ART MARKET

DAMS (L-3)

University of Teramo

Cecilia Paolini
University of Teramo

Department of Communication Sciences

XXVIII LESSON – THE AUCTION MARKET

THE AUCTION MARKET

The fastest way to buy and sell art is through auction houses because:

- As far as art prior to the twentieth century is concerned, antiquarians do not certify the pieces (except in very rare cases).
- As far as contemporary art is concerned, the accreditation of an artist at an auction house is a guarantee for the investment.
- The company itself takes care of the advertising, the economic evaluation of the object and the economic transaction (but it is not a guarantor of either expertise or legal investigations).

Leonardo da Vinci's workshop, Salvator Mundi, 1505-1515, private collection

THE AUCTION MARKET

Buying contemporary art is by definition an investment characterized by symmetrical misinformation, as no one can know for sure whether an author who is still active will have or maintain success in a constant way. The purchase of a work from a gallery is therefore more immediate and cheaper but more risky: the auction of an author creates a precedent and a "historiography", therefore reduces investment uncertainty.

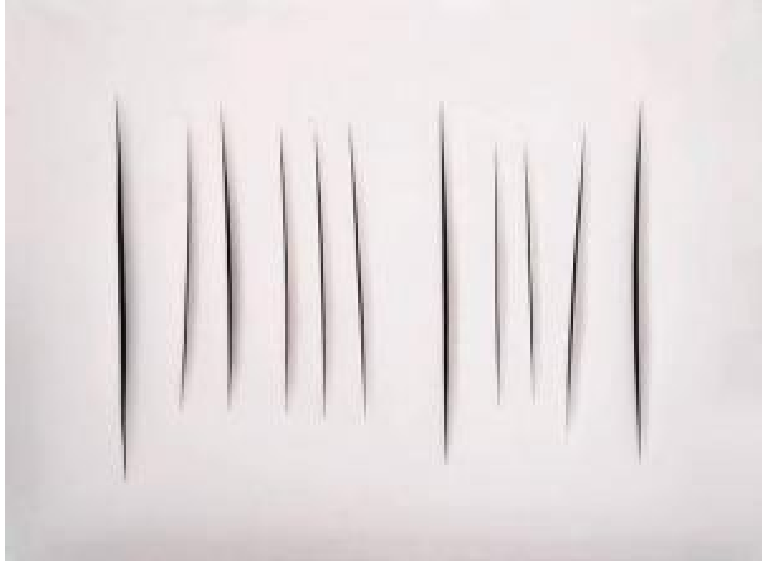
Pablo Picasso, The Dream, 1932, New York, Steven A. Cohen collection (2013, formerly Steve Wynn collection. Settled for $155 million after restoration, offered in 2006 for $139 million).

- Auction houses can have a national or international circuit. Usually, in the face of a higher commission, international auctions attest to higher awards, even with the same author presented.
- The international circuit includes: Christie (Londra), Sotheby (Londra), Palais Dorotheum (Vienna), Bloomsbury (Londra), Bonhams (Edimburgo).
- From the Italian circuit: Meeting Art (Vercelli), Pananti (Firenze), Boetto (Genova), Finarte-Semenzato (Milano), Pandolfini (Firenze).

THE AUCTION HOUSE CIRCUIT

THE AUCTION MARKET

- The auction house retains a percentage of the transaction from the seller: the higher the transaction, the lower the percentage; there is a maximum percentage of 10-15%.
- In addition to the percentage, the seller is obliged to bear the following expenses in advance: transport, storage, marketing. These expenses must be incurred even in the event of non-adjudication (unsold).
- Some auction houses (e.g. Sotheby's) also require the stipulation of insurance for a percentage that is around 1.5% of the average-nominal value of the work.



