

Is an artwork “BURNT” by failing to sell at a public auction?

One of the most curious byproducts from the past 15 years of the internet age is the increased use of the acronym “BI” in the art auction community. “BI” stands for “Bough-In”, which is a term for artworks that do not sell at auctions. This can be a catastrophic result; many potential purchasers in the art community believe that a BI artwork is considered “BURNT,” i.e., considered devalued because of their failure to sell at public auctions. But is an unsold artwork really devaluated? If so, how much is this a result from a non-sale at an auction?

To answer this question, you should consider the background. As a rule of thumb, when an artwork is sent to a traditional auction block, there are 5 possible outcomes with 20% probability each. In the best-case scenario the artwork sells over the high presale estimate. The next best result would be a price at the mid-range of the estimates. The third possibility is a sale price at the low estimate. The remaining two results, however, are bad: the work either sells for the reserve price, which is usually set at 10-20% below the low estimate, or it fails to sell at all. The latter result is the BI.

A BI has a strong psychological effect on today’s market because of the growth of the internet, but this wasn’t always true. The general assumption is that when an artwork fails to sell at an auction it either is of poor quality, bad condition or dubious provenance. Moreover, very often, the auctioneers set an incorrect estimate either high or low; if it is high the artworks might seem overpriced and scare bidders away, while a low estimate can very much deter buyers into thinking something is wrong with the artwork. While the first set of reasons are hard to correct with a price twist, the last is easy. There are other reasons that can cause a BI, such as an adverse overall market. Just think back to the November 2008 auction sales after the international financial market collapse. Catalogues were already printed, price corrections could not be made on paper and the auction results had an average BI rate of 41%.

Another bad reason for a lot at an auction to BI is disparagement, but this practice is illegal and is the subject of other myth buster research. Finally, despite many reasons, here is my favorite: a lot can BI for no reason whatsoever. I have been in situations where two or three ready and willing knowledgeable buyers do not enter the bidding in the early stages so that they do not “warm up” the bid. In those situations, an auctioneer who is uninterested in lowering the hammer too fast announces: “Passed on the lot”.

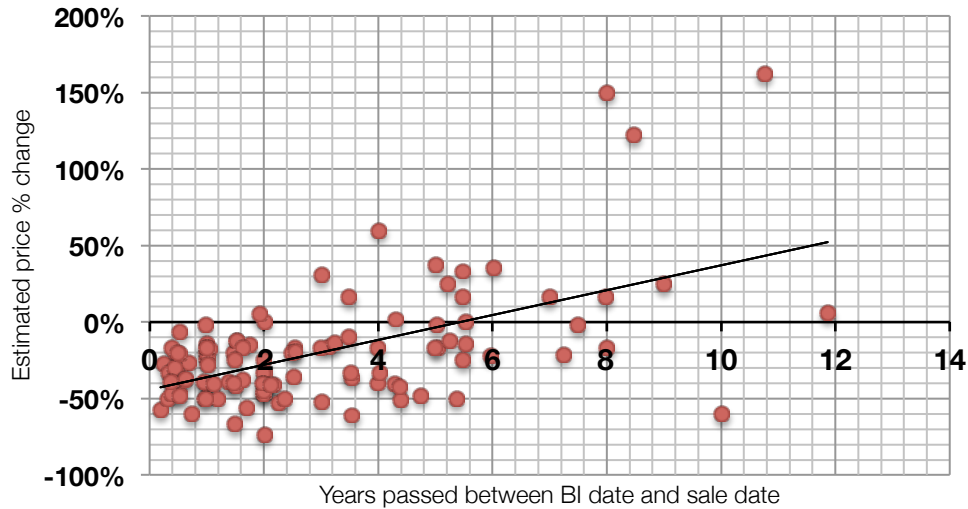
I remember in the late 80’s, and through the 90’s, dealers would run to the front of the auction room and line up so that they could leave a bid on a lot that had been passed on. Many sales were closed this way. I used to attend all the live sales, and remember every lot. Unless you memorized prior BI’s, information regarding the BI’s was not easily available. Only dealers had access to that privileged hands-on information and old auction catalogues were precious. Collectors would typically forget a BI in a matter of two years and the lot could be safely put back on sale.

The Internet, however, has changed the playing field. Anyone can download the Artnet application on a smartphone and there is no need to rely on your memory. The availability of BI information has resulted in novice collectors, who often lack the understanding of a BI, overreacting.

Regardless of the reason of the BI, what does a “Burnt” artwork really mean? In general terms, it means that if it is offered again in the market it will be at a considerably lower price and this effect will persist for a significant period of time. In order to demonstrate this effect a database of more than 200 pairs of artworks sold at auctions was gathered. A pair representing a BI artwork and its repeated appearance at an auction X time afterwards.

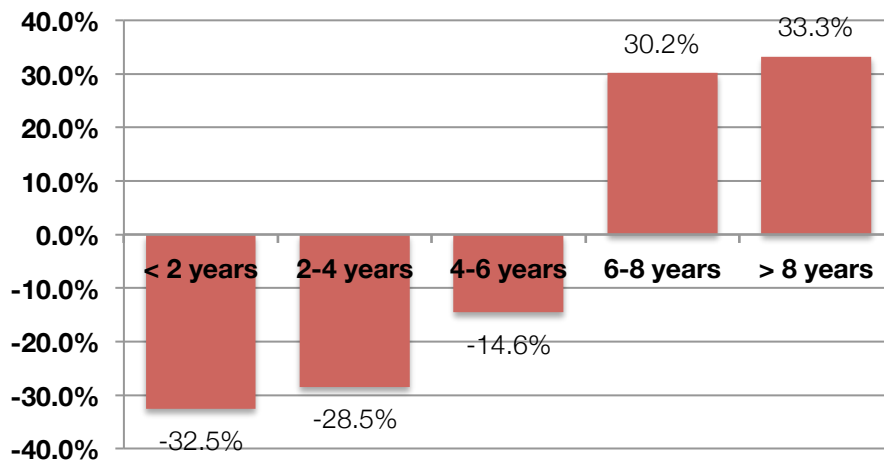
The following graph shows the average change in price estimates between the first auction where the artwork was a BI and the subsequent auction after a certain period of time. It was calculated that on average 2.89

years (2 years and 10 months) pass between the first and second appearance at an auction. The average estimated price decreases in 23.95% while the median price decreases in 27%.



When an artwork fails to sell at an auction, the market openly reveals that nobody was willing to pay the offered price plus the buyer's premium. Thus, when it is offered for a second time in a public auction at least the buyer premium percentage must be discounted from the offered price.

The BI effect haunts the artwork for quite a while; the tendency shows that as time passes the price tends to decrease less and less until it reverses the tendency and begins to increase. To be precise it is possible to see a turnaround of the tendency after 5.43 years (5 years 5 months), meaning that after 6 years approximately the BI effect has diluted completely and the artwork appreciates at a regular art to market rate.



In the end, the lack of information in the market is hurting BI artworks. Therefore, the biggest risk of selling artwork at an auction not only includes the risk of selling it for a lower than expected price or not selling it, but also includes the risk of the artwork not selling at all, which would negatively affect its price trajectory in the following years. Given the constant evolution of the art market this negative effect should be taken into consideration when evaluating transactions thru traditional auction houses.