

ART ADVISORY 101

Module 2 – Drivers of Value

Instructor: Annelien Bruins

Art is a complex asset to appraise. The value of art is driven by external factors but also by characteristics inherent to the artwork itself. Additionally, the provenance of an artwork can greatly affect its value.

In this module we will discuss these drivers of value. How do you determine how much your client should pay for a painting today or how much to sell it for tomorrow?



Learning Objectives

Participants will gain an understanding of:

1. What determines the price of an artwork?
2. The importance of the artist and the artwork
3. The impact of condition
4. The influence of the market on pricing
5. The importance of provenance

1. What Determines the Price of an Artwork?

1.1 The intrinsic value of art

1.2 Art Myth One: All art goes up in value

1.3 Art Myth Two: Auction records are good predictors of value



1.1 The Intrinsic Value of Art

- Art is a strange asset when compared to stocks and bonds.
- An artwork is unique, available in limited supply only and does not generate an income.
- In fact, the intrinsic value of an artwork is limited to the cost of materials, which in the case of a painting, can be as little as \$20.
- But what drives the record prices in art, if it's not the cost of the object itself?

1.2 Art Myth One: All Art Goes Up in Value

- Collectors often believe that all art appreciates, always. This is not true.
- An investment-grade work of art tends to hold its value, but this is not the case for all artworks.
- For example, in the contemporary market, art by many artists never increases in value.
- One reason for this may be that the artist's work has never been appreciated by the art market.
- Another is that the artist has never actively promoted his art so there was never a demand created for his work.

1.3 Art Myth Two: Auction Records are Good Predictors of Value

- Auction records give the impression that all artworks have the potential to reach multi-million dollar prices. This is not true.
- The art market is top-heavy. Some artworks sell for millions of dollars. Because of their high individual prices, this small group forms a disproportionately large part of the global art trade by value (TEFAF Report 2017).
- Artworks sold at the evening auctions at Christie's, Sotheby's and Phillips are often guaranteed. A guarantee is an agreement with the seller that he will receive a minimum price if there are no bids.
- Guarantees distort auction results because without them, certain works could have sold for less or could have gone unsold.

2. The Importance of the Artist & the Artwork

2.1 Importance of the artist

2.2 Quality of the artwork

2.3 Subject matter

2.4 Size

2.5 Medium



2.1 The Importance of the Artist

- *Les femmes d'Alger (Version "O")*, 1955 by Pablo Picasso sold in 2015 at Christie's New York for \$179 million (Source: Christie's).
- However, the work of many talented artists never sell for more than thousands or hundreds of dollars. Why the incredible price difference?
- Picasso shaped art history due to his many artistic achievements. For example, he co-founded the Cubist movement with George Braque (1882-1963) (source artnet.com). He is regarded by the art world and the general public as one of the most important artists that ever lived.
- In contrast, you'll find in your work as an art advisor that many artists were technically capable but not influential or revolutionary in the way they challenged our perceptions of art.

2.2 Quality of the Artwork

- A value differential exists not only between different artists but also between different works within the oeuvre of one artist.
- Certain periods of Picasso's work are highly regarded, such as his Blue and Pink periods. An artwork may be a portrait of an important person in the artist's life, like Picasso's portraits of his muse Dora Maar.
- Sometimes, however, certain works in an artist's oeuvre are of higher quality than others: they have a better composition, more depth or more wall-power.
- Some artists were very good in for example, portraiture, but less so in landscapes. As a result their landscapes don't command as high a price as their portraits.

2.3 Subject Matter

- Subject matter makes a difference. Stormy seascapes tend to be less popular than calm seascapes.
- Other artists developed signature styles. Edgar Degas (1834-1917), the French Impressionist, is known for his paintings, sculptures and drawings of ballet dancers.
- John Singer Sargent (1856-1925), the 19th Century American painter, is known for his exquisite portraits of society ladies.
- Abstract Expressionist Jackson Pollock (1912-1956) is known for his 'drip paintings' (source: artnet.com).

