BIZCOMMUNITY

Art as an asset class only generates capital gains

A recent auction held in Cape Town showcased the value that can be found in art and antiques as an asset class.

Leading the field was a rosewood chest of drawers, formerly part of the Vergelegen collection. Prior to the auction, it was estimated at between R180,000 and R200,000, but went on to achieve a South African auction record price of just under R2,500,960.

At the same auction, the painting, Women Arranging Flowers, by South African artist Erik Laubscher sold for R2,046,240 against a pre-auction estimate of between R1.2m and R1.6m.


Adriaan Pask

"Results like this are exciting, and seem to show that art and antiques can be an avenue for diversifying your investments," says Adriaan Pask, chief investment officer of PSG Wealth. However, research reveals that globally the average compound return on investment-grade art, held for between five and ten years, is around 4% nominal.

Low real return

"Keep in mind that art is a real asset class that should at least track inflation over time," Pask adds. This means that the real return (after accounting for inflation) will be significantly less than 4%, and may even be marginally negative depending on the period under consideration.

The value of art and antiques is subjective and prices are highly dependent on demand and sentiment, both of which are largely unpredictable. "This translates into highly volatile asset prices," Pask says.

In addition art - particularly paintings - is subject to significant fraud risk as the art market is generally unregulated. An investor may have to rely on an assessment by a credible expert in order to confirm the authenticity of the asset or provide guidance on its intrinsic value. "It's a daunting thought that one could potentially part with a significant amount of money, only to end up with a fake," says Pask.

Like most tangible real assets, art and antiques are largely an illiquid investment. Given the niche nature of the asset, buyers may be few, and even if there are interested buyers, one may be forced into a price-taker position rather than a price-maker, if the proceeds are needed urgently.

Costs involved

On the cost side, there are many different types of charges that may apply to investing in art and antiques, such as:

- Expert consultation
- Research costs
- Transaction charges
- Insurance costs
- Storage costs
- Maintenance
- Transportation costs
- Auction costs

As an asset class, art and antiques only generate capital gains. Generally there are no dividends or other forms of income payable. "This makes the investment less attractive relative to other more traditional real assets like equities," says Pask.

No diversification gains

According to research performed by Australian academics Worthington & Higgs from Griffiths Business School, although diversification benefits in portfolios comprised solely of art works are possible, no diversification gains are provided by art in financial asset portfolios.

In short, art is generally a low-return investment which is unregulated, illiquid, has high charges, produces no income and holds potentially volatile performance. As with all investments, the attributes that characterise an asset class can change fundamentally over time, ultimately impacting the risk-adjusted return and value offered to the investor.

"If you are willing to take the risk in the hope of a good return, the art of investing in art and antiques can be an exciting journey. However, for those looking for a safer bet, it might be better to look into other asset classes instead," Pask concludes.