

Art Investment : An Emerging Asset Class for Indian Investors

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Abstract

In this paper, I have attempted to study Art as a new asset class for alternative investment for Indians. Since this is the first time an attempt has been made to understand Indian Art as an investment avenue, the present study is limited to three prominent Indian Artists - Padma Bhushan Tyeb Mehta, Padma Bhushan S. H. Raza, and Padma Shri V. S. Gaitonde. The aim of the study was to examine 'Art' as an alternative form of investment, especially from the wealth management perspective. The study aimed to understand popular art forms and identify basic parameters on which 'Art' is valued by the Indian investors. 50 respondents were interviewed to identify the basic parameters on which 'Art' is valued, and the factors that prompted investors to invest in the works of a particular artist.

Keywords: wealth, investment, Indian artists, fine art, painting, art investment portfolio, genre of art

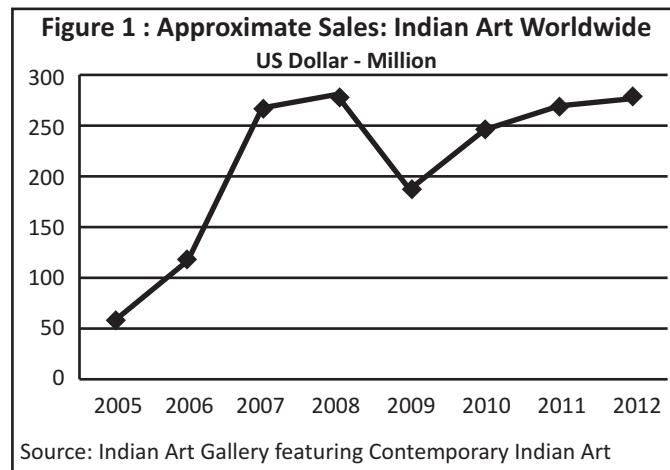
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Global art investors are making a grab for the work of artists like Padma Bhushan Tyeb Mehta, Padma Bhushan S. H. Raza, Padma Shri V. S. Gaitonde, and the art works of these artists have created a lot of excitement amongst the global art market. The study of the memoirs of fine art painting is relatively new, especially for management science; however, before Renaissance, the concept of fine art painting did not exist. Over time, fine art painting has changed, and so have the views about the same. With the passage of time, a broader view of artistic memoirs has been adopted, looking for an all-inclusive indication of all civilizations, and a study of the artistic work about their own cultural principles, and not just western fine art painting memoirs. In recent times, multiple studies have been undertaken that would indeed, in the future, assist in preserving the history of art (Modern Art Timeline, Part 1, n.d.).

The twentieth century has seen the rise of institutions, foundations, fine art museums and galleries, in both the public and private sectors, dedicated to the critical analysis and cataloguing of works of fine art painting as well as exhibitions aimed at the common man. The ascend of media has been vital in recuperating the study of fine art painting. According to Chaitanya (1994), Indian fine art has a long tradition and life history. The earliest Indian fine art paintings were the fine rock paintings of pre-historic times, the rock engravings found in places such as Bhimbetka, some of them from before 5500 BC. India's Buddhist literature is filled with examples of texts that describe palaces of the army and the patrician class distended with fine art paintings, but the fine art paintings of the Ajanta Caves are the most momentous. Smaller scale fine art painting in manuscripts was probably also adept in this epoch, though the almost primitive survivals are from the medieval epoch. Mughal fine art paintings represent a fusion of the Persian miniature with older Indian traditions, and from the seventeenth century, its style was diffused across Indian princely courts of all religions, each sprouting a local style. Fine art paintings made for British clients under the British Raj made for big businesses, who from the nineteenth century also introduced fine arts schools (in India) along Western lines, leading to modern Indian fine art paintings, that were increasingly returning to their Indian roots.

The Indian diaspora of fine art paintings provides an artistic continuum that extends from the early civilization to the present day. From being essentially religious in purpose at the beginning, Indian fine art painting has evolved over the years to become a fusion of various cultures and traditions (Chaitanya, 1994 : 2-4). The demand for Indian Art globally is steadily increasing due to both - the new Indian billionaire club as well due to the international art investors. I also believe that Christie's and Sotheby's have given sufficient exposure to Indian artists and their art works. This is quite evident from an exhibition - The Amaya Collection of Modern and Contemporary Art - held recently at Sotheby's. The Amaya Collection, the first international Evening Sale of Indian Art and the first single-owner sale in this category to be held at Sotheby's in more than a decade, brought a strong total of \$6,694,875, just shy of its pre-sale

