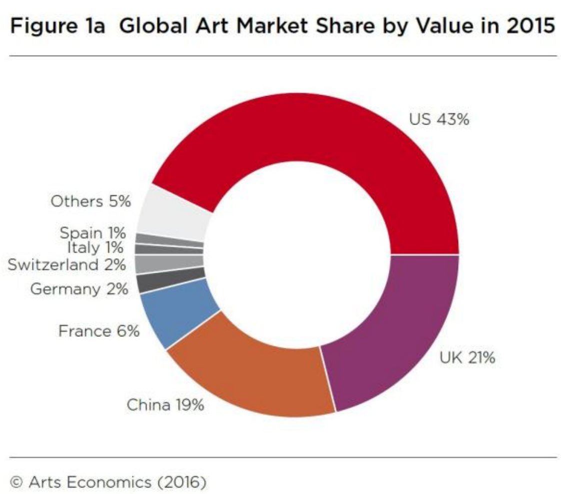
Global Auction Trends and Their Effect on Tangible Assets

Newly affluent collectors around the world are driving certain sectors of the auction market to record levels, while other categories of tangible property are experiencing declining prices due to shrinking demand. Specialists Kevin Zavian and Reid Dunavant, both featured appraisers on the 'Antiques Roadshow,' will discuss the correlation between market trends and the pricing of specialty assets in today's globalized market.

Introduction:

The billions of dollars tied up in the global art and antiques market is staggering. In 2014 $68.2 Billion worth of art and antiques was sold through auctions, dealers and galleries. The following year sales of $63.8 billion were recorded, showing a slight decline in the global market. For 2016, the art market saw continued declines of about 11% in global sales, totaling around $56 billion, with value for sales at public auction dropping 26%. While the total billions ebbs and flows due to difficulty sustaining supply and therefore continued growth at the top end of the market, it is clear that there is considerable value in what is called the "Art Market". Over the last few years, the global market share has belonged to the United States. Collectors at the top end of the market are savvy billionaires, or celebrities like Leonardo DiCaprio and Madonna, spending millions for trophy works of art like **Picasso's Les Femmes D'Alger** ($179 million) building private collections that rival, or ultimately become, the world's greatest museums. This ultra-high end segment of the market accounts for most of the headlines, but only for 0.1% of all transactions.

43% of the $63.8 Billion in global art sales for 2015 was in the US (TEFAF Report published each March).



While some private art transactions are highly public, like the recent sale of Gutav Klimt's **Portrait of Adele Bauer II** for $150 million, most of the private sales are not reported, although private sales account for a growing share of all art transactions. Oprah originally purchased the painting, one of two portraits the Austrian artist painted of Adele Bloch-Bauer, at Christie's auction in 2006 for $87.9 million. Auction results make up the most reliable data available, and most attention is within the fine art category because currently fine art has replaced traditional antiques as the most viable alternative asset for appreciation (1). Reports examining global sales results are compiled by a number of organizations, including TEFAF (The European Fine Art Foundation) (2). Comparable reports on the economics of the market are also available and helpful when evaluating the trends in collecting categories like jewelry, silver, Asian antiques, rare books, prints & multiples, antique furniture, collectible automobiles, wine, etc. The conclusion that can be drawn is that the lesser priced segment of the market accounts for most all transactions by sheer volume, and can experience more volatility and challenges because this market may not be appreciating compared to the more widely reported sector of the market, high-end fine art, as well as art and objects valued over $1 million. Clients with good collections comprised of average value property under $50,000 likely require more information from multiple sources to understand the market changes affecting them today.

PART I: VALUE

A. DEFINING VALUATION TERMS & THE BASICS OF APPRAISING

Many clients today lack an understanding that the purpose of a valuation is the foundation of the methodology and therefor the value itself. But appraising is not an exact science, and values are more volatile than ever. Some basic definitions for the kinds of values listed below help clarify the kinds of values on appraisal reports and how the differ:

1. FAIR MARKET VALUE (FMV)

   Fair Market Value is defined by the U.S. Treasury as: *The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.* It is typically the hammer price or selling price at auction, plus the buyers' premium. Today a standard buyer's premium is approximately 25%. The fair market value of a particular item includible in a decedent's gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public; taking into account the location of the item wherever appropriate.

