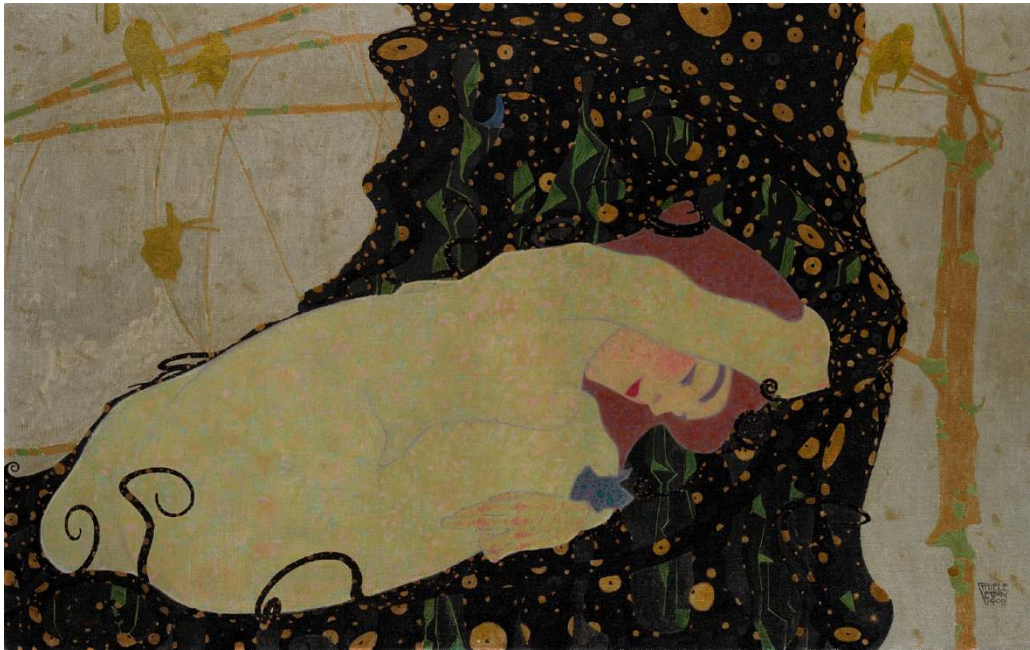


THE WORLD'S BEST MAGIC TRICK:

HOW DOES 70 MILLION DISAPPEAR AT AUCTION IN THE LAST MINUTE?

If you can't convince them, confuse them.

by Harry Truman



Egon Schiele *Danaë* (1909) estimated between \$30m - \$40 m USD.

The art market clawed back another notch from the 2016 downturn after the five-night gigaweek of New York art auctions for Impressionist, Modern, Post-War and Contemporary sales, which realized \$1.6 billion USD. The total was \$500 million USD more than last May 2016, though still adrift of the record \$2.74 billion USD set in May 2015. But if we put these sales results under the microscope, it is clear that the “no-lot” narrative is straight-up art-sales. Yes, technically, an auction house might have sold everything that it offered. But it did not offer everything it was supposed to sell. Whether online, in the catalogue, or during the preview days, what you thought you saw was never actually there. How is it possible that a \$30 million lot suddenly disappears as a magic trick? This is not a new tactic in the auction sector. But when it comes to the people not paying close attention to detail, the oldest tricks in the book are still around for a reason. This is why we have prepared this article and spurred by some comments from the investment banker and art collector Alain Servais.