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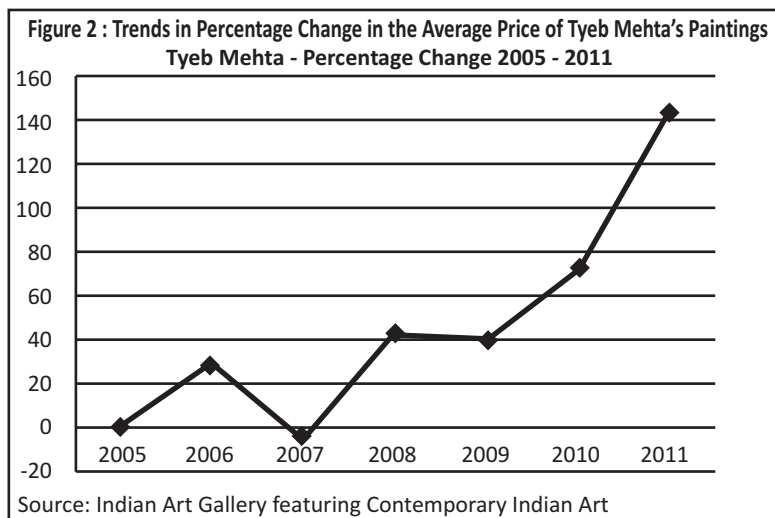


high estimate of \$7 million today.

The Figure 1 depicts the increasing demand for Indian fine art, with prices increasing from \$ 50 million to a peak of around \$270 to \$290 million. This, in a way, indicates the growing popularity and interest in Indian Art. The demand had dropped in 2008 due to obvious reasons i.e. the global financial crisis. However, we can see that the Indian Art market is resilient, and is not only recovering, but is also growing. According to Harsh Goenka (Chairman - RPG Enterprises) : “Indian Art market is now stable and somewhat rational and even competes with other forms of financial investment options for investors. There is good quality and there are discerning buyers. Indian market will keep growing as more and more people turn to art either to collect or to invest” (Sethi, 2011, Market Analysis, para 1). It is a promising asset class for investment, especially for the HNIs (high net worth individuals) as it is a recession proof investment. A brief on the aforementioned three artists is discussed in the following section.

Three Prominent Indian Artists

❖ **Tyeb Mehta** : Padma Bhushan Tyeb Mehta was born in Kapadvanj, Gujrat, India (1925-2009). In 1959, he migrated to the United Kingdom, where he lived until 1964. At 22 years, during the partition riots of 1947 in Mumbai, while staying at Lehri House, Mohammed Ali Road, he witnessed a man being stoned to death by a mob, this he not only expressed in a drawing, but it was to have a lasting impact on his work, leading to stark and often disturbing depiction of his subjects (Wikipedia, Tyeb Mehta, 2013). Mehta’s work was highly laborious, even in his youth, he would produce about half a dozen works a year. This lead to a unique clientele, and a huge demand for his work, particularly for his canvases of the 1970s (ArtTactic, 2012) . Mehta’s *Mahishasura*, 1996, is the most important



painting from his groundbreaking *Mahishasura* series to be sold at an estimate price between £1.2 million – £1.8 million - the highest anybody had ever paid for a piece of contemporary Indian art (Nair, 2012). His conscientious style and obsession with formalist means of expression led to matt surfaces, broken with diagonals, in which he increasingly used antique metaphors and mythological figures (ArtTactic, 2012). In 2007, the Government of India awarded him with the Padma Bhushan, one of the highest civilian honours. As reported by Sethi (2011, Modern Artist Graph) :

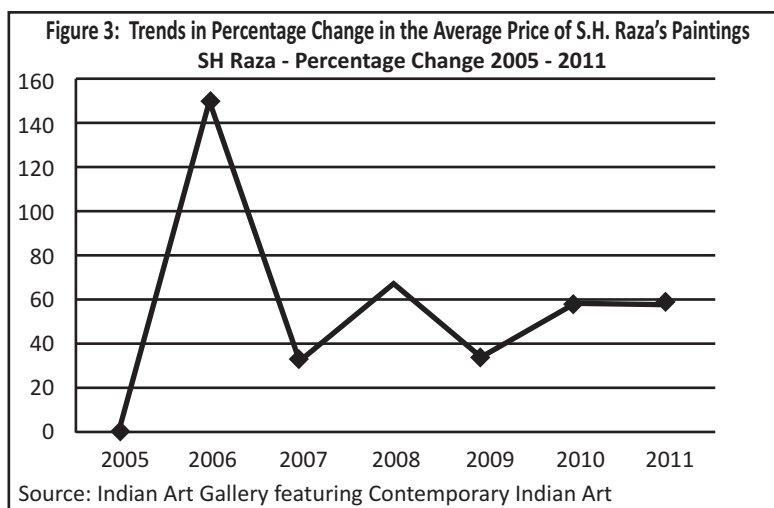
Tyeb Mehta was the only artist who did not see a downturn. Although there was a drop in 2007 due to limited supply, Tyeb prices have gone up slowly, but from 2005 levels, one has seen a 140% increase in investment. He is priced high due to limited supply and can be very liquid at the right price. The next one year for this artist is expected to be slow and price levels have now reached a high point. Long run artist is a hold and if any works come up in the near future at a good price, one should buy (para 3).

