Skate's

THE GLOBAL ART-LOANS MARKET REPORT
JULY | 2015

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Art Lenders Directory

Traditional bank lenders

INSTITUTION	LOGO	WEBSITE	HEADQUARTER	COLLECTION REQUIREMENTS	MIN LOAN SIZE	MAX LOAN SIZE	TYPE	TERM	LTV	INTEREST
ABN AMRO Private Banking		https://www.abnamroprivatebanking.com/en/expertise/investments/art-advisory-and-brokerage/index	Netherlands							
Ascent		https://www.ascent.usbank.com/insights/protect-your-investment-in-fine-art	USA							
Berenberg		www.berenberg.de/en/10102.html	Germany							
BSI		www.bsibank.com/en/Private-Customer/Gestire-il-mio-patrimonio/Art-advisory.html#tab-0	Switzerland							
China Minsheng Bank		http://goo.gl/eZQaBq	China							
Citi Private Bank		www.privatebank.citibank.com	USA	$10,000,000 (each pc at least $200,000)	$5 000 000				50%	2-3%
Deutsche Asset & Wealth Management		wealth.deutscheawm.com	Germany							
Emigrant Savings Bank		www.emigrantbankfineart.com	USA		$1 000 000	$100 000 000			50%	
Goldman Sachs		www.goldmansachs.com/what-we-do/investment-management/private--wealth-management/services/united-states.html	USA							
HSBC Private Bank		hsbc-pbf-09.isotools.fr/english/Design-and-art-advisory.asp	France							
J.P. Morgan Private Bank		privatebank.jpmorgan.com	USA							
LGT Bank		www.lgt.ch	Switzerland							
Neuflize OBC		www.neuflizeobc.fr	France							
Privatbank Berlin		privatbank.berlin	Germany	valuable works of fine art by well-known artists (market value from EUR 100,000)	$110 000		fixed loan, with flexible repayments or credit line	up to 60 months	30%	5-15%
Societe Generale Private Banking		www.privatebanking.societegenerale.com/en/our-solutions/diversification/art-advisory/	France							
UBS		www.ubs.com/global/en/wealth_management/uhnw/art_competence_center.html	Switzerland							
US Trust		www.ustrust.com/ust/pages/index.aspx	USA	$10 000 000	no		Renewable lines of credit	„up to3 years"	50%	Spread over 30 days LIBOR

INSTITUTION	LOGO	WEBSITE	HEADQUARTER	COLLECTION REQUIREMENTS	MIN LOAN SIZE	MAX LOAN SIZE	TYPE	TERM	LTV	INTEREST
Actif Art		www.actif-art.com	France							
ArtAssure		www.artassure.com	USA	$500,000 +	$250 000	$250 000 000		6 month min	50%	10-15%
Artemus		www.artemus.com	USA							
Art Capital Group		artcapitalgroup.com	USA							
Art Finance Partners		www.artfinancepartners.com	USA							
Artvest		artvest.com/services/art-financing	USA							
Borro		www.borro.com	USA / UK		$10 000	$10 000 000	Non-recourse bridge 6-36 months;			
Falcon Fine Art		www.falconfineart.com	UK	Term loans 18-36 months"		70%	Bridge loans: 2.49-3.99% a month (29.88- 47.88%);Term loans: 0.99-2.49% per month (11.88-29.88%)		50%	
Fine Art Partners		www.fineartpartners.com	Germany	Old Masters, Postwar and Contemporary art; collections size: $20-50,000,000					40%	high single digits
Foundation		foundationtm.net	Germany							
LINK Management		www.link-management.lu	Luxembourg							
PlatinumArt		platinumart.com/	USA				acquisition loans, 3-6 months bridge loans, working capital loans, revolving credit loans			
Prime Art Capital		www.primeartcapital.com/	Singapore					12 months	50%	
Right Capital		www.rightcapital.co.uk	UK							
Rosenthal & Rosenthal		www.rosenthalinc.com	USA		$800 000	$8 000 000	working capital for dealers, acquisition loans for specific art purchases, 3-6 months bridge loans, revolving credit loans against sufficient collateral		35-45%	8-13%
Sotheby's Financial Services		www.sothebys.com/financial/index.html	USA							
Thomas González		www.thomasgonzalez.com	Germany				consignor advance; term loan	24 months renewable	40-60%	
Tutela		www.tutela.net	Bahrain / Belgium	20th-century works by artists that have traded in the market for at least 20 years	$1 100 000	$16 500 000,00	Non-recourse term loans	1 to 60 months	30 - 50 %	8% +
Willstone Management Capital Partners I Ltd.		www.willstonemanagement.com/art-lending/	UK					12 months	25-40%	8-15%
Montage Finance		www.montagefinance.com	inactive				Bespoke interest-only loans for 3 to 18 months		50%	10-15% plus 1.5% loan arrangement fee
Luxmac+A22:A42		www.luxmac.com	inactive							

Government institutions

INSTITUTION	LOGO	WEB SITE	HEADQUARTER	COLLECTION REQUIREMENTS	MIN LOAN SIZE	MAX LOAN SIZE	TYPE	TERM	LTV	INTEREST
Artbank		artbank.gov.au	Australia							

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Introduction

This report provides an overview of the global art-asset-backed lending market ("art-loans" market) and includes the following key sections:

1. Addressable market size
2. Existing market size and segmentation by borrower and lender types
3. Types of art loans and other market practices
4. The market for institutional art loans

The "addressable market size" section is also supplemented with the searchable, password-protected database for 2014 art-auctions data to provide for aggregated information about global art-assets liquidity and auction sell-through rates (the access passwords can be purchased by sending email to skate@skatepress.com).

