

The Cat That Got the Cream
Digesting a Resurging Art Market

By David Toma



The key story this spring across the art market is of its resurgence to pre-pandemic levels. The late-March release of Art Basel & UBS's annual Art Market Report reports that auction sales in particular have boomed, up 45% versus 2020 and 10% versus 2019. Dealers have also sustained their optimism, with some of the hardest hit during the beginning of the pandemic showing the greatest recovery, due in part to collectors who – hungry as ever – are spending more and at higher prices.

The electrifying current through 2021 was that of both the new and the exclusive. Major auction houses set all-time records, offering up many new works by blue-chip artists previously unseen at a public offering. NFTs dominated the online space, and many across the industry embraced this new tech. Hybrid public auctions and increased online sales allowed greater access to newer and more diverse artists, which an increasingly youthful collector base was eager to snatch up for their portfolios. The excitement is palpable and the blood is young.

Much of the driving force behind this momentum is concentrated at the highest end of the auction market, which catapulting global sales upwards of 29% versus 2020, to an estimated \$65.1 billion. As Marc Spiegler summarized in the Director's Foreword to the Art Basel & UBS report, "the critical mass of the market orbits around a relatively small number of incredibly high-priced pieces."

This ultra-high-end segment of the market (representing works over \$10 million) has seen enormous growth since the last recession in 2008, with 600% sales growth by value and a 438% increase in lots sold. Even though there were gains across the board for 2021, this segment saw the greatest single-year increase since the pandemic, growing 142% from 2020. According to the report, this

unparalleled growth was driven by a scarcity of the highest-value works and the ever-expanding wealth of ultra-high net worth collectors bubbling over with demand.

On the flip side of the coin, collectors' tastes are trending towards fresher artworks. In 2021, the largest genre sector in the fine art auction market was Post-War and Contemporary art, with a 55% share of the total value across global sales. While this trend has been forming for nearly two decades, the recent trajectory has been hurtling towards peak velocity, with an advance of 42% year-on-year, the single greatest increase across all genres from 2020 - 2021. Further, sales figures for artworks created in just the past twenty years more than doubled in value from 2020. Artmarket.com's "Artprice 2021 Global Art Market Report," also published in March, corroborates this sentiment. It states that Contemporary Art, more specifically defined as works by artists born after 1945, accounted for 20% of the market compared to just 3% in 2000.

This trend has also been accelerated by the emergence of a recent colloquial phenomenon known as "red-chip" art. Maddox Gallery London, a major international gallery of Modern and Contemporary art, highlights the nuances of this development in the article "[Investing in Blue-Chip vs. Red-Chip and What It Means for You](#)," published at the beginning of this year.

This article surmises in theory that owners and collectors of blue-chip artworks looking to protect capital amidst downturns and inflation will be more reluctant to put such assets up for sale, thereby creating unprecedented demand for investment-grade works. To fill this void in the market, the "red-chip" investment grade of art emerged amongst collectors eager to line their walls and backrooms. Red-chip artists "are often younger, emerging artists who are both creating new works on the primary market, while at the same time, selling their works for dizzying prices on the secondary market."

To help illustrate this current environment, MutualArt's article "[Solid or Fickle? Where is the Art Market Headed?](#)" published in early March paints a lively picture:

Whereas once, artists coming to the secondary market for the first time could expect that their lots would at best sell within estimate, today less than three- or fourfold of the high estimate counts as disappointing... The fact that collectors are willing to pay several million dollars for works by artists in their thirties while bidding for works (within the same price bracket) from the last century... posits questions regarding the sustainability and fundamental strength of this art market that is strengthening so promisingly overall.

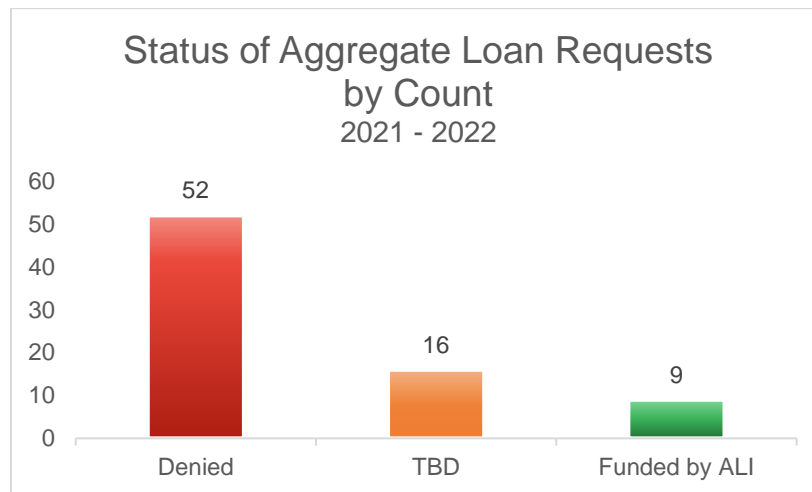
Of course, it is inevitable that some small percentage of these emerging artists will become future blue-chips. However, such sudden and parabolic rises tend to cause more pain than gain in the long run. The majority of artists that do not pass time's great filter fall out of popularity and will experience drastic downturns, unable to reclaim their initial highs. This can permanently soil market interest, and any collector or investor initially caught in the hype will be pulled along for the ride.

