

## Art Market in Russia. Report 2016

Year 2016 proved that people in Russia are really desperate art lovers. How else would you explain that thousands of them spent hours in the freezing cold queueing to visit museum exhibitions? Russians were so motivated to see Valentin Serov exhibition in Tretyakov Gallery last January that the government had to bring military field kitchens in order not to let them freeze to death standing in line. Later another thousands of art-maniacs were freezing in the cold for hours to see the paintings of Ivan Aivazovsky and Raphael. Governmental statistics show that almost 120 000 000 people visited Russian museums and art galleries in 2016. Overwhelming figure. And it would be logical to assume that such a great number of experienced museum visitors was an indication of a big number of art buyers on the local market. But (spoiler alert!) it wasn't! At least not in 2016.

Overall, 2016 was ineffectual year for the Russian art market. The economic crisis affected the country more than in 2015. The business climate deteriorated. The Russian Ministry of Culture cut almost to zero the real export capabilities of the auctions and art galleries. Several well-known professionals of the art market suffered unconvincing lawsuits. Some of them got criminal records for «smuggling» (like dealer Sergey Stepanov) or even were put in prison (as Russian avant-garde books gallerist Anatoly Borovkov). All these cases had bad consequences for weak art market and mood of art business elite.

At the same time, 2016 brought some good signs to the local art market. The prices stopped falling. The local auction's turnover increased. The buyer's activity started to grow moderately. However, some figures about local Russian art market in this report look better than the real business situation and have to be explained taking into consideration the situation in country's economy.

### General Economic Situation in 2016

The period of prosperity in the Russian economy and the art market started in 2003 and lasted till 2008. High oil prices allowed the art market to bloom with prices for some art works skyrocketing 40 times up the initial mark. Why? The explanation is quite easy: during the crazy speculative period of 2003-2008 the market trends were set by low qualified investors and novice collectors who began to buy almost everything for any money - without sufficient expertise and risks evaluation. Those poor «investors» and «fashionable collectors» simply had no time for learning. They had to hurry up because just in one year the price of artwork could grow 600 percent. So, we could say that the Russian art market lived in the atmosphere of a crazy party till 2008 – with breathtaking prices, barefaced fakes and loud scandals.

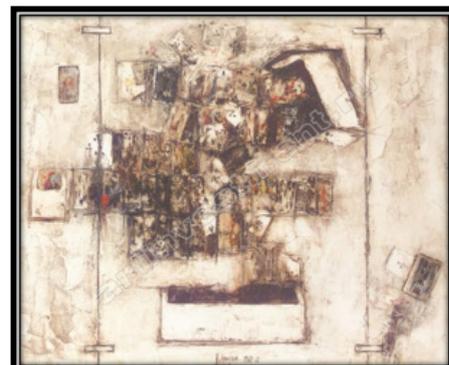
**Image 1. The breathtaking growth of auction prices before 2008.**



Vladimir Nemukhin  
 Composition with playing cards.  
 Mixed media, canvas. 72x79,5.  
 Result: \$ 5 320 долл.  
 Sotheby's. 23.11.2000



Vladimir Nemukhin  
 Unfinished solitaire. 1967  
 Oil, canvas. 82,5x99,7  
 Result: \$ 43 700  
 Sotheby's. 01.12.2005



Vladimir Nemukhin  
 Unfinished solitaire. 1966  
 Oil, canvas. 96 x 110.  
 Result: \$ 240 000  
 Sotheby's. 26.04.2006

Now we would better forget those booming times. Russia is suffering the second economic crisis for the last 8 years. The first economic crisis happened in 2008 when the price of oil fell from \$143 to \$33 per barrel returning to \$60+ later in 2009. Obviously it caused the first shock in the history of the Russian art market – a lot of investors stopped buying Russian art. The second crisis stated in 2014 after Crimea voted to return back to Russia. And this second crisis turned out to be much more severe with economic sanctions imposed by many countries, including the USA and most European states. Since 2014 all the technological cooperation, mutual projects and credit refinancing have stopped. The political atmosphere and the official rhetoric of 2014-2016 returned to the times of the Cold War between the USSR and Western countries. The oil price fell from \$100 to U\$45. In 2016 the Russian ruble was worth only half of what it had been three years ago. The rub/dollar exchange rate went to 65 RUB per 1 USD compared to 30 RUB/USD in 2013. The middle class, small and medium business owners lost almost 30-50% of their real income.

## Art Market after Economic Sanctions

The practical consequences of the second crisis and the economic sanctions for the art market were the following:

- Prices for artworks in ruble equivalent more or less remained at the level of 2013, making the price in dollars twice more attractive. Artworks that costed \$10 000 in 2013 could be purchased just for \$5 000 in 2016.
- Local collectors from middle class (who had been the main buyers) suffered financial difficulties and could not afford buying art as usual.
- Some important local collectors emigrated from Russia and started buying international art instead of the Russian.
- Several local auction houses including the leaders in their segments left the market or put their business on hold. For example, Kabinet Auction house that was #4 by turnover in 2015 cancelled most of its art auctions in 2016.
- The annual auction sales in the segment of fine art fell from \$21 000 000 in 2013 to \$7 000 000 in 2016.

