“Has the Art Market Entered a Bubble?”

As the global economy continues to recover from the crisis of 2008, no sector has rebounded faster than art. With each new auction season, headlines trumpet fresh record sales totals and price tags well above $100 million. “Pundits warn that the market has entered a bubble that will soon be punctured, burning collectors.”[1] But the picture is more complex, incorporating a range of factors, from shifts in the global distribution of wealth to a generational change in taste.

At the 2015 Blouin Creative Leadership Summit held at The Metropolitan Club in New York City on September 21st and 22nd past, art industry experts including Dr. Roman Kraüssl (Associate Professor, Luxembourg School of Finance), Mr. Paul Aitkens (Chief Executive Officer, Borro), Mr. David K.J. Heffel (President, Heffel Fine Art Auction House), Mr. Patrick Meade (Chief Executive Officer, Bonhams), Mr. Peter Loughrey (Director, Los Angeles Modern Auctions) and Mr. Javier Lumbreras (Chief Executive Officer of Artemundi Group and founder of the Adrastus Collection) addressed the broad issue of how to recognize an art bubble, as well as narrower questions about the state of the market.

“Has the Art Market Entered a Bubble?”: CNN journalist Ben Rooney originally raised this question back in November 2013, after a record-setting week for the art market. “Bubbles are generally defined as a sharp rise in a given asset price, i.e., above a level sustainable by some fundamental values, followed by a sudden collapse.”[2] Namely, there are two indicators to detect a market bubble: (i) high volumes must be traded, and (ii) prices must be above their fundamental fair market values. The global fine art market posted a new record level of activity in 2014, with a total auction turnover of $15.2 billion dollars, up 26% compared with 2013 ($12.05 billion) and more than 300% compared with a decade earlier. Nevertheless, the peak in the number of transactions was in 2007.[3] But it is escalating

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1 Original 2015 Blouin Creative Leadership Summit panel abstract.

2 Kräussl, Roman, Thorsten Lehnert, and Nicolas Martelin. "Is There a Bubble in the Art Market?" *Luxembourg School of Finance, University of Luxembourg,* 1 May 2014. Web. 25 Aug. 2015. http://digitalcommons.sacredheart.edu/cgi/viewcontent.cgi?article=1350&context=wcob_fac p. 5

3 McAndrew, Clare. *TEFAF Art Market Report 2015*. London: Art Economics, 2015. Print. P. 22

prices –dramatically in some sectors– that explain the increase in the overall value of the market, and not a substantial increase in volume.

Dr. Kraüssl has underlined that, even though all four indices (Post-War and Contemporary, Old Masters, Modern and Impressionist) have notably risen over the last four decades, the "popularity" of each of the segments has changed over time. While the "Modern" segment had dominated the art market as a whole until the early 2000s[4], "Post-War and Contemporary" art seems to have led the field since the 2008 stock market crisis and, therefore, this two-pronged segment is now the most likely to develop bubble-type behavior.[5] A study was made based on a compendium of statistical information put together through Dr. Krauss' algorithm, and the following chart is representative of the results.

The "Post War and Contemporary" index has shown continuous increase, to an extent that the bubble may be getting to a "bursting point". Moreover, it seems that the Contemporary art attracts the most media attention and is, at the same time, the most speculative and the most cut-throat segment of the art market. In 2014, the Contemporary market generated $1.2 billion in auction revenue, which is $1 billion more tan 10 years earlier. Some Contemporary artists are even pushing way past the $10 million threshold. These include Jean-Michel Basquiat, Peter Doig, Christopher Wool, Martin Kippenberger, and of course Jeff Koons – the most expensive living artist in the world today – six of whose works fetched over $10 million in 2014 (as many as Pablo Picasso).[6]

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[4] Kräussl, Roman, Thorsten Lehnert, and Nicolas Martelin. "Is There a Bubble in the Art Market?" *Luxembourg School of Finance, University of Luxembourg,* 1 May 2014. Web. 25 Aug. 2015. http://digitalcommons.sacredheart.edu/cgi/viewcontent.cgi?article=1350&context=wcob_fac p. 12