The percentage change in the average price of Shri Tyeb Mehta's paintings is depicted in the Figure 2.

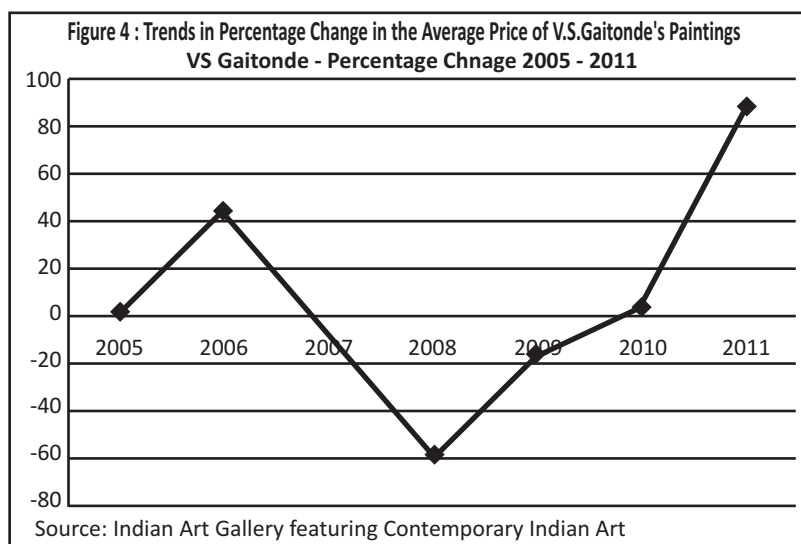
❖ **Sayed Haider Raza** : Padma Bhushan S.H. Raza was born in Babaria, Madhya Pradesh, India. In the 1950s, he moved to France, where his oeuvre began to focus on landscapes. He lives and works in Paris and Gorbio, France. His canvases became increasingly expressive, and he was particularly enchanted with the rural south, which he depicted in various series in the early 70s. A transition occurred in his work from his expressionistic landscapes to a much stricter geometric abstraction. He has received the Prix de La Critique award in Paris in 1956. In 1981, the Government of India awarded him with the Padma Shri in 1981, and the Padma Bhushan in 2007, two of the four highest civilian honours. According to Sethi (2011, Modern Artist Graph) :

S. H. Raza had over US\$ 15 million sold in 2010 and was the most liquid artist last year. In 2010, Raza had three paintings selling in the top 10 most expensive paintings ever sold in auctions, and one of them included *Saurashtra*, which sold for over US\$ 3 million. The artist started strong this year with a few paintings selling at 2007 - 2008 levels (high for the artist) but since July this year, his prices have come down. In-fact there has been a 20% drop in price since the first half of this year. This has resulted in the average price of the artist remaining at the same level as last year (para 1).

The percentage change in average price of Shri S. H. Raza's paintings is depicted in the Figure 3.



❖ **Vasudeo S. Gaitonde** : Padma Shri V.S. Gaitonde was born in Nagpur, Maharashtra, India (1924-2001). He lived and worked in New Delhi. He is considered to be one of India's leading abstractionists. However, he was of the opinion that there is no such thing as abstract art. He experimented with form and shape by creating large gradated surfaces with scrupulously applied pigments, from which he would thereafter painstakingly remove areas with a palette knife.



His art of making ordinary look extraordinary was commendable. In 1971, the Government of India awarded him with the Padma Shri, one of the highest civilian honours. According to Sethi (2011, Modern Artist Graph) :

V. S. Gaitonde is regarded as the master of abstract art in India. He has painted very limited canvas works, and it is extremely difficult to find a good Gaitonde in the market. If one had to look at the total number of canvas works that have come up for sale in the last six years in auctions for this artist, the number would be below 35 works where as for someone like Husain and Souza, the number of works would be over 400 each. Having said that, the artist is not collected by everyone and has managed only one work that has hit the top 30 list most expensive paintings ever sold, which was in 2006. Having said that, the average price of the artist was the highest in 2011. The artist still needs to find support at these levels, but given the limited supply, one would regard this artist as a strong buy (para 22).

