APPRAISAL REPORT
of
200,000 Square Feet of Air Rights
Generated by Hudson River Park Pier 40
For Use by 550 Washington Street
New York, New York

SUBMITTED TO

Hudson River Park Trust
c/o Judith M. Gallent, Esq.
Bryan Cave LLP
1290 Avenue of the Americas
New York, New York 10104

APPRAISERS AND PLANNERS INC

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April 29, 2016

Hudson River Park Trust
c/o Judith M. Gallent, Esq.
Bryan Cave LLP
1290 Avenue of the Americas
New York, New York 10104

**Re: 200,000 Square Feet of Air Rights
Generated by Hudson River Park Pier 40
Block 656, Lot 1
New York, New York**

**For Use by 550 Washington Street
Block 596, Lot 1
New York, New York**

Dear Ms. Gallent:

In accordance with your request, we have prepared an appraisal report of the above captioned 200,000 square feet of air rights, henceforth referred to as the “subject property air rights.” This report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice and Code of Ethics of the Appraisal Institute.

The air rights that are the subject of this report are those air rights generated by Pier 40, legally identified as Block 656 Lot 1 on the NYC Assessor’s map, and available to be transferred to those eligible properties located along West Street including 550 Washington Street. The client of this report, the Hudson River Park Trust (HRPT), may enter into negotiations to transfer air rights from Pier 40 to 550 Washington Street. Based on our review of the eligible receiving sites under the Hudson River Park Act, as later detailed within this appraisal, only 550 Washington Street would be eligible to receive a transfer of air rights. Therefore, this appraisal considers an analysis whereby the air rights generated by Pier 40 are sold to 550 Washington Street for use in enhancing the proposed development.

The receiving site at 550 Washington Street, legally identified as Block 596, Lot 1, and located in Hudson Square, Manhattan, New York can legally be improved with approximately 1.51 million square feet of zoning floor area based solely on a proposed rezoning map change and certain other approvals. However, plans call for development with approximately 1.71 million square feet of zoning floor area, consisting of residential condominiums, market rate residential rentals, affordable housing, affordable senior housing, commercial/retail and a hotel.

There will be a shortfall of 200,000 square feet on the zoning lot which is to be provided to the site via transfer of air rights from Pier 40 in conjunction with a proposed amendment to the text of the zoning resolution and approval of a special permit. Moreover, we have been informed that the proposed rezoning map change, approval of a special permit, and certain other actions, will be treated together as a single set of approvals, and that these approvals may not proceed without the purchase of the Pier 40 air rights.

The rezoning and special permit will require that the proposed development include both a senior affordable component and a low-income affordable housing component. There will be no other requirements as to what is developed with respect to residential and/or commercial uses. Therefore our value of the fee development rights considers the pro rata share of the required affordable components only, with the remaining development rights valued as per their highest and best use. We have valued the remainder of the development rights based on their highest and best use, which we have determined to be residential condominium. As a result, the highest and best use of the market rate residential space is different than from what is planned with respect to condominium development vs market rate rental development.

It is noted that the developer's planned development, inclusive of a rental component was designed to take advantage of the now-expired 421-a Partial-Tax Abatement Program ("421-a"). A rental component is not a requirement under the project's ULURP application, and it has been determined from the analyses contained in this report that without 421-a, the highest and best use of the market rate components of the development are solely for condominium development.

Valuation Methodology

The appraisal of the subject property air rights considers the blended residential uses proposed for the receiving site's fee development rights, solely giving weight to residential uses located on the North and Center locations, to be rezoned C6-4 and C6-3, respectively. The South location is to be rezoned an M1-5 zone, and no residential will be permitted. Because the project site (including North, Center and South) comprises a single zoning lot, ZFA can be shifted among uses and locations, and the air rights can likewise be applied to any location and use within the zoning lot. The residential zoning floor area and space type generated by the North and Center sites is as follows:

Use	Total SF	% of Total SF
Market Rate Residential (Condo)	960,300	74.50%
Senior Affordable	110,000	8.53%
Affordable	218,700	16.97%
Total Residential	**1,289,000**	**100%**

The value of air rights to be transferred is based upon two factors: (1) the value of the underlying fee interest of the proposed development receiving site at 550 Washington Street, after considering the highest and best use of the planned uses subject to the affordable requirements for the proposed development, and (2) the ratio between the sales prices of air rights and the underlying fee interest for comparable air rights transactions that we have observed in the market. The applicable ratio for air rights transfers in NYC is generally less than 1.00 both because the market for unused air rights is typically constrained, often to a single purchaser, and because the air rights do not include any additional land to enlarge the development footprint and thereby allow greater flexibility in configuring the built space. The value of air rights is therefore generally less than fee value.

The addenda to this report contains a valuation based on a hypothetical condition in which the now-expired 421-a program is in place as of the appraisal date. The hypothetical valuation also considers the proposed development with respect to a market rate rental component, rather than all condominiums.

Market value is defined as the most probable price as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after a reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest and assuming neither is under undue duress.

The intended user of this appraisal is the client, The Hudson River Park Trust c/o Judith M. Gallent, Esq. The intended use of the appraisal is to provide information in connection with a potential disposition of air rights generated by Pier 40 of the Hudson River Park. The interest appraised is the fee simple interest, and the effective date of the appraisal is April 1, 2016.

Given the nature of this assignment, a hypothetical condition and a series of extraordinary assumptions, described below, are necessary to develop credible assignment results. The hypothetical condition employed in this valuation is that the proposed rezoning and special permit have been granted through a successful ULURP as of the effective date of value of this appraisal with the receiving site incorporating the air rights purchased from HRPT into the development. Therefore, our analysis proceeds in two parts: first consideration of the development rights as part of the fee parcel, and second the market relationship, expressed as a ratio, between the value of the air rights and the value of the underlying fee parcel. The market value of subject property air rights equals the value of the allocable portion of the fee interest multiplied by this ratio.

A hypothetical condition is defined as, "That which is contrary to what exists, but is supposed for the purpose of the analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis." [1] The hypothetical condition is necessary to produce credible assignment results.

An extraordinary assumption is defined as, "An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal,

[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th Ed., (Illinois: Appraisal Institute, 2010), page 97

or economic characteristics of the subject property; or about condition external to the property such as market conditions or trends; or about the integrity of data used in an analysis."[2]

The extraordinary assumptions made in this appraisal are summarized as follows:

1. That the outline of North and Center of the planned development will be generally comprised of the following Zoning Floor Area (ZFA):
   - 960,300 square feet of market rate residential development
   - 110,000 square feet of affordable senior housing rentals
   - 218,700 square feet of affordable residential rentals

2. That, as per the client based on information provided by NYCDCP, the affordable components will not be eligible to generate off-site Inclusionary Housing bonuses to be sold to qualifying sites, which departs from prior programs for affordable housing development in New York City.

3. That the developer will elect to utilize 60% Area Median Income (AMI) for the Senior Affordable Rental Apartment (SARA) program, in order for this component of the project to be eligible for 4% Low Income Housing Tax Credits (LIHTC). It was reported by HPD that 80% AMI is the maximum AMI requirement for the SARA component.

If any of the extraordinary assumptions are found to be materially different than what is assumed for this assignment, the appraisal may require revision.

The following report sets forth all available data and methodology utilized in arriving at our value conclusion and should be read in its entirety. The appraisal is subject to the Underlying Assumptions and Contingent Conditions set forth on the following pages.

After an analysis of all relevant data and based upon conclusions and the documentation presented within the following report, it is our opinion that the market value of the fee simple interest in the blended-use development rights generated by Block 656, Lot 1; known as the Pier 40 of the Hudson River Park and to be transferred to 550 Washington Street, as of April 1, 2016, was:

Use	Total SF	% of Total SF	Market Value $/ PSF	Component PSF[1]
Market Rate Residential (Condo)	960,300	74.50%	$825	**$615**
Senior Affordable	110,000	8.53%	-$58	**-$5**
Affordable	218,700	16.97%	-$208	**-$35**
Total Residential	**1,289,000**	**100%**	**Total PSF**	**$574**
Value of 200,000 Fee Development Rights				$114,892,866
Rounded				**$114,900,000**

[1]Percentage of total square foot multiplied by market value PSF foot equals component value PSF

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[2] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th Ed., (Illinois: Appraisal Institute, 2010), page 73

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The senior affordable and the low-income affordable components produce negative values, indicating that development of these components costs more to develop than their appraised value indicates. As part of the ULURP process NYCDCP has made it a requirement that these components be constructed, as opposed to donating the land, which is sometimes observed for mixed-rate components in NYC. As a result, the development of these components, or the developer's requirement to cause these components to be developed, is reflected in the blended value.

In addition, after an analysis of all relevant data and based upon the conclusions and documentation presented within the following report, considering the limited market of both granting and eligible parcels for Pier 40 air rights, that yields an applicable ratio of 65%, it is our opinion that the market value of the 200,000 square feet of subject air rights as of April 1, 2016, was:

Fee Development Value PSF	$574
Air Rights as % of Land	65.0%
Air Rights Value	$373
Sq. Ft. of Air Rights	200,000
Value of 200,000 Air Rights	$74,676,629
Rounded	**$74,700,000**

SEVENTY FOUR MILLION SEVEN HUNDRED THOUSAND DOLLARS ($74,700,000)

The following report sets forth all available data and methodology utilized in arriving at our value conclusion and should be read in its entirety. The appraisal is subject to the Underlying Assumptions and Contingent Conditions set forth on the following pages.

Respectfully submitted,

Sharon Y. Locatell, MAI, CRE, MRICS
State of New York Certified General Appraiser
I.D. #46000007350

Adam L. Wald, MAI
State of New York Certified General Appraiser
I.D. # 46000050707

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View of the receiving site from atop Pier 40 across West Street

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of
200,000 Square Feet of Air Rights
Generated by Hudson River Park Pier 40
Block 656, Lot 1

For Use by 550 Washington Street
Block 596, Lot 1
New York, New York

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UNDERLYING ASSUMPTIONS AND CONTINGENT CONDITIONS

For the purpose of this appraisal, except as otherwise stated in the appraisal report, it is assumed:

1. That the legal description is correct.
2. That the title to the property is legally sufficient.
3. That there are no encumbrances or defects of title.
4. That the property is free and clear of all liens.
5. That the property will be efficiently managed and properly maintained.
6. That there are no structural conditions which are not apparent.
7. That there are no sub-surface soil conditions which would cause extraordinary development costs.

The appraisal is made subject to the following contingent conditions:

1. That no liability is assumed because of inaccuracies or errors in information furnished by others.

2. That no liability is assumed as a result of matters of legal character affecting the property, such as title defects, encroachments, liens, overlapping boundaries, party wall agreements, and easements.

3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser, and the appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. Except as the otherwise stated in the appraisal report, the value indication is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

4. This appraisal is to be used in whole and not in part. The appraisal is invalid if used in part.

5. That no survey, structural or sub-surface soil investigation was made of the property by the appraiser.

6. The appraiser herein by reason of this appraisal is not required to give testimony in court with reference to the subject property unless otherwise previously arranged.

7. Possession of this report, or copy thereof, does not carry with it the right of publication, nor may it be used for any purpose by anyone but the applicant without the previous written consent of the appraiser.

8. This appraisal was made for the purpose stated and should not be used for any unrelated purpose.

9. Each finding, prediction, assumption or conclusion contained in the appraisal report is the appraiser's personal opinion and is not an assurance that an event will or will not occur. Except as otherwise stated in the appraisal report, we assume that there are no conditions relating to the real estate, sub-soil or structures located on the real estate which would affect appraiser's analyses, opinions or conclusions with respect to the real estate that are not apparent.

10. Appraisers and Planners, Inc. has not made a specific compliance survey and analysis of the property to determine whether or not it is in conformity with the various detailed requirements of the Americans with Disabilities Act (ADA, effective January 16, 1992). It is possible that a compliance survey of the property and a detailed analysis of the ADA requirements may reveal that the property is not in compliance with one or more requirements. If so, this fact might have a negative effect upon the value of the property. Appraisers and Planners, Inc. is not an ADA expert and has no direct evidence relating to this issue. This report does not reflect possible non-compliance with the ADA or its potential negative effect on the concluded value herein.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Identification:	200,000 Square Feet of Air Rights Generating Site –Pier 40 of the Hudson River Park, New York, New York Receiving Site – 550 Washington Street New York, New York
Tax Identification:	Block 656, Lot 1 – Pier 40 of the Hudson River Park, grantor of Air Rights Block 596, Lot 1 – 550 Washington Street, receiver of Air Rights
Owner:	The generating site is the Hudson River Park c/o the Hudson River Park Trust. The receiving site, 550 Washington Street, is owned by SJC 33 Owner 2015 LLC c/o Atlas Capital Group.
Location and Property Description 550 Washington Street, North and Center:	North – Whole-block parcel bounded northerly by Clarkston Street, southerly by West Houston Street, easterly by Washington Street and westerly by West Street. Center – Block-front parcel bounded northerly by West Houston Street, easterly by Washington Street and westerly by West Street. North Site Area, proposed: 55,020 square feet Center Site Area, proposed: 100,730 square feet
Interest Appraised:	The interest appraised is the fee simple interest in 200,000 square feet of air rights.
Purpose of Appraisal:	The purpose of the appraisal is to render an opinion of the market value of the fee simple interest in 200,000 square feet of air rights.
Intended Use of Appraisal:	The intended use of the appraisal is to provide information in connection with a potential disposition of air rights generated by the Hudson River Park.

Zoning: Current: Split-zoned M1-5 (North) and M2-4 (Center)

Proposed: In conjunction with the mixed-use development discussed within this appraisal. FAR ranges from 5.0 for commercial uses on South to 10.0 for mixed-use on North, as shown in the chart below:

Location	FAR (proposed)	Proposed Zoning	Land Area	ZFA	Planned	Shortfall
North	10.00	C6-4	55,020	550,200	660,000	109,800
Center	7.52	C6-3	100,730	757,490	789,000	31,510
South	5.00	M1-5	40,660	203,300	262,000	58,700
			196,410	1,510,990	1,711,000	200,000

Effective Date of Appraisal: April 1, 2016

Market Value of
Fee Development Rights **$114,900,000**
Subject Air Rights **$74,700,000**

Given the nature of this assignment, a hypothetical condition and a series of extraordinary assumptions, described below, are necessary to develop credible assignment results. The hypothetical condition employed in this valuation is that the proposed rezoning and special permit have been granted through a successful ULURP as of the effective date of value of this appraisal with the receiving site incorporating the air rights purchased from HRPT into the development. Therefore, our analysis proceeds in two parts: first consideration of the development rights as part of the fee parcel, and second the market relationship, expressed as a ratio, between the value of the air rights and the value of the underlying fee parcel. The market value of subject property air rights equals the value of the allocable portion of the fee interest multiplied by this ratio.

A hypothetical condition is defined as, “That which is contrary to what exists, but is supposed for the purpose of the analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis.” The hypothetical condition is necessary to produce credible assignment results.

An extraordinary assumption is defined as, “An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about condition external to the property such as market conditions or trends; or about the integrity of data used in an analysis.”

The extraordinary assumptions made in this appraisal are summarized as follows:

1. That the outline of North and Center of the planned development will be generally comprised of the following Zoning Floor Area (ZFA):
   - 960,300 square feet of market rate residential development
   - 110,000 square feet of affordable senior housing rentals
   - 218,700 square feet of affordable residential rentals

2. That, as per the client based on information provided by NYCDCP, the affordable components will not be eligible to generate off-site Inclusionary Housing bonuses to be sold to qualifying sites, which departs from prior programs for affordable housing development in New York City.

3. That the developer will elect to utilize 60% Area Median Income (AMI) for the Senior Affordable Rental Apartment (SARA) program, in order for this component of the project to be eligible for 4% Low Income Housing Tax Credits (LIHTC). It was reported by HPD that 80% AMI is the maximum AMI requirement for the SARA component.

If any of the extraordinary assumptions are found to be materially different than what is assumed for this assignment, the appraisal may require revision.

SCOPE OF THE APPRAISAL

Appraisers and Planners, Inc. has been retained by The Hudson River Park Trust c/o Judith M. Gallent, Esq., to prepare an appraisal of the fee simple interest in 200,000 square feet of air rights generated by Pier 40 of the Hudson River Park.

This report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice and Code of Ethics of the Appraisal Institute. To accomplish this assignment, the following scope of services was undertaken:

- Inspected the Hudson River Park in the vicinity of the Hudson Square neighborhood, and made an exterior inspection of 550 Washington Street.

- Analyzed demographic trends in the vicinity of the subject property: Regional, area and neighborhood data are based on published sources, the files and library of Appraisers and Planners, Inc. and our discussions with knowledgeable sources.

- Analyzed current zoning regulations applicable to the subject property and all comparable development site sales: Zoning information is based upon the City of New York Zoning Resolution. We have also analyzed the proposed rezoning of the receiving site in conjunction with mixed-use development proposed for the site.

- Developed an opinion of highest and best use for the receiving site in conformity with NYC's space program requirements for low-income affordable housing, and senior affordable housing.

- For the addendum to the report, considered an alternate valuation scenario in which the project is developed in accordance with the developer's proposed plans, and the 421-a program is reinstated. The potential tax savings generated by a 421-a exemption to be applied to the market rate rental and low-income affordable rental components were analyzed.

- Conducted a study of development land market conditions in the subject market area: Market information is based upon published studies, sales information sources such as PropertyShark and CoStar, NYC Department of Buildings, the files and library of Appraisers and Planners, Inc. and our discussions with active participants and lenders in the marketplace.

- Considered all approaches to value with sole reliance placed upon the Sales Comparison Approach in the valuation of the subject property's condominium component. A residual land technique through an income approach was developed for the senior low-income affordable units and low-income affordable units.

- Provided a value conclusion for the development rights based upon the data and methodology set forth within the appraisal report. Final market value conclusions are based on the weighted average of the subject development rights considering the blended residential uses comprising the highest and best uses proposed for the site.
- Analyzed transactions of blocks of air rights.
- Analyzed the percentage relationship between the value of fee development sites and air rights transactions in understanding the relationship between fee development site transactions and air rights sales.
- Provided a value conclusion for the subject air rights based upon the data and methodology set forth within the appraisal report.

IDENTIFICATION OF SUBJECT PROPERTY

The generating site of the subject air rights is the Hudson River Park and the proposed receiving site is the multi-phase development legally identified as Block 596, Lot 1 on the City of New York Tax Assessment Maps. North Site is the whole-block parcel bounded northerly by Clarkston Street, southerly by West Houston Street, easterly by Washington Street and westerly by West Street. Center Site is a block-front parcel bounded northerly by West Houston Street, easterly by Washington Street and westerly by West Street.

PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to render an opinion of the market value of the fee simple interest in 200,000 square feet of subject air rights.

INTENDED USE OF THE APPRAISAL

The intended use of the appraisal is to provide information in connection with a potential disposition of air rights generated by the Hudson River Park.

EFFECTIVE APPRAISAL DATE

The effective appraisal date is April 1, 2016.

INTENDED USER

The intended user of the report is the The Hudson River Park Trust c/o Judith M. Gallent, Esq., the client.

PROPERTY RIGHTS APPRAISED

The property rights being appraised are those of the Fee Simple Estate. According to the *Dictionary of Real Estate Appraisal, Fifth Edition (2010)*, a publication of the *Appraisal Institute*, the interests are defined as follows:

Fee Simple Estate is defined as:

> "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

OWNERSHIP HISTORY

Records indicate ownership of the receiving site, 550 Washington Street, is held by SJC 33 Owner 2015 LLC c/o Atlas Capital Group (Atlas and Westbrook). The property has been acquired in phases over the past number of years, with the most recent transfer occurring in August 2015. This transaction, reportedly, represents a 50% partial interest transaction and the price has not been confirmed by either party. A December 28, 2012 acquisition of 50.1% of the property was transacted for an indicated purchase price of $270,956,000, based on transfer tax paid, and translates into a full value of $540,829,842 per the RP-5217 NYS Real Property Transfer Tax Report attached to the deed filed on New York City's Automated City Register Information System (ACRIS).

EXPOSURE TIME

Exposure time is defined as:

> *"The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a current estimate based upon an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal."*[3]

In estimating the appropriate exposure time applicable to the interest in the subject property we have considered marketing periods for similar type properties based on a survey of property listings as well as sales data and interviews with market participants. In addition, when the information was available, we have considered the exposure time of the development site sales contained within this appraisal. It is our opinion that a reasonable exposure time applicable to the interest in the subject property as of the effective appraisal date is six (6) to nine (9) months.

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[3] The Dictionary of Real Estate Appraisal, 5th Ed., (Illinois: Appraisal Institute, 2010), page 73

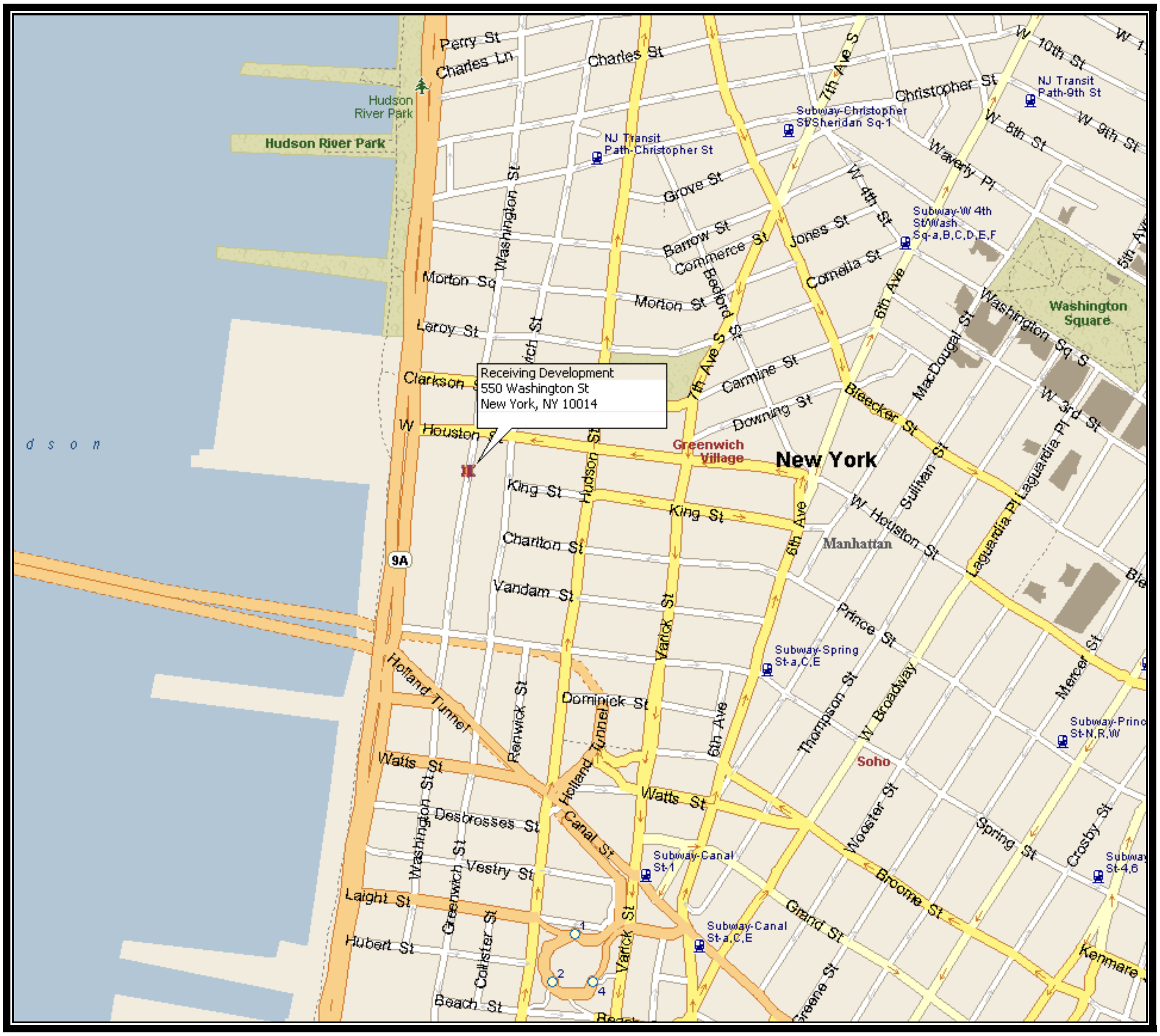
DEFINITION OF MARKET VALUE

Market value is defined as follows:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale." [4]

[4] Appraisal Institute, The Appraisal of Real Estate, 13th Edition, (Illinois: Appraisal Institute, 2008), page 24-25.


Receiving Development
550 Washington St
New York, NY 10014
Hudson River Park
Perry St
Charles Ln
Charles St
Christopher St
Washington St
Grove St
Barrow St
Commerce St
Morton Sq
Morton St
Leroy St
Clarkson St
W Houston St
King St
Charlton St
Vandam St
Hudson St
Varick St
7th Ave S
6th Ave
Carmine St
Downing St
Bleecker St
Greenwich Village
New York
Manhattan
Washington Square
Washington Sq S
W 4th St
Jones St
Cornelia St
MacDougal St
Sullivan St
Thompson St
W Broadway
Laguardia Pl
W 3rd St
Mercer St
Prince St
Spring St
Broome St
Grand St
Wooster St
Greene St
Crosby St
Kenmare St
Soho
Dominick St
Renwick St
Holland Tunnel
Watts St
Desbrosses St
Vestry St
Laight St
Hubert St
Beach St
Canal St
Greenwich St
Collister St
Waverly Pl
W 8th St
W 9th St
W 10th St
NJ Transit Path-Christopher St
NJ Transit Path-9th St
Subway-Christopher St/Sheridan Sq-1
Subway-W 4th St/Wash Sq-a,B,C,D,E,F
Subway-Spring St-a,C,E
Subway-Canal St-1
Subway-Canal St-a,C,E
9A

Area Map

REGIONAL ANALYSIS

Location

The subject is located in New York City, the largest city in the United States and one of the largest in the world. It is located on New York Bay at the mouth of the Hudson River and is comprised of five boroughs, each coextensive with a county. Manhattan (New York Co.) is the heart of the City and is an island; The Bronx (Bronx Co.) is northeast of Manhattan. Separated by the Harlem River, it is the only borough that is not an island or part of an island; Queens (Queens Co.) is located on Long Island east of Manhattan across the East River and extends south to the Atlantic Ocean; Brooklyn (Kings Co.) is the southwest tip of Long Island and is also positioned on the East River; and Staten Island (Richmond Co.) is an island southwest of Manhattan separated by the Upper Bay.

There are four interactive forces that affect the market value of real property: social forces, economic circumstances, physical and environmental conditions and governmental controls. The constantly changing nature of these factors determines the supply and demand for real property which, in turn, determines market value. This discussion examines those economic trends in the regional area which influence and create value in real estate. The following analysis examines key components of the national and the New York City economy:

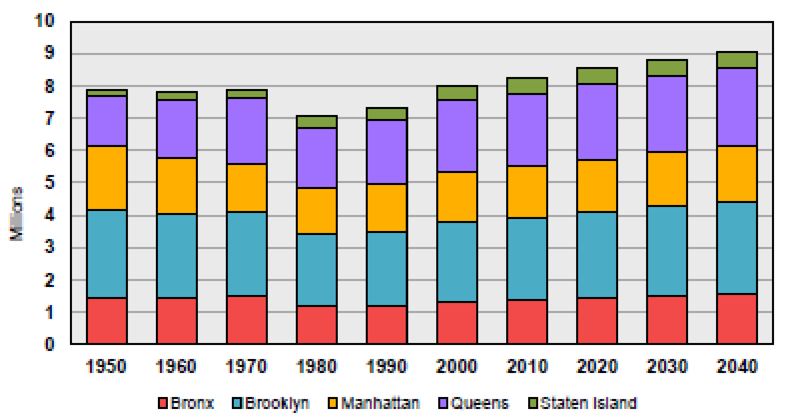
Social Forces

Social forces are primarily based on demographic characteristics and trends within an area, including but not limited to population and household formation. A review of these demographic trends is necessary in order to determine the basic demand for real property in the area.

Population

The New York metropolitan region, also known as Metropolitan New York, Greater New York, or the Tri-State area, is the most populous metropolitan region in the United States. The New York metropolitan area is defined by the U.S. Office of Management and Budget as the New York, Northern New Jersey, Long Island, and New York-New Jersey-Pennsylvania Metropolitan Statistical Area (MSA). As of the 2014 census estimate, Metropolitan New York ranked first of 366 MSAs across the nation with a total recorded population of 18,897,109. New York City is by far the most densely populated region in New York State and the Tri-State area. In a December 2013 report, New York City's Department of City Planning issued recent and projected population data through 2040. The report entitled "New York City Population Projections by Age/Sex & Borough, 2010-2040" estimates changes over the next 30 years based on the 2010 census data with 2013 Census Estimate updates. Findings are summarized in the following charts and pages:

Figure 2: Total Population, New York City and Boroughs, 1950-2040



Unadjusted decennial census data, 1950-2000; DCP adjusted decennial census data 2010; DCP Population Projections, 2020-2040

In general, the City experienced steady population growth over the past 20 years. According to the U.S. Census Bureau, New York City's population was 8,405,837 as of July 2013. That is a 2.8% increase over the 2010 census and nearly a million (976,893) more people or a 13.1% increase over 1992. Growth over the previous 20 years came after a 10.4% decrease in population during the 1970s and 1980s resulting primarily from years of suburban flight, high crime and a city near bankruptcy.

The 2010 census revealed moderate population growth of 2.2% from 2000 through 2010. New York State reported the same growth rate (2.2%) during the same period. Changes in population among the five boroughs of New York City have varied during this period. Staten Island and the Bronx boroughs experienced the largest increases in population, followed by Manhattan and Brooklyn boroughs. The population in Queens remained relatively stable with no significant change.

Table 1: Projected Total New York City Population by Borough, 2010-2040

					CHANGE							
	2010	2020	2030	2040	2010-2020		2020-2030		2030-2040		2010-2040	
					Number	Percent	Number	Percent	Number	Percent	Number	Percent
NYC	8,242,624	8,550,971	8,821,027	9,025,145	308,347	3.7	270,056	3.2	204,118	2.3	782,521	9.5
Bronx	1,385,108	1,446,788	1,518,998	1,579,245	61,680	4.5	72,210	5.0	60,247	4.0	194,137	14.0
Brooklyn	2,552,911	2,648,452	2,754,009	2,840,525	95,541	3.7	105,557	4.0	86,516	3.1	287,614	11.3
Manhattan	1,585,873	1,638,281	1,676,720	1,691,617	52,408	3.3	38,439	2.3	14,897	0.9	105,744	6.7
Queens	2,250,002	2,330,295	2,373,551	2,412,649	80,293	3.6	43,256	1.9	39,098	1.6	162,647	7.2
Staten Island	468,730	487,155	497,749	501,109	18,425	3.9	10,594	2.2	3,360	0.7	32,379	6.9

The City's population is projected to increase to approximately 8.55 million people by 2020, equating to 3.7% growth from 2010-2020. During that time, the Bronx's population is expected to experience the largest growth at 4.5%, followed by Staten Island at 3.9%, Brooklyn at 3.7%, Queens at 3.6% and finally Manhattan at 3.3%. By 2040, the City's population is projected to grow by a total of 9.5%, adding close to another 800,000 people.

Households

Household data inclusive of the number of households and average household size are summarized as follows:

Household Statistics

Area	2000	2010	% Change	Fall 2015	% Change from 2010	% Change from 2000	5 Year Projection 2020	% Change '15 - '20
United States	105,480,101	116,716,292	10.7%	120,746,349	3.5%	14.5%	125,477,562	3.9%
New York State	7,056,860	7,317,755	3.7%	7,476,368	2.2%	5.9%	7,650,474	2.3%
New York City	3,017,990	3,109,784	3.0%	3,213,976	3.4%	6.5%	3,339,837	3.9%
Bronx	463,234	483,449	4.4%	497,306	2.9%	7.4%	514,324	3.4%
Brooklyn	880,992	916,856	4.1%	954,311	4.1%	8.3%	999,733	4.8%
Manhattan	738,597	763,846	3.4%	788,620	3.2%	6.8%	815,277	3.4%
Queens	779,438	780,117	0.1%	805,511	3.3%	3.3%	838,967	4.2%
Staten Island	155,729	165,516	6.3%	168,228	1.6%	8.0%	171,536	2.0%

Source: ESRI

Demographic statistics indicate household growth in the decade from 2000 through 2010 in New York City; increases in the number of households range from 0.1% in Queens to 6.3% in Staten Island in that time period. According to Environmental Systems Research Institute, Inc. (*Esri*), recent data notes that all five boroughs experienced increases in household formation since the 2010 census. Five year projections indicate that the increasing trend in household formation will continue through the year 2020 in the City. New York City is projected to increase household formation at a rate of 3.9%, or by 125,861 over the next five years. By 2020, Brooklyn and Queens are expected to experience the most growth in households by 4.8% and 4.2%, respectively.

The recent data shows average household size in New York City at 2.6 persons. Average household size in Manhattan is the lowest at 2.1 persons per household. The highest averages are in the Bronx and Queens, both at 2.9 persons per household followed by 2.8 in Staten Island and 2.7 in Brooklyn. Five year projections of average household sizes in the boroughs are anticipated to remain the same through 2020.

Economic Forces

Economic forces which shape demand for real estate within the region and local area include cyclical recessions and resulting changes in employment, income levels, and dynamics within the individual real estate markets of Residential, Office and Retail. Data within this section has been obtained from the demographic research firm; *Esri*, the U.S. Bureau of Labor Statistics, local real estate sources and from our own independent research.

New York City is a vibrant center for commerce and business and one of the three "world cities" (along with London and Tokyo) that control world finance. New York is also a major center for television broadcasting, news media, internet, book publishing, advertising, and other facets of mass communications. The strength of the City's tourism industry is one of the reasons the City was less impacted than other MSAs by the recent recession. Over the past six years, New York City continued to experience record-breaking tourism with 2015 seeing a 58.3 million visitors. More recently, the TAMI industry (technology, advertising, media and information) has been a vibrant and growing sector of the economy. And in the past 5-years, manufacturing accounted for a significant increase in the City's employment. Overall, the City benefits from a diverse economy which continually adapts to economic trends.

Economic Cycles

Over the past 20 years, the City along with the nation has gone through 3 recessions: the recession of the early 1990s, the tech-bubble recession commencing in 2001, and the financial crisis-led recession of 2007. The most recent national recession which began in December 2007 and ended in June 2009 led to a total of 92,200 jobs lost in New York City. As is true of earlier recessions, the City has shown resiliency in the face of this sharp employment correction. According to the Department of Labor, New York City experienced consecutive annual job growth from 2010 through 2015 with significant job growth experienced in the years 2014 and 2015.

Employment

Year end 2015 annual employment data reveals a total annual gain in employment of approximately 119,000 jobs, or an increase of 2.9% over 2014. All employment sectors recorded annual gains in employment in 2015. The Goods Producing sector accounted for a 5.1% increase annually and the Service Producing sector accounted for a 2.8% increase annually.

Professional and Business Services recorded the largest annual increase in number of jobs for a gain of 31,300 jobs followed by the Education and Health sector, which recorded an annual gain of 28,800 jobs. Overall the City experienced healthy job growth in 2015. The following chart illustrates the historical and most recent employment picture in New York City:

NEW YORK CITY EMPLOYMENT STATISTICS

Industry	2000	% Change '00-'05	2006	% Change '06-'10'	Ann Avg 2011	Ann Avg 2012	Ann Avg 2013	Ann Avg 2014	Ann Avg 2015	% Change 11-'15	Jan 2016	% Change '15 - YTD
Natural Resources, Mining, & Construction	120.4	-6.2%	110.2	2.1%	112.3	116.1	122.2	129.2	138.3	23.2%	135.5	-2.0%
Manufacturing	176.8	-35.4%	106.4	-28.3%	75.7	76.3	76.4	76.6	78.0	3.0%	79.1	1.4%
GOODS PRODUCING:	**297.2**	**-23.6%**	**216.6**	**-12.8%**	**188.0**	**192.4**	**198.6**	**205.8**	**216.3**	**15.1%**	**214.6**	**-0.8%**
Trade/Transportation/Utilities	569.6	-4.3%	551.4	1.5%	575.6	590.5	604.0	620.6	629.0	9.3%	628.0	-0.2%
Information	187.3	-13.0%	162.0	2.5%	170.9	175.8	179.6	185.6	189.1	10.6%	188.4	-0.4%
Financial Activities	488.8	-8.7%	446.6	-4.0%	439.5	439.1	437.9	449.6	459.7	4.6%	456.5	-0.7%
Professional/Business Svcs.	586.5	-5.5%	571.4	0.7%	597.4	619.2	642.5	668.5	699.8	17.1%	709.1	1.3%
Education/Health Svcs.	620.1	9.4%	682.6	9.9%	766.8	782.3	806.6	840.6	869.4	13.4%	888.9	2.2%
Leisure/Hospitality	256.7	7.8%	267.0	20.7%	342.2	365.7	385.4	408.5	425.7	24.4%	417.2	-2.0%
Other Svcs.	147.4	4.0%	151.1	6.3%	165.2	170.4	174.9	180.2	184.8	11.9%	185.0	0.1%
Government	569.5	-2.6%	553.1	0.9%	550.6	546.1	544.4	545.4	549.9	-0.1%	539.3	-1.9%
SERVICE PRODUCING:	**3425.9**	**-1.6%**	**3385.2**	**4.0%**	**3608.2**	**3689.1**	**3775.3**	**3899.0**	**4007.4**	**11.1%**	**4012.4**	**0.1%**
TOTAL NON-FARM EMPLOYMENT:	**3723.1**	**-3.3%**	**3601.8**	**3.0%**	**3796.2**	**3881.5**	**3973.9**	**4104.8**	**4223.7**	**11.3%**	**4227.0**	0.1%

Source: New York State Department of Labor Statistics

In terms of economic contribution, the Services Producing sector accounts for approximately 94.9% of total employment in the City, with the Goods Producing sector accounting for 5.1% of total employment. However, the Natural Resources, Mining, and Construction sector has experienced significant employment growth in the City. In 2015, this sector gained 9,100 jobs, an increase over the 7,000 jobs gained in 2014. With the ongoing construction projects planned and underway throughout the City, employment levels are projected to remain strong in this industry. Private sector employment in New York City has grown more rapidly than initially forecast. The City's development of new industries has helped to diversify the economy and support new job creation in professional services, technology, and other sectors. Overall, the region and local economies are fueled by the Service Producing sector; it is projected this sector will continue this trend.