At the same time that we see hype around red-chip art, however, proven blue-chip artists are still as desirable as ever. An Andy Warhol 'Marilyn,' to be sold at Christie's auction house in May, has the highest pre-sale estimate in history: a rich \$200 million.

The current market energy paints a bright and lucrative future, and the speed of the current recovery instills confidence. However, we remain steadfast during potentially speculative periods, and our selectivity and diligence give us confidence that the artworks we choose to digest are neither spoiled

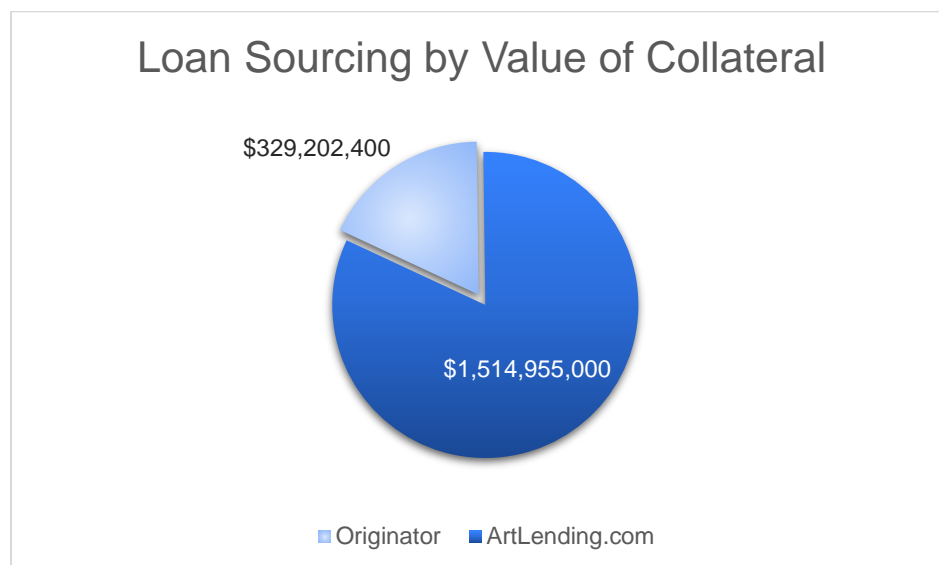
nor frothed, but the crème de la crème. This is especially true given a market that is simultaneously experiencing a boom around ultra-high-end artworks and a trend towards younger assets. The cream will always rise to the top, as existing and preeminent blue-chip staples prove their fitness and art market players gravitate to the best works over time.

Like our whiskered friends, we relish in being a picky eater. Since the beginning of 2021, we have seen a total of 77 loan requests, yet have funded just nine, with some still in various stages of development.



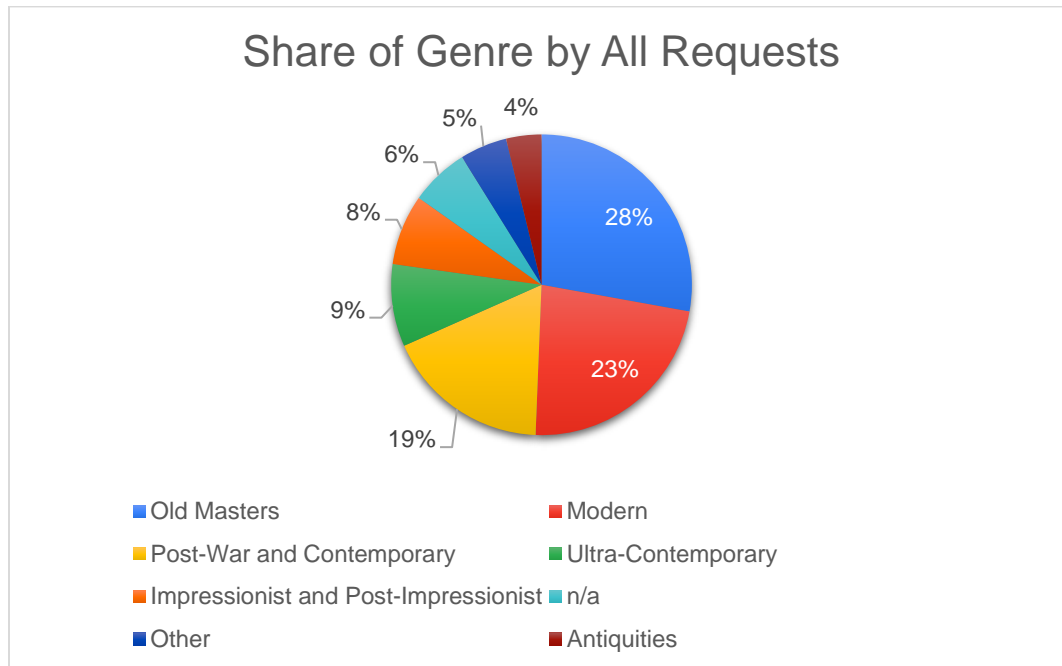
These loan requests represent a combined \$1,844,157,400 in collateral value, eclipsing in just one year the combined total from the previous three. It is no question that the playing field for lending against art has grown considerably, in tandem with the growth of the art market itself.

