

COMMENTS ON THE ART MARKET

VOLUME 100

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I do not know about you, but I am beginning to come to grips with the fact that my stock portfolio values may never look the same again. I am finally numb to the daily volatility --- and in the end, that is probably a good thing. I can now concentrate on more important things and wherever the ball on the roulette wheel lands, so be it. Maybe one day my number, 8 black, will come up! I am also totally disgusted with the media's consistent need for shock headlines. On the 19th I logged into my Microsoft Money and saw this headline – *Profit Taking Slams Stocks; Dow Off 86*. It was SLAMMED by an 86 point drop? Enough is enough ... a 700 point drop would be a slam, but 86 points seems like a light slap on the wrist.

As you see, I still check my portfolios each day just to see how they fared. During one week, this month, I watched them move from minus 20% for the year to minus 9% with no emotional reaction. Believe me this is a much healthier approach – and in case you are wondering, I am still in the red on Citi and RIMM, but for now they appear to be moving in the right direction! So on that note, let's move on to the art world.

The YSL Sale & Comments on the Versace and Sackler Sales

The overall art and antiques markets are beginning to warm up and the sales that took place in France, London and New York over the last 30 days show that there are still many individuals looking to buy good works of art, antiques, collectibles, etc. In addition, many are “ready, willing and able” to pay record prices for the rare and important pieces.

A few months ago I mentioned that while the big auction rooms were having a difficult time showing positive returns (sales were bombing and there were high buy-in rates for the pricier, guaranteed works) their PR machines were as quiet as a mouse. Well, the \$483.8 million spent in the series of Yves Saint Laurent (YSL) sales forced their mechanics to quickly oil those machines and they were cranking out releases with maximum verbosity and lightning speed. During the sale week I must have received 2 or 3 daily emails -- each noting the huge sell through rates and numerous ‘better-than-expected’ results. In addition, their web site is filled with press releases -- some are 7 pages long! At least the staff in the PR department still has a job!

While I could write pages and pages about the results, I figured that many of you probably read about this either on the Internet or in your local paper so here are just some of the highlights.

Taking place at the end of February, over a three day span, the world was holding its breath --- with the large number of items offered, about 700, many people were really worried. Would people show up and, more importantly, would they buy? Well, the three day presale exhibition drew 30,000 people and, according to reports, over 1500 people attended each sale – and they bought!

Securing the top spot was Henri Matisse's *Les coucous, tapis bleu et rose* (1911) which was estimated at €12-€18M and brought a world auction record of €35.9M (\$46.5M). In second place was Brancusi's sculpture titled *Madame L.R.* which carried an estimate of €15-€20M and brought €29.1M (\$37.8M). A surprise third place was picked up by an Eileen Gray chair – the Dragon armchair – which left its €2-€3M estimate in the dust when it sold for €21.9M (\$28.3M) ... believe me, it was a shocker to many of us. Fourth place was grabbed by Mondrian when his *Composition avec blue, rouge, jaune et noir* made €21.5M (\$27.9M) and after some controversy his *Composition avec grille 2* captured fifth place at €14.4M (\$18.6M). The hullabaloo that erupted revolved around the two Chinese bronze animal heads, which would have captured fifth and sixth place since each sold for €15.75M (\$20.3M). However, before the sale the Chinese government made a claim that they were illegally removed (looted) and wanted them returned ... and that was not happening. At the sale Cai Mingchao, a Chinese businessman &

auctioneer, purchased the works and then informed the world that he had no intentions of paying for them (he is now *persona non grata* at those salesrooms) ... so we cannot count them as sold.

In the end, it was an amazing sale; leaving one to wonder if the blockbuster results would have been even better had the sale taken place in February, 2008? Hard for me to believe; but who knows? Item after item outstripped their estimate. An Arnold Böcklin work on paper – estimate €20-€30,000 – brought €409,000 (\$530,000); European sculptures brought 4 or 5 times their estimates; antiquities selling at 3 and 4 times their estimates; silver and miniatures going for as much as 8 times their estimates – the Osterode cup, a German silver gilt quadruple cup from 1649, estimated at €100-€150,000 sold for €853,000 (\$1.1M).

We all know that the YSL celebrity factor had something to do with the results, but with a 95.5% sell through rate and a final total of \$483.8 million there was more going on than just buying something because YSL owned it. What this points to is that many people are now looking for alternative investments and some are definitely buying the tangibles.

