The Impact of COVID-19 on the Gallery Sector

A 2020 mid-year survey

An Art Basel & UBS Report

Prepared by Dr. Clare McAndrew
Founder of Arts Economics

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Acknowledgments

The Impact of COVID-19 on the Gallery Sector presents the results of research on the global gallery sector carried out by Arts Economics in 2020.

This report provides some initial feedback on how the COVID-19 pandemic has impacted the global gallery sector, focusing on the first six months of 2020. It is based on a global survey of galleries that assessed how the pandemic has affected their businesses and sales, as well as what means of support and methods of adaptation they have taken in response to it. The survey was conducted by Clare McAndrew of Arts Economics, working in collaboration with sociologist Taylor Whitten Brown of Duke University. This collaboration will continue over the months ahead to reveal more fully how galleries have fared this year, with this initial research followed by a second, follow-up survey to be conducted in December 2020 as part of Arts Economics' annual art market report *(The Art Market 2021)*, which will be published in March 2021.

The report also presents the results of a survey of high net worth (HNW) collectors conducted by Arts Economics and UBS, across three art markets – the US, UK, and Hong Kong SAR (China) – with a particular focus on how the COVID-19 crisis has changed their interactions in the art market and with galleries.

The gallery survey was distributed to Modern and contemporary art galleries in over 60 countries or regions. This survey was supported by dealer associations around the world, including the ADAA, SLAD, 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 who shared their valuable insights on the art market through a series of interviews conducted in conjunction with the survey, and thanks to Richard Zhang for his help researching gallery issues in Greater China.

Dr. Clare McAndrew
Arts Economics

Director's Foreword

We are delighted to present the results of our first mid-year study of the art market, developed in response to the urgency and breadth of the seismic changes wrought by the COVID-19 pandemic. This analysis, authored by Dr. Clare McAndrew, Founder of Arts Economics, and presented in partnership with UBS, offers a real-time prognosis of the gallery sector. Drawn from surveys of nearly 800 international galleries as well as high net worth (HNW) collectors in the US, UK, and Hong Kong SAR (China), the lens is trained much more narrowly than the annual *Art Market Report*, which Dr. McAndrew will continue to prepare separately at the end of the year.

In the following pages, the immediate consequences of the lockdowns, travel bans, and supply chain shocks destabilizing the economy through the first half of 2020 are revealed: galleries have downsized; staff have been furloughed or made redundant; exhibitions and operations have been substantially curtailed; and sales have contracted in the double digits. Art fairs, meanwhile, which as recently as last year were ranked as the top priority for galleries, have been overwhelmingly cancelled and postponed, and thus take lower priority for the moment as galleries realign their focus to the essentials of cost cutting, client maintenance, and getting their core spaces and programs back online as they strive to maintain profitability in the face of the year's roiling challenges.

The use of digital channels has also been pervasive, with online viewing rooms and an array of bricks-and-clicks commercial formats being introduced in haste, and ever more business now being conducted online – especially so for larger galleries in the $10 million-plus segment. Interestingly, a vast majority of the HNW collectors surveyed remained active in the market despite the pandemic's destabilizing effects, with many noting that COVID-19 had actually *increased* their interest in buying art and younger and wealthier collectors signaling a particularly noteworthy confidence in the art market's outlook.

On behalf of Art Basel, I would like to thank Dr. Clare McAndrew for her dedication to this analytical research task and her agility to move quickly in the face of tremendous change. We are also very grateful to our Global Lead Partner UBS for their research collaboration with Arts Economics on the collectors survey and, for sharing their valuable economic insights in parallel. Finally, we would like to extend our gratitude to the wider gallery community, while wishing everyone *bon courage* as the busy – and newly reconfigured – fall season gets under way.

Noah Horowitz
Director Americas,
Art Basel

Key Findings

Employment

1. Despite already having very tight employment structures, many galleries have had to furlough or permanently lay off staff in response to the COVID-19 crisis. One third of galleries surveyed downsized their staff in the first half of 2020. Despite starting the year with an average of only five employees, galleries with turnover of between $250,000 and $500,000 reported the largest share of those downsizing, at 38%.

2. Galleries that downsized in the first half of 2020 lost an average of four employees, with around half of the losses being full-time employees.

Sales

3. Comparing the first six months of 2020 with the same period in 2019, galleries reported that the value of their sales fell by 36% on average (with a median decline of 43%). Smaller galleries, with turnover of less than $500,000, reported the largest declines in sales.

4. Looking ahead, the majority of galleries expected sales to continue to decrease, with only 21% expecting an uptick in the second half of the year. There was more optimism in 2021, but even so, only 45% of galleries expected sales to increase from 2020.

Online Sales

5. The share of online sales rose from 10% of total sales in 2019 to 37% in the first half of 2020. Despite having the lowest share in 2019, galleries with the largest turnover showed the highest increase, with those in the $10 million-plus segment rising almost fivefold to 38%.

6. Of those dealers reporting online sales, 26% were to new online buyers with which the gallery had never had personal contact. New online buyers were more important for smaller galleries, accounting for 35% of the online sales of those with turnover of less than $250,000.

Art Fairs

7. The cancellation of art fairs meant galleries' sales via this channel were radically reduced in the first half of 2020 to 16% (compared to 46% in 2019). Looking forward, most galleries (91%) predicted art fair sales would not improve in the second half of 2020, and only one third thought they would increase in 2021.

8. Art fair expenses were the single largest component of total costs for galleries (29% on average in 2019, higher than payroll or rent). The cancellation of events brought this outlay to almost half its level in the first half of 2020 and the costs of travel were also reduced by over one third. For some, this compensated for the lack of sales as other costs remained relatively stable.

Gallery Priorities

9. Galleries reported that their key priorities in 2019 were their art fair exhibitions and widening the geographical reach of their client base. These priorities shifted markedly over the first half of 2020 to trying to boost online sales, cutting costs to maintain profitability, and maintaining relationships with existing clients who were seen to be critical to their survival.

HNW Collectors

10. Although the COVID-19 pandemic distracted many HNW collectors from their collections in the first half of 2020, the survey indicated that most had remained active in the market, with 92% having purchased a work of art in the first six months of the year.

11. A majority (56%) of HNW collectors had already spent over $100,000 in the art market in 2020, including 16% spending over $1 million.

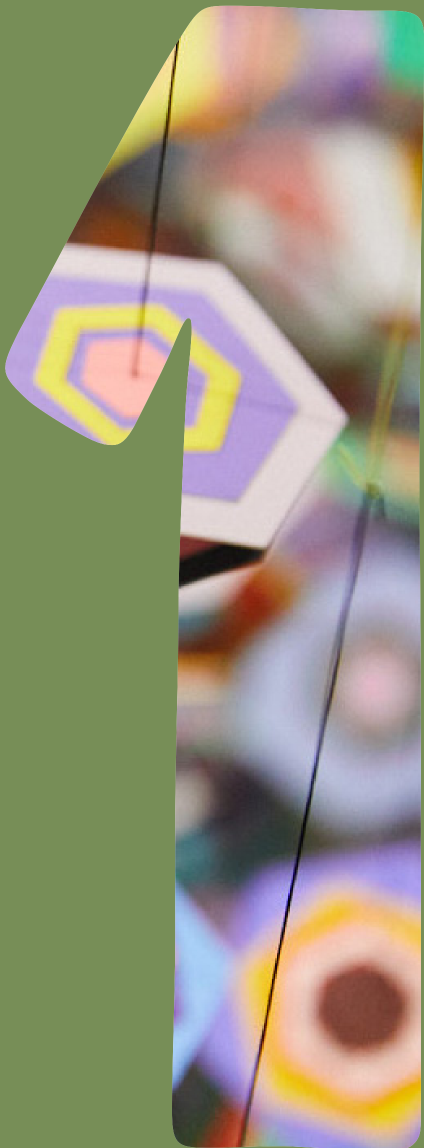
12. Of the HNW collectors surveyed, 75% had purchased via a gallery in 2020, and 41% were focusing only on galleries they had bought from before and had established relationships with. Only 14% of the collectors surveyed were actively looking for new galleries.

13. The online viewing rooms of art fairs and online third-party platforms were used by just over one third of the collectors to buy works of art in 2020 and 32% had bought directly using Instagram.

14. Most (81%) of the collectors surveyed felt it was important or essential to have a price posted when they were browsing through works of art for sale online.

15. Despite the ongoing restrictions on travel and events, most collectors (82%) were still actively planning to go to exhibitions, art fairs, and events in the next 12 months, and a majority (57%) hoped to attend these events both locally and overseas.

16. Across all of the HNW collectors surveyed, 59% felt the COVID-19 pandemic had increased their interest in collecting, including 31% saying that it had significantly done so.



Introduction and Methodology

The art market has often shown resilience to events in the wider economic and political environment. However, the unpredictable world created in the first six months of 2020 has presented the market – and the gallery sector in particular – with some of its biggest challenges yet.

In 2019, the art market achieved $64.1 billion in sales, a 5% decline from $67.7 billion the previous year. With uncertainty in politics and economics impacting the plans of vendors and collectors, overall sales were under pressure. The gallery sector remained relatively stable, however, and most of the decline in sales was driven by falling auction values, especially at the highest priced end of the market.

This has changed dramatically in the first few months of 2020. As the COVID-19 pandemic spread, it caused many galleries to close their physical spaces, and almost all art fairs and other events, which had become pivotal for making sales in recent years, were cancelled around the world. Despite finding ways to maintain trading and exhibiting online, the pandemic has had and will continue to have a profound effect on businesses in the gallery sector. Some galleries have already closed permanently, others have furloughed or laid off significant numbers of employees, and the effect on those that remain open is still unfolding. The aggregate outcomes for the sector in 2020 will depend on how long the various phases of this crisis last and how deep and protracted the recession is that follows.

When businesses are faced with a crisis, pandemic or otherwise, many outcomes are possible. Prior work in the sociology of organizations argues that uncertain times are often marked by businesses becoming more similar as they react to a common crisis or set of circumstances. In particular, there is often a conservative reach toward the status quo and a trend of mimicking peers who appear to be successful in order to navigate risk and maintain legitimacy. In their seminal work on organizational behavior, DiMaggio and Powell (1983) note that even non-critical times can elicit a paradox in the development of many modern industries: despite attempts to differentiate themselves, organizations reacting in the same way to similar constraints become increasingly alike, with an 'inexorable push to homogenization'.[1] The forces energizing this process of isomorphism are at least trifold: coercive (from external cultural expectations or regulatory pressures to conform); mimetic (when faced with a lack of clear goals, uncertainty or crises, organizations begin to model themselves on others they perceive to be successful); or normative (with conformity driven by the development of professional standards and conditions of work). So, while markets are classically envisioned as fields of competitive diversity, in modern practice they are often likely to consolidate.

1 DiMaggio, P. & Powell, D. (1983), *The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields*, American Sociological Review, 48: 147-60.

Especially in times of crisis, organizations may abandon drastic efforts to distinguish themselves and instead seek safety by a kind of follow-the-leader pattern of behavior.

While this may be true, research and history have also demonstrated that crises can be unique times of restructuring and innovation within markets and organizations. The rationale to copy successful peers may be dampened early on in a crisis, as procedures of the past become untenable and new ways of doing things are required. Without sufficient support, certain forms of business may disappear altogether and certain market sectors may combine or collapse, but collaborations, personal and professional shifts, and new technologies can provide the seeds of survival.[2] Which strategies are relied upon in a crisis will likely depend on where an organization is positioned in the market, with actors responding differently according to their needs and abilities. Thus, to understand the impact of the present COVID-19 crisis, the strategies taken in response to it, and whether acute changes will result in greater diversity or increased homogenization among galleries, we need research that can demonstrate trends over time, as well as across the sectors, sizes, and regions of the market. The present survey is an example of such research, with this reporting being the first of two on the impact of COVID-19 on the sector.[3]

This report aims to provide some initial feedback on how the COVID-19 pandemic has impacted the global gallery sector, focusing on the first six months of 2020. It is based on a survey of Modern and contemporary galleries in over 60 countries or regions who have each reported on how the pandemic has affected their businesses and sales, as well as what means of support and methods of adaptation they have taken in response to it. The survey was carried out in July 2020 and received 920 responses, with 795 used in the analysis that follows.[4] A second, follow-up survey will be conducted in December 2020 as part of Arts Economics' annual art market report *(The Art Market 2021)*, which will be published in March 2021.

This report also presents the results of a survey of high net worth (HNW) collectors conducted in July 2020 by Arts Economics and UBS, which elicited the views of this segment in three major art markets – the US, UK, and Hong Kong SAR (China) – with a particular focus on how the COVID-19 crisis has changed their interactions in the art market and with galleries. This survey reports the responses of 360 collectors in these three markets.

2 Padgett, J. & Powell, D. (2012), *The Emergence of Organizations and Markets*, Princeton, NJ: Princeton University Press.

3 Arts Economics is working on this two-part research on the effects of COVID-19 on the gallery sector with sociologist Taylor Whitten Brown from Duke University.

4 The survey was sent to over 3,000 galleries worldwide, a smaller subset of the annual gallery survey that covers other fine art sectors as well as decorative art and antiques dealers. 125 of the 920 responses were excluded as they were incomplete or not relevant to this particular study due to the sector they dealt in.

Figure 1 | Geographical Distribution of Survey Respondents

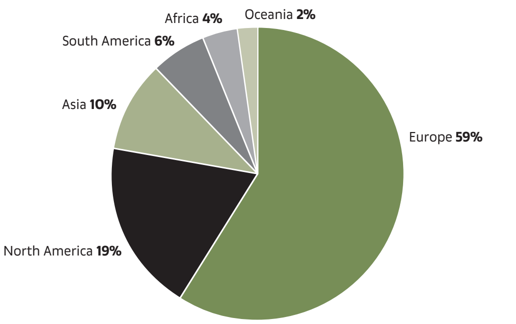
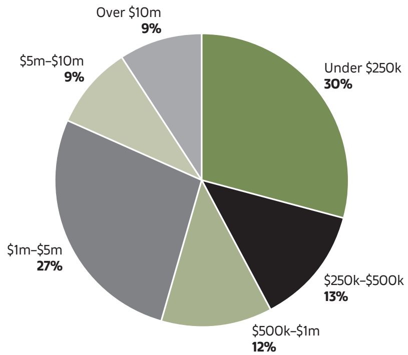


Figure 2 | Annual Sales Turnover (2019) of Survey Respondents

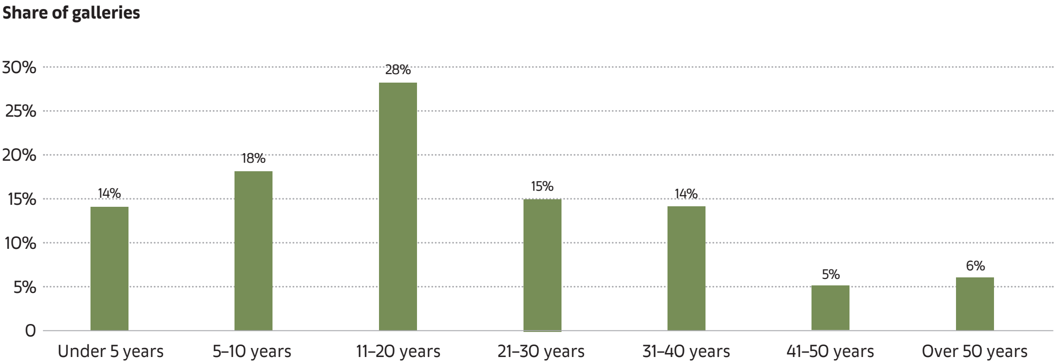


Description of the Galleries Surveyed

The survey of galleries that informs this report focused only on businesses operating in the Modern and contemporary art sectors. Of those galleries responding to the survey, 76% sold contemporary art only, 16% sold both contemporary and Modern art, 5% sold only Modern art, and the remaining 3% sold contemporary art alongside another fine art sector, such as decorative art or antiques. Of the galleries surveyed, 60% operated in the primary market only (and represented an average of 20 artists in 2020), 6% operated in the secondary market only (and represented an average of only 10 artists), and the remaining 34% operated across both markets (and represented an average of 29 artists, including 17 from the primary market).

The galleries surveyed were geographically diverse, covering over 60 different national markets. Figure 1 shows the geographical distribution of the sample, with the highest share coming from Europe at 59% (including almost 20% from the UK and

Figure 3 | Number of Years in Business



France). North American galleries accounted for 19% of the survey respondents, with the US providing the highest single country representation at 18%.

Most galleries reported physical locations in just one country or market. Only 4% maintained physical premises in two different national locations and 1% operated out of three or more.

Galleries also varied in the size of their annual sales turnover. In 2019, 55% had annual sales of less than $1 million (including 30% with less than $250,000), and 9% reported sales in excess of $10 million. A further breakdown is provided in Figure 2.

Due in part to the sampling process for this survey, most responding galleries were quite established in terms of their tenure of operation.[5] The majority (68%) reported that they had been in business for longer than ten years, with an average of 21 years and a median of 17. Only 14% had been in operation for less than five years.

5 The survey was distributed by various national dealer associations, including SLAD, CPGA, and the ADAA to their members and to Art Basel exhibitors. As both of these groups require vetting and entry criteria, it is more likely that the gallery has been open and established for at least one or more years.

Gallery Status and Recent Employment Trends

Nearly all galleries (93%) had closed their premises between January and July 1 of 2020, with an average closure period of 10 weeks. The shortest closures were in smaller and mid-sized markets, with South Korea and Sweden reporting the lowest average of five weeks. The longest average closure for galleries was in the US, with an average of 14 weeks.

The survey was distributed in early July, at which time 79% of galleries reported that their physical premises were open. Of these, 20% reported that they were open and running in the same manner as in previous years. The majority (59%), however, were open with new restrictions and conditions implemented for visitors and staff.

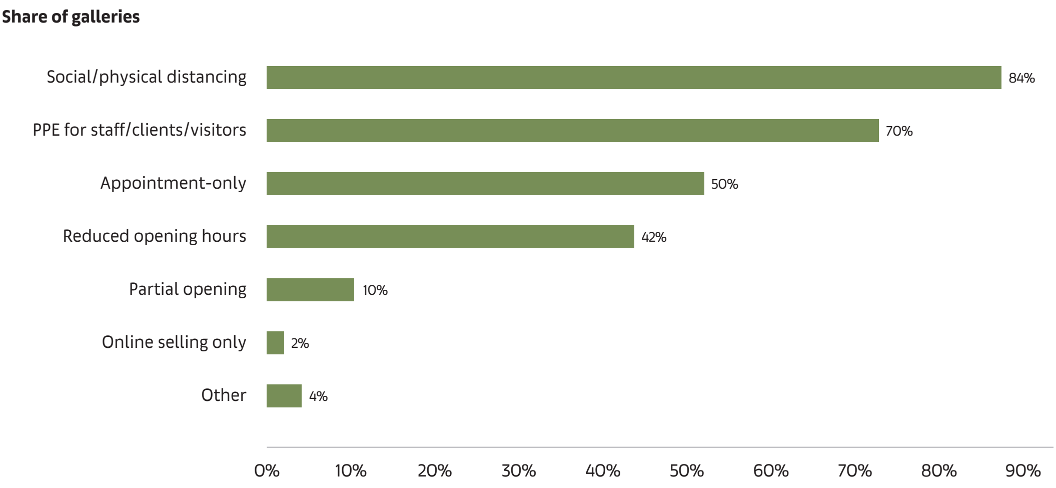
The most common new measure implemented in response to COVID-19 was social/physical distancing (84% of galleries), which included altering the gallery layout, limiting visitor capacity, and efforts to reduce staff schedules by allowing remote work. Personal protective equipment (PPE) for staff and visitors was used by a majority (70%) of galleries. These two measures were also the most commonly used in combination (by over 60% of galleries). In addition, almost half of the galleries surveyed used these two methods in addition to appointment-only visits.

