

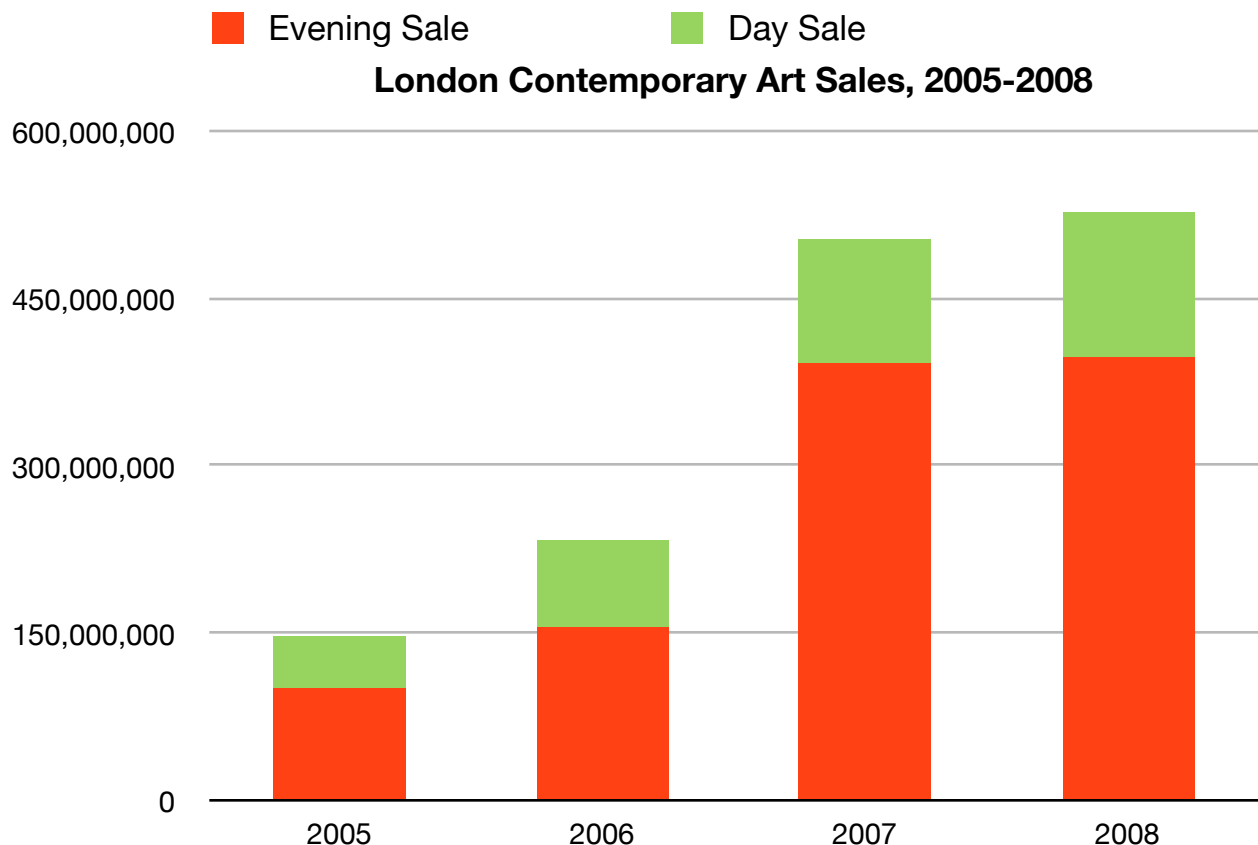
Contemporary Art, London, 2008 Art Market Monitor

If anyone expected the Contemporary Art sales in London to exhaust interest in the subject--at least until the next round of sales in October--they were rudely awakened by the announcement of Damien Hirst's sale with Sotheby's. Given the nature of both the artist and the sale, it is worth updating our data on the London Contemporary auction market.

Since the beginning of 2008, it had seemed if the auction market was determined to be cautious and focus effort and attention on the best artists and their material. Impressionist and Modern sales were markedly smaller even if the values remained in the same range as earlier sales. The auction houses seemed attuned to talk of a bubble in art and were doing their level best to restrain speculation even as they served their clients (buyers and sellers) still abundant needs.

In recent posts, we've been taking shots at Portfolio's Felix Salmon for his suggestions that Contemporary art is a bubble. Our conversations with buyers and sellers suggest that there is a deep demand for Contemporary art. The dramatic change of register in auction volume, average prices and prices for the top ten lots, we would argue, is the product of many more buyers chasing a still limited number of objects.

