

The Cat That Got the Cream Redux

Digesting a Resurging Art Market
(Updated 12/29/2022)

By David Toma



The prevailing narrative that has surrounded the art market is its resurgence to pre-pandemic levels and its continued strength in the face of cooling headwinds. Collectors, hungry as ever, spent more and at higher prices, dealers fully rebounded, and art fairs were once again alive with the hustle and bustle of a more carefree era. Art Basel & UBS's 2021 Art Market Report revealed that auction sales boomed 45% above 2020, and even as 2022 drew to a close, the music kept playing. Artnet News' Fall 2022 Intelligence Report states that despite the chilling climate, the total art market has remained at the same level of its equivalent 2021 counterpart.

Art Basel and UBS's end-of-year Global Collector survey for 2022, performed during the major fall fair season, attempts to solidify this narrative. Clare McAndrew, the report's author, surmises that collectors "undoubtedly feel that art is a relative safe haven or store of value in turbulent financial times." This is supported by their finding that spending has increased on average since 2019 at all market levels among high-net-worth collectors. Further, the greatest growth in collector spending habits during 2022 was seen in the share of collectors making purchases over \$1 million, doubling from 10% to 23%. Additionally, online sales continue to be strong despite the return of in-person events, with 37% of collectors preferring to buy online, the highest ever level.

Throughout 2022, the market maintained the reverberations of excitement from the previous year. Much of its success has been carried by a fortunate series of generational auction events, offering to the public previously unseen masterpieces, and the desire for ultra-contemporary art was extremely fervent, with many blaring the horn of speculation.

Last year, both Sotheby's and Christie's officially posted their highest sales records of all-time at a combined \$16.4 billion. Sotheby's in particular credited the "fresh to market single-owner collections" for this success, spearheaded by the Macklowe Collection sale, the second part of which took place earlier in the year. Christie's similarly achieved their record-setting results with the Paul Allen sale in November, an historic \$1.6 billion blockbuster comprised of elite, never-before-seen masterpieces by blue chip artists.

These results highlight the trend toward more expensive artworks, mirroring the increase in wealth seen amongst the world's billionaires since the start of the pandemic. In fact, according to the 2022 Artnet Fall Intelligence Report, the only price bracket to see an increase in total sales year over year was for works worth more than \$10 million, which increased almost 30%. This ultra-high-end segment of the market has experienced enormous gains since the last recession in 2008, with 600% sales growth by value and a 438% increase in lots sold by 2021, according to Art Basel & UBS's annual Art Market Report for 2021.

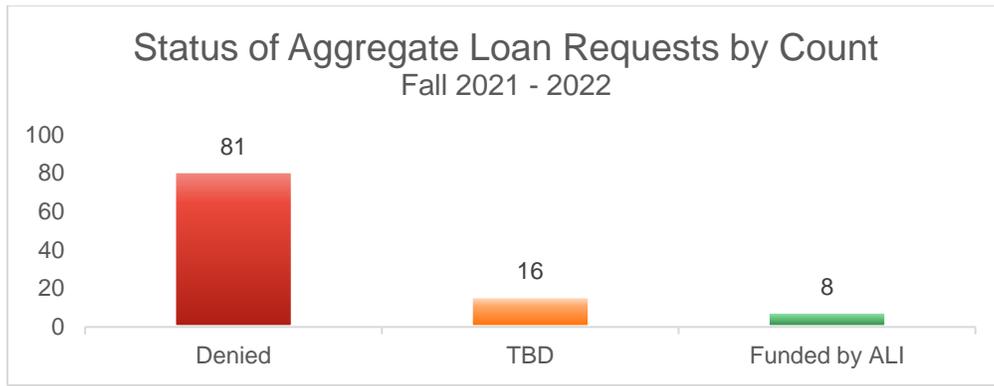
On the other end of the spectrum, sales figures for artworks created in just the past twenty years – which all fall under the genre of Ultra-Contemporary - have more than doubled in value from 2020 to 2021, with the genre itself tripling in sales since 2019. Known colloquially as "red-chip" art (from the game of poker meaning less than "blue"), these wet canvases and the young artists who created them have served to fill the void brought on by increasing wealth meeting increasing scarcity and competition at the high end.

Despite the buzz, we remain alert to potentially speculative periods and steadfast against encroaching headwinds. To parrot the popular euphemism, "winter is coming." While the art market remains strong, especially in comparison to mainstream markets, there are a few signs which should give pause.

When accounting for only art and luxury sales, the record posted by Sotheby's is actually down 7% on the equivalent year. The Fall auctions in November that followed the record-setting Allen Collection saw uncharacteristic caution, with many high-tier lots selling for near the low estimate, and a few sales missing the total aggregate low estimate completely. Ultra-contemporary art, one of the fastest-growing sectors of the market in recent years, showed the smallest year-on-year growth according to Artnet News' report, and many of the young art market darlings who saw unprecedented rises during the past year have experienced increasing contraction in their sales prices.

