

Transcript of Conversation with Sophia Johnson (Program for Economic Research, Columbia University), Drew Watson (Bank of America Private Bank), and Li Jun Xian (Emigrant Bank Fine Art Finance)

Wednesday, December 2, 2020

Sophia Johnson:

Good afternoon, and welcome to our virtual live series I'm Sophia Johnson with the Program for Economic Research, one of the world's leading programs for identifying opportunities and strategies for enhancing economic research. Thanks for being with us today.

This event will be live streamed via the Economics Department's YouTube channel. The conversation will also be recorded and closed captions will be provided in the days following. By attending, all conference attendees and participants agree to abide by the event's Code of Conduct, which is posted on our website econ.columbia.edu/per. As always, the Program for Economic Research and the Department of Economics at Columbia University takes no institutional position on matters of policy.

Now, a little housekeeping before we begin, each presenter will speak for 10 to 12 minutes. Presenters have agreed to take your live questions at the end of both presentations, at which point you may unmute and ask your questions, or simply type your questions in the chat box.

Lauren Close is our Program Manager here at PER, and she's joining us live, she will be updating social media as well as monitoring and posting comments in the chat box during our conversation today, so you can watch out for that. We invite you to follow us on Facebook, Twitter, and LinkedIn for this event. We are using the hashtag #PERLiveSeries.

So, the role of economists in the art market. For more on this, we're delighted to welcome Drew Watson of Bank of America and Li Jun Xian of Emigrant Bank Fine Art Finance. Our first speaker, Drew Watson, is Senior Vice President of Art Services at Bank of America Private Bank, where he leads client outreach for art services to offer our collectors, their families and advisors, a more tailored suit of banking services including art landing are planning and consignment services.

Prior to joining Bank of America Private Bank, Drew oversaw business operations finance and consignment deal structuring for various sales departments at Christie's Auction House in New York do is a Columbia alum. He earned a Bachelor of Arts in by in French in our history at Columbia and also holds a Masters of Business Administration from inside business school in Fontainebleau France. Drew. Thank you so much for being with us.

Now according to the TEFAF Art Market Report of 2017 the art market is worth about 45 billion U.S. dollars worldwide, and this is typically split equally between dealers and auction houses

Industry insiders say such lending has continued to grow at double digit rates since then, both in the United States and Europe, to a lesser extent. In fact, as interest rates have fallen over the years, borrowing has become even more attractive. So to begin this conversation, I present this question to Drew: Why should an economist look at art?

Drew Watson:

Yeah, it's actually a very interesting question because a lot of people who work in - who have historically been drawn to jobs in the art world - have had an art historical background. You know, you think of people going to majoring in Art History, getting Masters and even Doctorates working in museums, perhaps even auction houses.

So what do economics and the art market have to do with each other? I would say quite a lot, actually. There are really two very important economic drivers that influence a whole host of factors in the art market and those are: interest rates, as you alluded to, Sophia, and also the wealth effects off of the stock market. So, interest rates, being very important to the art market because they actually represent the opportunity cost of tying up capital in an illiquid non-income generating asset like art. And then the wealth effect off of the stock market. [This is] simply when collectors who, many of whom, are commercially savvy, markets-driven individuals who are, you know, running successful enterprises, hedge funds, private equity funds, etc. These tend to be the main wealth segments that are driving the high end of the art market.

When these individuals feel more wealthy, when the stock market is up and have feel that they have more resources available to make large discretionary purchases like art, that really fuels the art market, especially at the high end.

Sophia:

I see, thank you very much, Drew. Our second speaker is Li Jun Xian, a partner at Emigrant Bank Fine Art Finance, the specialty financing subsidiary of Emigrant Bank. Emigrant Fine Art Finance focuses on lending secured by art and antiques, secured by classic cars, fine wine, stringed instruments, and other passion assets. Prior to joining Emigrant Bank Fine Art Finance in 2007, she was a credit analyst at Goldman Sachs, where she was responsible primarily for analyzing and monitoring the firm's counterparty trading risk and advising major public and private companies on capital structure decisions and their efforts on credit ratings. Ms. Xian is a graduate of Dartmouth College with a degree in economics and art history. Thank you so much for being with us.

Li Jun:

Thank you for having me.

Sophia:

Now, you may know this. I think I may have shared this with you a little bit earlier, but my colleagues, Jose Scheinkman recently published a paper on art in economics. The paper titled "When a Master Dies: Speculation and Asset Float" examined, on balance, the impact of exogenous negative supply shock to the float - the float in the art market, namely the impact of the premature unexpected death of an artist on art pieces and the volume of transactions. My question to you is, what is the real value of art - is it purely speculative?

