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Art's Anxiety Attack: Have Prices Finally Hit Their Peak?

By LAUREN A.E. SCHUKER

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London diamond dealer Laurence Graff is putting 30 works of art on the auction block, including some important contemporary pieces. Collector and philanthropist Louise Blouin MacBain just auctioned off \$4.6 million of Hermès handbags, Manolo Blahnik shoes and furniture from two of her homes. And an anonymous European seller is parting with 29 pieces, including works by Andy Warhol, Edward Ruscha and furniture designer Marc Newson.

These sales -- and a host of other prominent works headed for the auction block in London in a couple of weeks -- are sending a ripple through the art market. With an unusual number of works up for sale, some dealers and collectors say they are concerned about signs of potential weakness in what has been a gravity-defying market for years now. Some dealers are referring to the series of London auctions that kicks off Oct. 12 as "judgment week" -- a potentially watershed moment. Market players will be watching the level of bidding for signs that a downturn is at hand.



AFP


Christie's staff take bids at the auction last November of Gustav Klimt's 'Portrait of Adele Bloch-Bauer II,' which sold for \$88 million.

The sheer volume of works planned for sale is fueling the nervous buzz. Christie's has estimated the works it will have on the block at its major London sales in October at \$154 million -- compared with the \$83 million it made at those sales last year and \$33 million in 2005. Sotheby's is selling 387 works at its London auctions next month, compared with 254 last year and 206 the year before.

The London sales come at a time when the art market's anxiety level about a bursting bubble is reaching new heights. Turbulence in the financial markets has some collectors and dealers worried about Wall Street's woes spilling into the art world.

To be sure, concern that the art market may slow has been a persistent theme in recent years. But the market keeps defying the naysayers. A few years ago, contemporary dealers pointed to Julian Schnabel -- whose average annual selling price fell by 39% between 1988 and 2003 -- as the harbinger of a downturn. In 2002, the high-end art market began to panic after a Chinese art sale in New York turned up disappointing profits, with Sotheby's moving only 33% of its works -- its weakest returns since the early 1990s when a financial crisis throughout Asia prompted a crash in nearly every area of collecting.

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Through all of this, though, the overall market has continued to climb. Christie's auction in New York this past May broke the record for the top sale of Post-War and contemporary art; that evening, Andy Warhol's "Green Car Crash (Green Burning Car I)," from 1963, sold for \$71.7 million.

Fall auctions especially tend to be fraught with uncertainty, because the art world largely goes on vacation from June through September, when auctions are barely held. Many dealers go away for July and August.



Peter Doig, 'Grasshopper,'
estimated at £400,000-
£600,000 at Sotheby's

The season typically kicks off in September with smaller auctions in New York. The first major sales of the season take place in London during "Frieze Week" in October. That's when collectors from around the world flood the city for the Frieze Art Fair, a major contemporary event started four years ago by the founders of Frieze, a European art and culture magazine. These sales focus primarily on younger, contemporary artists, who have seen steep price increases at auction in the past few years. The biggest fall sales come in November in New York, when collectors gather for key auctions of modern, Impressionist and contemporary works.

The soaring prices for art in recent years partly reflect booming financial markets, with hedge-fund managers delving into collecting and the creation of new wealth in Russia and China. Those factors have fueled speculative investments from stocks to real estate. In the case of art, however, the attraction is twofold: investment potential combined with the social cachet of owning important works.

Last fall, Christie's set a record for money spent at auction in a single evening, when its November sale of Impressionist and modern art in New York brought in \$491.4 million. In June, a stainless-steel cabinet containing 6,136 handcrafted and painted pills by Damien Hirst broke the record for highest price paid at auction for a work by a living artist, \$19.1 million.

But now speculative investments of all sorts are coming under increased scrutiny in the wake of the subprime real-estate lending meltdown. At the same time, Wall Street bonuses are expected to drop this year, which could see people curtailing spending on luxuries like contemporary art works.

The art market has suffered from the woes of financial sectors before. In the early 1990s, problems in the real-estate market set off a freeze in speculative investment and luxury spending that contributed to the collapse of the art market. Hope Tate is a banker at Fine Art Capital, who back then worked at Citibank on a series of defaulted art-backed loans sparked by a serious correction in the real-estate market. As people were called on their real-estate loans, she says, they were more likely to default on their art loans.

James Sproule, an economist in London who collects art himself, predicts this fall will witness a correction in the art market, after years of swiftly rising prices. "It's judgment time, and it will be very interesting to see who weathers the storm," he says. Some dealers and collectors say it's possible that the speculative excess seen in contemporary art could come down to earth while the broader market continues to thrive.

In some cases, the mere possibility of a downturn in the art market may have been enough to get sellers to bring works to auction. "The art market is fueled by rumors -- and there has been a lot of naysaying

recently," says Cristin Tierney, who runs a fine-arts advisory service in New York. Most sellers in the fall auctions consigned works in June, as headlines about mortgage woes began appearing almost daily.

Phillips de Pury held its first Frieze Week auction last year. This year, it is ramping up its schedule to compete with the other houses, holding four auctions on a single day in London. Three are single-owner collections, in which individuals sell a range of pieces.

Marino Golinelli, an Italian collector, chemist and philanthropist, is auctioning off 138 contemporary works, including a 1997 Christopher Wool painting on aluminum, estimated for \$600,000 to \$800,000. One of a few 1980s artists to survive the market crash of the early 1990s, Mr. Wool's work has had strong sales at auction in recent years, going for nearly \$2 million in some cases. In the early 1980s, Mr. Wool developed a new form of abstract expressionism that uses media such as spray paint, rollers, aluminum and paper.