Lucio Fontana, Concetto spaziale, 1965, Christie's 1998, 100x130 cm., Hammer price: 133,500 (GBP)

Lucio Fontana, Spatial Concept, 1966, Sotheby's 2024, 100.5X81 cm. Estimate: 2.5 – 3.5 M (GBP). Hammer price: 4 mln (GBP)

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CONDITIONS

- Auction house experts are generally specialists in economic valuations, not attribute experts. This means, therefore, that without an expertise, the auction house expert does not take responsibility for the attribution, so the object will be identified as a "school" or a "d'apres", with a consequent lowering of the estimate value.
- If the object is accompanied by an expertise, the attribution is generally not questioned by the auction house (usually if the expert of the house does not agree with the person signing the expertise, the object is classified as "attributed to...": the appraisal value decreases but not as much as a "school or a "d'après"). In this case, the expert limits himself to judging the economic estimate.

Jan Vermeer (attributed), Maiden to the Virginal, c. 1670, New York, c. 25.2x20, private collection (Sotheby's London, July 7, 2004, £16,425 million

VALUATION ASSUMPTIONS

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LAUREA TRIENNALE
Discipline delle Arti della Musica e dello Spettacolo

THE AUCTION MARKET

The works presented at auction can be classified as:

- **"Author's"**: the attribution is certain and authenticated.
- **"Attributed to…"**: has been authenticated but there are conflicting opinions or the auction house expert is not convinced of the attribution.
- **"Shop of…"**: it is not autographed but was executed on behalf of the master (by commission).
- **"Circle of… (d'apres)"**: it is not autographed but the performance is by a close and contemporary minor author.
- **"School of…"**: it is not autographed but the performer is a student (usually these are copies by the master, even with variations on a theme).
- **"Follower"**: it is not autographed and the performer has studied the master but is later.

Joshua Reynolds, Portrait of a Gentleman, workshop: £6,000-£8,000 (Sotheby's 2005)

Joshua Reynolds, Portrait of Mrs. Otway and her daughter Jane, original: US$200,000 – US$300,000 (Sotheby's 2004)

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CLASSIFICATION

- Once the work has been classified, the auction house's expert provides the economic estimate by formulating the so-called "estimate range", i.e. the interval within which the work can be appreciated and it is foreseeable that it will be sold.

- The estimate is formulated not only on the basis of the intrinsic value of the work (prestige of the author, state of conservation, iconographic rarity, prestige of provenance), but also on the basis of contingent market conditions (orientation of demand, state of contraction/expansion…).

