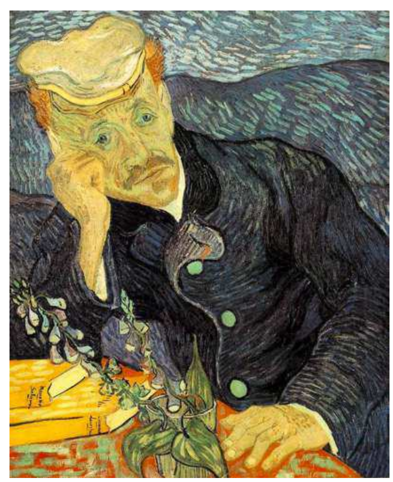
IS THE MASTERPIECE MARKET'S APPETITE GETTING SMALLER?

*Masterpieces are only lucky attempts.*

by George Sand[1]

Ever since the financial crisis in 2008, we have been living in what Tobias Meyer[2] once called "a Masterpiece Market." The term refers to art that has dominated the highest top end of the art market's threshold which is said to be comprised of the top 10,000 artists who track the 10,000 highest auction prices on record.[3] That means that an artwork would have to sell for at least $1.65 million in order to enter into Skate's Top 10,000 rating. Nevertheless, after the high BI rate resulted from last year's auctions, it seems that Sotheby's and Christie's will change their strategy by channeling their resources down the scale. They will be effectively be leaving behind the fierce competition for record-breaking works. But, what consequences will this lowered-priced salesroom mantra bring to the art market?

Historically, the A+ market emerged about ten years ago coinciding with a generalized and rapid increase in the number of participants in the art market. The major auction operators were already moving in that direction in the 1990s with Van Gogh's *Portrait du docteur Gachet*, which fetched $75 million at Christie's New York in 1990. But the real escalation in art prices began in 2004 when Pablo Picasso's major 'rose period' canvas *Garçon à la pipe* fetched $93 million ($104.1 million incl. fees) at Sotheby's in New York. Six years later in 2010, Alberto Giacometti's *L'Homme qui marche* fetched $92.5 million ($103.6 million incl. fees) at Sotheby's in London. In 2012, a version of *The Scream* by the Norwegian Expressionist Edvard Munch fetched $107 million (more than



Van Gogh's *Portrait du docteur Gachet*

[1] Lumbreras, Javier. *The Art of Collecting A*rt. Fomento Cultural Banamex, Barcelona, 2011. p. 68

[2] Tobias Meyer is a German art auctioneer who worked for Sotheby's for nearly two decades, until 2013. In 2014, The Guardian considered him as one of the most powerful people in the art world.

[3] Parameter according to Skate's. "Skate's Annual Art Investment Report 2015." *Skate's*. Web. 23 Feb. 2016. <http://www.skatepress.com/wp-content/uploads/2016/02/Skates_Art_Investment_Report_2015.pdf>. p. 2

$119.9 million incl. fees) at Sotheby's in New York. Finally, on 12 November 2013, Francis Bacon's triptych, *Three Studies of Lucian Freud*, sold for $127 million ($142.4 million incl. fees) at Christie's. Alberto Giacometti's *Le Chariot* generated just over $100 million (incl. fees) in 2014.[4] Nowadays, Pablo Picasso leads in the rating, with his 1955 artwork *Les femmes d'Alger (Version 'O')* auctioned in Christie's New York for $160 million ($179.3 million incl. fees) in 2015. Nevertheless, the status of most expensive artist in the rating goes to Francis Bacon with his average price per work of $18.4 million, the highest among the leaders of the auction trade.[5]

*Les femmes d'Alger (Version 'O')*, 1955.

These dizzying and highly-publicized auction peaks created a sense that the art market was booming; but behind closed doors, experienced art collectors and analysts asked whether there was an art market's bubble.[6] Overall, 2015 was a momentous year for the art market. With sales at auctions decreasing, unrealistic estimates failing and increasing BI rates (do not forget the 43% BI rate from Alfred Taubman's auction), major auction houses needed to change their tactics. In today's environment marked by volatility in the financial market and macroeconomic uncertainty, coupled with relatively few places to put cash, collectors are thoughtfully putting their money in art investments instead of having a trophy-buying mentality at auctions. Edward Nahem once said: "The staff at the auction houses should wear t-shirts with the legend: create desire."[7] Despite the fact that trophy-buying will not stop, the negative results from 2015 showed that, nowadays, buyers are looking at artists whose lower price points give them greater room to gain bigger returns in investment. Top tier art works are costly to source and sell, and with uneconomic sweeteners such as buyer's premium and marketing costs being part of the lot, trophy hunters no longer look so smart now.

[4] *Art Price Report 2014*. Paris: Art Price, 2015. Print. p. 11 and 12.

[5] "Skate's Annual Art Investment Report 2015." *Skate's*. Web. 23 Feb. 2016. <http://www.skatepress.com/wp-content/uploads/2016/02/Skates_Art_Investment_Report_2015.pdf>. p. 2

[6] For further information about this theme, please refer to: Edid, Giovana, and Federico León De La Vega. "Has the Art Market Entered into a Bubble?" *Artemundi Global Fund*. 14 Sept. 2015. Web. 23 Feb. 2016. <http://artemundiglobalfund.com/wp-content/uploads/2012/08/BLOUIN-text-rev-GE-12Oct15VF.pdf>.