Li Jun Xian:

Well, I think that from an art lover as myself, you know, before I studied economics, I was really - wanted to be an artist, do that's kind of, my first love. You know, I would say that there is, of course a, you know, a heartfelt value to art that can't be quantified. I think a lot of people who work in our industry really fall into that and, of course, the economists find that really hard to, you know, believe

in terms of quantifying that effect of how art impacts our society. But, as far as what goes into the valuation of art, there are a number of things that - a number of ways that you can look at this. And, you know, I'm not - it's been a long time since I've taken an economics class, so, you know, I don't know all the formal studies on that go into this, but I think that you can look at ultra luxury items, that's one aspect of how you value art. There's also a really fascinating aspect of the art market that has a lot to do with tastemakers. So, if you look through all of history, you know, starting from the Renaissance, you have major families that supported the arts were patrons. From there, they were trying to find these very skilled artists that they would support and would go into developing, you know, a whole a whole kind of history and support for their power and you see this kind of going through history where you have different kinds of tastemakers at one point and might be, you know, it might be people who are wealthy and another point, it might be people who are dealers who are tastemakers - sometimes maybe curators at museums. So I think this market works really differently than other markets where you have very known models like [inaudible] models for valuing derivatives, for example. You know, we don't have that. I think the most, kind of comparable market that I can equate it with is high end luxury real estate, you know, particularly - we live in New York, everybody knows when those really expensive apartments sell for \$100 million. Does it warrant a per square footage basis - that type of value. Not necessarily, but it's a it's a number of factors from, you know, other trophy pieces that collectors want - there's a demand - a supply and demand element as far as, you know, who's, kind of, going after these pieces as more wealth has come on board. As you know, to what Drew has mentioned, the wealth effect. You have international buyers that are expanding the marketplace and the demand for these pieces. So I think that there is a rhyme, you know, reason to the rhyme, if you will, for what value means in the art market that's not speculative. I think that, you know, it may be hard to quantify. You may have to use different methods of study, like there isn't an easy formula, but it's not based on just, you know, putting a number and pulling a number out of thin air.

Sophia:

Yeah, that is a very tricky piece. I think we're getting a lot of - we received a few questions in advance on, you know, how companies do valuations of fine art. If you can help our participants and attendees understand just a little bit about, you know, what that process looks like on your end and from beginning to end.

Li Jun:

Well, I think the most common practice in terms of valuing art is through comparable analysis. So, it informs you what a piece is worth if you can find other pieces that are similar to it that you can base your evaluation on. Now, with art, that's really difficult and even, for example looking at real estate, there's a certain comparable analysis you can do for a certain type of real estate. You know, two-bedroom apartments versus one-bedroom apartments, things like that. But I think with art, you start to really need to hone in on really specific factors because every piece of art is really different. You know, you look at an artist as prolific as Picasso and he's one of the most widely sold artists in the market today. You know, are we talking about a print? Are we talking about, you know, something from the blue period? Are we talking about a late work? You know, all these things factor into how our valuation experts have tried to pinpoint where does this work fit within the artist's body of work and, you know, how is the market responding to these things at that very moment? And also, some

predictive analysis too as to how the market will, you know, try to attribute value over time. So, you know, there are - that's why the art historical analysis really and the knowledge really comes into play because you have to know where this kind of fits in. You won't see repeat sales very often. So, you have to kind of glean information from the sales that happen in order to, you know, reconcile with what the piece that you're working with. And that's a really big challenge for people who study this market is that it's not a like for like analysis. You have to really use subject subjective, you know, ways of looking at the art to place a value on it.

Sophia:

Drew, I wonder if you could weigh in on that?