While 42% of galleries in this survey reported implementing reduced opening hours, some galleries noted that they had in fact extended their opening hours to improve social distancing and make up for the reduced flow of visitors. Other measures of precaution reported were increasing sanitation procedures at the gallery, temperature checks for staff and visitors, and holding soft openings without the usual dinners and talks programs.

When surveyed in early July, 21% of the galleries were closed.[6] Due to safety concerns related to COVID-19, 45% of those had chosen to remain temporarily closed, while 40% were obliged to remain closed under government regulations and guidelines. The remainder had mixed motivations for closing: some always closed for a summer break in July, others were taking the opportunity to change or refurbish their galleries, and a few had more strategic motivations related to the potential of moving premises and availing of what they hoped might be post-crisis changing rents.

6 This share excludes the 4% of the sample that reported that they did not have a premises in July 2020. Of the sample, 2% had also permanently closed their galleries (though this estimate of closures may be conservative, as permanently closed galleries are less likely to have received and responded to the survey).

Figure 4 | Gallery Reopening Restrictions and Measures after Lockdown



Nearly all galleries (93%) had closed their premises between January and July 1 of 2020, with an average closure period of 10 weeks

The vast majority of galleries are small or micro-level businesses with very few staff. Many successfully engaged staff in remote work during their closures, but one of the biggest concerns regarding the COVID-19 pandemic is its short- and longer-term impact on employment. In 2019, the average number of full-time employees at a gallery was five (or eight in total, when including part-time workers and contractors). Much has changed in 2020. Despite already having very tight employment structures, many galleries have had to furlough or permanently lay off staff in response to the crisis. One third of galleries surveyed downsized their staff in the first half of 2020, and this was slightly higher for those with turnover in excess of $10 million, 37% of which reported downsizing.[7] Galleries with turnover of between $250,000 and $500,000 started the year with an average of only five employees, yet 38% still reported downsizing in the first six months of 2020.

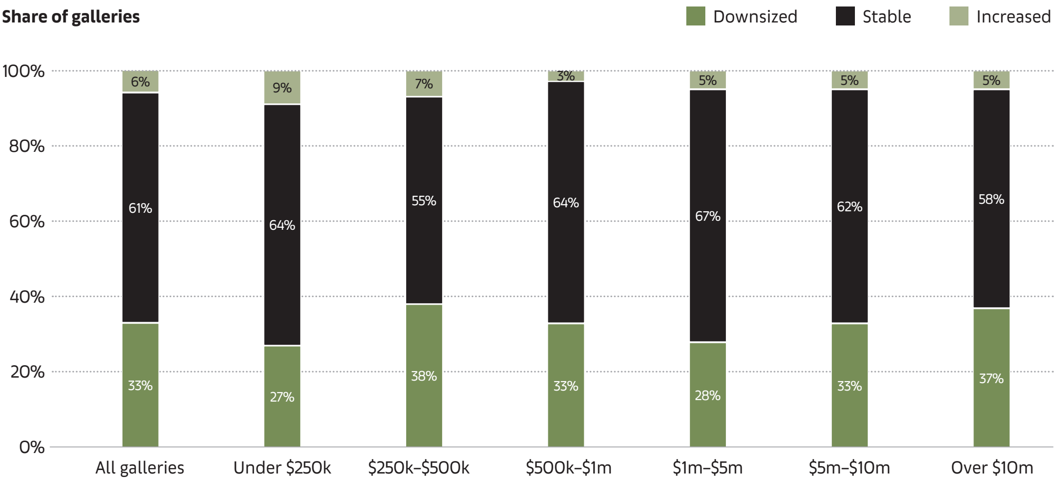
Downsizing was also more common in certain geographic regions, most notably for galleries based in Africa (42%); Germany and Spain (38%); and the UK (36%).

The magnitude of job losses (the number of employees lost) similarly varied by gallery size and location. Overall, galleries that downsized in the first half of 2020 lost an average of four employees, with around half of the losses being full-time employees (and ranging from one to 40) versus 25% contracted workers. The biggest losses were reported by multi-premise galleries, which averaged a loss of 12 employees overall, while the highest national average was in Brazil at eight.

A small share of galleries went against the general trend and increased the number of staff employed. Some of the biggest increases were from businesses in Asia (South Korea, Singapore, and Japan) and Australia. However, for galleries increasing staff, the additions were generally small, with a median of two employees added, one being full-time. A minority of galleries reported an uptick in sales during the first half of 2020, which may have helped to support this increase in employment. Some galleries in Australia and Asia noted that this was assisted in part by the inability of their wealthy collectors to travel during the first half of the year, which ensured a greater focus on local galleries and their programs.

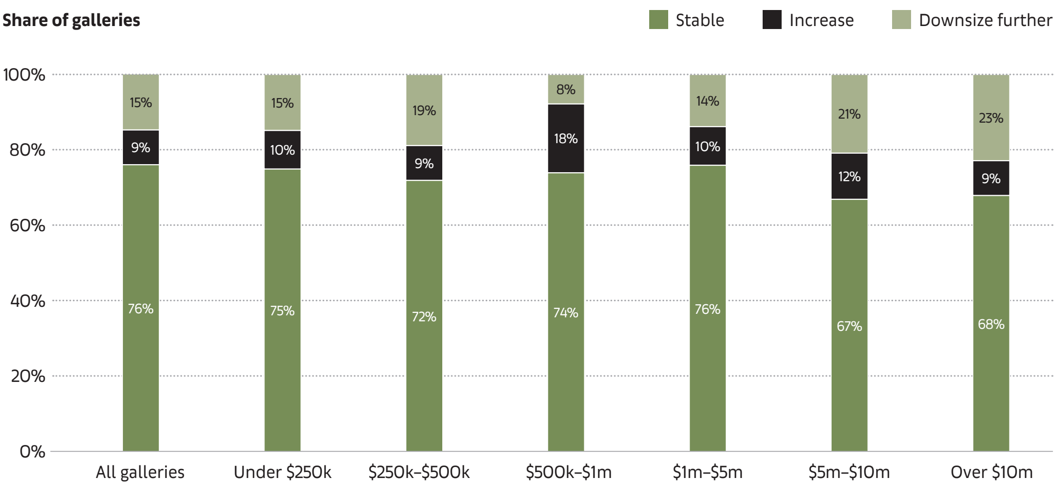
7 Galleries with this level of turnover also had a considerably higher average number of staff (20) employed in 2019, however.

Figure 5 | Change in Gallery Employment in H1 2020



Despite already having very tight employment structures, many galleries have had to furlough or permanently lay off staff in response to the crisis

Figure 6 | Projected Change in Employment in H2 2020



Despite the continuing pressure on galleries from COVID-19, most galleries expected employment to stabilize for the rest of the year

In addition to questions about recent employment history, respondents to this survey were asked about future projections. There was evidence that, despite the continuing pressure on galleries from COVID-19, most expected employment to stabilize for the rest of the year. Just over three quarters (76%) of galleries projected that their employment would remain stable for the second half of 2020, and only 15% expected that numbers would decline further. Although this may imply an optimistic outlook for some galleries regarding the performance of sales in the remainder of the year, it is also very likely to indicate that many businesses have reduced their employment structures to their lowest feasible functional level of employees already. It is also notable that galleries with higher sales turnover (in excess of $5 million) were more likely to predict further downsizing in the second half of 2020, despite being more likely to have already downsized. This is again possibly because smaller galleries had already downsized to a minimum beyond which they would no longer be able to function.

Next to rent and the expenses of art fair participation, payroll is one of the biggest costs in the sector, with galleries reporting an average of 26% of their total costs going to payroll in 2019. Despite laying off staff in the first half of 2020, payroll remained a significant proportion of overall costs, declining on average by just 1% (see Figure 17).

Next to rent and the expenses of art fair participation, payroll is one of the biggest costs in the sector, with galleries reporting an average of 26% of their total costs going to payroll in 2019

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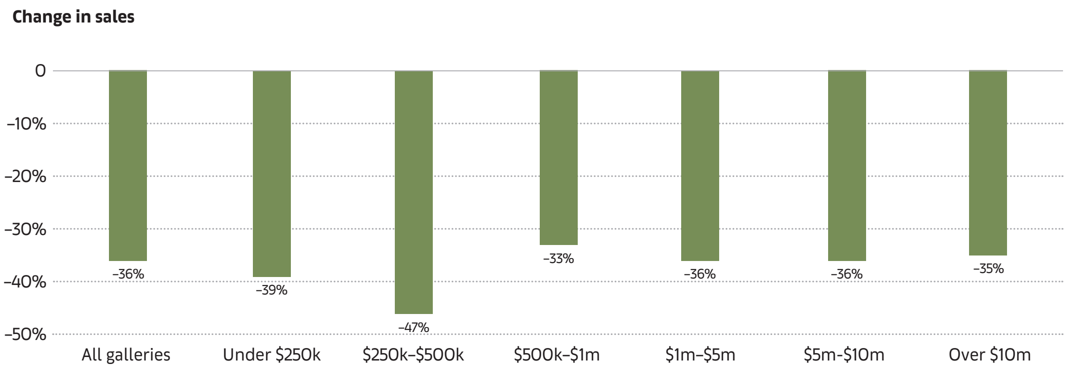
Sales

In 2019, the uncertainties of politics and economics in many parts of the world enticed vendors out of the public arena and into the relative security and privacy of private sales. Despite a significant drop in auction sales (–17%), aggregate gallery sales rose 3%, and by the end of the year, optimism was generally high in the sector. The changes that materialized in the first half of 2020 due to COVID-19, however, have been immense. Sales in the gallery sector are particularly vulnerable. The business model of galleries – based fundamentally on discretionary spending and strongly dependent on travel and in-person contact – is uniquely positioned to struggle in the present realities of the COVID-19 pandemic. While many businesses have managed to continue trading, values (and volumes) have dropped significantly. Of galleries surveyed, 83% reported a decline in the value of their sales.

Comparing the first six months of 2020 with the same period in 2019, galleries reported that the value of their sales fell by 36% on average (with a median decline of 43%). Smaller galleries, with turnover of less than $500,000, reported the largest declines in sales. There were some differences between regions, with Asian galleries reporting a higher than average decline of 41%, and within that region, those in Greater China fell by 55%. Galleries in the larger art markets of the US and UK were on par with the average, while French galleries reported an average decline of slightly less, at 32%. Among the lowest regional declines for the first half of 2020 were galleries reporting from South America (–15%) and Africa (–21%).

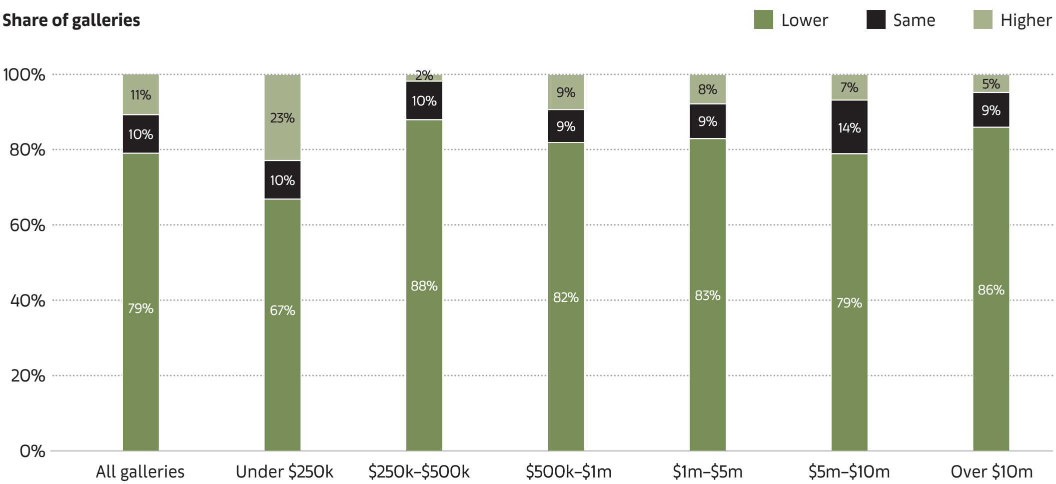
Comparing the first six months of 2020 with the same period in 2019, galleries reported that the value of their sales fell by 36% on average

Figure 7 | Change in Total Gallery Sales from H1 2019 to H1 2020



Asian galleries reported a higher than average decline of 41%, and within that region, those in Greater China fell by 55%

Figure 8 | Predicted Change in Total Gallery Sales from 2019 to 2020 (Full Year)



Of all the galleries surveyed, 79% thought overall 2020 sales would be lower than 2019 and, of those, 58% felt they would be significantly lower

When asked to consider the rest of the year and estimate how their total sales in 2020 might compare to 2019, most galleries felt that sales for the rest of the year would not make up their shortfall. Of all the galleries surveyed, 79% thought overall 2020 sales would be lower than 2019 and, of those, 58% felt they would be significantly lower. This majority was consistent across all regions and nearly all national markets. Asian markets had the highest share of respondents with a pessimistic outlook for 2020 (90%), while the least pessimistic were galleries in South America and Oceania (although there was still a majority of 66% and 64% respectively expecting declines in these regions). In the largest market of the US, 80% of galleries surveyed predicted a fall in sales, with 60% of those expecting a significant decrease.

Despite the majority of galleries at all levels of turnover expecting sales to decline, it is noteworthy that smaller galleries – those who, as previously mentioned, experienced some of the largest declines in sales in the first half of 2020 – were the most optimistic about sales going forward. Of galleries with turnover of less than $250,000, 23% expected an increase in sales from 2019 to 2020, which, although still a minority of those surveyed, was twice the average across all galleries and more than four times the share at the highest end (galleries with turnover of greater than $10 million). However, those in the range from $250,000 to $500,000 who reported the largest decline in the first half of the year, were the least optimistic of all. Anecdotally, some of these mid-sized galleries felt that they were also the worst hit during the global financial crisis in 2008 and 2009, and were only starting to fully recover in the last couple of years. Some had concerns that parts of their collector bases may be less insulated from the potential economic fallout of the current crisis than their HNW and ultra-HNW peers.

Online Sales and Strategies

Between 2013 and 2019, sales in the wider online art market have steadily increased, from just over $3 billion to $5.9 billion. Yet the art market has lagged behind other industries in terms of e-commerce. The largest volume of sales made through this channel is at lower price points, with the art market resistant to the shift online, particularly at the high end. Faced with this crisis, however, the art market may finally be seeing the digital disruption that has been forecast and resisted for so long. Like other modern industries built on travel, events, and personal contact, the art market is beginning to experiment with online technologies that offer new means to maintain liquidity.

In the absence of business as usual, the growth of online sales accelerated in 2020. Online strategies and tools also moved to the forefront and became critical for some galleries' survival. Besides galleries, the online viewing rooms of art fairs and a range of innovative auction platforms also expanded the range of digital sales available within the art market in the absence of physical events.

In 2019, the share of online sales of the galleries surveyed was 10% of total sales, with the majority of those (7%) carried out directly by the galleries via their own websites, social media channels, online viewing rooms, or email.[8] In the first half of 2020, this rose to 37%, again with the majority (29%) carried out by the galleries' own channels, while 8% were facilitated entirely by a third-party platform ('Online 3P').

The share of sales made online varied by gallery turnover level. Previous research has shown that in both the auction and dealer sectors, the share of online sales generally declines as the level of turnover increases. This was the case to some extent among galleries surveyed, with the share of online sales in 2019 dropping significantly at the $5 million-plus turnover level. In the first half of 2020, galleries at all levels showed a substantial increase in the online component of their sales. The average share more than doubled in most cases and, despite having the lowest share in 2019, galleries with the largest turnover showed the highest increase, with those in the $10 million-plus segment rising almost fivefold to 38%.

8 Shares are turnover-weighted, that is, the aggregate share is weighted by galleries' sales turnovers (rather than a simple average across all galleries) to more accurately reflect the share of sales in the sector as a whole.

Figure 9 | Average Share of Sales by Sales Channel in 2019 (Turnover-Weighted)

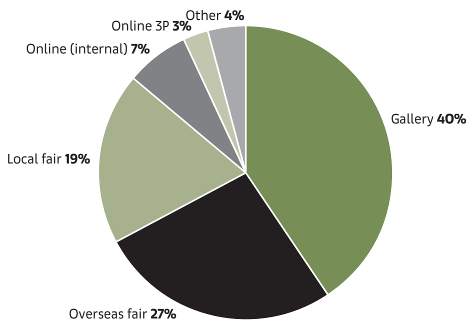
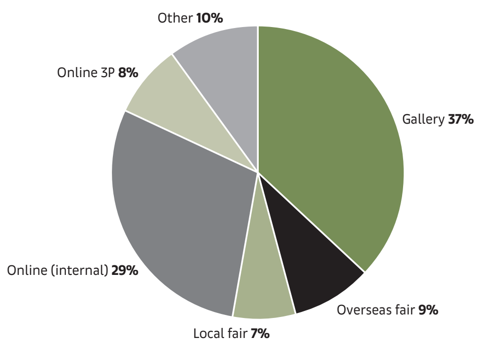
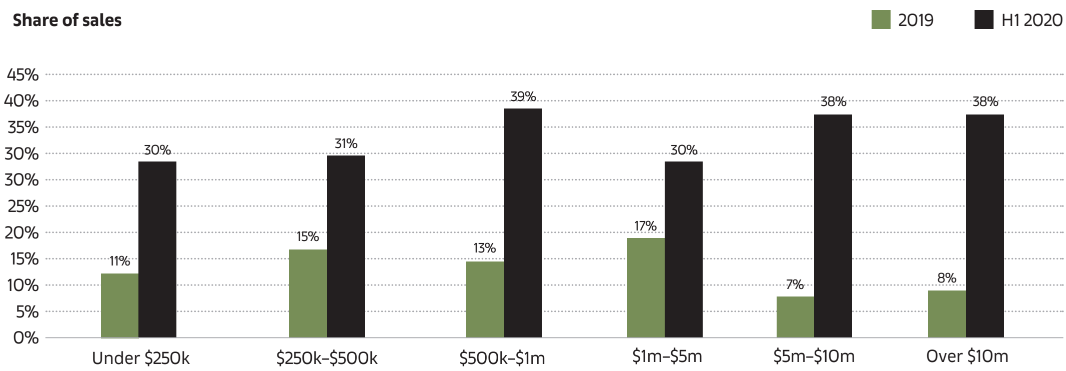


Figure 10 | Average Share of Sales by Sales Channel in H1 2020 (Turnover-Weighted)



In the first half of 2020, galleries at all levels showed a substantial increase in the online component of their sales

Figure 11 | Average Share of Online Sales by Gallery Annual Turnover Level*



* The share of online sales is based on a weighted average of sales in 2019 and 2020. Galleries are segmented into turnover categories according to their 2019 turnover levels.

Not all galleries have sold online, however. Around one quarter of the sample reported making no online sales in 2020. This is a smaller percentage than in 2019 (at 31%), but of those galleries not making online sales in 2019, just over half (56%) had still not generated any online sales thus far in 2020, which could represent a cause for concern with many other sales channels currently restricted. For those new to online sales (with 0% share in 2019), however, the increase was substantial, with online sales now comprising an average of 27% of sales.

In the overall sample, the majority of galleries (65%) reported an increase in their share of online sales, 20% reported that the share was stable on 2019, and 15% reported a decrease in their share. For those decreasing their share of online sales, this was compensated for by increasing gallery sales (76% of those losing online share), or an increase in other channels that included selling from home or personal outreach.

Looking ahead, the majority of galleries felt that the share of online sales in the sector broadly would continue to increase. Focusing on the second half of 2020, 66% of galleries thought online sales in the gallery sector would increase (versus just 14% predicting a decline). Most also thought this was going to be a sustainable trend, with 66% predicting more online sales in 2021 (and only 9% expecting them to decline).