Executive Summary

Art Assets: The No-Leverage Oasis

As High-End Art Market Liquidity Soars, $100bn Addressable Market Size Offers Ample Room for Art-Loans Growth

Skate's has polled about two dozen art-lending practitioners, pierced some art-market numbers, and researched various filings (including liens recorded on art assets with so called UCC filings in the United States) to produce this inaugural issue of the Skate's Global Art-Loans Report. Our key findings are:

- Art-lending business is booming, with the 2015 art-loans book scheduled to grow above $10 billion this year, which is at least twice the level of the art-lending market last reviewed by Skate's in 2011

- This still leaves ample room for growth, as Skate's most conservative estimate of the addressable art-lending market size is $100 billion

- This year Sotheby's Finance is scheduled to become the second-largest business unit of Sotheby's in terms of revenue, putting significant competitive pressure on rival auction houses to adopt the practice of art lending to secure consignments and retain key customers

- Pioneered by Citibank in 1979, art-lending business has taken many shapes and forms, with two dozen specialized providers operating in the space and Borro and Art Capital Group seen by Skate's as the most dynamic pure-play art-lending players today

- The United States is the world's largest, most transparent, and most efficient market for art lending and is already overbanked in the high-end premium private credit segment, with tenors sometimes exceeding three years and interest rates often at 2% or lower for AAA-credit private borrowers.

1. Addressable Market Size

For the purpose of this report, Skate's looked into the art-loans market for the transaction size of $1 million dollars and up. Given significant transaction costs in the global art trade, both art lenders and borrowers seek to minimize the number of artworks included in the collateral for art loans, thus limiting the market eligible for art loans to artworks of, say, above $250,000 in market value. Should one take a more conservative view, taking into consideration the liquidity requirement for the collateral, then the addressable market for art loans can be limited to artworks of market value starting from $500,000, or even $1 million, since the best liquidity in the global art trade is found above these levels (see more data on liquidity in terms of # and $ volume of sales per price category in Exhibits 1 and 2).

Skate's is using the Skate's Top 10,000 Database to track the value of the world's most valuable artworks by auction prices. The aggregate value of these 10,000 most expensive artworks totals $53.1 billion as of May 15, 2015, with the lowest-priced artwork on the list priced at $1,558,545 [1]. Assuming the auction market represents roughly half of all art sales in the high-end price category, the addressable market size for art loans against artworks over $1.5 million in value can be estimated at over $100 billion.

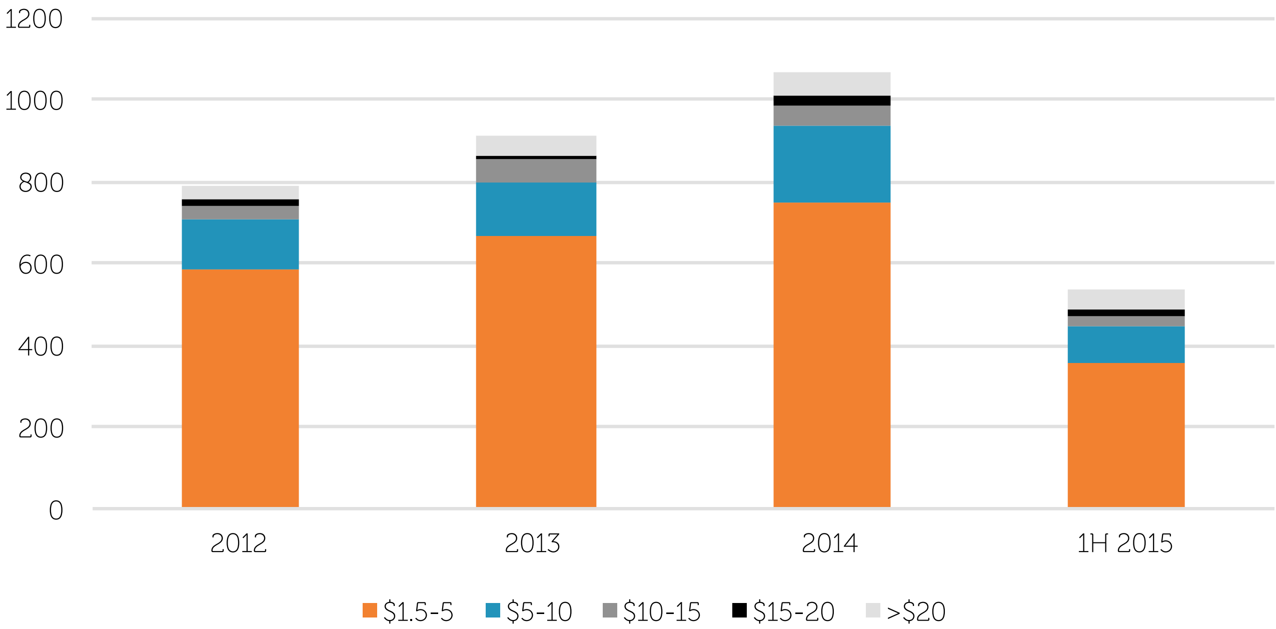
[1] Source: http://www.skatepress.com/market-notes/christies-got-65-7-market-share-of-high-end-market-in-maybest-returns-on-lichtenstein-38m-gross-profit-on-a-single-work-worst-returns-on-calderthe-most-speculative-auction-season-ever-as/

This excludes "off-market" artworks closely held by private foundations and trusts, private and government museums, and other institutions that, due to their charter or other reasons, in most of the cases do not allow for sale of their art. Those institutions could, theoretically, have been a compelling source of collateral for art-backed loans, but the public perception and governance principles in most cases totally exclude the opportunity of securitizing such closely held art collections [2].

Due to the above assumptions, which (1) exclude off-market artworks and (2) exclude artworks below $1.5 million in market value, the $100 billion approximation of the addressable market size for art loans is an extremely conservative estimate.

Exhibit 1 shows that the market for high-end art is on the rise—there were 789 artworks sold at auction for prices over $1.5 million in 2012; this is up to 1,068 in 2014 (a 30% increase), and there were already 533 artworks sold at this price level in the first six months of 2015.

