Research in International Business and Finance 36 (2016) 388–401

Contents lists available at ScienceDirect

Research in International Business and Finance

journal homepage: www.elsevier.com/locate/ribaf

The validity of Islamic art as an investment

William McQuillan, Brian Lucey*

Trinity Business School, Trinity College Dublin, Dublin 2, Ireland

ARTICLE INFO

Article history:
Received 9 November 2014
Accepted 2 February 2015
Available online 10 July 2015

JEL classification:
C43
G11
G12
Z11

Keywords:
Islamic
Art
Hedonic regression
Returns

ABSTRACT

This paper investigates the validity of Islamic art as an investment product. We examine the current and future market potential, as well as, performing a hedonic regression analysis on London auction sales from 1998 to 2007. The main findings of the research are; Islamic art returns out performed both the equity and debt markets over the last 10 years; increases in oil prices have a positive effect on art prices, Islamic terrorist attacks on the Western World significantly reduce the value of Islamic art; and that the increase in future buyers means the Islamic art market has the potential to grow very strongly over the coming years. All these indicate the strong potential of this form of art as an investment.

1. Introduction

> "*To me art isn't about Beauty, Truth or Passion; It's about making Money!*"
>
> Philip Hoffman, CEO, The Fine Art Fund (2008)

The demand for and potential of Islamic art perhaps first broke through to world recognition in 2008 with Bonhams' first sale of contemporary Middle Eastern art in Dubai, breaking three world records in March and both Sotheby's and Christie's, in London, selling artworks for over a million

* Corresponding author. Tel.: +353 1 896 1552.
E-mail address: brianmlucey@gmail.com (B. Lucey).

http://dx.doi.org/10.1016/j.ribaf.2015.02.010
0275-5319/

pounds each. The Bonhams auction achieved total sales of US$13 million, which was over three times the estimated value of the art works. Not only did this auction achieve record figures but it also had a 94% sales ratio, demonstrating the large demand for Islamic art (AME, 2008a). With this increase in auction results, and prices rising, it raises the question, could investing in a portfolio of Islamic art be a financially justifiable?

The purpose of this paper is to examine the validity of Islamic art as an investment. In doing so, this paper will investigate; the overall return over the last ten years; how certain key characteristics can influence this return; the market for Islamic art; and the factors and volatility affecting this market. To do this we apply a hedonic regression analysis to the auction sales of Islamic art from 1998 to 2007. This enables us to create price indexes for Islamic art and create shadow values for certain characteristics.

1.1. *Definition of Islamic art*

Islamic art encompasses the arts produced from the 7th century onwards by people who inhabited the territory that was lived in by culturally predominant Islamic populations. It "refers not only to the art made for Islamic practices and settings but also the art made by and for people who lived or live in lands where the majority were Muslims" (Bloom and Blair, 1997). Unlike many other terms or periods of art, like 'Renaissance', 'Baroque', 'Christian' or 'Italian', Islamic art refers to no specific era, genre or method of art. The works produced can include varied fields such as painting, sculpture, embroidery, calligraphy, and ceramics. While the value placed on the Arabic script and its representation in Islamic art gives this class of art a unity of style, the multitude of regions, countries and cultures that have influenced it has led to a diverse and rich selection of art to collect.

While numerous researchers have conducted empirical research dealing with the investment potential of both art and collectibles, research on islamic art as an investment class is almost non existent. Papers have looked at the risk and rate of return on such collectibles as coins (Dickie et al., 1994), U.S. postage stamps (Cardell et al., 1995), sculptures (Locatelli-Biey and Zanola, 2002), American paintings (Agnello, 2002), Stradivarius violins (Ross and Zondervan, 1989), baseball cards (O'Brien and Gramling, 1995), Austrailian art (Higgs and Worthington, 2005), photographs (Pompe, 1996), Beanie Babies (Burton and Jacobsen, 1999), Picasso prints (Pessando and Shum, 1999), wine (Combris et al., 1997; Burton and Jacobsen, 2001) antique furniture (Graeser, 1993), contemporary Dutch art (Rengers and Velthuis, 2002) and paintings in general (Anderson, 1974; Frey and Pommerhne, 1989; Goetzman, 1993; Renneboog and Van Houtte, 2002; Mei and Moses, 2002). Like the collectibles that they are analysing these studies have produced mixed and varying results. Burton and Jacobsen (1999), examining 126 separate studies found that in 67% of the studies collectibles outperformed bondsan 37% outperformed equity. Coins, American Art and Picasso prints were all found to strongly underperform financial assetscoins even yeilding a negative nominal return from 1984 to 1991. Stamps, Sculptures and Masterpieces all gave better returns than debt but still produced significantly lower returns than equity.

By comparison, Pompe found that a portfolio of photos from 1980 to 1992 had an annual nominal return of over 30%. Beanie Babies, bought in 1994 and sold in 1999, provided a staggering 176% annual return. These results demonstrate that investment in collectibles does not simply need to be a hobby but can be a viable investment strategy.

In the main these high returns are attributable to higher risk. There is almost a complete consensus that investment in collectibles is at least as risky as equity investing. For example, Agnello (2002) concluded that American paintings had twice the standard deviation of the SP500 index but yielded only one third the return. For example, Pompe concluded that his portfolio of photographs outperformed the equity market by almost 20%. However, over the same period the equity markets had a standard deviation of 12–15%, whereas the photograph portfolio had a standard deviation of 298%.

2. The market for Islamic art

2.1. *Sellers*

The art market, like the equity property and debt markets, has suppliers, buyers, indexes, varying liquidity, different asset types, rules, regulations, taxes and risks, but it also has several unique