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Research BRIEF

Location Patterns of Manhattan Art Galleries: Evidence of Agglomeration Economies

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Introduction/motivation

The art market is famous for auctions at Sotheby's and Christie's, where works by well-known artists sell for stratospheric prices. Researchers often have concluded that auction prices are not driven by economic fundamentals; that they reflect some degree of unpredictable or irrational behavior by consumers. In this paper, we ask whether the broader retail art market, which is composed mostly of small galleries, is more consistent with standard economic models. In particular, we examine whether the location patterns of Manhattan art galleries exhibit agglomeration economies typical of retail markets. We also look at the correlation between gallery clusters and neighborhood economic and demographic characteristics, and whether location affects gallery longevity.

The primary economic function of galleries is to sell original works of art. By definition, original art is a highly differentiated product: each piece is distinguished by unique aesthetic characteristics and authorship. Compared with many other consumer goods, art is a relatively expensive product generally regarded as a luxury rather than a necessity. Prior research on agglomeration economies suggests that retail segments exhibiting these two product characteristics – highly differentiated and expensive – are likely to benefit from clustering or co-location of firms. Because consumers' choices are driven by idiosyncratic aesthetic preferences, they are likely to engage in extensive comparison shopping to find the "right" artwork. Galleries tend to compete based on specific product characteristics (such as sculpture versus painting or Impressionist versus Pop Art) rather than price. Geographic co-location of galleries that specialize in particular types of artwork helps minimize consumer search costs and may increase volume of visitors for galleries in a cluster, relative to galleries that are spatially isolated. Classic examples of other retail submarkets that benefit from agglomeration economies and often form specialized shopping districts include antiques, jewelry, automobiles, and shoe stores.

There are at least two competing hypotheses about where gallery clusters might be expected to form. Researchers on the cultural economy have suggested that gallery owners (at least those selling works by contemporary, still-living artists) have social ties linking them to the art production process, and so will choose to locate near artists' residences, studios, or particular nightlife venues as part of the overall bohemian milieu associated with the "creative class" and urban cultural capital. Further assuming that the popular concept of "starving artists" is true, galleries would locate in lower-rent, peripheral neighborhoods that offer relatively affordable artists' living and working quarters. Alternatively, models of retail location suggest that galleries should locate in neighborhoods that are convenient and attractive to potential consumers, who are likely to be from more affluent households.

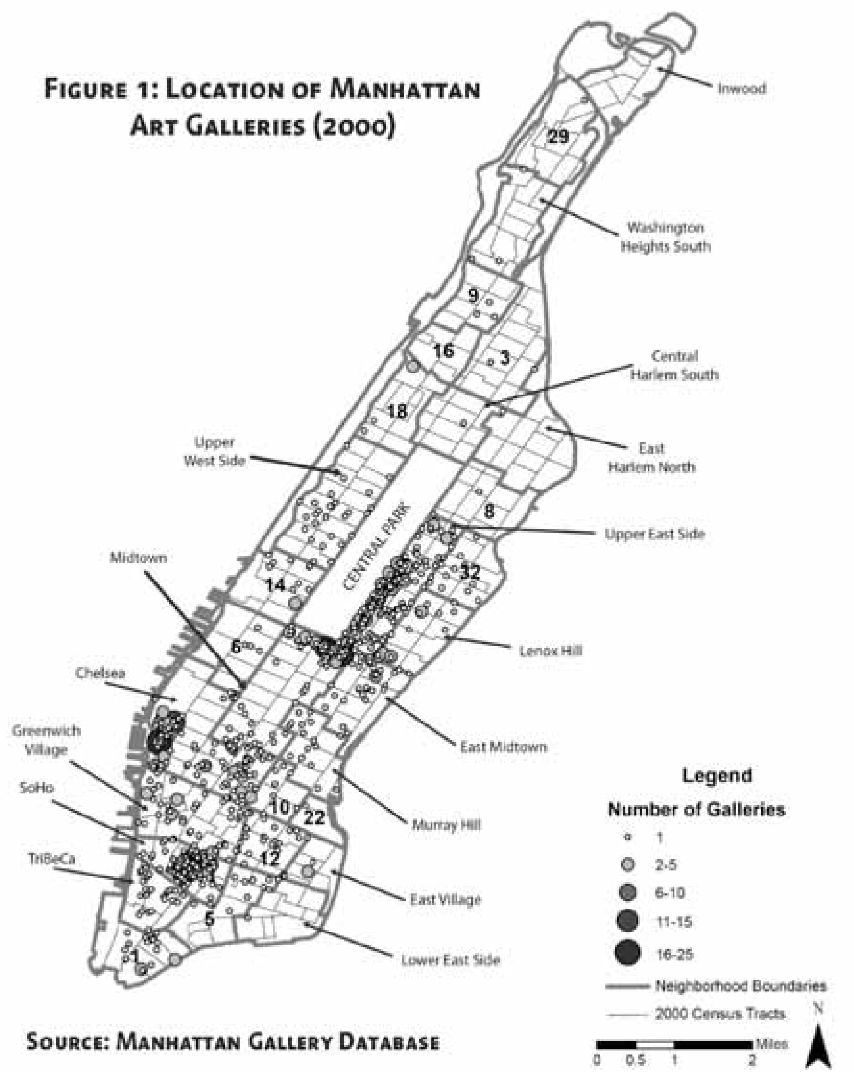
In this paper, we examine whether art galleries exhibit clustering behavior predicted by agglomeration models, whether gallery clusters appear to locate near producers or consumers of art, and whether gallery longevity varies by location. To date, empirical research on the art market has been limited to studies of prices at large auction houses and case studies of individual artists or neighborhoods. For this research, we compiled names and addresses of all galleries listed in the Manhattan Yellow Pages from 1970 to 2003 to develop a longitudinal dataset called the Manhattan Gallery Database. The database allows researchers to construct estimates of the number of galleries by neighborhood in any year, track the movements of individual galleries over time, and calculate the lifespan of establishments and firms. Using listings from New York City travel guidebooks, we identify a small number of notable or "star" galleries, as well as firms that operate multiple establishments in the same year (referred to as franchising or multi-establishment firms). We also link the database to tract-level census data on demographic, economic and physical characteristics of the neighborhood, such as household income, age of housing stock and distance from the Central Business District.