Exhibit 1: Number of Auction Sales by Price Category (US$ millions)

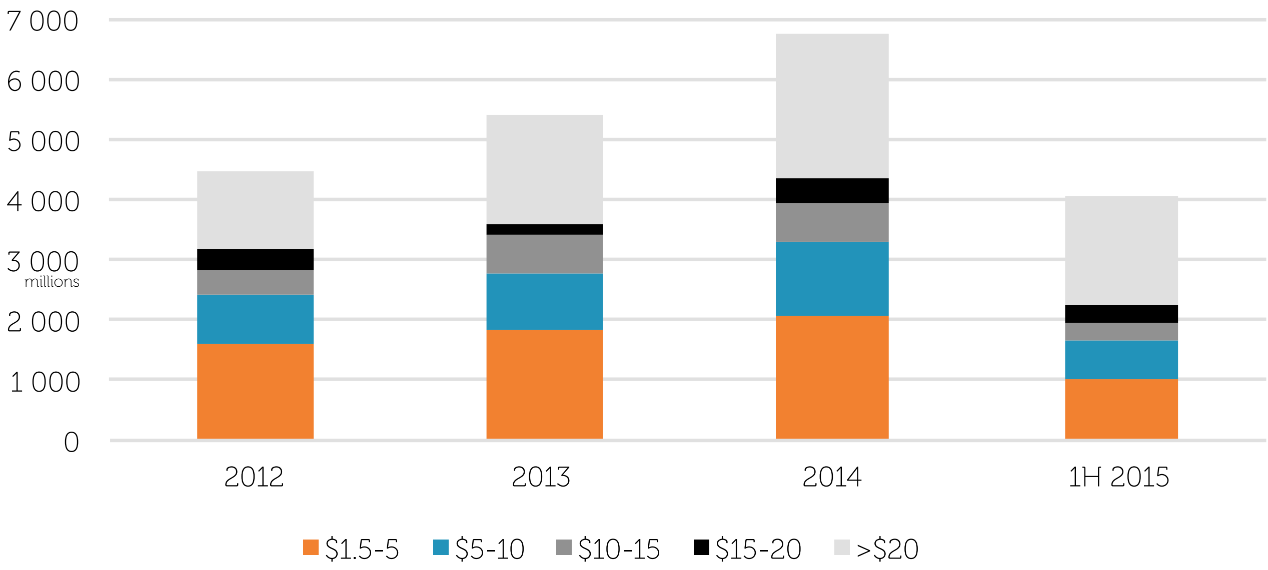


Source: www.skatepress.com

[2] Source: Detroit's bankruptcy and museum saga is a perfect case study; see more at Skate's Masterpieces Report, Fall 2014, http://www.skatepress.com/art-market-reports/skates--masterpieces-market-report/

The dollar volume of those sales has grown even stronger—from $4.45 billion in 2012 to $6.75 billion in 2014 (about a 50% increase), with almost as much high-end art traded at auction market in the first six months of 2015 as in the entire year of 2012 (see Exhibit 2 for more details).

Exhibit 2: Volume of Auction Sales by Price Category (US$ million)



Source: www.skatepress.com

As an important side note, the market for the most valuable art (masterpieces over $20 million in market value) has overtaken any other price category by the total dollar volume of sales as of 2014. As shown in Exhibit 3, the distribution of art-trading volumes has shifted dramatically over the last years to the high end of the global art trade.

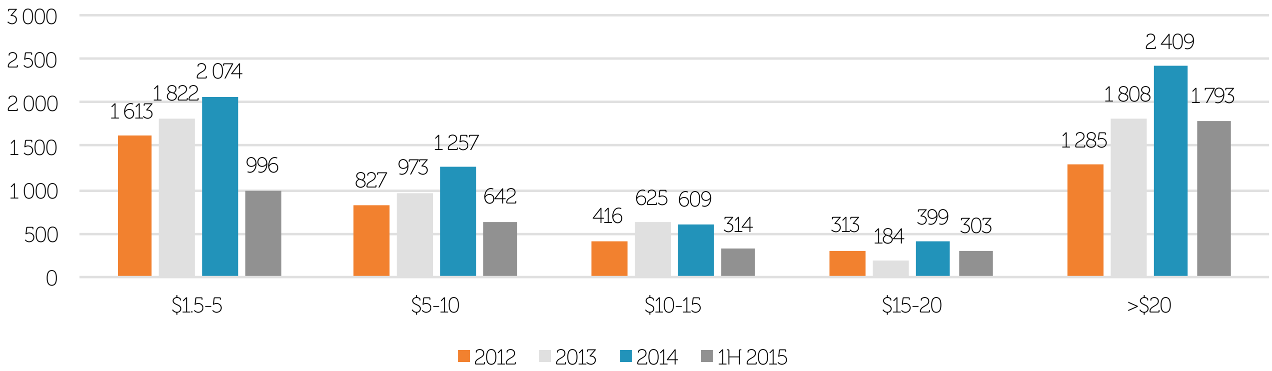
In other words, based on pure statistical evidence, the most liquid art-market segments today are those within the $1 million to $5 million range, or the over $20 million range, something to take notice of when designing art-lending strategy. Another important metric of art-trade liquidity—the share of repeat auction sales in total trading volume—provides particularly strong evidence that the more rare (and pricier) the artworks are, the more liquid they are (see Exhibit 4 below). And again, the highest growth rate of repeat sales ratio has been recently observed within the $1 million to $5 million and the over $20 million price categories.

Finally, when taking a $100 billion estimate for the addressable market size for art loans, one should take into consideration the total global art-auction trade's annual volume of $6.75 billion (with artworks priced over $1.5 million)—or approximately $13 billion per annum if all the gallery, art fair, and other off-auction sales are taken into consideration. In other words, while the addressable market size might be $100 billion, the fact that it is more than 8 times the annual trading volume of the base asset (artworks over $1.5 million in market value) suggests that unless the high-end art trade continues to grow at its current pace of 15% to 20% per annum, the actual capacity of the art-loans market is unlikely to expand beyond $20 billion, due to collateral liquidity constrains.

That said, many art lenders polled by Skate's in the process of preparing this report expressed strong disagreement with this conservative estimate, claiming that they use none of these liquidity self-constraints in building the art-loan book at the moment and are comfortable with $100 billion addressable market size as a conservative estimate.