2.4 Size

- The larger an artwork, the higher the price it commands - up to a certain point. If the work becomes too large or complex for a collector's home, its price tends to taper off (as demand by collectors is reduced).
- In the primary market, pricing is usually done according to size. This is a consistent pricing method that can be easily explained.
- Price consistency is important because it increases confidence in the artist's market which is invaluable at the start of an artist's career.
- *Side Note: A gallery will try to avoid volatility in the artist's pricing by placing works with collectors who they know will not flip the work (i.e. quick resale for a profit).*

2.5 Medium

- A painting is generally perceived to be more valuable than a drawing because it is more durable than a work on paper and it is therefore expected to have a longer lifespan.
- Paintings and works on paper are unique works. They are therefore considered more valuable than multiples, such as a limited edition of a photograph or print.

3. The Importance of Condition

3.1 Types of damage

3.2 Prevention

3.1 Types of Damage

- The nature of damage and its location on the artwork are important for determining potential depreciation of value.
- A tear in the face of a portrait is more difficult to restore than a tear near the edge of the canvas.
- Every artwork suffers from wear and tear but for Old Masters, for example, it's less of an issue than for a contemporary painting.
- If the Old Master has been restored aggressively, this may reduce its worth. Dealers and collectors prefer untouched over highly restored Old Masters.
- In contemporary works this works the other way around. Here, it is the damage that interferes with the integrity of the work, not necessarily the conservation treatment.

3.2 Prevention

- Conservators diagnose and repair damage but they also do preventive work. Prevention is always better than having to fix the problem later.
- When buying art, it may be worth engaging a conservator as a part of your due diligence process for two reasons.
- Conservators inspect the artwork and check for old restoration, overpainting (when looking at a painting) and other issues.
- Many contemporary artists incorporate unusual materials in their work. A conservator will assess if the materials used are potentially unstable, possibly causing condition issues in the work further down the road.

4. The Influence of the Market on Pricing

4.1 The art market is supply-driven

4.2 Marketing and branding

4.3 The Passion Premium

4.1 The Art Market is Supply-Driven

- Two factors determine the supply of art. Firstly, how many works did the artist create during his or her lifetime.
- Pablo Picasso (1881-1973) and Andy Warhol (1928-87) were both highly prolific and as a result you often see works by these artists coming up for sale.
- This is not the case with Johannes Vermeer (1632-1675) who was not as prolific and some of whose works may not have survived (source: artnet.com).
- In principle, the more rare an artwork, or the more difficult it is to get a hold of, the more collectors are willing to pay.
- In the primary market, galleries of in-demand contemporary artists often use a waitlist to control supply. Loyal collectors have first dibs.

4.1 The Art Market is Supply-Driven

- The second factor that determines art prices is how often a work comes onto the market.
- Most art sales occur because of the three D's: Death, Divorce or Debt. This makes the supply of art to the market very random: it's not something you can count on. Therefore, collectors will pay a premium for works that are 'fresh to the market'.
- Side Note: *When the economy expands, investors look at art as an opportunity to park excess cash. When the economy contracts, art is considered less attractive. This reduces confidence in the art market and therefore the number of transactions.*

4.1 The Art Market is Supply-Driven

- Art bought by or donated to museums is unlikely to enter the market again, which further decreases the availability of art by a certain artist.
- Strict guidelines exist for museum deaccessions: museums are not allowed to sell art to fund operating costs.
- Recently, the Berkshire Museum in Massachusetts decided to sell some of its holdings to fund operating costs, including a work by Norman Rockwell (1894-1978) (source: artnews.com).
- The court case is currently ongoing (October 2017).

4.2 Marketing and Branding

- Galleries make a substantial investment in their artists by promoting them, in effect, creating a demand for the artists' work.
- How are they able to do that? By smart marketing and branding. Galleries act as tastemakers; a 3rd party validation of why a collector should buy a contemporary artwork.
- The art world is similar to the luxury good market and fashion industry. Companies in these markets produce aspirational goods, that consumers want to own.
- Gagosian Gallery is to paintings what Philippe Patek is to watches and Gucci to handbags.