2. CURRENT MARKET VALUE (CMV)

   Fair Market Value is a theoretical term, and shouldn't be confused with Current Market Value. FMV is the hypothetical price that something might sell for. CMV is the price for which something actually <u>does</u> sell, and is often also called a realized price. Either value can be used as long as there is consistency within the appraisal document. Valuations done by an Auction House can have an added benefit; auctioneers often create a document for an estate with Fair Market Values to be used as a guide and then an updated appraisal with prices realized after the sale of the estate. Occasionally, the CMV can provide a tax benefit if the market takes a shift; values for personal property today can shift much more quickly than in any previous time.

   Both FMV and CMV include the buyer's premium that auction houses often charge in addition to the hammer price. Other fees associated with the cost of selling an item at auction such as the seller's commission, insurance, photography etc. are not considered part of the final value but are often allowable as a tax deduction to an estate. These fees associated with selling should be well understood by collectors considering art as an alternative asset.

3. RETAIL AND GALLERY PRICES
   When looking at retail galleries and antique shops as comparable sales prices, one must consider the exposure, time and investment made on behalf of a gallery or shop owner. Unlike auctions which produce more immediate sales results, a gallery may take years to sell an item. The amount of "real estate" that that item displaces over a period of time can be quite costly to a gallery owner. Figure in the additional cost for rents, utilities, wages, marketing and other fees over that longer period of time, it is understandable that the markup is far higher than that of an auction house. Even for consigned goods to galleries antique shops, fees taken generally are on average 35% to 60%, the latter often for artworks created by a lesser known artist, or for large pieces of antique furniture which are slow to sell.

4. REPLACEMENT VALUE
   Replacement value is a concept that is primarily applicable to Insurance appraisals and the terms Replacement Value and Insurance Value are often used interchangeably (Immediate high end purchase in the retail market or in certain cases high-end auction). Replacement value is “the amount that one would have to pay to replace an item with an item of like kind, age, condition and quality that would provide the same enjoyment, usefulness and other rights of ownership as did the insured property”. It is based on the replacement cost and may make use of the market in which an item is most customarily and conveniently sold and where it can be purchased within a reasonable amount of time. Values listed on old insurance appraisals can be a hurdle for clients trying to understand values in the current global market; not all art or antiques are appreciable and often antiques appraised prior to 2006 for insurance are sadly worth a fraction of those values today.

An appraisal report should always contain the kind of value reported, the date of the report, a photo of the object, condition, and methodology used to determine the value. Comparable examples should be used and cited for objects of significant value. Comparable examples are considered along with additional factors such as rarity, authenticity, provenance, historical importance, intrinsic value, and/or celebrity value and make up a kind of “hierarchy of good to great”. This is the kind of information that is extremely difficult to quantify and articulate, and often the hardest to explain to collectors and heirs who can easily be given inaccurate, or even false, information.

PART II – GEMSTONES AS AN ASSET CLASS

Gems and jewelry can be one of today's most stable categories, and collecting like anything else is subject to the whims of fashion and **celebrity trendsetters**. In the February 2017 issue of the magazine "Town & Country" there was an article lauding Gemstones as an asset class, but this is a category filled with much conflicting information from a valuation perspective. Appraisal documents related to jewelry contain widely differing accounts of similar items, and for far too long jewelry stores have been over inflating the "appraised value" of an item as a marketing and sales tool confusing customers and collectors. Combine this with the various values we have discussed – FMV, CMV, and Replacement Value – and there is ample room for confusion.

