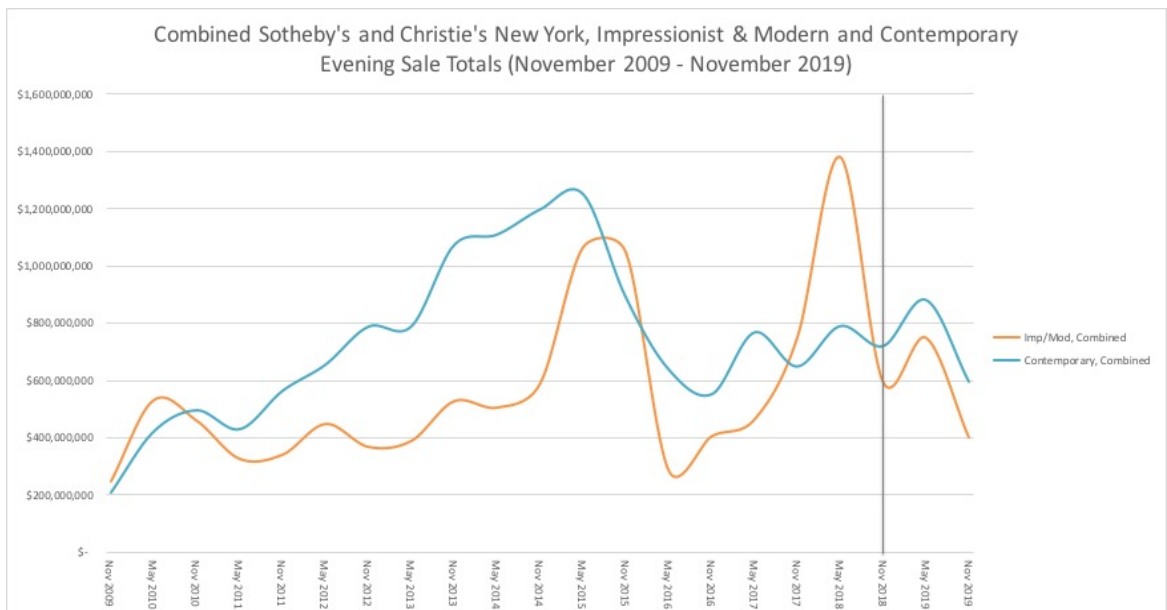
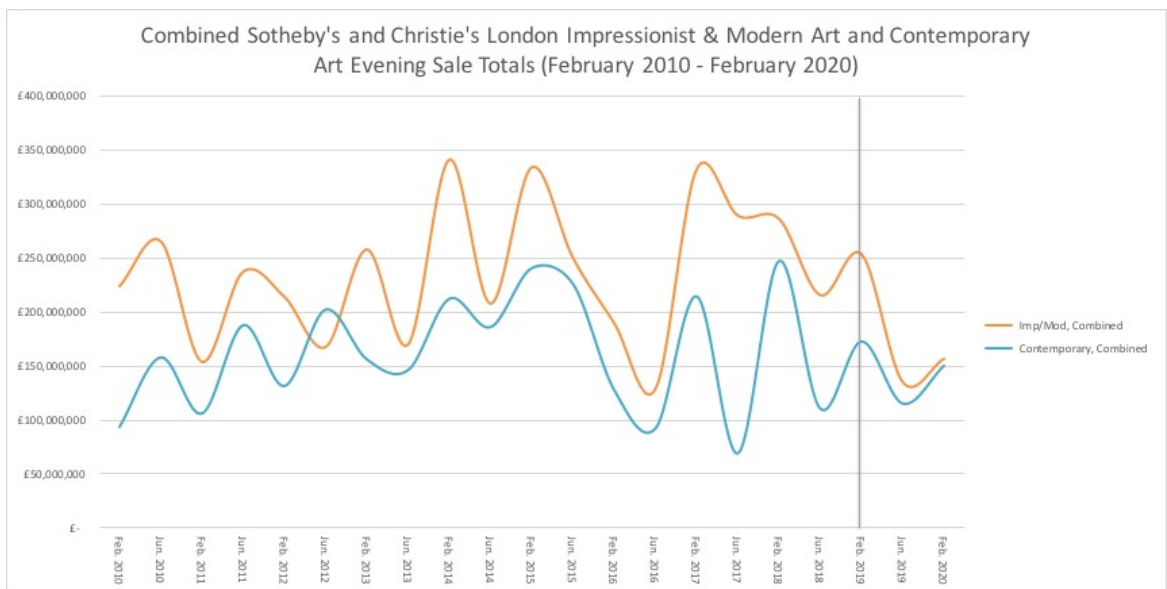


