Art Agency, Partners

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Reading the Art Market

Supply, Not Demand, Is the Challenge

Photo credit: Spiderstock/Getty Images

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2017 came out the gate like a greyhound, bringing unprecedented political and societal change. For the art business, however, it has often been the case that changes to the tax code more than social upheaval affect trade. Indeed, turbulence elsewhere has, in recent years, had the effect of driving more money into the market as the notion of art as an asset becomes embedded.

One of the critical issues to look at is where 2016 left the art market and where we are going now. Last year began with uncertainty as a lack of appetite resulted in sluggish offerings and inconsistent buying. Collectors who buy in large volume seemed to be waiting to see the extent to which challenges to international markets for fuel and commodities, as well as turbulence in many national economies, would have a corollary impact on the art market. For many, this became a self-fulfilling prophecy: they slowed down and so did the market at the beginning of the year. Others were reluctant to spend or sell until there was evidence of returning hunger.

Yet, the year closed with more conviction, as some substantial results at auction and on the private market reinforced the consensus that while collectors want to buy, they are more concentrated than ever on top quality works. The only question about the rumored $150m sale last month of Roy Lichtenstein's *Masterpiece* (1962), reported in the BaerFaxt, was whether the vast sum could have been larger, given the status and rarity of the work.

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Through this editorial project, we aim to provide insight by analyzing individual collecting categories, focusing on markets within certain countries and taking deep dives into markets for specific artists and movements. For the purposes of this article, we are talking about the market for 20th- and 21st-century art that is sold internationally.

It has been widely reported that the market has suffered this past year from stalling demand. This is not the case. The challenge is not demand but supply: simply put, more people want to buy significant art than want to (or need to) sell it.

More people have been pouring larger sums into art than they might have in the past, taking it more seriously as part of an investment portfolio. This expansion runs in parallel with the concentration of global wealth since the economic crisis of 2008: the combined fortune of high-net worth individuals is projected to almost triple between 2006 and 2025.

The finances filed to federal ethics authorities by President Trump's picks for his administration make clear that there is more public consciousness of art as an asset class. The assets divulged by the nominee for Commerce Secretary, Wilbur Ross, include an art collection worth more than $50m, while the nominee for Treasury Secretary, Steven Mnuchin, noted a $5m-$25m stake in Willem de Kooning's *Untitled III*, (1978) in his filings. The de Kooning (which was once owned by a former gallery of his father, Robert Mnuchin, the most significant private dealer of de Koonings), had sold in 2014 for $14.7m. That the disclosures passed without comment suggests the broader acceptance beyond the trade of art as a stable investment.

Today's buyers have gone straight for the top

The generation of buyers that has emerged since the financial crisis of 2008 has been richer, more strategic and better focused than their immediate predecessors. As the idea of art as an asset embeds, new buyers have often been younger and wealthier at the point of entry than, say, collectors who emerged in the 1980s, for whom collecting contemporary art was an odyssey with an inevitable learning curve through which they evolved. Today's buyers have gone straight for the top. They know the names of artists who will more likely last and have bought their work at a high level and with heftier price tags than collectors of past decades.

The increased focus on a somewhat slim band of artists who will retain value, such as Monet or Richter, means that more money is being spent on fewer works. It also means that the evolution of collections has changed and, with it, the process of shedding past "mistakes", which impacts supply.

This issue plays out, but manifests differently, with the more established generation of collectors. For many, there is little motivation to cash out while art is holding its value so well against other asset classes, apart from stocks, for the moment. In the US, for example, no small amount of the trade takes place through like-kind 1031 exchanges, for which there is a relatively short window of time to identify and exchange work. Many of the collectors on this level sell in order to trade up but the temptation to do so is diminished when talk of supply problems abounds.

Historically, it was usually the case that works came off the market once they entered museums. With the rise in number of private art museums in America, more members of this generation are holding onto their art. By 2016, there were 43 such institutions with assets totaling $1.6bn, the second-most of any country (following, surprisingly, South Korea). The red tape involved in selling works from private foundations inevitably affects the supply of works coming to market.

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The increased confidence in art as a viable investment has, though, caused the narrowing of focus around which artists are pursued to a small group of household names. “Sometimes this reveals astuteness; but often it sanitizes collecting, removing the kinds of taste and individuality that distinguished the great collections of the past, and the spark of inspiration in favor of ‘safety’,” says Allan Schwartzman. Such trained focus does not include room for the kinds of creative meanderings that often defined the heart and soul of art produced in recent generations. These works can provide the texture and personality that are as significant to defining the art of a time as its bonafide masters.