The percentage change in the average price of Shri V. S. Gaitonde's paintings is depicted in the Figure 4.

Literature Review

Campbell (2008) examined return patterns that an art investment portfolio would have provided. The author reviewed the current literature and discussed current data on art indices and the associated methodologies. She explored the risk and return characteristics of fine art markets and analyzed art as an alternative asset class in an internationally diversified portfolio. She also discussed the high transaction costs encountered when auctioning fine artworks as well as the implications of smoothed returns, which occur for assets that are appraisal based.

Kripalani (2008) in his article reported that India's modern artists are reaping the financial rewards of a booming economy, a new elite, and wealthy expatriates wanting to reconnect with their homeland. Weekly gallery openings and sold-out shows are the norm in Mumbai (India). He also said that investors are starting art funds to take advantage of the growing market.

Kraeussl and Logher (2010) in their paper analyzed the performance and risk-return characteristics of three major emerging art markets: Russia, China, and India. According to three national art market indices, built by hedonic regressions based on auction sales prices, the geometric annual returns were 10.00%, 5.70%, and 42.20% for Russia (1985–2008), China (1990–2008), and India (2002–2008) respectively. The Indian art index reveals a negative market beta and varying correlation results.

Khaire and Wadhani (2010) in their paper stated that stable category meanings act as institutions that facilitate market exchange by providing bases for comparison and valuation. However, little is known about meaning construction in new categories or how meaning translates into valuation criteria. The researchers addressed this gap in a descriptive study of these processes in an emerging category: modern Indian Art. Discourse analysis revealed how market actors shaped the construction of meaning in the new category by reinterpreting historical constructs in ways

that enhanced commensurability and enabled aesthetic comparisons and valuation. Analysis of auction transactions indicated greater inter-subjective agreement about valuation over time as the new category institutionalized.

Research Methodology

In the preliminary stage, I visited various art galleries to gather information about this subject. Once sufficient information was gathered, then in consultation with various curators and on the basis of the literature review, a questionnaire was prepared. As seen in the Table 1, the Cronbach's alpha value for validating the questionnaire was prepared. Once the Cronbach's value was over 0.8, I interviewed 50 art investors via a combination of online and offline survey. I also visited various art galleries in India . Convenient sampling method was used for this research.

❖ **Data Collection** : Various articles and indices related to art both at the global level as well as the national level were referred to. The Indian Art Gallery featuring Contemporary Indian Art was of massive help in both - accumulating information related to Indian Art and assimilation of the same for better understanding. Another very useful resource for this study was artprice.com, which really gave meaningful insights into both global as well as the national art market. Though it was very difficult to find the actual price, but a general indicative value was available to at least comment on the trend.

❖ **Data Analysis** : The data collected confirms the premise of Indian contemporary art being on the ascent. This is supported by various secondary sources like Art Invest India and others. This interest in Indian contemporary art is attracting collectors and investors not only from India, but from across the globe. An unprecedented demand has lead to a quantum jump in prices of Indian contemporary art. It can be inferred on the basis of various primary and secondary sources that Indian contemporary art investments would dramatically outperform the very best equity mutual funds, the stock market, and real estate in a comparative study over the last five year epoch. It is evident from the study that investing in Indian contemporary art has been readily accepted as a potent vehicle for wealth creation in the medium to long term, at little or no risk, noting the impressive returns on investment that have accrued to investors and observing the elevated activity of art auction houses that has built an important secondary market which ensures easy liquidity.

Analysis and Discussion

Based on the review of various art gallery reports and interactions with actual collectors / buyers at Gallery Chemould, Mumbai and Galerie Mirchandani + Steinruecke, Mumbai, I arrived at the following parameters which influence the price of an art work :

- 1) Popularity of the artist,
- 2) Supply of artwork by a popular artist,

Table 1: Testing the Reliability of the Questionnaire	
Reliability Statistics	
Cronbach's Alpha	N of Items
.790	7

Table 2 : The popularity of the Artist is critical to your investment decision					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	5	10.0	10.0	10.0
	Agree	15	30.0	30.0	40.0
	Strongly Agree	30	60.0	60.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

Table 3 : The supply of Art by a popular artist does influence your investment decision					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	5	10.0	10.0	10.0
	Agree	21	42.0	42.0	52.0
	Strongly Agree	24	48.0	48.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