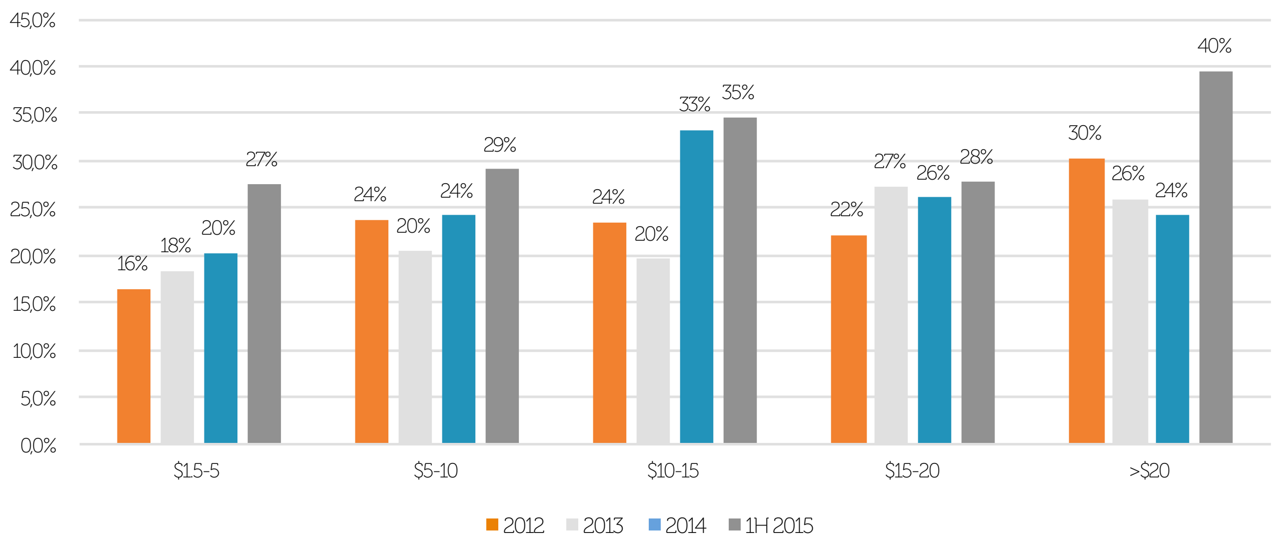
This naturally brings us to a discussion of the current art-loans market size, further discussed in the next section of this report.

Exhibit 3: Art-Trade Volumes Shift to Ultra-High Price Category (US$ million)



Source: www.skatepress.com

Exhibit 4: Share of Repeat Sales by Price Segment



Source: www.skatepress.com

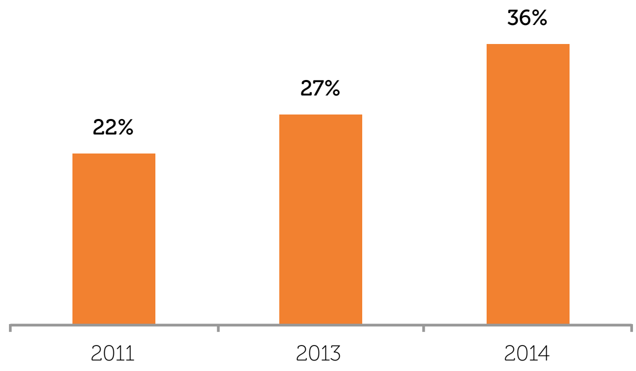
2. Existing Market Size and Segmentation

Deloitte estimates the current market size of the art-lending market at $9.6 billion [3], which implies about 10% penetration of art loans vis-à-vis addressable market.

Skate's finds this estimate too aggressive if applied for stand-alone art loans. According to publicly available sources, the biggest art lender to date by far is Sotheby's [4]—its consignments-driven loans business (discussed at length in the Section 3 of this report) is booming, with the capital available to write art loans growing from $300 in 2009 to $1.3 billion as of June 2015 . Based on extensive analysis of all the pure-play art lenders presented further in this report, Skate's estimate of the global art-loans book is at $3 billion as of June 2015 [5] and excludes private banking loans issued to wealth-management clients against their general credit for art-purchase purposes or as temporary liquidity lines secured with their art collections.

This is perhaps where our core difference with the Deloitte estimate lies: Deloitte includes those art loans in their calculations, and in fact provides the evidence that private bankers and wealth managers worldwide are increasingly offering art-loan product as a way to upsell their clients to a higher yield service, albeit issuing the loans purely against overall credit of the borrower, with relatively little attention paid to actual art assets beyond basic appraisal and title check.

Exhibit 5: Share of Wealth Managers
Offering Art Loans Against General Credit Risk of Their Clients [6]



Source: Deloitte/ArtTactic 2014 Art & Finance Report

Thus, regardless of how conservative one wants to be regarding addressable market size ($20 billion on the low side, taking liquidity constrains into consideration, $100 billion on the high side) and existing market size (from $3 billion for purely asset-backed loans to $9 billion for art loans, including products packaged around general private-wealth-management clients' risk), there is ample room for the global art-loans book to grow in the coming years.

3 Deloitte / ArtTactic 2014 Art & Finance Report

4 Sotheby's position as the world's biggest art lender has been unanimously contested by all the major art lenders we spoke to, all implying there are at least a few institutions with a much larger art-loans book out there, though Skate's was not able to see any documented evidence to that effect

5 For detailed discussion see http://www.skatepress.com/market-notes/sothebys-gets-ready-to-compete-better-for-top-consignmentssothebys-finance-unit-gets-access-to-1-3bn--in-capital/

6 A 2014 survey by Deloitte and ArtTactic Ltd. found that 40% of private banks said art-secured lending would be a strategic focus in the coming year, up from just 13% in 2012

Given our extensive interviews with many active art-lending institutions, Skate's estimates at least a 20% increase in the size of art-loans books this year, bringing the overall size of art loans issued on both a stand-alone basis and as part of wealth-management/private-banking specialty lending programs to over $10 billion by the end of 2015.

Here is our view on how the art-lending market is segmented by type of borrowers and lenders around various art-loan transaction types further described in the Section 4 of this report.

Exhibit 6: Types of Borrowers and Lenders

TYPE OF BORROWER	TRANSACTION MOTIVE	TYPE OF LENDER
Individual with strong credit	Temporary liquidity requirement	Private bank / wealth manager Art-leasing provider
	Inheritance-/divorce-driven sale	Art dealer / auction Private bank / wealth manager / Specialist art lender
	Speculative buying	Private bank / wealth manager Specialist art lender
Individual with weak credit	Temporary liquidity requirement	Specialist art lender
	Distress-/inheritance-/divorce-driven sale	Art dealer / auction Specialist art lender
Trade (Gallery, Dealer, Auction)	Working capital financing	Commercial Bank Specialist art lender
	Distress-driven sale	Art dealer / auction Specialist art lender
Corporate (Non-Art Institutions:[7] Corporate Collection, Hotel / Real Estate Owner Collection)	Working capital financing	Commercial Bank Art-leasing provider / Specialist art lender
	Distress-driven sale	Art dealer / auction Specialist art lender

Skate's estimates that the existing market for art loans is dominated by loans issued to individuals.