## COVID-19 and Its Impact on the The Impressionist & Twentieth Century Art Market ~ May 2020 ~

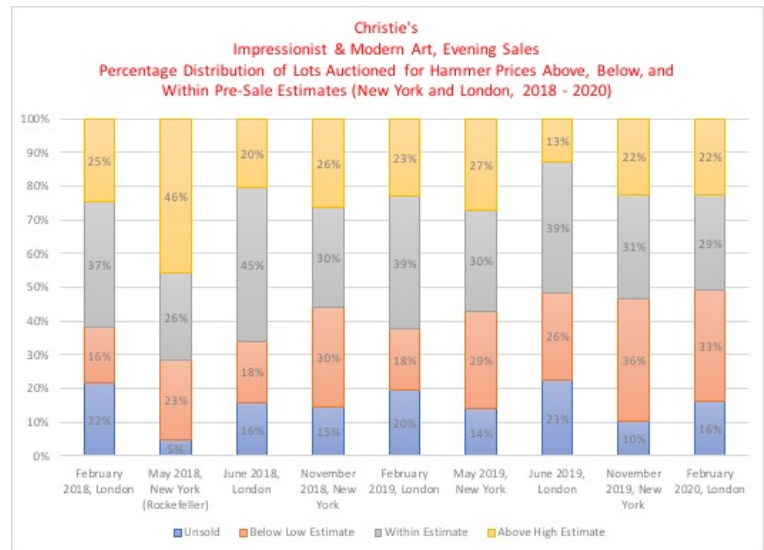
### Questions & Answers with Thomas Seydoux & Stephane Connery

**1. What was the state of the market for Impressionist & Twentieth Century Art prior to the COVID-19 pandemic?**

- The Impressionist & Modern Art auction market up to and including the last round of sales in February 2020 in London had reasonably good results but continued the decline in sale value seen over the last two years. Sotheby's February 2020 Impressionist & Modern Art evening sale totaled £49.9 million (\$64.9 million), 57% of the £87.7 million (\$114.8 million) the same sale brought in February 2019, itself lower than the £136 million (\$189 million) brought in February 2018. Likewise, Christie's had their lowest February London sale total in the past three years, at £106.8 million (\$138.9 million).
- The following charts track Christie's and Sotheby's combined evening sale totals over the past decade for London and New York respectively:



- Notably, supply of great Impressionist & Modern Art has declined, partly due to a dearth of estates that have collected deeply in the field (the last was Rockefeller in May 2018). Future estate sales will likely focus less on Impressionist Art, and increasingly on Post-War and Contemporary Art.
- On a positive note, in February, Christie’s auctioned Magritte, *A la rencontre du plaisir* for £18.9 million (\$24.6 million) and Lempicka, *Portrait of Marjorie Ferry* for £16.3 million (\$21.1 million). Notably, the Lempicka had been purchased by the seller near the bottom of the market in May 2009 for just shy of \$5 million.
- It helped that some prominent newcomers entered the market in February in London, where the art market appeared untroubled by the conclusion of Brexit.
- Lately at auction, discretionary sellers commonly won’t sell without a guarantee. Guarantees are often priced optimistically, and over the past six months, we’ve consistently seen about half of guaranteed lots in Impressionist & Modern Art evening sales go to their guarantor.
- Depth of bidding has diminished since 2017 and auction houses have compensated by securing third-party guarantees, which have artificially maintained the market at a certain plateau, without the help of underbidders. This has led to opacity of real market price levels while encouraging vendors to believe that prices were steady, or worse, on a constant rise.
- Christie’s and Sotheby’s Impressionist & Modern Art teams have generally managed their sales well offering fewer lots with a high portion guaranteed, so we haven’t seen disastrous levels of unsold or below estimate works in recent seasons:



- In the private market, it became increasingly difficult through 2019 to obtain sellers’ initial price expectations. Where transactions were concluded, it was common to see the final price at 15-20% below the original asking price, which was often based on 2016 and 2017 estimates.
- True masterpieces and extremely commercial works have been, and we expect to remain, a subset of the broader art market and are more or less unaffected, or only modestly affected by limited bidding. An example is Monet, *Meules* sold by Sotheby’s in May 2019 for \$110.7 million, a record for an Impressionist painting at auction.