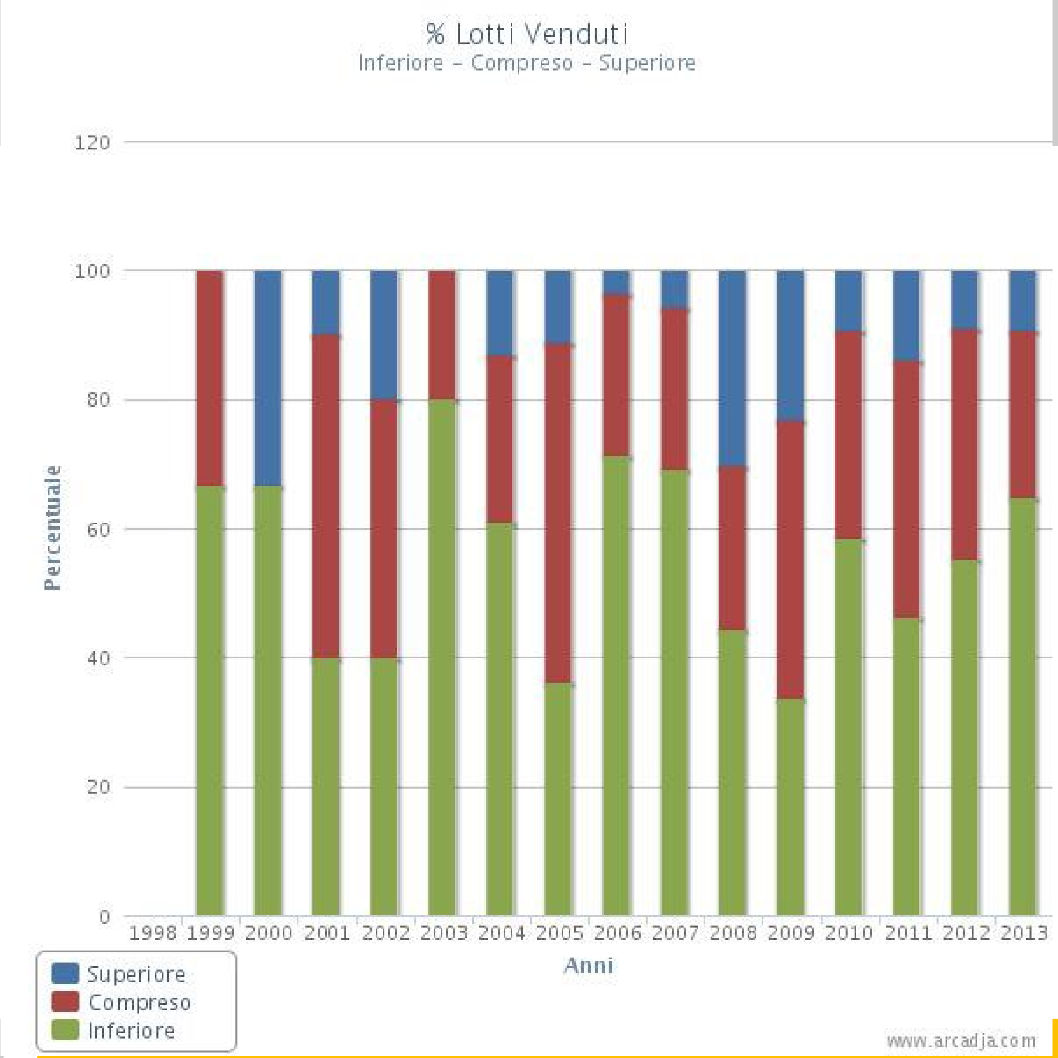
- The estimation range is characterized by an estimation basis (minimum value) and an estimation ceiling (maximum value).

- The basis of estimate is not the starting price: before the auction, potential buyers can express, in a confidential way, the price they intend to offer for the desired object. In some types of auctions, for very precious and confidential objects, only a selection of prices offered "in the dark" enter the final phase of the auction, eliminating potential buyers who have bid too little. This mechanism is called a "beauty contest". The starting price starts from the highest value expressed in a confidential way.

THE AUCTION MARKET

- The value at which the work is sold is called the "hammer price" which obviously can also be above (overprice) or below (underprice) the estimate range provided by the auction house.
- In the event that the hammer price is outside the appraisal range, the valuation of the house should not be questioned: it is most often a market contingency. Only if the phenomenon is recursive on several lines by the same author is a readjustment made in the formulation of the estimation range, since evidently the demand on the market is higher than the supply (increase in the prestige of that given author).