Drew:

Yeah, absolutely. I mean, I think Li Jun raises some really interesting points. You know, art, there are various methodologies of appraising art, but essentially valuation of art is a backward looking process. And by that I mean it is based on comparable, so past comparable sales. And as Li Jun was saying, you know, even works that are considered multiples, therefore, you know, works that whether it's photography or prints, that are not necessarily considered unique or as unique as paintings every piece is different, even if you have a series of works that were created identically. Things can change over time, such as condition, provenance, exhibition history - all these different things can kind of play into affecting the value of a given a work of art. So valuation is really key. Not only when it comes time to selling your art and navigating that process, whether you're - you are navigating the primary market with dealers and galleries, or with auction houses. But also a really important driver of the art lending industry, because art lending, if you think about it, whether you are a recourse lender or a non-recourse lender, and by that, I mean if you're a recourse lender you're doing full underwriting of the borrower's balance sheet, and then underwriting the art as the collateral for that loan or a non-recourse lender, simply underwriting doing a hard asset loan underwriting the value of the art itself not full financial underwriting of the borrower. Valuation is absolutely key. And there are different methodologies, as many people may know, that help the appraiser arrive at different numbers, depending on the purpose of the appraisal. So the methodology that you would use for example for fine art collateral is very different than the methodology that you would use for insurance purposes. For insurance purposes, you'd use a methodology called retail replacement value.

That's roughly the equivalent to if you had to go out and buy a comparable work and pay the full retail markup that's what you would have to pay, but fair market value - that's more equivalent to what one would expect to pay at auction. So valuation is really key. That also plays into, from a lending perspective, how much the banks are comfortable lending given appliance particular collection and for clients who are using an art loan to accelerate their art acquisition strategy - if they're very dynamic collectors using credit to really take more of a robust perspective on acquisitions, that affects liquidity and the art market. So it's all you can see how it's all interconnected. This just kind of reminds me of how we started our discussion, that this discussion about interest rates and equity markets. Right? That's not those two drivers key drivers are not only critically important in shaping the direction of the art market, but then also the art lending part. The art lending market, which then in turn comes around and influences the art market again because we

have collectors again who are using that line of credit to buy more art, perhaps to even fund third party guarantees if they participate in the market that way.

Sophia:

Very nice. Well, thank you so much. On that note, I think I really want to open up the conversation to our participants you may unmute yourself and ask a question directly or type your question into the Chat box.

Also, Lauren, as I mentioned earlier, will be monitoring this on social media. This is absolutely fascinating. And Lauren and I have been talking about this for months and months. Lauren, as you may know, is an art historian herself in her own right and so I would really love to sort of get this conversation going. So we're opening it up for questions and participants, you may ask the question as well. I've got tons of questions that have been coming in.

One other question if we don't have anyone sort of willing to unmute at this point, what types of artwork or other luxury goods do you most often deal with in art finance? That's one question that just came in on social media.

Li Jun:

Would you like to take that Drew, or shall I?

Paul Adam Kobylarz:

Yes.

Sophia:

Paul?

Paul:

Yes, I'm unable to start my video.

Sophia:

What is your affiliation?

Paul:

Well, I'm actually, I'm a guest - a professional guest. My question is: between the artist or the maker, the creator and the investor, how would you compare your interests related to your own financial gains and their own creative gains.

Sophia:

Drew, do you want to take that?

Drew:

Yeah, could you could you maybe restate the question in a different way? I want to make sure that I've understood

Paul:

Okay, so as a producer - in a movie analogy a producer wants to company to make money - wants the movie to make money and the movie maker wants to make an impact on the audience. The artist obviously with their painting wants to make an impact showing their creative genius, while the investor wants to make some sort of asset or money monetary gains from the artist's creation. So how would you compare your mutual interests?

Drew:

Yeah, I think, there are lots of things to unpack here. So I think that one of the things that this question is touching on is the different motivating factors behind different players in the art market. So you've got the collector, you have the artist. And then you have perhaps the gallery. And I think that, you know, depending on, I would say within each one of those categories you have different motivations for people with different objectives. So, for example, take the collectors. So collectors have historically kind of been buyers, not sellers. They haven't really historically thought of themselves as investors. And in fact an art investor actually has a very specific definition under the tax code. So historically collectors have bought art because they, there's something about it that they're drawn to whether it's the social, the aesthetic, the historical, the maybe, the financial aspect is important, but what we find most of the time is collectors are not necessarily buying art with the objective of flipping it to make a profit. There are those players out there with that motivation, but more often than not, collectors who do tend to view - have an eye on the financial component of their collection, maybe, in addition to these other attributes that that we mentioned - they're really thinking of their collection as a source of capital, not necessarily an investment, per se. So thinking of art as an asset class. What kind of qualities does this art have as an asset - it's not to say that it doesn't have the historical the aesthetic, the social value. And a lot of the collectors that we work with, again, I mentioned, kind of, hedge fund, private equity executives, real estate developers, business owners, market driven individuals who have created their wealth and therefore built their collections with that wealth. They tend to think of their art as an asset that sits on their balance sheet, one that they can maybe - they're not quite as interested in selling, but they can unlock capital from - either to fund other wealth building pursuits, whether it's part of an arbitrage strategy or working capital line for their business or an alternative to traditional financing. Or to buy more art. So I would say, those are really more of the kind of motivations that we see from the, the collector side, if I can kind of reposition the question a little bit. On the part of galleries, you know, it really depends on the gallery. Sometimes you're working with a nonprofit gallery who have would have very different motivations from a commercial gallery. And then within the commercial gallery category, you have galleries that are working with emerging artists and hyper-contemporary artists, and then also artists with a very strong secondary market. And each one of these kind of subsets have different motivation. So, you know, you could kind of go on and on breaking it down. But I think the broader point is that the within these broad categories of art market players there are lots of different kind of objectives and motivations and the kind of interacting of all of these key players is, you know, what makes up the market as we know it.

