

Skate's Art Market Research

155 East 56th Street, 4th floor, New York, NY 10022 USA /phone: +1.212.514.6010

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Skate's Market Notes

Auction Houses Aim to Sell Art at Significantly Higher Prices, Supporting Auction Activity with a Higher Proportion of Guaranteed Bids

On November 1, 2011 Skate's will release its monthly report for November, which will focus on the major auctions scheduled for this week. Below is a short preview of our key findings:

1. Four auction sessions in total (two each at Sotheby's and Christie's: Impressionist & Modern and Contemporary art) scheduled for this week are valued at between \$822.5 million (at the low estimate of all lots) and \$1,164.7 million (high estimate). The estimated mid-point value of all lots to be offered at these four auctions is \$993.6 million (N.B. all values are before the buyer's premium).
2. Given that the number of lots in the auction catalogues is roughly the same as it was at the same time last year, the increase in value of the artworks offered, or, rather, the increase in the suggested sell price of the world's most valuable art brought to the market by auctioneers this year, is notable. On a like-for-like basis the auction catalogues aim to sell 17.6% higher at the low end of the estimate range, 15.9% higher at the high end and 16.6% higher at the mid-point.
3. The more generous art pricing by auction houses is also confirmed by the very rich implied effective rate of return (ERR) during repeat sales, i.e., those artworks that are returning to auction rooms after previous auction sales. Skate's November report will profile five such repeat sales and list an additional seven artworks with estimated ERR ranges. The mid-point expected ERR on repeat sales will, if realized, significantly increase Skate's Top 5000 average of 4.6% per annum. Certain works by Shishkin, Leger and Derain are particularly richly priced, implying double-digit annualized ERRs for their sellers.
4. This fall, auction houses will get the best of both worlds by combining their private dealing business model with the auction house format. In working with their best clients, auctioneers have

managed to significantly increase the proportion of lots with guaranteed bids in their catalogues. They have done so without significantly increasing their own financial exposure, as they have largely relied on third-party bids. In the more risky Contemporary art auctions both Sotheby's and Christie's will begin their sales with more than a third of the offered volume covered by guaranteed bids at the low (or lower) estimate level. This is a remarkable change in comparison to the same auctions a year earlier—Sotheby's share of lots with guaranteed bids (calculated at the low end of estimate range) jumped from 13.1% for November 2010 auctions to 35.2% for the same auctions in 2011; for Christie's the figure rose from 13.5% for 2010 to 37.9% in 2011.

5. Where the two auction houses diverge is in their strategy regarding the Impressionist & Modern art catalogues: Christie's now has 11.1% of lots covered with guaranteed bids (10.3% last year) and Sotheby's has none (8% last year). It will be interesting to see whether this strategy will produce materially better results for Christie's Impressionist sale this week.

Skate's takes a generally cautious approach concerning the upcoming auctions and has recommended that many of its clients not bid within the suggested auction ranges, instead advising that they target the low end of the estimate range or even negotiate a private pre-auction guaranteed bid in exchange for a reduction in the buyer's premium to be paid. This week's catalogues feature wonderful art, but too many pieces are priced in such a way that expectations of positive returns on such purchases—if made at the published estimates—would be wishful thinking for this week's buyers. Furthermore, the strong recovery of global capital markets last week could continue this week and soak a considerable amount of liquidity away from the art market, thereby causing many high net worth individuals to re-allocate their cash back to the capital markets for a pre-Christmas run.

Dates of upcoming publications:

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| November 1 | Skate's Art Investment Review – November 2011 |
| November 3 | Skate's Art Market Notes featuring Artnet's 9 Months Financial Report |