Jeff Koons



HAMMER PRICE

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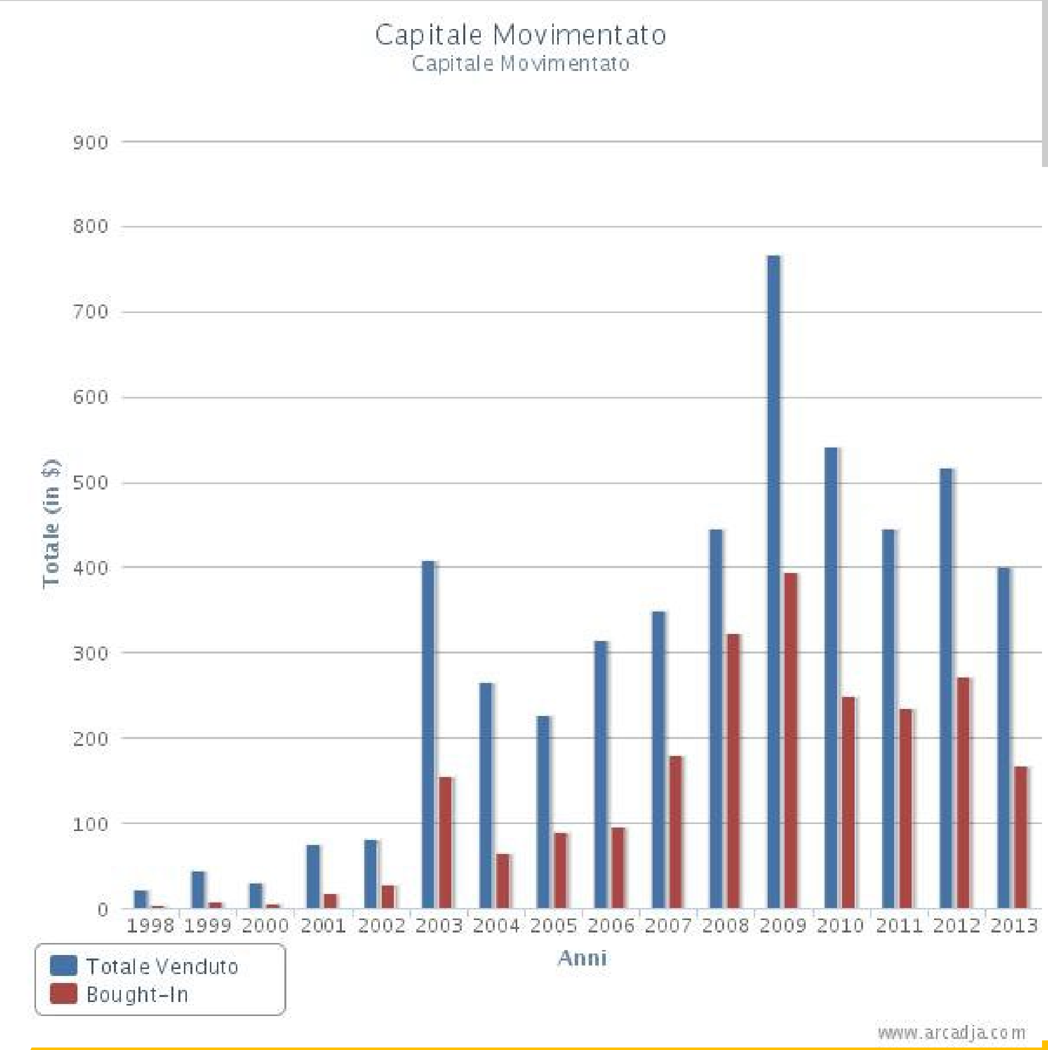
In the selection of comparisons, the relationship between the estimate range and the hammer price must be taken into account:

- The case in which the hammer price is within the estimation range is optimal, so the comparison is maximally reliable.
- If the hammer price is below the estimate range, it generally depends on a contingency of market conditions (period of contraction, orientation towards another type of art…).
- If the hammer price is above the estimate range, it generally depends on an exceptional factor relating to the work (presence of a signature in an author generally without one, provenance from a particularly prestigious collection, history of the work well known, rare iconography…).