The most recent employment data for the City as of January 2016 reveals a slight increase of 0.1% in total employment over year end 2015. However, the majority of employment sectors reveal monthly decreases in January 2016. Accordingly, the only sectors that experienced positive job growth in January include Education and Health Services, Professional and Business Services, Manufacturing, and Other Services.

The Financial Activities sector, led by Wall Street, employs approximately 11.4% of all those employed in the service producing sector. This sector, which typically led recoveries in the past, has not been able to recover the majority of its jobs and has been outpaced by other sectors. The last peak in employment numbers for this sector was in 2007 with 467,900 jobs. Since then annual employment numbers dropped in the years 2008, 2009, 2012, and 2013. Slight annual gains were seen in the years 2010, 2011, 2014, and 2015. The majority of cut-backs were in the big name financial firms. However, smaller hedge fund and private equity firms have been expanding, which has offset the recovery trend within the financial sector. It is anticipated that this sector will continue with similar trends over the year.

New York City has experienced consecutive positive employment growth annually since 2010. Current data indicates continued increases in the City's employment numbers through year end 2015. However, the significant growth is not anticipated to continue at such an increasing pace. Analysts are projecting that the positive trend in job growth may have reached a cyclical peak and is projected to remain stable through 2016.

Unemployment Rate

In general, New York City's unemployment trends mirror the overall economy with strong employment figures from 2005 through 2007 and decreasing employment trends beginning with the recession in 2008. Unemployment rates continued to increase through 2010 nationally and regionally and through 2012 in the City. Generally, the unemployment recovery began in 2011 and improving trends were experienced in all three regions through 2015. The following table details historical unemployment rates.

HISTORICAL
UNEMPLOYMENT RATES

YEAR	US	NY	NYC
2005	5.1%	5.0%	5.8%
2006	4.6%	4.6%	5.0%
2007	4.6%	4.6%	5.0%
2008	5.8%	5.4%	5.6%
2009	9.3%	8.4%	9.3%
2010	9.6%	8.6%	9.5%
2011	8.9%	8.3%	9.1%
2012	8.1%	8.5%	9.4%
2013	7.4%	7.7%	8.8%
2014	6.2%	6.3%	7.2%
2015	5.3%	5.3%	5.7%
Jan '16	4.9%	5.5%	5.9%

Source: US Bureau of Labor Statistics

According to the Department of Labor, the Nation, State, and City have all experienced decreasing unemployment levels in years 2013-2015. However, as of January 2016, only the Nation continued the downward trend. New York State and City both recorded slight increases in unemployment rates to 5.5%, and 5.9%, respectively over year end 2015. Overall, the historical unemployment rates reveal a six year improving trend since 2008. However, the most recent data reveals a slight declining trend in unemployment levels for the City and State.

Full employment is measured by unemployment levels ranging from 5.5% to 6.0%, according to Moody's Analytics. Thus the current unemployment rates reveal healthy employment levels for all three regions. Unemployment rates have been decreasing since 2010 and are expected to remain healthy. It should be noted that, these positive trends in unemployment rates were not expected this soon. Moody's previously forecasted full employment levels to be reached in the fall of 2016. In addition, they estimate the Nation will experience a labor shortage in the second half of the decade (2015–2020) due to baby boomers retiring and opting for early retirement.

Household Income

An important measure of an area's economic health is its income characteristics. One measure of an area's income is the median household income. A summary of each borough, the City and the State median household incomes is presented as follows.

Median Household Income

Area	2000	2010	% Change	Fall 2015	% Change from 2010	% Change from 2000	5 Year Projection 2020	% Change '15 - '20
United States	$42,253	$51,362	21.6%	$53,217	3.6%	25.9%	$60,683	14.0%
New York State	$43,643	$55,267	26.6%	$58,048	5.0%	33.0%	$66,766	15.0%
New York City	$41,248	$53,583	29.9%	$51,754	-3.4%	25.5%	$58,513	13.1%
Bronx	$27,947	$32,892	17.7%	$32,980	0.3%	18.0%	$36,713	11.3%
Brooklyn	$32,509	$42,903	32.0%	$44,645	4.1%	37.3%	$51,103	14.5%
Manhattan	$47,306	$72,695	53.7%	$70,910	-2.5%	49.9%	$85,146	20.1%
Queens	$42,960	$54,341	26.5%	$55,866	2.8%	30.0%	$62,796	12.4%
Staten Island	$55,516	$65,085	17.2%	$76,939	18.2%	38.6%	$87,274	13.4%

Source: ESRI

The cost of living in New York State and City is high and the income per household is also high relative to the rest of the country. As illustrated, New York City's overall median income level is $51,754, which falls slightly below the national and state median income levels of $53,217 and $58,048, respectively. Staten Island and Manhattan are the only boroughs that exceed both national and state median income levels. This trend is projected to continue over the next five years. Within New York City, current median household income levels range from $32,980 in the Bronx to $76,939 in Staten Island. Five year projections indicate continued income growth in all sectors and all boroughs.

Tourism

Tourism has been a significant economic force in the City's recovery. New York City has attracted record breaking numbers of visitors over the past eight years. In 2011, then Mayor Michael Bloomberg set a goal to attract 55 million visitors to New York City by the end of 2015. This goal was reached a year early in 2014 with a new record of 56.4 million tourists. The most recent tourism data reveals another record breaking year under Mayor Bill de Blasio with 58.3 million tourists visiting the City in 2015. Of these visitors, 79% were from domestic locations while 21% were foreign travelers. Many factors have contributed to the increase in tourism including the weak dollar against the euro, the City's numerous world-renowned attractions and the enormous growth in hotel rooms with affordable rates.

Economic Projections

It is anticipated that New York City's economy will continue to remain strong with City tourism expected to remain on track, helping to fuel the local economy. In 2015, New York City increased employment by almost 119,000, representing a 2.9% annual gain. Although positive, this growth is down from the 3.3% annual gain experienced in 2014. Job growth leads to increases in City revenues through consumer spending and additional income and sales tax resulting in positive effects on the local economy. Overall the City's economy has been consistently strong. However, the quarterly performance in 2015 of most sectors reveal a softening in the second half of 2015. Further, employment data for 2016 also reveals a very slight growth over year end 2015, suggesting more of a stable market.

According to Cushman & Wakefield, overall investment sales in the City have hit record highs and cap rates have hit record lows in the past two years. Reportedly, investment sales in New York City reached $74.5 billion, accounting for 5,083 transaction. However, the number of transactions is down from 2014 which recorded an all-time record high of 5,533 transactions. Overall, the 2015 quarter by quarter analysis shows prices per square foot falling and cap rates rising. Analysts project that both number of transactions and total dollar volume will reduce in 2016; it is anticipated that 2016 will be a transitional year.

GOVERNMENTAL FORCES

The City of New York is governed by the Mayor and the City Council. Each borough has a Borough President and Council persons who represent individual districts within each borough. Local city officials implement land use policies through the Department of City Planning and City Planning Commission. Most proposed projects must also be reviewed by the Community Boards, and/or Borough Boards. The City of New York provides public transportation, schools, health care, police, and fire protection.

Uniform Land Use Review Procedure - ULURP

Governmental forces directly impacting the subject air rights and the proposed development for 550 Washington Street include the undertaking a rezoning and other actions through a process known as The Uniform Land Use Review Procedure (ULURP). According to the NYC Department of Planning, "ULURP is a standardized procedure whereby applications affecting the land use of the city would be publicly reviewed. The Charter also established mandated time frames within which application review must take place. Key participants in the ULURP process are now the Department of City Planning (DCP) and the City Planning Commission (CPC), Community Boards, the Borough Presidents, the Borough Boards, the City Council and the Mayor."

ULURP can proceed in 215 days or less, or just over seven months, from Certification. However, depending on the size and complexity of the application, and the nature of the action, the pre-certification period may be relatively extensive. It is explicitly assumed in the hypothetical condition of this appraisal that the approvals for ULURP have been granted to 550 Washington as of the date of appraisal, facilitating the transfer of air rights to be incorporated within the development.

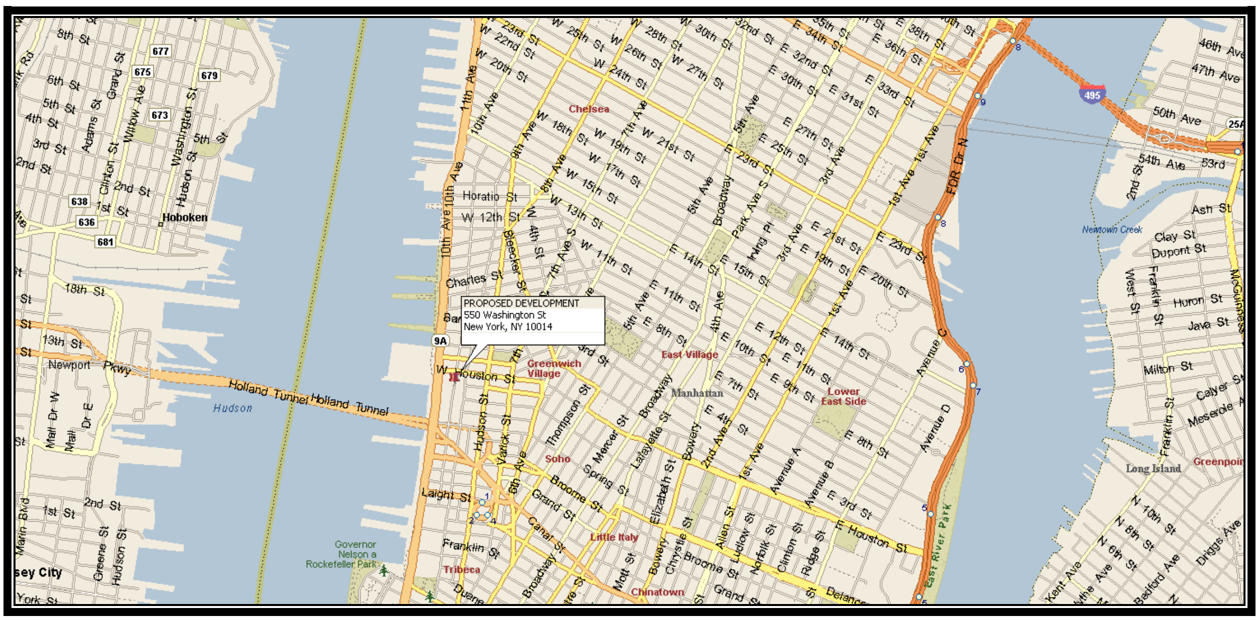
Conclusion

Population growth, household formation and median income trends in New York City are positive and the City continued to experience positive employment growth through 2015. However recent January 2016 data reveals inconsistent growth among the employment sectors and an overall increase in the City's unemployment rate.

New York City has performed better than most markets for the past six years and in terms of recovering from the recent recession, and all demographics researched point to an economically viable and highly affluent local economy. However, the significant and record breaking gains experienced in recent years are not anticipated to continue. Investors are anticipating that the City's economy has hit a cyclical high and that market indicators will soften over the year. However, due to the region's historical positive characteristics, we believe New York City's economy will, over the long term, remain solid.

LOCATION ANALYSIS

The subject is situated in an area of Manhattan known as Hudson Square. The area is bordered by the Hudson River to the west, Morton Street to the north, Canal Street to the south and 6th Avenue/Avenue of the Americas to the east. The neighboring neighborhoods are Tribeca, SoHo and Greenwich Village. The area was part of a 250 acre land grant in 1705 by Queen Anne of England to Trinity Church which remains the largest landowner in the district today. The subject property is mapped as follows:



Hudson Square is named for a residential development financed by Trinity Church in the early 1800's. It had been described as similar to Gramercy Park in that it surrounded Hudson Square Park. The entrance of the Holland Tunnel is now where the park was once located. By 1900, the area had changed from a desirable residential area as Trinity Church turned some of its holdings into manufacturing and commercial space. In the 1920's printers moved into the area attracted to the lower rents and floor loads of the buildings there. More recently, the area has witnessed new construction and renovation to both residential and commercial office space as investment has increased dramatically into the neighborhood.

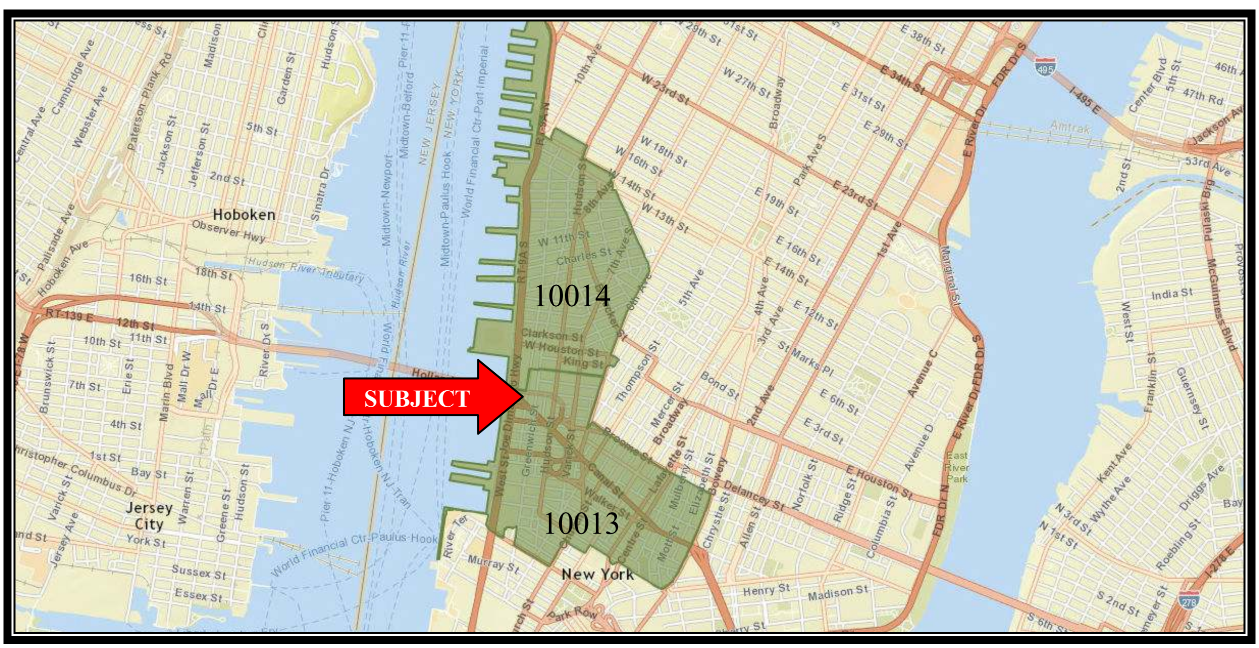
The subject development is located in Hudson Square and the neighborhood is split amongst two zip codes. Prior to the rezoning, the area generally restricted residential development until 2013. In fact, according to Trinity Real Estate's proposed 2012 rezoning presentation, within Hudson Square, only 4% of the total existing square footage is comprised of residential uses. This is extremely low as compared with the surrounding neighborhoods of the West Village and SoHo which have reported residential uses totaling 67% and 44%, respectively. The same study projects that the amount of residential square footage will jump to 25% subsequent to the rezoning.

The subject property is therefore in, what is effectively, a new residential neighborhood, given the recent rezoning, as well as the current and planned land uses in the area. The areas surrounding Hudson Square have long-established residential bases, and it is expected that the Hudson Square neighborhood will draw residents from these nearby neighborhoods or those future residents looking towards SoHo, West Village and Tribeca and will likely view Hudson Square as a viable alternative. The three surrounding neighborhoods are some of the most desirable and expensive areas to reside in Manhattan.

Therefore, based upon this information and our understanding of the local and surrounding markets, it is our opinion that upon rezoning and redevelopment, the subject's market area will consist of the three abutting neighborhoods, along with the subject neighborhood which comprise zip codes 10013 and 10014. Data from both are presented on aggregate, where available, and historical data from 2000-2010 is presented for 10013 and 10014, separately. Data was not available for 10013 and 10014 on a combined basis for 2000-2010.

Area Characteristics

In order to develop a comparison of basic demographic information for the subject's local area we have relied on information compiled by the Site To Do Business (STDB.com) as well as archived data from DemographicsNow.com, both of which are subscription services providing radius reports, radius maps, market reports, market maps and market ranking reports using current data, census data and five year projections. Basically we have researched the same demographic data discussed in the Regional Analysis section of this report, but on a smaller scale using the local zip codes. We have also presented this with data for the borough of Manhattan, for purposes of comparison. The subject development is in the neighborhood of Hudson Square that is divided by two zip codes; 10013 and 10014.



Population and Households

Historical trends for population and household data in the subject's local area zip codes as well as Manhattan are summarized as follows:

Population Statistics

Area	2000 Population	2010 Census	Percent Change	2015 Population	% Change From 2010	5-Year Projection 2020	Percent Change
Manhattan	1,537,057	1,585,873	3.2%	1,631,855	2.9%	1,683,586	3.2%
Zip Codes 10013 & 10014	57,572	59,484	3.3%	59,640	0.3%	61,215	2.6%

Source: Site to Do Business and Demographics Now

Household Statistics

Area	2000 Households	2010 Census	Percent Change	2015 Households	% Change From 2010	5 Year Projection 2020	Percent Change
Manhattan	738,597	763,846	3.4%	788,260	3.2%	815,277	3.4%
Zip Codes 10013 & 10014	30,931	31,913	3.2%	32,016	0.3%	32,894	2.7%

Source: Site to Do Business and Demographics Now

Statistical data reveal that the subject's local area has experienced recent increases in population and household formation. This is primarily due to loft building conversions from commercial to residential uses. Five year projections indicate greater increases in the local area's population and household formation than borough-wide.

Income

Another important measure of an area's economic health is its income characteristics. A household consists of all the people occupying a single housing unit. While individual members of a household purchase goods and services, these purchases actually reflect household needs and decisions and levels of disposable income. Thus, the household (and subsequently, income) is one of the critical units to be considered when reviewing market data and forming conclusions about the demographic impact on any real property. The following charts details the median household income and per capita income for both the larger Manhattan market and the subject's local market:

Median Household Income

Area	2000 Median Household	2010 Census	Percent Change	2015 Median Household	% Change From 2010	2020 Median Household	Percent Change
Manhattan	$47,306	$72,695	53.7%	$70,910	44.9%	$85,146	20.1%
Zip Codes 10013 & 10014	n/a	n/a	n/a	$105,347	n/a	$125,621	19.2%
Zip Code 10013	$40,015	$75,305	88.2%				
Zip Code 10014	$67,318	$102,777	52.7%				

Source: Site to Do Business and Demographics Now

Per Capita Income							
Area	2000 Per Capita Income	2010 Census	Percent Change	2015 Per Capita Income	% Change From 2010	2020 Per Capita Income	Percent Change
Manhattan	$42,395	$61,785	45.7%	$56,634	-8.3%	$65,441	15.6%
Zip Codes 10013 & 10014	n/a	n/a	n/a	$79,884	n/a	$92,170	15.4%
Zip Code 10013	$41,088	$65,985	60.6%				
Zip Code 10014	$68,660	$99,599	45.1%				

Source: Site to Do Business and Demographics Now

Median Household income for Manhattan and the local area have increased significantly since 2000 and are projected to continue to increase through 2020. Per capita income levels experienced similar trends. Future projections indicate continued increases in both median and per capita incomes both regionally and in the local area. Further, the income levels in the subject area are projected to exceed the income levels of the larger area, reflecting the affluence of residents in the subject's area.

In conclusion, the area's strength for both residential and commercial properties is evidenced by its historical growth in population, household formation, and income levels. The 10013 and 10014 zip codes show an income level that is much higher than the majority of Manhattan. The area is replete with high-income earners that commute to Wall Street and Midtown to high-paying jobs. 74.6% of all residents in these zip codes over age 16 are employed in Services occupations or financial/insurance/real estate jobs. 26.4% of the households in the area have a household income greater than $200,000 and that figure is expected to increase to 28.8% in 2020. Given the projected growth, it is anticipated that demand will remain for residential and retail uses in the local area.

RESIDENTIAL

Residential uses within the Hudson Square area have historically been limited to primarily living/loft spaces once occupied largely by artists. Mid and low-rise residential structures typify this neighborhood. The housing stock ranges in quality and condition from fair to luxury, reflective of the differing ages, designs and types of improvements found here. King Street between Varick and 6th Avenue is lined with 3-story red-brick townhouses. Prior to the recent rezoning, most of the residential uses pre-date 1961. Prior to the rezoning, recently completed projects outside the original M1-6 zone include 497 Greenwich Street between Canal and Spring Streets which is an 11-story glass condominium building and 505 Greenwich Street, a 14-story glass condominium building. Other residential developments throughout rezoned Hudson Square are discussed in the development land market analysis.

The surrounding neighborhoods of the West Village, SoHo and Tribeca have larger existing housing stocks which vary in type and density.

West Village

The West Village is bounded on the north by 14th Street, by Broadway to the east, by Houston Street to the south and by the Hudson River to the West. The neighborhood was designated the Greenwich Village Historic District in 1969 which has helped to protect its many charming blocks. Since then additional areas of landmarking have extended west and south nearly covering the entire neighborhood within one of three historic districts. As a result, there are very few sites available for development within the West Village and all of Greenwich Village. Consisting mostly of brick row houses, low-rise apartments, and hidden courtyards, the tree-lined streets in the West Village provide for a unique mostly low rise environment with limited development potential given its landmarked status. The side streets are dominated by low-rise pre-war apartment buildings, brownstones and townhouses. In recent years, new construction in the Far West Village resulting in some of the most desirable and expensive housing in New York City has occurred. There are several new developments that benefit from views of the Hudson River; inclusive of the newly constructed Richard Meier buildings along Charles Street, West Street and Perry Street; and Superior Ink located on West 12th Street, to name a few. These buildings have helped to attract significant investment to the West Village for development of high-end condominiums like 150 Charles Street.

SoHo

The SoHo district consists of approximately 26 blocks and 500 buildings and is designated as a New York City Landmark district known as the SoHo-Cast Iron Historic District. Many of the improvements are comprised of 4-6 story loft buildings with cast iron architectural elements and oversized windows, originally built in the early 1900s as factories and offices but have since been converted to live/work loft spaces and expansive apartments. SoHo has experienced demand for residential and retail uses and has witnessed new construction and redevelopment of properties to very high value residential uses over the 2 decades. SoHo is one of the City's retail tourist destinations notable for being the location of many artists' lofts and art galleries, and also, more recently, for the wide variety of retail stores and shops ranging from trendy boutiques to outlets of upscale national and international chain stores. Larger condominium complexes are generally located along the east/west bound streets and along Broadway within the district. The main retail arteries in the district include Broadway, West Broadway, Spring Street, and Prince Street. However, the entire district has retail tenants spread throughout the smaller side streets as well.

Tribeca

Tribeca was historically a manufacturing and warehouse district primarily improved with large cast-iron loft buildings. The area is now a mixed-use neighborhood with large concentrations of residential and retail uses interspersed with some office uses. Over the past 20 years many loft buildings have been converted into high-end luxury residential condominiums. The Tribeca neighborhood has been become one of Manhattan's most desirable neighborhoods for loft-type living. More recently over the past 12+ years there has been substantial new development and conversion development within Tribeca, as the neighborhood became more and more desirable as a 24/7 live work neighborhood.

Broadway and Church Street within Tribeca are improved with a mix of larger scale commercial and some residential buildings with retail uses at grade level. The side streets of Tribeca are primarily improved with low to mid rise loft buildings which are occupied by a mix of commercial/retail tenants at grade level and residential uses above-grade. Residential uses in Tribeca primarily consist of mid-rise, tenement and loft-type dwellings. During the 1980's and 1990's, the area experienced some gentrification in the form of new and rehabilitated housing. From 2000, demand for housing within Tribeca increased substantially. The land uses and scale of development in Hudson Square closely mirror the scale of Tribeca. It is our opinion that the recent rezoning will aid to transform Hudson Square into a similar live-work neighborhood that is currently seen in Tribeca.

Summary of New Multi-Unit Developments within SoHo, Tribeca and the West Village

We have searched the market for examples of significant development projects either recently completed, underway or planned for the subject's expanded local market area which we define as being generally inclusive of the West Village, SoHo, Tribeca and Hudson Square itself. The following list is not exhaustive but is representative of the types of projects undertaken over the past 3-4 years, as well as of the prices achieved within the market area.

NEW MULTI-UNIT DEVELOPMENTS OF NOTE WITHIN THE LARGER MARKET AREA

NO.	ADDRESS	DESCRIPTION	STORIES	# UNITS	PER SF RANGE IN PRICES		COMMENTS
				WEST VILLAGE			
1	130 West 12th Street Btw. 6th/7th Ave West Village	Luxury condo St. Vincent's Conversion Built 2012	12	42	$ 1,658	$ 3,377	Units went on the mkt in Nov. 2011 while still under development, sold out by opening. Some owners are renting units at reported avg. price of $103/SF (Streeteasy.com). Resales have resulted in profits ranging from 17% to 58% from Sponsor prices.
2	209-219 Sullivan Street West Village	Luxury condo Conversion/Expansion Under Construction	7	25	Average $6,000,000 per unit, asking per offering plan		Combination of loft, townhouse and penthouse units. Former Children's Aid Society bldg.
3	140-160 West 12th St. 145-155 West 11th St. West Village	Luxury condo New Construction St. Vincent's Site	10-17 five bldgs.	200	$ 3,300 140 reported U. C	avg. asking price	High end luxury units with many amenities. one to five bedroom units.
4	150 Charles Street West Village	Luxury condo New Construction Nearly complete	16	91	$ 4,463 $ 7,592	avg. price of units U.C. asking price of PH unit	High end luxury units with many amenities and Hudson River views.
				SOHO			
1	11 Greene Street Soho	Planned mixed-use New Construction Approvals recv'd May 2014	n/a	n/a	n/a		Thor Equities plans on bldg. a mixed use retail and residential building. No plans are available to-date.
2	325 West Broadway XOCO 325 Soho	Luxury Condo Former Tootsie Roll Factory Completed in 2015	9	21	$ 2,516	avg. price of 4 active listings	All units will have private outdoor space.
3	27 Wooster Street Soho	Luxury Condo Under Construction Expected completion 2015	9	16	$ 2,755 $ 4,253	avg. price of units U.C. reported U.C. price for PH	Luxury finishes and amenities.
4	62 Wooster/476 Broome Soho	Luxury Condo Conversion	6	5	n/a	n/a	Luxury finishes and amenities.

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NO.	ADDRESS	DESCRIPTION	STORIES	# UNITS	PER SF RANGE IN PRICES		COMMENTS
NEW MULTI-UNIT DEVELOPMENTS OF NOTE WITHIN THE LARGER MARKET AREA							
TRIBECA							
1	56 Leonard Street	Luxury Condo	60	145	$ 6,300		Super luxury. Only 2 PH units left.
	Tribeca	New Construction			$ 3,032	avg. price of units U.C.	all U.C.
		Occupancy 2016			$ 3,333	avg. reported price for other units	
2	67 Franklin Street	Luxury Condo	6	13	$ 1,664	$ 3,340	6-story cast iron building.
	Cast Iron House	Under Conversion			$ 1,974	avg. price of units U.C.	
	Tribeca				$ 2,268	avg. reported price for other u	
3	5 Franklin Place	Luxury Condo	20	53	$ 2,622	asking price on PH unit	Loft conversion and expansion.
	Tribeca	Conversion/Expansion			$ 2,076	avg. price of units U.C.	.
		Projected completion			15 reported U.C.		
4	101 Leonard Street	Luxury Condo	12	66	$ 2,231	12/2014 price of PH Unit	Luxury loft conversion.
	The Leonard Tribeca	Conversion			$ 2,063	5/2014 price of PH Unit	
5	111 Murray Street	Luxury Condo	n/a	n/a	$ 2,487	$ 4,709 asking prices	Plans call for building to surpass 30 Park Place at 82-
	101 Tribeca	Formerly 101 Murray Street	planned		$ 3,230	avg. asking price	stories in height. No approved plans in-place.
	Tribeca	Projected completion	high-rise				
6	290 West Street	Luxury Condo	10	13	$ 4,200	Avg asking price of PH Unit	All units reportedly have Hudson River views.
	Tribeca	New Construction			$ 2,521	avg. price of units U.C.	
		Projected completion				10 of 13 units U.C.	
7	71-77 Laight Street	Luxury Condo	6	32	$ 4,092	Asking price of PH Unit	Luxury finishes and amenities.
	Sterling Mason	Combination Conversion/				6 of 31 units U.C.	
	Tribeca	New Construction			$ 2,259	avg. asking price	

As this chart reveals, pricing on these condominium projects has been substantial ranging from, on average, the low $2,000's/sf to over $3,000/sf. Penthouse units have commanded prices as high as over $7,000/sf. Pricing has been increased over the past 3 years as the projects were completed. It was not unusual for prices to have been increased several times during construction and prior to completion. In addition, some of the projects which were completed in the past couple of years have indicated substantial appreciation from re-sales. However, we also note that condo unit pricing has appeared to have plateaued as of mid-2015 with price decreases across the board for the highest-end, and largest product through the analysis date of April 1, 2016.

HUDSON SQUARE – IMMEDIATE SUBJECT NEIGHBORHOOD

Commercial Real Estate

As noted earlier in this report, the Hudson Square neighborhood has a long history as a commercial center. Trinity Church, the largest holder of real estate in area began to re-establish this identity in the early 1980's when it began converting loft buildings and warehouses into office space. Trinity Church currently owns approximately six million square feet in eighteen buildings in the area. This neighborhood contains many class B and C office buildings. Leasing activity in Trinity's buildings has been extremely strong and the Church reportedly has a portfolio with a reported net rental income of $84 million in 2014. According to press reports, in September 2015, Trinity Real Estate teamed with Norway's sovereign wealth fund as venture partner for its office portfolio. Details of the transaction have not been made publicly available, but reports suggest Trinity was seeking approximately $3 billion for a 49 percent stake in the leaseholds.

Trinity's office portfolio represents nearly half of the office space within Hudson Square. A summary of the office portfolio is presented below along with asking rents. In addition to Hudson Square office holdings, Trinity also holds an additional 1.2 million square feet across Sixth Avenue/Avenue of the Americas in SoHo and, across Canal Street in Tribeca. Information about the buildings and asking rents were provided by Trinity Real Estate.

Address	Rentable SF	# Floors	Key Office Tenants	Available Office Space (SF)	Asking Rent PSF	Amenities/Notes	Retail Tenants
1 Hudson Square a/k/a 75 Varick Street	1,174,100	17	Adelphi University, The Atlantic Philantropies, Getty Images, The Jackie Robinson Foundation, New York Magazine	1st - 7,266 9th - 76,098	$74 to $85	Floor spaces range from 37,179 to 80,775 square feet; 15 passenger elevators;	Metro Bicycles, SoHo Made Soups 7,266 SF of retail also available along Canal Street, no asking rent provided.
10 Hudson Square a/k/a 160-170 Varick Street	349,720	12	New York Public Radio, Quad/Graphics, Vilebrequin	11th - 17,901	$84	Floor spaces range from 27,605 to 29,170 square feet; 6 passenger elevators	Hudson Square Market
304 Hudson Street	293,077	8	PR Consulting, Rafael Vinoly Architects, Pig Newton Inc, Fashion Media Group LLC, 3.1 Phillip Lim	8th - 16,333	$55	Floor spaces range from 35,579 to 36,131 square feet	Mae Mae Café
345 Hudson Street	984,432	17	CBS Radio East, Inc., iNDEMAND, The Guggenheim Foundation, Penguin Putnam, Viacom	12th - 8,939	$89	Floor spaces range from 47,558 to 62,513 square feet; 12 passenger elevators	Chase Bank, Children's Museum of the Arts, Hudson Square Pharmacy, Starbucks
350 Hudson Street	335,066	9	Tory Burch, PR Newswire, PepsiCo	None	n/a	Floor spaces are 39,000 square feet; 4 passenger elevators	Dig Inn, Gateway News, Gregorys Coffee, Hale and Hearty Soups, Jacques Torres Chocolate, Pret a Manger
435 Hudson Street	291,064	9	Adidas America, Young Woo & Associates, L'Oreal USA, Current TV, Baron & Baron	7th - 8,076	$84	Floor spaces are 31,000 square feet.	EN Japanese Brasserie
155 Ave of the Americas	225,692	15	Accenture, LLP, Buddy Media, East Coast Digital, Inc	4th - 5,387 14th - 13,906 15th -12,590	$69 - $84	Floor spaces range from 12,590 to 15,492 square feet	Mototainment, LLC
137 Varick Street	124,990	8	Polytechnic Institute of New York University, TheLadders.com	3rd - 14,519 4th - 2,229 8th - 14,652	$45 - $50	Floor spaces are 14,500 square feet.	Andrianna Shamaris Inc., Scott Jordan Furniture, Inc.
225 Varick Street	376,749	12	Merrill/New York Company, National Audubon Society, Optomen Productions Inc., Thakoon LLC, Workman Publishing	1st - 1,395 1st -3,713 3rd - 3,771 5th - 11,689 5th - 15,252 6th - 18,540	$75 - $150	Floor spaces are 31,000 square feet.	Getting Hungry, HSBC, New York Sports Club
Total Rentable SF	**4,154,890**						

In addition, Trinity also signed a 99 lease deal with Beacon Capital to redevelop 330 Hudson Street into a first-class office tower. The British media conglomerate, Pearson, has agreed to move to the building upon completion. 330 Hudson Street is an 8-story former warehouse building located between Charlton and Vandam Streets. It has been vacant for the past decade after several attempts at redevelopment. Recent construction included an addition of eight stories to create a 16-story, 466,000 square feet office and retail development. Reportedly, in June 2014, Ivanhoe Cambridge Acquired a 49% interest in this property for approximately $150 million. Asking rents are reportedly $80 per square foot for office space. Other major office properties within Hudson Square include:

Address	Owner	Sq. Ft.	Asking Rents (where available)
375 Hudson Street	Tishman Speyer	1,088,126	n/a
189-205 Varick Street	US GSA	930,680	n/a
200 Varick Street	Jeffrey Gural	400,061	n/a
395 Hudson Street	NYC Carpenters Pension	600,000	n/a
315 Hudson Street	Resnick	481,184	$75.76
101 6th Avenue	Minskoff	426,791	n/a
250 Hudson Street	Resnick	394,424	n/a
180 Varick Street	Olmstead Properties	329,116	$68.54
161 Ave of Americas/One SoHo Sq.	Stellar Management	786,000	n/a

Stellar Management along with Rockpoint Group acquired 161 Avenue of the Americas and 233 Spring Street for $200,000,000 in May 2012 and have been repositioning the properties since. The property will feature a 75,000-square-foot expansion on 161 Avenue of the Americas increasing the building height to 260 feet from 144 feet. Once complete, the combined building areas will measure approximately 768,000 square feet. Warby Parker announced in Q4 2013 that they were taking 81,000 square feet at a rent of $65 per square foot. Since then asking rents at 1 SoHo Square, which will be completed in May 2016, have grown to approximately $80 per square foot according to Cushman and Wakefield, which is handling leasing of this property.