Having said that. We went back and updated our numbers on the London Contemporary market and were quite surprised at what we saw. Some of these dramatic numbers may be the product of a great deal more art money flowing through London than it has in previous years. Nonetheless, we would be foolish not give Salmon's point its due. From 2006 to 2007, the price volume for Contemporary art in London increased 116%; in 2008, the same measure--total price volume--is on a pace to increase another 40%.

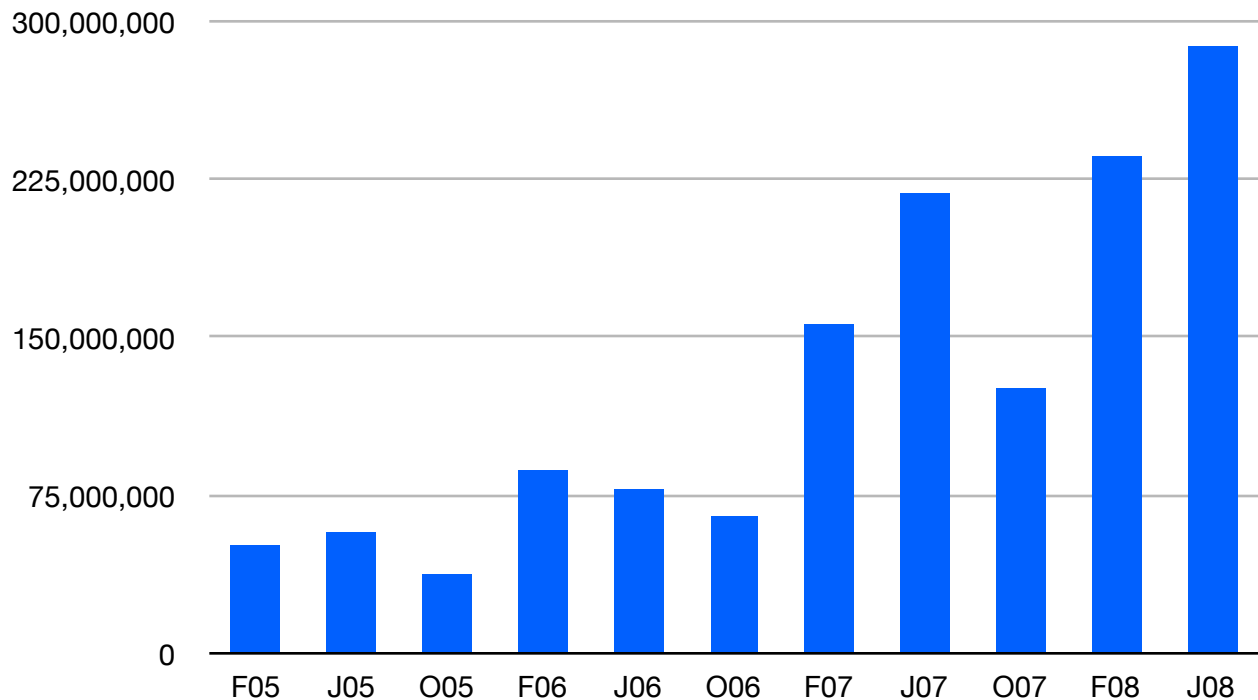


In 2005, London saw £147 million in Contemporary art sold in three sales season in February, June and the smaller sales around the Frieze art fair in October. In 2006, that number was £232 million. But the real take off came in 2007 when the total sales with the buyer's premium reached £502 million. So far this year, especially with the spectacular June sales, the total is £525 million or a 5% increase over all of 2007 combined. The Frieze sales would have to keep up the 40% rate this October for the London Contemporary art market to reach £700 million this year. But that isn't an unrealistic ambition given the current market.

How the Hirst sale will interact with this pattern is anyone's guess. Hirst's works have not been the focal point of recent London sales as they had been in 2007. But the trends reported below suggest the artist has timed the market perfectly. That is, if the *"Beautiful Inside My Head Forever"* sale doesn't turn out to be the event that reveals the market to be on shallow footing and, in fact, a bubble.

One reason to believe London is witnessing a bubble is the steep rise in values recently recorded. Here is a chart of the London sale totals over the last three and a half years.

