

High End Art Still Market Strong, Low and Mid Level Suffering

Although there is no doubt that the high end art market is thriving, it appears that the slow down in the economy has caught up to the middle and lower ends. Record prices were set this spring for several notable works, including a Francis Bacon painting at \$86.3 million, as well as \$33.6 million for a Lucian Freud work. These works were purchased by recession proof buyers, multibillionaires such as Roman Abramovich.

It is becoming clear though that buyers like Abramovich operate independently from the rest of the market, and that a recession is not going to impact their spending. However, a recent ArtTactic Ltd survey found that "further down the price scale, things are looking more patchy." Although the auction houses claim that business is still brisk, and gallerists report from fairs that sales have never been better, the recession appears to finally be catching up to art market. Previous art market recessions have followed stock and housing markets by 6 months to 2 years.

The middle market, which is generally considered to be works in the \$50,000 to \$500,000 range, has slowed considerably. At a Phillips de Pury Contemporary sale in late June, one third of the lots failed to sell and earnings fell \$49 million short of the low pre-sale estimate. At Christie's Contemporary day sale, 60% of lots failed to sell or reach their low estimate. A survey by the Royal Institute of Chartered Surveyors found that demand for lower priced art and antiques continued to slow. Items valued up to \$2,000 were the weakest performers.

Christie's and Sotheby's still maintain that their middle market is still stable. However both have pulled back on guarantees, or the price they agree to pay upfront for a consignment, perhaps an indication that they are preparing to minimize risk in an uncertain times. Sotheby's, a publicly traded company, disclosed in an investor briefing in April that "in light of current economic realities, Management has adopted a more cautious approach to its guarantee portfolio", and brought their maximum level of guarantees down to \$350 million from \$500 million in 2007.

The last major recession for the art market was in the early 1990s. The art market operates more broadly now than it did 15 or 20 years ago though. Most high end collectors at that time were American or Japanese, and when they stopped buying, the market collapsed. According to the *Economist*, "Five years ago, buyers who spent more than \$500,000 at Sotheby's auctions, for example, came from 36 countries. Last year, they came from 58." Experts believe that this global diversity, particularly buyers from China, Russia, and India, will allow the art market to weather the storm.

JSIS Insurance, September 2008