John L. Stewart is auctioning 65 works the same day, all Russian contemporary art. Mr. Stewart, a top collector of contemporary American art, started collecting work by Russian artists in the 1980s, often directly from the artists themselves. One of the most important works in the sale is a piece by Erik Bulatov, a forerunner of art that rebelled against Soviet ideology and transgressed its social norms. His 1977 seminal work "Soviet Cosmos" is considered among the earliest works from the "Sots Art" movement, which used irony and pop art to critique the Soviet state. It is estimated to sell for \$1.5 million to \$2 million. Neither Mr. Golinelli nor Mr. Stewart could be reached for comment.

Some experts say the auction houses themselves are partly fueling the selling craze by issuing more guarantees to sellers to encourage them to sell. When an auction house guarantees a sale, it promises upfront to pay the seller a certain amount for the work, regardless of whether the work of art actually achieves that amount at auction.

As of Aug. 21, Sotheby's had outstanding guarantees of \$378.1 million, according to an SEC filing on Aug. 23. During an Aug. 8 conference call about earnings with securities analysts, Sotheby's CEO William Ruprecht said that this year's outstanding guarantees -- works for which the auction house has guaranteed a price to the seller but which haven't yet been sold -- are the highest ever.

Revenues related to guarantees refer to the net amount the auction house keeps after selling a guaranteed work and paying off the seller. Revenues related to guarantees were \$9.2 million lower for the first half of 2007 compared with the first half of 2006, according to an SEC filing. In its filings, Sotheby's said the returns in the first half of 2006 were unusually high because of one guaranteed work that brought in a particularly high price.

Jussi Pylkkanen, president of Christie's Europe, attributes the large number of works being sold to the prominence and popularity of the London fall auctions, rather than to sellers' concerns about the market. "The Frieze Week has established itself as an extraordinary moment in the collecting world, with an influx of international collectors," he says.

The fall auction season began earlier this month with Christie's First Open sale and Sotheby's Contemporary Art sale in New York, both of which feature less prominent works. While both auctions brought in dollar figures well above presale estimates, Christie's sold 76% of its inventory, less than it had in the past two years, when it began holding the sale. Jonathan Laib, head of the First Open sale at Christie's, says that the sale is "a more risky undertaking" than the day and evening sales in May and

November, because the First Open sale doesn't "solely go for the 'safe values.' "

Despite Wall Street's woes, some experts say they don't expect to see a big drop in auction buyers at a time when many top-spending collectors are based in Russia, Asia and the Middle East. Philip Hoffman, who runs the Fine Art Fund in London, an art investment fund, says that while the credit crunch might cut out 10% or 20% of buyers, there is already a new group of collectors on the scene to replace them. "I met with a representative of four or five Russian families today, who have decided they want to invest \$5 [million] to \$20 million in art and want our advice," says Mr. Hoffman, who worked at Christie's for more than a decade.

Mr. Hoffman himself is selling a couple of works at the coming October auctions "in the range of a million dollars," he says. The auction houses have already called with interested buyers, he says.

Mr. Hoffman says he thinks one area of the market that could see a drop in prices is work that has already been flipped a few times recently. "My view is that the slightly second-rate art is going to take a tumble -- such as the stuff that has been bought last year and sold again this year," he says. Works priced from \$200,000 to \$5 million that are fresh to the market will continue to sell, he predicts.

Several dealers say the artists most susceptible in any downturn are up-and-comers whose sales prices or estimates have risen steeply recently. "Any artist between the ages 35 and 50 who sold for more than seven figures recently are most overvalued and most vulnerable to a crash," says Kenny Schachter, an American dealer based in London. He points to Peter Doig, a Scottish painter whose painting "White Canoe," sold for a record \$10 million at Sotheby's in February. Another possible example: the "Leipzig painters," a group of young contemporary German artists educated at the Academy of Visual Arts in Leipzig, Germany, who have become hot in the contemporary market recently.

Mr. Hoffman says he thinks that the very top end of the market might also encounter some softening. "The top end will be difficult to shift," he says. "I'm not sure that another Bacon will sell for \$50 million." Last spring, a Francis Bacon painting, "Study from Innocent X," sold for that price at auction.

London's Royal College of Art is selling a Francis Bacon work next month. Christopher Frayling, the rector of the college, says that while the auction houses have told him to expect about \$20 million, he hopes that the work will sell for as much as \$40 million. "All of the big guys are in town during Frieze," he says. Mr. Frayling passed up offers of an auction guarantee, hoping to take the majority of the profits instead to fund the college's new campus in Battersea, which will cost upwards of \$40 million.

Jeffrey Deitch, who runs a gallery in Manhattan and advises collectors, says he's both selling and buying at the coming October auctions, and isn't worried about a downturn. "I'm already having conversations with collectors about what they want to buy," he says. While he says that "there is no question that the art market is interrelated with other markets, and can go up and down and stagnate," he says that even some correction won't affect his buying or selling. "If prices are moderate this fall, that's nothing to worry about," he says.

Amanda Sharp, the co-director and co-founder of London's Frieze Art Fair, says she has heard little talk of a possible art-market turn. "Nobody's said anything to me," she says. "But if we were to get a crash or a correction, there would be a nice cleaning out -- you'd lose the less interesting material on the market."

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