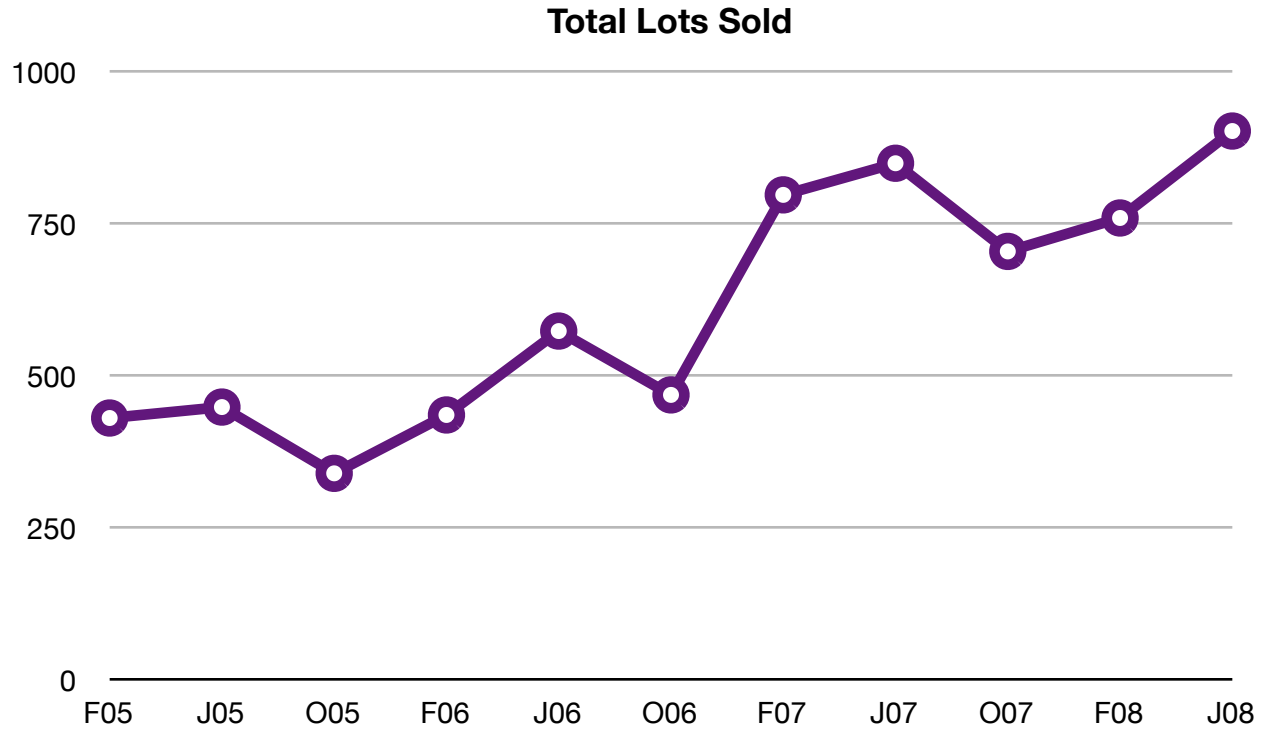
London Contemporary Art Sales, 2005-2008



