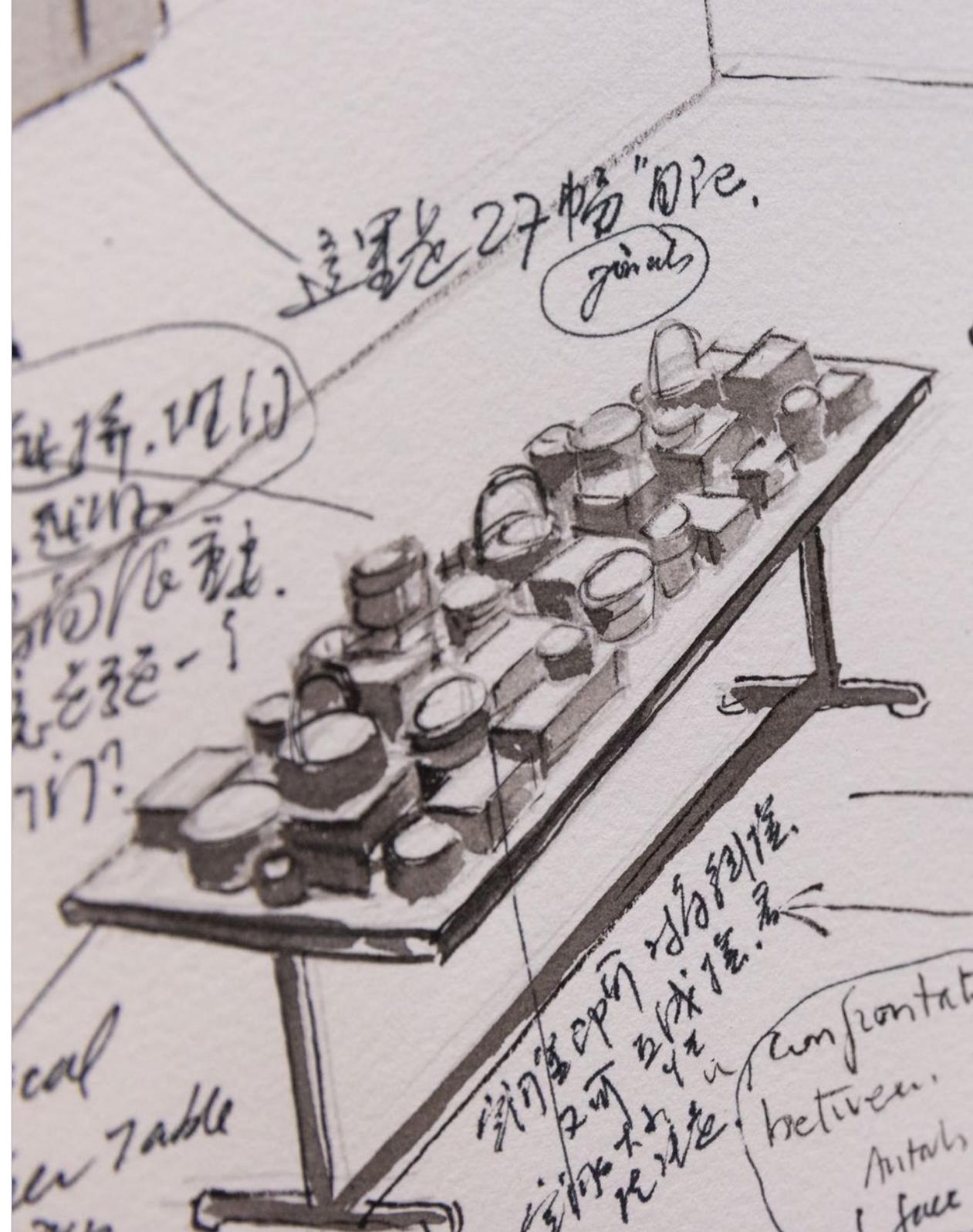
b. For the Next 1-2 Years



Every indication points to the fact that the focus on online sales is not a temporary response to COVID-19, rather that this rapidly evolving area is one of the top ongoing priorities for dealers both in 2021 and going forward. When asked how online sales and communications would impact their businesses over the next few years, some dealers noted anecdotally that they felt that it was simply too soon to tell. While the rise of digital technologies has revolutionized the infrastructure of other cultural markets, diminishing the importance of middlemen through allowing direct exchanges between producers and consumers, so far in the dealer sector, disintermediation has been relatively weak. One of the key reasons for this is that there is much more to the sale of art than the exchange of an object, with dealers offering personal, intellectual, social, and academic services that are crucial parts of the market.

The second installment of this survey will be carried out at the end of 2021 and will continue to monitor how dealers have fared this year and how their performance and the business models they are operating with have evolved. In the context of the wider research for *The Art Market 2022*, trends in the dealer sector will also be analyzed within the context of developments in the wider art market, including the auction sector which has also seen a rapid evolution in online sales and changing business practices. A critical area for future research will also be how to assess sales outside the conventional art trade, with a focus on tracking how sales made by dealers and auction houses now compare to those that take place outside these institutions, directly from artists and between collectors and other new agents, as the range of ways to view and buy art expands online.

Every indication points to the fact that the focus on online sales is not a temporary response to COVID-19, rather that this rapidly evolving area is one of the top ongoing priorities for dealers both in 2021 and going forward



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For this UBS Investor Watch collaboration, 500 high net worth individuals were surveyed (with at least \$1 million in investable assets) that had spent \$10,000 or more on art and/or antiques in the past year. The global sample was split across 5 markets: the UK, the US, Hong Kong SAR (China), Germany and Switzerland. The survey was conducted in July 2021.

HNW and UHNW collector qualitative interviews were undertaken with members of the UBS Collectors Circle.

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