The trade segment has been traditionally represented given the opaque finances and low transparency of its operators. However, this segment has been growing strongly over recent years, particularly because of a small number of more transparent publicly listed operators (Sotheby's, Poly, and Weng Fine Art being the notable examples).

The corporate segment barely registers, with the exception of real-estate types of borrowers, where we observed significant interest towards lease-back arrangements due to increased use of art in public spaces combined with growing prices for artworks by recognizable artists. Some art lenders told Skate's that they increasingly finance large trusts and even museums, mostly in a form of acquisition financing to bridge the payment for a new addition to the collection and the annual contributions from trustees to the acquisition fund. Skate's was not able, however, to verify the size of this acquisition-financing art-lending business.

[7] Art institutions are excluded given their almost often restrictive policy on art lending / pledges, for further discussion see Section 1 (page 2) and Section 4 of this report

As of June 30, 2015, Sotheby's Finance segment (the business unit of New York Stock Exchange–listed Sotheby's) was the world's largest art lender. Here is how the firm itself defines the market for art loans:

> A considerable number of traditional lending sources offer conventional loans at a lower cost to borrowers than the average cost of loans offered by the Finance segment. Additionally, many traditional lenders offer borrowers a variety of integrated financial services such as wealth management, which are not offered by Sotheby's. Few lenders, however, are willing to accept works of art as sole collateral as they do not possess the ability to both appraise and sell works of art within a vertically integrated organization. Sotheby's believes that through a combination of its art expertise and skills in international law and finance, it has the ability to tailor attractive financing packages for clients who wish to obtain immediate access to liquidity from their art assets.
> **Source: Sotheby's 2014 Annual Report**

The Sotheby's Finance segment provides its clients (collectors and art dealers) with financing secured by works of art that Sotheby's either has in its possession or permits borrowers to possess. The Finance segment generally makes two types of secured loans: (1) advances secured by consigned property where the borrowers are contractually committed, in the near-term, to sell the property through the Agency segment of Sotheby's (a "consignor advance"); and (2) general-purpose term loans secured by property not presently intended for sale (a "term loan"). Prior to 2014, the lending activities of the Finance segment were funded primarily by the operating cash flows of the Agency segment, with the ability to supplement those cash flows with revolving credit facility borrowings. In January 2014, in order to reduce the Finance segment's cost of capital and enhance returns, Sotheby's established a separate capital structure for the Finance segment through which client loans are predominantly funded with borrowings drawn from a dedicated revolving credit facility. The establishment of the Finance segment's dedicated revolving credit facility in February 2014 has allowed management to debt fund a substantial portion of pre-existing loans and fund further growth of the loan portfolio. Cash balances are also used to fund a portion of the Finance segment loan portfolio, as appropriate.

As of December 31, 2014, outstanding borrowings under the Sotheby's Finance segment's dedicated revolving credit facility totaled $445 million, and the loan portfolio balance was $644 million, yielding a leverage ratio of 69%. The shortfall versus Sotheby's management's originally targeted leverage ratio of 85% is due to certain loans that do not qualify for debt financing under the Finance segment's dedicated revolving credit facility, and to funding inefficiencies related to foreign loans resulting from the level of Sotheby's foreign cash balances. In February 2015, management reduced its targeted return on equity for the Finance segment from 20% to 15% to allow for additional investment to drive growth.

Exhibit 7 presents a summary of the Finance segment's gross profit and related statistical metrics for 2014 and 2013, as well as a comparison between the two years (in thousands of dollars):

Exhibit 7: Sotheby's Finance Segment KPIs, 2014-2013[8]

Favorable | (Unfavorable)

	2014	2013	$/% CHANGE	% CHANGE
Finance revenues:				
Client Paid:				
Interest	$ 29,477	$ 19,767	$ 9,710	49%
Facility fees	3,536	1,510	2,026	*
Total client paid revenuses	33,013	21,277	11,736	55%
INTERSEGMENT REVENUES:				
Interest (a)	6,796	7,959	(1,163)	(15%)
Facility fees (b)	2,209	1,992	217	11%
Total investegment revenues	9,005	9,951	(946)	(10%)
Total Finance revenues	42,018	31,228	10,790	35%
Cost of Finance revenues (c)	8,740	1,090	(7,650)	N/A
Finance segment gross profit (d)	$ 33,278	$ 30,138	$ 3,140	10%
LOAN PORTFOLIO METRICS:				
Loan Portfolio Balance (e)	$ 644,441	$ 474,433	$ 170,008	36%
Average Loan Portfolio (f)	$ 583,304	$ 433,619	$ 149,685	35%
Credit Facility Borrowings Outstanding (g)	$ 445,000	$ -	$ 445,000	N/A
Average Credit Facility Borrowings (h)	306,448	$ -	$ 306,448	N/A
Finance Revenue Margin (i)	7.2%	7.2%	-%	N/A
Finance Segment Leverage Ratio (j)	69.1%	-%	69.1%	N/A

Legend:

* Represents a change in excess of 100%.

1. (a) Represents interest earned from the Agency segment for secured loans issued with an interest rate below the Finance segment's target rate.
2. (b) Represents facility fees earned from the Agency segment for secured loans where no facility fee is collected from the borrower.
3. (c) In 2014, the cost of Finance revenues includes borrowing costs related to the Finance segment's revolving credit facility, including interest expense, commitment fees, and the amortization of amendment and arrangement fees. In 2013, the cost of Finance revenues includes intersegment borrowing costs related to the funding of the loan portfolio
4. (d) The calculation of the Finance segment's gross profit does not include the impact of salaries and related costs, general and administrative expenses, depreciation and amortization expense, or intercompany charges from Sotheby's global treasury function. However, these items are deducted in the determination of segment income before taxes as reported in Note 4 of Notes to Consolidated Financial Statements.
5. (e) Represents the period ending loan portfolio balance.
6. (f) Represents the average loan portfolio outstanding during the period.
7. (g) Represents the period ending balance of borrowings outstanding under the Finance segment's revolving credit facility.
8. (h) Represents average borrowings outstanding during the period under the Finance segment's revolving credit facility.
9. (i) Represents the annualized rate of return of Finance revenues in relation to the Average Loan Portfolio.
10. (j) Calculated as Credit Facility Borrowings Outstanding divided by the Loan Portfolio Balance.