[7] Personal interview with Javier Lumbreras.

This rational perspective forced the public art market to correct their commercial approach. Christie's global president, Jussi Pylkkanen, recently told The Art Newspaper that "the auction house's strategy this year is to reinvigorate sales in its "core market", which refers to works priced between $100,000 and $2 million. Getting a higher percentage of sales through is a priority, which may mean slightly more cautious estimates."[8] Tad Smith, the chief executive of Sotheby's interviewed in the same article highlighted the middle market—which he defines as being between $25,000 and $1 million— as their area of focus for 2016. In other words, the salesroom mantra for 2016 auctions will be to develop a higher-volume and lower-priced business in the middle market.

This game plan seems to have already been put in practice during the first year auctions that took place February 2016. With adequate sell-through rates and the average BI diminished, indeed the last two weeks of Impressionist, modern, postwar, and contemporary art auctions in London could reasonably be considered as decent. But once you compare this year's results with last year's, the difference becomes obvious: "Last year, the collective top 10 lots of the Impressionist, modern, postwar, and contemporary London sales totaled $249.24 million. This year, the total was $160.2 million— almost a $90 million dollar decline."[9] Furthermore, after Sotheby's sale in London, Bloomberg published a headline that highlighted falling sales, which led to Sotheby's stock losing 17% of its value in the morning of February 11th.

In addition, two important factors should be taken into account. First, the two major auction houses will have to compete with online platforms such as Paddle8 and Auctionata, whose lower commission rates and considerable demand for the middle market sector has already positioned them as the dominant selling channels. Second, posting a low BI rate does not necessarily mean that the auction house itself has made more profits either. The high administrative costs

Auctionata online auction house.

[8] Gerlis, Melanie. "Christie's and Sotheby's Battle for the Middle Market." *The Art Newspaper*. 1 Feb. 2016. Web. 23 Feb. 2016. <http://theartnewspaper.com/news/news/let-battle-commence-for-the-auction-middle-market-/>.

[9] Tarmy, James. "Is The Top of the Art Market In Trouble?" Bloomberg.com. 12 Feb. 2016. Web. 23 Feb. 2016. <http://www.bloomberg.com/news/articles/2016-02-12/is-the-top-of-the-art-market-in-trouble>.

involved at auction houses will require a much higher selling effort, which will require higher operating costs in order to gain the same margin of total profit. One of the main principles of Artemundi is to keep operational costs at a minimum in order maximize returns. During AGF-1, the average expense ratio during the fund's life was 0.80%, considerably lower than most alternative asset investment funds. AGF management was devoted to a cost-efficient budget; on average, total operating expenses represented only 2.1% of the net sales during the life of the fund (2010-2015).

For the art trade, the end of the masterpiece market is probably more of a blessing than a curse. From 2010 through 2015, all of those Giacomettis, Picassos, Modiglianis, Rothkos, Richters, Big Warhols and Bigger Koonses were sold as signature statement works, rather than as subtle examples of historical and aesthetic interest. We shouldn't forget that a masterpiece consists of an object, which embodies intellectual value, includes emotional qualities, builds historic memory, and enriches and improves our understanding about ourselves and our world. "It arises when the artist's temperament and that of his school are reflected with the greatest fidelity: when the artist does not forget his condition or his culture and the taste of his era. This parameter is a *sine qua non condition*. […] Furthermore: the masterpiece appears when it is innovative and it entails great coherence and aesthetic unity, in other words, consistency."[10] Maybe, the return to the middle art market will suppress the press' scandalous auction headlines and the trophy character of the highest bidder by going back to a more intellectual and sophisticated market that appreciates the mastery immersed in each artwork.

**By Giovana Edid**

SOURCES CONSULTED:

- *Art Price Report 2014*. Paris: Art Price, 2015.
- "Skate's Annual Art Investment Report 2015." Skate's. Web. 23 Feb. 2016. <http://www.skatepress.com/wp-content/uploads/2016/02/Skates_Art_Investment_Report_2015.pdf>.
- Lumbreras, Javier. *The Art of Collecting A*rt. Fomento Cultural Banamex, Barcelona, 2011.
- Gerlis, Melanie. "Christie's and Sotheby's Battle for the Middle Market." *The Art Newspaper*. 1 Feb. 2016. Web. 23 Feb. 2016. <http://theartnewspaper.com/news/news/let-battle-commence-for-the-auction-middle-market-/>.
- Tarmy, James. "Is The Top of the Art Market In Trouble?" Bloomberg.com. 12 Feb. 2016. Web. 23 Feb. 2016.<http://www.bloomberg.com/news/articles/2016-02-12/is-the-top-of-the-art-market-in-trouble>.

[10] Lumbreras, Javier. *The Art of Collecting A*rt. Fomento Cultural Banamex, Barcelona, 2011. p. 65