SOTHEBY'S

Sotheby's dramatically withdrew from sale an early Schiele nude, the lot of its flagship Impressionist and Modern art auction in New York. The female nude, *Danae* (1909) which Austrian artist Egon Schiele painted when he was just 19 years old, had adorned the cover of the catalogue for the sale and was the background image on Sotheby's Twitter account. Nevertheless, it seems that all that publicity was useless, since the Schiele was not able to attract any neither third-party guarantor nor buyer. Thus, its last-minute retreat from the auction was the less harmful escaping strategy to avoid the nightmareing "passed" from the auctioneer. A BI in this art piece would not have only "burnt" the artwork, but also, it would have been a terrible damage for Sotheby's total presale estimate.¹ The work with a punchy estimate of \$30m-\$40m USD reportedly came from the collection of the currency trader Joe Lewis, though, it seems that there just was not enough interest in the run-up to the auction. The auction house was tight-lipped on what happened, confirming only that it had been withdrawn "at the request of the consignor prior to the auction."² On the new basis, the rest of the sale looked stable. The total of \$149.2 million USD was just within the revised estimate of \$147m-\$210.4m USD. But if the Schiele and another lot have not been withdrawn, the \$149.2m USD result would have represented 84% success in sale per value from the original \$177m-\$250.4m USD estimation.

CHRISTIE'S

In its biggest Post-War and Contemporary sale in years, Christie's sold all but three of its 71 lots on offer en route to a \$448.1 million USD finish in its Post-War and Contemporary Art Evening auction, eschewing flashy fireworks for its \$52.9 million Cy Twombly –whose presale estimates were of \$35 million–\$55 million USD–.³ While sitting in the room, we were able to notice that Gagosian could not keep his paddle down on the Twombly against a few bids from three clients on the phone with Christie's staffers on the rostrum. Unlike the previous evening at Sotheby's, none of the star lots would see their total go so far beyond the top estimate or inspire any rush of raised paddles. While the anchoring lots may not have gone too far past their low estimates, the suddenly withdrawn de Kooning initially estimated within the \$25m-\$35m USD

¹ For further information about how an artwork is "burnt", please refer to Lumbreras, Javier. "Is an artwork "burnt" by failing to sell at a public auction?" Art and Finance Mythbusters Series. *Artemundi Group*, 26 Oct. 2012. Web. 24 May 2017. <http://artemundiglobalfund.com/wp-content/uploads/2014/01/Myth-Busters-BI-Analysis.pdf>

² "Sotheby's dramatically withdraws an early Schiele valued at \$30-40 million." *The Economic Times*. N.p., 17 May 2017. Web. http://economictimes.indiatimes.com/articleshow/58710845.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign

³ Freeman, Nate. "Christie's Soars With Airtight, High-Grossing \$448.1 M. Postwar and Contemporary Sale, Selling \$52.9 M. Twombly, \$51.8 M. Bacon." *ARTnews*. N.p., 17 May 2017. Web. 24 May 2017. <<http://www.artnews.com/2017/05/17/christies-soars-with-airtight-high-grossing-448-1-m-post-war-and-contemporary-sale-selling-52-9-m-twombly-51-8-m-bacon/>>.

bracket, put a serious dent in the sale total. Losing an eight-figure lot at Christie's was just a flesh wound on its \$500 million high estimate previously settled by the house. At the end, the number of blockbusters was more than enough to best last November's Post-War and Contemporary total, fetching a sell-through rate by lot of 96%, a remarkably solid result for an overstuffed sale. Nevertheless, these results are not totally fair to be honest.

PHILLIPS

Phillips, the outsider owned by a Russian luxury group and which works hard to exist in the face of the duopoly, sold a total of \$110.2 million USD –the highest total for a day sale in Phillips' history–. The reality is that the marketing blockbuster is not the same when you say "90% were sold" than declaring a white-glove sale of a 100-percent sell-through rate. This was the main reason why Phillips decided to copy the strategy of its rivals. Phillips auctioneer' Henry Highley, had to make the rather uncomfortable announcement that three lots from the house's 40-lot sale of 20th-Century and Contemporary art had been withdrawn: a modest Calder with an \$800,000 USD low estimate, a Mark Grotjahn expected to sell for at least \$1 million USD, and, the most painful, which was meant to be one of the stars of the show, Gerhard Richter's 1994 *Abstraktes Bild (811-1)* with a given an estimate of \$15m-\$20m USD.



Gerhard Richter's 1994 *Abstraktes Bild (811-1)*, which had been given an estimate of \$15m-\$20m USD.

