Hi Jeffrey,

I spoke with Paul Provost at Christie's this morning about fair rental valu= appraisals. Paul is a Deputy Chairman who has spearheaded Christie's rent=l value appraisal program. He used to run their Trusts & Estates departmen=. I worked with him a lot when I was still in private practice, so I told =im that I had heard that Christie's was doing rental value appraisals and =as curious about their approach.

Paul said that Christie's has been preparing rental value appraisals for ar= for a little over a year. They have not discussed their methodology with =he IRS, although they are debating whether to meet with the head of IRS Ap=raisal Services. None of their clients have been audited, but, again, Chri=tie's has only been doing these appraisals for about a year.

Sales Tax
When I asked if Christie's was taking sales tax into account or how clients=were dealing with sales tax, he was completely perplexed. He said that he =ad spoken with "all" of the top NY Trusts & Estates lawyers when Christie'= was setting up their program and no one had ever mentioned sales tax to h=m. In addition, none of the clients or lawyers to whom Christie's has pro=ided rental value appraisals has raised sales tax as an issue.

Insurance
Paul said that clients have asked Christie's about insurance, specifically =hether the rental rate should be adjusted depending on which party is payi=g for insurance. Paul said that Christie's doesn't take insurance into acc=unt, and that he tells clients that if an entity which owns the art doesn'= have possession of it, you probably want a strong paper trail showing tha= the entity is acting the same way any other owner of art would act, i.e.,=the entity pays for insurance, shipping, storage, restoration, legal fees,=art advisory fees, etc.

Rates
Paul gave me the following general ranges for rents:
Work of art valued in the range of $500,000 - rental value per annum in the=range of 2.5-3.5% of the value of the work Work valued around $2 million - rental value per annum 1.8-2.2% Work valued in the range of $5 million - rental value per annum 1-1.5% Work valued in the range of $12-15 million - rental value per annum .80-.90= Work valued in the range of $25 million - rental value per annum .70-.75%

Methodology
To determine rental rates, Christie's researched all of the commercial enti=ies that rent art (corporate art rentals, real estate staging companies, p=op rental companies) and analyzed the rental rates they charged, which wer= always a percentage of the value of the art being rented. The higher the =alue of art, the lower the rental rate. The potential problem with Christi='s data is that the most valuable art they found that was being rented was=around $30,000.

Christie's does a quantitative analysis based on their market research desc=ibed above, and then they also do a qualitative analysis based on the work=itself. So they determine the fair market value for the work, then the fai= rental value based on market data, then they have their art specialists l=ok at the work and decide if the rental rate should be adjusted. Paul gave=this example: Lessor/owner rents a 1930s Picasso to lessee for a 3 year re=tal term. Because the

market for 1930s Picassos is so hot right now, Chris=ie's specialists might adjust the rental rate up a little because of the o=portunity cost to lessor of the 3 year term.

Ultimately, Christie's gives its clients a fair market value appraisal and = letter in which Christie's "recommends" an appropriate rental rate.

Please let me know if you have any questions or if you would like to discus=. I'm out of the office this afternoon and Monday morning, but reachable o= my mobile at 646-315-5756 except for 3:30-6:30 pm today and 8-11 am Monda= when I'm on planes.

Best,
Heather

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