Table 4 : The Genre of Art is significant to your investment decision					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	10.0	10.0	10.0
	Disagree	10	20.0	20.0	30.0
	Neutral	5	10.0	10.0	40.0
	Agree	16	32.0	32.0	72.0
	Strongly Agree	14	28.0	28.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

Table 5 : It is important to refer to past sales record of an artist before making an investment decision					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	5	10.0	10.0	10.0
	Agree	25	50.0	50.0	60.0
	Strongly Agree	20	40.0	40.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

Table 6 : Investment in the works of new artists is done keeping in mind the risk returns					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	38.0	38.0	38.0
	Disagree	16	32.0	32.0	70.0
	Agree	5	10.0	10.0	80.0
	Strongly Agree	10	20.0	20.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

Table 7 : Galleries which give price protection for promoting art will influence your investment decision					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	15	30.0	30.0	30.0
	Agree	21	42.0	42.0	72.0
	Strongly Agree	14	28.0	28.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

Table 8 : Demand and Price of established artists' work is always high					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	10.0	10.0	10.0
	Neutral	9	18.0	18.0	28.0
	Agree	16	32.0	32.0	60.0
	Strongly Agree	20	40.0	40.0	100.0
	Total	50	100.0	100.0	
Source : Primary Data					

- 3) Artist following a particular genre i.e. Cubism, Impressionism, Fauvism etc.,
- 4) Global interest in a particular culture / type of art,
- 5) Past record of sales [for existing artists] and judging the art based on techniques discussed [for new artists],
- 6) Whether galleries give price protection for new artists,
- 7) Individual purchase would be purely on negotiation.

As seen from the Table 1, Cronbach's alpha is a coefficient of internal consistency. It is commonly used as an estimate of the reliability of a psychometric test for a sample of examinees. In the present case, the value of Cronbach's alpha is 0.79, which is greater than 0.7, and hence, it is acceptable. As can be seen from the responses of individuals who were interviewed for the present study, it is clear that the "*popularity of the artist*" was of great significance in case of investment decisions for 60 % of the art investors who strongly agreed with the same. 30% of the respondents agreed with the statement, whereas only 10% of the respondents were neutral (Table 2). When asked about the significance of the "*supply of artwork by a popular artist*" influencing their investment decision, 48% of the art investors strongly agreed with the statement. 42% of the investors agreed with the statement, whereas only 10% of the respondents were neutral about it (Table 3). On the question regarding the significance of the "*genre of art*" in investment decisions, the respondents gave a mixed response. 28% of the respondents strongly agreed with the statement, 32% agreed, 10% were neutral, 20% disagreed, and 10% of the respondents strongly disagreed with the statement, as can be seen in the Table 4.

When asked about the significance of "*past sales records of an artist*" in investment decisions, 40% of the respondents strongly agreed, whereas 50% of the respondents agreed, and the remaining 10% of the respondents were neutral as can be seen from the Table 5. When questioned about a very critical factor of "*investing in the art work of new artists*," only 20% of the respondents strongly agreed with this statement, 10% agreed, 32% disagreed, and 38% of the respondents strongly disagreed with the statement (Table 6). On questioning art investors on "*galleries providing price protection*" in order to promote art, and this influencing their buying decision, 28% of the respondents strongly agreed that yes, this factor did influence their decision to purchase works of art, 42% agreed with this statement, and 30% of the respondents gave a neutral response to this statement (Table 7). Finally, while probing the respondents regarding whether the "*demand and prices for established artists was always high*," 40% of the investors strongly agreed with this statement, 32% agreed, 18% were neutral, and 10% of the respondents strongly disagreed with the same, as can be gauged from the Table 8.

Conclusion

The study clearly shows that investment in art is a long term decision and one needs to consider various aspects before investing in art. It was observed that art investors were risk averse, and would not mind paying a high price for an established artist than to invest in a new artist at a much lower price. However, a new class of investors is emerging, who are ready to experiment with new artists with some conditions like price protection. It is a dynamic market, but one thing that is sure is that the demand for Indian Art is growing internationally. This was not only evident from the sales figures quoted by the Indian Art Gallery featuring contemporary Indian Art, but also from the excitement seen among the art investors while interviewing them, and the latest Amaya collection by Sotheby's has added fuel to the fire.

Scope for Further Research

This study was limited to the work of three prominent Indian artists, and future research works could look at expanding the scope. I have attempted to identify the variables which affect the pricing of art, however, researchers could try and create a model for the same. Future studies can study the artworks of new artists and examine the price appreciation in their work from an investment perspective.

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