## 2. How have the effects of COVID-19 changed the market for Impressionist & Twentieth Century Art?

- COVID-19 has put the entire art market on hold, plunging it into one of the deepest crises ever, and this is without yet accounting for the inevitable economic downturn.
- Back in February, The Impressionist & Modern Art market looked forward to the New York May sales to provide greater clarity on supply, pricing and market depth, notably with two major potential collections, that of the late Donald Marron, valued at around \$450 million, and the divorce settlement sale of Harry and Linda Macklowe, valued at around \$700 million. Shortly before COVID-19 was declared a global pandemic, Mr. Marron's widow chose to sell privately through an unexpected partnership of three galleries—Pace, Aquavella, and Gagosian—who agreed to buy the works if unsold. Subsequently, the court-appointed receiver of the Macklowe collection has delayed the decision to sell.
- What would have been the major May auctions have been postponed until the end of June, though we wonder if they will proceed then, or in what form. If they happen, these June sales will be the first real test. Just forget about the cocktail reception and packed sale rooms.
- Meanwhile, minor auctions have been shifted online, where auction houses report good results for works up to \$500,000 but haven't really tested the waters over \$1 million. Sotheby's says they sold over \$60 million online across collecting categories in March and April, with 32% percent of these lots going to new buyers.
- For more important works, auction houses are emphasizing private sales over auction. One auction house claims robust demand noting their April 2020 private sales in all categories was 60% higher than their February 2020 private sales. This said, we imagine they are speaking for a small number of buyers, as most are taking a wait-and-see approach.
- Private sales have also been compromised due to worldwide confinements, making it impossible in most countries to ship, photograph, authenticate, establish condition reports, frame or physically view works of art. Further, lack of market visibility, economic turmoil, and broad uncertainty has made private sales difficult to conclude for the time being.
- For works that are selling, we are not yet seeing discounted rates.

## 3. What advice are you giving to clients in the current market?

- Would you consider selling an important work of art that's been in your family for several decades in the middle of the COVID-19 crisis? No. Would you consider purchasing a work unseen at a record price in the middle of worldwide confinement? Most probably not.
- In most cases, we are advising collectors to wait for greater visibility. In some instances, such as multiples or items below a million dollars selling online can provide a good alternative, but if there is no urgency to sell or buy, this isn't the right moment to transact. If someone tells you otherwise, we suggest scrutinizing their motivations.
- If a transaction is in progress and can be concluded at a price acceptable to both seller and purchaser, go ahead, but we would not speculate on improved market conditions in the near future.

Sellers:

- For sellers, if an asking price could not be obtained prior to the COVID-19 crisis, it will continue to remain unobtainable during the crisis and likely the foreseeable future.

- The risk of exposing a painting to the market with little chance of selling is high. At best, you could obtain a commitment to purchase “subject to viewing,” but if the actual viewing happens in two weeks, or more likely two months, will the buyer maintain interest? With so little visibility on the coming months, for most people, it is not a risk worth taking.
- The uncertainty of the situation and inability to do viewings has immobilized almost all of those who would be buyers at a high level.
- If you must sell something over \$1 million, do so privately with trusted agents, and certainly don't go to auction without a guarantee.