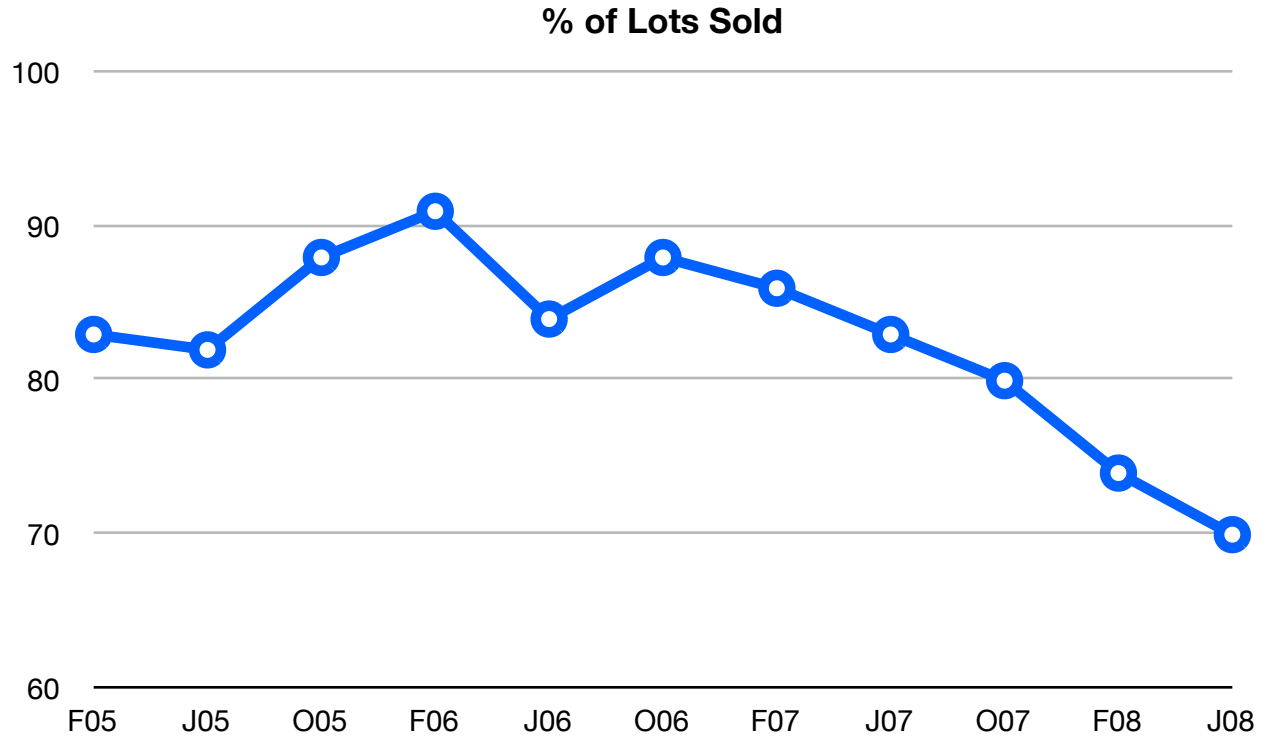
The pattern is easy to discern. In general, the February sale is slightly lower in value than June and October is a fraction of either of the other two sales. Where this pattern breaks down slightly is in 2006. But across the art market, 2006 was a watershed year where money began to flow rapidly into art. Longer term patterns in the art market show that 2006 was the middle of a second leg up in the art market which stabilized in 2002-2003 but did not pull back.

Nonetheless, by 2007 the familiar pattern had returned to the London Contemporary chart. Though this time each successive sale represented a big leap over the previous year's corresponding sale. The October sales in 2006 and 2007 had a higher dollar volume than the June sales of 2005 and 2006. Clearly, London was burning for Contemporary art.

That appetite can be seen in more than just the sales totals. To bolster the claims that the expansion of the art market is a genuine expansion in the number of serious collectors and not just a bubble of the same group chasing after a small number of works, we can see the total number of lots increasing with each sale.