Sophia:

Thank you Drew. I thought we would go back just for a moment. Was that helpful, Paul?

Paul:

Uh, yes. Yeah, if we had more time, I would have asked about like the contrasting like the difference between the art -the artists point of aspiration and the investor, the collectors aspiration or galleries, but I'm not sure if that's in the time frame.

Sophia:

Yeah. Well, thank you so much for your contribution in terms of your question. I wanted to go back, just because of talking to a largely economic field-based group. Can we talk a little bit about the valuation methodology. You mentioned two important market indicators interest rates and equity markets. How do you work with economists directly? How could our, you know, junior economists, our Ph.D. graduate, sort of think about inserting themselves into the space?

Li Jun:

I think that from my study of economics, you know, personally in our business, we do not go into things like doing a regression analysis, for example, on the art market. That is, I think a lot more in depth kind of research and there are certainly people who do that in our industry who are trying to move on the research ahead in terms of thinking about pricing and how the market works. But I think the things that have served me well having studied economics is the ability to understand markets and the ability to analyze data. And I think, you know, the ability to really recognize different forces at work here that if you dig in a little deeper, you start to see patterns. And I think that's what a lot of people who, you know, may not realize that the art world needs that. It's, it's a, it is a business. It's a at least, you know, I speak from kind of the not the for-profit world. I don't work for a museum or for an arts nonprofit. But, you know, the people who work for auction houses, for companies like, you know, Bank of America and ours - we are studying this market every single day and trying to understand what makes it tick. So I think that there's certainly a role for people who are analytical who are able to recognize, you know, some of the patterns that go on when different players interact with each other when forces of supply and demand are at hand, so I , you know, I think it's a really nice skill set.

Sophia:

Yeah. Thank you. This is helpful. We've got a couple of questions coming in on the chat one from Aditi. If you could decompose the value of an art piece into quantitative and qualitative aspects, how would you do that? For example, the year, the signature, etc. could all be quantitative factors, could you please expand more on those two categories? I don't know if the question is clear. If you want, Aditi, to sort of unmute and ask the question in more plain terms.

Aditi Grossman:

Yeah, sure. I'm happy to elaborate on that question. So what I'm trying to understand is that if you had an art piece and you had to decompose its value into quantitative and qualitative factors, how would you do that? Like, of course, the year the piece was made, the signature, etc. are all quantifiable aspects of the piece. But what would be considered, like more qualitative or like, how do you go about decomposing the value?

Drew:

I'm happy to jump in on this one. Yeah, it's, it's actually a very pertinent question and I think it points to the fact that valuation is both an art and a science to use a cliché, but it's true. There's a really interesting company that's doing work on this that you, I don't know if it's come up in any of your reading or research. It's called ARTBNK and what they have done is really decompose, to use your word, the value of art into those two different criteria. So what they've done is created this platform where you input the qualitative - the quantitative data, the dimensions of the piece, the year it was created, the artist name, the name of the piece, whether there's a signature or not - so some of the aspects that you mentioned. But in addition, they've developed AI technology that will analyze an image of the work of art that the user uploads to the site and that technology will kind of detect things like subject matter, color - different, more qualitative aspects- and then kind of pair that with comparables of past sales and come up with an estimated value. So there are people in the field, who are working more on the technology side that are really trying to solve for that particular question. Obviously, that's something that auction houses and appraisal firms have done through their own manpower for, you know, decades. You know, they pull the comparables based on those more quantitative attributes and then once they have those, then they kind of use their own judgment to figure out what is actually a comparable based on the more qualitative properties. Take Georgia O'Keeffe. For example, if you her market is very robust among American artists, but even but if you entered in a lot of the quantitative attributes for a given a work of art, you would come up with a wide range of values because her subject matter - there's a whole kind of hierarchy of value in her subject matter, whether it's a flower painting or a cottonwood tree painting, or, you know, another type of landscape. So hopefully that helps answer your question and points you to a resource, but it's something that the field has definitely grappled with and that certain individuals are trying to kind of automate, but that's still very much in the early stages.