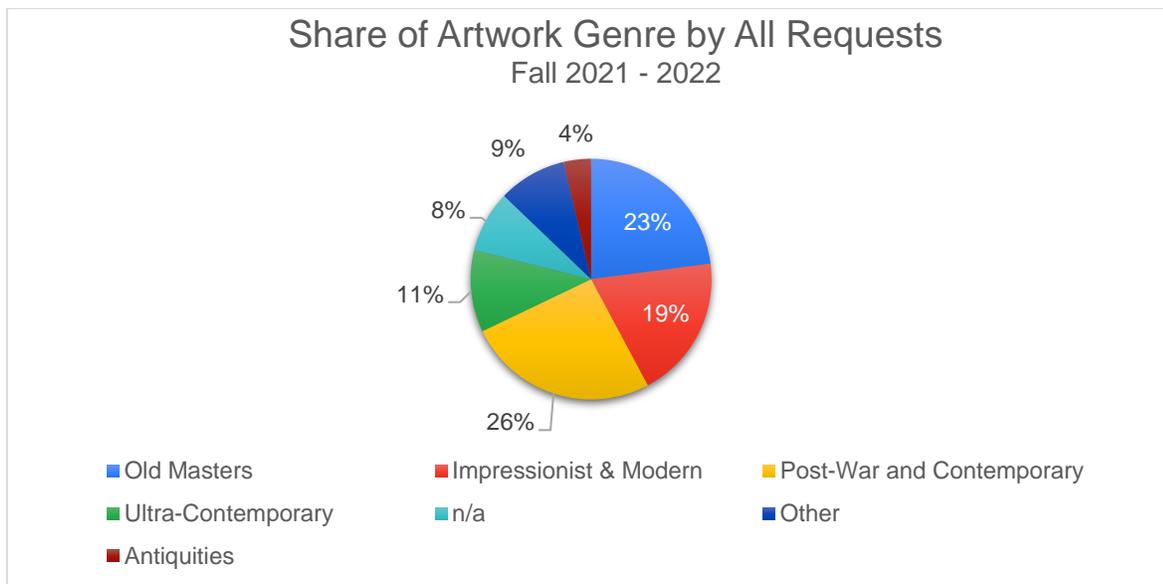
Our selectivity and diligence give us confidence that the artworks we choose to digest are neither spoiled nor frothed, but the *crème de la crème*. This is especially true given a market that is simultaneously witnessing new to market, ultra-high-end artworks and reverberations of the boom in younger artists. The cream will always rise to the top, as blue-chip staples prove their fitness and collectors consolidate the fresher canvases.

Like our whiskered friends, we relish in being a picky eater. Since the fall of 2021, we have seen a total of 105 loan requests, yet have funded just eight, with some still in various stages of development.



These loan requests represent just over \$1 billion in combined 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.

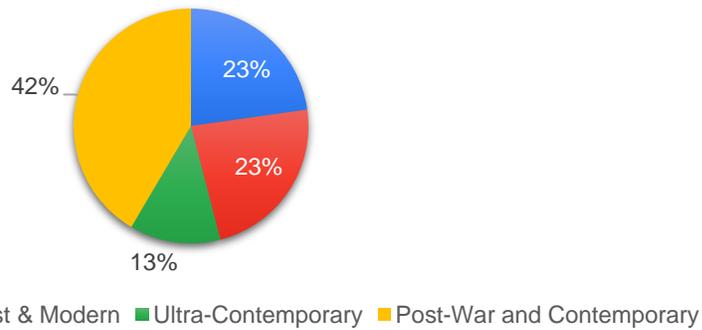
By genre, the majority of loan requests received were represented almost evenly by Old Masters or Post-War and Contemporary artworks. This was followed by Impressionist and Modern at a respectable 19% of total requests, then followed by a modest appearance of Ultra-Contemporary at 11%.



The share of the artwork genres comprising our funded requests paints a similar picture. While Old Masters and Impressionist & Modern artworks represent nearly the same ratio of funded requests in our portfolio at near half, the data shows a heavier bias towards Post-War and Contemporary artworks at 42%. This is representative of the works typically offered by gallerists and dealers, who provide access to diverse top-tier artworks by many historically significant artists. This genre is also notably more liquid than Old Masters, providing a safer profile. The genre with the smallest percentage belongs to Ultra-Contemporary artworks sitting at 13%, indicative of a healthy but selective exposure to established living names.

Share of Artwork Genre by Funded Request

Fall 2021 - 2022



According to Artnet News' Fall 2022 Intelligence Report, Impressionist and Modern art overtook the postwar and contemporary category as the biggest moneymaker for the first time since 2019, with \$3.3 billion in sales. This was due primarily to the new-to-market stock of the Paul Allen sale, which facilitated all-time records for several artists in the category including Van Gogh, Cézanne, and Gauguin.

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 post pandemic was just a fluke, even amidst wider economic fears. While complete overview for the entire 2022 year is pending with reports to come in early 2023, it is safe to say that quality will always reign supreme, as collectors remain hungry amidst the exclusivity of blue-chip artwork. Further, in their performance review for the year, Sotheby's said its financial services division saw a 50% portfolio increase compared with 2021, driven by a 30% expansion in its client base. There is clearly still enough cream to go around, and with the right determination, we will all be left smiling.