

Art Investor by D. Stephen Pepper

How an auction works

A recent London sale illustrates the way monetary value is assigned to a painting.

The major spring Old Master painting sales in London took place on April 8 and 10, and the results confirm a trend that has become clear over the past two years: major pictures bring very high prices, whereas the recession is depressing the prices of middling works. A great painting, the *Adoration of the Shepherds* by the French 17th-century master Nicholas Poussin, was sold for £1.65 million at Christie's, which comes, with commissions, to around \$4 million. Otherwise, however, prices were sluggish for the attractive but average Dutch paintings.

Perhaps it's best at this point to give a better idea of how these auctions work; more is involved than simply putting up your hand.

The auction room provides more than just the service or convenience. It establishes a guide to the money value of a work. Since works of art have always played the dual role of spiritual object and treasure, this activity in the sales room of making liquid the treasure invested in a painting is important. Let's take the sale of the Poussin.

The painting belonged to the Duke of Devonshire. In consigning his painting to the auction, the duke and his agent, Christie's, set a reserve, the minimum price necessary to reach before a transaction is completed. This is to protect the owner against having his work sold at below its estimated market value, and it's up to the auctioneers to get

that price if they are to earn their commission.

This is where the fun begins. The buyers, largely dealers, try to get the works at the lowest possible prices, principally by forming syndicates to buy together, so as not to bid each other up. Such agreements can range from the casual handshake by two friends on the spot, to elaborate syndicates. The Italian dealers are well known for forming such rings, illegal under English law. They buy together at the public auction, and then, in a hotel room after the sale, hold a second private auction among themselves, known as the knockout. The Italian rings always stand as a group at the back of the sale room to survey the room.

The great dealers of the establishment fill the reserved seats in the center and front. Among these are the London houses like Agnew and Colnaghi's, Koetser from Zürich, and Wildenstein, the biggest of all. Each scouts the room to locate his potential rival.

To return to the Poussin, Christie's opened the bidding at £500,000, about \$1.2 million. Within four to five bids, it was at about £1 million, and now Wildenstein entered for the first time. Bidding continued at increments of £200,000, so it was against Wildenstein at £1.6 million. At this point, instead of bidding £1.8 million, Guy Wildenstein made a voice bid of only £1.650 million. There followed a bid from the back of the

room of £1.680 million. Incredibly, Wildenstein refused to go any higher. Three times, the auctioneer, Patrick Lindsey, inquired of Mr. Wildenstein, "Any more?" Wildenstein sat stoically. Lindsey thereupon brought down his hammer and to all the world it appeared that an unknown bidder had outlasted the great Wildenstein.

Not so. The bid of £1.680 million is what the trade calls a "chandelier bid," that is, a bid made by the auctioneer himself to try to force the genuine bidder to go above the reserve. If the auctioneer fails to do so, the sale is transacted and he loses his commission. Christie's and the duke had set the reserve at £1.7 million. This explains the peculiar change in the rhythm of the bidding: £1.6, to £1.650, to £1.680, meaning the next bid would be £1.7. But it appears that Wildenstein knew or guessed the price of the reserve, and so bid only to the point where they were confident they could force the owner and Christie's to lower the reserve to make the sale. This drama was possible because Wildenstein was the only bidder once the price reached £1.6 million.

What does this signify? First, the sale room is the arena of professionals, where the real auction is first between the auctioneers and buyers, and only second among the buyers themselves. The reserve is a crucial element in this competition. In a setting where, in the space of 60 seconds, the price of an object can rise by between several hundred and ten thousand dollars for a "modest" work, the sizing up of the room and the decisions made or unmade can be very expensive to the buyer, the seller, and to the auctioneer.