Sophia:

Very good. We've got a couple of questions coming in. Let's see, one question before I forget this: Tamia Herrera wants to know, how would you recommend to an artist, how to define the price of their work? Someone can take that. And another question is perhaps you can talk a little bit about how and where our finance professionals get their data for analysis. Is it in-house data collection or is there sort of is it ARTBNK as you as you as you referenced?

Li Jun:

Um, I can speak to the second question, because I'm not as familiar with pricing artists work since I'm not really in that world. But as far as where we get our data, there, over the years, there have been a lot better data that come out of various areas such as the auction houses. They have publicly available data. There are companies such as Artnet, that is a data provider for the art world. They have a database that you can search with a lot of different fields from the artists name, to the year of execution, to dimensions, and it comes up with a whole list of works that fit that those criteria, and you can choose which pieces you want to kind of hone in on. So I think that our work as far as financing would be really difficult without a lot of these data sources, because they are so much more readily available, I think, in the past, it's certainly possible to get them. But no, definitely not as easy and you're really makes our work a lot quicker. We also do get private market information as well. But again, that's a lot more difficult to verify and it becomes more of a kind of a touch point than something that we rely on for our valuation.

Sophia:

Very good. Drew, do you want to take that first question from Tamia Herrera. Tamia, if you want to unmute yourself and sort of clarify or expand upon what exactly you'd like to know? No? Well, her question was: how would you recommend an artist define the price of their work? Is that something you can touch on or..?

Drew:

Yeah, I'm happy to touch on it. It's a simple question with a very complex answer. So I'll just maybe touch on some of the things to think about. But in no way is my answer going to be comprehensive because it's a very nuanced thing. So thinking about the art market, Sophia framed the conversation at the beginning by kind of delineating between the dealer market and the auction market. So really here, you know, I think we're primarily talking about the dealer market - dealers who are working with living artists. Who are trying to help them establish their market and then go on to maintain their market. And it's a - the short answer is that is a delicate dance of managing supply and demand. The dealers want to make sure that there's enough supply on the market to satisfy, to an extent, that demand but not too much supply so that prices drop for that artists. The demand side, obviously that's generated by a lot of different things. You know gallery exhibitions. When the artists become more established, museum exhibitions and retrospectives - so kind of institutional recognition of the importance of the artists and what they're trying to do. Back and kind of all go in to help support the artists market. So there probably lots of distinctions to be made from the differences of these two markets, but very roughly speaking, it kind of - it's almost like the diamond industry right? Like you want to make sure that the market that there's that you're not flooding the market with too much supply relative to demand lest prices drop. So the galleries play a critical role and managing the artists - the market of the artists. Especially in the case of emerging artists or sometimes you'll hear people refer to you know, hyper-contemporary artists, this is something that's very important. And then it becomes even more complicated when you have you know, you've got a primary market and then maybe a secondary market begins to be established for a living artist. And so then the gallery plays a critical role and working with the auction house, you know, to maintain that market and made maintaining supply. It gets kind of tricky because once the works are in the hands of individuals, the galleries don't always have 100% control over who sells and who holds. Now, there are different ways that galleries tried to influence that in order to manage the supply of the artist. But hopefully that gives you some very broad strokes that help answer that question.

Sophia:

Thanks for that. Maxime Grossman wants to know how have online marketplaces like 1stDibs or Artsy changed the art market? Have you, have they added transparency or price discovery to the market? What is the future of online art sales? We've got a couple of different questions in this in this comment.