The Russian art market is very small not only in terms of volume. The whole Russian market of fine art now is served only by 10 auction houses, that work on regular basis. And just 6 of them are focused on fine art and work.

New custom regulations and the position of the Russian Ministry of Culture made all dealings, export and import operations, that involve the Russian art extremely complicated and expensive for companies (e.g. auction houses). For foreign individual customers, export of artworks from Russia became practically impossible due to the official requirements. It became very difficult for the foreigners to make official pass to export artworks from Russia. Realistically, we can observe that the export of art from Russia almost stopped in 2016 because it became inconvenient as business operation.

Relatively small volume and custom restrictions made Russian art market unattractive for international players. None of the International auction houses like Sotheby's, Christie's, or others hold public sales on the Russian market, including Phillips that is owned by Russians (as part of the Mercury group). Similar none of the international galleries (Gagosian, etc.) opened local offices in Moscow. So the Russian art market is almost free from competition from international galleries and auction houses.

In crisis years of 2014-2016 the structure of the demand for the Russian art changed dramatically:

- Russian customers stopped buying drafts, sketches and other unfinished works of prominent artists. They refocused on the quality, not only on names.
- The segment of XIX century traditional paintings (Russian classic landscapes, peasant life, etc.) as well as the art of social realism (plants, collective farmers, workers, etc.) went in deep stagnation. The only exception to this trend is the masterpieces of the top artists demand for which remains strong throughout the years.
- New customers gave preference to the post war unofficial Soviet art (so called nonconformist artists: Oscar Rabin, Dmitry Krasnopevtsev, Oleg Tselkov, Vladimir Nemukhin, Anatoly Zverev, Vladimir Yakovlev, Evgeny Chubarov, Vadim Sidur, etc.) and some types of contemporary art.
- Liquidity has become the most important criteria for buyers, much more important than profitability or investment potential. Customers wanted to be sure they could sell their artwork quickly and for a reasonable price in case the situation got worse.
- Local customers switched from traditional real-time "offline" auctions sales to online purchases via Internet. Nobody wanted to waste their time in Moscow traffic jams and then long hours on uncomfortable chairs.

## Art Market Volume Key Figures

**Table 1. Domestic Auction Market of Russian art in dynamics**

Parameter	Year			
	2013	2014	2015	2016
Russian Local Auctions annual sales, \$	\$21 mln	\$14 mln	\$4,6 mln	<b>\$7 mln</b>
Bought-in ratio	39%	41%	35%	<b>44%</b>
Sales volume of Russian art at international auctions*, \$	\$525,1 mln	\$677 mln	\$572,6 mln	<b>\$282 mln</b>

This figure includes the international auction results of all artist that were born within the Russian Empire or the Soviet Union. So we consider Mark Rothko, Chaim Soutine, Alexej von Jawlensky Russian artists as well as Mark Chagall and Wassily Kandinsky.

\$7 mln is the volume of just fine art segment of the auction market (paintings, graphics and sculpture without decorative art). But the volume of whole domestic art market including gallery sales and private dealers sales could be estimated as \$25 mln.

The annual increase in auction volume by 52% (from \$4,6 mln in 2015 to \$7 mln in 2016) looks impressive at first glance. But we should take into account, that this was the growth from the minimal basis (\$4,6 mln). Actually it means that the whole Russian auction market turnover is just a half of the November Sotheby's Russian Sale result in London. Moreover, the current auction market volume is 3 times lower than it was in pre-crisis 2013. \$7 mln auction market volume means that just one \$340 000 painting (the top auction result in 2016) provides almost 5% of the whole market volume.

What is much more important than volume is the growth of buying activity. The ratio of sold lots at local auctions grew up to 44% in 2016 after 35% in 2015. This small 9% improvement is an inspiring sign. It indicates that local buyers do not want to live in constant sadness. They love art, they want to own art, and therefore ready to purchase art even through their purchase power is not as strong as 3 years ago.

What are the changes in auction houses rank by turnover in 2016?

**Table 2. Russia auction houses rating by USD turnover in the segment of fine art**

2015	2016
1. VLADEY	1. SOVCOM
2. AI Auction	2. VLADEY
3. SOVCOM	3. AI Аукцион
4. Kabinet	4. Lifund
5. Tri Veka	5. Russian Enamel
6. V Nikitskom	6. V Nikitskom
7. Russian Enamel	7. Tri Veka
8. Litfund	8. Antikvarium
9. Antikvarium	9. Kabinet
Total: \$4 600 000	Total: \$7 000 000

The list of market leaders suffered no dramatic changes in 2016 which is good news, because for the past 3 years several auction houses (such as Shishkin, Magnum Ars and VEAD) had to leave the market or put their business on hold. However, several traditional auctions reduced their business activity. They faced shift in demand, heavy traffic, high rent payments in Moscow and some other challenges. Customers prefer to bid online or by phone without visiting auction room – this is also a definite trend.

The list of the Top-3 auctions remained unchanged since last year. This three actions produced 72% of turnover in 2016, so it could be considered as a fine barometer of local Russian art market in general.