As prices have risen across the art world, there has been a loss of appetite for evolving taste and a lack of confidence in experimenting with collecting, which impacts the support given to younger artists and the middle market. This has created challenges for the mid-market, again, a trend running in parallel with broader economic change. For dealers and artists in the this range, demand is down (while for dealers, overheads are up, creating economic pressure on their businesses).

In the art market now there is a need to create more interest in a wider range of artistic sensibilities, lest the market stall for being too top heavy and supply thin. For some collectors this is a daunting proposition because the state of the market can be difficult to parse. Firstly because what we refer to as a single entity is really a series of mini-markets, which—spread across various collecting categories, countries, artists and movements—all perform differently. What unifies these markets, and distinguishes them from other asset classes, is that the art business is one of the most valuable industries in the world to operate so much in private. Data is gleaned from a smattering of public auctions and earnings reports, which represent just the tip of the trade. It is often vulnerable to misinterpretation due to an over-dependence on general statistics and a paucity of analysis into the reasons why certain artists sell well at some times, and not at others.

In the art market, where so much information remains hidden to the majority of participants, it is often the case that the few snippets made public are taken as gospel truth rather than parable. This points to the recency effect, says Madeline Lissner, a director at Art Agency, Partners, which is “the tendency to give excess significance to the most recent known events”.

Misreadings

For instance, one of the major stories in 2016 was the looming scepter of art market collapse both in general and for specific artists, which, ultimately, proved exaggerated while the reasons for reticence were misunderstood. Take Gerhard Richter. In the first half of the year, two mature abstracts of large scale for which there had been substantial financial expectation were withdrawn from auction. Based on this fact, there was widespread talk of a pullback in the Richter market.

Musician Eric Clapton proved to be a savvy investor. Photo credit: Valda Kalnina/EPA/Redux

Eighteen works by the artist then came to the block, including seven large abstracts. Of these, 17 sold for a combined $138m. Sotheby’s anchored its evening auction with the $34m sale of *A B Still* (1986) from the Ames collection while Phillips led its event with *Düsenjäger* (1953), a painting of an airplane that sold for $25.5m. Christie’s sold *Abstraktes Bild (809-2)* (1994) for $22.1m, a work consigned by the musician Eric Clapton which was the third of three Richter paintings he had bought in November 2001 for $3.4m. Clapton sold the first in 2012 for $34.3m and the second in 2013 for $20.9m, meaning that his 15-year investment realized almost $74m in profit. Doubts over the Richter market were washed away once confidence had been publicly affirmed, though insiders had been bullish prior to this.

This over-reliance on the few publicly available facts can lead to information gaps. Many major artists have little to no auction record but nevertheless have strong private markets. For example, there have only been three works by Kerry James Marshall, the subject of a brilliant and critically acclaimed recent exhibition at the Metropolitan Museum of Art, to come to auction since 2009. The top recorded price was $2.2m for Plunge (1992) at Christie’s in May.

These results aren’t reflective of activity on the private market. “One of the things that Kerry said to me way back in 1991 when we started working together was that he wanted to be represented in museums,” says the artist’s dealer Jack Shainman. “We have had waiting lists for his work for quite a while and, right now, interest is stronger than ever,” he says, adding that prices on the private market range from $500,000 to $2m for paintings, depending on their size. “But the museums take priority. Two thirds of the paintings in the Met show were loaned from institutions, so they’re not going to be coming back up for resale.”

Other critically acclaimed artists such as Doris Salcedo have been the subject of major museum shows, but have fairly quiet public records. Her concrete chair works sell privately for between $700,000-$900,000, while the top auction record was $365,000 in 2014. This kind of gap, which is common for many artists, is partly due to the fact that Salcedo doesn’t make a lot of work and her collectors are usually committed to it for the long-term. Not much material appears for public sale, which means that the health of the market for such a significant artist is not visible. This can equally be the case with other important living artists, such as Bruce Nauman.

In certain instances, public market levels don’t always reflect where an artist’s market really is. There has been consistent demand for works by David Hockney, whose 2006 painting Woldgate Woods set a new auction record in November when it sold for $11.7m at Sotheby’s. It is likely, though, that there would be a swift vertical recalibration of the market if a major Hockney from the 1960s or 1970s came to market.

Where are we now?

It is “too soon to say whether the increasing confidence in the health of the art market will result in a loosening of supply. What is clear is that the market will greatly benefit from an expanding of the eye—not a softening of standards, but a widening of knowledge”, Schwartzman says. Over the past several decades there has been a move towards breaking down national divides as institutional and market eyes have turned to art made in countries such as Japan and Brazil. He adds: “Even as the world may become more defined by borders, may the art market, as is so often the case, swim counter to the currents of politics and social change and find depth in overlooked places.”