The market may have resisted online sales prior to COVID-19, but digital technologies were already an important means for galleries to connect with new buyers. Previous surveys of the wider global art and antique dealer sector showed that over half (57%) of online sales by dealers in 2019 were to new buyers who had never been to their gallery or met the dealer in person.[9] While the survey reported here is more sector-specific – including only Modern and contemporary galleries – it suggests that online sales in the first half of 2020 accommodated more than just new buyers. Of those dealers reporting online sales, an average of 26% were to new online buyers with which the gallery had never had personal contact. This fits with anecdotal evidence from galleries (and collectors) over the last few months, who said that they had been most successfully making sales online to existing clients. Interestingly, new online buyers were more important for smaller galleries, accounting for 35% of the online sales of those with turnover of less than $250,000. For those with turnover of greater than $10 million, this share was only 18%.

Across all galleries, 29% of online sales went to buyers who previously had contact with the gallery offline, including those who had bought offline but were new to online buying in 2020. This is also aligned with reports from collectors, many of whom anecdotally noted that they had not used online purchasing previously, but did so in 2020 as they had few or no other options. New-to-online buyers were most common for the largest galleries (comprising 34% of their online sales) and were least common (23%) for smaller galleries (with turnover of less than $250,000).

Across all galleries, online sales increased in share from 10% of total sales in 2019 to 37% in the first half of 2020

9 Arts Economics (2020), *The Art Market 2020*, available at www.artbasel.com/about/initiatives/the-art-market.

Figure 12 | Share of Online Sales by Buyer Category in H1 2020

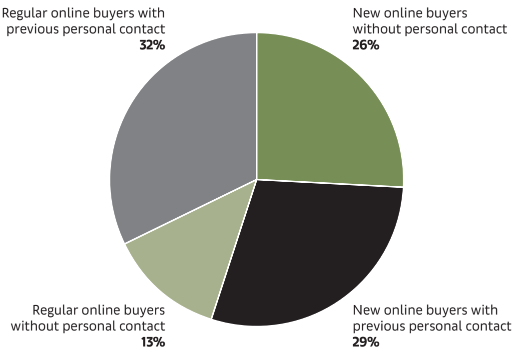


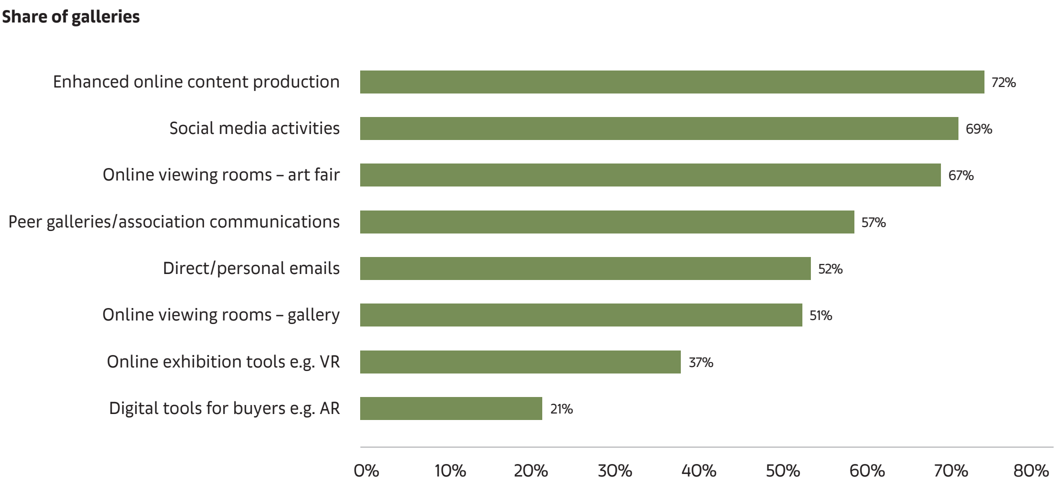
Figure 12 shows that galleries maintained some sales to buyers that regularly only buy online, although these made up a smaller share of online sales (13%, which was similar to results in the wider dealer sector reported in previous research by Arts Economics in 2019, at 11%). The share of regular online-only buyers was higher for smaller galleries (at 19% for those with turnover of less than $250,000 and 21% for those with sales of between $250,000 and $500,000).

As personal contact and physical exhibition platforms have been limited due to COVID-19, galleries responding to the survey reported using a range of online strategies in an attempt to boost sales and maintain relationships with collectors.

Figure 13 shows the proportion of galleries reporting an increased use of online strategies compared to 2019. Most galleries worked on enhancing online content for their personal websites or other online platforms, including artist interviews, webinars, and other editorial content. During the first half of 2020, 72% of galleries increased their efforts in this area, while a further 12% made around the same level of effort as in 2019. Most galleries (69%) also increased their social media presence during the pandemic, with only 3% of the sample having never engaged in online social media activities for their galleries.

As art fairs were cancelled, most major fairs offered galleries a virtual alternative through online viewing rooms staged around the dates of the original shows. Although many galleries noted that these forums did not come close to replicating the sales or experience of physical events, most were glad to avail of the opportunity, leveraging these time-limited forums to help facilitate sales and generate client interactions. Of those surveyed, 67% used art fair virtual exhibitions more than they had done in 2019 (71% for those who had participated in at least one fair in 2019).

Figure 13 | **Online Strategies in H1 2020 (Share of Galleries Using Strategy More than 2019)**



Just over half of the sample also reported using online viewing rooms on their own websites more than in 2019, although 34% said they had never used this strategy. Anecdotally, some dealers felt that the term 'online viewing room' is vague and useful for marketing purposes only, with little difference between this and their regular websites, to which they could apply various content enhancements without it being termed an online viewing room or OVR. Galleries also reported a wide range of different experiences regarding the success of their own online platforms in 2020. While some felt it remained difficult to gain attention from new buyers given the large volume of competitive offerings online, others commented on the benefits of the more level playing field afforded by these digital forums for smaller and mid-size galleries.

A majority of galleries (57%) participated more in online forums and communications with peer galleries and their dealer associations in the first half of 2020, compared to 2019. Some galleries noted that this was helpful in finding resources about what supports were available, information on reopening and safety, and new collaboration opportunities. Galleries in the UK, US, and other countries noted that their dealer associations had been very active during this period, offering direct assistance and uniting their lobbying efforts for public support. Just over half of the sample also reported an increase in direct emailing to their existing collectors, although a high proportion (44%) reported that they already did this in 2019, and continued to do so with the same frequency in 2020. Some dealers commented that, rather than engage online or via email, their far preferred method to communicate with clients during gallery closures was by phone.

Finally, it is notable that despite the significant fervor over new technologies to enhance digital viewing and collector experiences online, online exhibition tools such as virtual reality (VR) or 3D imaging and tools for buyers such as augmented reality (AR) were the least used of all listed strategies. The survey revealed that 56% of galleries had never used VR or similar tools and 72% had never used AR or other similar technologies.[10] Some dealers commented that they felt these tools did little in their current format to enhance the viewer experience, but many were hopeful that technologies would improve in the future and might become more useful for enhancing exhibitions and sales. There may also have been cost considerations during 2020 in the use of these tools, as a higher rate of VR use and other enhanced imaging technologies was reported for dealers with higher turnovers. A majority of galleries (58%) with more than $10 million in turnover had used these technologies more in 2020 than in 2019 (versus a third or less for all galleries with sales of less than $1 million).

10 Galleries were asked if they had used strategies or tools less, more or at the same level as in 2019, as well as being given the option to report that they had never used them. Of the minority of galleries using tools such as VR and AR, in each case 6% had used them at the same level as 2019 and 1% had used them less.

Exhibitions and Art Fairs

As a result of the restrictions imposed in most countries in response to the COVID-19 pandemic, most galleries had to close their physical premises for a period in 2020. This resulted in the halting or postponing of exhibitions, as well as the altering of operations once galleries reopened. Furthermore, many collectors that would usually attend exhibitions were subject to varying degrees of partial or full lockdown, where gallery visits were not possible. Even as lockdowns have been lifted, the circulation of foot traffic in many retail-based industries and cultural institutions has been slow to revive as safety-conscious consumers remain cautious and adapt their behaviors.

In 2019, galleries held an average of seven exhibitions, with an average range from six for smaller and mid-sized galleries with turnover of less than $1 million, to eight for galleries with turnover of over $10 million. At the start of 2020, galleries had a similar number of exhibitions planned, but up to half of these were cancelled due to the COVID-19 pandemic and issues arising from it. On average, galleries went from the seven exhibitions they had planned at the start of the year to a revised program of four exhibitions for 2020.

At the start of 2020, galleries had a similar number of exhibitions planned as in 2019, but up to half of these were cancelled due to the COVID-19 pandemic and issues arising from it

The number of exhibitions cancelled ranged from a low of two on average for galleries with turnover of between $500,000 and $1 million (representing 33% of their planned program for the year) to four on average for the largest galleries (or around 44% of their program). Smaller galleries with turnover of less than $500,000 had the largest decline in the proportion of their scheduled programming, with an average cancellation of three exhibitions (or approximately 50% of those scheduled for 2020). Cancellations were a bit less frequent in some markets in Europe, such as France and Germany, which averaged a cancellation rate of 33% versus 38% in Greater China and the US. South America had one of the highest regional averages at 63%.

Figure 14 | Average Number of Gallery Exhibitions in 2020

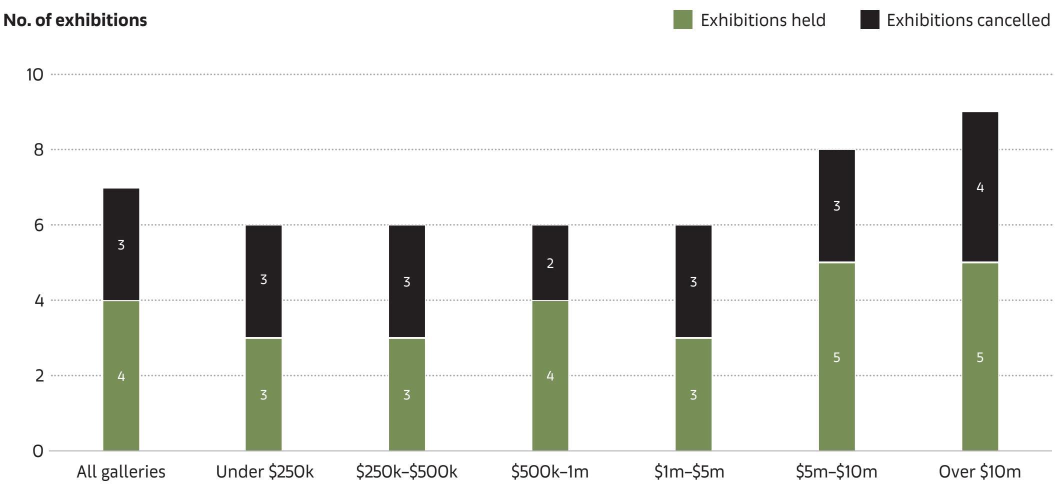
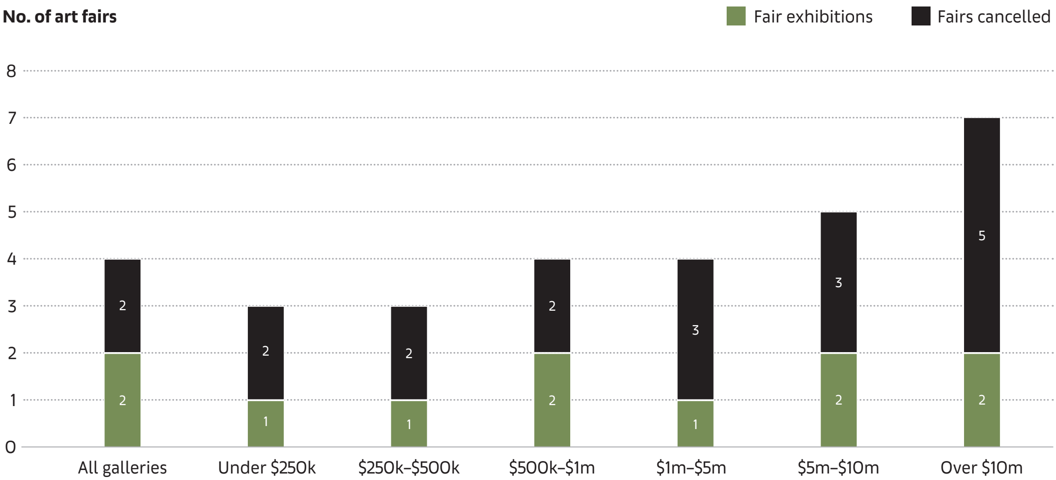


Figure 15 | Average Number of Scheduled Art Fairs in 2020



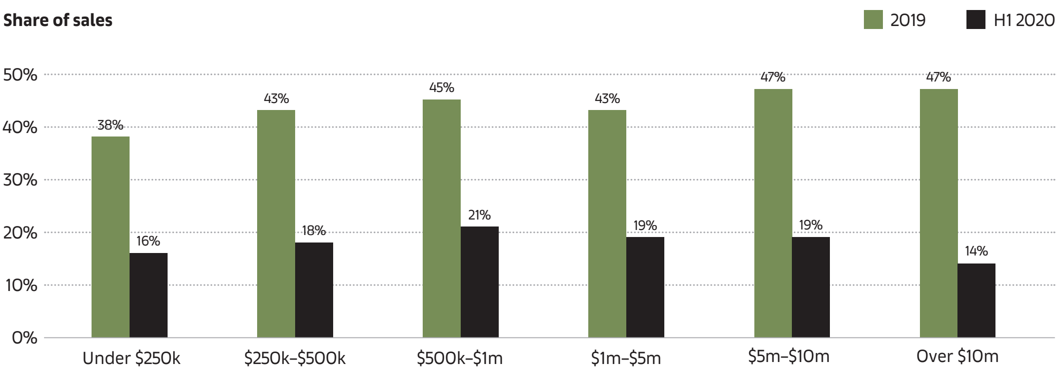
The cancellation of art fairs meant that galleries' sales via this channel were radically reduced from 46% in 2019 to 16% in the first half of 2020

Looking ahead to 2021, the impact of the COVID-19 pandemic on exhibition programs seems to be modest but sustained. Although many galleries have planned to reopen and remain open in the second half of 2020, they plan to hold slightly fewer exhibitions in 2021 than they did in 2019, with the average dropping from seven to six – all of which will be subject to the prospect of further government-imposed lockdowns and other restrictions. There are likely to be various reasons for this change, as the crisis has necessitated a strong focus on cost cutting and a continued vigilance toward restricting physical interaction. In the US, which reported a slightly higher than average number of eight exhibitions in 2019, galleries plan to cut this number to six in 2021. Some of these galleries noted anecdotally that they are focusing on cost cutting alongside concentrating resources on key artists and shows, which they believe will deliver the best results in 2021 or are the most core to their programs.

Art fair participations were cancelled for most galleries in 2020, as all of the major art fairs and smaller regional events were cancelled or postponed beginning in March. As seen in Figure 9, art fairs accounted for nearly half (46%) of gallery sales in 2019. The absence of these physical events in the first half of 2020 meant that sales were significantly reduced through this channel. The art fair infrastructure was already under significant pressure in 2019, with cancellations and postponements of some events unrelated to COVID-19, as well as long-running debates over the density of the calendar, the costs to attend events and the pressure this puts on smaller businesses, the suitability of the art fair context for exhibitions, and other concerns. Nevertheless, art fairs continued to be a key channel for sales and a critical point of outreach to new collectors, allowing galleries to combine their bases of buyers and find new collectors from more diverse geographical locations.

The galleries surveyed exhibited at an average of four fairs in 2019 (ranging from two for the smallest galleries with turnover of less than $250,000 to seven for those with sales in excess of $10 million). Most galleries had planned to exhibit at the same number of fairs in 2020, but at least half of these had been cancelled at the time of the survey. The largest number of cancellations were for galleries with a higher level of turnover, having started the year with a larger number of planned events. The cancellations brought galleries of different turnover levels on par for the year, with most exhibiting at one or two events only. Although there was some variation between regions, none reported a cancellation rate of less than 50%, and in regions such as Greater China they were as high as 75%.

Figure 16 | **Share of Art Fair Sales in 2019 versus H1 2020**

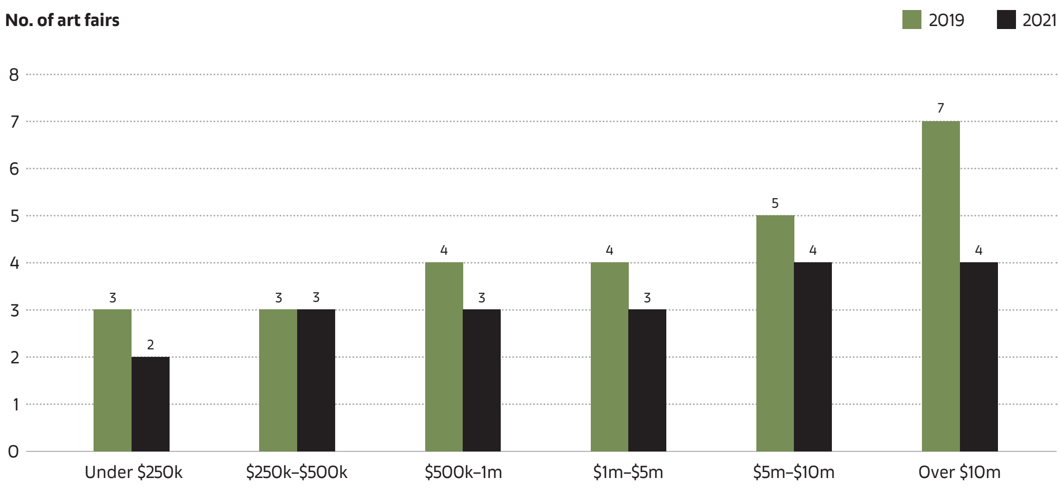


The cancellation of art fairs also meant that galleries' sales via this channel were radically reduced in the first half of 2020 when compared to 2019. As shown in Figures 9 and 10, the share of sales declined from 46% to just 16% of total sales.[11] Figure 16 shows the weighted average share of sales undertaken at fairs by different levels of gallery turnover. This figure indicates that the biggest declines in share were at the highest end of the gallery sector. Galleries with turnover in excess of $10 million reported declines by the most significant margin of 33%.

It is notable that there is evidence of a potential knock-on effect of the pandemic for art fair participation in 2021. As was the case with gallery exhibitions, galleries reported that they plan to reduce the number of fairs they will exhibit at in 2021, with the average dropping to three fairs (from four in 2019). Again, the biggest decline was for the largest galleries (from seven to four for those with turnover of over $10 million). Galleries with sales of between $250,000 to $500,000 were the only ones planning to keep their attendance more stable at three fairs in both years.

11 The share of sales at fairs is measured as the average share of total sales, weighted by each gallery's sales turnover.

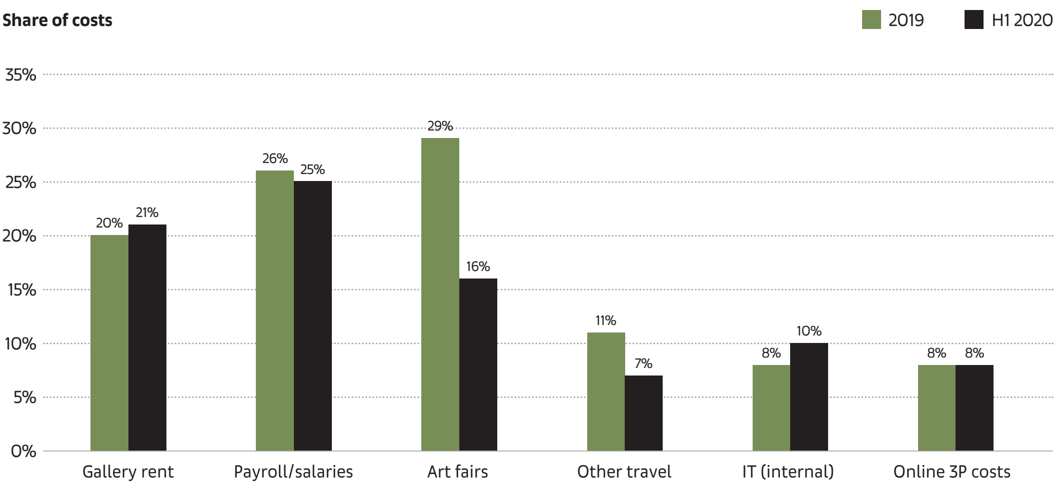
Figure 17 | Average Number of Art Fairs in 2019 versus 2021*



*Average number of fairs rounded to nearest whole number. Sample includes only galleries that exhibited at a minimum of 1 fair in 2019.

