The New York Times | https://www.nytimes.com/2015/01/05/arts/international/record-setting-auctions-cap-a-turbulent-year.html

Record-Setting Auctions Cap a Turbulent Year

By Scott Reyburn

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Georgia O'Keeffe's "Jimson Weed/White Flower No.1" fetched $44.4 million at Sotheby's in November.
Sotheby's

For some in the rarefied world of fine art auctions, 2014 was the best of times; for others, less so.

On Nov. 12, Christie's sold $852.9 million of art in a single evening. For the fourth time in a row, the company's biannual Part I sale of postwar and contemporary works in New York had raised the bar for the highest-grossing art auction in history, eclipsing the "mere" $343.6 million taken at Sotheby's the previous night.

Sotheby's loss of market share to Christie's in the all-important sector of contemporary art had been inflaming the ire of Sotheby's biggest external shareholder, the hedge fund manager Daniel S. Loeb. Last year Mr. Loeb wrote an open letter calling for the resignation of the company's chief executive, William Ruprecht. This year, on Nov. 20, just over a week after that underwhelming New York sale, Sotheby's announced that by "mutual agreement" Mr. Ruprecht would be stepping down.

Then, on Dec. 2, despite the edge it had established over its historic rival, Christie's stunned the art world by announcing that its own chief executive, Steven P. Murphy, would also be leaving.

The departure of two company heads, staff cuts at Sotheby's and the imposition of a new 2 percent "success" fee for sellers at Christie's in 2014 were all indications that the auction house as a business model was facing challenges, even in the middle of an art boom.

"The auction houses have been giving it away," said the Dallas-based collector Howard Rachofsky. "The prices are high, which encourages people to sell, and typically they buy something else, so it becomes self-fulfilling.

"Walmart have made billions on small margins, but businesses like that aren't as corpulently run," he added, referring to the hefty staff and marketing costs that auction houses now incur when selling top-end contemporary art to a global clientele.

Figures for 2014 won't be released by Christie's and Sotheby's until later this month. But in 2013, Sotheby's reported a net income of $130 million on $6.3 billion of auction and private sales — a margin of 2 percent. (Equivalent profit announcements are not made by Christie's, which is privately owned by the French billionaire François Pinault and which only releases sales, but gives no indication of profit or loss.)

Profits at Sotheby's and Christie's are eroded by the expense of running global teams of more than 90 contemporary art specialists. Commentators looking for canary-in-a-coal-mine signs of overheating in the market have noted the growing number of guaranteed lots at top-tier contemporary sales; more than 40 percent of the works at the November evening auctions of both houses carried company-funded or third-party guarantees.

But as Amy Cappellazzo, the co-founder of the New York-based Art Agency, Partners, points out, by taking the risk of promising a seller a minimum price, auction houses reap a sizeable share of the upside if the work sells above that figure, and keep most if not all of the buyer's premium.

"If the houses are going to act as a principal rather than an agent by offering guarantees, then it is fair to be looking for opportunities to put their capital to work and enhance their profits," said Ms. Cappellazzo, a former international chairman of postwar and contemporary art at Christie's.

The 1962 Ferrari 250 GTO that was sold for $38.1 million at Bonhams in California in August.
Bonhams

As Ms. Cappellazzo, Mr. Rachofsky and many other art-world insiders recognize, in today's market it is "give-aways" to wealthy sellers, rather than guarantees, that are, if anything, a greater threat to the auction houses' profitability.

Last year, because of cutthroat competition for big-ticket consignments, owners of unguaranteed works estimated at more than, say, $10 million were not being charged any seller's commission and were often being given most of the buyer's premium, leaving the auction houses a few percent of the final price to defray against hefty marketing costs. Terms may be less generous in 2015.

And what about the actual art being sold in 2014? For the second year in a row Picasso, who for decades had been the market's dominant name, didn't feature among the 10 most valuable works sold at auction. That crown has now passed to Andy Warhol, who accounted for three of those top prices in 2014, led by the $81.9 million paid for the 1963 silkscreen "Triple Elvis (Ferus Type)" at Christie's in November.

Most expensive of all 2014 auction lots was the important, if ungainly, 1951-52 bronze sculpture, "Chariot," by Alberto Giacometti, whose works, slightly anomalously, are offered in Impressionist and Modern sales. Rashly touted by Sotheby's as a work that could make more than the artist's $103.4 million "Walking Man I," it fell to a lone bid of $101 million, with fees, from the hedge fund manager Steven A. Cohen on Nov. 10.

Back at Christie's, there were jaw-dropping auction highs for the Abstract Expressionist greats Barnett Newman ($84.2 million) and Cy Twombly ($69.6 million), as well as the super-hot 20-something Los Angeles abstract painter Alex Israel ($1 million), reflecting how the very top end of the auction market is being driven by the 1 percent's desire to own icons of 20th and 21st century American art.

The same could be said of the $44.4 million given at Sotheby's in November for Georgia O'Keeffe's 1932 "Jimson Weed/White Flower No. 1." The price was the highest paid at auction for a work by a female artist.

The 1 percent also covets luxury collectables. In the same year that Thomas Piketty's "Capital in the Twenty-First Century" turned income inequality into abest-selling read, the international super-rich were setting new auction highs for classic cars ($38.1 million for a 1962 Ferrari 250 GTO at Bonhams in California in August), watches (23.2 million Swiss francs, or $23.3 million, for a Patek Philippe Supercomplication pocket watch at Sotheby's in Geneva in November) and wine (12.6 million Hong Kong dollars, or $1.6 million, for a 114-bottle superlot of Romanée-Conti Burgundy at Sotheby's, Hong Kong, in October).

"We are in a race of 'showing off' for a very small number of happy few," said the Paris-based art collector Steve Rosenblum. "They don't get a good return from their cash since the interest rates are so low. The art, the luxury cars, the watches, diamonds are a new asset class that they are investing as a diversification in their investment portfolio."

To be sure, there are some clouds on the horizon.

The recent collapse in the price of oil, and of the ruble, has thrown the market for Russian art into a state of near paralysis. The ruble's slide might also have repercussions for the opaque finances of the Russian-owned auction house Phillips, which last year moved its European headquarters into a new, 73,000-square-foot building in London's Berkeley Square.

Further east, the Chinese government's crackdown on gift-giving has affected demand in Asia. Sotheby's October 2014 series of auctions in Hong Kong grossed $372 million, down from the $538 million the equivalent sales took in 2013.

But few involved in the market for international contemporary art — the main driver of those huge numbers at Christie's and Sotheby's — predict anything other than business as usual in 2015.

"I don't have much to project except the continued growth of the market as it expands and refines the monetizing of art," said the New York-based art-market adviser Mary Hoeveler. "The challenge for many of us will be to seek meaningful art experiences in this increasingly financial market."