Buyers:

- As a buyer, unless you are dealing with an artwork you have been chasing for months or years, how will you evaluate the COVID-19 impact on prices? How can you assess the quality of a work with the current physical restrictions? How can your motivation not be impacted by the enormous economic crisis awaiting the entire world in the months, maybe years, to come?
- That said, in the unlikely event you are being offered AAA-quality works, we would certainly recommend considering. Such works historically are more resilient to crises and changes of taste.
- Just don't expect to be able to purchase a great work of art for a fraction of its asking price in the middle of the COVID-19 crisis or the foreseeable future. Where low offers are accepted, the works might not be as great as you think. Great quality is seldom cheap regardless of timing.
- We hope come fall, the world will better understand the economic impact of COVID-19 which may lead to lower price expectations and better opportunities. Buyers can keep their eyes open for opportunities and should focus above all on quality and value. Monet, Renoir, Picasso, Matisse, and Miró are artists of lasting value who immediately come to mind.

A note on museums:

- While museums have suffered considerable financial tolls from the lockdowns, many have funds reserved exclusively for acquisitions and so may remain in the market. Sales to museums routinely require much more patience than sales to private collectors, which could work in a world of slowed expectations. On the flip side, we may begin to see some sales by museums. Normally sales by museums to cover their operating costs are so stigmatized by the museum community that they are effectively forbidden, but this could change as more and more museums enter survival mode.

**4. Would you sell art online? Do you perceive online sales as a viable market alternative?**

- Online auctions have been boosted in the current crisis due to the ongoing physical limitations resulting from COVID-19. Online will become the preferred selling method for many auctions in the future, especially for lower to medium value sales.
- For works valued over \$1 million, it remains to be seen if online sales are an effective way to sell, especially when they cannot easily be viewed in person. We would not presently advise collectors to sell high value works online.
- For works under \$1 million and with significant market exposure either from failing to sell at auction or from lingering on the market, online selling may be worth considering.

- Not only have results of online sales been encouraging so far (especially during this confinement period) but for certain categories such as wine, multiples, photography, watches, and design, it seems inevitable that sales will occur online going forward. The savings from shipping, insurance, physical catalogs, sale rooms, and art handling are too important not to be implemented.
- It's still early, but one could imagine auction houses dividing their sales into three categories:
  - Online
  - Hybrid (physical exhibitions, online bidding)
  - Traditional (physical exhibitions, live evening sales, but only for prestigious collections)
- The dramatic shift of many sales from live to online will bring about major changes for the auction houses, impacting their brands, commission structures, staff counts, number of sale rooms around the world, and applicable laws and warranties. Nevertheless, online sales would significantly lower the auction houses' enormous fixed costs, which may be necessary for survival.
- Contrary to past events, the COVID-19 crisis, will have a significant structural impact on the current art market, not only for auction houses, but for galleries and art fairs as well. Many questions remain, but online sales will play a significant role going forward. Auction houses have maintained consistent operational structures for decades if not centuries, and some structural adaptation is long overdue. The COVID-19 crisis will be remembered as its turning point.
- Sotheby's new owner, Patrick Drahi, has stressed improving digital sales since he acquired and took the company private in June 2019. In light of the current crisis, Sotheby's recently launched Sotheby's Gallery Network, an online partnership with eight galleries allowing them to use Sotheby's digital platform to list and sell directly to buyers.
- Christie's has similarly increased their inventory on their online platform and have worked to improve the experience and simplicity of purchasing through the web.

## 5. How will the market shock brought on by COVID-19 affect taste?

- Reflecting on prior market shocks, after a crisis, collectors' tastes often turn towards more traditional and established categories, and away from vanguard Contemporary artists. For example, in 2009, shortly after the financial collapse, there was renewed interest in Impressionist works. That said, over the past decade, interest in Contemporary Art has become incredibly global, and the needle of taste seems to have shifted significantly towards Contemporary Art with many more collectors engaged in buying Post-War and Contemporary Art than Impressionist & Modern Art.
- Major market shocks often affect taste within collecting categories, especially in Contemporary Art, where ideas of value are less firmly entrenched. Perhaps we will see a shift away from the dominant trends of the past few years which showed enthusiasm for works by Christopher Wool, Gerhard Richter and KAWS, to name but a few. For Contemporary artists whose careers spanned decades, like Andy Warhol, perhaps we will see a shift in focus back to the most groundbreaking works and periods (e.g., 1960s Warhol may better retain value than 1980s Warhol), rather than the less discerning bidding we've witnessed recently.