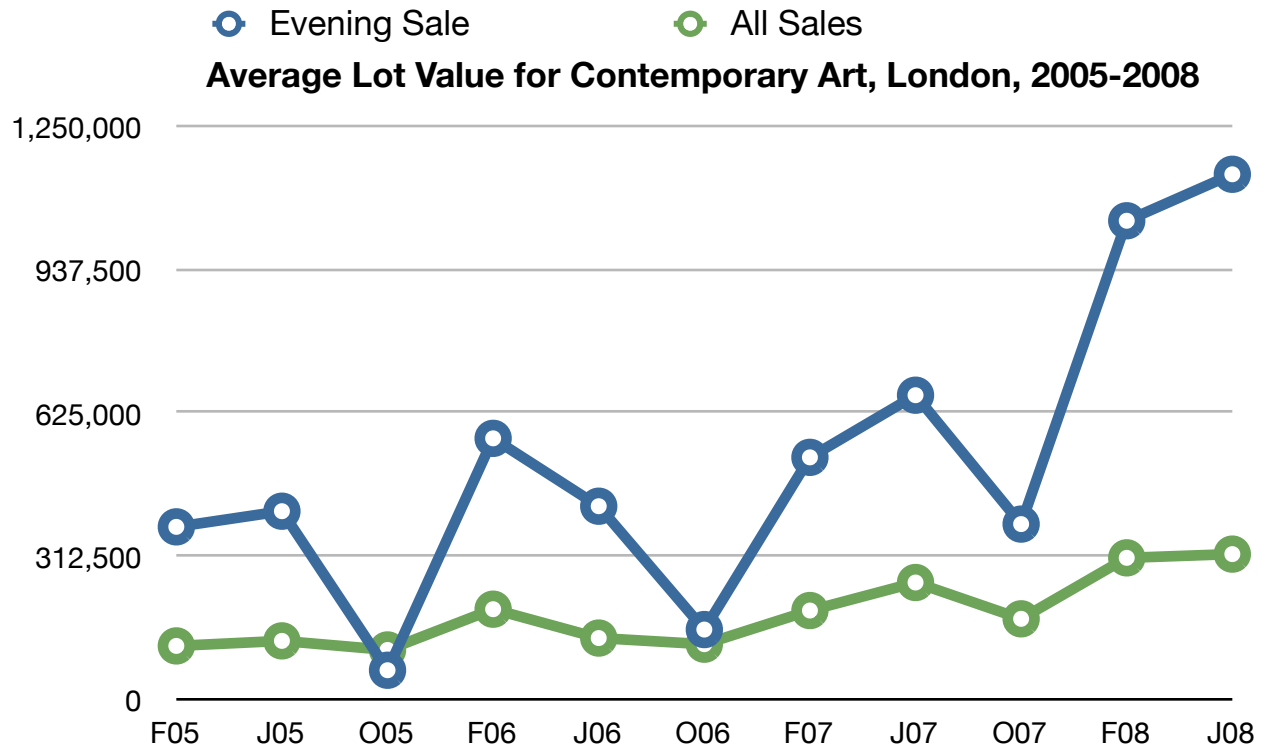


There is a huge jump in the number of lots that found buyers in 2007 which supports the idea that sales are broader based. A quick look at the sell-through rates on the London auctions also supports the idea that art market is functioning marketplace where buyers discern value and reject dross--or, at least, refuse to pay what they don't think is a fair price. Over this same period of rising lots and total price volume, the sell-through rates are falling.



Sellers are bringing more work to market than buyers are willing to absorb. After peaking above 90% in February of 2006, the sell through rate for all three houses combined--which should control for differences in marketing and auction house guarantees--has come way down steadily. June's sales were not universally strong. They varied from house to house and the low sell-through suggests either weakness in the market or discernment on the part of buyers.

Finally, the last piece of evidence in favor of the strength of the market and against the bubble thesis is the consistent rise in the average lot value. This chart shows that price level is rising across the Contemporary art market. For all of the lots sold, the average price per lot is making steady progress up. That's the green line at the bottom.

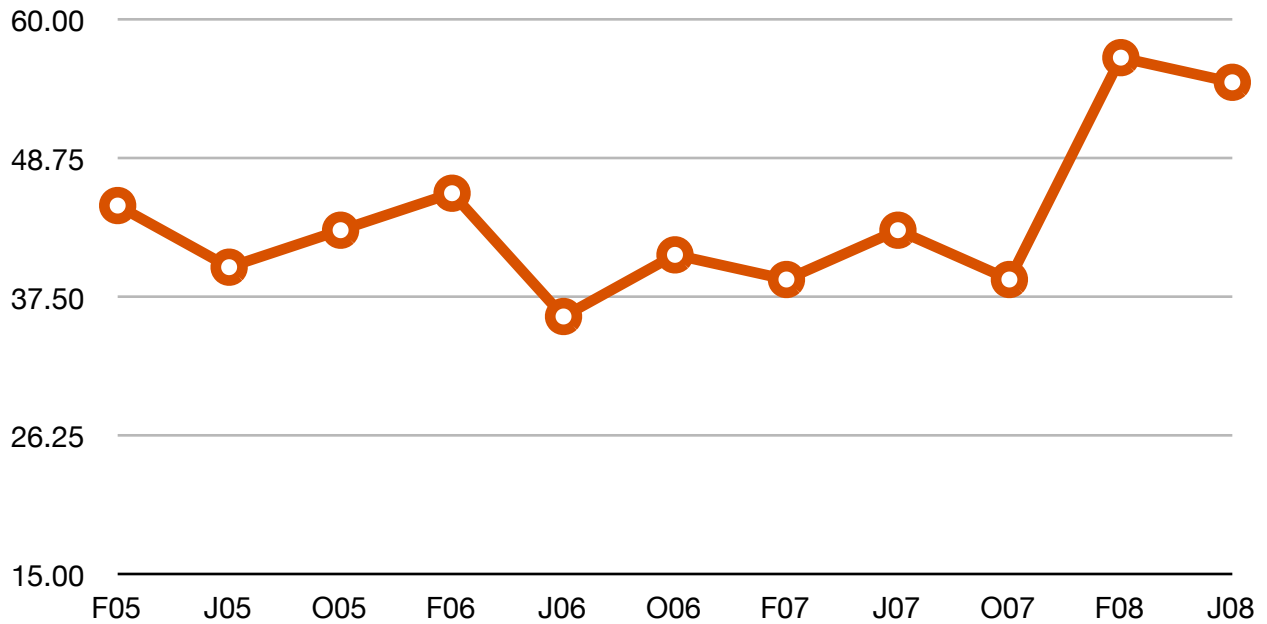


Where Mr. Salmon deserves his due is on the blue line. The Evening sale average prices are volatile and erratic. With the highest lots getting ever higher in value and separating from the broader market for Contemporary art, we have some important evidence that the crowding at the top of the market may be a battle to over pay.