[5] Kräussl, Roman, Thorsten Lehnert, and Nicolas Martelin. "Is There a Bubble in the Art Market?" *Luxembourg School of Finance, University of Luxembourg,* 1 May 2014. Web. 25 Aug. 2015. http://digitalcommons.sacredheart.edu/cgi/viewcontent.cgi?article=1350&context=wcob_fac p. 36

[6] Adams, Georgina. "How Long Can the Art Market Boom Last?" *Financial Times.* 6 June 2014. Web. 26 Aug. 2015. http://www.ft.com/intl/cms/s/2/9f4fff3c-eb27-11e3-bab6-00144feabdc0.html .

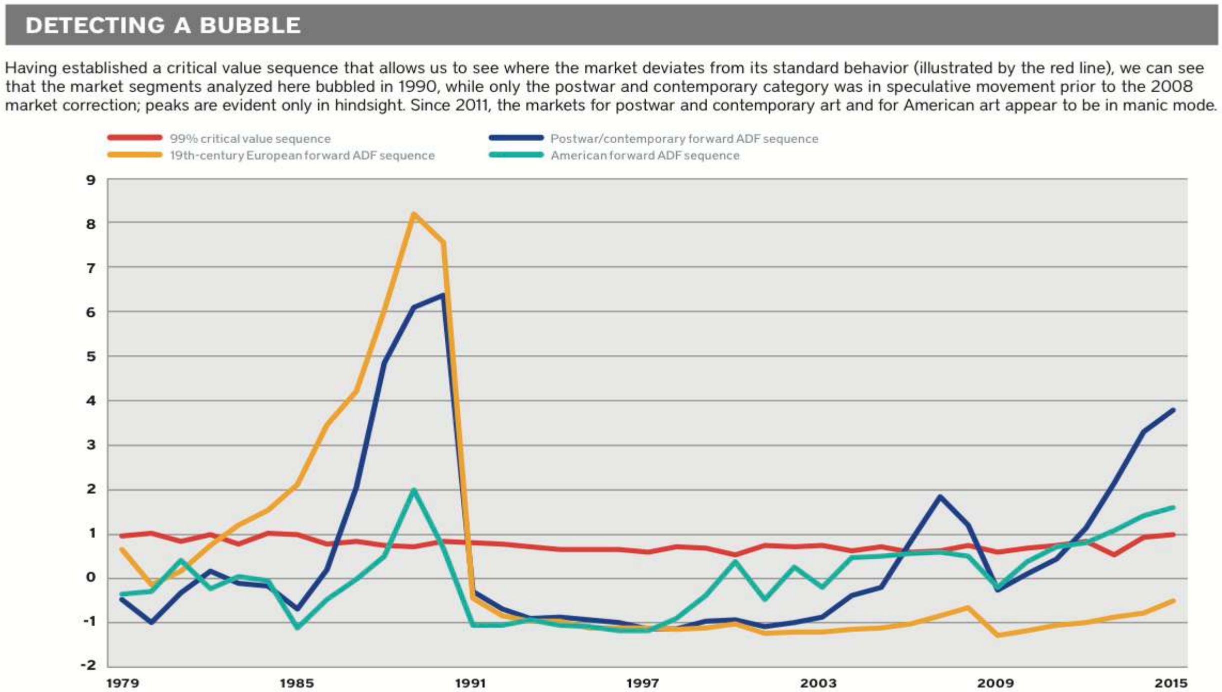

*Figure courtesy of Dr. Roman Kräussl (22 September 2015, BCLS NYC)

However, the astronomical prices seen in 2014 represent only a fraction of the market. In an analysis of over 10 million fine art sales in the past 100 years, Dr. Kräussl, underlined that only 1% of the pieces auctioned in the period 1970-2013 were sold for more than $1 million.[7] By this logic, the inflation of prices in Contemporary art, i.e. the bubble in prices of works by a small group of artists, is by no means, representative of the entire industry.