Nonetheless, our standards have remained the same. Eight of the loans recently funded by ALI were sourced from our close relationships with trusted originators who provide access to high quality works, and 41% of all loan requests have come through these connections.



In contrast, one of the nine loans recently funded by ALI was sourced from [ArtLending.com](#). This channel accounts for the largest segment of the total collateral value and is derived from inquiries through our website. Often, these leads are initiated by those looking for a first-time loan on their

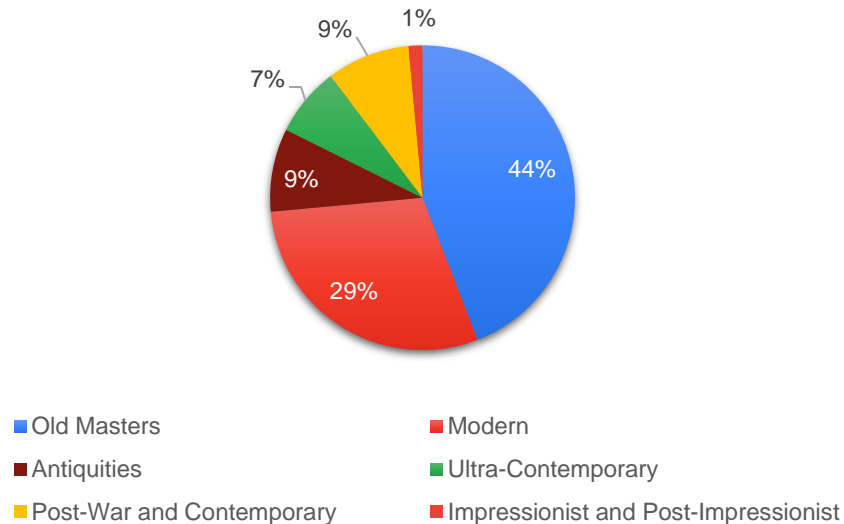
collection, or from brokers looking to assist in their clients' need for credit but who have little or no knowledge of art themselves.



By genre, the majority of loan requests received were represented almost evenly by Old Masters or Modern artworks at a combined 51%. This was followed by Post-War and Contemporary at a modest 18%.

The share of artwork genres counted by funded loan requests that pass through our filters paints a similar picture. Old Masters are incorporated into nearly half of all funded requests, followed strongly by Modern. This is representative of the works typically offered by our originators, who provide access to diverse top-tier artworks and are non-reliant on “red-chip” art. Notably, the share of funded loan requests that include Ultra-Contemporary (living artists) and Post-War and Contemporary artwork sits lower at 8% and 6%, respectively, indicative of a healthy but selective diversity.

Share of Genre by Funded Requests



According to Art Basel and UBS's report, Modern art was the second largest sector by value in the fine art auction market in 2021. Like all other segments, sales improved in 2021, increasing by 23%. These sales included the highest selling lot of the year, Picasso's *Femme Assise près d'une Fenêtre* (Marie-Thérèse) (1932) for \$103.4 million at Christie's New York. Picasso remains a high-end cornerstone of the market, and the appearance of his artwork at auction accounts for a major portion of the sales value in the Modern art segment. For us, diligence equates to taste. Four of the nine recently-funded requests contained at least one artwork by Picasso.

This year saw Old Masters values increase by 21% after a slow four-year decline, with European Old Masters rising by an impressive 65%. Old Masters remain the least volatile and stable segment in terms of volume, whereas the yearly value in sales is driven primarily by activity at the high end. The presence or absence of highly priced works for sale determines the annual trend, due in part to the general scarcity of high-quality masterpieces that appear on the market. Such a situation underscores the desirability of top-tier, high-end artworks, and subsequently the benefits of being selective in choosing the right piece.

It is hard to imagine that the art market's comeback will be just a fluke, even amidst inflation fears. The trend is certainly upward and more elite artworks are making their debut at major auction houses. In May, Christie's will be holding their largest offering since 2018, including the expected \$200-million Warhol amongst a hundred other fine artworks. At Sotheby's, the second part to the Macklowe Collection Sale is slated to be held in May, the first part having broken records last November. As for the participants of these events, high net worth collectors increased their spending at the highest price points throughout 2021, and just over half were planning to buy art in 2022 - all the while ultra-wealthy individuals around the globe have emerged from the pandemic richer than ever. There is clearly still enough cream to go around, and with the right determination, we will all be left smiling.