ON THE ARTS – October 2018

WHAT THE AUCTION OF BANKSY´S "GIRL WITH BALLOON" CAN TELL US ABOUT PRICE AND VALUE

Let´s assume the following: You agreed to buy a car and several minutes later the previous owner demolishes it with a caterpillar. Well, the deal would supposedly be off, as the car is now a wreck and what you wanted was a vehicle in reasonable shape …

Therefore, one may share sympathy with the highest bidder in Sotheby´s 5 October 2018 auction of Banksy´s "Girl with Balloon" when she asked for a few days to reflect whether to close the deal or not: The painting had just partially self-destructed on the auction podium only moments after having been sold for over US$ 1.4m, far ahead of its US$ 300,000 – US$ 400,000 estimate. - "We've (just) been Banksy-ed," remarked Alex Branczik, Head of Sotheby's Contemporary Art in Europe, after one of the most recognizable works of the yet unidentified street artist shredded itself halfway through (which was much to the frustration of Banksy himself, though, who had hoped that the entire canvas may fall out of the frame in pieces. Instead, it got stuck).

Days later the buyer announced her willingness to continue with the purchase at the same price. "When the hammer came down last week and the work was shredded, I was at first shocked, but gradually I began to realize that I would end up with my own piece of art history," she said.

Indeed, art history had been written: According to Mr Branczik this was "the first artwork in history to have been created live during an auction."- And, within 36 hours Banksy´s video on his Instagram account showing the artist hiding a shredder inside the picture frame (already years before, in case it were ever auctioned) had attracted more than 6m views.

The motive of a young girl releasing a red heart-shaped balloon first appeared on a wall in London as a stenciled image back in 2004. It has become one of Banksy's best known creations, the stencil being repeated in an edition of 150 prints and 25 numbered paintings, as well as an unknown number of unique spray paintings in different sizes with variations, of which Sotheby's painting was one. – The specific one had been acquired directly from the artist by the present owner in 2006. One of the smaller edition paintings sold in March 2018 for about US$ 480,000; back in 2006 they were selling for about US$ 55,000.

To quote Warren Buffett, a well-known investor, in reference to Benjamin Graham (the father of the concept of value investing): Price is what you pay and value is what you get. – Probably having this in mind, Banksy´s highest bidder, merely identified by Sotheby´s as a "European collector and longstanding client", decided to go ahead and close the deal. (And with good reason she wouldn't have done so in the case of the half-destroyed car). The decision had probably been facilitated by the fact that dealers immediately speculated that the painting had already become more valuable as "the artist's intervention created a memorable moment" (alas, assumedly lasting longer than Warhol´s 15 minutes of fame): At least one prominent art critic referred to the gig as a "masterpiece of radical performance." – Hence, the canvas´s new owner now possessed a work of art which may not only fetch a higher price if sold tomorrow. Even more so, she now possessed a unique piece with the invaluable (!) feature having written art history.

In medieval times, the price for a canvas was usually determined by the costs of the material required and time and effort spent by its creator: Artists were not free-spirited individuals creating art, but rather professional artisans, employed - and paid - to produce art. Most of them actually worked anonymously, despite the best ones with excellent reputation by times signed their works, a practice which only became common during the Renaissance. Having said this, artists, such as Leonardo da Vinci, already sold works during their life time for a considerable premium reflecting not only their skills, but also their star status.

Now, in the course of acquiring a company, one can apply a set of fundamental valuation methodologies. They may help to assess how much a business is worth, backed by parameters such as the yield or the payback period of an investment. Despite the fact that acquirers of art with a pure investment purpose, such as art funds, may apply such tools, they usually fail in the world of collectibles: And this is not only because these items neither pay dividends nor generate cash during the period held, instead they incur steep costs, such as for storage, insurance or maintenance.

Of course, though, when valuing a painting, one eventually (also) targets a price. In this context, it is not least the role of galleries to set prices, at least within the primary art market (i.e. when a work comes to the market and with its price being established both, for the first time). Galleries commonly use a so-called price script which comprises elements of a comparative approach (i.e. benchmarking works with similar ones: same artist, same period, same techniques etc.) with an artist´s price gradually increasing with age, number of exhibitions had or placements made with significant collectors or museums. Hence, galleries help to reduce price fluctuations or volatilities, not least by placing art tactically in the market.

Eventually, though, a price is driven by the willingness of individuals or institutions to pay: Mood, emotions, momentum as well as the unequal level of information and the uniqueness (or illiquidity) of an asset are all drivers to be taken into account. An auction is the ultimate place where all these aspects are coming together. - For example: One may wonder whether Da Vinci´s Salvator Mundi would ever have made the US$ 450m, had each of the two final bidders from Saudi Arabia and the United Arab Emirates not mistakenly believed to fight for the canvas against their geopolitical rival Qatar. A false assumption and fatal misperception! Therefore, the value each bidder associated with winning that auction was assumedly not only in acquiring one of a rare surviving oil painting of Da Vinci, but maybe even more so in dominating over a rival and showing off one´s ability to (over)spend lavishly.

We have to accept that pricing of art is taking place in a market which is illiquid, intransparent and has almost no regulation, all embedded in a culture of almost obsessional secrecy. Frequently, we don't know the names of neither the buyer nor the seller, in private sales not even the price or whether a sale has taken place at all. The term "insider trading" does not apply: In fact, all art trading depends on insider knowledge.

One should take a step back, though: What we are talking about here is a rather small fraction of the overall arts market of super star, star and very well-established artists. For illustration: Merely 30 artists accounted for more than half of all contemporary auction sales in 2017. Those are the ones making the headlines with wealthy buyers (getting richer and richer in times like this) competing for an (at best) stable supply of name-brand artists. Hence, one may soundly argue that as long as the asset base of ultra high-net-worth individuals grows faster than that of the remaining society, prices for arts will go up.

The buyer of the Banksy canvas may not have had the definition of Veblen goods in mind when making her decision (goods for which demand increases as the price increases): But in times when plenty of cash is available and fewer items around to impress others, for pricing art the sky seems the limit for "value seeking" (alas: "good story seeking") collectors.