Galleries planned to reduce the number of fairs they will exhibit at in 2021, with the average dropping to three fairs (from four in 2019)

Figure 18 | **Share of Total Costs for Galleries in 2019 versus H1 2020***



*Share of costs are based on the (simple) average reported for each category across all galleries. Total costs do not sum to 100%.

Art fair expenses were the single largest component of total costs for galleries, accounting for 29% on average in 2019 – higher than both payroll and rent

Although the reduction of sales at art fairs has resulted in a substantial financial loss for many galleries, some noted that by reducing the costs associated with travel and exhibiting at fairs, they were able to maintain more stable profits despite the drop in sales. Art fair expenses were reported in the survey as the single largest component of total costs for galleries, accounting for 29% on average in 2019 – higher than both payroll and rent. The cancellation of events brought this outlay to almost half its level on average and the costs of travel were also reduced by over a third. For some, this compensated for the lack of sales as other costs remained relatively stable. In some cases, galleries were also able to access government supports for payroll and other overheads, allowing them to further reduce or stabilize costs.

However, most of these supports were available only for a limited period, an issue of significant concern in the sector as funding begins to taper off in the second half of 2020 (see Chapter 5).

Looking forward, most galleries (91%) thought that art fair sales in the sector would not increase in the second half of 2020. There was more optimism for 2021, but still, only one third of the galleries surveyed thought sales would increase, with the remainder expecting them to be the same (26%) or decline further (43%). These findings were relatively consistent across gallery sizes and regions.

Looking forward, most galleries (91%) predicted art fair sales would not improve in the second half of 2020, and only one third thought they would increase in 2021

Supports and Strategies

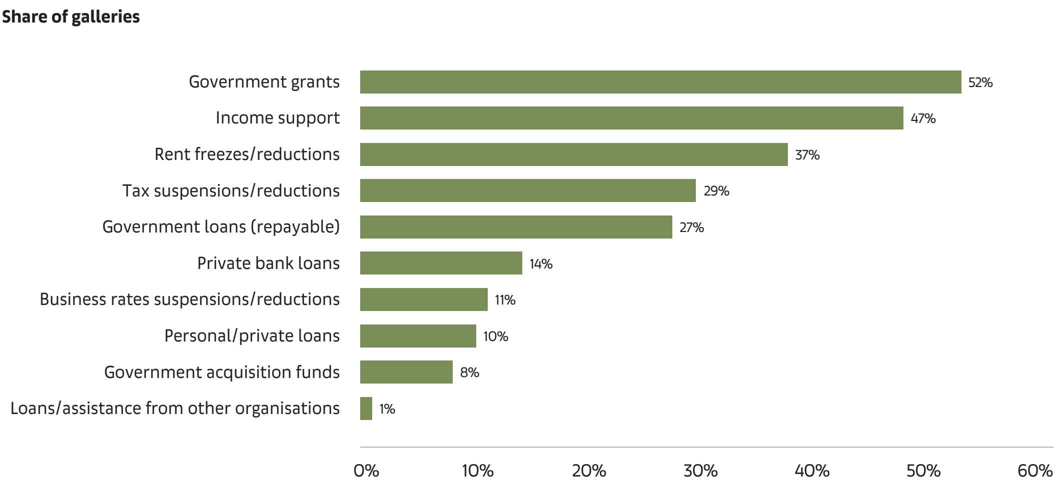
The financial crisis associated with the COVID-19 pandemic has been a global phenomenon with very few national economies spared from its negative impact. Most governments throughout the world have extended some form of emergency support measures for small businesses and workers, with a few offering programs specifically focused on arts and cultural enterprises.

With art fair costs removed or radically reduced for the first half of 2020, rent and payroll costs have become some of the biggest concerns of galleries. Many galleries are coming under financial pressure, but the impact of this and how they have managed during this crisis is critically dependent on where they are located – not just regarding the severity of the crisis and how long shutdowns have extended, but also in terms of what level of support has been made available to them. Galleries commented that it is not only the amount of funding and assistance available that mattered, but also the ease, terms, and immediacy of access. Galleries and their associations in many regions flagged issues regarding the high levels of bureaucracy and large amounts of small print and paperwork required in order to access public aid, while some economies took up to three months to release national stimulus packages allowing for access to support. Political and economic stability was key to the swift approval of public funds. The US response was one of the most criticized of all major art economies, with galleries citing issues related to the constantly evolving legislative parameters and general confusion at federal, state, and city level, particularly around access to funding from the Paycheck Protection Program (PPP).

Galleries in many regions flagged issues regarding the high levels of bureaucracy and large amounts of paperwork required in order to access public aid

Still, the most common forms of COVID-19 support that galleries reported accessing were grants, subsidies, or other emergency funds provided by governments. These were accessed by over half of the galleries surveyed. Alongside this emergency funding, income and salary support measures for employees or the self-employed were widely used as well as rent freezes, reductions, or deferments. (Grants and income support were also the most common measures used in combination by galleries, at 23%.)

Figure 19 | Support Measures Accessed by Galleries in Response to COVID-19



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The most common forms of COVID-19 support that galleries reported accessing were grants, subsidies, or other emergency funds provided by governments

Salary and income supports were critical for many galleries and used by a majority in most countries in Europe. As the crisis continues, some of these schemes have been extended, although many are currently planned to be reduced and phased out in the last quarter of 2020 (for example, the UK furlough scheme is available until October, while a tapering schedule of support in Germany is due to end in December). Applications for the PPP in the US were extended to August, which was one of the most widely used supports for payroll by galleries, although some noted difficulties in the practical use of this loan given its stringent conditions (for example, 60% of the loan must be used on payroll costs within 60 days of receipt in order for the loan to be forgiven).

Previous research has consistently shown that an issue faced by galleries is the lack of credit and lending in the sector. While this means that many galleries are not burdened with heavy debts, it also means that some do not have access to credit or facilities such as overdrafts and business lending that would allow them to access extra funds for riding out difficult periods by meeting ongoing payroll, rent, and other costs. In terms of lending sources, galleries in the present survey reported overall that government loans were the most common. In the US, government lending and repayable financial assistance was the second most commonly used support measure next to government grants (61% of US respondents accessed grants, while 48% accessed loans from the government). While government loans were available in other markets such as the UK, galleries and their associations reported that some were difficult to access in practice and that dealers were reluctant to take on more debt at a time when revenues were low and uncertain. Only one third of the UK respondents accessed government loans, while the most common supports accessed by British galleries were income and salary support (73%) as well as business rates suspensions, with 61% of respondents from the UK accessing a deferment or holiday on business rates or VAT. Around half also accessed some kind of government subsidy, grant, or emergency funding.

Salary and income supports were critical for many galleries and used by a majority in most countries in Europe

Private lending from banks was not commonly used by galleries. Only 13% of galleries with turnover of less than $250,000 used bank loans or credit versus 27% for those at the higher end with turnover of greater than $10 million. The latter were also more likely to have had existing lending relationships with banks, making funding any low periods somewhat easier.

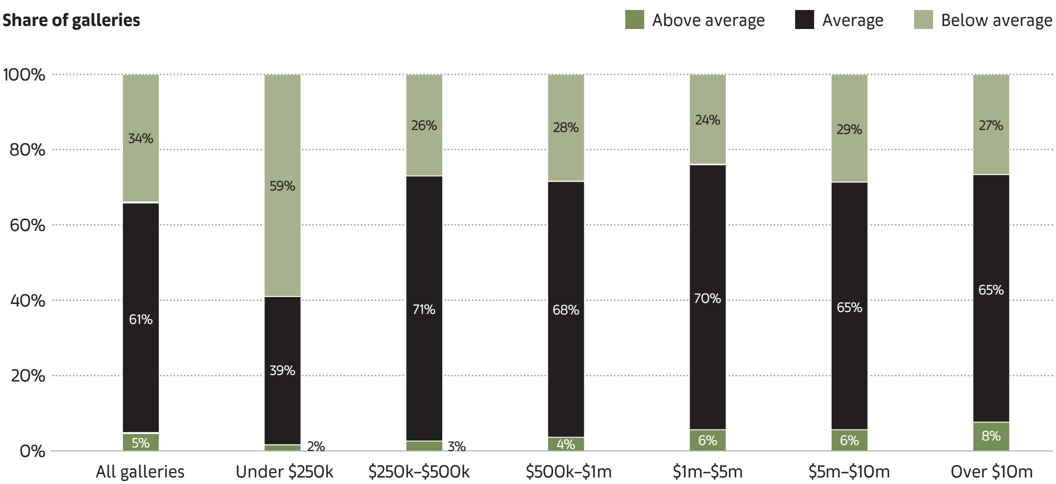
Rent freezes and reductions were the third most accessed support overall and by far the most widely used in Greater China, with 57% of respondents accessing rent breaks in 2020. In mainland China, many galleries were allowed to access one to two months free rent as tenants of state-owned real estate or other rent reductions, some with the requirement that there would be no or reduced layoffs during the period. This was part of the government's plan to stabilize employment in small and mid-sized businesses in 2020.

Some galleries, particularly in some smaller markets, reported that in reality there was very little access to any kind of public or government assistance, and there were few examples of art-specific support measures offered by governments. Apart from the more obvious disparity among galleries in different countries, some galleries also felt that they received less support than peers in their own country.
As studies of resilience and entrepreneurship have found that perceptions of relative success – that is, how an individual or organization perceives it is faring relative to peers – can impact long-term survival and success,[12] it is important to conceive of how galleries are witnessing the crisis, how they perceive the resources at hand, and how they feel they are doing relative to others in the field.

Some galleries, particularly in some smaller markets, reported that in reality there was very little access to any kind of public or government assistance

12 See for example, Kor, Y., Mahoney, J. and Michael, S. (2007), Resources, *Capabilities and Entrepreneurial Perceptions*, Journal of Management Studies, 44, 7: 1187-1212.

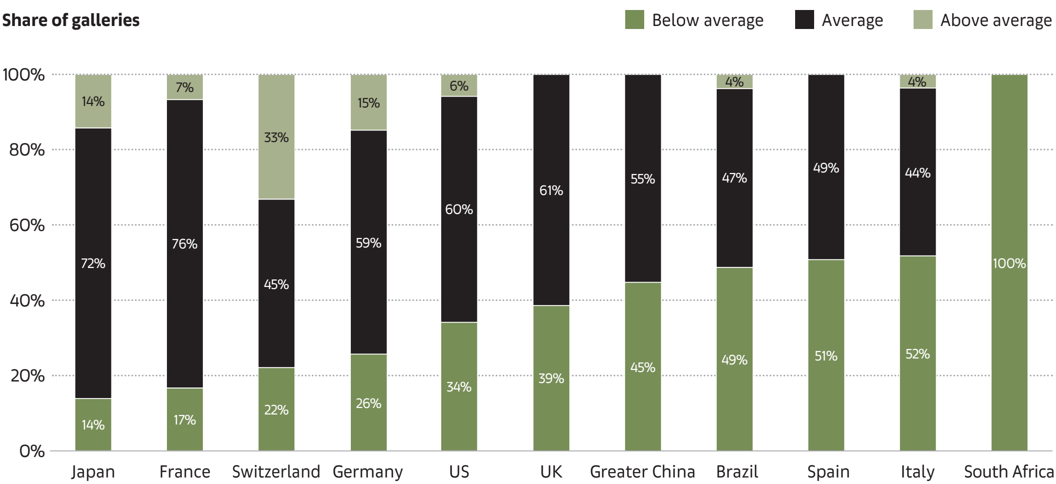
Figure 20 | **Perceptions of Level of Support Received versus National Peer Galleries**



Galleries were asked how they believed they fared in terms of the support they received relative to other galleries in their region. The majority (61%) felt they had received an average level of support compared with other galleries in their region, while just over one third felt they received less support. Smaller galleries were by far the most likely to feel they had received less support than their peers in the region (59%).

Interestingly, a moderate share of galleries (27%) said that they could not assess this question, indicating that they were unaware of where they stood in relation to peers with regard to COVID-19 support. Small galleries (33%) were particularly uncertain, possibly indicating that they have less access to information about peer or larger galleries, or about the environment of available supports.

Figure 21 | Perceptions of Level of Support Received versus Peer Galleries of Same Size



Galleries were also asked how much support they felt they had received when compared to support provided to global peers of similar size in the same sector. While again this showed a majority (61%) felt they received an average level, there were differences between regions and countries. A majority of galleries in the major markets such as the UK, US, and Greater China reported receiving an average level of support relative to international peers of their size, but galleries in several countries in Africa and South America and some mid-sized markets in Europe felt they had received less (although this was also partially driven by a larger share of smaller galleries in these regions).

Gallery Outlook

The COVID-19 pandemic has been a significant economic challenge to galleries around the world, as it has been to millions of other small businesses in other industries. Galleries are particularly vulnerable in this crisis because their operations often rely on physical interaction and travel. Many galleries were also already at risk financially before the crisis began. Looking ahead, the majority of galleries responding to the present survey felt that the remainder of the year was going to continue to be very difficult, with a majority expecting sales to continue to decrease. Just 21% of the galleries surveyed expected that sales by their gallery would pick up in the second half of the year. Smaller galleries had a slightly higher level of optimism regarding the rest of 2020: 23% of galleries with turnover of less than $250,000 and 31% of those between $250,000 and $500,000 thought their sales would increase versus only 10% of the largest galleries with turnover in excess of $10 million and 11% for those between $5 million and $10 million.

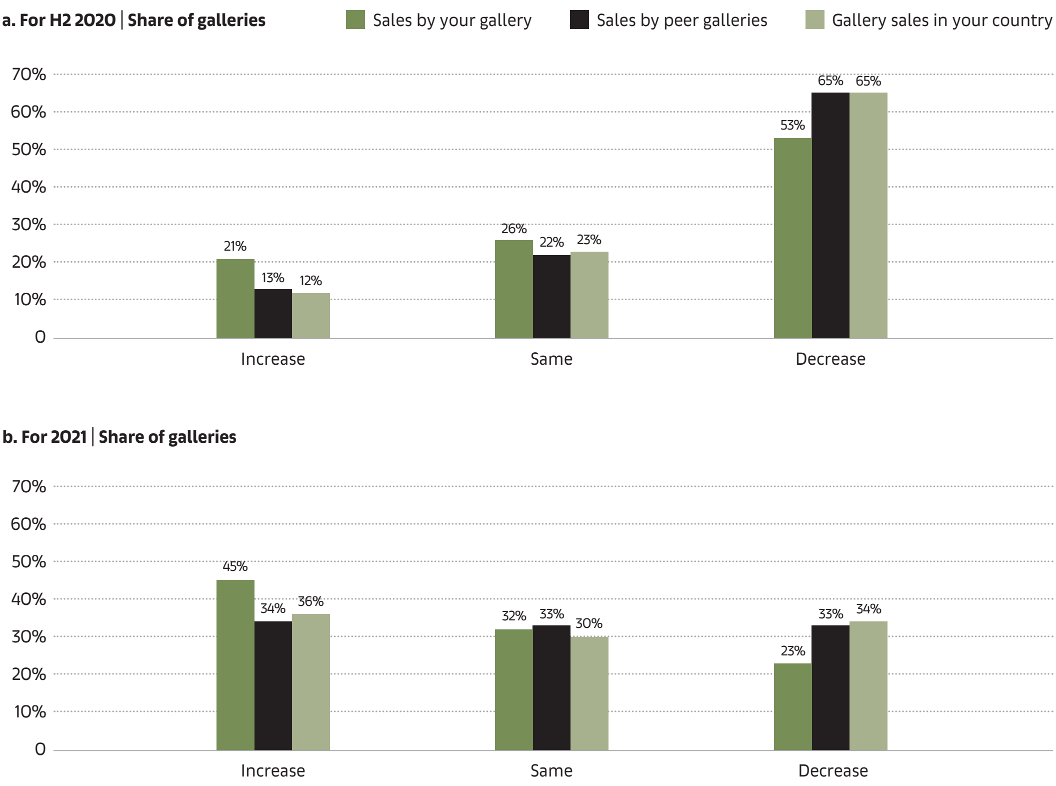
Across all levels of turnover, there was a higher level of optimism for sales in 2021 compared to 2020. Still, however, less than half (45%) of those surveyed expected an upturn in sales from 2020. In this case, the smallest and largest galleries were more aligned. For each segment, 45% forecasted sales increases for their own galleries in 2021 over 2020, although in both cases less than 40% forecasted sales increases for their peer groups. The least optimistic segment of dealers in terms of turnover size was those between $1 million and $10 million: only 11% projected a rise for the rest of 2020 and only 30% thought sales would improve in 2021.

Galleries outside Europe and the US were the most hopeful about a recovery of sales in 2021. For example, while Chinese and Asian galleries were very pessimistic about the remainder of 2020, 60% of Chinese galleries thought their gallery sales would improve in 2021, and this was even higher in South America (71%) and Africa (87%).

Figure 22 shows that galleries were slightly more optimistic about their own sales versus those of other peer galleries of the same size and in the same sector, or peer galleries of any size in the same country. This was true for both the remainder of 2020 and for 2021. Of the sample, 45% expected an improvement for their own business next year, but only a third expected improvement in the business of peer galleries. This was a strong and consistent feature regardless of the size of the gallery or its location. This may be due to a greater sense of awareness and control over personal outcomes, but also provides an indication of self-efficacy and optimism that may benefit businesses in the long run.[13]

13 The links between optimism and self-efficacy to success for entrepreneurial businesses and individuals have been established in several studies. 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; and Kerr, S., Kerr, W. and Xu, T. (2017), *Personality Traits of Entrepreneurs: A Review of Recent Literature*, Harvard Business School Working Paper, 18-047:1-50. Kardemas (2006) also discusses the mediating role of optimism in determining how self-efficacy and perceived external supports drive greater well-being in Kardemas, E. (2006), *Self-efficacy, Social Support and Well-being: The Mediating Role of Optimism, Personality and Individual Differences*, 40,6:1281-1290. However, Camerer and Lovallo (1999) argue that when assessing their position on any positive trait, the majority of people assume they are above average (although only half can be), and that this in itself does not lead to more positive outcomes. Camerer, C. and Lovallo, D. (1999), *Overconfidence and Excess Entry: An Experimental Approach*, American Economic Review, 89,1: 306-318.

Figure 22 | Gallery Views on Future Sales



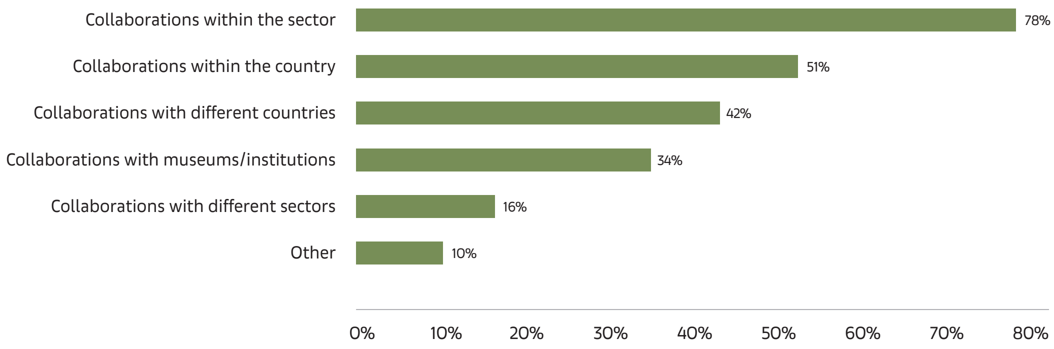
Gallery Collaborations

In further consideration of the relationship between galleries during the crisis, the present survey asked about collaborations that galleries had been part of in response to the COVID-19 pandemic. There have been many wide-ranging discussions on collaborative efforts in the sector over recent years, with most focused on exhibitions, cost sharing, and sales. While many galleries engage regularly with other peer businesses and institutions, important collaborative models, such as Condo, Platform LA, and other initiatives have continued to build momentum over the last few years, challenging the dominance of the event driven fair models, and providing smaller galleries with networking opportunities with lower upfront costs and risks.