Li Jun:

I think the pandemic, from what I've heard from people who not only Your work for places like Artsy that are online only, but also from people who organize physical art fairs that have now had to go online, you know, has really accelerated the level of comfort that people exhibit in buying online,

in viewing online, in engaging with galleries online. You know the level of art, the, the price level at which people will purchase a work of art online has grown a lot and the level of sales has grown a lot. I think, you know, some of the things that are yet to be seen are whether or not the same effects happen for galleries, that are not as established that don't already have a name for themselves, because some of this acceleration is just driven by the fact that if you are a client of a major gallery like David Zwirner, you know, you're going to continue to be a client of David Zwirner online. But, you know, you discover whether a new gallery is one that you would like to be a patron of, that's to be seen. And then I think as far as price transparency, you know, I think a lot of times the buyers are advocating for that. You know that that is driven by the inability to talk somebody up at an art fair physically. And I think we are seeing more and more of these online viewing rooms for major art fairs include prices, which we've never really seen before. So there is more price transparency, some of the surveys that have come out indicate that people want this. So I think that there will be, you know, some market driven demand for it.

Sophia:

I hope that answers your question, Maxime. The next question is from Ding Ding: What would you usually do with the encumbered art and if the owner can still hold the artwork, would you accept customers from other countries to borrow against art?

Drew:

I think we both probably have some things to say about this, but I'll just kick us off. Yeah, so the United States is a really interesting jurisdiction for art lending because we have a legal structure known as the Uniform Commercial Code that allows lenders to protect their security interest in fine art collateral. Now, I mean what does that boil down to for the borrower? It means that they get to keep the art in their in their possession. Either you know the walls of their home or their office or wherever it normally lives. But that they get to access some of the capital that they have tied up in again as we said this, this liquid non-income generating asset. This is a really appealing proposition to most collectors, because, as we said the collectors collect for different reasons. You know, sometimes they have their eye on the financial aspect, on the social aspects, the aesthetic aspect, that intellectual or historical aspects. But you know, it's hard to meet a collector that doesn't just love living with the art that they've collected and so when they get to keep it and tap into some of the financial possibility of that art, It's usually very appealing. Outside of the US., most other jurisdictions that I'm aware of, do not have the Uniform Commercial Code. At least from our perspective, our business is largely U.S. focused. But when we do do the the art loan outside of the US, whether it's in the UK or or elsewhere, we typically require that the art be warehoused because we are not able to prove to perfect our security interest in the collateral In that particular jurisdiction. So, you know, other lenders. I think have maybe more of an international focus, but for that very reason, whether it's a policy kind of decision or really just more kind of organic as to what is appealing more appealing to collectors. That's really our business is very us focused, but probably for that reason.

Sophia:

Thank you. Li Jun?

Li Jun:

Yeah, I mean, I agree with what Drew says about the kind of opportunities and challenges of the US versus the international based lending. We do lend a lot internationally. I think that, you know, just to expand on some of those points - there's, there's the legal aspect of whether or not you can do these loans in other countries, because the non-possessing lien on you know law is just not there doesn't support the lender. So it's very challenging, people you know don't like to part with the art, but if they need capital, they need capital. So they will find a way to work with you and be able to jump through maybe more hoops internationally to you know get the lender what they need in order to make the transaction happen. Now I will say that there is something else that is a little bit more difficult to quantify and doesn't really factor into a legal perspective, but it is the aspect of lending that has to do with borrower analysis. Ultimately, we are lending to people, you know, we are making a judge of the people that we have as clients. What kind of people they are, how they will behave and you know it's not a perfect system, obviously, but I think that you know with that analysis, we are able to determine whether or not you know this is a client who's going to like run away with the art or not. So you know that's more of a nuance aspect of this business that you know I think we all have to sort of contend with.

Sophia:

Thank you. What types of - let's see - there's another question: What types of questions or problems do you think economists can resolve in our finance or can help resolve help resolve in art finance and what would an economic expertise bring to this field? Drew?

Drew:

Yeah, this reminds me of a something we were talking about a little earlier, kind of, what, what could be the role of an economist and the art world. And I would say that I think, well, first of all, the art world in terms of the functions that people perform tends to be kind of a continuum. On the one extreme, you have the art historical, curatorial, auction house specialist side. These are people with, you know, more of a pure art history background, more kind of kind of stewardship background. And then on the other end of the spectrum, you have more of the business side, which I think is more what we have represented here. I would say, regardless of where you find yourself on that continuum, it's really important to be bilingual and both art and business. And to the extent that you know knowledge of economics can inform your discussions about business, I think that it's absolutely an asset, like we were saying earlier, it's really important to understand interest rates, and how policy influences interest rates, it's really important to be able to understand and communicate kind of key takeaways to clients about the macroeconomic environment and how that's shaping the art market. As Li Jun was saying earlier, the art market is becoming more and more data driven, slowly but surely. And so data analysis is going to be ever more important. One thing that probably a lot of participants on this call would be interested to check out if they haven't already is something called the Mei Moses Index. It was actually acquired by or developed by an economist, Michael Moses a number of years ago, and then acquired by Sotheby's within the past couple of years. And it's an index that tracks repeat sales of individual works of art and they have actually developed a regression model tracking those repeat sales to help forecast the value of them in the future. So it's that would be something, it's kind of an indicator, I think of how the market is becoming more data