Sotheby's explains the improvement in the Finance segment's gross profit in 2014 as a result of the continued growth of the client loan portfolio, which is itself a result of a number of factors, including an increase in the demand for art-related financing, the increased ability to fund loans through revolving credit facility borrowings established by the firm, the relatively low nominal interest-rate environment, and the improved global reach of Sotheby's art-financing business. The overall improvement in the Finance segment's gross profit is partially offset by the cost of revolving credit facility borrowings as management began the process of debt-financing the loan portfolio after establishing the Finance segment's dedicated revolving credit facility in February 2014.

[8] Source: Sotheby's 2014 Annual Report

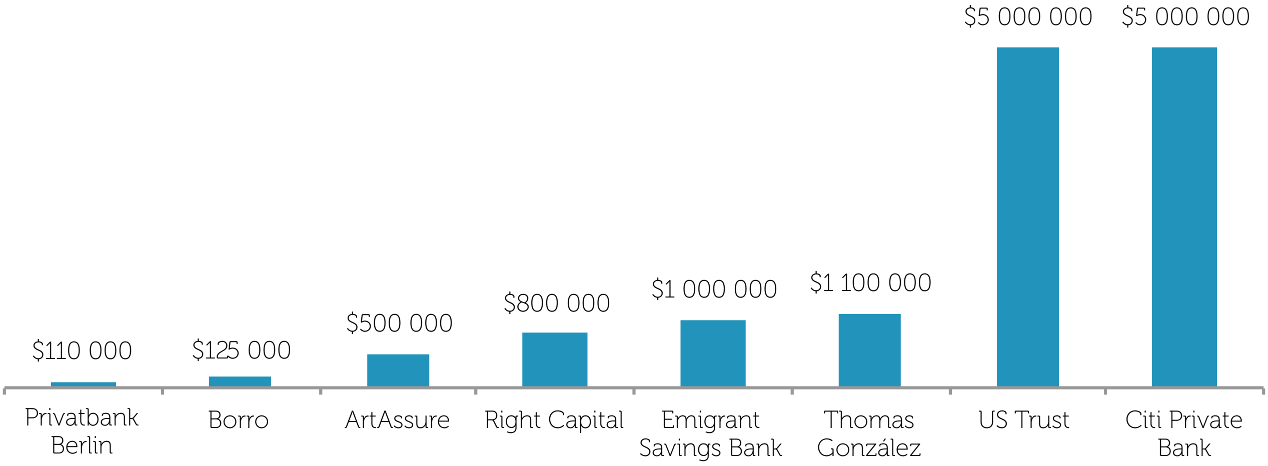
3. Type of Art Loans and Other Market Practices

Skate's assembled data on approximately 40 specialist art-loan providers, art-leasing companies, and the private banks and wealth managers that indicate art loans among their core product offerings (related information is provided in the separate Excel worksheet).

Most of the well-established private banks and wealth managers look at loan sizes of $5 million or more, while specialized art-loan providers consider a far more diverse range, from $100,000, in the case of Borro.com, to $3 million to $5 million, in the case of Art Capital Group and Falcon Group. Those three specialized art-loan providers, along with ArtAssure/Artemus group, issue loans from their own balance sheets, with their sources of financing verified by Skate's. Information on other lenders (including two dozen institutions listed in the Excel spreadsheet provided separately) could not be verified.

Exhibit 8 summarizes the art loans by loan size as provided by various market players.

Exhibit 8: Art Loans by Size



Source: : www.skatepress.com

The emergence of the specialized art-loan providers is a relatively new trend observed over recent years. The art-lending space had been dominated by private banks, wealth managers, and commercial banks that approach art loans as the commercial loan products offered against the general credit of their existing clients, usually with a slight premium to the respective client's interest margin for other secured loans. In the United States, Citibank, US Trust, and Emigrant Bank were the pioneers of the field [9] and developed strong art-lending practices designed more to differentiate those banks' private wealth-management services from the competition than to seek stand-alone art-lending exposure [10]. In Europe, Deutsche Bank and UBS followed but quickly scaled back, with UBS shutting down its art-lending business about five years ago due to complexity in effecting the pledge over art assets in Europe (compared to fairly smooth procedure in the United States).

The specialist art-lending firms went after a different opportunity—that is, high-interest, longer-maturity lending against art assets. Given the addressable market size and relatively low art-loans penetration level, the business took off. The latest example is UK and US-based Borro, which was established in 2009 but entered the explosive growth stage about two years ago, with recent expansion to the U.S. market. The firm raised $19.5 million in February [11] from a number of A-list institutions, including Rocket Internet, Our Crowd, and Canaan Partners (which is also a lead investor in Artsy).

9 Citibank is widely credited as the pioneer of the art-lending industry, commencing its art finance operations in 1979

10 Emigrant Bank is different from its peers as it has the widest palette of art loans available and is looking at art lending as the core business, not as add-on. Emigrant Bank established a dedicated business unit, Emigrant Fine Art Finance, in December 2004

11 For details go to https://www.borro.com/news-detail/Borro-Gets--19-5M-From-Rocket-Internet--OurCrowd-To-Expand-Its-Online-Lending-Platform-For-Luxury-Goods?gid=10180&aid=103201&v=1.3