Overall, however, dealers' opinions were deeply mixed as to the level and depth of collaboration that has or should occur in practice. Empirically, then, it is interesting to note that around 60% of galleries said they had engaged in some form of collaboration during the first six months of 2020 in response to the pandemic. By far the most common form of collaboration was with other galleries within their sector (78%), while just over half had collaborated with another gallery in their country. Most of the galleries that had tried collaborations had also done this in various ways: 70% tried at least two of the forms of collaboration listed in Figure 23 (most commonly reporting both those with galleries in their sector and own country), 40% had tried three (most commonly in their sector, country, and a different country), and 14% four (most commonly in their sector, country, a different country, and with a museum or other institution). Alternative forms of collaboration mentioned by galleries also included working with auction houses, artists, gallery associations, universities and scholars, curators, designers, hotels and other retailers, and also those with charitable organizations, including fundraising drives to help those affected by COVID-19.

Collaborations with other galleries were generally engaged in to help reduce costs, mutualize potential buyers, and undertake joint marketing. Some galleries noted anecdotally that collaborations were also a means to offer support to colleagues or smaller galleries.

Figure 23 | Gallery Collaborations in 2020



Collaborations with other galleries were generally engaged in to help reduce costs, mutualize potential buyers, and undertake joint marketing


REPUBLIK
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NIPPON
1972
XVI INTERNATIONAL CONGRESS
DAR ES SALAAM
30.VI.1994
ПОЧТА

INDONESIA
REPUBLIK
TANZANIA
NIPPON
REPOEBLIK
ПОЧТА

Gallery Priorities in 2020

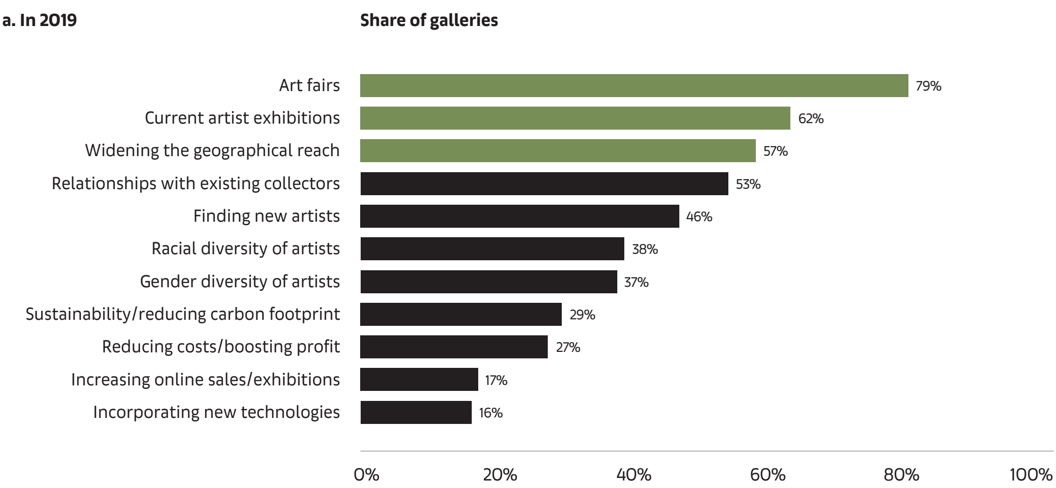
The potential fallout from the pandemic for galleries is likely to be deeper the longer it plays out. While many galleries have been focused on the survival of their businesses during the first half of 2020, its effects are causing a substantial shift in their current and future priorities.

Galleries reported that their key priorities in 2019 were their art fair exhibitions and widening the geographical reach of their client base. These priorities have shifted markedly over the first half of 2020. Now, perhaps unsurprisingly, more focus is on trying to boost online sales and cutting costs to maintain profitability. The majority of galleries also shifted their focus from widening their base of buyers to ensuring that they maintained relationships with existing clients who are seen to be critical to their survival.

Looking ahead one to two years, into what will hopefully be a post-crisis phase, the expected priorities of galleries tended to shift back to widening their client base while also preserving relationships with current clients. The focus on online sales does not appear to be a passing fad or temporary response to COVID-19, however, with this rapidly evolving area remaining one of the top priorities for most galleries going forward. A majority of galleries also reported that they would be focusing on incorporating new technologies such as AR, VR, and other tools both in 2020 and in the subsequent period, whereas this was a priority for only 16% of the sample in 2019. More galleries will also focus on the sustainability of the art market and reducing their carbon footprint in the years to come, shifting from a top priority for only 29% of respondents in 2019 to a majority of 58% in the next one to two years.

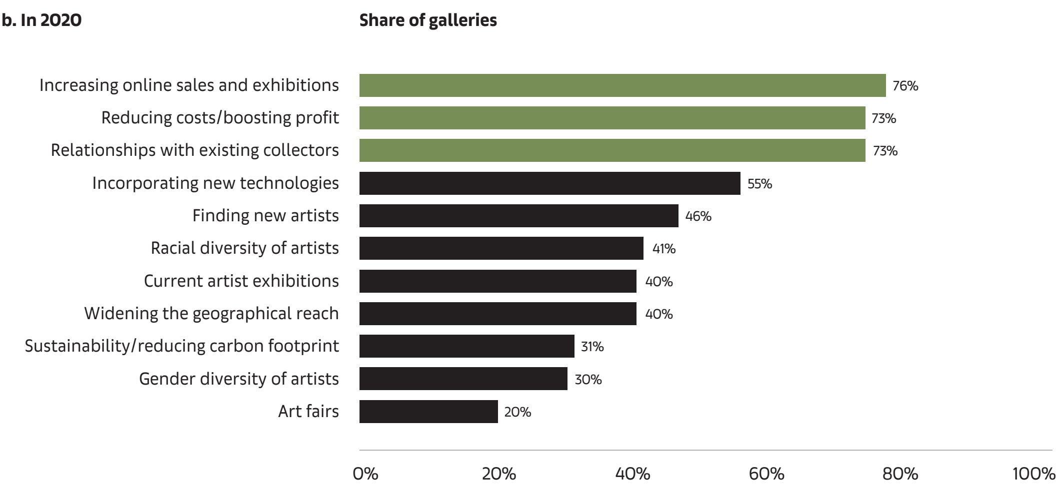
The majority of galleries also shifted their focus in 2020 from widening their base of buyers to ensuring that they maintained relationships with existing clients who are seen to be critical to their survival

Figure 24 | Galleries' Top Priorities for their Businesses[14]

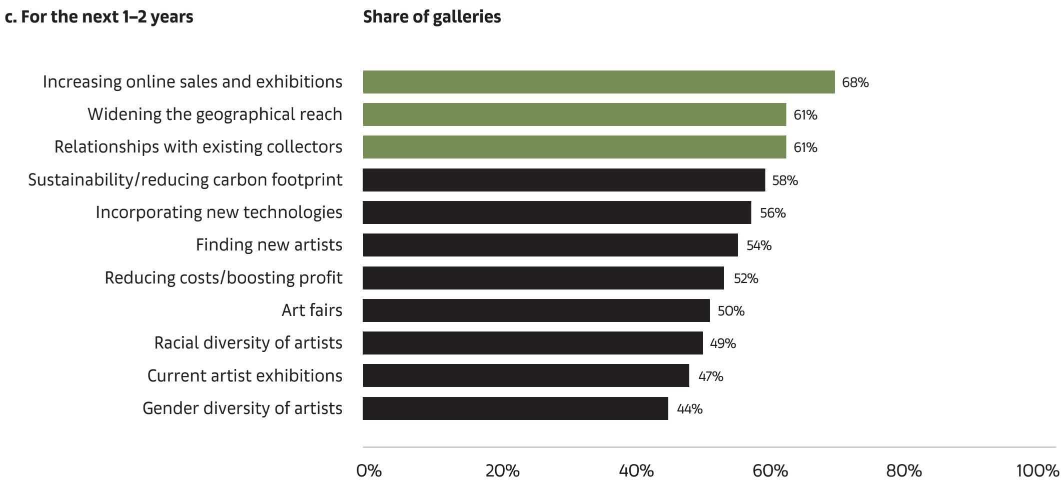


14 Galleries were asked to rank their top three priorities in each period.

b. In 2020



© Arts Economics (2020)


c. For the next 1–2 years
Share of galleries
Increasing online sales and exhibitions
68%
Widening the geographical reach
61%
Relationships with existing collectors
61%
Sustainability/reducing carbon footprint
58%
Incorporating new technologies
56%
Finding new artists
54%
Reducing costs/boosting profit
52%
Art fairs
50%
Racial diversity of artists
49%
Current artist exhibitions
47%
Gender diversity of artists
44%
0%
20%
40%
60%
80%
100%

S. Bernardo
S. Magín
Sta. Elena
S. Roque
Asunción de Ntra. Sra.
S. Juan Clímaco
S. Cristóbal
La Visitación de María
S. Beda el Venerable
S. Desiderio
S. Fernando
Corpus Christi
Ntra. Sra. de los Ángeles
FIESTAS AUTONÓMICAS (Previsión): Día 2, Andalucía, Aragón,

6

Collector Perspectives

During the first half of 2020, the COVID-19 pandemic also introduced significant disruption to collectors' normal patterns of interaction with galleries, as exhibitions and art fairs were cancelled or postponed, and their primary means to view and access art for sale was online only.

Galleries noted in previous research in 2019 that in uncertain political and economic contexts, it had been difficult at times to keep collectors focused on buying art. This issue increased exponentially during 2020 as many collectors focused primarily on health, safety, social, and financial concerns. However, unlike some other recessions, galleries also noted an acute awareness and strong drive by some collectors to support the arts, and help ensure the survival of galleries, artists, and museums during the crisis. To try to assess the level of collector participation and interaction in the gallery sector and art market generally, Arts Economics and UBS distributed a short survey to high net worth (HNW) collectors in three different markets: the US, the UK, and Hong Kong SAR (China).

Description of the Collector Sample

For inclusion in the survey, respondents were screened according to their level of wealth and spending in the art market over two years. To be included, respondents were required to have a current net worth, which excluded real estate and private business assets, in excess of $1 million. To ensure they were currently active in the art market, they were also screened out if they had not spent more than $10,000 on art and antiques in the last two years. The screening process continued until there was a minimum of 120 suitably qualified responses for each market, in addition to requiring that at least 50% of qualified collectors were women.

The age breakdown of the sample was dominated by millennial (48%) and Generation X or Gen X (35%) collectors, reflecting the most active collecting segments in the market.[15]

All respondents had personal wealth in excess of $1 million, with the largest proportion (44%) in the $1 million to $5 million segment. There were 36% of respondents with wealth in excess of $10 million, including 7% in the ultra-high net worth category of over $50 million.

15 For the purposes of this survey, Generation Z or Gen Z are defined as those collectors who are under 23 in 2020, millennials are 23 to 38 years old, Gen X are 39 to 54 years, boomers are 55 to 73 years and the Silent generation are 74 years and over. The share of millennials in the entire population sampled from (i.e. including those screened out) was less than 25%.

Figure 25 | Age Profile of HNW Collectors Surveyed (All Markets)

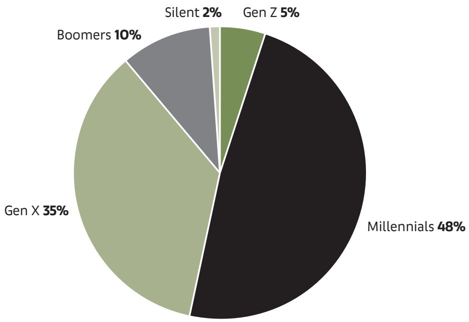


Figure 26 | Wealth Level of HNW Collectors Surveyed (All Markets)

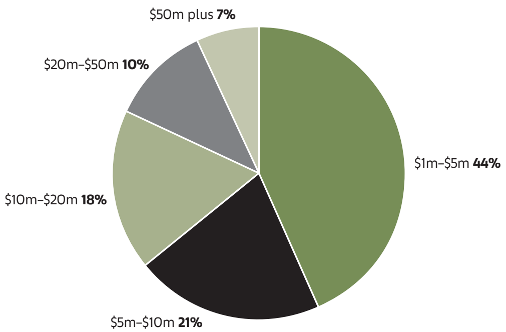
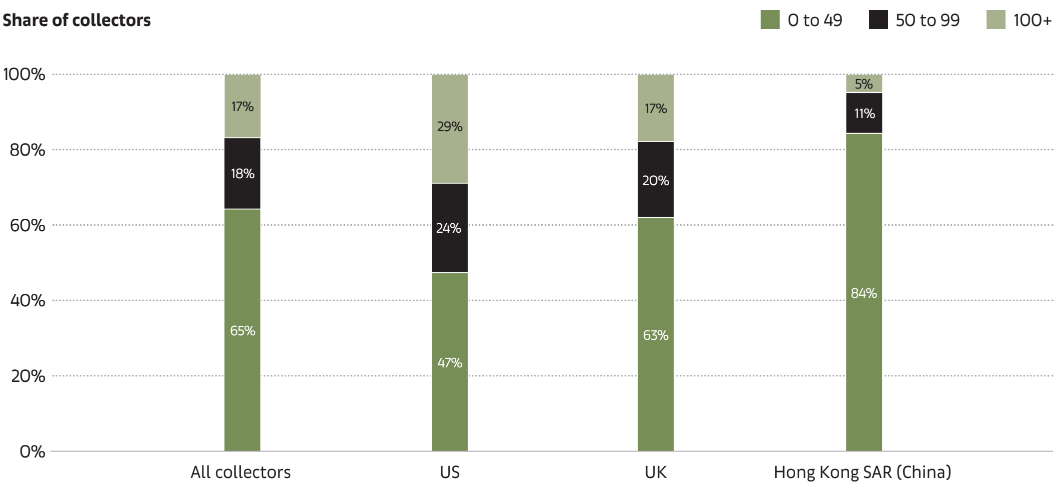
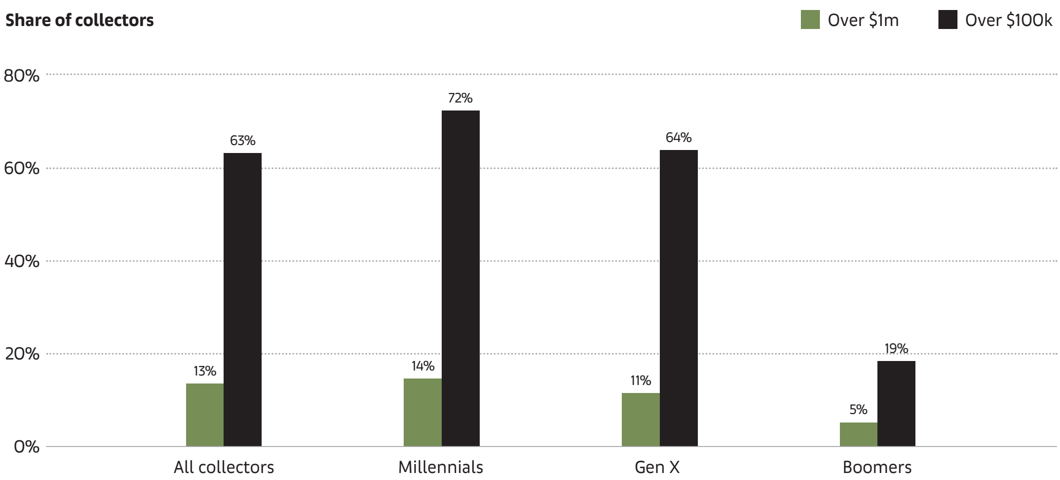


Figure 27 | **Size of HNW Collectors' Collections (Number of Works of Art)**



The majority (65%) of collectors had less than 50 works of art in their collections, with a median of 27 works. Collectors in Hong Kong SAR (China) had smaller collections on average, with a median of 15 works of art, and a majority (57%) had less than 25 works. The largest collections were in the US, where the median size was 42 works and 29% of US respondents owned over 100 works, including 11% with over 250. Across the three groups, collection size increased with the collector's level of wealth and both millennial and Silent generation collectors tended to have larger collections than the average.

Figure 28 | Share of Collectors Spending more than $1 million or $100,000 (Over Two Years)



Due to the screening criteria described above, all respondents had spent over $10,000 on works of art and antiques in the last two years. Respondents had purchased fine art (77%), decorative art (71%), and 58% had bought antiques. The majority of collectors overall and in each region had spent more than $100,000 in the art market in that period, and a significant 13% had spent over $1 million. The largest share of $1 million-plus spenders was in the US (18%), with 13% in the UK and 8% in Hong Kong SAR (China). There was also a higher share of millennial collectors (14%) spending at this high level than in older demographic segments.

Art Buying in 2020

Although the COVID-19 pandemic distracted many collectors from focusing on their collections in the first half of 2020, the survey indicated that most had continued some activity in the art market. Most collectors (92%) across all regions had purchased a work of art in the first six months of the year. The US had a slightly lower average at 90%, and there were significant differences by generation: only 3% of millennial collectors had not purchased works in 2020 versus over one third of boomers. At the most active end, 6% of collectors had purchased more than 10 works, which was on par with the share buying at that volume in 2019. This fits with some anecdotal evidence from galleries who noted that some collectors at the higher end of the market had not presented any diminished willingness to spend once they could access works they were looking for.

The average number of works purchased in the first half of 2020 was four versus six in the full year for 2019.[16] In the US, collectors had only purchased one less work in the six-month period versus the full year 2019.

Although the COVID-19 pandemic distracted many collectors from focusing on their collections in the first half of 2020, most (92%) had purchased a work of art in the first six months of the year

16 Two outlier responses were removed in the calculation of this average that reported purchasing over 500 works in 2019.

