



GOING UNDER THE GAVEL: AUCTIONS AS AN INVESTMENT PLATFORM

How diverse is your portfolio? Property and art auctions offer chances for lucrative returns.

By Aliff Yusri

Despite the words of celebrated American business magnate Warren Buffett, who decried it as 'protection against ignorance,' diversification remains a favoured strategy for investors across the board regardless of scale or risk appetite, serving as a hedge against the vagaries of market fluctuation and misfortune.

However, when spreading a portfolio across multiple sectors or asset types with a view towards offsetting losses from one area with gains in others, many investors overlook the potential that alternative platforms such as property and art auctions offer in terms of returns,

focussing instead on more traditional asset classes such as equities or bonds.

With some groundwork and a little luck, these platforms can actually deliver higher growth potential than equivalent assets from primary market sources such as galleries and developer launches, as the latter represent prevailing market prices in their respective segments.

While logic would dictate that secondary market transactions are priced above these ranges, the specific nature of property and art auctions often leads to the sale of assets well under market valuation, with

correspondingly higher margins of appreciation. Property auctions often see distressed or foreclosed units going under the gavel, while assets at art auctions are typically priced below market value to appeal to bidders.

Putting a Price on the Priceless

“‘Appreciate art, because art appreciates.’ That’s our motto. Right now, we see that investors and speculators comprise about 40% of collectors in Malaysia, while the remaining 60% collect art for its own sake. Both are dependent on the other; art cannot exist without financial backing, and assets can’t appreciate without input from sincere art lovers,” says Henry Butcher Art Auctioneers (HBAA) director Polenn Sim.

Established as Malaysia’s first professional art auction house, HBAA launched its first auction for charity at the Royal Selangor Golf Club, Kuala Lumpur in 2009. Starting with a focus on domestic works, the house expanded its scope in 2013 to collections from around the region. To prevent manipulation, auction houses can only deal in art assets from secondary sources such as collectors, instead of sourcing them directly from artists or galleries.

In 2017, HBAA partnered with Media Prima Bhd and shifted its auction operations from its Curate studio at Seni Mont Kiara to the media group’s Galeri Prima studio in Bangsar, doubling its exhibition space to nearly 6,000sq ft. To date, HBAA has held four auctions and more than eight shows at Galeri Prima, leveraging on its prime frontage along Jalan Riong, strategic location and association with the Media Prima brand. In total, it has auctioned over 1,800 assets with an overall value of more than RM40mil.

Base prices for art assets are determined by supply and demand, with a variety of factors such as artist education, discipline and reputation as well as asset provenance, execution and pedigree influencing how sought-after a particular work is.



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“Over the past few years, we have seen a marked rise in interest from professionals and businessmen aged 35 to 45 years old, which we attribute to growing affluence within this demographic of investors and collectors. It’s not uncommon for them to spend RM2mil within two years to get started,” says Sim.

“The art market itself peaked between 2012 and 2014, with dampening sentiment in subsequent years affecting transactions. However, we are now seeing volume picking up again, with a 38% increase in the number of transactions between 2016 and 2017, and projections for a fuller recovery by Q4 this year.”

In terms of investability, Sim notes that Malaysian artist Latiff Mohidin, known for his *Pago Pago* expressionist series between 1963 and 1969, is currently considered the country’s most influential talent, at least on the auction block. In December 2012, his *Landscape Rimba* (1995) fetched RM715,000 at Kuala Lumpur Lifestyle Art Space’s Malaysian Modern and Contemporary Art Auction, and his popularity has only grown since.

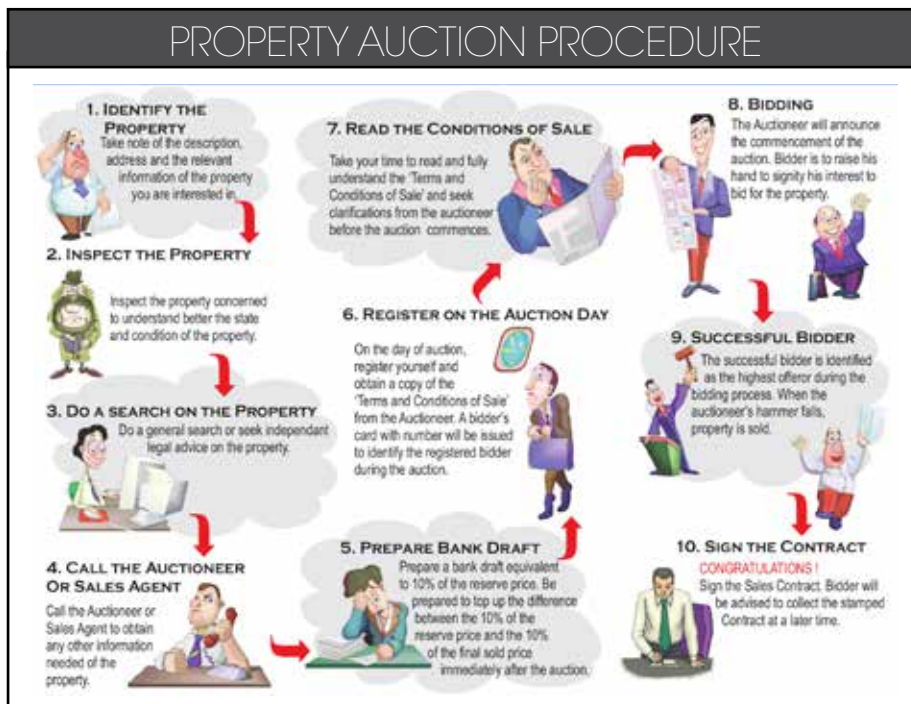
Other popular artists include the late Datuk Ibrahim Hussein, whose *Red, Orange and Core* sold at a record RM797,500 in May 2012, as well as Awang Damit Ahmad, Yusof Ghani and Suzlee Ibrahim, all of whom follow in the footsteps of Latiff’s abstract expressionist style and whose works are currently enjoying substantial exposure and appreciation.