4.2 Marketing and Branding

- Galleries need marketing to create value. The art-historical value of contemporary art is still unproven, unlike Old Masters, of which the quality and importance have been acknowledged for centuries.
- An artist can be in demand and suddenly move out of favor, resulting in the artist's prices crashing. This is why galleries try to control their artists' prices.
- However, in recent years many contemporary artists have started selling their work at auction directly, a development started by Damien Hirst in 2008.
- As a result, speculators are buying art by emerging artists at auction: works that they would not have been able to obtain through the artist's gallery.
- This leaves contemporary artists at risk from their prices crashing when speculators move on to the next shiny thing.

4.3 The Passion Premium

- Behavioral finance theory shows that we don't make rational decisions when it comes to stock market investments, so why expect it in art?
- The Passion Premium, driven by marketing, trends and a collector's personal tastes, forms a substantial component of an artwork's perceived value.
- As a result, two collectors bidding against each other at auction can drive up prices beyond the work's market value to sky-high record prices.
- After realizing the large price tag attached to the piece, the winning bidder may suffer from buyer's remorse.
- This is where you, as an art advisor, come in: to advise your client to set a maximum bid or even to bid on behalf of your client.

5. The Impact of Provenance & Authenticity

5.1 What is provenance?

5.2 Authenticity

5.3 Fakes and forgeries

5.4 Title

5.5 Your take-away as an art advisor



5.1 What is Provenance?

- Provenance is the ownership history of an artwork. It's less of a concern in the primary market (art bought directly from the artist), but you should still do your due diligence.
- Collectors will pay extra for art owned by celebrities. For example, the estate sale of Jackie Onassis (Sotheby's New York, 1996) and Yves St Laurent (Christie's Paris, 2009) were highly successful.
- However, in the secondary market, it's more common that a *lack of provenance* reduces the value or salability of an artwork.
- The provenance can be unclear or incomplete due to a lack of documentation (i.e. sales invoices, old inventory lists, exhibition records or certificates of authenticity).

5.2 Authenticity

- Confirming the authenticity of an artwork is done by reviewing the artwork itself and by reviewing the paperwork that accompanies the artwork.
- Experts can oftentimes authenticate artworks based on their study of this artist for many years by looking at signatures or brushstrokes. But this is not a waterproof method.
- In some cases, a catalogue raisonné of the artist's work exists or the artist has left behind a Foundation who can authenticate the artist's work based on the artist's archives.
- The older the work however, the less likely it is that any helpful documentation existed or managed to survive for hundreds of years.

5.3 Fakes and Forgeries

- In the case of a forgery, the provenance is usually forged too: creating a paper trail that provides the artwork with an air of legitimacy.
- Even though forgers have been able to get around the connoisseurship of experts and are skilled at faking provenance documentation, it is harder to get around physical evidence.
- Scientific research has made tremendous progress in the past decade or so and provides very helpful authentication methods.
- In some cases, it's possible to analyze paints to see if they are period-appropriate or were produced later than the painting was claimed to have been created.

5.4 Title

- Unlike real estate transactions, art transactions are not registered in a central, accessible database. This makes it difficult to discover if a seller has legitimate title to an artwork.
- It's possible to buy an artwork in good faith, but to which a third party has a legitimate claim (if it was stolen from the previous owner before your client bought it, or if it is a part of a divorce or bankruptcy).
- The best known title disputes revolve around looted art, stolen from Jewish families by the Nazi's during WWII. Artworks with a gap in provenance between 1933 and 1945 should raise a red flag and additional research should be done in those cases.

5.5 Your Take-Away as an Art Advisor

- Many artworks have excellent provenance and have been documented extensively. But it's not always possible to prove that an artwork is not a forgery or to find out if it has a title defect. You simply may not always be able to find the records.
- This could leave your client with a work that he bought in good faith but may not be able to sell. In some cases, insurance companies (Hiscox in the UK and ARIS in the US) may be able to offer title insurance to collectors to prevent or resolve such issues.
- Conclusion: In the secondary market, only advise your clients to buy works where your research proves that there are no authenticity or title issues.

End of Module 2

That concludes Module 2 of Art Advisory 101.

Up next is Module 3 - Building an Art Collection!

Nothing in this course may be reproduced without the express written consent of Tang Art Advisory and One Art Nation. Course Content: All Rights Reserved. © Tang Art Advisory 2017. Presentation and Design: All Rights Reserved. © One Art Nation 2017.