SOVCOM became the leader of our rating after one impressive auction sale on October 20, 2016, that resulted in \$1,7 mln turnover or 24% of the whole annual auction market turnover. The auction also set the price record for 2016 which was \$340 000 for Geliy Korzhev painting «The Shelf».

For VLADEY auction house 2016 was also favorable enough. Mainly the money was made on the masterpieces of post-war unofficial Soviet art. The auction house also reached an impressive bought-in ratio on affordable contemporary art. At the end of the year VLADEY reached 100% bought-in ratio during specialized «All For 100» affordable art auction.

Our own AI Auction was the only action house among the top-3 that held auctions exclusively online. The auctions are held every Friday, no holidays, which means almost 50 sales per year. In 2016 the average bought-in ratio was 60% that is much higher than the average at the market. We also got most of our income selling expensive unofficial post-war Soviet art (works of nonconformist artists).

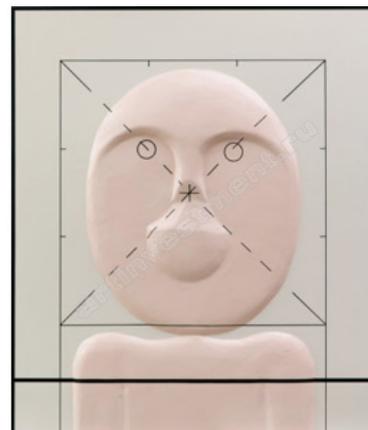
### Top 3 Artworks of the local Auction Market 2016



Geliy Korzhev  
Shelf. 2008  
Oil, canvas. 120,5x100  
**Price: \$ 340 000**  
SOVCOM. 20.10.2016



Igor Grabar  
View on Moskva-River. 1922  
Oil, canvas. 60x79,6.  
**Price: \$ 325 000**  
SOVCOM. 31.03.2016



Ilya Kabakov  
Boy. 2000  
Oil, board, mixed media. 160 x 160  
**Price: \$ 217 780**  
VLADEY. 25.10.2016

### Signs of hope for the Russian art market

It can't rain all the time. Any crisis is not only the time of problems, but also the time of new business opportunities. 2016 was the first one after the crisis of 2013 when we observed some good signs of future improvement.

1. Art dealers began to buy art at the local auctions. Such behavior of the professionals means that the prices on pictures reached the lowest level and will possibly grow. So 2016 probably was the best year for buying art at low prices.
2. The current crisis provoked the situation when some high level artworks from private collections finally appeared on the art market. Collectors stopped waiting for better times and started selling their masterpieces.
3. 2016 was a year of increasing buying activity at auctions. Average bought-in rate reached 44% that is 9% more than one year ago.
4. Affordable prices and convenient procedure of a purchase at an online auction attracts a lot of new collectors not only from Moscow but also from different regions of Russia. This is a recent positive trend that provides additional sustainability for the local art market. I expect the number of collectors to increase next year.

So, according to the results of 2016, I remain an optimist, and hope that even a small improvement of the general economic situation in Russia could return our art market to growth.

*Vladimir Bogdanov – art market expert, Chief editor of ARTinvestment.RU*

## About ARTinvestment.RU

ARTinvestment.RU (the official name is JSC Safe) is a Moscow-based analytic company, web portal, and a Russian fine art auction. ARTinvestment.RU operates the following resources:

- **ARTinvestment Auction Database** was launched in 2008. Currently it is the biggest database of Russian art auctions results in the world. The list of the database subscribers includes the leading Russian museums and art expert organizations such as the Tretyakov Gallery, the Grabar Conservation Center, the Ministry of Culture of the Russian Federation, etc. ARTinvestment.RU database contains 213 000 auction results for 11 000 Russian artists. It also provides 11 000 special indicators of investment risk (that reflects our position on art work's authenticity).
- **ARTinvestment.RU Auction (AI Auction)** was launched in 2013. Since then it has become the leading online fine art auctions on the Russian market. AI Auction is focused of Russian paintings, drawings, sculpture, prints and ceramics. According to 2015 sales results, AI took the 2<sup>nd</sup> place on the Russian market in the fine art segment. AI Auction holds sales every Friday all year round except Christmas holidays. While clients bid online, all lots have to be displayed in the Moscow office and available for viewings. AI Auction has carried out 155 sales during 2013-2016 period. Our average lots sold ratio is 60% which is higher than the average ratio for the Russian market. Since its launch in 2013 AI Auction became №1 by sales of such prominent post-war unofficial Soviet artists as Anatoly Zverev, Vadim Sidur, Anatoly Slepyshev, Boris Sveshnikov, etc. In 2015 AI Auction set personal price records for 21 Russian artists.
- **ARTinvestment.RU art analytics web portal** was launched in 2008. The focus is made on the Russian art market. The portal provides market news, schedules of auctions, special auction forecasts, art market indices and market reports.
- **ARTinvestment.RU Forum** is the most popular platform in Russia for art specialists, private collectors, customers, dealers and art professionals.

The specialists of ARTinvestment.RU provide their expert opinion to several important government initiatives such as the development of National Art Appraisal Standard and National Art Expertise Standard.

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