Figure 29 | **Average Number of Works of Art Purchased in 2019 versus H1 2020**

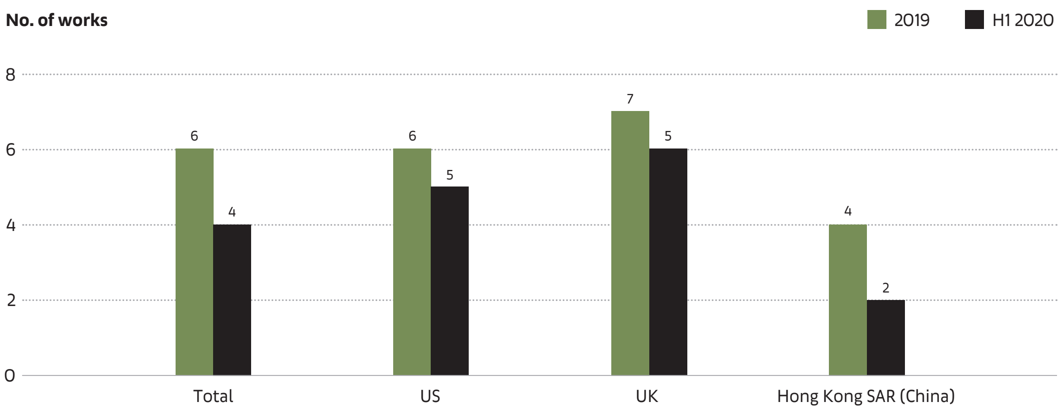
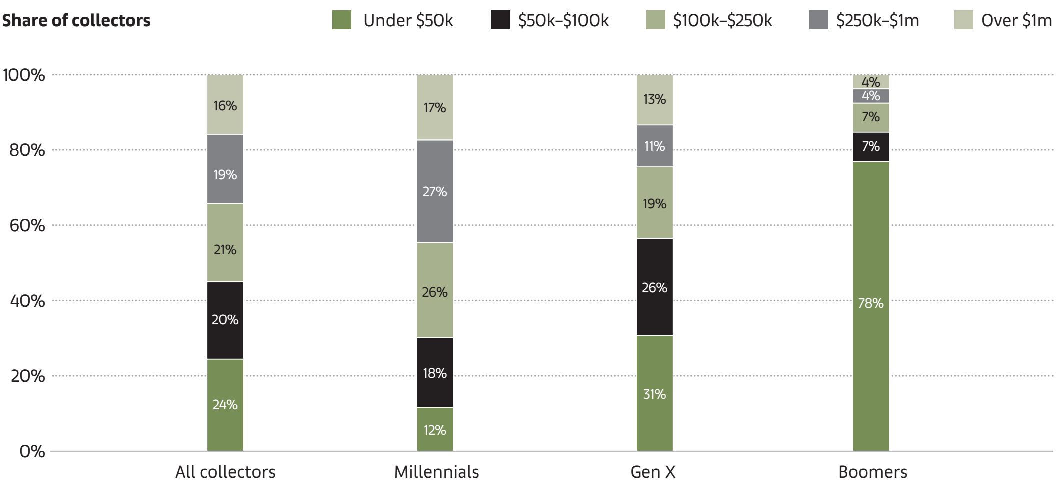
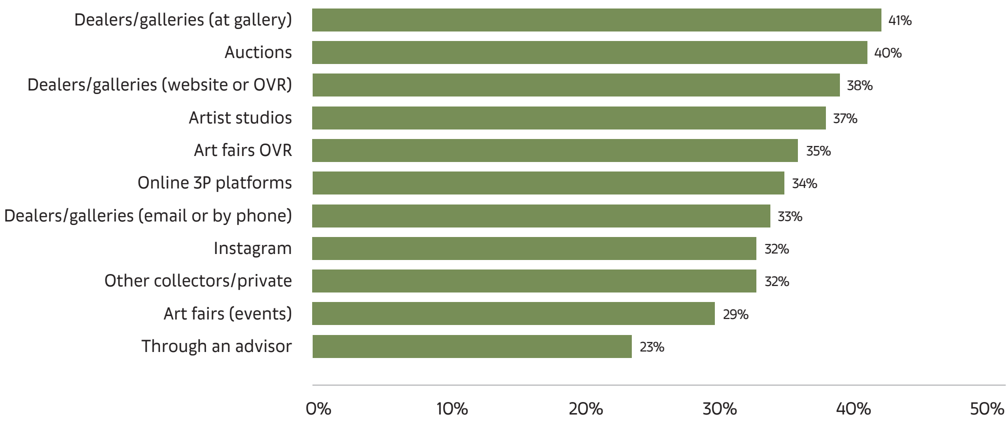


Figure 30 | Share of Collectors by Level of Total Expenditure in H1 2020



The value of spending was also at a relatively high level for some collectors. Less than one quarter of collectors buying in 2020 had spent less than $50,000, while a majority (56%) had spent over $100,000, including 16% spending over $1 million. This was fairly consistent across the three markets, with a slightly lower share of $1 million-plus spending in Hong Kong SAR (China) at 10%. There were more significant differences by age group. The millennial segment had the largest share of high spenders, with 17% having spent over $1 million in the six-month period versus just 4% of boomers.

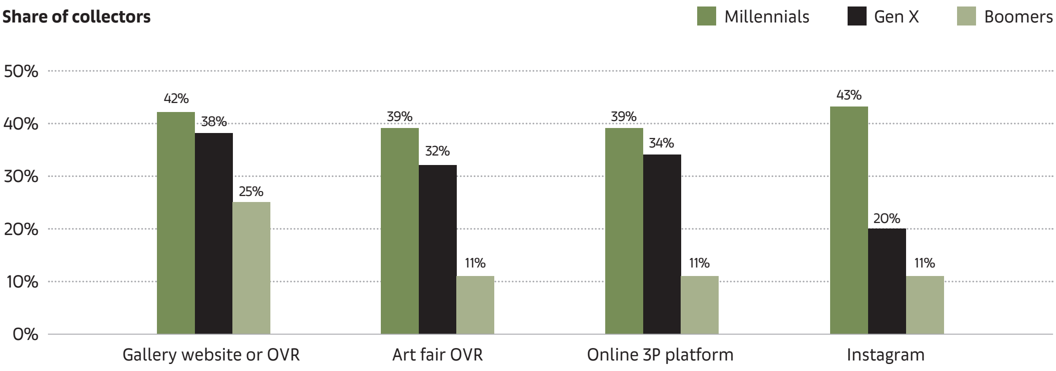
Figure 31 | Sales Channels used for Purchasing in H1 2020



Despite the restrictions in place, cancelled events, and the widespread temporary closures of galleries, collectors still purchased through a range of channels, both on- and offline in the first six months of the year. Of those surveyed, 75% had purchased via a gallery, and the most common method of accessing the galleries was through their physical premises (41%) or buying directly through a gallery website or online viewing room (38%), while one third had made purchases by phone or through emailing the gallery.

Collectors in Hong Kong SAR (China) tended to access galleries more online, while those from the UK did more purchasing at a gallery's premises. US collectors equally favored email/phone and the physical premises over online. Millennial and Gen X collectors were also more likely to have bought online through the gallery's website or OVR than boomers, who preferred accessing the gallery in person to make a purchase.

Figure 32 | **Sales Channels used for Purchasing by Generation in H1 2020**

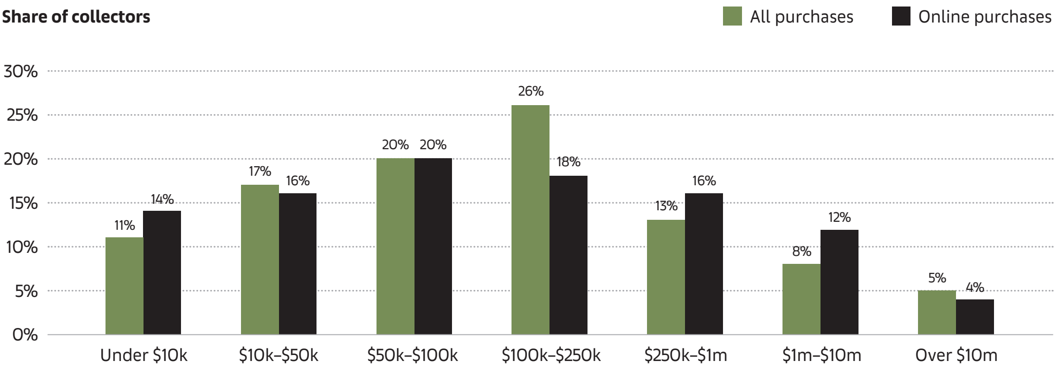


The online viewing rooms of art fairs and online third-party platforms were also used by just over one third of the collectors to buy works of art in 2020. There was very little regional difference regarding the use of these channels, but again, millennial collectors were significantly more likely to have used them (39%) than boomers (11%).

Across all collectors, 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. On Instagram and across other online platforms, there was a distinct generational component to the prevalence of use. While boomers were much more likely to have bought at auctions or physical galleries than their younger counterparts,[17] online channels were much more widely used by younger segments of collectors, with the use of Instagram showing the widest margin by age group. However, this trend is not necessarily connected to the COVID-19 pandemic

17 A share of 60% of boomers purchased at auction versus only 36% of millennial collectors, while 50% had bought from a gallery's physical premises versus 36% for the younger cohort.

Figure 33 | Price Range Most Frequently used for Purchasing Works of Art in H1 2020

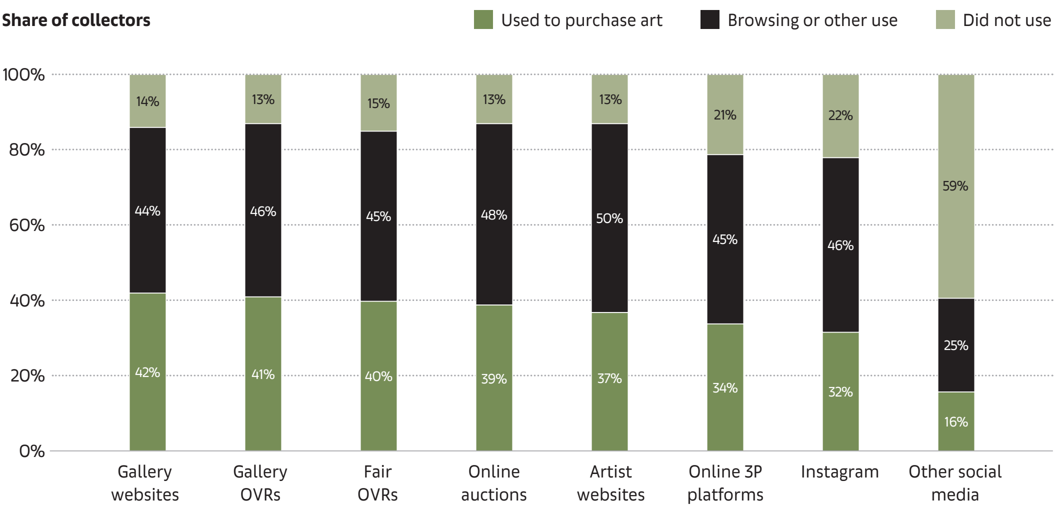


and is consistent with previous research of HNW collectors in other periods, reinforcing the findings that younger generations of collectors are more active online.[18]

Younger collectors were also somewhat more willing to purchase at higher prices online. While 16% of millennial collectors commonly bought works of art at over $1 million online, none of the boomer respondents bought online at that level. Interestingly, the survey indicated that there was in fact very little difference in the price ranges that these HNW collectors bought at online or offline. When collectors were asked the price ranges they most commonly transacted at, 52% reported prices in excess of $100,000. Although collectors have been reluctant to buy at higher prices online in the past, in this sample, there was little evidence of any significant margins between their online versus offline buying; 50% of the sample also reported that over $100,000 was their most common level of spending online.

18 Previous research on HNW collectors across five national markets in 2019 showed similar trends for online channels, with millennial collectors showing a considerably greater use of and preference for online platforms and Instagram than either Gen X collectors and particularly boomers. See Arts Economics (2020), *The Art Market 2020* available at www.artbasel.com/about/initiatives/the-art-market

Figure 34 | Use of Online Platforms during H1 2020



85% or more of the HNW collectors surveyed had visited online viewing rooms for galleries or fairs during 2020, with just less than half of those having used them to finalize the purchase of an artwork

During the first half of 2020, online channels were at times the only way that galleries, auction houses, fairs, and artists could access some collectors. There was a range of online offerings that allowed collectors to still purchase works of art while physical premises were closed, and most of the HNW collectors surveyed actively used a range of platforms to both browse and gain information as well as complete purchases. The most commonly used channel for purchasing art in the first half of 2020 was through galleries' websites or via email (44%). Instagram was by far the most widely used social media channel, although less than one third of collectors had used it to buy art in the six-month period.

Of those surveyed, 85% or more had visited online viewing rooms for galleries or fairs during 2020, with just less than half of those having used them to finalize the purchase of an artwork. HNW collectors noted that, from their experience of these different viewing rooms, the most highly valued feature was the range of different inventory available through the platforms from different galleries and artists. The second highest valued feature was having a price or price range displayed for works of art for sale. Price transparency has been an important aspect of the development of online viewing rooms. Although gallery policies regarding posting prices online (and offline) has been widely discussed in recent years and the benefits of doing so have been proven in research on various online platforms, there is continued resistance to doing so by many galleries. The shift towards greater price transparency during the last six months through online viewing rooms has been cited by some collectors anecdotally as one of the more progressive outcomes from the crisis, which some feel is important to maintain in future both on- and offline.

Of the collectors surveyed, most (81%) felt it was important or essential to have a price posted when they were browsing through works of art for sale online, while a further 16% thought it was helpful but were happy to contact the gallery for a price. Only 3% said it was not important (and 1% would prefer not to have the price posted).

Although collectors were active online, it is still not necessarily their preferred means to interact with the art market. Despite the widespread use of the online platforms during 2020, when asked how they would prefer to view art for sale, 70% of the collectors surveyed opted for attending a physical or offline exhibition at a gallery or art fair versus 30% who preferred using online viewing rooms or other online exhibitions. The most important reasons given for preferring offline were being able to view and better assess the works' scale, condition, color, and other physical features (with 80% of the sample viewing this as very or extremely important). Most collectors also placed a high or very high value on the experience and sense of discovery and excitement of viewing works in person, alongside being able to discuss these discoveries and having other forms of social contact with artists, galleries, and other collectors at live events.

In terms of their interactions with galleries during the crisis in 2020, many collectors were only interacting and purchasing from galleries they already knew. The survey revealed that 41% were focusing only on galleries they had bought from before and had established relationships with, while a further 37% said they were doing this alongside being open to working with new galleries. Some collectors were doing so to reduce risk in uncertain times, others were also actively supporting their regular galleries through a difficult phase, and there was a very high level of awareness and concern regarding the precarious position that some businesses were in. Gallery closures were one of the top collector concerns reported in 2020, with 64% of collectors very or extremely concerned with the potential shutdowns in 2020.

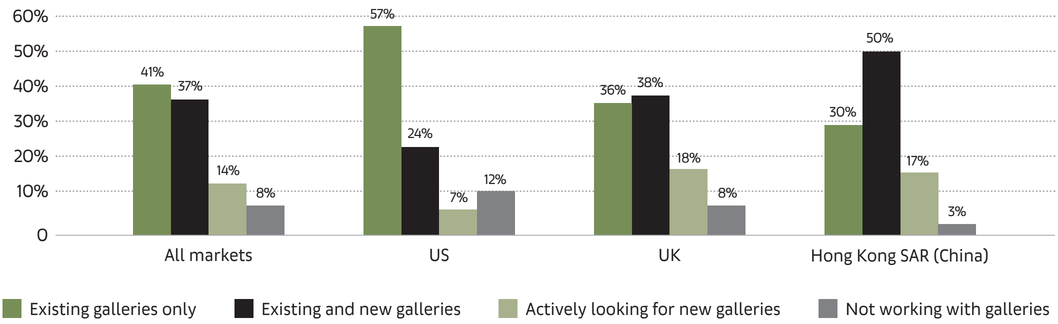
Only 14% of the collectors surveyed were actively looking for new galleries, although this was higher in the UK and Hong Kong SAR (China) versus the US, where the majority were sticking to their established galleries in an attempt to support them through this challenging phase. (US collectors also showed a higher than average share concerned over gallery closures.)

Nearly all millennial collectors (99%) and most Gen X collectors (94%) were actively working with galleries during the crisis, while 40% of boomers reported that they were not working with a gallery at this time. Interestingly, however, of those boomers that were working with galleries, there was a higher share than other generations looking for new galleries to work with, while millennial collectors were more likely to be sticking with the galleries they knew.

41% of collectors were focusing only on galleries they had bought from before and had established relationships with, while a further 37% said they were doing this alongside being open to working with new galleries

Figure 35 | Collectors’ Focus Regarding Galleries during the COVID-19 Crisis

a. Share of collectors by market



b. Share of collectors by generation

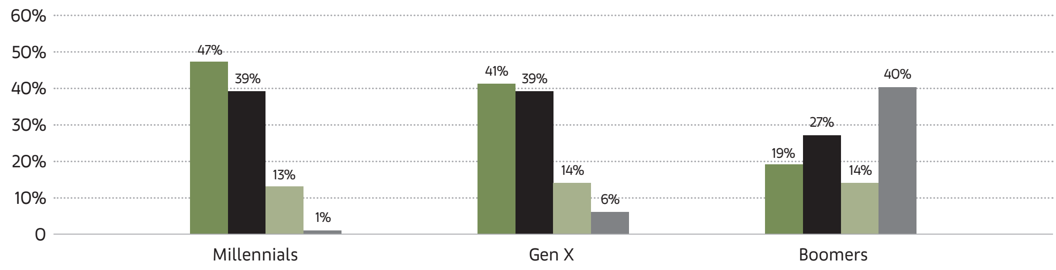
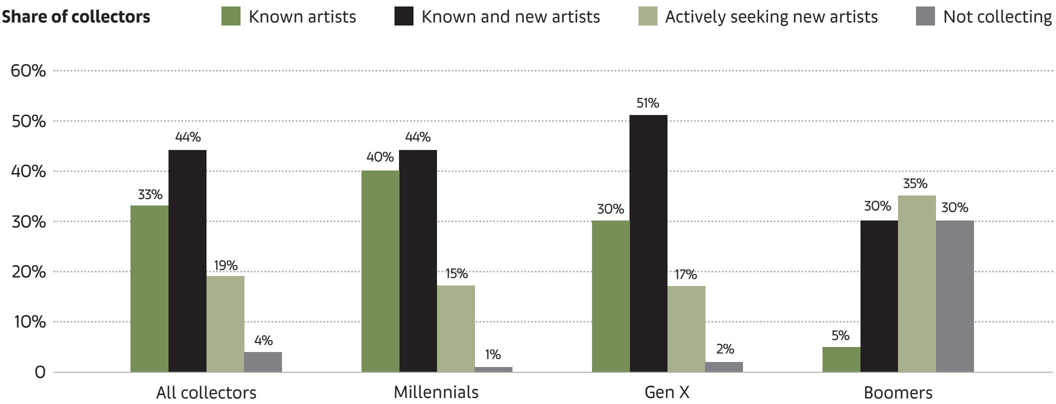


Figure 36 | Collectors' Focus Regarding Artists during the COVID-19 Crisis



© Arts Economics (2020)

During 2020, one third of collectors were also sticking to only buying works by artists that they were familiar with or had bought before, with the highest share in the US at 44% versus 33% in the UK and just 23% in Hong Kong SAR (China). A slightly higher share was focusing on artists they knew but also remaining open to discovering new ones, 44% of the total and the majority of collectors in Hong Kong SAR (China). 19% were actively looking to discover new artists in 2020, with the highest average of 23% in the UK.

More significant differences in collecting interests were found between generations, with millennial collectors the most likely to be sticking to the artists they knew (and galleries they were already familiar with). Although the boomers segment had the highest share of collectors reporting that they were not interested in collecting art during the COVID-19 crisis, those that were active were far more likely to be looking for new artists, with 35% of this cohort overall seeking new discoveries, more than twice the share of millennial collectors. Their reduced activity generally is likely to be related to the fact that they are more likely to have already built up substantial collections over time, but for those that are still active, finding new artists is particularly important.

Event Attendance in 2020

Previous research of the global art market has revealed the often frenetic activity of some collectors in the event-driven art market. This was also evident in this sample of HNW collectors, who attended an average of 23 events in 2019.[19] US and UK collectors attended slightly more events (at 28 and 25 respectively) versus an average of 12 for respondents based in Hong Kong SAR (China). Collectors attended a variety of different exhibitions and the sample also showed a high level of engagement with the non-commercial art sector, with museum visits making up the largest share of exhibitions (nine in 2019, including five in public museums and four in private museums).

The COVID-19 pandemic has significantly reduced the ability and willingness of many collectors to attend exhibitions and events: for the full year 2020, collectors expected they would reduce their attendance to 14 events (a decline of 39% on 2019). It is notable that collectors in the US and Hong Kong SAR (China) were more aligned in the significant extent of their pullback (both planning to reduce attendance by over 40%), whereas collectors in the UK were more modest, signaling that they only planned to attend two less events overall (from 25 in 2019 to 23 in 2020).