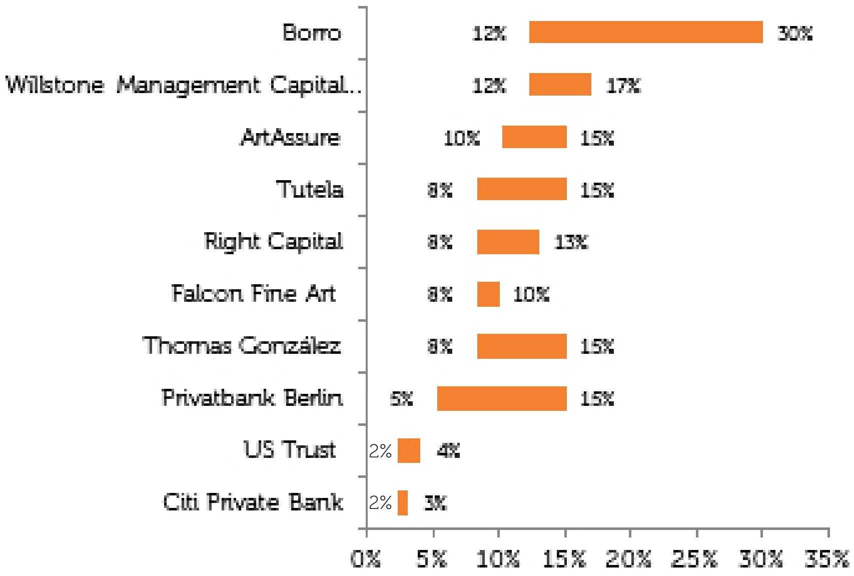
Borro is the fintech play and is focused on relatively low-end loans (in terms of art market) in the range of $5,000 to $10 million ($250,000 on average). The firm does three types of loans: sale advance (with the highest LTV of 70%, but the right to sell the piece), bridge lo¬ans (tenors within 12 months), and term loans (tenors within 18 to 36 months).

Another relatively recent entrant to the art-lending market is British Falcon Group, which has over 20 years of experience in structured finance and asset-based lending and established the art-lending practice last year. Falcon Fine Art offers clients non-recourse loans of one to three years, with the option to extend, financed from the Falcon Group's own balance sheet. Interest rates are typically in the high single digits and loan-to-value ratios (LTV) around 40%.

FFA's art financing falls into three main categories[12]:

- Liquidity – simply allowing a collector to leverage and monetise a work of art (while keeping it in their portfolio) to free up trapped capital for use elsewhere
- Bridge-to-sale – the provision of art-backed financing, allowing a collector to monetise a piece while awaiting its sale
- Additional capital – by raising finance against their existing art, collectors are able to invest in additional work (thus expanding their portfolio) while isolating their collecting from other business activities

Exhibit 9: Art Loans by Interest Rates



Source: www.skatepress.com

New York–based Art Capital Group is perhaps the oldest established pure-play non-bank art lender, and its focus has been on the high-interest term loans of two to three years in tenor, with LTV of no higher than 50%. The firm focuses on higher-end art loans ($4 million on average) and often includes a "success kicker"—the percentage of artwork sale proceeds—in its facilities.

[12] Source: http://www.falconfineart.com/about-falcon-fine-art/

In general, all specialized art-loan providers seek to build exposure to a transaction fee as part of their art-lending package, thus increasing their effective return on art loans issued.

Here are some other typical loan terms on the market:

Citi Private Bank has a minimum size for an art-secured loan set at $5 million. Since loans are typically around 50% of the appraised value of the art, the borrower's collection would need to be worth around $10 million or more. The minimum value of each piece is $200,000 for Citi-issued art loans.

U.K.-based Right Capital, which is about to open an office in Luxembourg, organizes asset-backed, non-recourse loans of between £500,000 and £5 million ($800,000 and $8 million) at interest rates ranging from 8% to 13%. Its typical LTV is 35% to 45%. Right Capital acts as an agent and does not lend from its own balance sheet.

US Trust art-loan terms are nearly identical to those of Citi: http://www.ustrust.com/publish/content/application/pdf/GWMOL/ARDE767A.pdf

Emigrant Bank sets the minimum loan size at $1 million for art and antiques, and also provides loans secured by stringed instruments (those can be as small as $250,000). Historically the maximum loan size was $100 million and LTV was up to 50%, but recently Emigrant Bank closed on more than one transaction larger than $100 million in size, and in certain cases was able to offer LTV over 50%, reflecting the bank's increased comfort with large-ticket lending to AAA-list borrowers.

In general it is worth noting that the Big Three of art lending (Citibank, Emigrant and US Trust) benefitted tremendously from a low interest-rate environment as many of their wealthy customers started to experience liquidity crunch due to very low yield on the fixed-income part of their portfolio. Looking to access cash without selling any of the assets, some of those wealthy individuals discovered art loans as almost free money, turning to low-interest art-secured loans of one to two years tenor to access immediate liquidity, often at rates below 2% per annum.

As described in the Section 2, above, Sotheby's Finance also competes in the market of term loans defined by Sotheby's as "general purpose term loans secured by property not presently intended for sale," and the firm is increasingly more aggressive in the field. Term loans normally have initial maturities of up to two years and typically carry a variable market rate of interest. Sotheby's target LTV ratio, which is defined as the principal loan amount divided by the low auction estimate of the collateral, is 50% or lower. However, loans are also made at an initial LTV ratio higher than 50%. In addition, as a result of the periodic revaluation of loan collateral, the LTV ratio of certain loans may increase above the 50% target due to decreases in the low auction estimates of the collateral.

That said, there is a limit to how far Sotheby's can go with its LTV terms. The eligibility of individual Finance segment loans included in the borrowing base of Sotheby's revolving credit facility requires a minimum LTV of 60%. A material decline in the value of Finance segment loan collateral could result in an increase in the LTV to above 60% for individual loans and could require repayment of a portion of the borrowings associated with such loans. Hence, on average, Sotheby's seeks to keep its LTV below 50%.

Skate's was unable to find evidence of Sotheby's active presence in the term loan market beyond one-year tenors and believes that most of Sotheby's lending portfolio is concentrated on short-term consignment-focused or receivable-financing loans for those of its customers who actively trade with the firm.

4. The Market for Institutional Art Loans

The institutional market for art loans has been very slow to develop so far and is estimated as at least a $2.5 billion market at the moment, based on public or otherwise-verified sources of information. The primary reason for this relatively slow institutional market for art loans is that the owners of large "institutional" collections either do not need cash (such as owners of large corporate collections) or cannot pledge the art assets (such as major museums and foundations).