In addition to the YSL sale, the Sackler collection of Chinese art hit the auction block; of the 199 items offered, 198 found buyers (99.5% sell through rate) for a total of \$10.87M – twice what was expected. And not to be outdone on the celebrity scale, Sotheby's offered the contents of the late Gianni Versace's home on Lake Como – of the 545 items offered, 536 sold for a sell through rate of 98.4% and a total of £7.4M (\$10.39M) – also double its expected take. Now I know you are thinking that this was only a fraction of what the YSL sale brought and you are correct. However, what you might not know is that this Versace home appears to have been furnished with more 'decorative' items; most of which did extremely well – here are two examples: Anton Einsle's *Portrait of a Lady with a Hat* was only estimated at £7-£10,000 but sold for £91,250 (\$128,000) while a Karl Roos Breakfront Bookcase – estimate £80-£120,000 – brought £601,250 (\$843,000) ... this same piece sold 14 years ago at auction for \$110,000 (not a bad return). So as you can see, this was a very strong showing with the celebrity factor playing a very important role.

Doha Sale - Orientalism

With the salerooms scouring the earth for newer and better locations to ply their wares it was only a matter of time before one would decide to hold an Orientalist sale in the Middle East. This March, Sotheby's presented a sale of 19th & 20th century Orientalist art in Doha.

When I first heard about this sale I thought they were on to something – offer a select group of high quality works to an area of the world that would appreciate them. Middle Eastern scenes to Middle Eastern buyers; what could be better? Well, if they had only offered a select group of fresh works it probably would have worked; but that is not what happened. Yes, the sale only included 78 works (which I do admit was a small number), however 50 of them were purchased at various auctions within the last 2 years. After looking through the catalog I knew this was not going to be pretty – and in the end it wasn't.

As with any sale, there were some success stories: Rudolf Ernst took the top three spots when his *A Hard Bargain* sold for \$542,500 – it last sold in October 2006 for \$363,200; *The Waterpipe Smoker* took second at \$482,500 (last sold in December 2005 for \$120,000); and *The Presentation* garnered \$422,500 (bought in June 2006 for \$284,444). Rounding out the top five were Otto Pilny's *Evening Prayers* at \$326,500 (bought in March 2007 for \$167,083) and Fabbio Fabbi's *A Wedding Procession in Cairo* at \$320,500 (bought in October 2002 for \$47,800). This last work best illustrates my belief that if you buy great quality works you will do fine over a period of time. In the span of 6 ½ years its value increased by about 6 ½ times --- and the other 4 had pretty good returns as well.

I know that some of you will look at those highlights and say: *hey, you said that the sale did poorly because many of the works were recently on the market. It looks like all of those 'recently sold' works brought strong prices.* Well, those did do well and as I said great works will continue to bring great prices; however, those are only the highlights. What really speaks volumes about the art market and what buyers will, and will not, accept are the overall numbers. Of the 78 works offered, only 37 sold (a 47.44% sell through rate – similar to the latter part of 2008). In addition, of the 50 bought within the last two years only 21 sold (a 42% sell through rate). In the end, \$3.7M worth of Orientalist art traded hands – equal to

about 74,000 barrels of oil at \$50 a barrel – and from what I can determine, Qatar pumps more than 850,000 barrels each day so that would equate to about 2 hours of production!

I know I sound like a broken record, but if the salerooms continue to offer recently sold works with very high estimates they are going to make this an even longer recovery for the general art and antiques markets. Smaller sales, filled with good quality works, will result in higher sell through rates; this, in turn, will create a much healthier general market and help restore people's confidence. And in case you are wondering, there were no press releases for this sale – it was all quiet on the PR front!

Auction Room Insurance Fees

Over the years I have written about the various fees auction rooms charge a seller. One fee that has always puzzled me is the percentage charged to insure a work while it is in their possession.

Currently the fee is between 1.5% and 2% of the estimated value before the sale; if the work sells the fee is then based on the hammer price. Now I am sure you are wondering: what is that all about? Well, if the item you consign to an auction room fails to sell (buys-in) the fee you are charged is usually based on the mid-estimate price -- for my example I will use the 2% fee. Your lot was estimated at \$100,000 - \$150,000 and did not sell. When you go to pick up your item, along with any other fees incurred (photography, etc.), there will be an insurance charge of about \$2500 (to put that into perspective, it would cost me about \$900 to insure \$1M worth of art, at my home, for a year). Now, if the same item ultimately sells for \$300,000, then \$6000 (or 2%) will be deducted from your settlement check for the insurance. So far all seems okay ... but here are the kickers. If the item was damaged before the sale you would receive the mid-estimate price of \$125,000, even though the item might actually have been worth much more. In addition the real puzzling question is: why, once the item has sold, are you being charged a premium based on the selling price? After all, if the item was damaged before the sale (while you were still the legal owner) you would only receive the mid-estimate value; however, once the hammer falls title is immediately transferred from the seller to the buyer – so shouldn't any insurance premium on the new value be the responsibility of the new owner?