The COVID-19 pandemic has significantly reduced the ability and willingness of many collectors to attend events: for the full year 2020, collectors expected they would reduce their attendance to 14 events (a decline of 39% on 2019)

19 This is lower than the average of 39 reported in the survey of HNW collectors across five markets in 2019 in *The Art Market 2020*. One outlier variable was removed in this sample, which reduced the average.

Figure 37 | Attendance at Exhibitions and Events in 2019 versus 2020

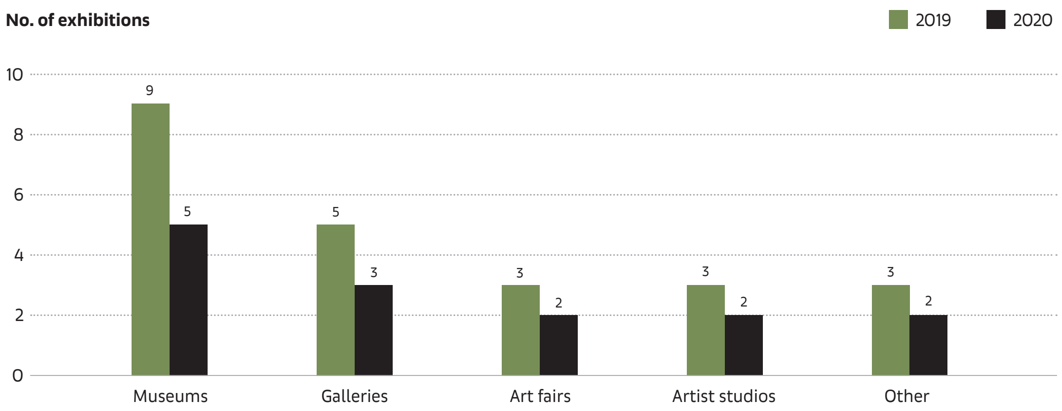
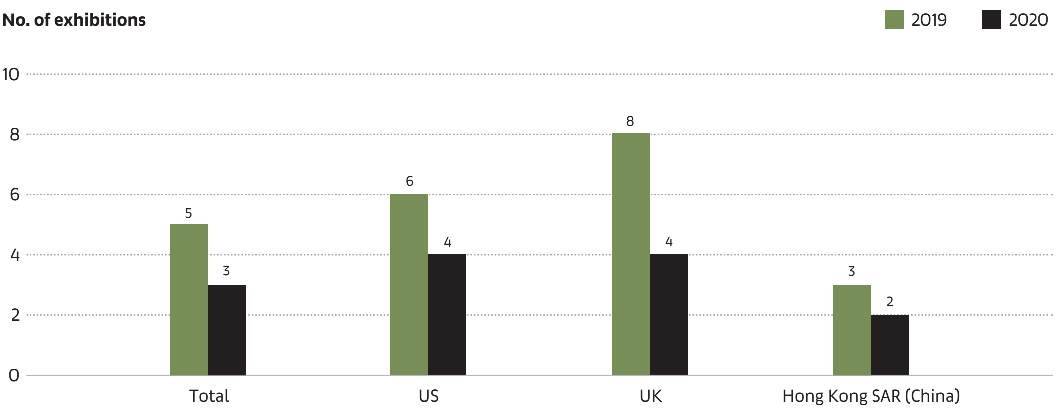


Figure 38 | **Attendance at Gallery Exhibitions in 2019 versus 2020**

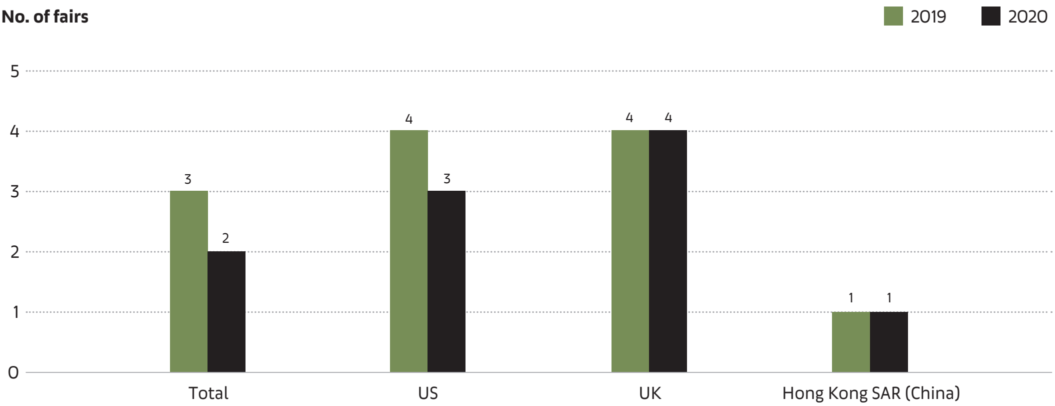


Focusing on gallery exhibitions, the projected decrease in attendance by HNW collectors was from five in 2019 to three in 2020. All markets reported expected reductions of one third or more, with the biggest expected decline from collectors in the UK (although this was in part because they had the highest average attendance of eight gallery exhibitions in 2019).

Collectors reported that the majority of gallery exhibitions they planned to attend in 2020 would be local ones (two out of the three). However, this was also the case in 2019, where three out of the five (60%) of exhibitions attended were those of local galleries.

Overall, the shift to a greater focus on local events and exhibitions that has been predicted by many in the art trade as an outcome of the COVID-19 pandemic was not strongly evident in this sample of HNW collectors, with the share of local exhibitions (across all types) stable at 57% in

Figure 39 | Attendance at Art Fairs in 2019 versus Planned Attendance in 2020



© Arts Economics (2020)

both years.[20] It was more evident for collectors from Hong Kong SAR (China), where the share of local events increased from 58% in 2019 to 71% in 2020. It is important to note that the results of this sample are not indicative of the number or share of visits to exhibitions by the general public, which may show a more local focus in the future, particularly as travel restrictions and quarantines remain ongoing. They also indicated planned attendance in 2020, which may signal some optimism regarding the remainder of the year.

The impact of the pandemic on collector attendance at art fairs has also been a concern for galleries in 2020 and beyond. The survey showed that HNW collectors attended an average of three art fairs (two locally and one overseas) in 2019. They expected this to drop to two in 2020, balanced between local and overseas fairs, although this ranged regionally from one in Hong Kong SAR (China) to four in the UK. Again, some caution must be used in interpreting these results. Some collectors are likely to have

20 Some collectors may have already attended overseas events in the first quarter of 2020, and the total events for 2020 are predictions given the period of the study. It would be premature therefore to infer that there has been little effect from the pandemic on overseas travel and event attendance until the total attendance is reported for the entire year 2020 or without further information on the timing.

already attended events before most fairs started to be cancelled in late March, and again may also reflect a degree of optimism regarding the rest of the year's schedule, which has been subject to various and ongoing changes. However, they do indicate that art fairs continue to be important for HNW collectors and that they remain of interest despite the difficult conditions for their operation in 2020.

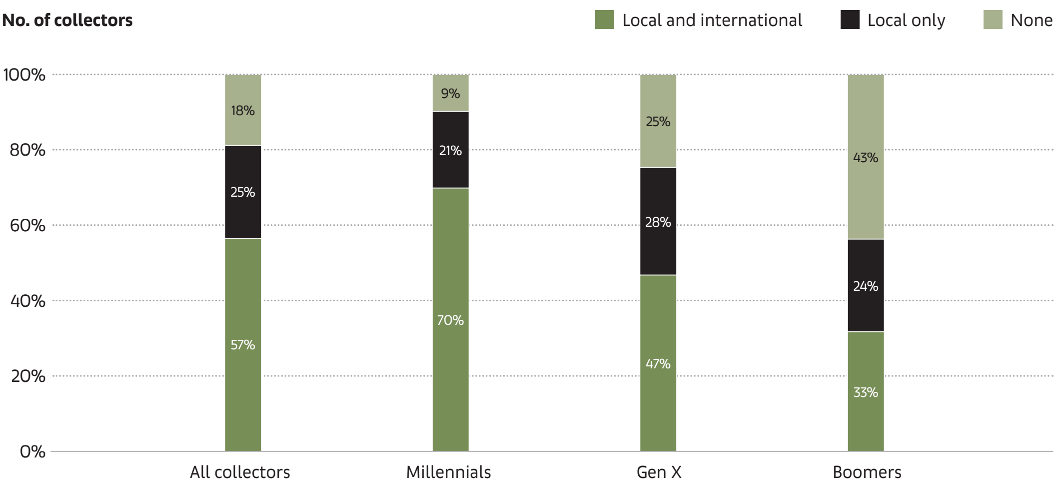
Despite the ongoing limitations and restrictions on travel and attendance at events during the pandemic, most collectors (82%) were still actively planning to go to exhibitions, art fairs, and events in the next 12 months, and a majority (57%) hoped to attend these events both locally and overseas. US collectors were the most interested in international events (65% planned to attend these alongside local ones), while collectors in Hong Kong SAR (China) were more cautious about going overseas (only 48% planned to attend international events in the next year).

Millennial collectors were considerably more likely to travel than older collectors. On aggregate and within the three markets surveyed, more millennial collectors were making plans to attend events than their older peers, with 70% willing to travel internationally versus less than half that share of boomers.

Travel plans also rose in proportion to wealth and spending levels, with the wealthiest collectors planning to attend both more events and more international events. Of collectors with wealth of between $1 million and $5 million, 72% were planning to go to art-related events and exhibitions in the coming year (including 46% planning international travel), while at the highest level of over $50 million, the share of collectors was higher at 92% and 67% respectively. Similarly, 40% of the collectors who had spent up to $50,000 in the last two years were not planning to go to events in the next 12 months, whereas all of those spending more than $10 million were (with 79% hoping to travel overseas).

More millennial collectors were making plans to attend events than their older peers, with 70% willing to travel internationally versus less than half that share of boomers

Figure 40 | Planned Attendance at Local and International Events in Next 12 Months



Most collectors (82%) were still actively planning to go to exhibitions, art fairs, and events in the next 12 months, and a majority (57%) hoped to attend these events both locally and overseas

When asked further about when might be the earliest they would attend an exhibition again, there still was some reluctance about travelling in 2020: just over half of the sample said they would not consider attending local gallery exhibitions or fairs, while over 70% said they would not be willing to plan for attendance at overseas fairs or gallery shows before the end of the year. One third of respondents were only willing to put overseas events back on their agendas after June 2021.

Only 27% of US collectors said they would consider attending an overseas art fair before the end of 2020 (and this share was 37% for local events within the US). This parallels the general sentiment of US consumers. UBS Evidence Lab Consumer Surveys in 2020 showed that willingness to travel has declined significantly from June to the start of August, with the majority of US travelers not willing to travel or go on vacation until 2021.[21]

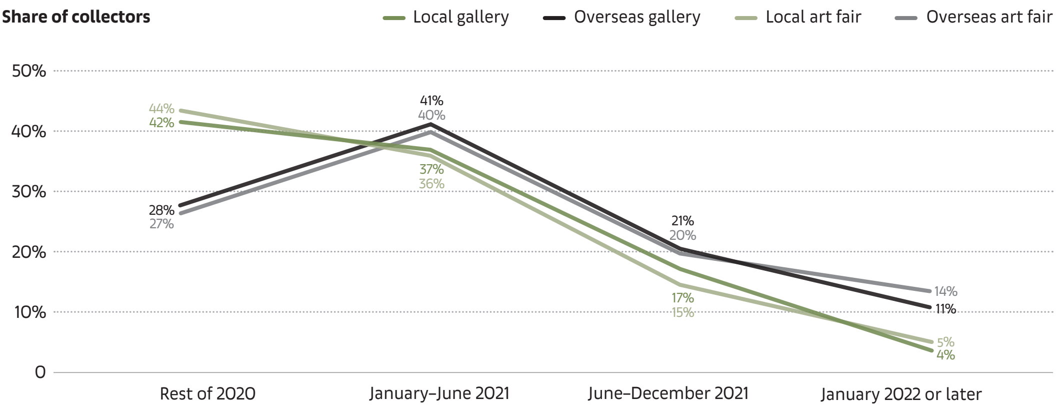
Collectors in Hong Kong SAR (China) were even more cautious: only 23% would attend an art fair outside Hong Kong SAR (China) in 2020, although nearly half the sample (47%) would go to a local fair. There was a slightly higher share of UK collectors (31%) considering international events in 2020, and around half would attend a local fair.

However, collectors across the board were more willing to resume traveling to attend events in the second half of 2021. A share of 67% of respondents would consider attending an international art fair and 69% an overseas gallery exhibition by the end of the first six months of 2021.

When asked about some of their concerns about the art market going forward, 58% of collectors were very or extremely concerned about restrictions and reductions in international travel due to the COVID-19 pandemic, with a higher share of 65% both in the US and in the segment of millennial collectors. Reduced access to museum exhibitions was also a key concern for collectors, the second highest ranking concern next to the closure of galleries. Just over half of the sample reported that their access to international art fairs was a key concern, again, highest for millennial collectors and those from the US.

21 UBS Evidence Lab surveys 5,000 to 10,000 US consumers per week on COVID-19 related issues. In mid-June, only 37% of their respondents in the US said they would postpone travel and vacation plans for six months or more, however, by the start of August this had shifted to a majority of 57%, with only 21% willing to travel immediately.

Figure 41 | Earliest Date Collectors Plan to Attend Gallery Exhibitions and Fairs



Only 27% of US collectors said they would consider attending an overseas art fair before the end of 2020 (and this share was 37% for local events within the US)


Class War

Collectors' Outlook

Although the events of 2020 have obviously been a concern and distraction for many collectors, some reported that the crisis had only served to increase their interest in collecting. Of the collectors surveyed, 59% felt the COVID-19 pandemic had increased their interest in collecting, including 31% saying that it had significantly done so. Conversely, 27% said it had no effect, while 14% said it had made them less interested at this time. A notable trend that may be positive for galleries in the future is that the boost in interest in collecting was particularly strong for younger, wealthier, high-spending collectors. A share of 70% of millennials reported that they felt the pandemic had increased their collecting interests, including 42% significantly so. The share with this positive reaction also increased proportionally with wealth levels (from 44% for those with wealth of less than $5 million to 75% for the wealthiest cohort with over $50 million). Collectors who had spent more in the last two years (which is also tied to wealth) were also much more likely to have become more interested in collecting (from 31% reporting a boost in interest for those spending less than $50,000 to 86% for the highest spenders of more than $10 million).

Despite ongoing uncertainties regarding the pandemic and its effects, just over half of the HNW collectors surveyed were optimistic about the global art market's performance over the next six months, with more optimism in the US and UK than Hong Kong SAR (China). There was little change in their outlook over a longer 12-month period, indicating in part the continuing lack of clarity over how the course of the pandemic might progress and the travel, lifestyle, and other adjustments that may still need to be made. It is notable also that the outlook collectors have for the art market is roughly on par with the outlook for the global stock market over these periods.

Over the longer-term, confidence in the art market advanced in all regions, again mirroring more general increases in optimism for the future (with the global equities outlook following a similar trajectory). Even over the longer-term, however, US collectors remain the most optimistic and those from Hong Kong SAR (China) the least.

Given their high levels of spending and activity in the art market, a positive finding from the survey is that young and wealthier collectors appear to be optimistic about the global art market, with over 60% of millennial collectors being optimistic about its performance in the next six and 12 months versus 24% of boomers. These views converge more over the longer-term as general optimism rose in older demographic segments.

Table 1 | Outlook of HNW Art Collectors over the Short-, Medium-, and Long-Term

a. Outlook for the Global Art Market

	Total	US	UK	Hong Kong SAR (China)
Next 6 months				
Optimistic	50%	59%	56%	37%
Neither/not sure	18%	14%	22%	17%
Pessimistic	32%	27%	22%	46%
Next 12 months				
Optimistic	52%	61%	59%	38%
Neither/not sure	22%	17%	20%	28%
Pessimistic	26%	22%	21%	34%
In 10 years				
Optimistic	64%	72%	63%	56%
Neither/not sure	23%	16%	24%	30%
Pessimistic	13%	12%	13%	14%

b. Outlook for the Global Stock Market

	Total	US	UK	Hong Kong SAR (China)
Next 6 months				
Optimistic	50%	67%	49%	33%
Neither/not sure	21%	14%	21%	29%
Pessimistic	29%	19%	30%	38%
Next 12 months				
Optimistic	53%	66%	52%	40%
Neither/not sure	23%	17%	23%	29%
Pessimistic	24%	17%	25%	31%
In 10 years				
Optimistic	64%	75%	63%	55%
Neither/not sure	22%	14%	22%	29%
Pessimistic	14%	11%	15%	16%

Of the collectors surveyed, 59% felt the COVID-19 pandemic had increased their interest in collecting, including 31% saying that it had significantly done so

Exhibit 1 | COVID-19 Forges Resilience and Adaptability – Economic Perspective from UBS

The impact of the coronavirus has dominated the year, alongside the accompanying social and political unrest, disrupting societies around the world. Lockdowns pushed the global economy quickly into reverse, ending the longest ever US expansion.

The response by central banks and governments has been unprecedented in terms of speed and scale. Led by the US Federal Reserve, the world's major central banks rolled out their entire global financial crisis playbook in just a couple of weeks, cutting interest rates to zero and restarting asset purchase programs (known as quantitative easing). They then went further, extending the size and scope of those purchase programs to include a wider range of assets, such as the Fed buying corporate bonds for the first time.

Lockdown policies reduced household income, so offsetting measures were needed to restore it. Governments have introduced a range of fiscal measures, from direct payments to loan guarantees, to mitigate the significant impact of the pandemic on unemployment and to help companies survive.

From a market perspective, from an all-time high on February 19, the S&P 500 index dropped by 20% in just 16 trading days – the fastest entry into 'bear' market territory ever. By March 23, equities had fallen by just over a third.

From those lows, supported by the fiscal and monetary policy response, as well as by positive developments on therapeutic drug treatments and vaccine development, equity markets have staged a record-breaking recovery. By the start of September, global equities had reached a new record high, more than 50% up from their low point in 2020. In the US, both the S&P 500 and the tech-heavy Nasdaq also reached record highs.

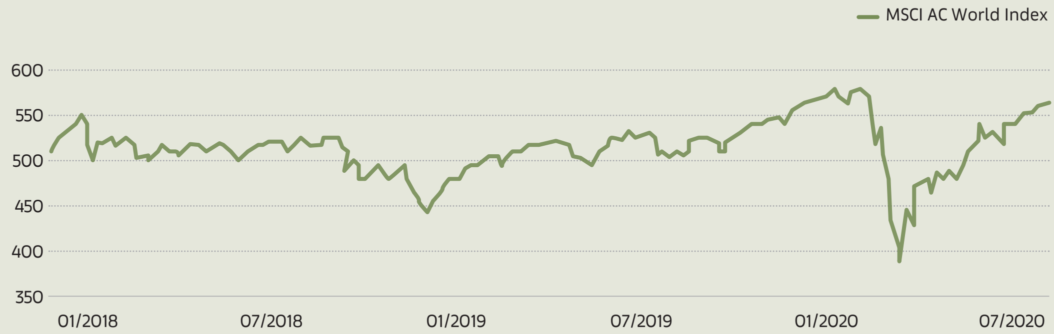
The bounce-back in economic activity to date has surpassed consensus forecasts. Nevertheless, while the rebound in markets has been V-shaped, we expect the recovery in economic activity to be more protracted and for the GDP of developed countries to regain pre-pandemic levels only in 2022.

Economic data remains poor quality and it is impossible to be completely precise about what has happened in specific economies. The US, Europe, and the UK have all followed the same broad trend of regrowth, however. The period of lockdown has taken GDP to roughly 10% below where it was before the pandemic. A GDP level of between 5% and 8% below 2019 levels seems realistic at the end of the year.