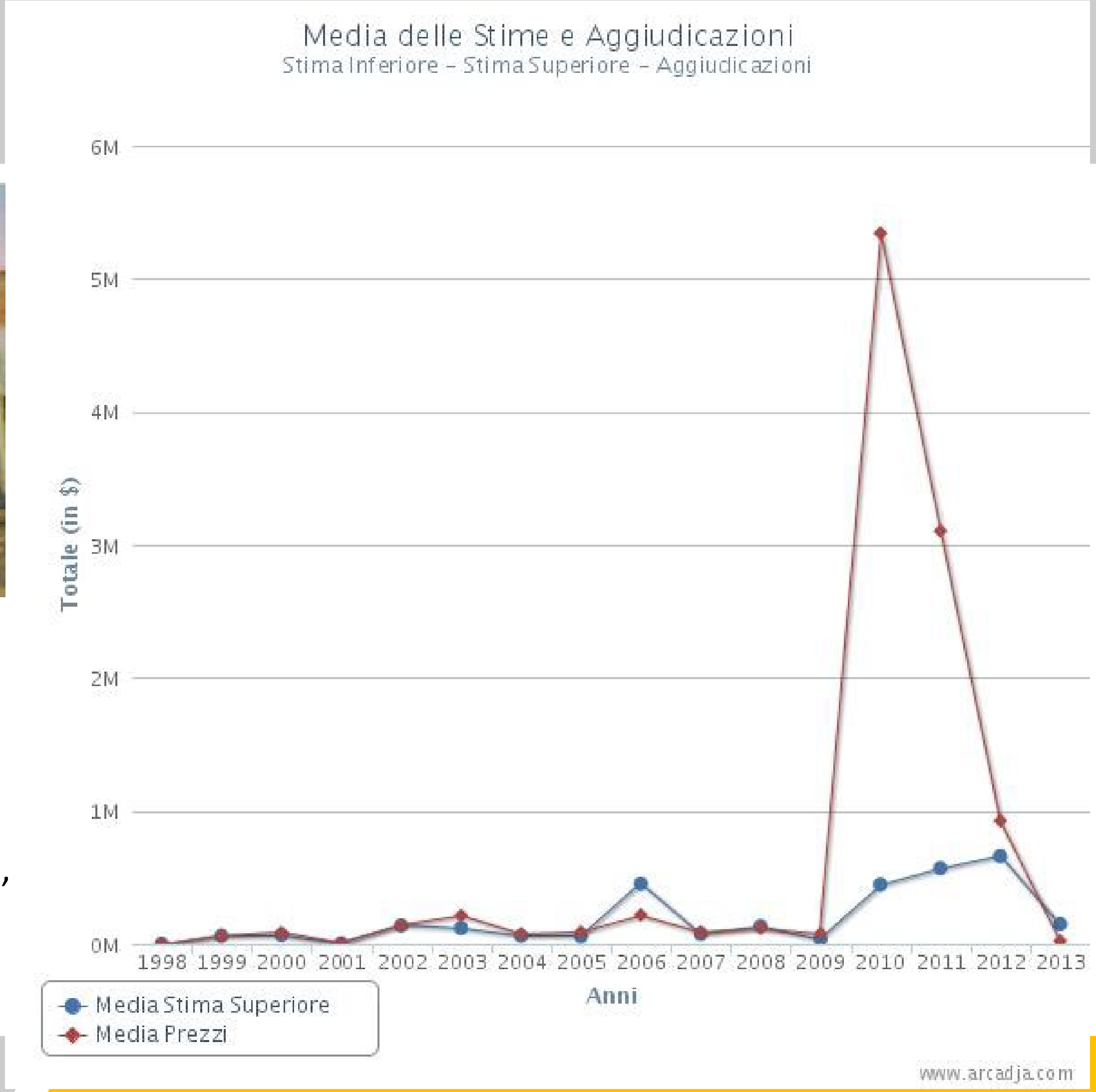
Salvador Dalì

HAMMER PRICE AND ESTIMATE RANGE

THE AUCTION MARKET

- In the event that it is always below, it means that the consideration given by the experts has not had public endorsement (in some cases an attempt at speculation can be assumed).
- In case it is always above, it means that the question about the author is very strong and this can depend on many factors (fashion of the moment, cartel attempt by a group of investors/collectors…).
- In both cases, the estimate must necessarily be correct!