What happened to the Richter, which was printed on the back cover of the house's catalogue? "The picture was withdrawn on the request of the consignor, who decided to keep it," Cheyenne Westphal –who came on as the company's chairman last year– said after the sale. Pressed by a journalist, she added, "I'm afraid it was the consignor's decision to take the painting out of the sale and we have to respect it."⁴ But sometimes, we can find more answers behind this official statement with a drink in The Bemelmans Bar at the Carlyle

⁴ Freeman, Nate, and Andrew Russeth. "Led by Record-Setting \$28.8 M. Doig, Phillips Nets \$110.3 M. at Contemporary Evening Auction." *ARTnews*. N.p., 18 May 2017. Web. 24 May 2017. <<http://www.artnews.com/2017/05/18/led-by-record-setting-28-8-m-doig-phillips-nets-110-3-m-at-contemporary-evening-auction/>>.



Hotel –a traditional venue among high-end art market players before each auction–. It was in this location where a couple of dealers were deciding to place an absentee bid of \$15m USD for this Richter, offer that the owner seems to have refused at the end by withdrawing his piece from the auction.

If we skip the awkward bit of the business of having the obligation of declaring that several starship lots were withdrawn, New York’s auction season ended up being a solid comeback from last year’s downturn. In the end it was a pretty good result in Post War and Contemporary, since everyone’s BI ratio was under 20% when the usual ratio is 25%-35%:

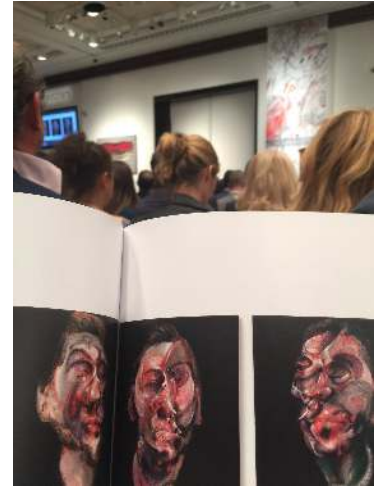


But the use of guarantees for successful sales was more obvious than ever. Guarantees, which are made to persuade owners to sell and they are clearly a key to market dominance in today’s uncertain macroeconomic and politic situation.⁵ For example, based on the lower pre-sale estimates, the accumulative value of the guarantees made either directly by Christie’s or by a third party, is \$207 million USD, or 57% of the value of its Post-War and Contemporary sale. This has led us to question ourselves if the increment in the use of guarantees has made the art system more efficient and pragmatic by eliminating the risk of a “burned” lot? Are the auction houses becoming safer selling channels, and therefore better customer-service oriented? But at what cost? Nowadays, it feels that the auction guarantees have reduced the excitement and the invigorating rush that used to happen twenty years ago inside the same auction room. Perhaps, guarantees are somewhat transforming the auction houses into a more trustworthy place. Although guarantees are making auction

⁵ For further information about auction guarantees, please refer to Lumbreras, Javier , and Giovana Edid. "Auction Guarantees: All Animals Are Equal, But Some Are More Equal Than Others." *Artemundi Group*. N.p., 01 Mar. 2017. Web. 24 May 2017. <<http://www.artemundi.com/auction-guarantees-all-animals-are-equal-but-some-are-more-equal-than-others/>>.



houses more appealing to sellers, they remain as a gamble for the buyers. Without them, one shudders to think how thin these sales would have been. Or, if the auction houses have over-exploded this not-so-new and obvious “suddenly withdrawn strategy”, we might have ended with a ten-minute auction. Ultimately, either an \$116m USD trophy or a manipulated “100% sell-through rate”, art auctions are the best marketing tool for free headlines. In his essay “Art and Property Now,” John Berger writes of the art market players that: “Everything they say is said to disguise and hide their proper purpose. If you could f—k works of art as well as buy them, they would be pimps: but, if that were the case, one might assume a kind of love; as it is they dream of money and honor.”⁶



Photograph by Javier Lumbreras at Christie’s Evening Post-War and Contemporary auction in

By Javier Lumbreras and Giovana Edid

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⁶ Berger, John, and Geoff Dyer. *Selected Essays*. London: Bloomsbury Publishing, 2001. Online.