A. INVESTMENT GRADE STONES

Some collector's believe that gemstones are a hedge against inflation, with such a limited supply that their value cannot be swayed by government interference or price manipulation. Like other categories, jewelry collectors at the top end of the market seek investment grade stones following these guidelines:

- Fancy vivid pink or blue diamonds over 3 cts.; straight color and no modifications, preferably emerald or round cut
- White diamonds over 10 cts.; D flawless or internally flawless
- Vivid yellow diamonds over 10 cts.
- Burma ruby and Kashmir Sapphires over 5 cts.
- Colombian emeralds over 10 cts. without oil/polymer treatment to enhance color

And Origin From:

- Ruby; Burma or Myanmar, Thailand, Madagascar, Africa
- Sapphire: Kashmir, Burma, Sri Lanka, Montana, North Carolina
- Emerald; Muzo Mine in South America, Africa, can be found nearly all over the world
- Odd Stones: Alexandrite from Ural Mountains in Russia / Paraibi Tourmaline from Brazil

B. EVALUATING JEWELRY

In order to make the market for diamonds and stones easier to navigate, the GIA (Gemological Institute of America) devised a short list of the most important factors in determining the value of a stone and anyone who has shopped for an engagement ring will know all about "The Four Cs" which is a systematic protocol for measuring a diamond = Cut, Color, Clarity and Carat Weight (this protocol is also considered for other types of stones as well). The most important information about a stone is outlined in the reports that come directly from the GIA lab, and this serves as the basis of fact. For jewelry it is advised to never accept an appraisal as a statement of fact if it comes from the seller. For years, values pertaining to jewelry at all levels of the market both high end, mid-level, and modest value, were manipulated by the seller as a marketing tool. This has been the largest contributing factor to confusion by buyers and insurers of jewelry, and a misunderstanding of what an appraisal actually is and how a report should be written.

1. **CUT**

   Cut describes the shape of a stone -- round brilliant, old European, old-mine, cushion, square, oval, marquise, pear, emerald, baguette, tapered baguette, and other shapes deemed 'fancy' because they are not as prevalent such as a heart shape. The quality of the cut is also an important factor. A well-cut stone will appear more brilliant than one whose facets are not in proportion. Currently, the most popular cuts for diamonds are round brilliant cuts.

2. **COLOR**

   In regard to a diamond, the color ranges on a scale of D to Z. Stones that are D color contain no yellow in their appearance, and stones that are Z color are very yellow to the eye. Color is an key factor in establishing the value of a diamond, since it is more obvious to the eye than are an Excellent cut or Flawless clarity. There may not be much visible difference in the color between two stones, but the difference is certainly reflected in the price.

3. **CLARITY**

   Clarity refers to imperfections or Inclusions within a stone and can have a wide variety of characteristics, such as crystals, feathers, clouds, twinning wisps, chips, nicks, graining and others, and their density and position within the stone determines their clarity grade. Clarity grades as established by the GIA range from Flawless to Included. It is important to inspect the stone in person, as clarity grades refer to the proportion of inclusions in relation to each other, and do not describe exact inclusions in each stone.

4. **CARAT WEIGHT**

   The weight of diamonds is measured in carats. The cut of a particular stone can influence the perceived carat weight of the stone. Some stones have a wide top and are shallow which makes them appear larger.

C. SIGNED AND BRANDED JEWELRY

High end jewelry is the combination of an investment stone together with a maker of skill and reputation. Magnificent designs of the Art Deco, Art Nouveau and Edwardian period by great gem houses like Cartier, Van Cleef and Arpels, Bulgari, Buccelatti, Graff, Harry Winston, Rene Lalique, Lacloche, Suzanne Belperron, and Tiffany hold premium status and command premium prices.

Most clients are completely unaware that the colored stones in their possession, or up for sale in the general marketplace, are treated in some manner. Problem areas significantly affecting value, but unrecognized on most appraisals are:

- Heat
- Radiated
- Dyed
- Coated
- Fracture Filled
- Laser Drilled

Reports available today were typically not issued or encouraged even as little as 10 years ago; advancements in microscopes and other technology have led us to reevaluate information across the board.