Art Capital Group was perhaps the first to enter the market for institutional lending by taking revolving credit facilities from several banks, predominantly in the United States, and deploying this capital to individual borrowers, also largely in the United States. There is no public disclosure of size or terms of the financing facilities available to Art Capital Group, but given its high-profile bids during the Detroit bankruptcy case and some art-lending deals underwritten by Art Capital Group and verified by Skate's, our understanding is that Art Capital Group has access to at least $200 million of bank loans designated to finance art deals.

Sotheby's was perhaps the first to establish a similar type of special purpose financing facility and go public about it. The firm established a credit agreement with an international syndicate of lenders led by General Electric Capital Corporation in 2009. This credit agreement provides separate dedicated revolving credit facilities for the Agency segment (Sotheby's speak for its auction business) and the Finance segment. The Credit Agreements have a maturity date of August 22, 2019, and have been upped in size twice since their establishment—from the original $300 million line in 2009 to a $1.3 billion extension made in June 2015. Detailed terms of Sotheby's Credit Agreement are listed in the Schedule A of this report.

Skate's estimates that there are at least $1 billion of other institutional art-loan facilities issued, including no less than $300 million revolving loan facilities issued to Asher Edelman's art-leasing firm Artemus (with the ability to do art loans through ArtAssure subsidiary), $200 million to Chinese-listed auction house Poly, no less than $150 million to Borro.com, no less than $50 million to Falcon, and at least $15 million to German-listed dealer Weng Fine Art.

Art-finance companies (lenders and leasing firms) and listed or otherwise-transparent art-trade organizations are the primary borrowers under institutional art-loan facilities and we expect this trend to continue with more auction houses and significant art dealers getting under competitive pressure to access more debt financing to successfully compete in increasingly capital-intensive art trade.

Schedule A

Terms of Sotheby's Credit Agreement

The Agency Credit Agreement provides for an asset-based revolving credit facility, subject to a borrowing base, the proceeds of which may be used primarily for the working capital and other general corporate needs of the Agency segment, as well as for Principal segment inventory investments. The Finance Credit Agreement provides for an asset-based revolving credit facility, subject to a borrowing base, the proceeds of which may be used primarily for the working capital and other general corporate needs of the Finance segment, including the funding of client loans. The Credit Agreements allow Sotheby's to transfer the proceeds of borrowings under each of the revolving credit facilities between the Agency and Finance segments.

The maximum aggregate borrowing capacity of the Credit Agreements is $850 million, with $300 million committed to the Agency segment and $550 million committed to the Finance segment. The borrowing capacity of the Credit Agreements includes a $50 million incremental revolving credit facility with higher advance rates against certain assets and higher commitment and borrowing costs (the "Incremental Facility"). The Incremental Facility has a maturity date of August 21, 2015, which may be extended for an additional 365 days on an annual basis with the consent of the lenders who agree to extend their commitments under the Incremental Facility.

The Credit Agreements have a sub-limit of $200 million for borrowings in the U.K. and Hong Kong (with up to $150 million available for foreign borrowings under the Finance Credit Agreement, and up to $50 million available for foreign borrowings under the Agency Credit Agreement), and include an accordion feature, which allows Sotheby's to request an increase to the combined borrowing capacity of the Credit Agreements until February 23, 2019, by an amount not to exceed $100 million in the aggregate.

The borrowing base under the Agency Credit Agreement is determined by a calculation that is primarily based upon a percentage of the carrying values of certain auction guarantee advances, a percentage of the carrying value of certain inventory, a percentage of the carrying value of certain extended payment term receivables arising from auction or private sale transactions, and the fair value of certain of Sotheby's trademarks. The borrowing base under the Finance Credit Agreement is determined by a calculation that is primarily based upon a percentage of the carrying values of certain loans in the Finance segment loan portfolio and the fair value of certain of Sotheby's trademarks.

The obligations under the Credit Agreements are cross-guaranteed and cross-collateralized. Domestic borrowers are jointly and severally liable for all obligations under the Credit Agreements and, subject to certain limitations, borrowers in the U.K. and Sotheby's Hong Kong Limited, are jointly and severally liable for all obligations of the foreign borrowers under the Credit Agreements. In addition, the obligations of the borrowers under the Credit Agreements are guaranteed by certain of their subsidiaries. Sotheby's obligations under the Credit Agreements are secured by liens on all or substantially all of the personal property of the entities that are borrowers and guarantors under the Credit Agreements.

The Credit Agreements contain certain customary affirmative and negative covenants including, but not limited to, limitations on capital expenditures, a $600 million limitation on net outstanding auction guarantees, and limitations on the use of proceeds from borrowings under the Credit Agreements. However, the Credit Agreements do not limit dividend payments and Common Stock repurchases provided that, both before and after giving effect thereto: (i) there are no events of default, (ii) the aggregate available borrowing capacity equals or exceeds $100 million, and (iii) the Liquidity Amount, as defined in the Credit Agreements, equals or exceeds $200 million. The Credit Agreements also contain certain financial covenants, which are only applicable during certain defined compliance periods. These financial covenants were not applicable for the twelve-month period ended December 31, 2014.

Borrowing costs related to the Finance Credit Agreement, which include interest of $7.7 million and fee amortization of $1 million, are reflected in the Consolidated Income Statements as the cost of Finance revenues. For the year ended December 31, 2014, the weighted average cost of borrowings related to the Finance Credit Agreement was approximately 2.9%.

The Credit Agreements contain certain customary affirmative and negative covenants including, but not limited to, limitations on capital expenditures, a $600 million limitation on net outstanding auction guarantees, and limitations on the use of proceeds from borrowings under the Credit Agreements. However, the Credit Agreements do not limit dividend payments and Common Stock repurchases provided that, both before and after giving effect thereto: (i) there are no events of default, (ii) the aggregate available borrowing capacity equals or exceeds $100 million, and (iii) the Liquidity Amount, as defined in the Credit Agreements, equals or exceeds $200 million. The Credit Agreements also contain certain financial covenants, which are only applicable during certain defined compliance periods. These financial covenants were not applicable for the twelve-month period ended December 31, 2014.

Borrowing costs related to the Finance Credit Agreement, which include interest of $7.7 million and fee amortization of $1 million, are reflected in the Consolidated Income Statements as the cost of Finance revenues. For the year ended December 31, 2014, the weighted average cost of borrowings related to the Finance Credit Agreement was approximately 2.9%.

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