Here's where Damien Hirst seems to have gone out of favor. Last June, in London, his *Lullaby Spring* briefly made him the most valuable living artist when it was sold for £9.65 million. Since that time, Hirst hasn't been able to make a landmark sale (and perhaps that is the point of the *BIMHF* auction. Lucien Freud and Jeff Koons have continued to climb to higher prices but the real money has been in Francis Bacon.

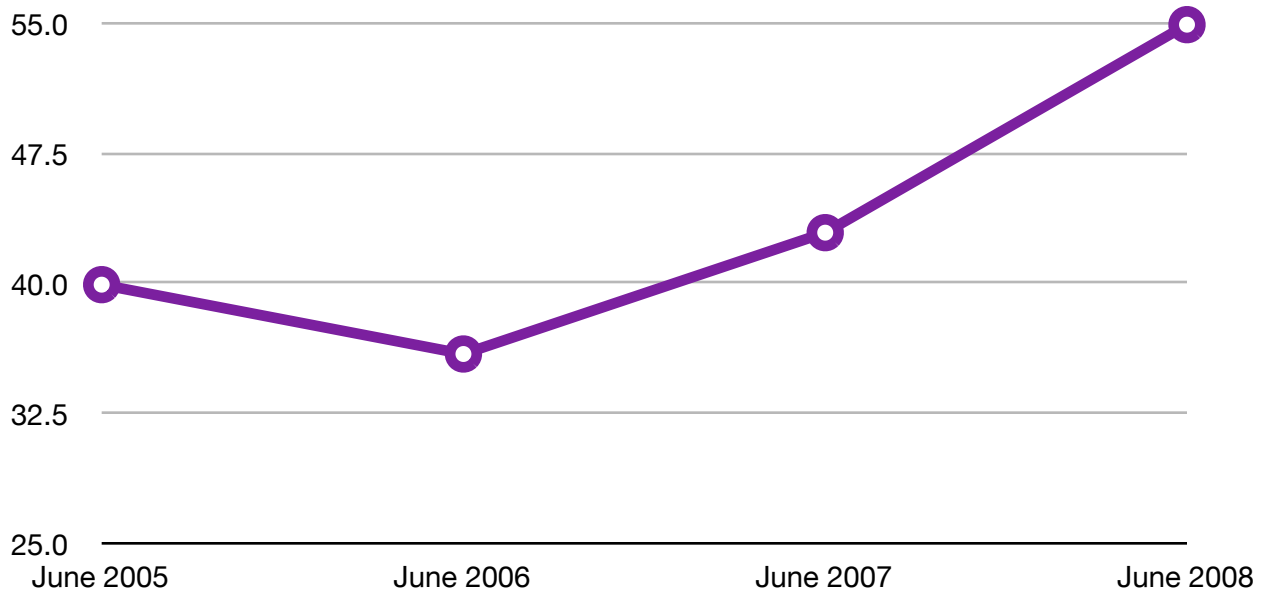
The top end of the art market has seen huge rises in the price for individual works and the volume of work sold by certain artists. Francis Bacon is the poster child for this process in the last two years. During that time, £467 million worth of his art has sold during the Evening auctions in London and New York which makes Bacon a significant portion of the art market. If we look at the portion of the total sale value that is made up by the top ten lots, we begin to see a worrying trend.

Top Ten Lots as % of Total Sale, London



In 2008, the top end of the market jumped. Part of February's leap in the top ten as a percentage of the total comes from the two top Bacon canvases which together sold for more than £46 million or 11% of the entire sale. When a few key paintings account for such a large proportion of the overall value, observers are right to ask whether there is a bubble in prices. Isolating the June sale top ten over time gives us a better--and more dramatic--picture of this pattern.

Top Ten Lots as % of Total Sale, June



Where the Contemporary art market goes is a function of events like the Hirst sale. Whether it marks an inflection point remains to be seen but no matter what happens with the Hirst sale, it won't answer the question of asset values and whether Contemporary art is dangerously inflated. That answer will come in due course but only after we've seen more data in October and November.