“In terms of investment potential, take Awang Damit Ahmad. Up to 2012, you could find one of his 3’ x 3’ mixed media on canvas works in the *Essence of Culture* series for under RM12,000. Today, they are worth up to RM120,000, having seen tenfold appreciation in just a few years. If you select the right art, with the right value, these kinds of returns are entirely possible,” says Sim.

“To find the best deals, it’s preferable to be physically present in the sale room, as opposed to bidding by phone or online, as you can then make decisions quickly on the ground. With luck, a hardworking collector with sufficient industry knowledge can identify and acquire undervalued assets at auction for future appreciation.”

The Art Auction Ecosystem

Auction houses play an important role in fostering



Source: Property Auction House Sdn Bhd

transparency within the art investment segment, as transactions under the gavel are a matter of public record. In contrast, private purchases from artists and galleries are often untracked, making auction records the primary benchmark and reference for art pricing in the industry.

"Art asset valuation can be divided into artist, gallery and market prices. Artist prices are what the creator of an asset feels it is worth, and are usually discounted by up to 50% when sold to galleries – the gallery price. Finally,

secondary market transactions such as auctions set the market price, which is typically based on previous records and history," says Masterpiece Auction House executive director Datuk Oon Pheng Khoon.

"In terms of transactions, the secondary market can actually be more vibrant than primary sources. For example, an estimated 2,000 assets are sold over the course of a year by auction across Malaysia, whereas only 500 sales from galleries are recorded. This is one of the challenges the gallery segment currently faces."

While abstract oil on canvas dominates the highest tiers of the auction scene, a growing emphasis on Chinese inks and calligraphy, driven by houses such as Masterpiece Auction, offers budding art investors and collectors attractive price points to venture into the market.



THE PROPERTY AUCTION MARKET IS MORE DEPENDENT ON THE SUB-SALE AND DEVELOPERS' MARKET. IF BOTH HAVE SHOWN LITTLE MOVEMENT OVER THE PAST YEAR, THAT'S AN INDICATOR FOR AUCTION TRANSACTIONS AS WELL.



For investors, works featuring Chinese inks have the benefit of durability, as they are typically executed on rice paper, which can maintain the ink's freshness and colour for up to 1,000 years, according to Oon. In addition, the medium allows for multiple restorations, further safeguarding a collector's investment. In contrast, canvas works are susceptible to oxidisation, typically lasting up to 400 years with less scope for restoration over time.

"Competitive bidding for well-regarded artists can drive prices quite high. In one case, we quoted a work by Lee Man Fong, an Indonesian painter born in Guangzhou, China, at RM40,000 in our catalogue. That piece now goes for RM240,000."

Established in Jakarta, Indonesia in 2003, Masterpiece Auction House soon set its sights on regional growth, expanding to Singapore in 2008 and subsequently launching its Kuala Lumpur branch in 2013. Today, its two-storey, 6,000sq ft gallery on Jalan Gasing, Petaling Jaya features assets from over 1,000 domestic and international collectors, comprising 60% Malaysian, 20% Indonesian and 20% Chinese ink works.

Property Up for Grabs

Meanwhile, property has historically been the investment avenue of choice for many Malaysians, primarily due to traditional beliefs prioritising home ownership. Even without this cultural bias, real estate assets frequently form the cornerstone in the personal fortunes of business magnates and entrepreneurs around the world, allowing investors to leverage their capital while providing steady returns.