The repositioning of the office space in the area has increased rents significantly as tenants have relocated from many neighborhoods throughout Manhattan to Hudson Square. According to a survey provided by CoStar, asking rents for both direct and sublet spaces have risen rapidly from 2011 to the present. Rents have increased from $41.73 in Q3 2011 to $46.75 in Q3 2012 up to $54.18 in Q3 2013 and $61.66 in Q3 2014 and now to $68.11 in Q3 2015 with a slight decrease to $67.37 in Q4 2015.

With the preservation and repositioning of existing office space and introduction of new office product such as 101 6th Avenue, One SoHo Square and 330 Hudson Street, vacancies have decreased as rents have climbed. The area has always been supported by media tenants but has become an increasingly attractive location for tech tenants, architects, fashion tenants and some legal tenants. With the increased level of services coming to the neighborhood to cater to these tenants, this location will continue to benefit.

Due to the lack of housing, the area is much like the Financial District in the early 2000s and Tribeca in the 1990s was before residential development overtook many of the older, outmoded office properties. The 2013 rezoning created an environment for housing to be redeveloped while also preserving the existing office inventory by precluding redevelopment of any office building over 70,000 square feet in favor of residential.

Retail

Because of the scale of some of the office properties in Hudson Square, the neighborhood lacks true connected "retail corridors" whereby retail tenants can benefit from neighboring spaces in attracting a variety of shoppers. Retail in the area is a mixture of newer storefronts and older storefronts and center around the north-south strips of Varick Street and Hudson Street. There are clubs and restaurants and local retail such as bank branches and drug stores. The trendy retail tenants include Jacques Torres Chocolates, Todd Hase Furniture, Scott Jordan Furniture, Arrojo full service hair salon, Starbucks, Hudson Coffee Bar, Regeneration, SoHo Made Soups, Jazzy's Night Club, and several trendy restaurants including 508, Pao, Kana, Mae Mae Café, and Cody's Bar & Grill.

Hotels

Hotel development within Hudson Square is somewhat limited given the amount of nearby office space. Within the area specifically designated as Hudson Square, the hotel inventory is comprised of the following properties:

- Courtyard by Marriot located at 181 Varick Street: This 19-story hotel was constructed in 2010 and features 120 guestrooms. On-site amenities include a fitness center, snack bar, restaurant and 24-hour business center.

- Hampton Inn located at 54 Watts Street: This 18-story hotel was constructed in 2006 and features 160 guestrooms. On-site amenities include a bar/lounge, fitness center, rooftop terrace, business center and conference space.

- Sheraton Four Points located at 66 Charlton Street: This 20-story hotel was constructed in 2006 and features 150 guestrooms. On-site amenities include a 24-hour business center, restaurant and bar/lounge and a fitness center.

- Trump SoHo located at 246 Spring Street: This 46-story steel and glass hotel-condominium project is the tallest, most prominent structure in the neighborhood. The property was constructed prior to the current rezoning which governed, amongst many items, maximum heights for new developments. Constructed as a hotel-condominium in 2008, the 391 units within the building can be privately owned but cannot be occupied continuously. The hotel is a luxury property featuring a restaurant and pool bar, rooftop terrace, business center, fitness center, full-service space, valet parking and conference/wedding venue.

- April 2014 saw the opening of the Hotel Hugo located at 525 Greenwich Street. The site was sold in 2011 $12.75 million or $212/SF of zoning floor area and has been developed into a 20-story, 122- room hotel featuring a 90 seat restaurant. Other amenities include a fitness center and 24-hour business center.

Planned hotels for the area include 2 Renwick/503 Canal Street/231 Hudson Street. The Metropolis Group is developing the project. According to approved permits, the entirety of the development will total nearly 100,000 square feet and will house 325 guestrooms. The development is in two abutting structures of 11 and 10 stories.

According to press reports, a third hotel could be coming to the area at the corner of Canal Street and Hudson Street at the address of 219 Hudson Street. Two former soccer stars, Paolo Maldini and Christian Vieri were intending to bring a 30,000 square-foot Luxury Brand Hotel to this location, but in September 2015, this site was sold to developer Joel Braver for $13,250,000. It is unknown whether Braver will maintain the original design of the site, or will go a different route.

152 Leroy Street, an M1-5 zoned commercial development site, could house a hotel development of approximately 28,000 square feet. This site sits abutting a FedEx facility just northeast of the subject property development. This site was acquired in December 2012 for an indicated purchase price of $10,250,000 or $366 per square foot. No building permits have been filed on the site, and it was excluded from the variance for residential development recently granted to 160 Leroy Street/357 West Street.

Institutional/Recreational Real Estate

Other developments that shape the neighborhood are the institutions in the area. These include the Greenwich Street Theatre, Chelsea Vocational High School, the Little Red Schoolhouse, Our Lady of Vilnius Church and the Department of State Passport Services. In addition, the area is also served by several galleries and is home to the Children's Museum of the Arts at 103 Charlton Street. The New York City Fire Museum is at 278 Spring Street, and the Jackie Robinson Museum at 75 Varick Street.

The subject development site sits opposite the Hudson River Park (HRP) across West Street/NYS Route 9A. The Hudson River Park runs along and under the Hudson River from West 59th Street south to its terminus at the northern bulkhead of Battery Park City. The Tribeca section of HRP to the west and south of the subject development includes two piers and an improved park / waterfront esplanade. The West Village section to the west and north of the subject development includes three reconstructed piers, an improved esplanade, a display fountain, and expansive lawns and plantings. The HRP offers a wide variety of activities including, and not limited to, basketball courts, batting cages, bicycling and bike rental, boat building, dog runs, soccer fields, mini golf, ice skating, kayaking, moorings, rowing, sailing, tennis and trapeze. Nearly 400 of the 550 acres of the park are located in the Hudson River, but a number of piers extend out into the river and provide an assortment of entertainment and recreational options.

Recent proposals to improve some of the decaying piers include an effort spearheaded by the Diller-von Furstenberg Family Foundation for Pier 54, located off West 13th Street, in cooperation with HRPT. Plans for Pier 54 entail a 2.7-acre park with a 700-seat amphitheater, two pedestrian walkways and open lawns. Youngwoo Associates and RXR have commenced with a $300+ million re-development of Pier 57 off West 15th Street into an office and marketplace structure with retail. Plans for other piers in the Hudson River Park exist, such as Pier 26, located just south of the subject development site, which will include, "… a restaurant, historic boats and a variety of active and passive recreation opportunities. The upland area just north of Pier 26 features a dog run with separate areas for small dogs and big dogs, habitat planting zones, lawns, seating areas and overlooks."[5]

Pier 40, the granting site of the subject air rights that are the subject of this report, is the largest commercial pier in the Park, totaling 15-acres. It houses a multi-story parking garage, athletic fields, administrative offices of the HRPT and is home to the Hornblower Cruises and Events, which launches from Pier 40. According to HRPT, Pier 40's steel piles supporting the pier must be repaired and roof, building systems and facilities are in need of near term upgrades.

Trinity Church – In addition to the vast office portfolio owned by Trinity Church in the subject neighborhood, Trinity Church holds a number of development sites that, subsequent to the 2013 rezoning effort spearheaded by Trinity Church, allow for dense residential development for as much as 3,100 new units throughout the rezoned area. On the five parcels owned by Trinity Church, plans are to develop projects that will house a combined 1,062 residential units and a 444-seat school for grades Kindergarten through fifth grade. The sites are summarized below:

- Subdistrict A Building - 431 Canal Street - Block 227, Lots 63, 69, 70 and 76 (with 75,000 square foot school to house 444 seats. Conveyance of the school unit is by lease for $1 per annum. Press reports indicate this development will total 300,000 square feet and reach 430 feet in height.
- Projected Development Site 2 – 131 Avenue of the Americas – Block 491, Lot 3
- Projected Development Site 3 – 278 Spring Street – Block 579, Lots 60, 68, 70 and 74
- Projected Development Site 4 – 341 Hudson Street - Block 598, Lots 42 and 48
- Projected Enlargement Site 1 – 78 Vandam Street - Block 579, Lot 47

[5] https://www.hudsonriverpark.org/explore-the-park/locations/pier-26

Proposed Subject Development and Immediate Surrounding Area

The proposed development is to be located on the blocks bounded northerly by Clarkson Street, westerly by West Street/NYS Route 9A and easterly by Washington Street. West Houston Street runs east-west through the existing development and will serve as the southerly border for North. Along the subject's frontage, West Street/NYS 9A is a busy street with scattered traffic lights. Along West Street near the subject property, a number of nearby residential developments enjoy similar views such as 1 Morton Square, 290 West Street, 150 Charles Street, 160 Leroy Street, and the upper floors of the Urban Glass House located at 330 Spring Street.

The proposed development is surrounded by a number of unique land uses that could impact the development of the property at the lower levels. Abutting the southerly end of the property is the recently-completed 140-foot tall Department of Sanitation of New York (DSNY) truck parking facility. Approximately 25 feet of open lot area separates the existing structure on the subject development from the northerly end of this DSNY facility. Opposite the development site across Washington Street is a large facility operated by United Parcel Service (UPS). This 500,000 square foot facility extends from the southerly boundary of West Houston Street to the northerly side of Spring Street; nearly 1,000 feet in length. The facility has truck entrances for nearly 135 vehicles along both Washington Street and Greenwich Street.

Opposite the northern end of the proposed development site is a collection of small properties that are under development for the aforementioned 160 Leroy Street project. According to press reports, Richard Mack entered into a co-development agreement with Ian Schrager to construct a 15-story mixed-use, primarily residential development at this location. The property is zoned M1-5, and the developers have received a zoning variance that maintains the M1-5 FAR of 5.0, but is in line with uses permitted in the M1-5/R7X-rezoned portions of the neighborhood. Abutting this proposed development to the east, also opposite the subject property's northern boundary is a Federal Express (FedEx) facility. Although commercial and industrial/distribution uses remain in the immediate neighborhood of the subject property, developers are actively constructing mixed-use development, primarily residential in character, where sites permit. The rezoning of the area immediately east of the subject property has allowed a change in used to old, out-moded buildings and has invited in those willing to capitalize on the strong demand for residential units in Manhattan.

Transportation

The area is well served by public transportation including the No. 1 subway line which stops at Houston Street and Canal Street, the C and E line, which stop at Spring Street. Buses inlcude the M21 cross town bus and the M20 Eighth Avenue bus. There is easy access to the Holland Tunnel and the West Side Highway which in turn connect the area to New Jersey, the Financial District and Brooklyn.

Conclusion

The immediate location abuts a number of unique land uses, such as the DSNY facility and UPS building, that could impact the development of the property at the lower levels; however, the proposed development will enjoy excellent views in all directions above the heights of these abutting properties. Northerly and easterly, a number of planned developments should enhance the blocks near the subject development.

The larger area of Hudson Square is a mature retail and commercial neighborhood which benefits from good access to major traffic arteries and public transportation. Land uses in the area are diverse but consist primarily of retail/commercial uses. At the time of our inspection we observed redevelopment nearby, and are aware of the plans for a number of the underutilized sites. We observed very little grade retail available for lease. The commercial market appears very strong, and we anticipate the market for residential space within this area to increase given the recently approved rezoning plan

The recovery, in combination with the area's rezoning, have resulted in positive trends for redevelopment and desirability for the subject property's submarket. The subject area's architecture and location is attractive to the creative professions and to new media. Further, as long as there is a shortage of office space in Midtown, there will be a market for affordable attractive space in other areas. It is our opinion that nearly all real estate markets in this region will remain desirable over the long term given the underlying strength of New York City despite the current uncertainties. Indications are that it should continue to be successful in the long run in supporting local residential and commercial uses such as those proposed for the subject property.

RESIDENTIAL MARKET ANALYSIS

The New York City residential market is the largest housing market in the United States. It is composed of a complex and diverse group of properties, from single family townhouses, low rise walk-up buildings, low to moderate income high rise buildings, luxury high rise towers and converted office buildings for multi-tenant use. According to the Initial Findings of the 2014 New York City Housing and Vacancy Survey (NYC HVS), there are over 3.40 million housing units in the City's five boroughs. This represents the largest housing stock in New York City since 1965. The following chart depicts New York City's housing inventory.

New York City Housing Inventory 2005-2014

Inventory:	2005	2008	2011	2014	% Change 11-'14
Owner Units:					
Owner Occupied	1,010,370	1,019,365	984,066	1,015,299	3.2%
Vacant For Sale	21,410	26,588	30,875	17,926	-41.9%
Total	1,031,780	1,045,953	1,014,941	1,033,225	1.8%
Rental Units:					
Renter Occupied	2,027,626	2,082,890	2,104,816	2,108,838	0.2%
Vacant For Rent	64,737	61,762	67,818	75,458	11.3%
Total	2,092,363	2,144,652	2,172,634	2,184,297	0.5%
Vacant Units Not Available	136,712	138,043	164,467	182,571	11.0%
Total Housing Units	3,260,855	3,328,648	3,352,042	3,400,093	1.4%
Total Vacant Units	222,859	226,393	263,160	275,955	4.9%

Source: U.S. Bureau of the Census and New York City Housing and Vacancy Surveys

According to the 2014 NYC HVS, there was a 1.4% increase in the entire inventory for New York City between the years of 2011 and 2014. This is reflective of the increased construction since the Great Recession of 2008. The residential market can be further divided into owner-occupied property and rental property. Owner units represent 30.3% of the total housing units in the City's five boroughs. The rental market is New York City's largest residential category which currently comprises approximately 64.2% of all housing inventory. This ratio is nearly the opposite of the national average, whereby two out of three households are owner-occupied.

Total owner units, both occupied and vacant units, increased by 1.8% between 2011 and 2014 while total rental units, including occupied and vacant units, increased at a lesser rate of 0.5%. Since 2005, total inventory has increased in owner units by the negligible amount of 1,445 units or 0.14%. Rental units show a different trend, with an increase of 91,934 units, representing and by 4.4% increase in rental units, over the nine year period. The most housing units are located within the Borough of Brooklyn at 29.6%, followed by Manhattan at 25.1%, Queens at 24.8%, Bronx at 15.2%, and Staten Island at 5.2% of the City's total housing units.

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The 2014 NYC HVS showed that Manhattan is comprised of 853,865 housing units, representing 25.1% of all the housing units in New York City. Owner occupied units represent approximately 189,100 units, or 24.8% and renter occupied units represent 572,176 units, or 67% of the total housing units. Single-family home communities are scattered throughout Manhattan in neighborhoods such as Greenwich Village, Upper East Side, Upper West Side and Central and West Harlem as they are interspersed amongst the dense multi-unit housing located throughout Manhattan.

Tax abatement and incentive plans continue to play a large role in shaping New York City's residential housing development, as do zoning laws and designations of historic preservation districts. Additions to the City's housing supply are from new construction, substantial rehabilitations of deteriorated buildings, and conversions from non-residential buildings.

Rental Inventory

New York City's rental market is comprised of free market units and rent regulated units classified as either rent controlled or rent stabilized units. Rent stabilized units comprise the majority (47.1%) of rental units in New York City. Free market units comprise 38.9%, other rental units comprise 12.7% and rent controlled units comprise 1.2% of the City's rental housing inventory. The 2014 NYC Vacancy and Housing Survey results indicate the following breakdown of rental units for New York City:

RENTAL INVENTORY BY RENT REGULATION STATUS

	2005	2008	2011*	2014	3-Yr Avg % Change	11-'14 % Change
All Rentals Units (occupied and vacant available)	2,092,363	2,144,652	2,172,634	2,184,297	1.3%	0.5%
Rent Controlled (c)	44,317	40,480	37,764	27,039	-12.3%	-28.4%
Rent Stabilized	1,043,677	1,026,839	1,020,727	1,029,918	-0.4%	0.9%
Pre-1947 stabilized	747,332	725,337	767,521	766,296	0.1%	-0.2%
Post-1947 stabilized	296,345	301,503	253,206	263,621	-1.7%	4.1%
Private non-regulated units (a)	697,363	765,399	816,522	848,721	9.5%	3.9%
All other Rental Units (b)	308,007	311,934	297,620	278,618	-3.1%	-6.4%

Sources: Us Bureau of the Census and New York City Housing and Vacancy Survey

(a) "Private non-regulated" consists of units which were never RC or RS, units which were decontrolled, and unregulated rentals in cooperative or condominium buildings.

(b) All other rental units includes Public Housing, Mitchell-Lama, In Rem, HUD-regulated, Article 4, Minicipal Loan and Loft Board Units.

(c) Occupied only

* 2011 Data was revised.

The City's rental inventory increased between the years of 2011 and 2014 by 11,663 housing units or by 0.5%. This is an overall decrease compared to the previous years between 2008 and 2011 which increased in rental units by 1.3%. On average, however, the recent three year increase is below the overall three year average of the past fifteen years or 1.3%. Changes to the City's rent regulated units resulted in a decrease of 10,725 rent controlled units from 2011 to 2014. There was an increase of 9,919 rent stabilized units. Although high rent and vacancy decontrol led to the majority of units leaving the rent stabilization program, new developments built with abatement programs are governed under rent stabilization. From 1994 to the present day, there has been a net decrease of 65,915 apartments from the rent regulation system.

Vacancy Rates

New York City's vacancy rates by borough are summarized in the following chart.

NEW YORK CITY VACANCY RATES - BY BOROUGH

	1999	2002	2005	2008	2011	2014
NYC	3.19%	2.94%	3.09%	2.88%	3.12%	3.45%
Bronx	5.04%	3.29%	2.63%	3.07%	3.23%	3.77%
Brooklyn	3.26%	2.73%	2.78%	2.34%	2.61%	3.06%
Manhattan	2.57%	3.86%	3.79%	2.70%	2.80%	4.07%
Queens	2.11%	1.78%	2.82%	3.32%	3.79%	2.69%
Staten Island	5.82%	2.43%	n/a	6.37%	6.65%	5.50%

Source: U.S. Bureau of the Census and New York City Housing and Vacancy Surveys

According to the 2014 survey, New York City's overall vacancy rate in 2011 was 3.45%, slightly higher than the previous 15 years. Excluding Staten Island which has too few units reported for comparison, the lowest vacancy rate in 2014 is found in Queens (2.69%) with the highest vacancy rate found in Manhattan (4.07%), an increase of 1.27%, while the Bronx recorded an increase to 3.77% over the three year period.

Rent Control and Rent Stabilization

In new buildings that receive a 421-a abatement, even the market rate leases are protected by rent stabilization laws. This also means that rent increases, eviction proceedings, and other steps taken by landlords, are all regulated. Rent control and rent stabilization are under the auspices of the New York State Division of Housing and Community Renewal (DHCR). The main aims of the Regulation Reform Act of 1997 were to limit the number of high income earners that were living in apartments with controlled or stabilized rent and to promote a large increase in low income and affordable housing. The luxury decontrol measure was proposed to significantly reduce the number of apartments held under stabilization when the lessee was able to afford a "market rental" unit. The limitation of rental restrictions was also expected to spur developers and owners into creating more units to be leased at lower levels of rent, therefore providing more apartments at affordable rents.

RENT GUIDELINES BOARD HISTORICAL ALLOWABLE INCREASES		
YEAR	**1 YEAR LEASE**	**2 YEAR LEASE**
2005/06	2.75%	5.50%
2006/07	4.25%	7.25%
2007/08	3.00%	5.75%
2008/09	4.50%	8.50%
2009/10	3.00%	6.00%
2010/11	2.25%	4.50%
2011/12	3.75%	7.25%
2012/13	2.00%	4.00%
2013/14	4.00%	7.75%
2014/15	1.00%	2.75%
2015/16	0.00%	2.00%
Average	**2.77%**	**5.57%**

As the table illustrates, the allowable increases for rent stabilized apartments with leases that expire as of September 30, 2016 are as follows: rent for a one year renewal lease can be increased by 0% and rent for a two year renewal lease can be increased by 2.00%. These rates reflect the lowest increase allowed in the last ten years. Stabilized leases in 421-a buildings can also be subject to an additional 2.2% rent increase while the property benefits from the 421-a program begin to phase out.

The ten year average increase for a one year lease term equates to 2.77% and 5.57% for a two year lease term when heat is provided. The increases, established in late spring each year, have become a major politicized event due to the rapidly increasing rents of the unrestricted housing market in the city and the increase in the price index of operating costs over the past.

Residential Sales - Manhattan

For the past several years, the overall Manhattan housing market has generally experienced price appreciation and sales stability, holding its position as one of the better performing housing markets in the US. The combination of record low mortgage rates and rising rents have led to rising demand from entry-level buyers. In addition new development activity has remained consistent, as much of the former shadow inventory created during the recent housing boom has been absorbed. Miller Samuel/Prudential Douglas Elliman compiles Manhhatan-wide data, as well as product-specific data i.e., condominium, cooperative, luxury and new development. The most recent comparative market data for the Manhattan Residential market as reported by is presented as follows:

Manhattan Residential Sales Market	1Q '12	1Q '13	1Q '14	1Q '15	2Q '15	3Q '15	4Q '15	1Q '16	Prior Qtr. % Change	Annual % Change
Average Sale Price	$ 1,341,589	$ 1,354,766	$ 1,773,523	$ 1,732,989	$ 1,872,367	$ 1,737,565	$ 1,948,221	$ 2,051,321	5.3%	18.4%
Median Sale Price:	$ 775,000	$ 820,555	$ 972,428	$ 970,000	$ 980,000	$ 998,000	$ 1,150,000	$ 1,137,500	-1.1%	17.3%
New Development	$ 975,000	$ 1,325,000	$ 1,731,025	$ 1,625,000	$ 1,868,489	$ 2,048,341	$ 2,059,411	$ 2,606,720	26.6%	60.4%
Re-Sale	$ 737,500	$ 765,000	$ 900,000	$ 885,000	$ 945,000	$ 926,250	$ 960,000	$ 950,000	-1.0%	7.3%
Avg Price / Sq. Ft.	$ 1,086	$ 1,103	$ 1,363	$ 1,263	$ 1,340	$ 1,497	$ 1,645	$ 1,713	4.1%	35.6%
Number of Sales	2,311	2,457	3,307	2,661	2,674	3,654	2,973	2,877	-3.2%	8.1%
Days on the Market	152	132	115	100	94	73	82	93	13.4%	-7.0%
Listing Inventory	7,560	4,960	4,968	5,243	5,730	5,654	5,046	5,606	11.1%	6.9%
Listing Discount	6.3%	4.3%	2.6%	4.7%	6.1%	2.2%	3.0%	2.1%		
(from last list price)										
Source: Miller Samuel Inc. - Douglas Elliman Report										

The Manhattan residential market has previously shown steady growth with increasing prices and strong demand with fewer days on the market. However, relatively low inventory has tempered the number of sales and supported these price increases. According to Miller Samuels Inc. 4th Quarter 2015 Report, Manhattan's overall median sale price was reported at $1,137,500 revealing an annual increase of 17.3%. The average sale price indicator reveals a greater increase in pricing trend with an annual price gain of 18.4%. Listing inventory is improving gradually, which could further contribute to flat prices as supply increases to meet the same, or lesser demand. Furthermore, the increased "days on market" indicates that it is taking longer to sell these units, indicative of a slowdown in the market. Overall, the Manhattan market indicators point to a healthy market with increased sale prices, fewer days on the market, and limited inventory on the lower end of the spectrum, but the high-end new development and luxury sales prices have flattened and are in some cases declining.

Downtown Condominium Submarket

As noted, the highest and best use of the residential components of the proposed development is for nearly 960,000 zoning square feet of condominium apartments. Given that this valuation scenario assumes the proposed development is acquiring subject air rights on a blended-use basis, and the condominium portion is the largest portion of the project, we have analyzed the general market for apartment condominiums in the subject's bordering areas. The subject is located within the Downtown submarket of Manhattan. Quarterly sales data of the condominium market is presented in the charts below. The Corcoran Report quarterly sales data reported for resale condominiums in Downtown is summarized as follows:

Resale Condo	1Q16	1Q15	% Chg (yr)	4Q15	% Chg (qtr)
Prices					
Median Price	$2.375M	$1.675M	42%	$2.075M	14%
Average Price	$2.844M	$2.330M	22%	$2.794M	2%
Median PPSF	$1,785	$1,603	11%	$1,792	0%
Average PPSF	$1,995	$1,763	13%	$1,922	4%
Median Price by Bedroom					
Studio	$730K	$720K	1%	$820K	-11%
1 Bedroom	$1.310M	$1.155M	13%	$1.373M	-5%
2 Bedroom	$2.565M	$2.340M	10%	$2.608M	-2%
3+ Bedroom	$5.948M	$4.400M	35%	$4.652M	28%

Source: Corcoran Report

The Downtown submarket covers a large swath of Manhattan, from the Hudson River to the East River, between 34th Street and the Financial District/Chambers Street. Within the Downtown submarket, a number of new developments have come online in an attempt to meet the demand for new luxury product. According to the First Quarter 2016 Corcoran Report, within the Downtown market, sales were level with last year's volume, increasing to 951 sales from 947 in First Quarter 2015. During the same period, inventory jumped 19%, which is a substantial increase, leading to a 19% increase in the months of supply from 3.8 months to 4.5 months. Supply is computed on current absorption and inventory rates. The leveling-out of transaction volume, coupled with rapidly expanding inventory indicates that the number of sales forthcoming is slowing, which may lead to a decrease in prices in the short term as buyers and sellers readjust expectations.

Downtown New Development

As is the case throughout New York City, new development in Downtown is increasingly strong and leads the way for sales activity. Although representing a much smaller segment of the market, and in some cases, driven heavily by the closings in one or two significant properties, such as 150 Charles, 11 North More and Greenwich Lane, new development median price per square foot increased 34% year-over-year. The new development product is priced significantly higher than the existing condominium product. However, as seen by the price growth, it is being absorbed with increased resistance; most recent quarter-over-quarter prices have declined among all market segments. We also note that in many cases, the new development sales have been in contract far longer than those transactions categorized as resales, and that the agreed-upon price does not match buyers' current pricing expectations.

New Development	1Q16	1Q15	% Chg (yr)	4Q15	% Chg (qtr)
Prices					
Median Price	$4.370M	$2.400M	82%	$5.145M	-15%
Average Price	$5.357M	$3.365M	59%	$6.401M	-16%
Median PPSF	$2,425	$1,808	34%	$2,504	-3%
Average PPSF	$2,659	$2,179	22%	$2,810	-5%
Median Price by Bedroom					
Studio	$1.100M	$729K	51%	$1.500M	-27%
1 Bedroom	$1.693M	$1.592M	6%	$1.894M	-11%
2 Bedroom	$3.557M	$2.975M	20%	$3.971M	-10%
3+ Bedroom	$6.754M	$5.753M	17%	$6.955M	-3%

Source: Corcoran Report

Conclusion – Elliman Report and Corcoran

The data presented in the Elliman Report and Corcoran reports illustrates a healthy condominium market with increasing prices and stable volume year over year. We note that the data collected for these surveys reflect properties that closed during the survey period and in many cases have been in contract for extended periods of time. For example, there were a slew of closings in 150 Charles, and many of these transactions entered into contract in the spring and summer of 2013. In developing an opinion of the larger luxury condominium market, we also take a more forward-looking approach and analyze the data presented by the Olshan Luxury Market Report, which analyzes both property sales as well as contracts signed.

Olshan Luxury Market Report

Olshan Realty Inc. prepares weekly market reports tracking the contract and sales activity of luxury apartments in Manhattan, those over $4 million. The year-end 2015 Olshan Luxury Market Report highlights that 2015 was the second-biggest year in Manhattan luxury since 2006 with 1,344 properties sold totaling over $10.7 billion in sales. The Olshan Report states that although the volume for luxury transactions in 2015 was “remarkably similar” to 2013 and 2014, 2015 was a front-weighted year with the heaviest activity signed in the beginning of the year and only 4 weeks with 30 or more contracts signed over $4 million. Olshan states that of all apartment contracts at $4 million and above in 2015, 74% were condominiums and 34% of those sales were in new development projects, and sold off floorplans. The subject’s downtown market showed the most total contract activity, comprising 45% of the luxury sales. The Olshan Report also states that the number of contracts over $10 million dropped 16% year over year from 2014. Lastly, in 2015 the average luxury sale was listed on market for 243 days, up markedly from 2014 when the average number of days on market was 181 days.

The trend of decreasing sales volume continued into the first quarter of 2016. The Olshan Report states that through the end of March 2016, only 45 contracts have been signed for properties above $10 million. This is a notable drop from the first quarter of 2015 which had 73 of such contracts, and 2014 which had 80. As of the appraisal date, there has yet to be a week of 30 luxury contracts signed, which the Olshan Report defines as a “strong week.”

Conclusion – Olshan Report

The in-contract data used by Olshan Realty in their market reports reflects forward-looking data and is particularly insightful when identifying the direction and pace of the luxury market. It is clear from the 2015 and 2016 data that the velocity of transactions has slowed markedly, and it is anticipated that this trend will continue for the short term as the luxury market recalibrates, and in order for this to happen prices are expected to level out and fall in the short term.

Neighboring Condominiums

1 Morton Square is an existing condominium development located one block north of the subject property occupying the entire block bounded by Morton Street, Leroy Street, Washington Street and West Street. 1 Morton Square and the proposed development share many attributes with respect to location, configuration and views. 1 Morton Square is viewed as a comparable development and is directly competitive with the proposed development, however the recent sales at this project are for lower-floor units whereas portions of the proposed condominium structure will reach as high as 430 feet and should command notably higher prices per-foot than lower floor units. A summary of recent sales is presented below.

1 Morton Square					
Unit #	**Sale Price**	**Sale Date**	**Type**	**Sq. Ft.**	**Price PSF**
7DE	$3,050,000	2/12/2016	2BR/2.1BA	1,535	$1,987
14AE	$2,300,000	1/26/2016	1BR/1.1BA	813	$2,829
7GW	$2,675,000	1/26/2016	2BR/2BA	1,295	$2,066
11DW	$5,900,000	1/7/2016	3BR/3BA	1,985	$2,972
3BW	$2,500,000	11/12/2015	2BR/2.1BA	1,338	$1,868
2AW	$2,700,000	10/14/2015	2BR/2BA	1,187	$2,275
8DEAST	$4,200,000	10/5/2015	3BR/3BA	1,724	$2,436
4DW	$4,000,000	12/5/2014	2BR/2.1BA	1,736	$2,304
4CE	$3,550,000	11/4/2014	2BR/2.1BA	1,581	$2,245
2GW	$2,800,000	9/5/2014	2BR/2BA	1,295	$2,162
11AW	$3,750,500	8/20/2014	3BR/3BA	1,693	$2,215
9CE	$2,925,000	7/11/2014	2BR/2.1BA	1,410	$2,074
				Average	**$2,286**

Directly opposite 550 Washington across Clarkson Street is the ongoing development at 160 Leroy Street. This project is being development subsequent to being granted a variance for residential development in an M1-5 zone. According to press reports, the units have been quietly marketed and nearly 50% of the spaces have been pre-sold. We uncovered the following listings for the property:

160 Leroy				
Unit #	**Asking Price**	**Type**	**Sq. Ft.**	**Price PSF**
PH1 South	$26,500,000	5BR/5.5BA	5,745	$4,613
North 11A	$13,000,000	5BR/4.1BA	3,554	$3,658
North 9B	$10,250,000	4BR/4.1BA	2,792	$3,671
North 5A	$6,150,000	3BR/3.1BA	2,046	$3,006
South 5C	$4,550,000	2BR/2.1BA	1,644	$2,768
North 6C	$4,300,000	2BR/2.1BA	1,728	$2,488
South 4A	$2,400,000	1BR/1.1BA	1,096	$2,190
			Average	**$3,199**

Based on the larger market data as well as the recent sales of very proximate and comparable units, it is our opinion that condominium unit pricing for the subject's area is resilient, moreso than much of the higher-end downtown market.

Conclusion

The proposed development is located in a neighborhood of Manhattan that is surrounded by areas featuring ground-up development condominium development, townhouse construction and property conversions. The proposed development is, however, unique in the market as North and Center combine to feature nearly 550 feet of frontage overlooking West Street and the Hudson

River and Park, and there are few available developments offering those two features near the proposed property development. Given the potential development's width, depth, configuration and location it is suitable to house a large, fully-amenitized condominium development. As illustrated above, and further discussed in the new development market analysis, the demand for condominiums in the subject's neighborhood is high as prices continue to maintain current trends. New projects offering high-end product have only added to the neighborhood's mix of property types and have helped to bring a rise in prices to the neighborhood as a whole.

RETAIL MARKET DISCUSSION

The Manhattan Retail Market includes the Downtown, Midtown, Midtown South, and Uptown submarkets. According to the Fourth Quarter 2015 CoStar Manhattan Retail Report this market is comprised of 4,309 retail buildings, representing approximately 49 million square feet of space. The market-wide vacancy rate at year end 2015 was 3.2%, down from the same time last year when it stood at 3.6%. The average quoted asking rents in the City are down with average asking rents market wide of $86.06 per square foot compared to $93.47 per square foot in Q4 2014, revealing a annual decrease of 7.93%. Year to date net absorption was positive with 154,055 square feet of space. 170,730 square feet of retail space has been delivered this year so with another 1,198,351 square feet currently under construction.

Overall retail demand and growth are projected in the core areas of New York City. As a result, activity will also increase in secondary Manhattan retail locations as well as the outer boroughs as local and regional investors get priced out of prime retail locations in Manhattan. It is anticipated that the New York City retail market will continue to recover from the experience and the effects of the overall economic recession. In addition, the New York City Retail Market is also thought to have solid fundamentals, which will continue to promote growth over the long term.

According to REBNY'S classifications the subject is located within the Downtown Retail Submarket of Manhattan, New York. Historical market data reported by The Real Estate Board of New York (REBNY) is as follows:

REBNY Retail Report
Downtown Manhattan (South of 14th Street)

South of 14th Street	Average Asking Rent	6-Mo. % Change	Year over Year % Change
Fall 2015	$ 151	5.6%	11.9%
Spring 2015	$ 143	5.9%	
Fall 2014	$ 135	3.8%	9.8%
Spring 2014	$ 130	5.7%	
Fall 2013	$ 123	7.9%	24.2%
Spring 2013	$ 114	15.2%	
Fall 2012	$ 99	-2.9%	-1.0%
Spring 2012	$ 102	2.0%	
Fall 2011	$ 100	-2.9%	1.0%
Spring 2011	$ 103	4.0%	
Fall 2010	$ 99	-2.0%	

According to REBNY, the Downtown retail market encompasses retail locations below 14th Street. The asking rents within Downtown have increased significantly in the past year. According the REBNY, the most recent spring 2015 data indicates an increase in average asking rent to $151 per square foot. Annually the current asking rent marks an increase of 11.9% over the fall 2015 asking rent of $135 per square foot.

Planned Retail Development in Proposed Property

According to proposed development outline supplied by the client, the retail space component will comprise four spaces on the ground floor in North totaling 29,800 square feet and a second floor space in North targeted for possible occupancy by a grocery store totaling 38,800 square feet. In Center, the total retail space is scheduled to comprise over 100,000 square feet with a big-box proposal. The square footages summarized above fall short of the stated square footage for retail space in the overall development plan, however this is assumed to be accounted for by loading areas and non-useable space.

MANHATTAN DEVELOPMENT LAND MARKET

In general, we have observed that land prices in Manhattan, especially for residential, mixed-use and hotel development, rose from 2003 and continuing through to late 2007 to early 2008 leading into the recession. Given that land pricing is a function of the demand for built space coupled with the availability of acquisition financing, construction financing, and construction costs, until the recession, the demand was greater than the costs to construct the supply. As the recession of 2008 approached, acquisition financing and construction financing became more expensive, and lenders were unwilling to finance new development. Coupling increasing development costs with a drop in demand due to declining job growth and stagnant wages, demand for space, especially residential space, slowed as compared with the pace of 2003-2008. Few development site transactions closed in the latter third of 2008 and 2009, as the appetite for new development, both from an equity and debt side, was, for all intents and purposes, gone.

Coming out of the recession, development site sales picked up in both price and volume, beginning in 2010, as national, and local, employment grew; population increased to NYC; and financing increasingly became available at low rates. Additionally, investors and developers looking to capitalize on depressed property values, and foreclosed sites, were well-positioned to strike. Beginning in 2010 and continuing to 2011, land prices rose steadily. Beginning at the end of 2011 towards early 2012, the local economy further strengthened, interest rates reached new lows, and financing became available for real estate acquisitions, and in particular, lenders became increasingly willing to finance new development. As a result, from early 2012 to mid-2015 and prices rose to record levels, far surpassing previous highs. The rate of appreciation in this 3+-year period was unprecedented, with some properties doubling in value in a 2-year span from 2011 to 2014 and into 2015. Beginning with the second quarter of 2015, we have observed in some markets a softening in price, as measured by reduced asking prices for development parcels and an increased availability of sites, signaling some developers' preference to shirk development risk and capitalize on the recent appreciation.