Results

The retail art market is dominated by small entrepreneurs, rather than a few large firms. Between 1970 and 2003, approximately 4,500 gallery firms operated in Manhattan. The number of gallery establishments grew from 627 in 1970 to a peak of 1,032 in the late 1990s, with an annual average of 861 galleries. The retail art market is composed mostly of small independently owned firms: only 12 percent of firms operated more than one gallery in the same year, and 76 percent of galleries had no more than four employees. Notable or "star" galleries comprised about 2 percent of firms (6 percent of establishments), although they presumably earned a larger share of revenues. Turnover rates were quite high, with a median lifespan for both firms and establishments of only three years, although a small number of galleries survived the entire 34-year-period of our study. Star galleries and multi-establishment firms had longer average lifespans than non-star, single-establishment galleries.

Galleries are highly spatially concentrated within Manhattan, with a few neighborhoods dominating the market (Figure 1). In an average year, about 60 percent of the galleries in Manhattan were confined to three neighborhoods: the Upper East Side, Soho and Midtown South. Galleries were also tightly clustered along certain streets and blocks within these neighborhoods. The total number of galleries in Manhattan grew fairly consistently between 1970 and 2001, but the rates of growth and decline varied across individual neighborhoods. As shown on the left side of Figure 2, the number of galleries in established neighborhoods (the Upper East Side, East and South Midtown) gradually

Figure 1: Location of Manhattan Art Galleries (2000)

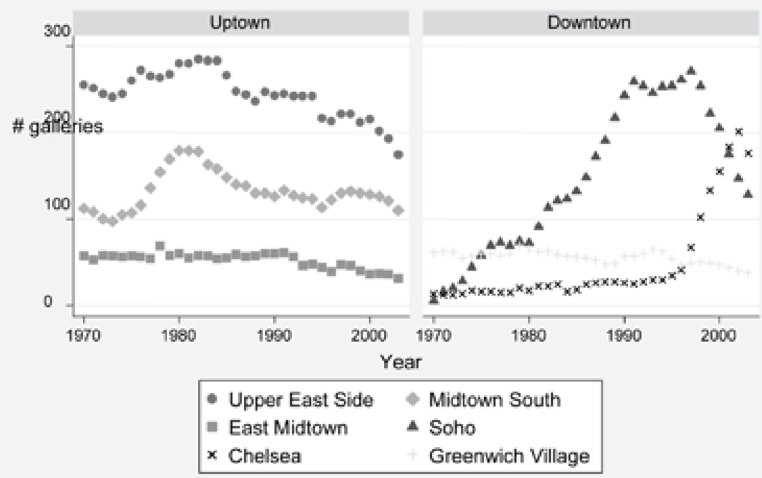


Source: Manhattan Gallery Database

declined over time. Soho and Chelsea, two downtown neighborhoods known for galleries that sell mostly avant-garde and primary (newly created) art, saw major increases in the 1980s and late 1990s, respectively (right side of Figure 2). The rapid evolutions of these two neighborhoods were quite unusual relative to other neighborhoods and Manhattan as a whole; the reason behind these localized growth patterns would be an interesting area for future research.