Similar to art houses, property auctions offer investors the opportunity to secure real estate assets well below market value, with correspondingly higher potential for returns. For instance, in 2016, Kuala Lumpur-based property portal iProperty reported the auctioning of a 1,800sq ft condominium in Danga Bay, Johor for RM395 psf, while equivalent projects in the area sold for more than RM1,000 psf just a few years earlier in 2012.

However, property auctions are less popular among investors, which operators attribute to lack of awareness and prevailing misconceptions regarding the segment, as well as the higher capital investment required. In addition, some investors simply prefer acquiring property assets directly from developers, while others are wary of covert syndicates artificially raising bidding prices or potential depreciative factors in the history of assets up for auction.

Property Auction House Sdn Bhd licensed auctioneer

THE ART AUCTION PROCESS

New to the art auction scene? Don't fret, just follow the simple steps below to start investing in your very own collection of aesthetically pleasing, appreciating assets!

1 Registration: Individuals are required to bring government-issued photo identification (such as an NRIC, driving license or passport) and proof of current address, as well as banking details and contacts.

2 Bidding: The auction process is divided into lots, each of which can feature a single work or multiple art assets. A typical auction can encompass anywhere from 150 lots to 600 or more. The bidding process for each lot ranges from 90 seconds to three minutes. Prospective buyers can bid in one of four ways, depending on the auction house:

- a.** Physical bidding: Prospective buyers are physically present at the auction event and raise auction paddles to place their bids.
- b.** Absentee bidding: Buyers may give written instructions directing the auction house to bid on their behalf, up to a maximum amount for each specified lot.
- c.** Telephone bidding: Potential buyers may opt to bid by telephone by specifying target lots and a relevant phone number before the auction.
- d.** Online bidding: Similar to telephone bidding, but conducted online using dedicated auctioning management platforms such as Invaluable.

3 Paying: Successful bidders are usually required to sign an acknowledgement form and pay a deposit before leaving the sales room. Full payment includes a buyer's premium, which can typically range from 12% to 25% of hammer price, as well as any applicable government taxes.

4 Collecting: Depending on the auction house, lots can be insured for a number of days post-sale at the sale room location. Auctioned lots can be collected in person, or shipped and delivered if written instructions are furnished.

What Goes Into Art Valuation?

Auction houses and insurers use several criteria when determining the value of an art asset. In general, these can be divided into artist-related and asset-related criteria.

ART VALUATION CRITERIA	
ARTIST-RELATED	ASSET-RELATED
Education Some auction houses or galleries avoid artists without formal arts training.	Execution The aesthetics of a piece can resonate with collectors, while novelty of approach may elevate otherwise unremarkable works. Larger pieces tend to fetch higher prices as well.
Discipline Only a fraction of artists remain committed to the craft throughout their lives. Talents who exhibit forward progress and avoid returning to earlier themes are highly prized.	Provenance Previous owners can have a substantial effect on the value of a work of art. However, some collectors prefer to remain anonymous.
Reputation Word of mouth works wonders for artist popularity, while awards and solo exhibits can have immediate impacts on asset prices.	Pedigree Works from a specific period in an artist's life can fetch a premium. Rarity of subject matter or volume matter as well.

Jeffrey Choong counters that such concerns are unfounded, with strict transparency guidelines safeguarding the impartiality of auction proceedings while minimising the chances of unpleasant surprises from previous owners or tenants.

He anticipates an upswing in auction transactions this year, driven by an increase in projected defaults and foreclosures, in contrast to developers in the primary market who currently face policy uncertainty and potential market mismatches as the spotlight turns to affordable and mid-range launches amid the newly minted Pakatan Harapan administration's renewed emphasis on public housing.

"In general, the property auction market is more dependent on the sub-sale and developers' market. If both have shown little movement over the past year, that's an indicator for auction transactions," says Choong.

"In terms of issues, we don't foresee the general emphasis on affordable homes or environmental factors such as floods and landslides as impacting the auction segment to a great degree. This is due to lower rates of default in the affordable space, and fewer points of overlap between auction cases and



Oon Pheng Khoo

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In terms of asset types, residential properties made up the lion's share of recorded auctions transactions in 2017 with 12,760 cases up to November accounting for 86% of reported figures, and commercial and industrial projects contributing 1,543 (10.4%) and 124 (1%) cases respectively. Cases involving land parcels accounted for 381 cases, or 2.6% out of a total of 14,808 recorded transactions.

As the majority of assets in property auctions constitute residential units geared towards the higher tiers of the market, investors acquiring such properties can realise much higher returns than equivalent assets from the primary market, whether through capital appreciation or rental yields.

While diversification often mitigates the risks associated with committing capital exclusively to a single asset class or sector, investors must also keep in mind the caveat that the approach can often lead to more moderate returns, while requiring more time to manage multiple asset classes. However, diligent research and judicious selection of properties at auction can enrich portfolios while offering the potential for lucrative returns on undervalued assets as well. 