The driving force of development site sales during the recent run-up had been for residential condominium development, yet investors were also paying record prices for hotel and mixed-use projects throughout the prime neighborhoods in Manhattan. The strong prices for new luxury condominiums, in certain buildings such as 432 Park Avenue, 157 West 57th Street, and 15 Central Park West have reached close to $10,000 per square foot for upper-floor units. A number of other new luxury developments in Midtown West, West Chelsea and Upper West Side command close to $3,000 per square foot, and prices of $10,000,000 per apartment for new four- and five-bedroom apartments are not uncommon. These record condominium prices helped to buoy the land prices as well as put upward pressure on rental rates. As apartment prices for new developments reached all-time highs, land prices rose rapidly in neighborhoods where high-end luxury developments never previously existed such as the West 50s and far West 30s. Demand for buildable sites has been so strong that in some cases developers were willing to buy occupied improved properties, negotiate tenant buyouts and demolish the existing improvements in favor of new development even when, in some cases, the new developments are only somewhat larger than the existing structures.

Beginning in the second quarter of 2015 and through the fourth quarter of 2015, we have observed developers' apprehension at purchasing land for luxury condominium development, and through the April 2016 appraisal date, we have observed a disconnect between buyers and sellers that we believe will lead to decreasing land prices. Concern about the strength of the high end condominium market weighs heavily on development land prices, as the condominium sellouts seen in 2013 and 2014 appear less likely of being achieved for developments in 2016 and 2017. The slowdown is evident in a number of notable developments around Manhattan. One data point is the average number of days that condominiums are on market, which according to the Elliman Report, authored by Miller Samuel, increased 47% between Q4 2014 and Q4 2015, from 102 days to 150 days. Furthermore, according to the Elliman report, price per foot in Q4 2015 has decreased in the Luxury category by -6.4%, year over year. This is powerful evidence pointing to a decreased demand for new, high-priced condominium development.

As a result of the decreased demand for high-end condominium product, a number of developments have reduced projected total condominium sellout prices, such as Extell Development's $207,325,100 price cut (from $2,080,075,100) at One Manhattan Square/225 Cherry Street. Other developments, such as 10 Sullivan Street, have turned to dividing larger units to increase the velocity of transactions. At 10 Sullivan, an 8,359 square foot triplex penthouse initially asked $45,000,000 but now will be separated into two new units: a full-floor, 3,000-square-foot unit for $11 million, and a 5,400-square-foot duplex that will ask $29 million. Other developers have entirely abandoned development plans. One such project is 1 Park Lane, where the Steve Witkoff-led joint venture has, for now, discontinued plans to demolish the Park Lane Hotel and construct a 1,210-foot tall ultra-luxury condominium building.

Given that pricing on condominium developments has weakened, many developers are taking a "wait and see" attitude, as are lenders for these luxury condominium projects. Michael Stoler, a managing director at Madison Realty Capital was quoted as saying, "Everyone's a little worried…With anything at $2,500 (per square foot) or more, lenders are very cautious."[1] As such, a decrease in the number of development site sales, and permit filings indicates a slowdown in forthcoming development as there is palpable disconnect between buyer and sellers in the market for development sites, especially those for which condominium development is the highest and best use.

Broader Market Data – Development Site Sales

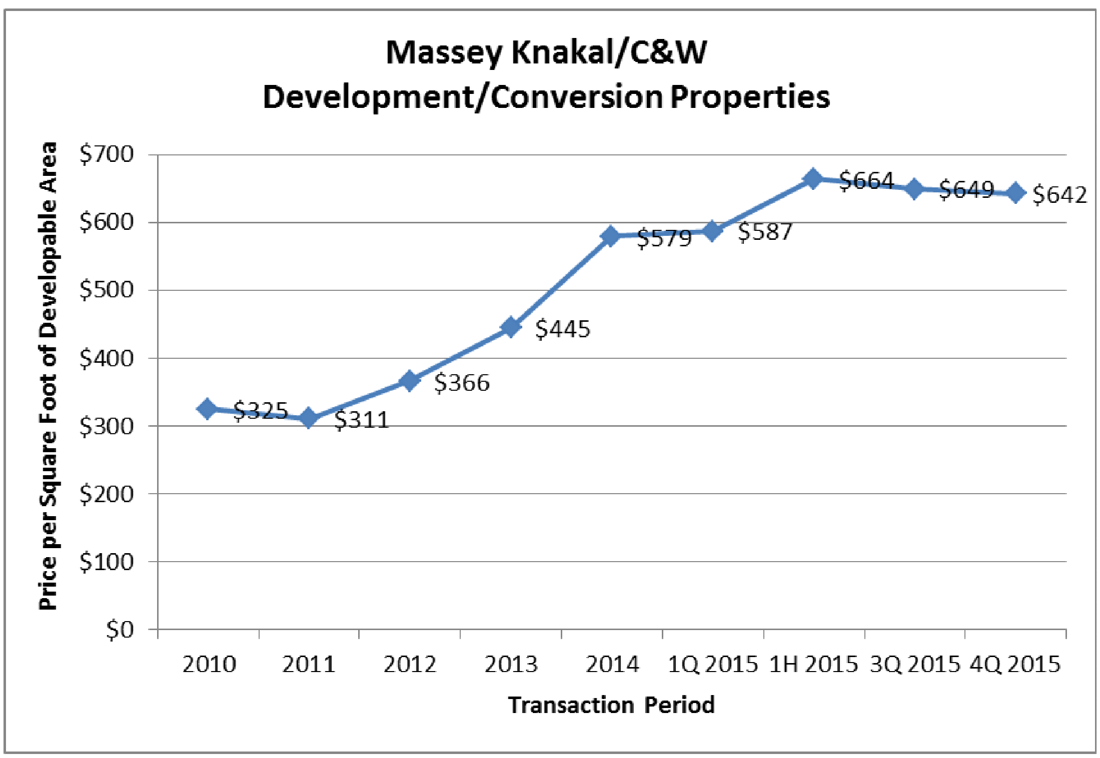
Massey Knakal Realty Services (now known as Cushman and Wakefield) publishes market reports tracking transactions of real estate throughout New York City. The market reports cover a variety of asset classes and are generally well-regarded as a reliable source for general market data. For the asset type discussed here - development/conversion sites - the Massey Knakal reports started to track and present the data in 2009, with full-year data available in reports beginning in 2010. The

[1] http://therealdeal.com/2016/02/04/lenders-losing-interest-in-financing-high-end-condo-projects/

reports track the number of sales, the total volume of sales, and the price per square foot of developable area. The data contains a mix of commercial development/conversion sites, but the nearly all of the data concerns residential development sites. We have summarized the year-end data presented in these reports beginning in 2010 through 2015. The data is presented in the table below, followed by a chart illustrating the trend.

Massey Knakal/C&W Development/Conversion Properties

Year End	# Sales	Total Dollar Volume	Increase/ Decrease from Prior in Volume	$/ PSF	Increase/ Decrease from Prior in $/PSF
2010	41	$802m	307%	$325	-14%
2011	97	$1.4b	180%	$311	-4%
2012	158	$3.12b	128%	$366	18%
2013	101	$3.8b	6%	$445	22%
2014	192	$5b	31%	$579	30%
1Q 2015	60	$1.8b	33% (from 1Q 2014)	$587	1%
1H 2015	40	$2.5b	53%	$664	13%
3Q 2015	42	$885m	30%	$649	-2%
4Q 2015	38	$5.4b	415%	$642	-1%



Summary – Massey Knakal Market Reports

The Massey Knakal reports indicate that, beginning with the year 2011, the volume of development/conversion property sales in Manhattan increased dramatically. From 2010 to 2014, annual volume increased from $802 million to $5 billion, representing a 523% increase. Just from 2011 to 2012, total volume increased 123%. Increased sales volume has also been coupled with rapid price appreciation in the same periods analyzed. Total price appreciation for full-year 2011 data to full-year 2014 is 86%. One observation to be made is the velocity with which the prices have increased. From 2011 to 2012, prices show a reported increase of 18%, followed by a 22% increase to 2013, and an even higher increase of 30% to 2014. The increase to first half 2015 is 13% in price per square foot and 53% in volume from first half 2014. However, this is not an “apples to apples” comparison, as it represents only a partial year’s data. The Massey Knakal data suggests that, following the recession, there was rapid price appreciation for development sites, and that the capital deployed towards development properties increased significantly as market conditions created a development-friendly environment. Although transaction volume concluded at an all-time in 2015, pricing decreased as the year came to a close, reflecting the market observation that all-time high land prices are not sustainable given the increased riskiness and prolonged absorption periods for the luxury condominium product – the source of the rapid demand rise from 2012 through mid-2015.

Hudson Square Residential Development

Prior to the Hudson Square rezoning in early 2013, there were relatively few residential development site transactions in the neighborhood. Since the rezoning, a number of residential development sites have transacted. Some of the more prominent transactions and assemblages in the neighborhood include the following:

New and Planned Residential Development in Hudson Square

1. **68-74 Charlton** – In May 2013**,** Extell Development sold a 90% interest in the leasehold for $52,000,000 to Angelo, Gordon & Co., which translates into a full value of nearly $58,000,000 for the leasehold development site. Press reports indicate that Extell initially intended on developing a hotel on the site, but now that this parcel (along with many others in Hudson Square) has been rezoned to accommodate residential development, plans call for 22-story development comprised of 25 affordable units and 91 market rate cooperative units, marketed as condops. Of the affordable units, 22 are planned to be two-bedroom apartments and three would be studios, with initial rents ranging from $830 to $1,080 per month. Asking prices range from $995,000 for a one-bedroom unit measuring 756 square feet, up to $7,130,000 for a 2,486 square foot 14th-floor four-bedroom unit. In developing this project, Extell secured 421-a benefits. The project is underway and will reportedly be complete by the end of 2016.
2. **15 Renwick Street** – Designed by ODA-Architecture, the 31-unit building features a unique mix of 3 town homes with private yards, 4 Penthouse duplexes, and 2- and 3-bedrooms. Amenities include optional private parking, a fitness center and boxing gym, 24-

hour doorman, roof deck and zen garden. Completion is set for 2015, with sales ongoing. According to Streeteasy.com, 25 of the 31 units are being actively marketed with 22 of the 25 reported as in contract. Asking prices range from $2,100,000 for an 8th-floor, 1,028-square-foot one-bedroom unit to $8,150,000 for a 2,859-square-foot, three-bedroom penthouse with two terraces totaling 1,344 square feet. On a per-square-foot basis, asking prices range from $2,027 per square foot to $2,859 per square foot.

3. **108-110 Charlton Street and 537-545 Greenwich Street –** The acquisition of these parcels by Cape Advisors is a comparable development site sale included in the valuation section of this report. Although plans have not been announced, the site can accomodate a development of over 120,000 square feet. Along Greenwich Street, this site overlooks the UPS facility. No plans have been finalized and no building permits have been filed on either of the sites, but subsequent to the acquisition of the initial land, the developer has purchased two blocks of air rights.

4. **627 Greenwich Street –** The acquisition of this parcel by Brack Capital is a comparable development site sale within this valuation. Although plans have not been announced, the existing 106,400-square-foot commercial building can accommodate a conversion for residential development, given its M1-5/R7X zoning in northern Hudson Square. This corner property offers good light and air on all sides and is appropriate for a condominium development. Building permits filed through an Alt-1 indicate a development of 35 units in 117,594 square feet of ZFA. This development also includes a commercial component measuring 9,257 square feet.

5. **22 Renwick Street** – Completed in 2013, this development designed by Philip Johnson Alan Ritchie Architects features 17 apartments spread over 12 floors. In addition to on-site amenities such as doorman, private storage and bicycle storage, this development enjoys a 421-a tax exemption. The three most recent transactions in this development occurred in July 2015, $1,925 per square foot, and one unit is presently listed for $1,888 per square foot.

6. **100 Varick Street/565 Broome Street –** The acquisition of this parcel by a group of developers including Halpern Real Estate Ventures and Bizzi & Partners represents the largest ongoing project in the neighborhood. Although plans have not been finalized, due to the increasing project footprint, the site can house a development of over 270,000 square feet. This corner property offers good light and air on all sides and is appropriate for a condominium development. The developers have continued to expand the footprint of this project, and its total ZFA has seen a number of iterations. The most recent transaction concerned the purchase of a portion of the abutting condominium building at 121 6th Avenue, a building from which the JV already purchased air rights in 2013.

7. **One Vandam (180 Sixth Avenue)** – This development is technically located in SoHo, on the easterly side of Sixth Avenue/Avenue of Americas; nonetheless it is a good example of new condominium development being introduced to the neighborhood. Under development by Quinlan Development, this project offers 25 units spread across 14 floors. The development is architecturally unique to the surrounding area and provides for good light and air to all units. The building amenities include an outdoor terrace, fitness center, private

storage and full-time doorman service. According to a summary of listings on Streeteasy.com, 16 units are in contract to be sold. Asking prices range widely from a $1,540,000 for a 737-square-foot 3rd-floor one-bedroom apartment to as high as $28,000,000 for a 5,286-square-foot, 4-bedroom, 5.5-bath triplex penthouse with a total of 1,996 square feet of terrace space. The asking prices on available units range from $2,090 to $5,297 per square foot.

8. **10 Sullivan Street –** Similar to One Vandam above, this development is technically located in SoHo, situated on the easterly side of Sixth Avenue/Avenue of Americas at its intersection with Sullivan Street. The development is jointly developed by Madison Equities and Property Markets Group and is comprised of 19 units spread over 16 stories in addition to four 25-foot-wide, four-story over English basement townhouses measuring approximately 4,700 square feet. Building amenities include stroller and bicycle storage, private storage, fitness center and 24-hour doorman. According to listing information provided by Streeteasy.com, 19 condominium units are available for sale with all but four in contract. Asking prices range from $2,550,000 for a 4th floor, 982-square-foot one-bedroom to an 8,359 square foot triplex penthouse initially asked $45,000,000 but now will be separated into two new units: a full-floor, 3,000-square-foot unit for $11 million, and a 5,400-square-foot duplex that will ask $29 million.

9. **270 West Street /33-35 Debrosses Street –** This future development is located four (4) blocks south of the southern end of the subject property along West Street, technically located within the neighborhood of Tribeca. This location shares many features with the subject development with respect to overall location, exposure and nearby amenities. Related Development acquired a portion of these properties from Ponte Equities in March 2014 for a reported $115.3 million. However, the RP-5217 transfer tax report on this transaction shows a full sale price of $80,343,977. We have confirmed with a reliable source involved in this transaction that this acquisition represents the full value of a joint venture contribution agreement between Related Development and Ponte Equities and is not representative of an arms-length sale of real estate. As a result, it cannot be used as evidence of a development site sale in this valuation as the true consideration is unclear. The development can, reportedly house over 150,000 square feet of residential development as-of-right. Although plans have not been released, a filing on the NYS Attorney General Real Estate Finance bureau indicates a projected sellout of $697,755,000 for 47 units, or over $14.8 million per unit.

10. **156 Leroy/357 West Street –** Opposite the northern end of the subject development site is a collection of small properties long held by Richard Mack. According to press reports, Mack entered into a co-development agreement with Ian Schrager to construct a 12-story mixed-use, primarily residential development at this location.[6] The property is zoned M1-5, and the developers received a BSA variance on March 11, 2014 under application number

[6] ny.curbed.com/archives/2014/03/11/starchitect_firm_likely_designing_12story_west_street_condo.phop

192-13-BZ. The proposed residential use will be in line with the M1-5-/R7X-rezoned portions of the neighborhood. The planned, and approved project, will contain 77 residential units and 12 accessory parking spaces all located within a 12-story 141,815 square foot development. The pricing averages nearly $3,200 per square foot for all listed spaces.

11. **465-469 Washington –** This future development is located just south of the southern end of the subject property along Washington Street, technically located within the neighborhood of Tribeca. This location shares many features with the subject development with respect to overall location, and nearby amenities. This development represents an augmentation to an existing mixed-use building. After selling for $6,114,796 in October 2012 following a foreclosure proceeding, the new owners have applied to add a five-story addition. DOB permits indicate plans to add two duplexes and a full-floor unit. Certain spaces have to be deeded back to current occupants following the renovations. Configurations and pricing have not been released for this development, which will total 7 units.
12. **82 King Street –** Acquired by Toll Brothers in December 2012, prior to the neighborhood-wide rezoning. This site can house a development nearing 400,000 square feet, as-of-right. No permits have been filed and no action has been taken on the site since the acquisition. Reportedly, Verizon occupies the property through 2017 and has, to this point, precluded development.
13. **527-531 Greenwich/92-100 Vandam** – This development site is owned by investor Jeff Greene and was recently offered for sale for $175,000,000 by Massey Knakal Realty Services, before being taken off the market in favor of redevelopment by Greene. According to the listing, the parcels consist of 12,170 square feet of land area as well as 26,805 square feet of air rights previously assembled from 305-307 Spring Street. The property consists of 92-94 Vandam Street, presently occupied by a six-story, 14,700 square foot building and 100 Vandam Street, presently occupied by a six-story, 40,600 square foot building. According to permits filed, the property will be built to a total ZFA of 156,629 square feet as-of-right, housing 62 units and 2,311 square feet of commercial space.

14. **111 Varick Street** – This development site comprises a six-storyparking garage that has been long-owned by Robal Parking Corporation. Robal has filed to develop a condominium development at this location following the purchase of 12,256 square feet of air rights from 32 Dominick Street for $3,500,000 or $285 per square foot, and a recent acquisition of 14,519 square feet of air rights for $6,000,000 or $413 per square foot from abutting 117 Varick Street. Total ZFA assembled for this project totals 78,211 square feet, and can be slightly enhanced with any commercial bonus rights if the developer selects to do retail or commercial space in this development.

New Residential Rental Development

1. **460 Washington Street** – currently under constructed by Bridge Land West LLC c/o Related Development, DOB filings indicate this rental development will total 140,990 square feet in 10 stories and house 107 units. According to NYC Land Records, the property is subject to a regulatory agreement with NYC Housing Development Corporation (HDC) which dictates that 22 of the 107 units will be "affordable to Low Income Tenants" and held within an Affordable Condo Unit. Projected rents for the affordable units will be $800 for five (5) studio apartments, $860 for six (6) one-bedroom units and $1,041 for 11 two-bedroom units.
2. **261 Hudson Street** – currently under constructed by Bridge Land Hudson LLC c/o Related Development, DOB filings indicate this 80/20 rental development will total 168,264 square feet spread over 12 stories and will house 201 units, 41 of which will be affordable. According to NYC Land Records, the property is subject to a regulatory agreement with NYC Housing Development Corporation (HDC) which dictates that 41 units will be "affordable to Low Income Tenants" and held within an Affordable Condo Unit. Projected rents for the affordable units will be $833 for 16 studio apartments, $895 for 16 one-bedroom units and $1,082 for nine (9) two-bedroom units.

Conclusion

The neighborhood-wide rezoning has spurred an assortment of new residential development within Hudson Square. As evidenced by the number of new condominium projects planned for the area and, with the exception of 80/20 properties that receive favorable tax treatment, the lack of rental projects planned, the economics to develop ownership units far outpaces the econonmics for development of market rate rentals units. As a consequence, land prices for residential development have continued to rise. In many of the surrounding areas, neighborhoods such as SoHo and the West Village were rental neighborhoods, but nearly all new development within these neighborhoods has been for condominium development as land acquisition for rental development is currently infeasible. Where development sites exist, few builders can "pencil out" rental developments given both land and construction costs and most builders see condominium development as the best way to realize a lower-risk and short term return on investment.

REAL ESTATE ASSESSED VALUATION AND TAX DATA

Ad valorem taxes are one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established by the local assessor. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value so that properties of equal market values will have similar assessments, and properties of higher and lower values will have proportionately larger and smaller assessments. The real estate taxes for the property are based on local tax assessment practices, existing assessments and changes in market value, and changes in the tax rate.

The subject air rights will be transferred to the property identified on the New York City tax rolls as Block 596, Lot 1. According to the New York City tax records, the subject property is comprised of one parcel classified as Tax Class IV. The historical tax rates for IV properties are summarized below.

Historical Tax Rates		
Year	**Class IV Tax Rates**	**% Change**
2005/06	$11.306	-2.180%
2006/07	$10.997	-2.733%
2007/08	$10.059	-8.530%
2008/09	$10.241	1.809%
2009/10	$10.426	1.806%
2010/11	$10.312	-1.093%
2011/12	$10.152	-1.552%
2012/13	$10.288	1.340%
2013/14	$10.323	0.340%
2014/15	$10.684	3.497%
2015/16	$10.656	-0.262%
Average:		**-0.538%**
Source: NYC Department of Finance		

The historical rates indicate an average annual change in the tax rate of -0.538% for Class IV over the past ten years.

Local Tax Assessment

The Property Division of the City of New York Department of Finance assigns both an actual and transitional assessment to real property. Real estate taxes are typically calculated based on the lower of the two assessments. Assessments are theoretically based on 45% of the assessor's fair market value conclusion for class II and IV and 6% of the market value for class I. The subject property is classified within Tax Class IV.

The receiving site’s proposed development will consist of a mix of residential and commercial uses, which upon completion will be reassessed, reflective of the uses. We have therefore set forth below a description of the current Class II tax rates and tax comparables for use in our valuation which is more fully described in the valuation section.

The entire proposed residential component is projected to be identified as a Class II development. The historical tax rates for Class II property indicate an average annual change in the tax rate of 0.536% over the past ten years. Historical tax rates for Class II Property, such as what is planned planned for the proposed development, are listed as follows. The 2015/16 Class II tax rate, the most recent available as of the date of value, was $12.883 per $100 of assessed value.

Historical Tax Rates		
Year	**Class II Tax Rates**	**% Change**
2005/06	$12.396	1.473%
2006/07	$12.737	2.751%
2007/08	$11.928	-6.352%
2008/09	$12.596	5.600%
2009/10	$13.241	5.121%
2010/11	$13.353	0.846%
2011/12	$13.433	0.599%
2012/13	$13.181	-1.876%
2013/14	$13.145	-0.273%
2014/15	$12.855	-2.206%
2015/16	$12.883	0.218%
Average:		**0.536%**
Source: NYC Department of Finance		

Below is a summary of new residential developments and the taxes for these projects.

COMPARABLE REAL ESTATE TAX BURDENS - MID- AND HIGH-RISE MULTI-FAMILY BUILDINGS						
	#1	**#2**	**#3**	**#4**	**#5**	**#6**
Address	**55 Sullivan Street**	**177 9th Avenue**	**534 West 30th Street**	**500 West 23rd Street**	**450 Washington Street**	**2 Cooper Square**
Description	**9-story, built 2009**	**7-sty, built 2008**	**34-sty, blt. 2008**	**13-sty, blt. 2011**	**15-sty, blt. 2007**	**16-sty, blt. 2009**
Block/Lot	489/1	718/1004	701/62	694/39	224/1	544/65
GBA	**77,190**	**113,082**	**387,468**	**109,795**	**305,542**	**128,300**
Assessment 2015/16 - Prior to Abatements	$17,400,150	$15,470,100	$43,177,050	$18,575,100	$39,187,800	$15,815,250
Tax Class	2	2	2	2	2	2
2015/16 Tax Rate	12.883	12.883	12.883	12.883	12.883	12.883
Est. Tax Burden /Annum	$2,241,661	$1,993,013	$5,562,499	$2,393,030	$5,048,564	$2,037,479
Est. Tax PSF GBA	$29.04	$17.62	$14.36	$21.80	$16.52	$15.88

Based upon these tax comparables we have projected that the residential component at the receiving sites proposed property will upon completion have a non-abated real estate tax burden of approximately $19/SF. The taxes on a per-square-foot basis are used to estimate the taxes for the receiving site's proposed residential rental component.

Current Taxes and Assessment – Receiving Site

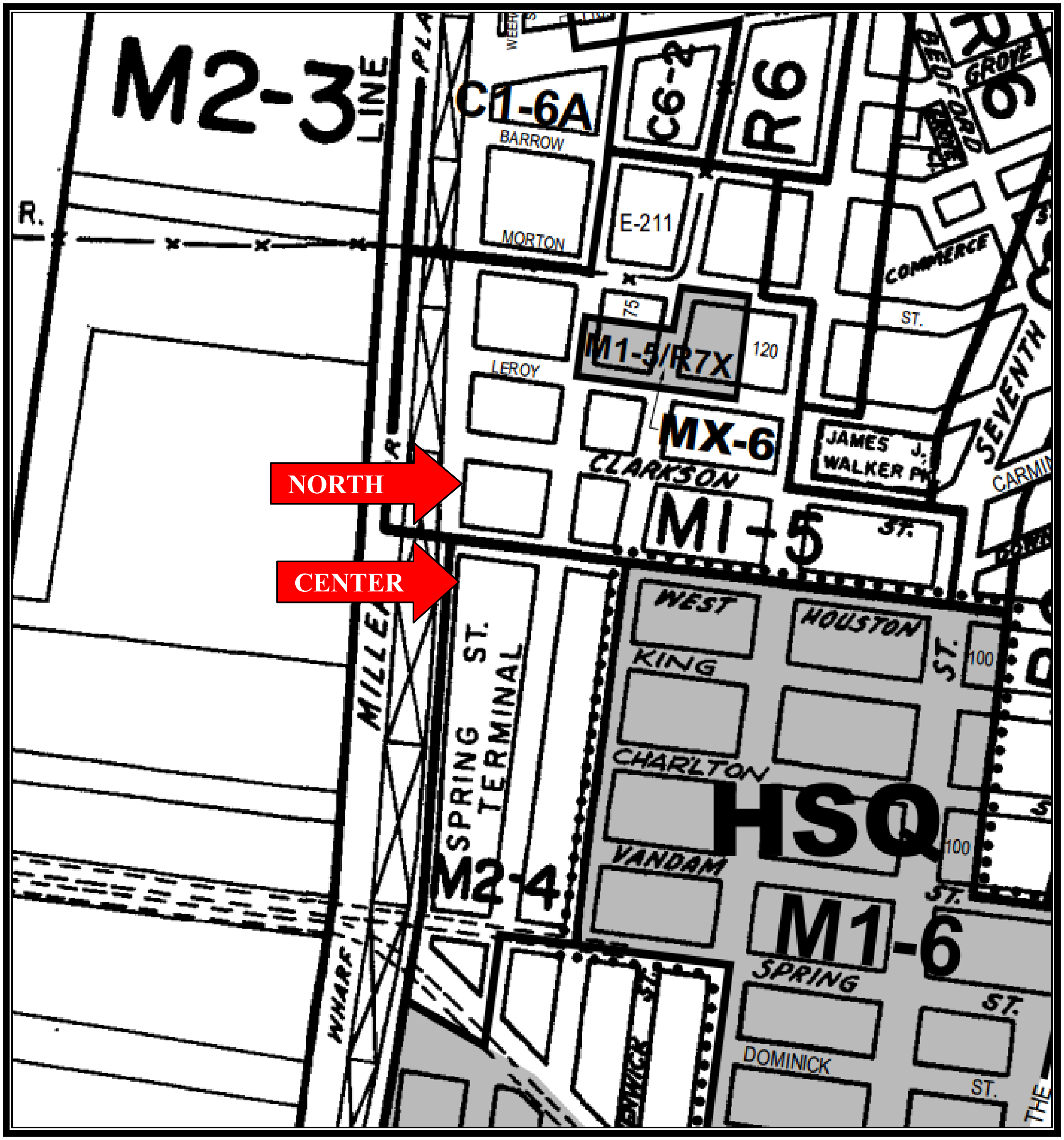
The receiving site has a transitional land assessment of $19,980,450 and a transitional total assessment of $82,348,169, and is classified as Tax Class IV. Current total taxes are $8,775,021 using. It is important to note that the receiving site contains more land area than will house the subject excess rights and is presented for informational purposes, as upon redevelopment, the property will be re-assessed commensurate with the scheduled development.

420-c Tax Incentive Program

The proposed senior affordable housing component will enjoy tax benefits generated by the 420-c Tax Incentive program. We have been informed by NYC HPD that this specific component of the project will be eligible for a 100% tax exemption for a period of 60 years.

421-a Partial-Tax Abatement Program ("421-a")

The 421-a program has expired as of the appraisal date and the subject property cannot enjoy the benefits of the program. The addenda of this report develops an alternative valuation in which the 421-a program in its most recent iteration is available for the rental components of the subject receiving site.



Zoning Map (current)

ZONING ANALYSIS

Current Zoning

As discussed under site data, the current improvements on the receiving lot span West Houston Street. In analyzing the potential development of the site both as-of-right and in conjunction with the proposed rezoning, the following site areas have been provided to us by the client: North – 55,020 square feet; Center – 100,730 square feet.

M1-5 (North) - North of the receiving site is located in a zoning district classified as M1-5, Light Manufacturing District. These districts are, "designed for a wide range of manufacturing and related uses which can conform to a high level of performance standards. Manufacturing establishments of this type, within completely enclosed buildings, provide a buffer between Residence (or Commercial) Districts and other industrial uses which involve more objectionable influences." New residential development is excluded from these districts. M1 districts typically include light industrial uses, such as woodworking shops, repair shops, and wholesale service and storage facilities. Nearly all industrial uses are allowed in M1 districts if they meet the stringent M1 performance standards. Offices, hotels and most retail uses are also permitted. Certain community facilities, such as hospitals, are allowed in M1 districts only by special permit, but houses of worship are allowed as-of-right.

Permitted Use Groups with M1-5 districts include:

Community Facility:	Group 4
Retail & Commercial:	Group 5-11
Recreation:	Groups 12-14
General Service:	Group 16
Manufacturing:	Group 17

Bulk regulations are as follows:

Maximum Floor Area Ratio (FAR):	
Commercial:	5.0
Community Facility:	6.50
Minimum Yard Requirement:	
Rear Yard:	20.0'; None for corner lot
Side Yard:	None
Front Yard:	None
Initial Setback:	
Narrow Street:	20'
Wide Street:	15'
Height above street:	85'

Maximum height for M1-5 development is governed by sky exposure plane

M2-4 (Center)

Center of the receiving site is located in a zoning district classified as M2-4, Medium Manufacturing District. This district is designed "…for manufacturing and related activities which can meet a medium level of performance standards. Enclosure of such activities is not normally required except in areas along the boundary of a Residence District." No new residences or community facilities are permitted.

Permissible uses in the M2-4 zoning district include manufacturing, printing establishments, parking lots, parking garages, health facilities, retail and service establishments, business and trade schools and public service establishments.

Permitted Use Groups with M2-4 districts include:

Retail and Commercial:	Groups 6 through 11
Recreation:	Groups 11 through 14
General Service:	Group 16
Manufacturing:	Group 17

The following bulk regulations apply to the subject:

Maximum Floor Area Ratio:	
Commercial:	5.0
Manufacturing:	5.0
Minimum Yard Requirement:	
Side Yard:	8 feet
Rear Yard:	20 feet
Initial Setback:	15 feet
Maximum Height of Front Wall:	85 feet (total height above set back governed by sky exposure plane)

The maximum building area permitted, if the site was vacant and available for development to its Highest and Best Use, is as follows:

Development Phase	Plot Square Feet		FAR		Maximum Total Building Area
North	55,020	x	5.0	=	275,100 sq. ft.
Center	100,730	x	5.0	=	501,850 sq. ft.
	155,750	**x**	**5.0**	**=**	**778,750 sq. ft.**

The receiving site contains approximately 155,750 square feet of combined site area, indicating a maximum permissible gross building area of 778,750 square feet. The receiving site is improved with an office building totaling 940,000 square feet spread over North, Center and additional site measuring 40,660 square feet, also located within M2-4 zoning. Based on the present zoning ordinance, the receiving site property is legally conforming as to use and legally non-complying as to bulk as it was built prior to current zoning regulations. We note that it was built prior to the enactment of the current zoning regulations affecting the site.

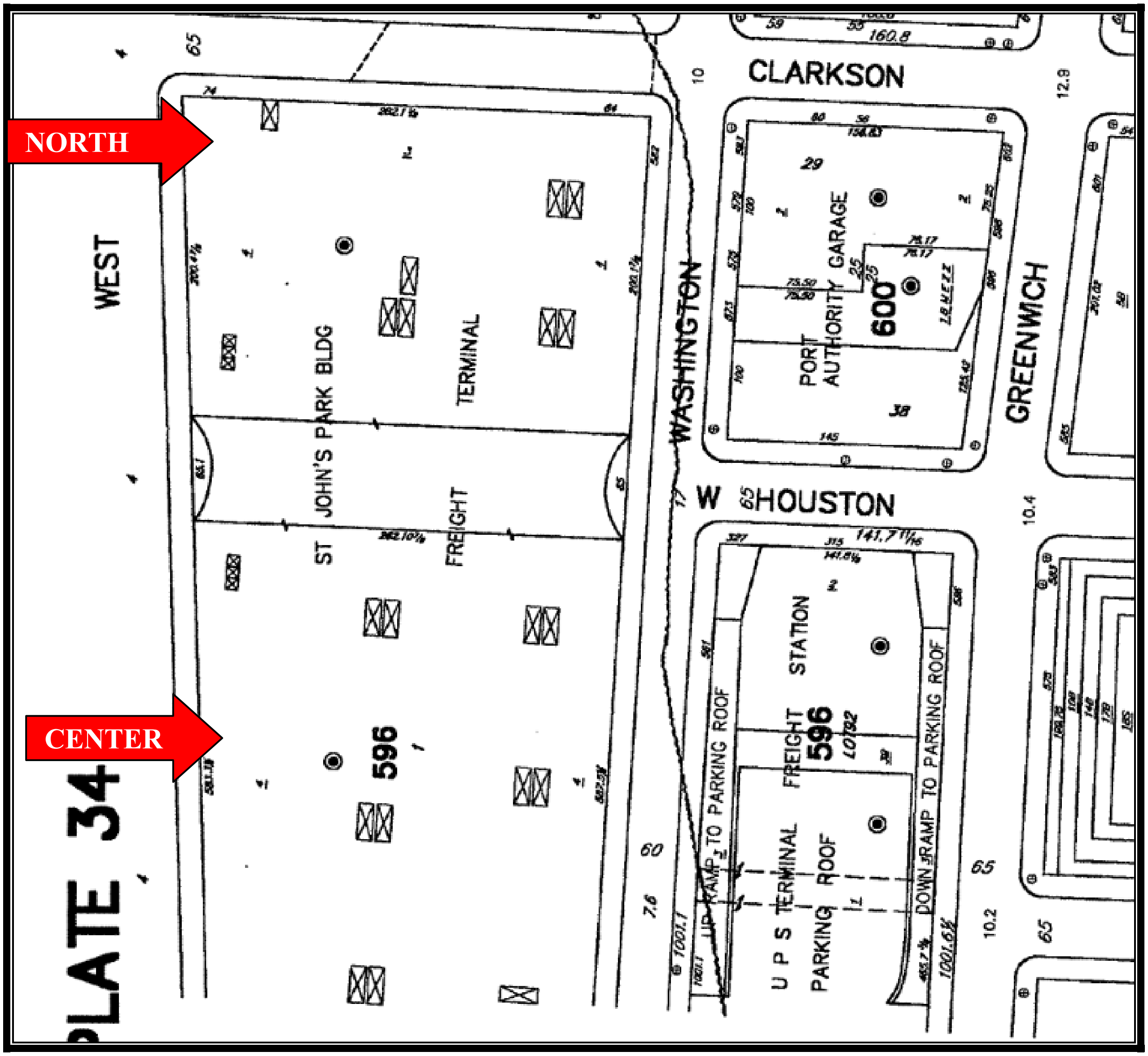
Proposed Plan and Rezoning

The proposed rezoning calls for a mixed-use development on North with a Floor Area Ratio (FAR) of 10.0; Center is also proposed for mixed-use with an FAR of 7.52; and South calls for a commercial development with an FAR of 5.0. The total Zoning Floor Area (ZFA) created by the rezoning allows for total ZFA of 1,510,990 square feet, as shown in the chart below.