Lawrence Alma Tadema, The Finding of Moses, Sotheby's 2010 ($35.9 million



HAMMER PRICE OUTSIDE THE ESTIMATE RANGE

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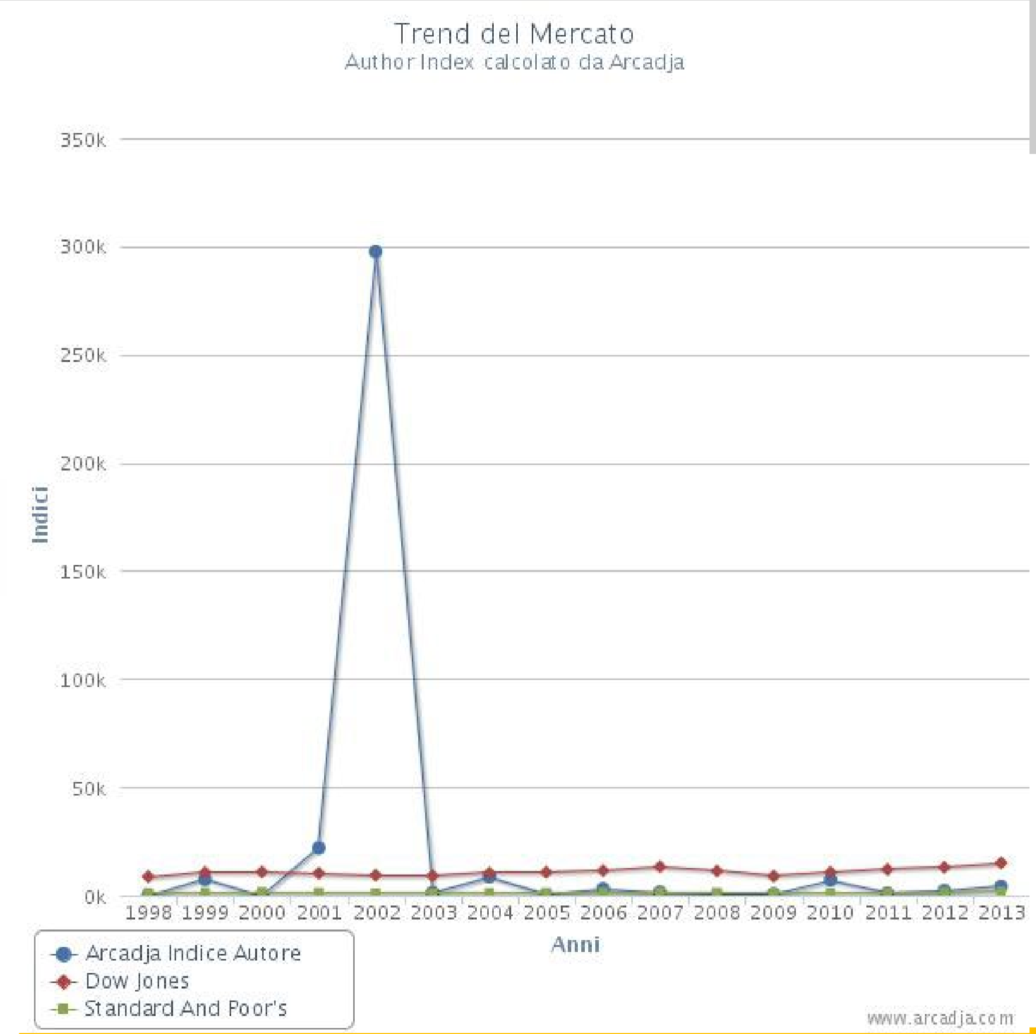
THE AUCTION MARKET

- The reserve price is the minimum value, set by the seller, that must be reached in order to complete the transaction. Below this minimum value, the auction house cannot transfer the asset.
- The reserve price is expressed as a percentage and calculated on the average estimated value.
- The reserve price can be very high (but can never exceed the estimate ceiling), so the risk of unsold will also be high, or very low, but in this case the gain may be lower than the potential.

Peter Paul Rubens, Massacre of the Innocents (Sotheby's 2002, £49.5 million



RESERVE PRICE

ADVANTAGES.

- Extensive advertising.
- Expansion of the "curriculum" of the work and the artist.
- Expansion of the prestige of the collection.

DETRIMENTS.

- Fixed costs to be incurred in advance and even in the event of unsold.
- Those who buy have little profit margin on the investment (at least in the short-medium term).
- In the event of unsold goods, the attractiveness of the work even on the private market is greatly lowered.

- Reference sites:

  - ARCADJA (www.arcadja.com)
  - ARS VALUE (www.arsvalue.com)
  - ART PRICE (www.artprice.com)
  - ARTE MOTORE (www.artemotore.com)

- All auction data collection sites are subject to a fee: paper catalogues of the most important auctions are available at the most well-stocked libraries (Biasa, Nazionale...) but they are not updated in recent years.