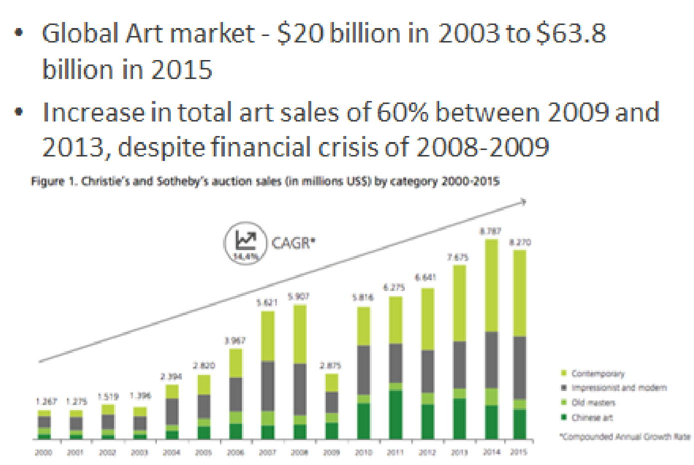
PART III - NEW RULES OF THE GAIN

While there are winners in terms of collecting categories like jewelry and Post-War art in global market, there are also losers. The strongest declines can be seen in traditional categories like antiques including furniture, silver, porcelain, and collectibles. Dark, clubby interiors with antiques and sporting paintings once popularized by **Ralph Lauren** have been replaced by light spaces dominated by the appeal of **Restoration Hardware**. It should come as no surprise that Ralph Lauren as a brand is lagging and there is talk of closing the Manhattan flagship store – not to mention the rules of retail are changing in the digital world. Collecting, investing and divesting in the global economy are subject to new rules, new players, and new desires. But the top of the market is quite separate from the lower end of the market. Supply at the top end is finite, and supply at the lower end is today seemingly endless.

A. THE LOSERS, and WINNING OPPORTUNITIES
B. AUTHENTICITY
C. PLUNDER
D. NEW RESTRICTIONS
E. ART BOOM OR BUBBLE?

PART IV - CONCLUSION

Market peaks and troughs are now based upon the global accumulation of wealth and the dissemination of information and purchase of goods through new modes of technology. Evidence in the retail sector suggests that newly affluent millennials in hubs like San Francisco, LA and Seattle may not view collecting in the same light as previous generations. Art and antiques are in reality an illiquid asset subject to different rules for determining value in an environment that is rapidly shifting. Value is not static, and not all assets are appreciable. The worst mistake a collector can make it to hear high values and assume the market is only going to continually go up, or to hear that it's dropped and that it will certainly recover. In general terms, cycles of collecting typically take a generation to recover from a crash in demand and value, but many of the changes we see today are more complicated than just economic and



it remains to be seen if a true recovery is possible. Collectors should regularly consult with professionals best suited to their needs to have a greater understanding of the market, and in many cases this is part of the cost of ownership. Consulting enables collectors to have a clear understanding of the market, which requires fee based services like the hiring of an appraiser, the purchasing of insurance, the use of a conservator, storage, or transactions fees to realize value through a sale.

As a diversification, art, antiques and jewelry has some merit as it is not correlated with financial assets. The committed collector should have an understanding that there are risks greater today than at any other previous collecting time. Certain collecting categories contain a much higher risk of inauthenticity than others. Among those in the top of the risk category are autographs; some experts in the field discredit 70% of all material on the market as fakes. Cheap reproductions of absolutely everything from blue and white porcelain to Eames chairs are flooding the market and causing depressed values for originals.

Although the US retains the global share of all transactions, oversupply has forced prices for traditional antiques to their lowest point in decades, while sales at the top end of the market are solid but slowing. The U.S. remained the largest market for art in 2016 despite an overall decline of 16% in 2016 to $22.9 billion, due largely to lower auction results. The conversations making headlines politically like income inequality do have a direct correlation to the art and antiques market, which is becoming increasingly dependent on the ultra-wealthy. The average collector is in a more modest bracket, and evidence suggests this market driver is stalling. In the words of prominent art economist Clare McAndrew: “We’ve really seen the top end pull away and get more disconnected from the everyday businesses of the market.