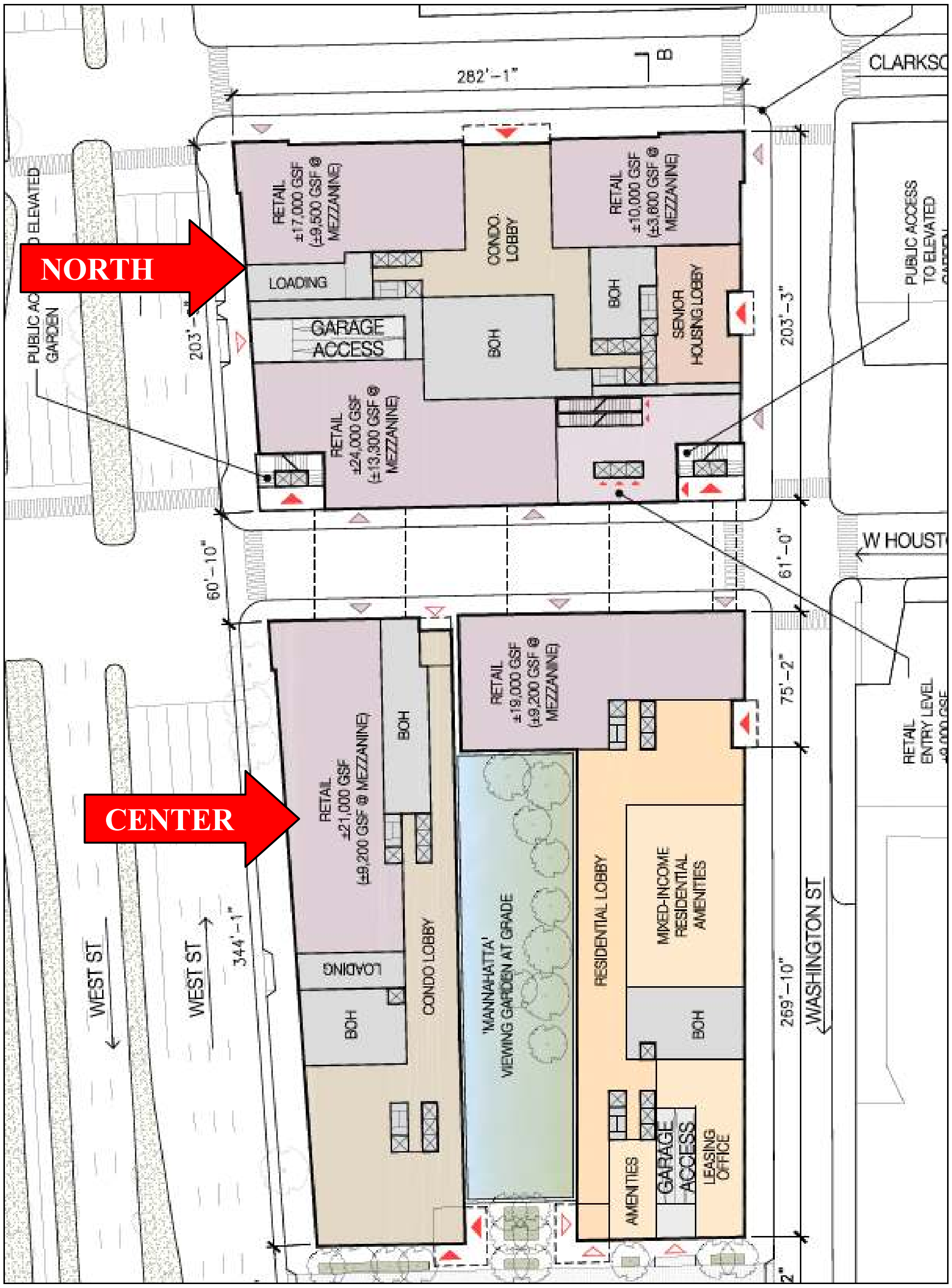
Location	FAR (proposed)	Proposed Zoning	Land Area	ZFA	Planned
North	10.00	C6-4	55,020	550,200	660,000
Center	7.52	C6-3	100,730	757,490	789,000
South	5.00	M1-5	40,660	203,300	262,000
			196,410	1,510,990	1,711,000

Therefore, the shortfall square footage is to be acquired by the proposed development from Pier 40 of the Hudson River Park. As mentioned previously, because the project site (including North, Center and South) comprises a single zoning lot, ZFA can be shifted among uses and locations, and the subject air rights can likewise be applied to any location and use within the zoning lot.

It should be noted the restrictions summarized do not represent the entire restrictions summarized in the *Zoning Resolutions* but are the most basic restrictions applicable. There are numerous other restrictions applicable that must be considered in the determination of true compliance, particularly within the special districts. However, the determination of compliance with zoning restrictions is beyond the scope of a real estate appraisal, therefore, our comments regarding compliance apply only to the restrictions noted above. Furthermore, we are unaware of any deed restrictions that may further limit the receiving site's use. Deed restrictions are a legal matter and only a title examination by an attorney or a title company can usually uncover such restrictive covenants. Thus, we recommend a title search to determine if any such restrictions do exist.

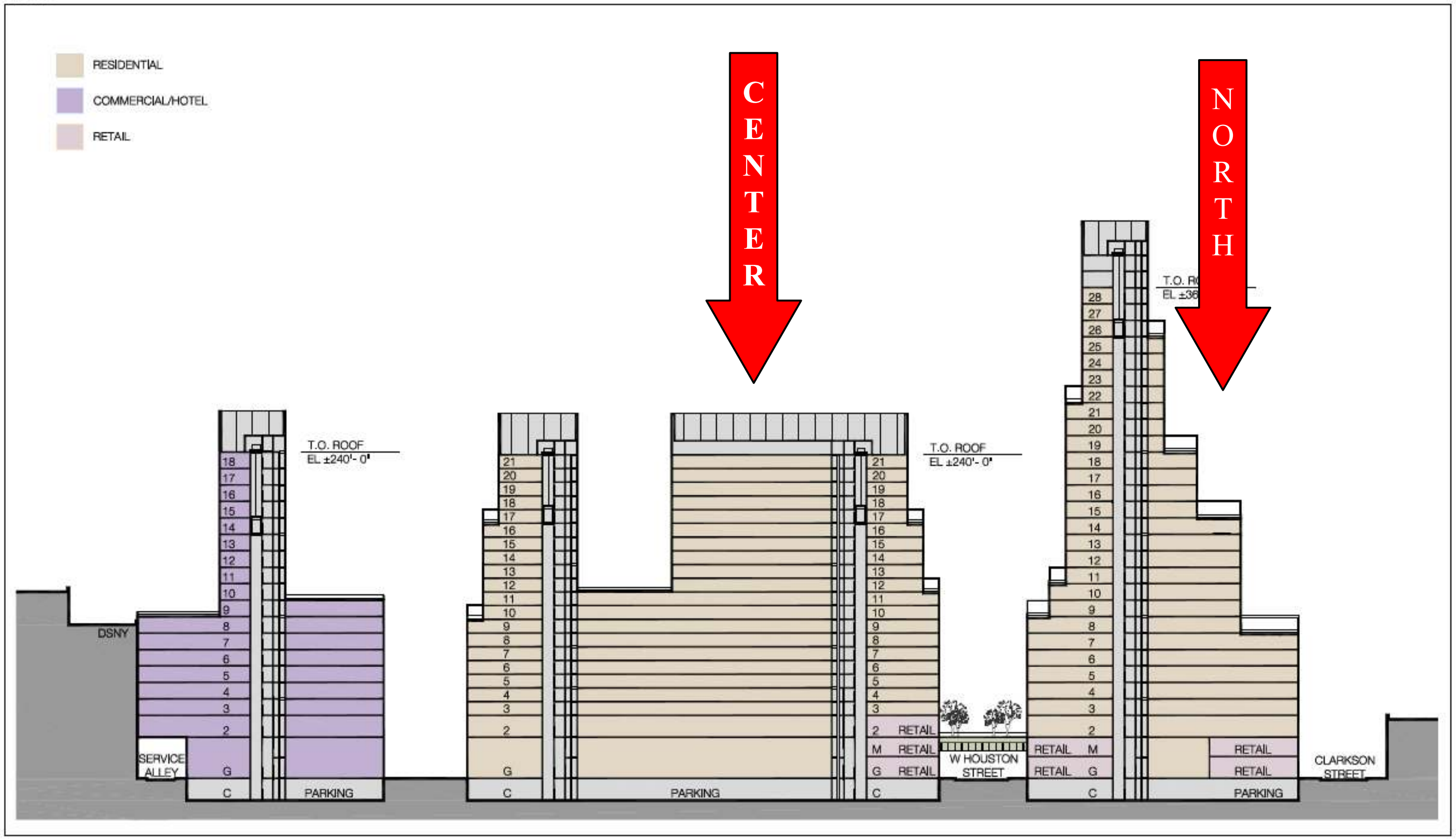


Plot Plan of 550 Washington Street
(North and Center)



Ground Floor Proposed Plans – North and Center (illustrative)

10.14.15



Section along Washington Street looking west (illustrative)

SITE AND IMPROVEMENT DATA – RECEIVING SITE

Location: The proposed development site is comprised of a whole-block parcel and block-front parcel generally bounded by Clarkson Street, West Street and Washington Street. The parcels are described in detail below.

The receiving site property is identified on the New York City Assessor's Map as part of Block 596, Lot 1.

Site Measurement:[7] North – Whole-block parcel; frontages are 282 feet along the southerly side of Clarkson Street; 203 feet along the westerly side of Washington Street; 203 feet along the easterly side of West Street and 270 feet along the northerly side of West Houston Street

Center – Block-front parcel; frontages are 263 feet along the southerly side of West Houston Street; 406 feet along the westerly side of Washington Street; 407 feet along the easterly side of West Street

Total Land Area: North – 55,020 square feet

Center – 100,730 square feet

Zoning: Split-zoned M1-5 and M2-4.

Topography: The site is generally level along all street frontages.

Flood Zone: According to FEMA Flood Panel Map 3604970182F dated September 5th, 2007, the property is located within the confines of FEMA Zone AE: areas determined to be within the 0.2 percent Annual Chance Flood Hazard area. The property is situated in NYC Hurricane Evacuation Zone 1, which is the highest risk level.

Utilities Available: Utilities available to the site are telephone, provided by Verizon and others; gas and electric provided by Consolidated Edison; water and sewer provided by the City of New York.

Municipal Services: Street lighting, sanitation, street maintenance, police and fire protection are provided by the City of New York.

Ingress/Egress: Ingress and egress to the site are by means of West Houston Street, Washington Street and West Street.

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[7] Based on lot areas provided by client

Traffic Nuisance

Along West Street/NYS Route 9A, there are a number of traffic lights, including one located at the intersection of West Street and Clarkson Street. West Street is a major north-south thoroughfare in Manhattan.

Potential Hazards/ Subsoil Conditions:

Appraisers and Planners, Inc. is not aware of any potential hazards affecting the site. Soil conditions are assumed to be adequate to support the existing structure and the proposed development.

Receiving Site's Current Improvements:

We did not make an interior inspection of the improvements. The summary of improvement below is based on information gleaned from a variety of sources. The property is presently improved with a four-story office building measuring nearly 800 feet in width and totaling 940,000 square feet of gross building area according to NYC assessment records. The building was constructed in 1933, and altered in 1965. The main entrance is at 570 Washington Street which is accessed via a set of concrete stairs which lead to a revolving door. In addition there are entrances at 330, 340 and 350 West Street. The building is tan masonry and features a number of drive-in doors along both West Street and Washington Street. Extensive HVAC equipment and fans can be observed on the building's roof. The former loft/manufacturing floors have been converted to office use. Merrill Lynch, which occupied over 50% of the building, vacated their space in 2007. The space remains vacant and requires a substantial tenant installation. Bloomberg LP occupies approximately 40% of the building. Reportedly, a good amount of the former Merrill space features outdated raised flooring. Due to the large floor plates, a significant amount of the space within the building is interior space with little light and air. While there is exposure to the Hudson River along the westerly building wall, views from the lower floors are partially obstructed by Pier 40.

A unique feature of the existing improvements is that the building spans West Houston Street allowing traffic to pass "through" the building, below the 2nd through 4th floors above West Houston Street.

Receiving Site's Proposed Improvements:

The proposed improvements call for a development that will house multiple land uses. For purposes of this appraisal, we have valued the air rights which are to be transferred in connection with the development of North and Center based on the required senior and affordable uses and the allocation of the highest and best use of the remaining air rights, which differs from the proposed plan.

The summary of the proposed plan is shown below:

Land Use		Sq. Ft. of Use	% of Total
Retail/Commercial	North	100,000	5.8%
Residential Condominium		450,000	26.3%
Residential - Affordable Senior Housing		110,000	6.4%
Retail/Commercial	Center	60,000	3.5%
Residential Condominium		300,000	17.5%
Residential - Market Rate Rental		210,300	12.3%
Residential - Affordable Rental Housing		218,700	12.8%
Retail/Commercial	*South*	*40,000*	*2.3%*
Hotel		*222,000*	*13.0%*
	Total	**1,711,000**	**100.0%**

According to a schematic provided by the client, the three locations will be connected by an elevated garden at the second floor. Proposed heights of the development will range from 200± feet for South to as high as 430± feet for the residential condominium portion of North. The condominiums in Center are proposed to reach a height of 320± feet and the rental component will achieve a height of 230± feet.

HIGHEST AND BEST USE ANALYSIS

The highest and best use analysis and conclusions for a particular property provide the basis upon which the market value is predicated. The purpose of the highest and best use analysis is to identify the use of a property that is expected to produce the highest overall return.

According to the Appraisal Institute, **highest and best use** is defined as:

> *"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in highest value."*[8]

The highest and best use analysis involves examination of the highest and best use of the subject property first as if vacant and unimproved and second, as improved.

In determining the highest and best use, the four tests of highest and best use are examined.

- Legally Permissible: The initial test or criterion of highest and best use considers what uses are legally permissible. This relates to designated zoning, bulk regulations, restrictions applicable to a lease, environmental regulations, easements or other restrictions. For the purposes of this appraisal we have considered the permissible uses and regulations as per the proposed rezoning and special permit.

- Physically Possible: The second test of highest and best use considers the size, shape, area and terrain or topography of a parcel of land that can affect the use of that parcel. This test also takes into account utility of the parcel based on frontage and depth measurements.

- Financially Feasible: The financial feasibility criterion refers to that use of the physically possible, legally permissible uses that is likely to produce a positive return to the owner.

- Maximally Productive: The fourth and final test of highest and best use is determining which of the financially feasible uses provides the highest net return to the investor.

The definition above applies specifically to the highest and best use of land. It is to be recognized that in cases where a site has an existing improvement on it, the highest and best use may be determined to be different from the improved use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

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[8] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th Ed., (Illinois: Appraisal Institute, 2010), page 93

Given that we are valuing the subject develop rights assuming they are part of the fee development of the receiving site identified as 550 Washington Street, this highest and best use analysis considers the highest and best use of the development rights transferred to the zoning lot comprising 550 Washington Street. In addition, this highest and best use analysis considers uses permissible under the rezoning and special permit which include residential, commercial retail, and hotel. Required uses include the senior affordable and low-income affordable components. Because the project site (including North, Center and South) comprises a single zoning lot, ZFA can be shifted among uses and locations, and the subject air rights can likewise be applied to any location and use within the zoning lot.

We have made an investigation of the property uses in the neighborhood and their relation to the subject air rights and the proposed receiving site's development. The subject property is currently split-zoned M1-5 and M2-4 by the City of New York. The property's location on Washington Street, West Street and Clarkson Street in Manhattan's Hudson Square neighborhood is appropriate for a mix of uses. There are several surrounding high-density commercial, industrial and residential uses, when/if rezoned. The recent neighborhood rezonings in have spurred changes to land use in the immediate area.

As Vacant

This receiving development property at 550 Washington Street must meet four criteria in the analysis of its highest and best use as though vacant or improved. First, the highest and best use must be legally permissible. This refers mainly to zoning, private restrictions, building codes, etc. This property is currently split-zoned M1-5 and M2-4 by the City of New York. These districts permit commercial, hotel and industrial uses which would be in context with some surrounding properties within the neighborhood. As evidenced by the efforts to rezone the proposed development, the area would benefit from a greater mix of uses including a residential component.

Second, the highest and best use must be physically possible. In other words, it must have a size, topography, availability of utilities, etc., in order for any proposed development to be possible. Because the size of North and Center is approximately 155,750 square feet, there are several potential uses from a mixed-use standpoint. The two sites are suitably shaped, have City utilities, a relatively level topography, and good access and visibility to a number of thoroughfares. It is our opinion that the receiving site can be physically improved with a variety of uses.

Third, the highest and best use must be financially feasible. This refers to the abilities of the use to provide a positive return. Potential income, operating expenses, and the percentage of vacancy are important factors. If the revenue projected is not capable of satisfying a required rate of return, the use may not be financially feasible. A mix of uses with a large residential component could easily produce a positive return if they are constructed in a functional manner. There is ample evidence of developers constructing residential and mixed-use developments on similarly-sized lots near the proposed receiving site. Demand for this type of use in the area exists, taking into consideration its population, income level, etc. Retail, or other commercial uses, may be financially feasible for portions of the first and second floors given the well-occupied status of nearby retail properties in Hudson Square.

The fourth criterion is that the highest and best use must be maximally productive. Of the uses that are physically possible, legally permissible, and financially feasible, the use that produces the highest price or value is the highest and best use. As illustrated in the development site sales in the Sales Comparison Approach, a number of developers are purchasing large parcels in nearby locations and are redeveloping them in favor of a variety of uses. As shown by the results of the Sales Comparison Approach, the highest and best use of the subject property development rights are for use as market rate residential units upon rezoning from M1-5 and M2-4 zoning to more favorable zoning that permits a wider variety of uses and densities.

As Improved

As improved, the property at 550 Washington Street consists of an office building. The property is legally permissible, physically possible; and it may be considered to be financially feasible. We have not been provided with the income and expenses for the property; however, the assumption is that the property is not financially feasible given the plans to redevelop the property. The current use, as improved, is not considered to be maximally productive, as evidenced by the rezoning efforts being undertaken by current ownership of 550 Washington Street.

The scope of the assignment requires a valuation of air rights to be assigned to a specific development. The value of the subject air rights represents a blending of uses for North and Center for planned development that includes residential condominiums, affordable rentals, and affordable rentals for senior housing, the latter two components are required by the ULURP. South is not included within this analysis as, according to information provided by the client, South concerns only a potential separate special permit application and is not planned to be a recipient of any air rights.

In addition, a hypothetical condition has been employed in this valuation as we have assumed that the proposed rezoning and special permit have been granted through a successful ULURP as of the effective date of value of this appraisal with the receiving site incorporating the air rights purchased from HRPT into the development.

Consequently, given that the project site (including North, Center and South) comprises a single zoning lot, and ZFA can be therefore be shifted among uses and locations, it is concluded that the highest and best use of the subject air rights is for construction of the required affordable residential uses that will be provided for as per the ULURP and the market rate residential uses. The valuation of residential use is the higher than office, retail, office or hotel for this property.

The developer currently proposes to construct the receiving site with a market rate rental component to be included with the required SARA and low-income affordable components. During the planning process of this development, the underlying economics of the market rate rental components have changed. First, the renegotiated 421-a program of June 2015 disallowed benefits for Manhattan condominiums. Since January 15, 2016 421-a has become extinct and is not available as of the appraisal date.

Through the analyses contained in this report, specifically in the addenda, it is our opinion that without 421-a, a market rate rental component does not represent the highest and best use of the site and that all market rate residential components should be developed with condominium units. We have been informed by NYCDCP that market rate rentals **are not** required under the proposed ULURP action; however, condominium development may preclude certain financial enhancements such as bond financing, and LIHTC for the low-income affordable component.

Highest and Best Uses for Phases North and Center – For Valuation

Total North and Center		
Land Use	Sq. Ft. of Use	% of Total
Residential Condominium	960,300	74.50%
Senior Affordable Housing	110,000	8.53%
Affordable Housing	218,700	16.97%
Total	**1,289,000**	**100.0%**

APPRAISAL PROCESS

The appraisal process is the orderly program in which the data used to provide an opinion of the market value of the subject property is acquired, classified, analyzed and presented. The first step is defining the appraisal problem, i.e., identification of the real estate, establishing the effective date of the value estimate, addressing the property rights being appraised and the type of value sought. Once this has been accomplished, the appraiser considers all the factors that affect the value of the subject property. This study includes Area and Neighborhood Analyses, Site and Improvement Analyses, Highest and Best Use Analysis and the application of the three approaches to rendering an opinion of the property's value. The three traditional approaches to value real property are: the Cost Approach, the Sales Comparison Approach, and the Income Capitalization Approach.

The **Cost Approach** is used to arrive at a market value developed by computing the current cost of replacing a property and deducting any accrued depreciation resulting from one or more of the following factors: physical deterioration, functional obsolescence and external obsolescence. The resultant figure, combined with an adequate return for the entrepreneurial effort, is added to the land value to arrive at an indication of value for the whole property. Generally, the land value is obtained through the Sales Comparison Approach. The Cost Approach is often best suited to new or recently constructed properties with a minimum amount of accrued depreciation.

The **Sales Comparison Approach** is based on the principle of substitution since a prudent purchaser would pay no more for a particular property than the price necessary for the acquisition of a substitute property which offers equal utility. The appraiser gathers data on sales of comparable properties and analyzes the nature and condition of each sale, making logical adjustments for dissimilar characteristics. Typically, a common denominator is found. For land value, this is usually either a price per square foot or price per acre; for improved properties, the common denominator may be price per square foot, price per unit, or a gross rent multiplier. The Sales Comparison Approach gives a good indication of value when sales of similar properties are available.

The **Income Capitalization Approach** is predicated on the assumption that there is a definite relationship between the amount of cash flow a property may generate and its value. The anticipated annual cash flow of the subject property is processed to produce an indication of value. This approach is based on the principle that value is created by the expectation of benefits derived in the future. The Income Capitalization Approach encompasses two different techniques: discounted cash flow analysis and direct capitalization. In this appraisal, the discounted cash flow analysis via a land residual technique is used to derive land value for certain components of the subject property. In the discounted cash flow technique, the benefits to equity of annual cash flow and sale proceeds over a reasonable holding period are converted into a value estimate using current costs of equity capital. Rates of return are derived from yields anticipated by recent buyers of similar real estate. Factors such as risk, time, interest on the capital investment, and recapture of the depreciating asset are considered in the selection of rates.

In the direct capitalization technique, the cash flow for the first stabilized year is converted into an indication of value by using an overall capitalization rate.

A final step in the appraisal process is the **Reconciliation** of the value indications. In the reconciliation the appraiser considers the relative applicability of each of the three approaches, examines the range between the value indications and places major emphasis on the approach that appears to produce the most reliable solution to the specific appraisal problem. The purpose of the appraisal, the type of property and the adequacy and reliability of the data are analyzed, and appropriate weight is given to each of the approaches to value. In analyzing the three approaches to value, it can be readily observed that most of the information pertaining to the fair market value of the subject property must be derived from the marketplace because the appraiser anticipates the actions of buyers and sellers in the market.

Applicability to Subject Property:

Overview

The subject property of this appraisal is the air rights generated by Pier 40 of the Hudson River Park to be incorporated within a proposed development on 550 Washington Street, which is legally identified as Block 596, Lot 1. The receiving site development is proposed to include residential condominiums, market rate residential rentals, affordable rentals and affordable senior housing. This appraisal considers the value of only the air rights to be incorporated into this proposed development and, it is our understanding that the proposed rezoning and special permit are being granted on the condition that the receiving site purchase the air rights from the HRPT.

It is our opinion that without 421-a in effect, the proposed rental component of the development does not reflect the highest and best use of the site, and therefore the highest and best use of the subject air rights. Consequently, this appraisal values the subject air rights to their highest and best use, as governed by NYC HPD and DCP requirements for senior affordable and low-income affordable housing components, which are required components of the ULURP. There is no requirement that the development of market rate residential space be allocated to either condominium development or residential development, and we have considered condominium development as the highest and best use of the subject property air rights.

We have therefore analyzed development site sales in nearby and comparable neighborhoods in Manhattan for residential condominium uses. The affordable housing and senior affordable housing programs will be eligible for different programs. The prices paid for these types of developments considers the benefits an affordable housing developer can realize with respect to generating inclusionary housing bonuses, 60+-year full tax abatement, equity funding through Low Income Housing Tax Credits, favorable acquisition and construction financing, etc.

The **Income Approach** via discounted cash flow analysis was developed by a land residual technique to value certain components of the proposed development to be incorporated at 550 Washington Street. There exists a paucity of recent arms-length sales transactions of development sites for low-income affordable rental housing and senior affordable housing. This approach was also developed as an additional valuation methodology to value the market rate housing included in the addenda to this report. Therefore, this was the primary methodology to value these components wherein we have considered the income to be generated by these components, costs to construct these components of the development and expenses to operate them. Additionally, LIHTC value was considered for the eligible components of the senior affordable and affordable rental programs.

The **Sales Comparison Approach** was developed as the primary method of valuation for the condominium component. The receiving site's fee development rights were valued by analyzing other transactions of development sites. In developing an opinion of value for the receiving site's fee development rights, we have been guided by the client with respect to the amount of residential Zoning Floor Area and uses that might be allowed subsequent to the rezoning and issuance of the special permit. It is our understanding that the client has received this information from NYCDCP.

The sales comparison approach was unable to be developed to value the senior affordable and low income affordable components of the proposed development. Our research revealed that all recent arms-length sales where the developer planned affordable housing, was purchased for alternative uses to maximize value that are not available at the subject property. The two most crucial aspects the subject affordable components will not enjoy are the typical HPD subsidies, and the ability to transfer excess development rights to bonus properties off site. In this active development environment, we observed that in some cases, the purchasers of small affordable housing sites were able to generate excess air rights bonuses of more than three times the sale price using the 3.5x bonus transfer mechanism. Since this is not available at the subject property, and this was the main driver of activity for the development site sales, we were unable to develop the sales comparison approach for either of the affordable components of the subject receiving site.

The **Cost Approach** was not developed as the subject of this appraisal is solely comprised of the development rights associated with a proposed development, although elements of the cost approach are crucial steps in developing the residual land valuation. The current improvements on 550 Washington Street are to be demolished or reconfigured in favor of new mixed-use development.

SALES COMPARISON APPROACH – MARKET RATE HOUSING

The Sales Comparison Approach provides an indication of market value of a particular property through comparison of recent sales and offerings of similar properties. This approach is built upon the premise that value is directly related to prices of comparable and competitive properties. Implied within this premise is the principle of substitution, wherein a prudent investor would pay no more for a particular property than the cost to acquire a similar substitute, equal in desirability and utility. This principle also implies that the reliability of the Sales Comparison Approach is directly related to the comparability of sales available. When recent similar sales have occurred, this approach provides a reliable indication of value. When sufficient income and expense data is available for sales of income-producing properties, the Sales Comparison Approach can also provide overall rates, income and expense ratios and gross income multipliers.

The concept of highest and best use must be recognized in the development of the Sales Comparison Approach. When selecting comparable sales, the appraiser must consider the highest and best use of both the subject property, as vacant and as improved, as well as the comparables' highest and best use.

The systematic procedure for the development of the Sales Comparison Approach is outlined as follows:

1. Research the market for information on sales transactions, listings, and offers to purchase or sell involving properties that are similar to the subject property in terms of characteristics such as property type, date of sale, size, physical condition, location and zoning.

2. Verify the information by confirming that the data obtained are factually accurate and that the transactions reflect arm's length, market considerations. Verification may elicit additional information about the market.

3. Select relevant units of comparison (e.g., price per acre, price per square foot, price per front foot) and develop a comparative analysis for each unit.

4. Compare comparable sale properties with the subject property using the elements of comparison and adjust the price of each comparable to the subject property or eliminate the sale property as a comparable.

5. Reconcile the various value indications produced from the analysis of comparables into a single value indication or a range of values. In an imprecise market subject to varying occupancies and economies, a range of values may be a better conclusion than a single value indication.

The Sales Comparison Approach is most applicable when recent sales of similar properties exist. This approach may not provide a reliable value indication when too few sales exist or when sales reflect strong differences in market conditions due to dated transactions. Omission of this approach altogether may sometimes be necessary when sufficient data does not exist such is the case with the senior affordable and low-income affordable components of this development.

In determining comparability of the sales, they should be recent bona-fide, arms-length transactions which reflect similarity to the subject property. Dissimilarities to the subject are usually adjusted based upon, but not limited to, the following elements of comparison:

1. Real property rights conveyed
2. Financing terms
3. Conditions of sale
4. Expenditures made immediately after purchase
5. Market Conditions
6. Location
7. Physical characteristics (size, frontage, corner influence, utility)
8. Economic characteristics
9. Use (zoning)
10. Non-Realty components of value

Various analytical techniques may be used to identify and measure adjustments. Comparative analysis includes the consideration of both quantitative and qualitative factors. Quantitative adjustments are developed as either dollar or percentage amounts. Factors that cannot be quantified are dealt with by using qualitative analysis. Quantitative analysis includes the application of paired data analysis, grouped data analysis, statistical analysis, graphic analysis, sensitivity analysis and trend analysis. Qualitative analysis includes the application of relative comparison analysis, ranking analysis and personal interviews.

Summary: This sales comparison approach values the underlying land values for one of the three components of the development. For the condominium use there is an active market for development sites in which developers acquire land and develop the properties for profit. In the case of the affordable housing development and senior housing developments, given the increasing land prices in Manhattan, developers typically do not realize profit on the operation of affordable developments and typically these projects are developed for the additional benefits generated from their construction such as real estate tax exemptions and air rights bonuses generated upon completion. As such, the comparable data reflects a different highest and best use as the subject affordable components, and this approach is not used to value the two affordable components of the proposed development.

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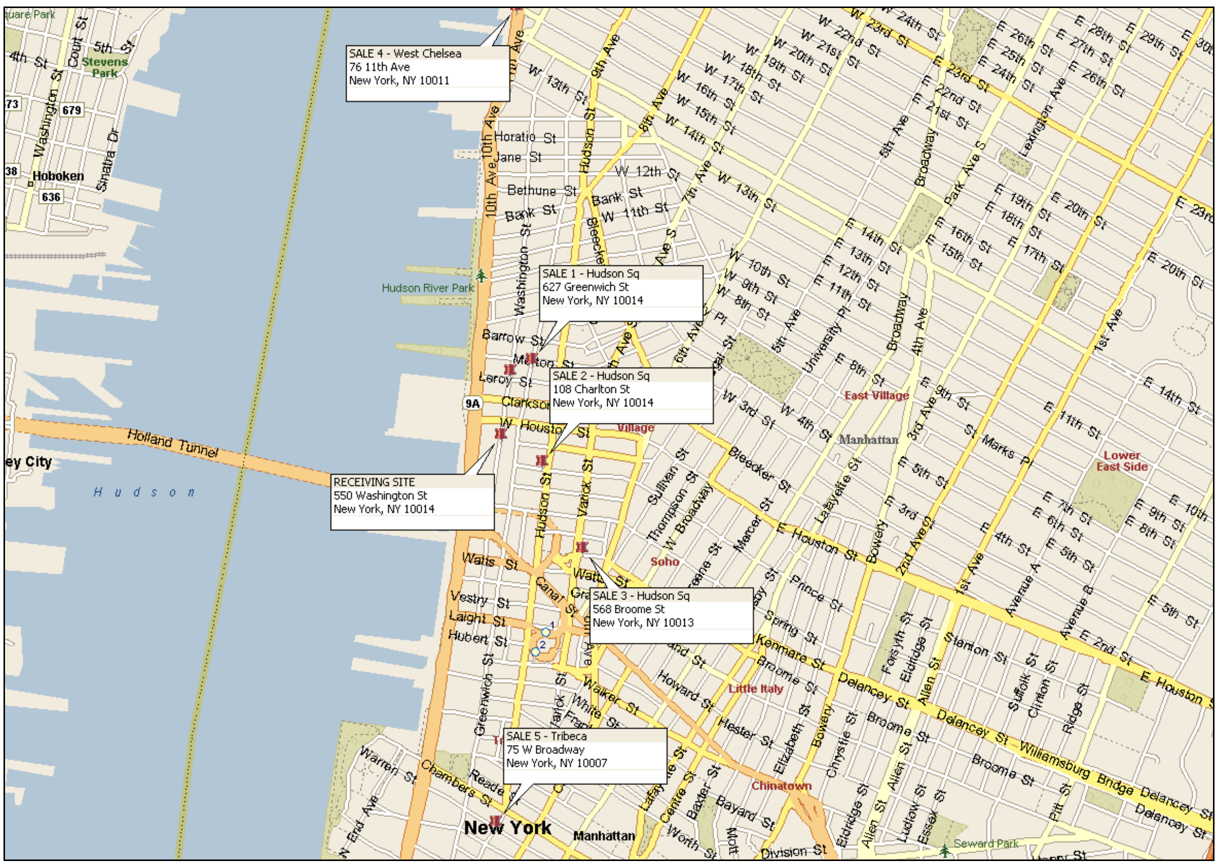
Selection of Comparable Sales – Residential Condominiums

Comparable sales of properties planned for condominium development were derived and confirmed through a thorough investigative search of public records as well as discussions with knowledgeable parties. In addition we have relied upon several recognized data sources for comparable sales such as CoStar Comps and Property Shark. The primary sales in this approach were transactions of development sites for condominium development located within Hudson Square as well as a comparable development site in West Chelsea and a recent transaction in Tribeca.

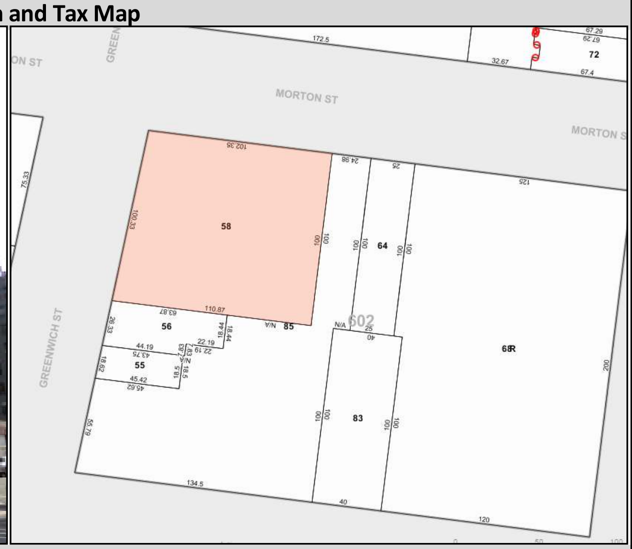
Map of Comparable Condominium Development Site Sales



Comparable Sale 1

Sale Data			
Property Address:	627 Greenwich Street	**Grantor:**	LG Acquisition I, LLC (c/o Criterion Group)
Block/Lot:	Block 602, Lot 58	**Grantee:**	627 Greenwich Owner LLC (c/o Brack Capital)
Cross Streets:	Corner w/ Morton Street	**Contract Date:**	July 20, 2014
Neighborhood:	West Village/Hudson Square	**Sale Date:**	November 10, 2014
Municipality:	New York, NY	**Doc ID #:**	2014111700510001
Purchase Price:	**$105,000,000**	**Price Per Sq. Ft. of ZFA**	**$893**
Site Data			
Land Area (Sq. Ft.):	10,661	**Zoning:**	M1-5/R7X
Frontage (Feet):	100.33 - Greenwich Street 102.35 - Morton Street	**Floor Area Ratio (FAR):**	5.00
Description:	Nearly rectangular, corner	**Buildable Square Feet:**	117,594
Improvements			
Building Area (Sq. Ft.):	121,503	**Description:**	Twelve-story dilapidated commercial building; conversion was abandoned.
Year Built:	circa 1911		
# of Stories:	Twelve		

Photograph and Tax Map



Comments

Prior to foreclosure, property was part of a redevelopment plan to convert a portion of the existing property into a residential condominium. Property can be converted residential development as per M1-5/R7X zoning.

Rooftop addition and cantilever over lot 85 resulted from a 2007 zoning lot merger with lot 85.

According to press reports, after a former owner won approvals to rezone this property along with abutting lots, the parcels were sold off subsequent to a foreclosure. Criterion Group acquired this site in March 25, 2014 for an indicated purchase price of $75,000,000 and then sold it to Brack Capital (Grantee above) for $105,000,000 7.5 months later.

Building plans filed for a 29-unit condominium over retail in 117,594 square feet of ZFA, including an upward expansion and cantileveler.

Comparable Sale 2

Sale Data

Property Address:	108-110 Charlton Street & 537-545 Greenwich Street	**Grantor:**	108 Charlton Street Realty Inc (lot 46) 537 Greenwich LLC (lot 39)
Block/Lot:	Block 597, Lots 39 & 46	**Grantee:**	Greenwich Charlton Owner LLC*
Cross Streets:	Charlton, Greenwich & Vandam	**Contract Date:**	Various, see below
Neighborhood:	Hudson Square	**Sale Date:**	Various, see below
Municipality:	New York, NY	**Doc ID #:**	2014060200202001
Purchase Price:	**$90,000,000**	**Price Per Sq. Ft. of ZFA**	**$731**

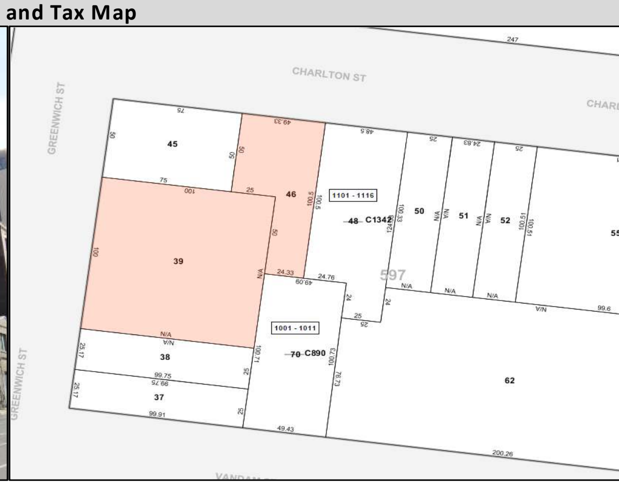
Site Data

Land Area (Sq. Ft.):	13,683	**Zoning:**	M1-6 in Special Hudson Square
Frontage (Feet):	100 - Greenwich Street 49.33 - Charlton Street	**Floor Area Ratio (FAR):**	9.00
Description:	Irregular, through-block	**Buildable Square Feet:**	123,147

Improvements

Building Area (Sq. Ft.):	79,519	**Description:**	Two attached industrial/commercial buildings.
Year Built:	circa 1900		
# of Stories:	Six		

Photograph and Tax Map



Comments

*Cape Advisors
For lot 39, deed price is $52m, but broker reports sales price was $64,000,000. Tenant had right of first refusal to purchase property and took on Cape Advisors as partner to complete sale. Cape Advisors subsequently acquired Lot 46 for $26,000,000.
No demolition permits or new building plans have been filed.
Selling broker reports that seller of lot 46 was an owner-user, but that in lot 39 there were two tenants that may require buyouts.