To add a little more fuel to this fire, an auction room typically has an item in their possession for about 6 – 8 weeks and they are collecting a premium of about 2% for that period of time. If we use the 8 week time frame, then in reality the seller is being charged about 12% per year for insurance coverage ... now that is just downright ridiculous!! Hey, I want to be in that business.

In the February 7th edition of the Antiques Trade Gazette, Ivan Macquisten wrote a wonderful article on this issue. In it there are numerous quotes from John Wakefield (director of the UK art insurers Connoisseur Underwriting). He has many concerns with this current auction practice and advises the auction rooms against using these premiums as *'semi-concealed additional streams of income'*. Mr. Macquisten mentions that *the current rate for fine art dealers' insurance varies from around 0.2% for paintings to about 4.5% for jewelry and watches* and Mr. Wakefield wonders *...how a rate of even one per cent could be justified for perhaps six weeks in the possession of an auctioneer is a mystery*

To be fair, the auction rooms do allow you to waive the insurance coverage if you have your own policy that will cover you off premises. However, if you take this option be sure to carefully read the waiver you have to sign; as Mr. Wakefield states *I have seen various examples of these [waivers] and they mostly attempt to contract the auctioneer out of their common law liability as bailees. Effectively, in some cases, the auctioneers could play football with sellers' goods and still not be liable.* Set, Hut One, Hut Two Go Long!

The Washington D.C. Show

First, we thank all our friends and readers who stopped by; it was great to see you and glad to hear that you are all enjoying our updates and newsletters. I am also happy to report that in addition to doing business, we made some great new contacts.

For a first time show I have to applaud the prompters ... they pulled out all the stops in terms of advertising and promotion; and while attendance was not overwhelming, there was a steady flow. My only gripe is with the broad range of exhibitors. The 'flea market' style setup in the back was a sharp contrast to the more elegant setup in the front. Most of the higher-end exhibitors would have been much happier had management modeled this show after their Palm Beach show. Fewer dealers (180-200 instead of the 265) offering great quality work in a vetted show. From the enthusiasm we experienced it appears that D.C. wants to support a show of that caliber.

We look forward to seeing some of you there in 2010.

Howard L. Rehs
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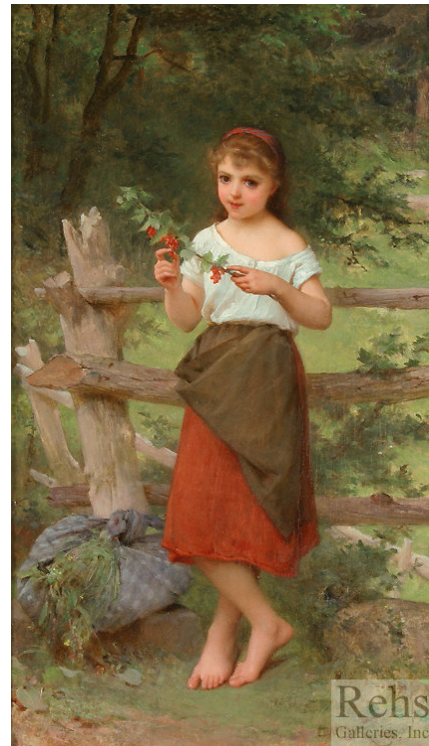
Gallery Updates: We have a break from the show circuit ... nothing planned for the next few months.

Web Site Updates: Works by Dupré (2), Aston Knight, Blanchard, Didier, Petit, Richter, Harris and both Sally and Katie Swatland made their way through the gallery this month. Look for new works by Ridgway Knight, Emile Munier, Galien Laloue, Dargelas, Cortes, Harris, Banks, Sally Swatland and Katie Swatland to be added to our site. A few of the works are illustrated below:

Traditional



Daniel Ridgway Knight – *A Moment's Pause*



Emile Munier – *Contemplation*

Contemporary



Katie Swatland – *Afternoon Read*



Allan Banks – *The Flower Gatherer*



Sally Swatland - *Afternoon in Bellagio*

Next Month: Dirty Rotten Scoundrels, Art Market Updates and my second IRS Art Panel Meeting.