driven. It's, again, it provides insights only on a small portion of the market because repeat sales, that information, that data is only available, based on public data - public data is the auction market, as we said at the beginning of the call. That's only about half of the art market. So if you think about half of the art market, which is the auction market, then you think about the works that are being sold on a repeat basis. That's an even smaller sample. So it's not without its flaws, but you know that that type of analysis, I think, is going to be even more important in the future. I think AI, predictive technology, as we've seen, not only with some of the players like ARTBNK that we mentioned, but with the auction houses Sotheby's, I think, is making, you know, kind of tremendous investments in their technology and has made great strides this year in kind of presenting their hybrid and online only sales. In an effort to become more data driven now their own actually by a telecom company, instead of being a publicly traded company on the New York Stock Exchange so I think that is the direction of these elements. These the skill set of the economist, I think, is going to be increasingly more important in this field is it becomes more quantitatively driven. However, you know, knowledge of art history and also very important kind of interpersonal skills and the ability to relate to clients and to source business and to develop that business - all these kinds of softer skills are also critically important. So you really have to be a well-rounded individual.

Sophia:

Li Jun, would you like to weigh in on this?

Li Jun:

Yeah, I think Drew touched upon a lot of really great points. And I think the biggest challenges for us as art lenders is valuation and the ability to predict prices. You know a lot of times we are really looking backwards in terms of what has sold before, but if there were some way to think about you know, the next auction and are there are there works that could be more in danger of not selling or selling for less? You know, so topics like that. I also don't think that there has ever been on a real sort of, you know, very kind of hefty study of the art lending market. So I think there are numbers I get thrown around. But I don't think anybody really knows exactly how large is the market. You know, what the number of defaults are, what are some of the other characteristics that you would typically look out for a debt market, initially. You know could there, are there ways to rate the debt, you know, are there ways to understand probability of default? And then, you know, a lot of us sort of land at a 50% LTV. Why is that? You know, I read some studies about how that may be like the safe level so that you usually get your loan back, but could it be higher? You know, we know other markets like the like the mortgage market where you can go up to 80%, for example, why doesn't exist in our market, you know, is there data to support that? Yeah, those are some of the questions that I would have.

Sophia:

Well, this is getting very interesting, especially in light of the recession. I think, Jose Scheinkman, my colleague, he wrote about this sort of the impact of the these bubbles - and he was thinking about this in terms of the 2008 financial crisis - but how the art market similarly has these types of these patterns can certainly be observed in the art market as well. So it's a very interesting topic to begin to explore. There is a question here about blockchain - do the speakers feel that blockchain technology will also be important to the future of our finance? And blockchain for the purposes of sales history

tracking could be a new form - and whether blockchain for the purposes of sales history tracking could be a new form of data collection?

Li Jun:

I can attempt to answer this question unless Drew would like to?

Drew:

Go for it.

Li Jun:

Okay, so I only preface this by I actually worked with an entrepreneur a couple of years ago, who is trying to develop, you know, something using blockchain technology to develop a chain of title for artworks. We had a lot of really, you know, spirited discussions about this because he was like a complete Silicon Valley bred tech person and I was kind of coming from this art and finance world. And knowing some of the idiosyncrasies of the art world, and you know, I think the thing that always kind of made me very hesitant to think that this could be a kind of one size fits all solution is that there is no one point of expertise for art, really. You can't really you can you can put it on the blockchain to say I own this. But noone really verifies that or you can you can put it on blockchain that this information is real. But I think that there is no sort of like initial point where somebody verifies that you know this is true, like you can kind of have this group verification, I suppose. But yeah, that was the challenge I saw with with blockchain. I just have misunderstood the whole concept, you know, of the blockchain technology, but we kind of went through it a number of times, and I just, I couldn't get over that kind of You know that that impediment, I suppose.

Sophia:

Drew, are your observations similar at Bank of America?