Market Conditions-Adjusted Components

Seller	Contract Date	Sale Date	Price	Block 597 Lot(s)	Land Area	ZFA	$/PSF	Time Adjustment	Adjusted Components	$/PSF
537 Greenwich LLC	1/24/2014	5/28/14	$64,000,000	39	10,000	90,000	$711	16.25%	$74,400,000	$827
108 Charlton Street Realty Inc	10/23/2014	10/23/14	$26,000,000	46	3,683	33,147	$784	4.17%	$27,083,333	$817
			$90,000,000		13,683	123,147	$731		$101,483,333	$824

Comparable Sale 3

Sale Data			
Property Address:	568-572 Broome Street	**Grantor:**	Linda L Sousa*
Block/Lot:	Block 578, Lots 75 & 77	**Grantee:**	Soho Broome Condos LLC
Cross Streets:	Between Varick St. and Holland Tunnel	**Contract Date:**	March 19, 2014
Neighborhood:	Hudson Square	**Sale Date:**	June 11, 2014
Municipality:	New York, NY	**Doc ID #:**	2014061300678005 & 6
Purchase Price:	**$30,720,010**	**Price Per Sq. Ft. of ZFA**	**$598**
Site Data			
Land Area (Sq. Ft.):	5,704	**Zoning:**	M1-6 in Special Hudson Square
Frontage (Feet):	67.5 - Broome Street	**Floor Area Ratio (FAR):**	9.00
Description:	Rectangular, interior parcel	**Buildable Square Feet:**	51,334
Improvements			
Building Area (Sq. Ft.):	7,128	**Description:**	Three-story multi-unit apartment building and a religious building.
Year Built:	Circa 1910		
# of Stories:	One and three		

Photograph and Tax Map

Comments

*as to lot 77; 32 Dominick LLC as to lot 75. Lot 75 entered into contract on March 24, 2014
Subsequent to acquisition, buyer demolished existing improvements and has been disapproved to construct an 18-story residential building with small commercial component (919 square feet) totaling 51,624 square feet and housing 30 apartments.

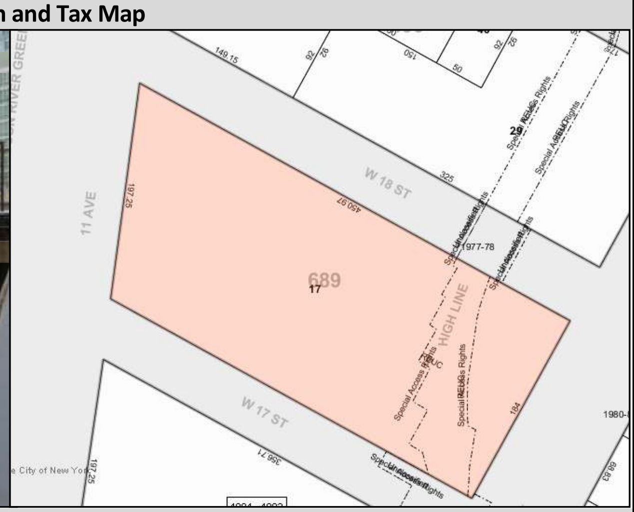
Comparable Sale 4

Sale Data			
Property Address:	76 11th Avenue	**Contract Date:**	November 26, 2014
Municipality:	New York, NY	**Sale Date:**	May 7, 2015
Block/Lot:	Block 689, Lot 17	**Purchase Price:**	$870,000,000
Grantor:	HLP Properties	**Price Per Buildable Sq. Ft.:**	**$1,138**
Grantee:	HFZ Capital Group	**Doc ID #:**	2015050701527001

Site Data			
Land Area (Sq. Ft.):	76,440	**Description:**	Irregular, full-block parcel
Frontage (Feet):	184.00 - 10th Avenue 450.97 - West 18th Street 197.25 - 11th Avenue 379.89 - West 17th Street	**Base FAR:**	7.50
Zoning:	C6-4 in Subarea H of the Special West Chelsea District (WCh)	**Maximum FAR:*** **Buildable Square Feet:**	10.00 764,400

Improvements			
Building Area (Sq. Ft.):	0	**Description:**	Vacant land, capped with clay and concrete over partially-remediated soil.
Year Built:	n/a		
# of Stories:	0		

Photograph and Tax Map

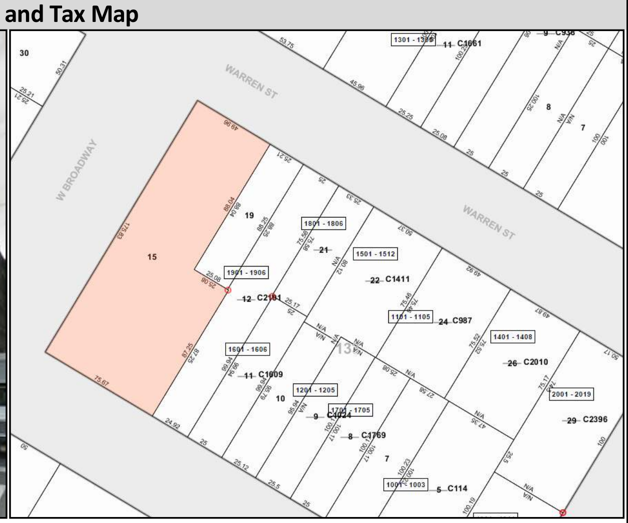


Comments

Property transferred with a Certificate of Completion from the NYS Brownfield Cleanup Program.
FAR of 10.0 is achievable through mandatory work and contributions to the High Line as part of doing plaza work at the site.
HFZ has indicated an intention to build an office, retail and condominium development in a two-tower configuration as dictated by zoning.

Comparable Sale 5			
Sale Data			
Property Address:	75 West Broadway/57 Murray St.	**Contract Date:**	January 15, 2015
Municipality:	New York, NY	**Sale Date:**	May 5, 2015
Block/Lot:	Block 133, Lot 15	**Purchase Price:**	$50,000,000
Grantor:	Murray Warren Assoc., LLC	**Price Per Buildable Sq. Ft.:**	**$904**
Grantee:	Warren Murray Property Owner LLC*	**Doc ID #:**	2015051401782001
Site Data			
Land Area (Sq. Ft.):	11,062	**Description:**	"L"-shaped, block-front parcel
Frontage (Feet):	49.96 - Warren Street 175.83 - West Broadway 75.67 - Murray Street	**Maximum FAR:**	5.00
Zoning:	C6-2A in Area A1 Subdistrict of Special Tribeca Mixed Use District	**Buildable Square Feet:**	55,310
Improvements			
Building Area (Sq. Ft.):	32,129	**Description:**	Collection of mixed-use buildings varying in height.
Year Built:	Various		
# of Stories:	Two to six		

Photograph and Tax Map



Comments

c/o Cape Advisors

According to listing information, "..each tenant has an early termination or buyout clause in their lease allowing the buildings to become vacant in the near future. "

*Listing information states that 59 Warren Street has two IMD tenants, and it is assumed they were bought out for this development.

Permits filed with the NYC Department of Building show a proposed ZFA of 55,066.

DISCUSSION OF ADJUSTMENTS TO COMPARABLE SALES – CONDOMINIUM SITES

Intangible/Transactional Adjustments for all sales are discussed below

Property Rights: All comparable sales, other than sales 2 and 5 represent the sale of the fee simple interest, or a leased fee interest with short term leases remaining, which is tantamount to fee simple for valuation purposes. For purposes of this valuation, the fee simple estate is the interest assumed and no adjustments were made to sales 1, 3 or 4. Sale 2 was adjusted upward to reflect a lease encumbrance; the selling broker reports two commercial tenants remain in this development subsequent to the sale and buyouts may be required before the site can be developed. Sales 5 was also upward adjusted to reflect the encumbrance presented by the two IMD tenants in place at time of sale.

Financing: No adjustments are made for financing; all sales were typically financed or required no financing.

Conditions of Sale: No atypical motivations were detected and no adjustments were made to any of the sales.

Market Conditions (time): Sales of development sites in Manhattan through May 2015 increased over prior quarters as financing for the sites remained favorable and demand for new residential product was high. As discussed, the appetite for development land in prime areas had been by all measures unprecedented. Demand came not only from well-capitalized local developers but from investors from around the world.

The sale dates of the comparable sales analyzed range from November 2013 to May 2015. In some submarkets around New York City, land with zoning that allows residential development has more than doubled during that period. Below is a summary of residential, mixed-use and commercial development sites that sold, and then re-sold between mid-2010 and June 2015. The demand for well-located development sites has been unprecedented in recent years causing a number of sites to resell for significant increases over a recent transaction. In general, the demand for residential sites that are slated for condominium development commanded the largest increase, as is evidenced below. There are a number of commercial sites that have resold with large increases, but not at the same rate as the residential condominiums sales.

Address	Block/Lot	Initial Sale Date	Initial Sale Price	Second Sale Date	Second Sale Price	# Months in between	% / mo increase
125 Greenwich Street/22 Thames Street	51/14	9/7/2012	$87,500,000	8/28/2014	$186,940,000	23.7	4.80%
16-18 West 57th Street	1272/50	10/12/2011	$80,005,317	8/25/2014	$95,000,000	34.4	0.54%
50-62 Clinton Street	344/141 (f/k/a 141 & 144)	5/29/2012	$9,000,000	10/6/2014	$28,000,000	28.2	7.48%
102 Greene Street	499/6	8/14/2012	$11,902,000	10/14/2014	$32,250,000	26.0	6.58%
627 Greenwich Street	602/58	3/25/2014	$75,000,000	11/10/2014	$105,000,000	7.5	5.33%
117 West 21st Street	797/29	5/15/2013	$12,000,000	3/16/2015	$28,500,000	22.0	6.24%
144-150 West 34th Street	809/69	4/23/2014	$252,000,000	6/2/2015	$355,000,000	13.3	3.07%

Based upon past market conditions, we have applied upward adjustments of 2.5% per month to all sales through April 2015, as the market for residential development parcels in the subject's market segment had shown unprecedented strength.

However, beginning in the second quarter of 2015 and through the fourth quarter of 2015, we have observed developers' increasing apprehension at purchasing land for luxury condominium development, and through the April 1, 2016 appraisal date, we have observed a disconnect between buyers and sellers that we believe will lead to decreasing land prices. Concerns about the strength of the high end condominium market weighs heavily on development prices, as the sellouts with rapid rates of appreciation seen in 2013 and 2014 slowed in the second half of 2015 and appear less likely of being achieved for developments in 2016 and 2017. The Olshan Market Report presents data illustrating the disconnect between buyers and sellers for luxury product. Olshan indicates that the latter of half of 2015 had slowing sales, and this has continued into the first quarter of 2016.

Given the slowdown in investor perceptions as borne out by the decreased sales of development sites, we have assumed flat market conditions from April 2015 through September 2015. After this point, we have evidence which suggests a decrease in end product luxury condominium pricing and we have applied a -1.5% per month adjustment for the time period of October 1, 2015 through our date of value.

Sale 2 was sold in two stages to the developer. The first component, 537-545 Greenwich Street was acquired in May 2014 for $711 per square foot; and the second component was acquired in October 2014 for $784 per square foot. We have adjusted each component of this sale using the methodology as described above, and arrive at a blended sales price of $824 per square foot. Therefore, the sale price shown in the adjustment grid is after time adjustments have been applied to all components of the sale.

Traffic Nuisance:

Sale No. 1 (627 Greenwich Street): This is the sale of a corner lot measuring 10,661 square feet and improved with a 106,400-square-foot dilapidated commercial building shell. The property has frontages along the southerly side of Morton Street and the easterly side of Greenwich Street. The property entered into contract on July 20, 2014 and sold on November 10, 2014 for an indicated purchase price of $105,000,000 or $893 per square foot of ZFA. The sale property is zoned M1-5/R7X, which has a base FAR for residential development of 5.0; however the zoning allows for conversion of existing buildings for residential use, even if overbuilt. One of the previous owners filed plans to convert the property in favor of residential use before abandoning the project. In order to bring the property to a prepped conversion site, interior demolition costs for the existing building are estimated at $15 per square foot and have been added to the sale price, bringing the total price to $106,822,545 or $908 per square foot of ZFA. The potential to utilize the existing shell in redevelopment of this property exists, although the costs associated with adapting to and living with the existing layout, etc. typically outweigh any benefits to reusing the shell, as it can be more expensive to adapt a shell then it is for ground-up construction, which also allows for greater flexibility in design. Overall, we have applied a slight downward adjustment to the transaction for its existing shell, which is more fully discussed below.

Sale No. 2 (537-545 Greenwich Street and 108-110 Charlton Street): This is the sale of two tax lots totaling 13,683 square feet. The lots combine to form an irregular, through-block parcel with frontages along the southerly side of Charlton Street and the easterly side of Greenwich Street. The 537-545 Greenwich Street component of the property – Block 597, Lot 39 – was entered into contract on January 24, 2014 and sold on May 28, 2014 for a reported purchase price of $64,000,000 or $711 per square foot of ZFA. Following the initial land purchase, the buyer completed the property with the acquisition of Lot 46 on October 23, 2014 for $26,000,000 or $784 per square foot of ZFA. The sale property is zoned M1-6 within the Special Hudson Square District, which has a base FAR for residential development of 9.0. This sale involves two components at differing intervals. For purposes of analysis, we have time-adjusted each component and input the total adjusted price in the adjustment grid. The time-adjusted sales price equates to $101,483,333 for a total of 123,147 square feet of buildable area, or $824 per square foot. Demolition costs for 79,519 square feet in two buildings are estimated at $30 per square foot and are added to the time-adjusted sale price, bringing the total price to $103,868,903 or $843 per square foot of ZFA.

Sale No. 3 (568-572 Broome Street): This is the sale of two tax lots totaling 5,704 square feet. The lots combine to form a rectangular, interior parcel with frontage along the northerly side of Broome Street, located between Varick Street and the Holland Tunnel entrance. The properties were acquired in two deeds from two separate buyers, closing on the same date of June 11, 2014. The sale property is zoned M1-6 within the Special Hudson Square District, which has a base FAR for residential development of 9.0. The combined sales price total $30,720,010 for buildable area of 51,334 square feet, or $598 per square foot. Demolition costs for 7,128 square feet in the two buildings are estimated at $30 per square foot and are added to the sale price, bringing the total price to $30,933,850 or $603 per square foot of ZFA.

Sale No. 4 (76 11th Avenue): This the sale of a full-block parcel bounded by West 17th Street, West 18th Street, 10th Avenue and 11th Avenue in West Chelsea. The property contains a total lot area of 76,440 and a total ZFA of 764,400 square feet. The property is zoned C6-4 in Subarea H of the Special West Chelsea District, allowing for a base FAR of 7.5, and maximum FAR of 10.0 However, it is assumed that the 10.0 FAR is achieved, as the developer cannot finalize the development without making the necessary park improvements and High Line contributions, but those contributions and improvements increase the FAR to 10.0. The property is to be improved with a condominium apartment building, retail component and it was recently announced that there will also be an office component included as part of the development, taking advantage of the successful office market near the property. The property entered into contract on November 26, 2014 and sold on May 7, 2015 for an indicated purchase price of $870,000,000 or $1,138 per square foot of ZFA. There are no demolition costs at the site, but additional High Line park costs of approximately $12,000,000 were estimated by the developer in order to achieve the full 10.0 FAR and were added to the sales price.

Sale No. 5 (75 West Broadway): This is the sale of a block-front parcel in Tribeca bounded by West Broadway, Murray Street and Warren Street. The property contains a total lot area of 11,062 square feet. The the total ZFA analyzed is 55,310 using the FAR of 5.0 in Area A1 Subdistrict of the Special Tribeca Mixed Use District. The property entered into contract on January 15, 2015 and closed on May 5, 2015 for an indicated purchase price of $50,000,000 or $904 per square foot of analyzed ZFA. Demolition costs for the 32,129 square foot building is estimated at $30 per square foot and are added to the sale price, bringing the total price to $50,963,870 or $921 per square foot of ZFA.

Physical/Locational Adjustments

Location: The receiving site is located along West Street/NYS Route 9A and abutted southerly by a NYC Sanitation parking garage. Along West Street/9A, there are a number of traffic lights, including one located at the intersection of West Street and Clarkson Street. While none of the comparable development site sales are directly impacted by West Street/9A traffic issues, sale3 sits along an access points to/from the Holland Tunnel, and Sale 4 also fronts along a busy stretch of 9A in West Chelsea. Traffic can collect at these locations like it does by the receiving site's property, and it is a nuisance and detractor to value for these sales.

Opposite the site across Washington Street is a 500,000 square foot UPS facility, and opposite the subject across West Houston Street is a FedEx facility. Although a number of the surrounding properties are judged to be a nuisance and are burdened by truck traffic, the structures are mid-rise and would not block views from the potential development above 142 feet in elevation, the height of the sanitation facility. Despite the surrounding nuisances, the development will have direct water views to the west, an amenity not shared by all comparable sales.

Considering the above, Comparable sale 1 is judged to be in superior location to the receiving site and was adjusted downward. Comparable sale 2 is located on the other side of the UPS facility from the receiving site and does not have direct water views like the receiving site, therefore this sale was adjusted upward. Comparable sale 3 has proximity to Holland Tunnel traffic and is judged to be in an inferior location, and was therefore adjusted upward. Comparable sale 4 is a full-block parcel with direct water views in West Chelsea; it is by all measures a superior location and was adjusted downward. Comparable sale 5 is located in the southerly portion of Tribeca surrounded by a mix of uses. This sale will not benefit from water views, but is in a superior location to the receiving site. Overall, the location of this sale is judged to be superior to the receiving site and was given a small downward adjustment.

Frontage/Configuration: The receiving site development site will be comprised of two block-front parcels with ample frontages on four streets, and the receiving site's development rights are a portion of the site. Furthermore, the configuration adjustment also considers the difference in size between the sales and the subject property. All sales other than sale 4 offer a similar scale development to the portion of the market rate component of the development. Sale 4 offers a substantially larger development than the subject and other comparable sales, yet the size of the development gives it advantages unique in the market, in that is a full block parcel fronting both along the High Line Park, but also has direct water views to the west. Sales 1 and 5 are corner or block-front sites and were not adjusted. Sale 2 is a through-block site with an awkward configuration and was adjusted upward. Comparable sale 3 is a mid-block site and was also adjusted upward. Comparable sale 4 comprises a full block and was adjusted downward.

Existing Structure: This valuation considers the development rights to be incorporated into a proposed development and considers land value as the element of comparison. All comparable sales, other than sale 1 are development sites where the current improvements are to be demolished in favor of new development. Comparable sale 1 is to be converted to residential use from its existing commercial use and the current structure is built to nearly double the allowable ZFA as-of-right for a residential development, as vacant. Although it is more costly to develop within the constraints of an existing structure, there is an advantage for a developer to possess a building envelope that is greater than the as-of-right ZFA. Therefore, sale 1 was adjusted downward to reflect the enhanced developable area created by the existing structure.

Retail Component: This component of the valuation considers prices paid for development land for residential condominium development. Some of the development sites selected include retail components. Comparable sales with filed plans that allocate space for retail space, or that can house a successful retail space, were adjusted downward accordingly. All sales except for comparable sale 4 were adjusted downward. The degree of adjustments was based on the percentage of the development envelope that can house a retail component, while also accounting for the reduction in community/amenity space that grade-level retail would consume.

Zoning/Use: Comparable sales 2 and 3 share the same zoning as is assumed for the receiving site property subsequent to rezoning and were not adjusted. Comparable sale 1 is overbuilt, but within an M1-5/R7X district that permits conversion to residential; no adjustment is made for zoning. Comparable sale 4 has FAR of 10.0 and a height cap of 390 feet for its tallest component, both of these are similar to what is proposed for the receiving site and no adjustment was made to sale 4. The Special District zoning of sale 5 was adjusted upward, as this district has a height cap, limiting upward development.

COMPARABLE SALES ADJUSTMENT GRID - CONDOMINIUM SITES

	SALE 1 - HSq	SALE 2 - HSq	SALE 3 - HSq	SALE 4	SALE 5	RECEIVING PROPERTY
Address	**627 Greenwich Street**	**108-110 Charlton Street & 537-545 Greenwich Street**	**568-572 Broome Street**	**76 11th Avenue**	**75 West Broadway/57 Murray St.**	**St. John's Terminal**
Intersection	**Corner w/ Morton Street**	**Charlton, Greenwich & Vandam**	**Between Varick St. and Holland Tunnel**	**Full block bounded by West 17th Street, West 18th Street, 10th Avenue and 11th Avenue**	**Block-front of Murray, West Broadway and Warren**	**Clarkson Street, West Street, Washington Street**
Neighborhood	**West Village/Hudson Square**	**Hudson Square**	**Hudson Square**	**West Chelsea**	**Tribeca**	**Hudson Square**
Municipality	**New York, NY**	**New York, NY**	**New York, NY**	**New York, NY**	**New York, NY**	**New York, NY**
Contract Date	7/20/2014	Various, see explanation	3/19/2014	11/26/2014	1/15/2015	---
Sale Date	11/10/2014	Various, see explanation	6/11/2014	5/7/2015	5/5/2015	**4/1/2016**
Block/Lot	Block 602, Lot 58	Block 597, Lots 39 & 46	Block 578, Lots 75 & 77	Block 689, Lot 17	Block 133, Lot 15	**Block 596, Lot 1**
Frontages	100.33 - Greenwich Street 102.35 - Morton Street	100 - Greenwich Street 49.33 - Charlton Street	67.5 - Broome Street	184.00 - 10th Avenue 450.97 - West 18th Street 197.25 - 11th Avenue 379.89 - West 17th Street	49.96 - Warren Street 175.83 - West Broadway 75.67 - Murray Street	**282 - Clarkson Street 849 - West Street 852 - Washington Street**
Zoning	M1-5/R7X	M1-6 in Special Hudson Square	M1-6 in Special Hudson Square	C6-4 in Subarea H of the Special West Chelsea District (WCh)	C6-2A in Area A1 Subdistrict of Special Tribeca Mixed Use District	**Rezoned C6-3**
Land Area (Sq. Ft.)	10,661	13,683	5,704	76,440	11,062	**155,750**
FAR	5.00	9.00	9.00	10.00	5.00	**10.00**
Buildable Sq. Ft. ZFA	**117,594**	**123,147**	**51,334**	**764,400**	**55,310**	**116,369**
Building on Site	121,503	79,519	7,128	0	32,129	---
Sales Price	**$105,000,000**	**$101,483,333**	**$30,720,010**	**$870,000,000**	**$50,000,000**	---
Plus Demolition Costs @$30/SF	$1,822,545	$2,385,570	$213,840	$12,000,000	$963,870	---
Gross Sales Price for Max FAR	**$106,822,545**	**$103,868,903**	**$30,933,850**	**$882,000,000**	**$50,963,870**	
Price per Buildable Sq. Ft.	**$908**	**$843**	**$603**	**$1,154**	**$921**	
Intangible Adjustments						
Property Rights	0.0%	5.0%	0.0%	0.0%	10.0%	
Adjusted Price Per Square Foot	**$908**	**$886**	**$603**	**$1,154**	**$1,014**	
Financing	0.0%	0.0%	0.0%	0.0%	0.0%	
Adjusted Price Per Square Foot	**$908**	**$886**	**$603**	**$1,154**	**$1,014**	
Conditions of Sale	0.0%	0.0%	0.0%	0.0%	0.0%	
Adjusted Price Per Square Foot	**$908**	**$886**	**$603**	**$1,154**	**$1,014**	
Market Conditions	2.75%	Blended	15.17%	-9.00%	-9.00%	
Adjusted Price Per Square Foot	**$933**	**$886**	**$694**	**$1,050**	**$922**	
Physical Adjustments						
Location	-5.0%	5.0%	15.0%	-15.0%	-5.0%	
Frontage/Configuration	0.0%	5.0%	10.0%	-5.0%	0.0%	
Existing Structure	-15.0%	0.0%	0.0%	0.0%	0.0%	
Retail/Commercial Component	-3.0%	-5.0%	-3.0%	0.0%	-5.0%	
Zoning/Use	0.0%	0.0%	0.0%	0.0%	5.0%	
Net Adjustments	-23.0%	5.0%	22.0%	-20.0%	-5.0%	
Adjusted Price Per Square Foot	**$719**	**$930**	**$847**	**$840**	**$876**	

APPRAISERS AND PLANNERS INC

Conclusion of Value – Condominium Sites

Adjusted comparable sales range from $719 to $930 per square foot and average $842 and $847 per square foot as measured by the mean and median, respectively. While we cannot adjust for all factors, we have considered intangible aspects of the comparable properties that impact sales prices such as property rights and market conditions. In addition, we have considered an array of physical differences between the subject development site and the comparable sales and made market-based adjustments to the comparable sales.

Summary of Adjusted Sales and Per Square Foot Conclusion

Minimum	$719
Maximum	$930
Mean	$842
Median	$847
Conclusion	**$825**

In our conclusion of market value for the subject rights assumed to be a component of the proposed receiving site, we conclude slightly below the mean giving most weight to the adjusted prices of sale 1 and 4 which we have found to be the most comparable sales to the receiving site property with respect to location and market conditions.

Therefore it is our opinion that the market value of the fee development rights associated with the **market rate residential component,** which is assumed to be for condominium use only, of the receiving site development, as of April 1, 2016, was:

$825 PER SQUARE FOOT – RESIDENTIAL CONDOMINIUM COMPONENT

RESIDUAL LAND APPROACH – SENIOR AFFORDABLE AND AFFORDABLE COMPONENTS

Introduction

Although there has been adequate market activity and available data from which to draw conclusions about underlying land value for the condominium development sites, data for affordable rental sites is scarcer. Moreover, given the unique circumstances at the receiving site with respect to the lack of available NYC Housing and Preservation and Development (HPD) and NYC Housing Development Corporation (HDC) subsidies and the inability to transfer excess bonused rights, the site is atypical as compared to other affordable housing site transactions. Other arms-length transactions for senior affordable, and comparable low-income affordable development sites are few and far between, and when they do occur they are typically purchased to generate bonus air rights, or to compensate a planned market development. This valuation scenario requires that we analyze the underlying land values of the various rental components, and given the lack of comparable sales data, we have developed and relied upon residual analyses as the best method of valuation.

In valuing the affordable components of the receiving site, a residual valuation of the property via discounted cash flow analysis is performed in which the property's capital expenses are spent to construct the development, the property is leased up and the stabilized cash flows, inclusive of a reversion, are discounted to present value. The residual value of the property is the remaining value after all capital expenses and cash flows are considered. The term selected for valuation purposes is four (4) years following the appraisal date, which is after the property is constructed, achieves stabilized income and is assumed to be sold as the reversion. We have also applied this valuation technique in determining the value of the site's market rent housing in the addenda.

INCOME CAPITALIZATION APPROACH - LAND RESIDUAL TECHNIQUE

This technique is based on the principle of balance and the related concept of contribution, which are concerned with equilibrium among the agents of production- ie, labor, capital, coordination and land. A version of the land residual technique involves first establishing the appropriate development for the site as if vacant. Then the stabilized, annual net operating income of the property is estimated from market rents and operating expenses as of the date of the appraisal. This income is then capitalized at the appropriate rate to provide an estimate of the property value. From this amount, the total cost of constructing the improvements is subtracted with the resulting amount representing the residual income attributable to the land.

Our valuation analysis sets forth an estimate of the value of the (1) SARA senior affordable rentals and (2) low-income affordable rentals as of April 1, 2016. As per information supplied by HPD and HDC our valuation assumes the components are developed with 178 senior affordable units, comprised of 134 studios and 44 one bedroom units, and 168 affordable rental units at 130% of Area Median Income (AMI) and 112 units at 60% AMI; both of these are comprised of 25%

studios, 25% one-bedrooms and 50% two-bedroom units. In order to estimate the land value as per these terms we have undertaken the following steps:

- In conjunction with information supplied by HPD and HDC as to the affordable units, we considered the likely development to be constructed with the subject ZFA in terms of number of units, average unit size, amenities, etc.;
- Projected the likely timing and holding period involved in such construction, lease-up and sale;
- Estimated the projected income and expenses available for the proposed improvements;
- Determined the reversionary or sale value of the proposed residential project upon completion and stabilization via applying the appropriate capitalization rate to the projected NOI;
- Estimated necessary capital costs inclusive of hard and soft costs, as well as profit to be incurred in completing and stabilizing the projected property;
- Discounted both the annual cash flows and reversion to net present value (NPV) at the appropriate rates; and
- Determined the current underlying land value the market rate rental, senior affordable and low-income affordable share of the fee development rights

Holding Period

We have made a projection as to the timing involved in constructing the proposed development which includes architectural & engineering and permitting period, construction period, leasing period and sale. It is estimated that due to the ULURP process required for the subject property, the total construction timeline is 36 months, and the property achieves stabilized income in the fourth year, which is the reversion, or sale year.

INCOME

Senior Affordable Rental Apartments (SARA) Program: For the rental components of the development, the client reports that it has been advised by HPD that the total planned project will include 178 senior affordable units under the Senior Affordable Rental Apartments (SARA) Program. The following income guidelines have been provided, courtesy of HPD's figures. The SARA program requires 80% AMI, however it is our opinion that 60% AMI will be sought for this program in order to qualify for Low Income Housing Tax Credits (LIHTC). A table of the estimated income for the SARA component is presented below:

Senior Affordable (assumes 60% for LIHTC eligibility)	# of Units	% of Units	Avg. Unit Sq. Ft.	Total Rent per Unit	Total Rent
Total Units	178				
Studio Apts.	134	75%	400	$ 10,404	$1,394,136
1BR Apts.	44	25%	550	$ 11,172	$491,568
				Total Rent	$1,885,704

Low- and Middle-Income Affordable Units: The income for this portion of the development is also governed by stipulated AMI programs. This portion of the development includes a total of 280 units, 168 of which are priced at 130% of AMI and the balance of 112 units are priced at 60% of AMI. A table of the estimated income for the Low-Income Affordable Units is presented below:

Middle-Income	# of Units	% of Units	Avg. Unit Sq. Ft.	Total Rent per Unit	Total Rent
30% @ 130% AMI	168				
Studio Apts.	42	25%	450	$ 19,716	$828,072
1BR Apts.	42	25%	600	$ 24,780	$1,040,760
2BR Apts.	84	50%	750	$ 29,796	$2,502,864
				Total Rent	$4,371,696

Low-Income	# of Units	% of Units	Avg. Unit Sq. Ft.	Total Rent per Unit	Total Rent
20% @ 60% AMI	112				
Studio Apts.	28	25%	450	$ 10,404	$291,312
1BR Apts.	28	25%	600	$ 11,172	$312,816
2BR Apts.	56	50%	750	$ 13,476	$754,656
				Total Rent	$1,358,784

EXPENSES

Vacancy & Collection Loss

Both the investor and the appraiser are primarily interested in the cash revenues that an income producing property is likely to generate annually over a specified period rather than what could be produced were it always 100% occupied and all tenants were paying rent in- full and on time. It is a prudent practice to expect some income loss, either in the form of actual vacancy, tenant turnover, non-payment, or slow payment of rent by tenants. This allowance is usually estimated as a percentage of gross potential income. Regarding collection loss specifically we have taken into consideration the current market vacancy for similar properties. For the low-income and SARA components, where demand in Manhattan outpaces supply by as much as 500:1 for these desirable low-income units, vacancy and collection loss is estimated at 1% of potential gross income.

Operating Expenses

Operating expenses for the three components are derived from comparable data within our files, projected expenses for affordable and 80/20 projects, as well as HDC standards and guidelines for maintenance and operating expenses to underwrite the affordable projects.

HDC Standards for Maintenance and Operating are presented below:

New Construction - Maintenance and Operating Expense Standards

	For Deals Closing After DECEMBER 2014 **(CURRENT)**				For Deals Closing After DECEMBER 2015 **(PROPOSED)**					
	Union Building Staff		**Non-Union Building Staff**		**Union Building Staff**		**Non-Union Building Staff**		**% Change Current vs. Proposed (Non-union)**	
ADMINISTRATIVE										
Legal	$15,000	$150	$15,000	$150	$15,000	$150	$15,000	$150	0.00%	/du
Accounting	$14,000	$14,000	$14,000	$14,000	$16,000	$16,000	$16,000	$16,000	14.29%	/per project
Management Fee	$66,622	6.00%	$66,622	6.00%	$66,622	6.00%	$66,622	6.00%	0.00%	of ERI
Fire and Liability Insurance	$60,000	$600	$60,000	$600	$60,000	$600	$60,000	$600	0.00%	/du
Tax Credit Monitoring*	$12,600	$126	$12,600	$126	$12,600	$126	$12,600	$126	0.00%	/0.75% per Tax Credit Rent+$100 per building
UTILITIES										
Heating	**$107,100**	**$300**	**$107,100**	**$300**	**$107,100**	**$300**	**$107,100**	**$300**	0.00%	/rm
Electricity	**$58,605**	**$164**	**$58,605**	**$164**	**$58,605**	**$164**	**$58,605**	**$164**	0.00%	/rm
Water & Sewer	**$97,461**	**$273**	**$97,461**	**$273**	**$97,461**	**$273**	**$97,461**	**$273**	0.00%	/rm
MAINTENANCE										
Supplies/Cleaning/Exterminating	**$35,700**	**$100**	**$35,700**	**$100**	**$44,625**	**$125**	**$44,625**	**$125**	25.00%	/rm
Repairs/Replacement	**$65,000**	**$650**	**$65,000**	**$650**	**$65,000**	**$650**	**$65,000**	**$650**	0.00%	/du
Super & Maintenance Salaries	$121,000	$1,210	$93,000	$930	$121,000	$1,210	$93,000	$930	0.00%	/du
Elevator Maintenance & Repairs	$13,200	$6,600	$13,200	$6,600	$13,200	$6,600	$13,200	$6,600	0.00%	/elev.
Bldg Reserve	$25,000	$250	$25,000	$250	$25,000	$250	$25,000	$250	0.00%	/du
M&O Before Taxes and Debt Service	**$691,288**	**$6,913**	**$663,288**	**$6,633**	**$702,213**	**$7,022**	**$674,213**	**$6,742**	1.65%	/du
		$1,936		**$1,858**		**$1,967**		**$1,889**		/rm

The above guidelines have been converted into a per-unit presentation, as shown in the on the following page. The HDC guidelines are used in conjunction with individual operating expense comparables to project per-unit breakdown for both the senior affordable and low-income affordable developments.

Summary of HDC Guidelines – Applied to Senior Afforable Component

Senior Affordable	# of Units	# of Rooms
Studio Apts. (2 rooms)	134	268
1BR Apts. (3 rooms)	44	132
Total	178	400

Expense Category	Per Unit	Per Room	Per Project	Total
Administrative				
Legal	$150			**$26,700**
Accounting			$16,000	**$16,000**
Management Fee			6% EGI	**6% EGI**
Insurance	$600			**$106,800**
Tax Credit Monitoring				**$17,882**
Utilities				
Heating		$300		**$120,000**
Electricity		$164		**$65,600**
Water & Sewer		$273		**$109,200**
Total Utilities				**$294,800**
Maintenance				
Supplies/Cleaning/Exterminating		$125		**$50,000**
Repairs/Replacements	$650			**$115,700**
Elevator Maintenance & Repairs (assumes 6)				**$26,400**
Total				**$192,100**
Super & Maintenance Salaries (payroll)	$1,210			**$215,380**
Reserves	$250			**$44,500**
Total				**$914,162**
Per Unit (without mgmt)				**$5,136**

APPRAISERS AND PLANNERS INC

Summary of HDC Guidelines – Applied to Low-Income Aforable Component

Low-Income Affordable	# of Units	# of Rooms
Studio Apts. (2 rooms)	70	140
1BR Apts. (3 rooms)	70	210
2BR Apts. (4 rooms)	140	560
Total	280	910

Expense Category	Per Unit	Per Room	Per Project	Total
Administrative				
Legal	$150			**$42,000**
Accounting			$16,000	**$16,000**
Management Fee			6% EGI	**6% EGI**
Insurance	$600			**$168,000**
Tax Credit Monitoring				**$10,718**
Utilities				
Heating		$300		**$273,000**
Electricity		$164		**$149,240**
Water & Sewer		$273		**$248,430**
Total Utilities				**$670,670**
Maintenance				
Supplies/Cleaning/Exterminating		$125		**$113,750**
Repairs/Replacements	$650			**$182,000**
Elevator Maintenance & Repairs (assumes 6)				**$39,600**
Total				**$335,350**
Super & Maintenance Salaries (payroll)	$1,210			**$338,800**
Reserves for replacements	$250			**$70,000**
Total				**$1,651,538**
Per Unit (without mgmt)				**$5,898**

Summary – HDC Guidelines

The expenses above do not contain an estimated figure for management expenses, as this is computed as 6% of effective gross income. Additionally, real estate taxes are not included in the guidelines and are separately estimated in accordance with the NYC assessor's assessment and taxation guidelines. For the senior affordable component, no taxes are paid as per the 420-c exemption, and for the low-income affordable component, taxes are computed as 20% of effective gross income. No 421-a exists as of the appraisal, and it is therefore assumed in this scenario that there are taxes associated with the affordable component.