The main concern about the incommensurate rise of prices in the Contemporary art market and a potential crash is that it might affect other categories and symmetrically decrease their value. Precisely because the relationship between different art segments is asymmetrical, Dr. Krauss has pointed out the need to separate Contemporary art from Post-War artistic production, particularly in auction house catalogues and sessions. At Blouin's 2015, while Bonhams' CEO, Mr. Patrick Meade, mentioned that

[7] Kräussl, Roman, Thorsten Lehnert, and Nicolas Martelin. "Is There a Bubble in the Art Market?" *Luxembourg School of Finance, University of Luxembourg,* 1 May 2014. Web. 25 Aug. 2015. http://digitalcommons.sacredheart.edu/cgi/viewcontent.cgi?article=1350&context=wcob_fac p. 36

this praxis is mainly followed for practical purposes, Mr. Javier Lumbreras, Artemundi's CEO, suggested that this widely accepted use might well have deeper implications: by putting the two segments together, Contemporary art unfairly piggybacks on Post-War art, i.e., the latter may unfairly help validate the outrageous pricing of some Contemporary artists. In other words, as with osmosis, Contemporary art "absorbs" the impression of quality and stability of the Post-War art market. The risk/return profiles are just not the same anymore for the two segments, which have grown apart. Post-War artists like Jasper Jones, Robert Motherwell, and Robert Rauschenberg "spread" their aesthetic value to some (most likely) overvalued Contemporary artists like Damien Hirst and Dahn Vo.

Furthermore, the "top one percent" phenomenon that benefits only a few "brand-name" artists cannot be the determinant factor of the intrinsic value of an artwork. Dr. Clare McAndrew, a cultural economist who specializes in the arts and collectibles, reported that top collectors are only interested in the work of some 50 to 100 specific artists, overwhelmingly in the Post-War and Contemporary segments. Dr. McAndrew has realized that the "conformity in the global market today [is] due to the Internet […] everyone wants the same few things."[8] Herd mentality seems to be alive and well in the art world. The TEFAF 2015 report underlined the same results, insofar as only 8% of the artists whose works were sold at auction reached prices above €50,000 and the work of less than 1% of artists was sold over €1 million. Within 127,365 artists whose works were sold during the 2014, only 54 accounted for lots priced at over 10 million.[9]

Mr. Javier Lumbreras, who besides leading Artemundi is the founder of the Adrastus Collection (focused on Contemporary art), says that only time will tell which artists will remain, and which, who had a buzz and short-lived success, will be falling by the wayside. In ending his participation at Blouin 2015, the art fund manager/collector highlighted that the legitimization of an artwork should mainly fall on its intellectual and emotional value given by the institutions, not on pricing and the auction block. Otherwise, art would be reduced to merely another luxury product for status and decorative purposes.

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[8] Adams, Georgina. "How Long Can the Art Market Boom Last?" *Financial Times.* 6 June 2014. Web. 26 Aug. 2015. http://www.ft.com/intl/cms/s/2/9f4fff3c-eb27-11e3-bab6-00144feabdc0.html .

[9] McAndrew, Clare. *TEFAF Art Market Report 2015*. London: Art Economics, 2015. Print. P.36

Since today's collectors purchase art "by ear", emotional value and aesthetic perception now start to lag behind fashion and pricing. "Comprehension of aesthetics – remember, sense perception – is supreme when one is acquiring a work in order to exhibit it in one's home or workplace. What sensory value does it have for us? […] The way we enjoy a painting is an intuitive, personal pleasure. In a practical analysis we can regard color as the first point of attraction. Then we pay attention to the subject matter, since the principal objective of a painting is to represent something. Beauty, skill, and harmony are the foundations for judging it. Then we seek the work's expression, in other words, the intensity of the experience that the work can produce in us; what attracts us internally. The beauty of the subject matter is secondary to what is being expressed."[10]

10 Lumbreras, Javier. *The Art of Collecting Art.* Fomento Cultural Banamex, Barcelona, 2011. p. 48.