Consumption is being driven, in part, by pent-up demand. Forced savings during lockdown have left some consumers with money to spend, potentially further supporting the economic recovery. Mobility is a key factor and signal for economic activity and UBS Evidence Lab PulseCheck surveys identify a slow recovery in tourism as the key risk to the luxury goods sector in the next 12 to 18 months. While overall, mobility data looks promising, recent editions of the UBS Evidence Lab Reopening Consumer Survey illustrate that, by August, fewer respondents in the US were comfortable traveling for the next six months, compared to the beginning of July.

China has followed a different route. Support for consumers was less during lockdown, which has meant consumption has played a smaller role in the economic recovery. Early findings on changes in spend, from the UBS China COVID-19 Impact

Figure i | The Equities Market 2018–2020

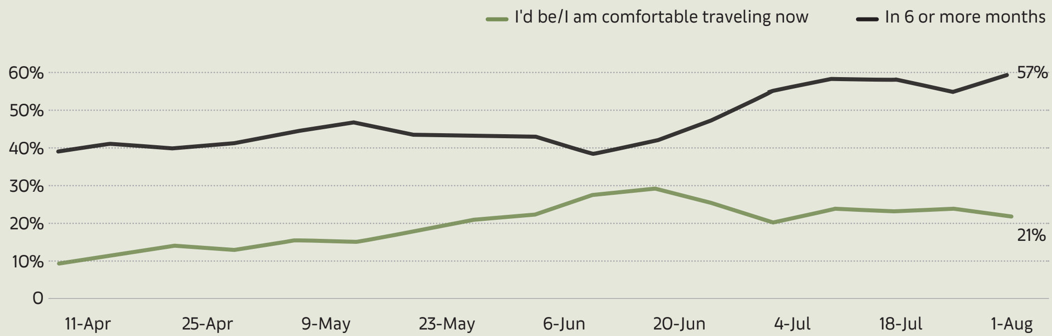


Source: UBS, 2020

UBS Evidence Lab COVID-19 Insights: Evolving insights on the global impact of the coronavirus. https://www.ubs.com/evidence-lab-latest-insights

US Reopening Consumer Survey: UBS Evidence Lab takes an evolving look at how COVID-19 is affecting US consumers by leveraging an online survey of 5,000 to 10,000 people per week. The survey collects an average of 5 million responses per day to ~1,200 questions via partnerships with thousands of websites.

Figure ii | US Reopening Consumer Survey: How soon from now would you be comfortable traveling and/or going on vacation?



Source: UBS Evidence Lab, Civic Science

Consumer PulseCheck Survey in April, also illustrated an increased preference for online entertainment and shopping even after local quarantine restrictions were lifted. Government-led investment and exports have led the bounce-back, with the earlier containment of the virus allowing growth to recover faster than in Europe or the US.

The Future
Although financial markets have recovered their losses and we remain positive on the near-term outlook, we have entered a new paradigm. The post-COVID-19 world will be more indebted, less global, and more digital.

Financing elevated government debt levels will likely require a combination of financial repression (with interest rates kept below the rate of inflation), taxation, and moderately higher inflation. The combination of financial repression and moderately higher inflation will amount to an effective tax on conservative savers and will require investors to reconsider the place of bonds and cash in their portfolios.

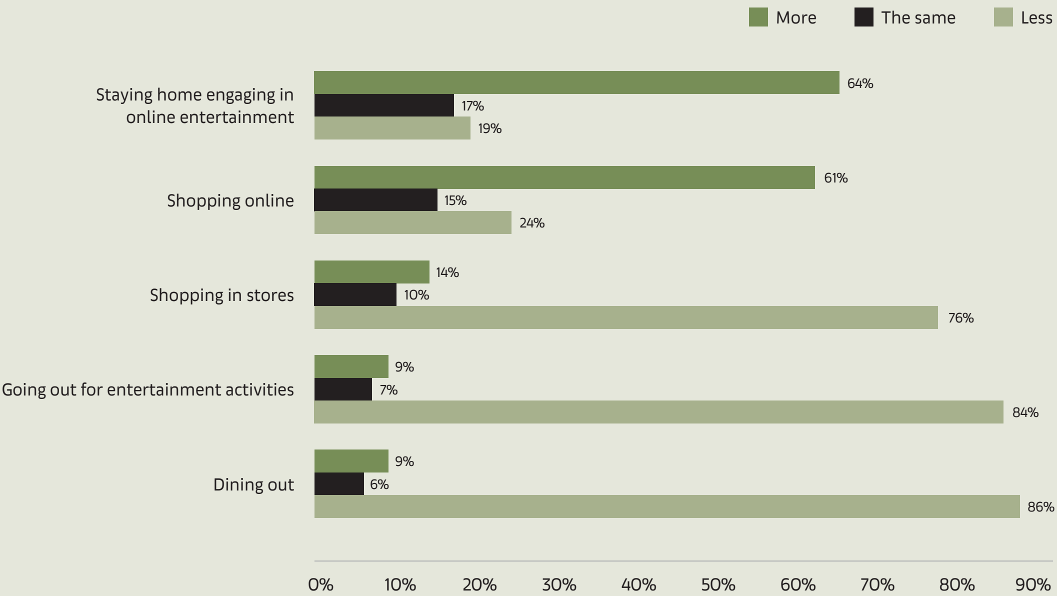
The world will also be less global. Pandemics have a habit of driving xenophobia, populism, and protectionism, with an impact already evident in growing social unrest globally. A less interconnected world will create different outcomes in individual countries and increase the importance of global diversification. With the virus highlighting the need for robust supply chains, and coming amid a period of heightened US-China trade tensions, for many companies, this crisis could tip the balance in favor of local, rather than global, production.

Finally, the pandemic is likely to accelerate the adoption of disruptive technology from retail to healthcare, and the changes of the fourth industrial revolution (automation and connectivity). Lockdown measures have forced many consumers and businesses to change fundamentally the way they buy and sell goods and services, accelerating digital adoption rates. Once the crisis is over, consumers may not fully revert to the use of brick-and-mortar retail, a further boost for e-commerce.

The pandemic has had a humbling impact on all industries, including the luxury segment and the $64 billion art market, where a strong correlation with wealth exists. Yet many businesses have demonstrated resilience and adaptability in the face of the crisis. For the art market, the forced acceleration of online platforms has offered a silver lining with some improvements in price transparency. Digital platforms offer a means to broaden the base of new buyers, at different price levels, and to maintain a globalized community, something that may be essential for the health of the market in the future.

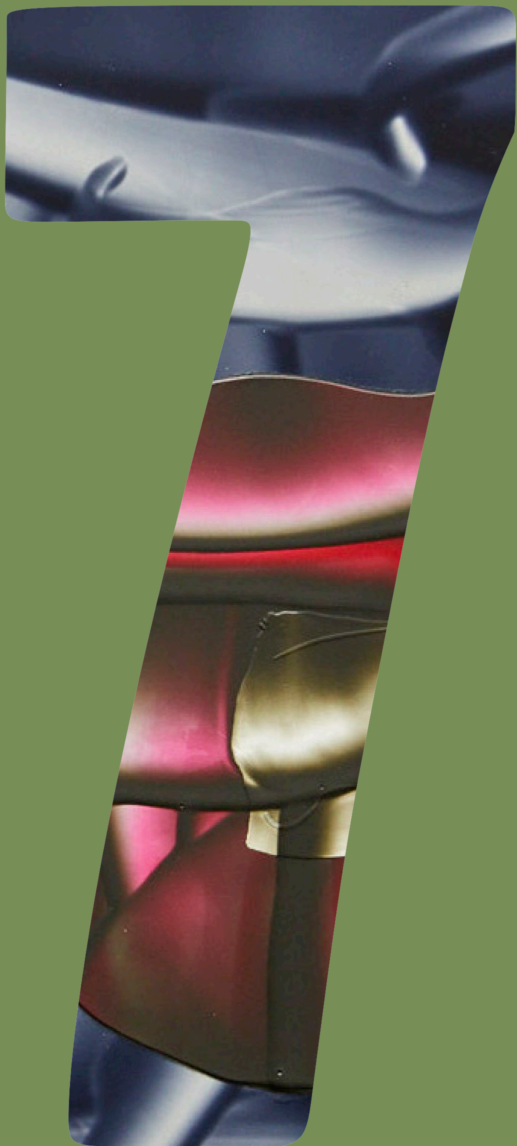
China COVID-19 Impact Consumer PulseCheck Survey: UBS Evidence Lab surveyed 1,000 consumers across China on April 1 to 6 to find out how COVID-19 had affected their behavior.

Figure iii | Change in Spend: Before outbreak vs. after local quarantine restrictions were removed



Source: UBS Evidence Lab

7 Conclusions and Future Research



The COVID-19 pandemic has had and will continue to have a negative impact on sales in the art gallery sector. This global survey of galleries showed that sales have already contracted by an average of 36% in the first half of 2020, with most galleries bracing for further declines. Several gallery associations and individual dealers have predicted that a significant number of galleries in the sector will permanently close, particularly those small businesses that were already at financial risk before the crisis.

Galleries are in a particularly vulnerable industry for this pandemic as they are heavily reliant on events, travel, and discretionary or non-essential purchasing. Predictions for the personal luxury goods industry by McKinsey & Company (which includes luxury fashion, jewelry, and watches) forecast a similar contraction to that presented here, with estimates of a decline of between 35% and 39% for 2020, and very weak return to growth in 2021.[22]

Gallery associations and individual dealers have predicted that a significant number of galleries in the sector will permanently close

Even prior to COVID-19, the gallery sector was a top-heavy, winner-take-all market: businesses selling at the higher value end of the sector tended to show stronger growth in sales than small and mid-sized businesses in most years. The COVID-19 and resulting economic crisis could intensify the industry's polarized nature if it accelerates the decline of smaller businesses and strengthens the position of businesses whose buyers and artists enjoy a greater degree of insulation from these cultural and economic traumas. This said, galleries at all levels are being forced to review their strategies, and success will depend on the health of the companies' balance sheets going into the crisis, how resilient their supply chains and relationships are, what forms of assistance are made available, and how adaptable they can be to changed consumer behaviors and new economic realities. Although the present survey indicated that most (92%) HNW collectors are working with galleries in 2020, relatively few (14%) were actively looking for new galleries. Most are planning to support those with whom they already have relationships. If this applies to a wider collector base, it will reinforce the status quo and make it harder for newer and younger galleries to establish themselves or gain a competitive foothold.

22 McKinsey (2020), *The State of Fashion 2020. Coronavirus Update*, McKinsey.com. This study predicts that the personal luxury goods industry would only return to growth of 1% to 4% in 2021. It also noted that prior to the crisis, just over one third of North American and European fashion businesses were already in financial distress and that extended lockdowns could shift this figure to over 80% in 2020.

Most HNW collectors are planning to support galleries with whom they already have relationships. This will reinforce the status quo and make it harder for newer and younger galleries to establish themselves

The market rarely comes out of a recession the same way it goes in, and while certain trends were already underway, this exogenous shock has provided the impetus for more immediate changes. The present survey showed that many galleries are trying different strategies and engaging in collaborations, both on- and offline. What works well now is likely to be maintained in the future, though the degree to which galleries in different sectors and regions are able to adapt remains to be seen.

For example, online sales have provided a lifeline for many galleries during the first half of 2020, offering them a way to maintain sales while their premises were closed or restricted. To what degree the market will stay online when the crisis abates is debatable, but the survey shows that many galleries expect online sales to persist as a growing portion of their turnover even beyond the pandemic. And how will this digital turn ultimately cohabitate with the shared experience and sheer excitement of discovery that comes from visiting exhibitions, and the social contact and sense of community that defines so much of the art trade? Collectors may buy online in some cases when they have to, but would they choose to do so entirely? This survey of HNW collectors indicated that while many have recently been active online, this is not their preferred choice for viewing or purchasing art. At the same time, it seems likely that as some buyers have stepped over the line into online buying during this period, barriers to entry for this acquisition channel have been substantially diminished. This could be an important development for the future of the art market, which may drive more collectors to purchase online again, particularly if their experience has been positive.

One particularly appealing attribute of online transactions is price transparency. While this is especially true for new buyers who may have less knowledge on pricing and valuations in the art market, collectors and advisors have also commented that transparency is useful to them when expanding their interest in new artists. It has also been cited as a natural filtering process for galleries, helping to reduce their time in dealing with a higher volume of queries and focus instead on serious buyers.

Many feel that the art market has significantly lagged behind in terms of adopting online tools and strategies, but these surveys and the anecdotal evidence gathered revealed a general agreement that the market is very unlikely to ever move completely online in the future, or even to approach that transition. Some felt that a movement online could reduce the hierarchical nature of the art market by leveling the playing field, but this is not yet a rallying cry. It is still uncommon for collectors to purchase from new galleries and artists sight unseen, and while increased focus on online purchasing by collectors has helped some smaller galleries if they are adept at online sales and promotion, many third-party platforms and online viewing rooms still favor larger galleries who possess the resources to sufficiently manage this cost- and labor-intensive undertaking, as well as branded artists who attract a disproportionate amount of attention. Thus, the bigger issue remains building audiences in the first place, amid an increasing volume of online offerings. Indeed, many collectors remarked on the extent to which they can become overloaded by online content, making it difficult to discover new galleries and artists despite the expanding amount of information that has gone online in the last six months.

As noted in the introduction, prominent theories of modern markets argue that organizations tend to become increasingly similar as industries progress. This is relevant to the gallery sector, which, despite an immense diversity of content, encourages galleries to deliver offerings in similar ways. This makes it difficult for collectors and (importantly) new buyers to distinguish between galleries and determine the quality of their goods. Crises and contexts in which new norms and technologies are not well understood may exacerbate this problem. As organizations come under stress from uncertainty, they are likely to model themselves on peers they perceive to be legitimate and successful.

An example of this can be found in the case of new online technologies. Some galleries have been investigating augmented reality (AR), virtual reality (VR), and other tools as well as remarketing their

As organizations come under stress from uncertainty, they are likely to model themselves on peers they perceive to be legitimate and successful

websites as viewing rooms, benchmarking competitive offerings from peers. However, again, collectors have noted anecdotally that in some cases the ones that stand out have in fact been those who have opted for different and more individual approaches, including but not limited to low-tech and offline outreach. Meyer and Rowan (1977) explain that as an innovation spreads, a threshold is often reached beyond which adoption provides legitimacy or normative sanctioning, but not an improvement in performance or competitive advantage.[23] That is, while new technologies are useful for some galleries, they may not automatically provide marginal gains – especially if their adoption has saturated the market or, in the case of online content, overwhelmed the capacity of consumers. So, while it is too early in the unfolding of this particular crisis to determine the contexts and behaviors behind success, we may ultimately find that a strong argument was made for not following the apparent leader into new technologies and online trends, but instead focusing on particular strengths and traditional know-how. However, it equally remains the case that, especially for the savvy, online opportunities may provide a necessary saving grace in the absence of other supports or options.

The market has been heavily event-driven over the last decade, with art fairs becoming central to most galleries' sales strategies. This system was under pressure even before the COVID-19 pandemic, however, and some galleries noted that they were using the break in their schedules to reevaluate their participation at fairs in the future. Many felt that the fairs that survive this difficult phase may become more region-specific, which could have positive effects on artists and galleries in certain regions. Many also noted that city-based gallery weekends and other collaborations would become a greater focus for their time and resources over the next few years. These events could achieve similar social and knowledge-sharing benefits while unfolding on a smaller scale. This would diminish costs, reduce travel, and allow for safe distancing and pandemic precautions. That said, collaborations are challenging for some galleries. Although many galleries attempted collaboration of some kind within the Modern and contemporary sectors during 2020, several noted anecdotally that success in this area depended on there being a high level of transparency with regard to cost and revenue sharing. Unsurprisingly, equal partnerships were perceived as best.

From a collector's standpoint, although there is substantial caution about immediate travel, most seem willing to consider attending international art fairs and other exhibitions by mid-2021. It seems likely, however, that many will also rethink the

23 Meyer, J. and Rowan, B. (1977), *Institutionalized Organizations: Formal Structure as Myth and Ceremony,* American Journal of Sociology, 83: 340-363.

volume of attendance, focusing on specific events that suit their needs. This would come as a welcome shift to many galleries, several of whom indicated that collectors may be encouraged to focus interests and avoid crowded openings, events, dinners, and 'being seen'. This would make room for more personal, content-driven, artist-focused gallery attendance. Some galleries noted that collectors had already spent more time in the gallery setting in the first half of 2020, and that they themselves were better able to connect with clients and artists during slower and more focused appointments, with greater depth in conversations and interaction.

One of the most serious impacts of the COVID-19 pandemic on the wider art economy is its effects on employment. The gallery survey showed that one third of businesses downsized during the first half of 2020, and this rate was even higher for larger galleries. The art market makes a substantial economic contribution, not just itself but also through a network of ancillary businesses that support the art trade. While some businesses can maintain profits by cutting their staff and substantially reducing the costs of travel and exhibitions, reductions in employment could pose significant losses to the wider art economy. Gallery associations around the world have flagged that some of their members are facing closures as supports and aid begin to wane. These associations have been crucial during this

One of the most serious impacts of the COVID-19 pandemic on the wider art economy is its effects on employment. The gallery survey showed that one third of businesses downsized during the first half of 2020

period, sharing information and explaining how to access government aid, offering practical guides to reopening, and being a critical tool for advocacy.

Although many countries have offered support to galleries, deadlines loom for the end of emergency measures and funding appears to be drying up without obvious extensions in place. This increases uncertainty and anxiety regarding rent and eviction protection, salary support, and loan programs. While there have already been several widely-publicized gallery closures, some galleries and associations fear that the worst is yet to come in this regard as eviction protections are removed and businesses default on accrued rent payments. Eviction bans have been in place in several major markets, but are currently due to end towards the end of August (in many states in the US) or September (in the UK and other major European markets). Other funding and supports are also being phased out or reduced. This may put more galleries at risk of closure before the end of the year. While many galleries have developed plans to survive for the remainder of 2020, these assume that sales will pick up in the second half of the year. If this does not transpire, galleries could be in a more precarious position in 2021, particularly without access to further emergency support and funding. Dealers noted anecdotally that some larger galleries are 'quietly shedding employees and closing premises' as part of cost-cutting drives, while others are focusing on accessing cheaper and fewer premises, all negatively affecting the market's economic contribution.

Dealers were also very concerned about the effect that closures and downsizing – or 'the shrinking gallery world' – would have on artists. The closure of major galleries during the year, such as Gavin Brown's Enterprise, although not directly related to the pandemic, means that some established artists have had to find new representation. This number is sure to expand as many more galleries have and will likely close in response to COVID-19. Highly sought-after artists may rebound, but others may struggle financially with the loss of gallery sales that made up a significant portion of their annual revenues.

The second installment of this survey will be carried out at the end of 2020 and will reveal more fully how galleries have fared this year and how their performance compares to 2019. At this point, in the context of the wider research for *The Art Market 2021*, trends in the gallery sector can be interpreted within the context of developments in the wider art market, including the auction sector that has equally seen rapid changes and developments in its events, collaborations, and approaches to sales. The added effects on the sector of other important events during the year will also be analyzed, including the Black Lives Matter and other political protests in the US and elsewhere.

The economic fallout from this pandemic, however, will likely extend well into 2021 and beyond. Many galleries were beginning to rebound in 2019, after several difficult years in the fallout of the 2009 global financial crisis. This pandemic presents a major recession at the start of a new decade. It will continue to place substantial challenges on those businesses already in a situation of financial risk, and may alter the abilities of even the most secure to survive or thrive. Depending on how long the various phases of this crisis last, the supports provided and obtained, and how deep and protracted the recession is that follows, 2020 may display unprecedented resilience or permanent change to the landscape of the art world as we know it.

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For this UBS Investor Watch collaboration, more than 360 high net worth investors 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 two years. The sample was split across 3 markets: the UK, the US, and Hong Kong SAR. The surveys were conducted in July 2020.

UBS Evidence Lab is a separate department to UBS Global Research and UBS Evidence Lab does not provide research, investment recommendations or advice.

List of artists featured in *The Impact of COVID-19 on the Gallery Sector* in order of appearance