Comparable Building Budgeted Expenses

We have also obtained projected expenses from four (4) affordable, and part-affordable projects in Manhattan. The expenses are obtained from the exhibits to regulatory agreements filed with the affordable housing plan. Not all expense categories are reported for all properties, hence the presentation of the table format below and on the following pages.

	540 West 53rd St 103 Units		321 East 60th St 20 Units		One West End Ave 116 Units	
Expenses	Total Expenses	Per Unit Expense	Total Expenses	Per Unit Expense	Total Expenses	Per Unit Expense
Real Estate Taxes					$86,413	$745
Salary, Wages, Payroll Taxes & Benefits					$163,922	$1,413
Supplies/Cleaning/Exterminanting	$17,550	$170	$5,850	$293	$59,000	$509
Heating	$114,075	$1,108	$25,350	$1,268	$166,114	$1,432
Electricity	$52,650	$511	$12,792	$640	$219,348	$1,891
Cooking Gas	$11,124	$108		$0	$59,112	$510
Repairs	$41,200	$400	$10,500	$525	$40,000	$345
Insurance		$0		$0	$5,000	$43
Legal	$10,300	$100	$3,150	$158	$20,000	$172
Accounting	$10,000	$97	$12,000	$600		$0
Superintendent & Maintenance Staff Salaries	$156,940	$1,524	$30,000	$1,500		$0
Elevator Maintenance & Repairs	$12,000	$117	$6,600	$330		$0
Administration		$0	$21,000	$1,050	$40,000	$345
Management Fee	$133,069	$1,292	$19,616	$981	$40,000	$345
Water & Sewer	$87,750	$852	$23,400	$1,170	$91,904	$792
Vendor Contracts	$30,900	$300		$0		$0
Fire and Liability Insurance	$51,500	$500	$14,700	$735		$0
Replacement Reserve	$25,750	$250	$5,250	$263		$0
Condominium Common Charges					$299,758	$2,584
Contingency					$10,000	$86
	$754,808	$7,328	$190,208	$9,510	$1,300,571	$11,212
			*Administrative Agent		*Legal & Auditing	

	525 West 52nd Street 392 Units	
	Total Expenses	Per Unit Expense
Total Payroll & Benefits	$1,247,000	$3,181
Total Utility Expenses	$841,000	$2,145
Total Maintenance Expenses	$541,000	$1,380
Total Insurance Expenses	$196,000	$500
Total Marketing Expenses	$119,000	$304
Total Administrative Expenses	$98,000	$250
Management Fee	$570,400	$1,455
Capital Reserves	$98,000	$250
Real Estate Taxes	$600,000	$1,531
TOTAL	$4,310,400	$10,996

Conclusion:

Based upon the expense comparables, the expenses within our files and the HDC guidelines for operating and expenses, we estimate the following expenses for each component, inflated 3% per annum. The expense estimates are generally consistent and in line with both the HDC figures and the expense comparables with the exception of the following:

Payroll: For the low-income affordable development it is not assumed to be staffed with desk or doorman service, therefore we conclude nearer to the HDC figures. For the SARA component, it is assumed that this has the typical supportive housing staffing inclusive of a full-time security desk. For the market rate rental component, it is assumed to be fully staffed with doorman service, porters and on-site superintendents and we have been informed by HPD that there will be a common entrance and doorman service for both components. Therefore, our estimated payroll expense is commensurate with the expenses observed in market rate luxury rental buildings, as allocated among the combined occupancies.

Repairs and Maintenance: This category of expense typically includes the costs associated with building repairs including such items as plumbing and electrical repairs, boiler and roof repairs, HVAC, elevator and pest control contracts, among other items. It also includes general apartment repairs, such as maintenance to the heating and cooling mechanicals typically included in individual units.

Management: The basis of the management expense is 6% for the low-income affordable component. The senior affordable has the highest management expense of 7%, inclusive of management for tax credit monitoring.

Utilities: These expenses include fuel expenses for domestic hot water and heating the entire building, water and sewer charges, landlord electric for the operation of the elevators, any outside lighting and the lighting of the common building areas and the cooking gas for the apartment units.

Real Estate Taxes: The senior affordable component will have a 420-c benefit, fully exempting this component from any real estate tax liability. Both the market rate and low-income affordable components pay real estate taxes commensurate with a percentage of effective gross income, and in conjunction with the comparable expenses. For the low-income affordable component, this percentage is 20% of effective gross income, which is in line with assessment guidelines published by the City of New York.

Operating expenses determined thusly are estimated for senior affordable and affordable components as follows:

Low-Income Affordable Units

EXPENSES	% of Income	Per Unit	Total Annual	Per Unit
Payroll @		$3,000	$840,000	
Repairs and Maintenance @		$1,000	$280,000	
Professional Fees @		$150	$42,000	
Management		6.00%	$340,391	
Utilities (incl. w&s, electric - net)		$1,650	$462,000	
Insurance		$600	$168,000	
Reserves		$250	$70,000	
RE Taxes as % of Income @	20.00%		$1,134,635	
Total Expenses			**$3,337,026**	**$11,918**

Senior Affordable Rental Apartment (SARA) Units

EXPENSES	Per Unit	Total Annual	Per Unit
Payroll @	$2,500	$445,000	
Repairs and Maintenance @	$1,000	$178,000	
Professional Fees @	$200	$35,600	
Management (includes LIHTC monitoring)	7.00%	$131,999	
Utilities (incl. w&s)	$1,650	$293,700	
Insurance	$600	$80,400	
Reserves	$250	$11,000	
RE Taxes	NONE	$0	
Total Expenses		**$1,175,699**	**$6,605**

CONSTRUCTIONS COSTS

Construction cost estimates for this residual analysis are sourced from publicly-available costs of affordable and 80/20 projects, as well as from construction cost comparables for similar residential rental projects within our files. Based upon this data, we estimate hard costs for the affordable project at $460,000 per unit, adjusted downward for the SARA project, which is comprised solely of studio and one-bedroom units.

Soft costs can fluctuate depending on the size and scope of a project, but for this analysis are computed as a percentage of hard costs, subject to adjustment depending on the applicable program. For affordable component, soft costs are estimated at 22.5%, and increase commensurate with increased financing costs for LIHTC for the SARA and the low-income affordable components. A summary of estimated hard and soft construction costs are presented below:

Component	Hard Cost Estimates - Per Unit	Soft Costs %	Soft Costs Per Unit	Total Per Unit	Rounded
Affordable	$375,000	22.50%	$84,375	$459,375	$460,000
Senior Affordable	$275,000	25.00%	$68,750	$343,750	$340,000

Because the first portion of the development is during a ULURP, preventing the expenditure and installation of hard costs until ULURP is completed, we project the construction costs to be paid in annual allocations of 20%, 50% and 30%, respectively.

DISCOUNT AND CAPITALIZATION RATES

Real estate investors generally agree that capitalization rates fall within a broad range, depending upon numerous risk factors including the following:

1. Location - typically, the better the location, the lower the rates;

2. Physical Characteristics of the Property - the newer the property, the higher the quality of materials and finishes, and the better the design and layout of the physical plant, the lower the rates, and;

3. Degree of forecasted cash flow growth - the greater the increase in reliably predictable cash flow growth, the lower the rates.

In choosing the appropriate discount rate to apply in our cash flow, the proposed subject property may be compared to alternative investment opportunities available, as it must compete in the open marketplace for the investment dollar. To capture the dollars needed the subject property must return an attractive yield in light of other types of investments currently available.

Yield rates for competing investments as of April 2016 were as follows:

Instrument	Rate (%)
Prime Rate	3.25
Federal Funds Rate	.50
3-Month Treasury Bills	.29
U.S. 10-Year Notes	1.79
U.S. 30-Year Bonds	2.62

These investment instruments and the pre-tax yield requirements of the institutional and corporate investors usually reflect prevailing real estate market conditions and are considered to be the best indicators available of general investor yield expectations in the marketplace, as discussed below.

Real estate as an investment does not contain a ready liquid market for sale and resale as in the bond market, and contains a larger element of risk that must be accounted for in the selection of an appropriate rate. Real estate is a leading indicator whose risk as well as the upside potential for a much larger return on an after tax basis, due to favorable tax treatment through depreciation and other recovery benefits, must be accounted for by the discount rate. This analysis will be performed on a pre-tax basis only, but these potential benefits are also addressed in the selection of the rate.

The subject property receiving site, as per its highest and best use, is the residential components of the mixed-use development. We have therefore included rates from the First Quarter 2016 Korpacz Investor Survey. The National Apartment Market has IRR, or discount rates, ranging from 5% to 10% with an average of 7.28%. We select a discount rate towards the lower end of the range of the overall rates, at 6%.

Issues that must be considered in the selection of an appropriate discount rate to apply to the subject property's projected cash flows are:

Issues that tend to lower the discount rate:

1. The subject's somewhat convenient location in Hudson Square.
2. The strong economic conditions in New York City.
3. The fact that the Manhattan residential markets have proven to be one of the strongest and most resilient in the country.
4. The historically strong investor demand for well-located Manhattan residential properties.
5. The continued demand for affordable housing, and senior affordable housing.

Issues that tend to raise the discount rate:

1. The fact that investors typically require a higher rate of return on speculative developments.
2. The uncertainties that are beginning to culminate regarding the continued levels of financing of affordable housing projects in New York State.
3. That the typical cash subsidies provided by HDC and HPD are not available for this project.

To balance these factors, we have concluded to a discount rate of 6.0% which is appropriately toward the lower end of the range exhibited in national survey data for institutional Manhattan apartment properties.

Resale – Reversion Calculation

At the end of fourth year of the cash flow projection, the property is assumed to be resold based on the fifth years' net operating income, capitalized at 3.0% for both affordable components. This rate is also appropriately toward the lower end of the range exhibited in the national surveys. Costs associated with the sale have been estimated at 4.0% of the gross sales proceeds.

Terminal, or overall cap rates range from 3.5% to 8.5% and average 5.35% and residual cap rates range from 4.25% to 8.25% with an average of 5.86%. In selecting the terminal capitalization rates, we give weight to the survey data and also consider current capitalization rates for elevator apartment buildings in Manhattan and assign a small load to develop the terminal rate.

Cushman and Wakefield Property Sales Report states that in-place capitalization rates for Manhattan elevator apartment buildings averaged 3.58% in Q4 2015, and 3.62% in Q3 2015. The subject product will consist of highly-desirable, and low-vacancy, affordable and senior-affordable apartments that would command a lower cap rate than the market rate components, justifying a terminal capitalization rate of 3.0%. The development will be new construction, and will benefit from lower operating expense ratios than existing competing development. Although upside rent potential is limited at these properties, the income is judged to be secure and the equity capitalization rate of 3.0% is 121 basis points above the 10-year treasury rate, the comparable safe rate.

Low Income Housing Tax Credits (LIHTC) Value

The Low Income Housing Tax Credit (LIHTC) program is a subsidy used to finance construction (and rehabilitation) of low-income affordable rental housing. The LIHTC provides investors and developers with a direct reduction in tax liability in exchange for providing financing to develop affordable rental housing. The equity investment into affordable housing, which is rented to lower-income tenants at below market rates, generates the tax credits that are paid in annual installments over a 10 year period. The tax credits are available as both "4% credits" or "9% credits." HPD has stated that his project will not be able to seek 9% credits, and will instead use 4% credits. The 4% credits are re-priced monthly as per the Applicable Federal Rates and the most recent rate for 4% credits is March 2016's rate of 3.19%. The applicable federal rate is multiplied by the adjusted qualifying cost basis in order to determine the annual credit, which can be later syndicated and sold to investors through a limited partnership, in which the developer retains 99.99% of the partnership structure.

The qualifying cost basis is determined by multiplying the construction costs for the project by the percent qualifying. In the case of the SARA units, 100% of the units qualify, but not all 100% of the construction costs are assumed to qualify, such as certain financing costs and other soft costs. We estimate that 95% of the costs would qualify in this scenario. The qualifying cost basis is also further adjusted with a 30% bonus, which is available to those properties in Qualified Census Tracts which have been determined to be Difficult to Develop Areas. The subject receiving site is in a DDA and receives a 30% bonus to compute the adjusted, and Total Qualifying Cost Basis.

We have been informed by NYCDCP that if the subject property were to be developed in with the current developer's proposed plans, of a 50/30/20[9] - style unit mix rental building, the 112 low-income affordable units would also be eligible for LIHTC. However, since this appraisal has determined that the highest and best use of the subject receiving site's residential components is for condominium development in conjunction with the required affordable programs, only the SARA units are eligible for LIHTC.

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[9] HDC's 50/30/20 Mixed-Income Program – 50% of units for market rate tenants, 30% for middle-income tenants, and 20% for low-income tenants.

It is therefore assumed that the SARA units, are to be rented at 60% AMI will be eligible to generate 4% Low Income Housing Tax Credits. LIHTC are provided to those projects that have developed affordable rentals, or affordable component of properties, for 60% of AMI or below. LIHTC credits can either be syndicated and sold to an LIHTC investor, or the benefits can be enjoyed by the developer under a "Pay as You Go" scenario; the former is assumed for the subject development. The syndicator raised is estimated to be 1.20, in line with recent market transactions, as applied to the 99.99% limited partner structure. The computation of the credits are shown below:

SARA Program – Assumes all 178 Units Generated LIHTC

4% CREDITS - $400k/Unit Qualifying Cost Basis Cap

Construction Costs	$60,520,000
Percentage Qualifying	95.00%
Qualifying Cost Basis	$57,494,000
Qualifying Cost Basis	$57,494,000
Difficult to Develop Area Bonus	30%
Adjusted Qualifying Cost Basis	$17,248,200
Total Qualifying Cost Basis	$74,742,200
Credit Type - 4.0%	3.19%
Annual Credit to Investors	$2,384,276
Total LIHTC for 10-year Period	$23,842,762
Allocation to Limited Partner	99.99%
Sellable LIHTC for 10-Year Period	$23,840,378
Syndicator Raise	$1.20
Proceeds from sale of LIHTC	$28,608,453

While developers have options to either syndicate the tax credits and sell to investors, or retain them on a "pay as you go" method, it is assumed for purposes of analysis that the syndicate and raise is used. In our residual analyses, the LIHTC proceeds value is added back to the value of the land, with a one-year discount of 6.5%, to reflect for time-value and risks associated with sourcing the syndicator.

Land Residual - Senior Affordable Rental Apartment (SARA) Program Component

The stabilized income and expenses as of the appraisal date were increased 3% per annum to develop the 2019 Net Operating Income (NOI). A lease-up of $120,199 was deducted from the stabilized income to reflect downtime associated with leasing the units. As discussed, these units are projected to be highly desirable, thus the downtime costs are measured at $0 as the property is projected to be 100% pre-leased upon completion. The reversion is computed by capitalizing 2020 NOI, at a capitalization rate of 3% and deducting sales costs of 4%. The cash flows have been discounted at a rate of 6%, using annual discounting.

Year		1	2	3	4	
					REVERSION	
		4/1/2016	4/1/2017	4/1/2018	4/1/2019	
INCOME						
Potential Gross Income		$0	$0	$0	$2,060,560	
Vacancy % Collection Loss @	1.0%	$0	$0	$0	$20,606	
Annual EGI		**$0**	**$0**	**$0**	**$2,039,954**	a
Operating Expenses (420-c, no taxes) @		$0	$0	$0	$1,284,718	b
Net Operating Income		**$0**	**$0**	**$0**	**$755,236**	c (a-b)
DEVELOPMENT COSTS						
Construction costs		$12,104,000	$30,260,000	$18,156,000	$0	
Lease-up Downtime (100% pre-leased)					$0	
Total Development Costs		**$12,104,000**	**$30,260,000**	**$18,156,000**	**$0**	d
Cash Flow		-$12,104,000	-$30,260,000	-$18,156,000	$755,236	e (c-d)
Reversion (4% sales costs, 3.0% cap rate)					$24,892,570	f
Total Cash Flow		-$12,104,000	-$30,260,000	-$18,156,000	$25,647,805	g (e+f)
Cash Flow Discounted @	6.00%	-$11,418,868	-$26,931,292	-$15,244,128	$20,315,464	

NPV of Cash Flow		-$33,278,824
PV of 4% LIHTC - Discount Value one year @	6.5%	$26,862,397
Total PV		**-$6,416,427**
Rounded		-$6,400,000
Per ZFA		-$58

Key: Annual operating expenses (b) are deducted from annual effective gross income (a) to arrive at annual net operating income, or NOI. The annual development costs are then deducted from estimated NOI to arrive at annual cash flows (e). In year 4, the reversion, which is next year’s capitalized income, is an additional cash flow and is discounted with year 4’s cash flow, as it is assumed to occur at the end of year 4.

Conclusion – Senior Affordable Rental Affordable (SARA) Allocable Land Residual

The total present value of the SARA land component is -$6,400,000 or -$58 per square foot of allocated ZFA. The results of the land residual approach for the SARA component illustrate that the project is not feasible to develop on a standalone basis, but is nonetheless required under the ULURP action for the subject receiving site

Land Residual – Low-Income Affordable Component

The stabilized income and expenses as of the appraisal date were trended 3% per annum to develop the 2019 Net Operating Income (NOI). A lease-up of $365,275 was deducted from the stabilized income to reflect downtime associated with leasing the units. As discussed, these units are projected to be highly desirable, thus the downtime costs are measured at $0 as the property is projected to be 100% pre-leased upon completion. The reversion is computed by capitalizing 2020 NOI, at a capitalization rate of 3% and deducting sales costs of 4%. The cash flows have been discounted at a rate of 6%, using annual discounting. For this component, since it is our opinion that the highest and best use of the development is for condominiums with the required program, and that no 50/30/20 rental is available, no LIHTC is available to his site, and no real estate tax abatements are generated by this component.

Year		**1**	**2**	**3**	**4**		
					REVERSION		
		4/1/2016	4/1/2017	4/1/2018	4/1/2019		
INCOME							
Potential Gross Income		$0	$0	$0	$6,261,850		
Vacancy % Collection Loss @	1.0%				$62,619		
Annual EGI		**$0**	**$0**	**$0**	**$6,199,232**	a	
Operating Expenses (full taxes) @		$0	$0	$0	$3,646,458	b	
Net Operating Income		**$0**	**$0**	**$0**	**$2,552,774**	c	(a-b)
DEVELOPMENT COSTS							
Construction costs		$25,760,000	$64,400,000	$38,640,000	$0		
Lease-up Downtime (100% pre-leased)					$0		
Total Development Costs		**$25,760,000**	**$64,400,000**	**$38,640,000**	**$0**	d	
Cash Flow		-$25,760,000	-$64,400,000	-$38,640,000	$2,552,774	e	(c-d)
Reversion (4% sales costs, 3.0% cap rate)					$84,139,424	f	
Total Cash Flow		-$25,760,000	-$64,400,000	-$38,640,000	$86,692,198	g	(e+f)
Cash Flow Discounted @	6.00%	-$24,301,887	-$57,315,771	-$32,442,889	$68,668,341		

NPV of Cash Flow	-$45,392,206
PV of 4% LIHTC - Discount Value one year @	N/A
PV of 421-a	N/A
Total PV	**-$45,392,206**
Rounded	-$45,400,000
PSF of ZFA	-$208

Key: Annual operating expenses (b) are deducted from annual effective gross income (a) to arrive at annual net operating income, or NOI. The annual development costs are then deducted from estimated NOI to arrive at annual cash flows (e). In year 4, the reversion, which is next year's capitalized income, is an additional cash flow and is discounted with year 4's cash flow, as it is assumed to occur at the end of year 4.

Conclusion – Low Income Affordable Rental Allocable Land Residual

The total present value of the low income affordable land component is -$45,400,000 or -$208 per square foot of allocated ZFA. The results of the land residual approach for the low-income affordable component illustrate that the project is not feasible to develop on a standalone basis, but is nonetheless required under the ULURP action for the subject receiving site.

RECONCILIATION AND VALUE CONCLUSION – FEE DEVELOPMENT RIGHTS

The development rights associated with the proposed development on 550 Washington Street; legally identified as Block 596, Lot 1; were valued utilizing comparable development site sales of for the market rate residential component, and income capitalization approach for the senior affordable and affordable components, both of which are required under ULURP.

The appraisal of the subject property air rights considers the blended residential uses proposed for the receiving site's fee development rights, solely giving weight to residential uses located on the North and Center locations, to be rezoned C6-4 and C6-3, respectively. The South location is to be rezoned an M1-5 zone, and no residential will be permitted. Because the project site (including North, Center and South) comprises a single zoning lot, ZFA can be shifted among uses and locations, and the air rights can likewise be applied to any location and use within the zoning lot. Since the air rights can be applied to any use and the highest and best use is for residential use, we have valued the transferrable development rights based on their residential use, subject to the programmatic requirements under ULURP.

In reconciling the results of the appraisal process, the sales comparison approach to value was utilized to value the market rate portion of the development rights. The income capitalization approach via a land residual technique was developed to value the senior affordable and the low-income affordable components. The weighted average computation of the fee development rights, considering the blend of these uses is presented in the table below:

Use	Total SF	% of Total SF	Market Value $/ PSF	Component PSF[1]
Market Rate Residential (Condo)	960,300	74.50%	$825	**$615**
Senior Affordable	110,000	8.53%	-$58	**-$5**
Affordable	218,700	16.97%	-$208	**-$35**
Total Residential	**1,289,000**	**100%**	**Total PSF**	**$574**
Value of 200,000 Fee Development Rights				$114,892,866
Rounded				**$114,900,000**

[1]Percentage of total square foot multiplied by market value PSF foot equals component value PSF

The senior affordable and the low-income affordable components are negative numbers, indicating that development of these components does not only not produce a reasonable rate of return, but that the development of these components are both significant loss leaders in this proposed development. As part of the ULURP process, NYCDCP has made it a requirement that these components be constructed, as opposed to donating the land, which is common practice for mixed-rate components in NYC. As a result, the development of these components, or the developer's requirement to cause these components to be developed, is reflected in the blended value.

Therefore, it is our opinion that the market value of the 200,000 square feet of blended-use fee development rights, as of April 1, 2016, was:

ONE HUNDRED FOURTEEN MILLION NINE HUNDRED THOUSAND DOLLARS
($114,900,000)

Given the nature of this assignment, a hypothetical condition and a series of extraordinary assumptions, described below, are necessary to develop credible assignment results. The hypothetical condition employed in this valuation is that the proposed rezoning and special permit have been granted through a successful ULURP as of the effective date of value of this appraisal with the receiving site incorporating the air rights purchased from HRPT into the development. Therefore, our analysis proceeds in two parts: first consideration of the development rights as part of the fee parcel, and second the market relationship, expressed as a ratio, between the value of the air rights and the value of the underlying fee parcel. The market value of subject property air rights equals the value of the allocable portion of the fee interest multiplied by this ratio.

A hypothetical condition is defined as, “That which is contrary to what exists, but is supposed for the purpose of the analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis.” The hypothetical condition is necessary to produce credible assignment results.

An extraordinary assumption is defined as, “An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about condition external to the property such as market conditions or trends; or about the integrity of data used in an analysis.”

The extraordinary assumptions made in this appraisal are summarized as follows:

1. That the outline of North and Center of the planned development will be generally comprised of the following Zoning Floor Area (ZFA):
    - 960,300 square feet of market rate residential development
    - 110,000 square feet of affordable senior housing rentals
    - 218,700 square feet of affordable residential rentals

2. That, as per the client based on information provided by NYCDCP, the affordable components will not be eligible to generate off-site Inclusionary Housing bonuses to be sold to qualifying sites, which departs from prior programs for affordable housing development in New York City.

3. That the developer will elect to utilize 60% Area Median Income (AMI) for the Senior Affordable Rental Apartment (SARA) program, in order for this component of the

project to be eligible for 4% Low Income Housing Tax Credits (LIHTC). It was reported by HPD that 80% AMI is the maximum AMI requirement for the SARA component.

If any of the extraordinary assumptions are found to be materially different than what is assumed for this assignment, the appraisal may require revision.

VALUATION – AIR RIGHTS

The following valuation of the air rights incorporates by reference the analysis developed earlier in this report, and develops an opinion measuring the relationship between fee development rights and air rights value. In undertaking this valuation, we have performed the following scope of work:

- Analyzed current zoning regulations applicable to the subject property and all comparable development site sales: Zoning information is based upon the City of New York Zoning Resolution. We have also analyzed the proposed rezoning of the receiving site in conjunction with mixed-use development proposed for the site.

- Conducted a study of development land market conditions in the subject market area: Market information is based upon published studies, sales information sources such as PropertyShark and CoStar, NYC Department of Buildings, the files and library of Appraisers and Planners, Inc. and our discussions with active participants and lenders in the marketplace.

- Provided a conclusion, based upon the data and methodology set forth within the appraisal report. The conclusion is based on the percentage relationship of air rights to fee value, after considering the weighted average of the subject development rights considering the blended residential uses proposed for the site at 550 Washington Street

- Applied the above-sought percentage to the value derived in the preceding Development Rights analysis to conclude at a value of the subject air rights.

ELIGIBLE SITE ANALYSIS

We have been guided by the Client to consider the potential eligibility of sites opposite Pier 40 to receive air rights. In determining the eligibility of sites to receive the air rights, we look to those properties within the block across West Street that are feasible development sites. We are guided by the Hudson River Park Act, and 2013 amendment ("the Act") in evaluating which sites, physically, can be recipients of the air rights. The Act states in Chapter 517 of the Laws of New York that the Hudson River Park Trust (HRPT) shall have the right to "…transfer by sale any unused development rights as may be available for transfer to properties located up to one block east of the boundaries of the park along the west side of Manhattan, if and to the extent designated and permitted under local zoning ordinances provided however that revenues derived from the transfer of air rights from pier 40 must be used in the first instance for the repair of pier 40 infrastructure including piles and roof, after which any excess revenues may be used by the trust for other uses permitted by this act…"

In addition, we have been informed by the Client that the proposed amendment to the zoning text will limit the potential transfers to be within a nexus to be defined by the Department of City Planning (DCP).

For the proposes of this appraisal we have been guided by the Client in the interpretation of this clause, and have determined that the following four (4) parcels in the following two (2) blocks may be eligible for Pier 40 air rights (subject to further stipulation to be established by DCP):

Block 601, Lots 10, 12 and 13 – 357 West Street, 152 Leroy Street and 584 Washington Street

Block 601, Lot 10 was recently granted a use variance to construct a residential development in an M1-5 zoning district. The development is underway and condominium listings have recently been made available. It is not suspected that subsequent to the granting of a variance and construction of a condominium building that this property can achieve additional residential air rights. Lots 12 and 13 remain zoned M1-5 and are not judged to be able to receive the air rights generated by Pier 40 for residential development. Both parcels are underbuilt and already contain substantial untapped potential for redevelopment that have thus far gone unrealized.

Block 596, Lot 1 – 550 Washington Street

This site is judged as the only site available to receive the air rights generated by Pier 40 for enhancement of a proposed residential development. It is a hypothetical condition in this appraisal that 550 Washington has been granted all the rezoning and special permits in conjunction with the propose development, therefore availing the property as a receiver of air rights generated by Pier 40. Because the property will be underbuilt subsequent to the rezoning, it can supplement the proposed development with the purchase of air rights from Pier 40, to be used to enhance the residential portions of the site. Therefore, only 550 Washington can receive the air rights, and this valuation of the relationship between the value of air rights to fee land value is done in accordance with the planned residential uses for 550 Washington Street.

EXPOSURE TIME – AIR RIGHTS

Exposure time is defined as:

> *"The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a current estimate based upon an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal."*[10]

In estimating the appropriate exposure time applicable to the interest in the air rights, we have considered marketing periods for similar type properties based on a survey of property listings as well as sales data and interviews with market participants. In addition, when the information was available, we have considered the exposure time of the development site sales contained within

[10] The Dictionary of Real Estate Appraisal, 5th Ed., (Illinois: Appraisal Institute, 2010), page 73

this appraisal. It is our opinion that a reasonable exposure time applicable to the interest in the air rights analyzed herein, as of the effective appraisal date, is six (6) to nine (9) months.

DEFINITION OF MARKET VALUE – AIR RIGHTS

Market value is defined as follows:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."[11]

For purposes of this appraisal, we have provided the market value of the air rights, after considering the relationship between land value and air rights, incorporating by reference the value of the underlying fee development at 550 Washington Street, as set forth earlier in this appraisal. For example, if air rights are valued at 60% of corresponding land value, when a parcel of land for residential development is valued at $100 per square foot of Zoning Floor Area (ZFA), air rights that can be transferred to that parcel, to enhance the aforementioned residential development, are valued at $60 per square foot of ZFA.

[11] Appraisal Institute, The Appraisal of Real Estate, 13th Edition, (Illinois: Appraisal Institute, 2008), page 24-25.

Overview of Air Rights Transaction Mechanisms in New York City

This appraisal measures the relationship between land value and air rights value, expressed as a percentage of underlying land value. Air rights are transferred by three basic mechanisms in New York City: Zoning Lot Merger, TDR Programs and Landmark Transfers. Each program is discussed below.

Zoning Lot Merger

In Manhattan, the most common vehicle for air rights transfers is through the use of a Zoning Lot Development Agreement (ZLDA), which merges the zoning lots of contiguous parcels and allows for a receiving site to increase as-of-right Floor Area Ratio (FAR) by utilizing excess development rights from the granting parcel. This is the most common way in which air rights are transferred, and many development sites are assembled.

TDR Programs

Another way in which properties in certain districts of New York City may increase FAR is through the transfer of air rights through various district-wide TDR programs. Properties situated within certain zoning districts within Manhattan, such as the Theater Subdistrict or High Line Transfer Corridor in West Chelsea may benefit from an increase in FAR through the utilization of Transferable Development Rights from those sites generating excess development rights. In the case of the Theater District, landmark theaters generate the TDRs, and in West Chelsea, those zoning lots lying within the High Line Transfer Corridor generate the TDRs. In both cases the receiving site must identify a granting site, from which to receive TDRs and privately negotiate the price for these TDR rights. Included in this transaction is typically a fee to be paid to the Theater Subdistrict Fund. Unlike transfers from landmark properties, as discussed below, the TDR sales in the Theatre Subdistrict, although subject to review, are not subject to the depth of public review associated with the Uniform Land Use Review Process (ULURP) and are made similar to an inclusionary housing transfer or zoning lot merger.

Landmark Transfers

The Zoning Resolution (Section 74-79) provides a special transfer process to some of the landmarks designated by the LPC. This transfer provision allows individual landmarks within or in mid- and high-density zoning districts to transfer unused development rights not only to adjacent lots, but also to lots across the street or, if the landmark is on a corner, to any lot on another corner that faces the same intersection. Owners seeking to transfer TDRs through the landmark program rather than a zoning lot merger, however, must secure a special permit from the City Planning Commission, which, in turn, requires a report of the LPC and public review through ULURP and City Environment Quality Review (CEQR). The ULURP process can take over one year and can cost, at a minimum of $500,000 in legal and professional fees to guide the process; this deters some owners from transferring air rights this way.

Conclusion – Air Rights Overview

For the purposes of this valuation, although the air rights are to be transferred from Pier 40, across West Street to 550 Washington Street, similar to a typical Transferable Development Right (TDR) program such as seen in the Theater District or West Chelsea, for purposes of analysis, the sale of these rights is analyzed as if it were a sale done through a Zoning Lot Merger (ZLM). It is viewed as a ZLM as there is only one grantor of air rights, and only one recipient; a bilateral monopoly. Therefore the subject is considered most similar to the sales of air rights through ZLM and we have therefore considered and analyzed ZLM's to estimate the percentage relationship between land value and air rights value.

The Approaches to Value

The **Income Approach** was not developed to value the subject air rights or the percentage relationship between the underlying land value and the air rights to be added to the development. For purposes of analysis, the property is assumed to be vacant of improvements and the air rights are assumed to be transferred to enhance the residential portion of the development.

The **Sales Comparison Approach** was developed as the primary method of valuation. The relationship between land value and air rights value through ZLM was analyzed by researching recent development site transactions that involved the purchase of vacant land, or an under-utilized site, and a subsequent and sometimes simultaneous transaction of air rights through a zoning lot merger. While development site transactions occur often in the recent economic climate in New York City, and air rights transactions also occur regularly, the sales do not always happen in a similar timeframe. We uncovered a number of assemblages that were put together piece-by-piece over time, but because it is difficult to adjust each component for market conditions, and enhanced motivation seen with assemblages, those transactions were not used. Furthermore, this analysis concentrates on sales of land and corresponding air rights for residential purposes, in accordance with the hypothetical condition in this appraisal whereby the air rights are to be transferred subsequent to ULURP approval. Because hotel, retail and office uses can be accommodated as-of-right within the planned development, these uses are not included as part of this appraisal as the transferred air rights are not necessary for development of these uses.

The **Cost Approach** was not developed as the subject of this appraisal is solely comprised of the air rights associated it with a proposed development.

Summary: The development site sales and corresponding zoning lot mergers researched and uncovered concern an array of Manhattan development sites occurring between August 2012 to June 2015. The sales reflect those developers' willingness to expand their existing development scale through the purchase of air rights from an abutting property. In some instances, the transactions involved the sale of one parcel and one air rights purchase. In other transactions presented herein, one fee land parcel can be purchased, and can be significantly expanded by a developer who traverses the block assembling a development envelope, piece by piece. In nearly all instances, the acquisition of the air rights through ZLM, is between the land purchaser and the only likely grantor of air rights, or the only eligible party willing to permanently part with the excess development rights appurtenant to their site.

Furthermore, of the dozens of air rights transactions that have occurred in Manhattan since 2012, we have selected this sampling of nine (9) sales, as they satisfy the above criteria, but this group of sales concerns transactions wherein the land and the air were purchased under the same, or similar market conditions. When deriving the percentage relationship between the two components, if the same market conditions are utilized, then this further speaks to the strength of the underlying relationship between the components.

There does exist instances in the market where a ZLM is fully necessary for a developer to achieve the as-of-right FAR, otherwise the parcel may be limited to 45 feet in frontage, and the parcel would be deemed a sliver parcel. Without a lot merger, these parcels can often only be developed to the height that is equivalent to the fronting street width. However; if a ZLM of a narrow parcel were to occur with a parcel wide enough to provide a zoning lot width of at least 45 feet, then height limitations, especially in R10 or R-10 equivalent zones, would not be limited. Because of these practices, ZLM's happen with regularity, especially in high-density areas where the more air rights assembled means the taller the development.

Selection of Comparable Fee and Air Rights Sales

Comparable sales of properties planned were derived and confirmed through a thorough investigative search of public records as well as discussions with knowledgeable parties. In addition we have relied upon several recognized data sources for comparable sales such as CoStar Comps, New York City Department of Buildings, ACRIS and Property Shark.

We undertook an exhaustive search and relied upon the following transactions as most similar to the subject property as these sales are some of the most recent sales, represent the acquisition for residential developments without high-value retail, and in the cases of these sales, the acquisitions of air rights significantly added to the feasibility of the project. A summary of the transactions followed by a discussion of the data is found on the following pages.