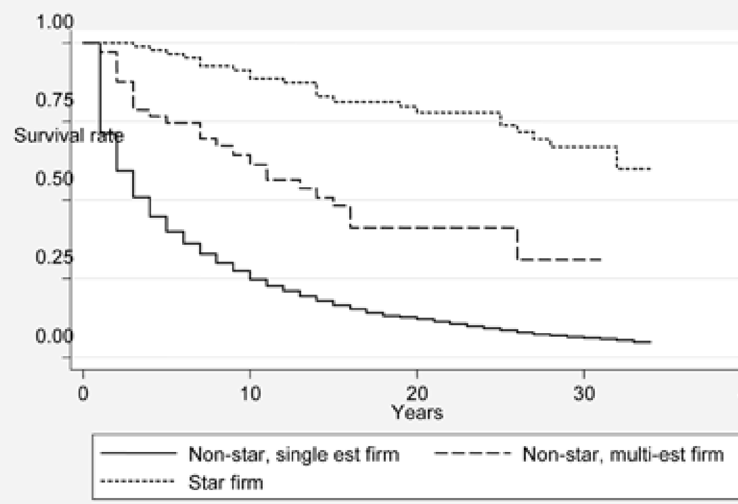
To better understand what types of neighborhoods are conducive to gallery clusters, we linked the gallery database with tract-level census data on neighborhood economic and demographic characteristics. We estimated the probability that a census tract contained at least one gallery, conditional on a variety of characteristics. A striking finding was that galleries do not appear to locate in low-rent neighborhoods: instead, we found a positive and statistically significant correlation between average rent and the presence of galleries, controlling for other neighborhood characteristics. Moreover, galleries tended to locate in neighborhoods with higher population density, higher income, older housing stock, and more museums. These results are consistent with galleries behaving as high-end, specialized retail establishments, seeking to locate near potential consumers, or serving an entertainment function complementary to museums. Perhaps surprisingly, we did not find evidence that galleries locate in cheap, "edgy" bohemian neighborhoods. In fact, using data from the Census Bureau's ZIP Business Patterns, we find that the correlation between the number of galleries and the number of artists' establishments is -0.08, statistically equivalent to zero. Neighborhoods such as Soho that are both artist enclaves and art gallery districts are the exception, not the rule.

Figure 2: Change in Gallery Clusters, 1970-2003



Source: Manhattan Gallery Database

Figure 3: Gallery Survival Rates



Source: Manhattan Gallery Database

Our final analysis examined the factors that affect the tenure of gallery firms and establishments. Galleries belonging to star firms and to non-star, multi-establishment firms had significantly longer lifespans than non-star, single-establishment galleries (Figure 3). These results are confirmed by estimating Cox proportional hazard models and controlling for a variety of neighborhood demographic and economic characteristics. Locating near other galleries also increased firm and establishment lifespan, again consistent with predictions of agglomeration economies: galleries in clusters are expected to attract more visits from potential consumers than galleries that are relatively isolated from others. We found no evidence that higher rent or larger increases in rent decreased the lifespan of firms or establishments. Demographic and economic characteristics of the surrounding neighborhood did not appear to be significant determinants of gallery longevity.

Discussion

Cultural institutions such as art galleries, museums and performance venues generally are considered to be valuable amenities to a neighborhood and a city, capable of attracting tourists and enhancing the quality of life of urban residents. New York City is home to world-famous arts institutions, such as the Metropolitan Museum of Art and Lincoln Center, but also to a large number of more modest neighborhood galleries. Over the past half century, a handful of New York's neighborhoods have become well-known for their concentrations of artists' studios, galleries and affiliated nightlife. The stories of their transformation from bohemia to boutiques have become part of the city's mythology, told through the media, academic case studies and the arts themselves (most obviously in the musical Rent). Yet our research suggests that neighborhoods such as Soho and the East Village are in many ways outliers, with galleries most often locating in well-established affluent neighborhoods.

Some of our more intriguing findings concern the differences between star and non-star galleries. Stars appear to be more successful businesses in at least two senses: they survive longer and are more likely to operate multiple establishments. There is a possibility of reverse causation: guidebooks may be more likely to mention galleries that have been in existence longer. But there are several reasons to expect that star status might enhance the financial success of galleries. One possibility is simply that star galleries show "better" art (either higher aesthetic quality or greater commercial viability): star gallery owners may have better taste or may have an advantage in developing relationships with notable artists. From a purely financial perspective, dealers with established reputations may have better access to capital markets and can raise funds to open multiple galleries, or they may have the resources to survive economic downturns. It would be interesting to know whether the structure of leases signed by star and non-star galleries, particularly those in concentrated art clusters, resembles the lease terms used in shopping centers. Do landlords treat stars as anchor tenants, who pay lower rent or have otherwise favorable terms, in exchange for attracting more business to lesser-known neighboring galleries? Additionally, the extent to which star galleries may influence other galleries' location decisions and possibly impact a surrounding neighborhood deserves further exploration.

Our analysis for this report focused on Manhattan, which has an unusually large art market and is a pre-eminent location for the global art trade. Some of the implications of our research, particularly with regard to star galleries, are most relevant for other global art agglomerations such as in London, Paris, Beijing, Shanghai and Los Angeles (according to U.S. Census data, Los Angeles has the second largest number of art galleries following New York). However, several smaller cities, such as Santa Fe, New Mexico, Flagstaff, Arizona, and Salinas, California, have a large number of galleries relative to population. By examining Manhattan's entire retail art market, not merely the auction houses and famous galleries, we sought to understand the location patterns of independently owned, non-star galleries, which may behave similarly to their counterparts in smaller or mid-sized markets. For instance, we would expect that galleries in Chicago and Santa Fe also seek to cluster together and locate near affluent potential consumers. Overall, our results indicate that even an industry famous for unpredictability operates within a market framework, and that gallery locations are quite consistent with the predictions of standard economic models.

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