Drew:

Yeah, well, I'll just speak personally you know kind of what I've experienced. I tend to agree with region sentiment which is that there's some interesting kind of issues that blockchain seems to, that blockchain attempts to address, in the art market. I think the jury is still out though about what adoption is going to look like over the, let's say next five years. I think there's several reasons behind that, number one being that I think collectors, some collectors may feel that it may be uncomfortable, from the standpoint of confidentiality. The art market is kind of a market that has been built on information asymmetries and savvy collectors and other players in the art market will use those asymmetries to their advantage. The blockchain kind of brings, I think, attempts to bring a bit more transparency. But Li Jun I think is absolutely right, there's no kind of - What is the blockchain? It's a digital, immutable registry that can help track the chain of ownership of a particular work. So, you know, how do we know that the information that's going into that repository is actually accurate? It may be accurate in a certain point of time, but how do we make sure that it stays accurate? I mean, one thing that I would point to is that a couple of years ago, blockchain is something that tends to have a lot of hype surrounding it, in the art world, or at least it has over the past couple of years, and I think Christie's, they're, they're very savvy kind of marketers there. I mean, we can all see that from the way the presentation of - the of Leonardo da Vinci's

Salvador Mundi - how they presented that as this old master painting that was heavily restored in the context of their evening sale next to a Warhol Last Supper and presented it as a trophy work to an entirely different kind of strata of buyers that wouldn't normally purchase an Old Master painting. I think they did something similarly savvy with blockchain a couple of years ago, except on slightly smaller scale, maybe not as headline grabbing. There was a certain single owner collection that they were marketing as being the first collection that is sold using the blockchain. And in fact, it was really it was less about taking the market in a new direction, but more of a concession to the seller, who was very interested in this technology to be able to kind of differentiate themselves in the sale setting and land the consignment. If I view the, the adoption of it with a little bit of skepticism. I just don't know that we'll ever fully get there, especially from the dealer market. Because a lot of times collectors will want to sell on the dealer market because they don't necessarily want it to be public information. You know when a certain work of art was sold and exchanged hands, because then people could kind of tried to understand what their cost basis was that when they, you know, turn around to sell it later. So it's a very nuanced issue.

Sophia:

Thank you so much. I think we have time for one more question. What do you think the future of art finance will look like? Does it include and additional emphasis on data collection or fractional ownership? It's a future question and the perfect question to sort of send, send off our, our participants.

Li Jun:

I mean, I think one of the opportunities - to kind of go back a little bit to our conversation before is to see, perhaps more international jurisdictions be open to this type of lending and make it easier. I have seen some European countries start to think about establishing something such as the UCC filing system and make it easier for lenders to be able to take non-possessory liens. So you know I think that there are a number of ways that the industry can expand and I think, you know, one of those is international lending. And when I say, you know, there are opportunities for the industry to expand, the demand is there. I mean, I've been doing this for a number of years now. And I remember when I first started in the business, people had no idea what this was, and understand why people would do this. Collectors were like scratching their heads. But now it's very common for us to do very large loans against really significant collections and it's become more and more talked about and kind of accepted as a form of using assets that you know really were just sitting there before. Yeah, I think that my hope is that there will be more availability for clients outside of the US.

Sophia:

Thank you. Drew?

Drew:

So is the original question - is it about what do we think the future opportunities are in the field?

Sophia:

Right, so it's about art finance and what that would look like.

Drew:

Yeah, I know, in addition to the geographic jurisdiction point which I think is an important one, I think another thing would have to do with something that we touched on earlier, which is valuations some lenders do those valuations and house, others will go with a third party.

You know the appraisals is as we're saying an art and a science. If you go out to three different appraisers, you're probably going to get three different numbers. So I think there's a real opportunity to kind of introduce more kind of quantitative rigor and so that we're everyone would kind of be more aligned and they're coming up with valuations that are then used for a variety of purposes, whether it's tax and planning estate purposes lending purposes, etc.

Sophia:

Great. Thank you so much. This has been an absolutely thought-provoking conversation. I think it's been really helpful in terms of helping our economic community, our community of students and scholars to sort of think a little bit differently about the utility of their skills in this particular space. So I wanted to thank you both, on behalf of the Department of Economics and the Program for Economic Research for sharing your views and taking the time to talk to us and give us some insights on how the field is progressing and moving.

To our participants, we have another live webinar series scheduled for Wednesday, December the 16th at 1PM. Thank you very much to Emigrant Bank and also to Bank of America and thank you to all our participants for attending.

Li Jun:

Thank you.

Drew:

Thank you. Thank you.