**6. What changes for the art market do you anticipate as a consequence of COVID-19?**

- While no one has a crystal ball, we anticipate potentially seismic changes in the art world post-COVID-19. Historically, the art world has always been a highly social arena and the theatre and energy of live auctions undoubtedly stokes bidding at times. For now, it's unclear when people will return to the conventionally packed evening sale rooms, even if they do proceed in late June.
- In the short- to medium- terms, one could imagine a significant drop in third-party guarantees. As market opportunities become less clear, guarantors will become more conservative, if active at all.
- Economic consequences will likely lead to lower estimates, which might in turn encourage bidding and add depth to a thinning market.
- With fewer people selling opportunistically, sellers will be in a stronger position to negotiate fees and commissions.
- In a risk-averse market, private sales may become the dominate mode of selling important works, even at the auction houses.
- We've long thought auction houses would move into the primary market, which has reportedly held up better than the secondary market through the current crisis.
- A new era of online selling has already begun and will surely accelerate.
- Policy-wise, additional quantitative easing would likely inject funds into the art market, which, with its limited supply, is appealing as an alternative asset, especially for Impressionist, Modern and Post-War works as opposed to Contemporary Art by living artists.

**7. Is this crisis different from 9/11 and the 2008 collapse? If so, how?**

- The COVID-19 crisis is very different from previous crises in the art market for several reasons. The first is that the current crisis is twofold: the protracted sanitary crisis we are facing now, and the global economic crisis that will surely follow.
- While the attacks of September 11<sup>th</sup>, 2001 caused an immediate and sharp stock market decline, by November 2001 bidders enthusiastically pursued Modern and Surrealist works from the estate of René Gaffé, offered at Christie's without reserve, as well as the Impressionist & Modern Art collection of Nathan and Marion Smooke offered at Phillips. The strong results in these sales helped set and sustain prices thereafter.
- The subprime collapse in fall 2008 ravaged the auctions that season, but by February 2009 Christie's sale of the Yves Saint Laurent and Pierre Bergé collection, which included many outstanding Modern lots, obtained what was at the time the highest sale total for a collection at auction. This success showed there was plenty of appetite for great art at strong prices, which encouraged sellers. Moreover, monetary policy pumped currency into the economy, some of which made its way to the art market, while low interest rates allowed collectors to borrow and buy using art as collateral. This all contributed to an ostensibly swift and strong art market recovery.
- This time around, recovery may take longer. No significant collection is likely to appear on the market before November at the earliest. The pandemic's impact on the economy remains to be seen, and it will take many months at least before real stability returns. Unless a vaccine is soon developed and widely distributed, we run the risk of a second wave of the pandemic which would be a disaster for our economy and, needless to say, for the art market.

**FURTHER READING RELATED TO THE IMPACT OF COVID-19 ON THE ART MARKET:**

*The Art Newspaper*, “Auctions: what will change, post-COVID-19?” by Georgina Adam (29 April 2020)  
<https://www.theartnewspaper.com/comment/auctions-what-will-change-post-COVID-19>

*The Art Newspaper*, “Great Depression of the 21<sup>st</sup> century looms over the art market,” by Anny Shaw (28 April 2020)  
<https://www.theartnewspaper.com/analysis/great-depression-of-the-21st-century-looms>

*The Washington Post*, “This is how bad things are for museums: They now have a green light to sell off their art” by Sebastian Smee (30 April 2020)  
[https://www.washingtonpost.com/entertainment/museums/this-is-how-bad-things-are-for-museums-they-now-have-a-green-light-to-sell-off-their-art/2020/04/29/b5492a5e-899e-11ea-8ac1-bfb250876b7a\\_story.html](https://www.washingtonpost.com/entertainment/museums/this-is-how-bad-things-are-for-museums-they-now-have-a-green-light-to-sell-off-their-art/2020/04/29/b5492a5e-899e-11ea-8ac1-bfb250876b7a_story.html)

*ArtNews*, “Dealers Leverage New Sotheby’s Gallery Network to Extend Reach,” by Angelica Villa (28 April 2020)  
<https://www.artnews.com/art-news/market/sothebys-gallery-network-platform-1202685124/>

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