Development Site Sales and Corresponding Air Rights Transactions

1	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	8/6/2014	359 Broadway	174/33	353-357 Broadway	174/34,35	$8,072,817	22,500	ZLM	**$359**
	8/6/2014	Fee Land Parcel	---	---	174/34,35	$64,655,263	106,710	**Fee Transfer**	**$606**
								Air as % of Land	**59.2%**

2	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	5/22/2015	325 Hudson Street	597/62	108 Charlton/537 Greenwich	597/46 & 39	$15,456,764	30,558	ZLM	$506
	5/22/2015	95 Van Dam Street	597/1001-1011	108 Charlton/537 Greenwich	597/46 & 39	$7,790,546	18,667	ZLM	$417
	Total Granting Lots					**$23,247,310**	49,225		**$472**
	5/28/2014	Fee Land Parcel		537 Greenwich Street	597/39	$64,000,000	90,000	Fee Transfer	
	10/23/2014	Fee Land Parcel		108 Charlton Street	597/49	$26,000,000	33,147	Fee Transfer	
	Total Fee Parcel					**$90,000,000**	123,147		**$731**
								Air Rights as % of Land	**64.6%**

3	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	1/20/2015	426 East 58th Street	1369/36	428-432 East 58th Street	1369/34,35,133	$6,974,270	13,186	ZLM	$529
	1/23/2015	422 East 58th Street	1369/37	428-432 East 58th Street	1369/34,35,133	$6,162,225	21,750	ZLM	$283
	6/19/2015	446 East 58th Street	1369/29	428-432 East 58th Street	1369/34,35,133	$6,774,996	22,583	ZLM	$300
	6/19/2015	440 East 58th Street	1369/30	428-432 East 58th Street	1369/34,35,133	$4,741,057	13,556	ZLM	$350
	6/19/2015	442 East 58th Street	1369/129	428-432 East 58th Street	1369/34,35,133	$5,011,026	16,267	ZLM	$308
	6/19/2015	461 East 57th Street	1369/22	428-432 East 58th Street	1369/34,35,133	$10,137,660	23,429	ZLM	$433
	6/19/2015	434-436 East 58th Street	1369/31&33	428-432 East 58th Street	1369/34,35,133	$11,199,505	33,442	ZLM	$335
		Total Granting Lots				**$51,000,739**	**144,213**		**$354**
	1/20/2015	Fee Land Parcel	1369/34,35,133			$32,000,000	60,252	Fee Transfer	**$531**
								Air Rights as % of Land	**66.6%**

4	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	11/20/2013	122 East 59th Street	1313/63	118 East 59th Street	1313/65	$6,181,500	16,356	ZLM	$378
	11/20/2013	Fee Land Parcel	1313/65	118 East 59th Street	n/a	$49,000,000	60,252	Fee Transfer	$813
								Air Rights as % of Land	**46.5%**

Development Site Sales and Corresponding Air Rights Transactions (continued)

5	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	8/20/2012	1065 Third Avenue	1417/45	1059 3rd Avenue	1417/47	$8,329,404	26,275	ZLM	$317
	8/20/2012	Fee Land Parcel	1417/47	1059 3rd Avenue	n/a	$31,500,000	52,500	Fee Transfer	$600
								Air Rights as % of Land	**52.8%**

6	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	3/10/2015	300 East 96th Street	1558/49	302 East 96th Street	1558/47	$2,030,050	10,000	ZLM	$203
	3/10/2015	Fee Land Parcel		302 East 96th Street	n/a	$22,000,000	50,360	Fee Transfer	$437
								Air Rights as % of Land	**46.5%**

7	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	11/8/2012	243 East 34th Street	915/26	237 East 34th Street	915/26	$2,922,063	16,698	ZLM	$175
	12/20/2012	Fee Land Parcel		237 East 34th Street	n/a	$15,500,000	49,375	Fee Transfer	$314
								Air Rights as % of Land	**55.7%**

8	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	9/23/2014	85 Nassau Street	79/2	75-83 Nassau Street	79/3,4,6	$5,923,928	29,783	ZLM	$199
	4/21/2014	Fee Land Parcel	79/3	83 Nassau Street	n/a	$11,500,011	40,710	Fee Transfer	$282
	6/3/2014	Fee Land Parcel	79/4&6	75-79 Nassau Street	n/a	$46,000,000	158,400	Fee Transfer	$290
		Total Fee Land				$57,500,011	199,110		**$289**
								Air Rights as % of Land	**68.9%**

9	Sale Date	Granting Site	Granting Block/Lot	Receiving Site	Receiving Block/Lot	Sale $	ZFA	Transfer Type	$/ ZFA
	12/10/13 & 1/3/14	121 6th Avenue	Block 477, Lot 1001-1005	100 Varick Street	Block 477, Lots 35, 42, 44, 73-76	$32,136,468	97,877	ZLM	$328
	1/3/2014	Fee Land Parcel		100 Varick Street	n/a	$89,827,019	149,908	Fee Transfer	$599
								Air Rights as % of Land	**54.8%**

Min	46.5%
Max	68.9%
Avg.	58.2%
Conclusion	**65.0%**

APPRAISERS AND PLANNERS INC

Discussion of Sales and Relationship of Air to Land Value

Comparable Sale 1

This sale represents the acquisition of two side-by-side lots and abutting air rights along Broadway in Tribeca. The sales occurred simultaneously and represent a relationship of 59.2% of air rights value to land value. In this transaction, only the abutting parcel presented a logical source of air rights. The fee sale parcels are largely located in C6-4A zoning, which is an R10A equivalent zone. In C6-4A, the maximum height is 210 feet. Accordingly a large assemblage of air rights would not be possible, and there were only two sites from which to source air rights; the abutting lot 33, or lot 36, the latter of which was subsequently purchased by the developer, however this transaction was not at market as it included a seller's option to acquire the retail component to the seller. The 59.2% relationship between the air and fee parcels represents the transaction of air rights similar to what is assumed to take place at 550 Washington Street, and this percentage is good evidence of what can be expected for the subject air rights.

Comparable Sale 2

Comparable sale 2 represents the sale of two fee parcels and two blocks of air rights. This sale is located two blocks due east of the subject property, and is the closest to the subject of any of the sales analyzed. The sales do represent the most time between fee acquisition and air rights acquisition in the data array, however there is evidence to suggest that the air rights were under negotiation as the second components of the fee sale was closing, therefore an adjustment for market conditions may not be warranted.[12] The relationship between fee and air rights in this transaction is 64.6%, and like the sale above, represent air rights acquisitions from available parcels on the block in a height-capped zoning district where maximum height is 185 feet for market-rate development, but can be increased with inclusionary depending on the block configuration and fronting streets.

Comparable Sale 3

Comparable sale 3 is unique in this data as it concerns the acquisition of one parcel and then an assemblage of air rights from an additional seven (7) parcels. The first air lot purchased was done so at nearly the same price per square foot as the initial sale price, with each subsequent purchase at a lower price. In all, the sum of the air rights sales averages to be 66.6% of the initial fee sale.

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[12] An air rights survey is referenced in the ZLDA as dated November 6 2014, two weeks after the close of the sale of 108 Charlton Street.

Comparable Sale 4

Comparable sale 4 is the simultaneous acquisition of both fee land and air from two separate parties. The property is located at the northerly portion of Midtown East, along East 59th Street, in a desirable residential and increasing retail location. The purchase of the fee considers both the high retail value here as well as the residential value. The air rights purchase is computed to be 46.5% of the land acquisition, per square foot. The land lot is 50 feet, and is wide enough to maximize the FAR of 12.0 on the site, and this assemblage of air rights allowed the upper floors to have Central Park views, notably enhancing the development. However, given the value of the underlying retail at this location, the percentage relationship here is given the least weight of the comparable sales.

Comparable Sale 5

Like comparable sale 4, comparable sale 5 also represents the simultaneous transaction of both land and air rights. This property is located along Third Avenue at East 63rd Street, and there is also high-value retail at this location, albeit less than comparable sale 4. This transaction occurred in August 2012, and is the most dated of the comparable sales, but the relationship between fee land per square foot and air is 52.8%.

Comparable Sale 6

Comparable sale 6 represents a recent transaction of land and fee from the same seller to the same buyer. The land at 302 East 96th was initially purchased by the seller, as it abutted a long-owned property. The seller then packaged the air rights over 300 East 96th Street with the recently-acquired land and sold them together to the current owner. In this transaction, the air rights as a percentage of land value is 46.5%, but this is not the best data point as the location is vastly inferior to the subject, and it is assumed that the buyer was willing to pay a certain price for this envelope of Zoning Floor Area.This may be an allocation of the unit prices amongst the components.

Comparable Sale 7

This represents two of the three pieces of a rental development along East 34th Street; the third piece of this development concerns additional land that was acquired in December 2013 and is not considered part of this air rights to land value analysis. The air rights acquisition in this transaction represents 55.7% of the underlying land value, per square foot. We note that similar to sales 4 and 5, this property is located in a busy retail location along East 34th Street, and less weight is placed upon the relationship established in this sale.

Comparable Sale 8

This transaction represents the assembly of land and air rights for a high-rise development in the Financial District at Nassau Street. The sale is comprised of two land parcels and an air rights parcel acquired three months following the acquisition of the second land parcel. This transaction represents the highest percentage relationship of all the comparable sales, at 68.9% and the block of air rights is one of the largest analyzed in this appraisal. The acquisition of these air rights enables the developer to notably extend upward the development envelope, which is of significance in the Financial District, where narrow streets and dense development reduce the light and air available to lower floors. Given the observed need to acquire air rights to increase the feasibility of the development, this sale is judged to be comparable to the subject's air rights.

Comparable Sale 9

This transaction represents the assembly of land and air rights for a high-rise development in the subject's Hudson Square neighborhood. The sale is comprised of seven (7) land parcels and an air rights parcel acquired simultaneously from a commercial and community facility condominium building. This transaction represents the largest transaction[13] and the block of air rights is the largest analyzed in this appraisal. A 54.8% percentage relationship is established in this sale. The acquisition of these air rights enables the developer to notably extend upward the development envelope, which is of significance in this portion of the Hudson Square, where one of the premier developments in the neighborhood, 565 Broome is planned. We note that this project was expanded twice beyond this initial set of transactions; however, for analysis purposes to measure the land to air rights relationship, this transaction is essential. Given the observed need to acquire air rights to increase the feasibility of the development, this sale is judged to be comparable to the subject's air rights.

Conclusion of Air Rights Value

The comparable sales establish a relationship in the market between air rights and land value for the same development. The air rights are all assembled through zoning lot mergers, whereby neighboring parcels transfer rights to the developer site. The relationship reflects that in many cases the air rights are a bonus to the development. Moreover, as is seen in the sales above, many of the acquisitions concern the assemblage of air rights from either the only, or the most likely source available on the developer parcel block. In our conclusion, we have considered the sales which we found to represent the most similar air rights transactions for valuing the subject property's air rights to 550 Washington Street. The percentage relationship established in comparable sales range from 46.5% to 68.9% of fee land value, and average 58.2%. We have considered the range and average of the comparable sales and have given most weight to sales 1, 2, and 8 in our conclusion; these sales are some of the most recent sales, represent the acquisition for residential developments without high-value retail, and in the cases of these sales, the acquisitions of air rights significantly added to the feasibility of the project.

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[13] ZLDA references a maximum ZFA transferred of 101,217, however we have confirmed with the developer that an effective 9.67 FAR is used on this property, therefore slightly less than the maximum was transferred.

In addition, we have also considered the fact that the subject property's development rights are unique in that the proposed rezoning map change, and approval of a special permit, all of which will allow for construction of market rate housing on the subject site, may not proceed without the purchase of the Pier 40 air rights. The inclusion of these development rights will result not only in an expansion of the building envelope, but in the ability to build any residential uses. This factor, in combination with the high value of the end unit product which will result from inclusion of the development rights, provides that the subject development rights are particularly valuable as a percentage of underlying land value. We have therefore concluded at a percentage which is near the higher end of the comparable range or 65%.

We have applied this percentage to the value of the fee development as found in the aforementioned fee land analysis, as follows:

Fee Development Value PSF	$574
Air Rights as % of Land	65.0%
Air Rights Value	$373
Sq. Ft. of Air Rights	200,000
Value of 200,000 Air Rights	$74,676,629
Rounded	**$74,700,000**

Therefore, it is our opinion that the market value of the subject air rights, for a development such as the one proposed for 550 Washington Street, as of April 1, 2016, was:

SEVENTY FOUR MILLION SEVEN HUNDRED THOUSAND DOLLARS ($74,700,000)

Given the nature of this assignment, a hypothetical condition and a series of extraordinary assumptions, described below, are necessary to develop credible assignment results. The hypothetical condition employed in this valuation is that the proposed rezoning and special permit have been granted through a successful ULURP as of the effective date of value of this appraisal with the receiving site incorporating the air rights purchased from HRPT into the development. Therefore, our analysis proceeds in two parts: first consideration of the development rights as part of the fee parcel, and second the market relationship, expressed as a ratio, between the value of the air rights and the value of the underlying fee parcel. The market value of subject property air rights equals the value of the allocable portion of the fee interest multiplied by this ratio.

A hypothetical condition is defined as, "That which is contrary to what exists, but is supposed for the purpose of the analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis." The hypothetical condition is necessary to produce credible assignment results.

An extraordinary assumption is defined as, "An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about condition external to the property such as market conditions or trends; or about the integrity of data used in an analysis."

The extraordinary assumptions made in this appraisal are summarized as follows:

1. That the outline of North and Center of the planned development will be generally comprised of the following Zoning Floor Area (ZFA):
   - 960,300 square feet of market rate residential development
   - 110,000 square feet of affordable senior housing rentals
   - 218,700 square feet of affordable residential rentals

2. That, as per the client based on information provided by NYCDCP, the affordable components will not be eligible to generate off-site Inclusionary Housing bonuses to be sold to qualifying sites, which departs from prior programs for affordable housing development in New York City.

3. That the developer will elect to utilize 60% Area Median Income (AMI) for the Senior Affordable Rental Apartment (SARA) program, in order for this component of the project to be eligible for 4% Low Income Housing Tax Credits (LIHTC). It was reported by HPD that 80% AMI is the maximum AMI requirement for the SARA component.

If any of the extraordinary assumptions are found to be materially different than what is assumed for this assignment, the appraisal may require revision.

RECONCILIATION AND VALUE CONCLUSION – AIR RIGHTS RELATIONSHIP

The Sales Comparison Approach was employed to value the relationship between air rights and land value, expressed as a percentage of underlying fee land value. The resulting indications of value are as follows:

COST APPROACH:	**N/A**
SALES COMPARISON APPROACH:	**$74,700,000**
INCOME CAPITALIZATION APPROACH:	**N/A**

The **Income Approach** was not developed to value the subject air rights or the percentage relationship between the underlying land value and the air rights to be added to the development. For purposes of analysis, the property is assumed to be vacant of improvements and the air rights are assumed to be transferred to enhance the residential portion of the development.

The **Sales Comparison Approach** was developed as the primary method of valuation. The relationship between land value and air rights value through ZLM was analyzed by researching recent development site transactions that involved the purchase of vacant land, or an under-utilized site, and a subsequent and sometimes simultaneous transaction of air rights through a zoning lot merger. While development site transactions occur often in the recent economic climate in New York City, and air rights transactions also occur regularly, the sales do not always happen in a similar timeframe. We uncovered a number of assemblages that were put together piece-by-piece over time, but because it is difficult to adjust each component for market conditions, and enhanced motivation seen with assemblages, those transactions were not used. Furthermore, this analysis concentrates on sales of land and corresponding air rights for residential purposes, in accordance with the hypothetical condition in this appraisal whereby the air rights are to be transferred subsequent to ULURP approval. Because hotel, retail and office uses can be accommodated as-of-right within the planned development, these uses are not included as part of this appraisal as the air rights are not necessary for development of these uses.

The **Cost Approach** was not developed as the subject of this appraisal is solely comprised of the air rights associated it with a proposed development.

We have placed sole reliance on the Sales Comparison Approach to value the relationship between land value and air rights value for the proposed development at 550 Washington Street

FINAL CONCLUSION

After an analysis of all relevant data and based upon the documentation presented within this report, it is our opinion that the market value of the fee simple interest in the blended-use development rights generated by Block 656, Lot 1; known as the Pier 40 of the Hudson River Park and to be transferred to 550 Washington Street, as of April 1, 2016, was:

Use	Total SF	% of Total SF	Market Value $/ PSF	Component PSF[1]
Market Rate Residential (Condo)	960,300	74.50%	$825	**$615**
Senior Affordable	110,000	8.53%	-$58	**-$5**
Affordable	218,700	16.97%	-$208	**-$35**
Total Residential	**1,289,000**	**100%**	**Total PSF**	**$574**
Value of 200,000 Fee Development Rights				$114,892,866
Rounded				**$114,900,000**

[1]Percentage of total square foot multiplied by market value PSF foot equals component value PSF

ONE HUNDRED FOURTEEN MILLION NINE HUNDRED THOUSAND DOLLARS ($114,900,000)

In addition, after an analysis of all relevant data and based upon the documentation presented within this report, it is our opinion that considering the blended uses of the highest and best use for the residential component of the receiving site at 550 Washington Street, and the limited market of both granting and eligible parcels for Pier 40 air rights, it is our opinion that the market value of the 200,000 square feet of subject air rights as of April 1, 2016, was:

Fee Development Value PSF	$574
Air Rights as % of Land	65.0%
Air Rights Value	$373
Sq. Ft. of Air Rights	200,000
Value of 200,000 Air Rights	$74,676,629
Rounded	**$74,700,000**

SEVENTY FOUR MILLION SEVEN HUNDRED THOUSAND DOLLARS ($74,700,000)

Given the nature of this assignment, a hypothetical condition and a series of extraordinary assumptions, described below, are necessary to develop credible assignment results. The hypothetical condition employed in this valuation is that the proposed rezoning and special permit have been granted through a successful ULURP as of the effective date of value of this appraisal with the receiving site incorporating the air rights purchased from HRPT into the development. Therefore, our analysis proceeds in two parts: first consideration of the development rights as part of the fee parcel, and second the market relationship, expressed as a ratio, between the value of the air rights and the value of the underlying fee parcel. The market value of subject property air rights equals the value of the allocable portion of the fee interest multiplied by this ratio.

A hypothetical condition is defined as, "That which is contrary to what exists, but is supposed for the purpose of the analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis." The hypothetical condition is necessary to produce credible assignment results.

An extraordinary assumption is defined as, "An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about condition external to the property such as market conditions or trends; or about the integrity of data used in an analysis."

The extraordinary assumptions made in this appraisal are summarized as follows:

1. That the outline of North and Center of the planned development will be generally comprised of the following Zoning Floor Area (ZFA):
    - 960,300 square feet of market rate residential development
    - 110,000 square feet of affordable senior housing rentals
    - 218,700 square feet of affordable residential rentals

2. That, as per the client based on information provided by NYCDCP, the affordable components will not be eligible to generate off-site Inclusionary Housing bonuses to be sold to qualifying sites, which departs from prior programs for affordable housing development in New York City.

3. That the developer will elect to utilize 60% Area Median Income (AMI) for the Senior Affordable Rental Apartment (SARA) program, in order for this component of the project to be eligible for 4% Low Income Housing Tax Credits (LIHTC). It was reported by HPD that 80% AMI is the maximum AMI requirement for the SARA component.

If any of the extraordinary assumptions are found to be materially different than what is assumed for this assignment, the appraisal may require revision.

ADDENDA

Alternative Valuation under Developer's Proposed Plan with 421-a Assumption

As discussed earlier in the report, the proposed development concerns a proposed mixed-use project with an assortment of components, most notably a 1,289,000 square foot, mixed-income residential component. Within the 1,289,000 square feet of ZFA, the developer proposes to construct 960,300 square feet of market rate residential product, 750,000 square feet of which is for condominiums, and the balance of 210,300 square feet is for market rate rentals. It is our understanding that the plans for this project were originally conceived when 421-a benefits could be applied to a mixed condominium or rental project so long as the affordable components satisfied the requirements. With the June 2015 change in the 421-a law to exclude Manhattan condominiums, and now the January 15, 2016 expiration of the law in its entirety, the 210,300 square feet of market rate rental component is not the highest and best use of the market rate residential space and we have therefore not valued any of the development rights based on this proposed use.

However, in accordance with the client's request, we have provided an alternate valuation of the subject receiving site, and subject property air rights under the following assumptions:

- That the proposed rental component is included in the development;
- That 421-a is available to the subject receiving site, and that the benefits are generated by, and are applicable to the low-income affordable component and the market rate rental component; and
- As part of developing a rental component, the low-income affordable development will be eligible to receive LIHTC associated with the 112 units being developed for 60% AMI.

In undertaking this analysis we incorporate by reference the analyses and valuation of the condominium component of the development and the senior affordable component. This alternative valuation develops a land residual valuation of the affordable component, as enhanced with the 421-a benefits, and the same for an assumed market rate rental component, also enjoying the benefits of an assumed 421-a benefit. Furthermore, the low-income component is enhanced by LIHTC eligibility.

This analysis incorporates a hypothetical condition which is necessary to value the subject property air rights under this scenario. The hypothetical condition, which we know to be false, but is assumed for purposes of analysis is that on the date of appraisal the 421-a program exists in its most recent form prior to expiration.

Developer's Proposed Uses

The client reports, as per NYCDCP, that the proposed uses for the subject receiving site are set forth as follows:

Total North and Center		
Land Use	Sq. Ft. of Use	% of Total
Residential Condominium	750,000	58.18%
Market Rate Rental	210,300	16.31%
Senior Affordable Housing	110,000	8.53%
Affordable Housing	218,700	16.97%
Total	**1,289,000**	**100.0%**

We have incorporated by reference the valuation of the condominium component and the senior affordable component, and have sought alternative valuations for the low-income affordable component and the market rate renal component.

Scope of Analysis – Alternate Valuation

The analysis undertaken to value the components and corresponding air rights under these alternative scenarios consist of:

- Residential Market Analysis – Market Rate Rentals
- 421-a tax computations and allocation of present value benefits to market rate component and low-income affordable component
- Sale Comparison Approach – Market Rate Development Site Sales
- Income Capitalization Approach – Market Rate Rental Component and affordable housing component with LIHTC eligibility
- Reconciliation of approaches for fee development rights under alternative valuation
- Application of Air Rights % to fee development right valuation, and final conclusion under alternative scenario

Rental Market Analysis – Proposed Subject Market Rate Rentals

The market rate rental portion of the development at the receiving site, 550 Washington Street, is scheduled to contain 210,300 square feet of ZFA. For purposes of estimating net rentable area, we assume a 5% increase from ZFA to above-grade Gross Floor Area, and have assumed a 82.5% efficiency, leaving the rental portion with a net rentable area of 182,172 square feet. Using an average apartment size consistent with HPD requirements of 650 rentable square feet, we assume this will hold 280 units of varying configurations. Competition to any proposed rental development on the subject property comes from nearby condominium owners that rent their units to tenants and these units are typically larger than the units in many new rental developments. It is assumed that the hypothetical improvements in the market rate residential apartments would include high-end finishes including hardwood floors, tile bathrooms and kitchens with stainless steel appliances, wood cabinets, and granite counters.

Near the subject, new rental developments include:

- Truffles Tribeca – One of the largest rental developments in the neighboring area, this 291-unit property was developed in 2007. This property features a parking garage, retail, amenity and lobby on the ground floor under 291 units ranging from studios to three-bedrooms. Property amenities include a roof garden with direct water views, courtyard with gated entrance, house staff, screening room, game room and industrial finishes throughout. According to a description provided by management, "all apartments have space saving wall flush heating and AC units, dark-brown hard wood floors, granite counters, generous double barred closets. Kitchens are complete with grey thermofoil cabinets, blackboard backsplash, GE Profile appliance package including: side by side stainless steel fridge, gas range with middle warming tray, dishwasher, and turntable microwave." Recent one-bedroom rentals show a wide range of monthly rents from \$3,795 to \$4,995; two-bedrooms range from \$4,895 to \$6,995 and the most recent three-bedroom rentals range from \$7,500 to \$9,995.

- 55 Thompson – This property was completed in 2011. It features grade level retail space, lobby and amenity space under 38 apartments. The total building is approximately 77,000 square feet. Rents in this building are some of the highest in the area. One-bedroom units ask as high as \$9,095 per month and two-bedroom penthouse units recently asked \$17,500.

- 600 Washington Street – This building houses 136 rental units. A survey of the most recent rentals in this property produced an average rent of \$89 per square foot. Units in this building are on the smaller side, typical of rental developments throughout Manhattan.

In addition, we have researched and analyzed rents from buildings deemed comparable to the proposed development at 550 Washington Street. A summary of the rental rates of these buildings since January 1, 2015 is presented below and on the following pages:

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
1 Morton Sq	3AE	$9,250	2/13/2016	4	2	2.5	1,398	$79.40
1 Morton Sq	5EW	$10,500	1/12/2016	4	2	2.5	1,483	$84.96
1 Morton Sq	6BE	$9,200	11/19/2015		2	2	1,668	$66.19
1 Morton Sq	14BW	$25,000	11/11/2015		3	3	2,446	$122.65
1 Morton Sq	14BE	$15,950	9/13/2015	5	3	3	1,727	$110.83
1 Morton Sq	7BE	$12,500	8/14/2015	4	2	2	1,688	$88.86
1 Morton Sq	4DW	$14,500	8/14/2015	5	2	2	1,731	$100.52
1 Morton Sq	12EW	$8,750	8/14/2015	4	2	2	1,250	$84.00
1 Morton Sq	14BW	$25,000	7/20/2015	7	3	3.5	2,446	$122.65
1 Morton Sq	7BE	$12,500	6/3/2015	4	2	2	1,688	$88.86
1 Morton Sq	7BE	$12,500	6/3/2015	4	2	2.5	1,663	$90.20
1 Morton Sq	12EW	$8,750	4/27/2015	4	2	2	1,250	$84.00
							Min	$66.19
							Max	$122.65
							Avg	$93.59

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
505 Greenwich Street	12H	$11,000	7/13/2015	5	3	3	2,039	$64.74
505 Greenwich Street	14E	$9,250	7/13/2015	4	2	2	1,334	$83.21
505 Greenwich Street	6H	$9,200	7/13/2015	5	3	3	2,039	$54.14
505 Greenwich Street	6B	$8,995	3/18/2016	3	2	2	1,279	$84.39
505 Greenwich Street	5B	$8,650	5/23/2015	4	2	2	1,279	$81.16
505 Greenwich Street	6A	$7,500	7/13/2015	4	2	2	1,819	$49.48
505 Greenwich Street	7E	$7,495	9/16/2015	4	2	2	1,335	$67.37
505 Greenwich Street	10C	$7,250	6/12/2015	5	1	1.5	979	$88.87
505 Greenwich Street	3C	$6,750	9/16/2015	3.5	1	1	979	$82.74
505 Greenwich Street	7F	$5,900	1/26/2016	2	1	1	812	$87.19
505 Greenwich Street	4F	$5,200	7/13/2015	3	1	1	812	$76.85
505 Greenwich Street	2C	$4,995	7/13/2015	3.5	1	1	946	$63.36
505 Greenwich Street	8C	$4,900	7/13/2015	3	1	1	979	$60.06
505 Greenwich Street	9G	$4,800	4/1/2015	3	1	1	722	$79.78
505 Greenwich Street	14G	$4,800	9/16/2015	3	1	1	722	$79.78
505 Greenwich Street	5G	$4,500	8/25/2015	3	1	1	722	$74.79
505 Greenwich Street	8G	$4,450	7/13/2015	3	1	1	722	$73.96
							Min	$49.48
							Max	$88.87
							Avg	$73.64

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
330 Spring Street	4B	$14,900	6/10/2015	5	3	3.5	2,000	$89.40
330 Spring Street	6D	$14,500	8/12/2015	4	2	2	1,489	$116.86
330 Spring Street	10C	$9,800	10/18/2015	4	2	2	1,410	$83.40
330 Spring Street	8A	$9,800	9/18/2015		2	0	1,722	$68.29
							Min	$68.29
							Max	$116.86
							Avg	$89.49

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
255 Hudson Street	5A	$10,500	11/5/2015	5	2	2.5	1,694	$74.38
255 Hudson Street	8A	$9,000	3/16/2016	5	2	2	1,684	$64.13
255 Hudson Street	5B	$8,995	9/21/2015	5	2	2.5	1,407	$76.72
255 Hudson Street	PHD	$6,700	8/24/2015	3.5	1	1.5	945	$85.08
255 Hudson Street	5G	$5,500	1/11/2016	5	1	1.5	904	$73.01
255 Hudson Street	3G	$5,350	6/3/2015	3	1	1.5	903	$71.10
255 Hudson Street	6F	$4,500	9/18/2015	3	1	1	776	$69.59
							Min	$64.13
							Max	$85.08
							Avg	$73.43

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
165 Charles Street	11	$29,000	3/12/2016	5	2	3	2,541	$136.95
165 Charles Street	16	$29,000	3/3/2015		2	2	2,356	$147.71
165 Charles Street	18	$23,000	8/16/2015	5	2	2.5	2,356	$117.15
165 Charles Street	2	$17,000	1/9/2016	6	2	2	1,615	$126.32
165 Charles Street	3	$4,846	1/7/2016	2	0	1	682	$85.27
							Min	$85.27
							Max	$147.71
							Avg	$122.68

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
22 Renwick Street	3B	$7,000	9/28/2015	4	2	2	1,001	$83.92
22 Renwick Street	3AA	$6,950	2/13/2016	4	2	2	1,100	$75.82
22 Renwick Street	6A	$6,900	12/21/2015		2	2	1,100	$75.27
22 Renwick Street	7B	$6,500	8/2/2015	4	2	2	1,020	$76.47
							Min	$75.27
							Max	$83.92
							Avg	$77.87

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
600 Washington Street	315	$7,225	1/19/2016		2	2	1,200	$72.25
600 Washington Street	605	$6,665	1/31/2015		2	2	1,098	$72.84
600 Washington Street	722	$3,760	4/15/2015		0	1	487	$92.65
600 Washington Street	621	$3,515	2/17/2015		0	1	474	$88.99
600 Washington Street	421	$3,500	3/3/2015		0	1	474	$88.61
600 Washington Street	407	$3,485	2/8/2015		0	1	502	$83.31
600 Washington Street	701	$3,385	1/12/2015		0	1	445	$91.28
600 Washington Street	312	$3,365	5/13/2015		0	1	407	$99.21
600 Washington Street	609	$3,345	3/23/2015		0	1	411	$97.66
600 Washington Street	711	$3,335	5/12/2015		0	1	426	$93.94
600 Washington Street	619	$3,290	5/26/2015		0	1	402	$98.21
600 Washington Street	618	$3,265	5/9/2015		0	1	455	$86.11
600 Washington Street	314	$3,250	2/26/2015		0	1	424	$91.98
600 Washington Street	301	$3,220	2/21/2015		0	1	445	$86.83
600 Washington Street	608	$3,130	3/3/2015		0	1	414	$90.72
							Min	$72.25
							Max	$99.21
							Avg	$88.97

Address	Unit	Price / Rent	Updated	Rms	Bds	Bths	Res SqFt	Res $/SqFt
200 Chambers Street	PHA	$20,000	7/1/2015	6	3	3	2,201	$109.04
200 Chambers Street	18A	$17,250	11/6/2015	6	3	3	2,201	$94.05
200 Chambers Street	26F	$13,995	3/18/2015	5	2	2.5	1,624	$103.41
200 Chambers Street	12D	$13,000	11/3/2015	6	3	3	1,685	$92.58
200 Chambers Street	20D	$13,000	2/29/2016		3	3	1,675	$93.13
200 Chambers Street	28C	$12,500	12/2/2015	4	2	2	1,534	$97.78
200 Chambers Street	29D	$12,500	7/13/2015	6	3	3	1,673	$89.66
200 Chambers Street	20C	$11,800	5/29/2015	4	2	2	1,534	$92.31
200 Chambers Street	PHB	$10,500	6/12/2015	6	2	2	1,260	$100.00
200 Chambers Street	8D	$9,750	3/8/2015	5	2	2	1,400	$83.57
200 Chambers Street	28E	$9,500	5/29/2015	5	2	2.5	1,345	$84.76
200 Chambers Street	23B	$9,000	5/21/2015	4	2	2	1,260	$85.71
200 Chambers Street	19G	$9,000	1/25/2015	5	2	2	1,345	$80.30
200 Chambers Street	14B	$9,000	6/17/2015	4	2	2	1,260	$85.71
200 Chambers Street	23B	$9,000	5/19/2015	4	2	2	1,260	$85.71
200 Chambers Street	21B	$8,900	2/24/2015	4	2	2	1,260	$84.76
200 Chambers Street	21E	$8,700	1/3/2015	5	2	2.5	1,345	$77.62
200 Chambers Street	11G	$8,200	3/12/2016	5	2	2	1,345	$73.16
200 Chambers Street	9G	$8,200	12/8/2015	4	2	2	1,345	$73.16
200 Chambers Street	15B	$8,000	2/24/2016	4	2	2	1,260	$76.19
200 Chambers Street	23E	$8,000	7/1/2015	4.5	2	2	1,345	$71.38
200 Chambers Street	17C	$7,000	7/1/2015	4	2	2	1,534	$54.76
200 Chambers Street	8E	$6,900	5/11/2015	3.5	1	1.5	1,000	$82.80
200 Chambers Street	20E	$6,500	3/8/2015	4	2	2	1,345	$57.99
200 Chambers Street	18E	$5,500	10/6/2015	4	1	1	880	$75.00
200 Chambers Street	18F	$5,100	11/6/2015	3	1	1	754	$81.17
200 Chambers Street	10F	$4,800	6/3/2015	3	1	1	754	$76.39
200 Chambers Street	7P	$4,650	2/5/2015	3	1	1	692	$80.64
200 Chambers Street	4F	$4,600	7/1/2015	3	1	1	754	$73.21
200 Chambers Street	6P	$4,500	3/8/2015	3	1	1	691	$78.15
200 Chambers Street	5Q	$4,500	8/2/2015	3	1	1	684	$78.95
200 Chambers Street	5K	$4,300	8/25/2015	3	1	1	617	$83.63
200 Chambers Street	7M	$4,200	9/4/2015	3	1	1	625	$80.64
200 Chambers Street	11F	$4,200	3/8/2015	3	1	1	754	$66.84
200 Chambers Street	4U	$4,100	4/14/2015	3.5	1	1	715	$68.81
200 Chambers Street	6N	$4,100	12/3/2015	3	1	1	625	$78.72
200 Chambers Street	6L	$4,100	2/20/2015	3	1	1	625	$78.72
200 Chambers Street	2N	$4,000	9/11/2015	3	1	1	625	$76.80
200 Chambers Street	3M	$4,000	4/1/2016	3	1	1	625	$76.80
200 Chambers Street	2L	$4,000	5/2/2015	3	1	1	700	$68.57
200 Chambers Street	2N	$4,000	2/27/2015		1	1	625	$76.80
200 Chambers Street	5S	$3,995	6/17/2015	4	1	1	605	$79.24
200 Chambers Street	2K	$3,950	1/13/2015		1	1	617	$76.82
200 Chambers Street	19F	$3,900	7/1/2015	3	1	1	754	$62.07
200 Chambers Street	6T	$3,500	3/4/2016	2.5	0	1	538	$78.07
200 Chambers Street	6G	$3,500	7/1/2015	3	1	1	719	$58.41
200 Chambers Street	6U	$3,400	7/1/2015	2	1	1	714	$57.14
200 Chambers Street	7N	$3,300	3/8/2015	3	1	1	625	$63.36
200 Chambers Street	2R	$3,100	3/8/2015	2	0	1	579	$64.25
							Min	$54.76
							Max	$109.04
							Average	$78.95

Conclusion:

We have analyzed the rental data on a per square foot basis. The comparable rentals represent relatively recent leases of rental and condominium developments near the subject receiving site in Hudson Square. These developments are most similar to the subject hypothetical rental development with respect to size, amenities, location and assumed construction quality. They are all located in Tribeca, West Village, Hudson Square or SoHo and represent directly competitive rental rates to what is supposed for 550 Washington Street. The average building rentals range from a low of $73 per square foot per annum to a high of $123 per annual square foot. The average rent for all unit types in all buildings is $87 per annual square foot. We note that the proposed development will have high ceilings, on-site amenities and that the projected rents in the property are judged to be greater than most competing Hudson Square properties. In estimating rent for the subject units, we therefore conclude an average above the comparable rentals. Therefore our conclusion of market rent is $90 per square foot, which gives most weight to the data from 1 Morton Square and abutting 600 Washington Street; these properties lie opposite the subject property across Leroy Street.

SALES COMPARISON APPROACH –
MARKET RATE RENTAL DEVELOPMENT SITES

We incorporate by reference the explanation of the sales comparison approach to value and the appraisal methodology for developing and analyzing the data to produce results via this approach.

Selection of Comparable Sales – Market Rate Rental Development Sites

Condominium vs. Market Rate Rental Development

Most new developments in Manhattan are for condominiums as, given the rapid rise in land prices over the past three years, the cost of financing and developing rentals has become less feasible for most developers. Nearly all new recent and ongoing market rate rental developments in core Manhattan are being undertaken by developers that have long held their property, or were able to obtain properties via atypical conditions of sale such as through foreclosure or through favorable terms such as a ground lease. Rental developments are also occurring on rezoned properties whereby as a condition of the rezoning, a portion of the new project is to include affordable as well as market rate rental housing. Other than the aforementioned situations, it is now very rare to find any arms-length transactions of market rate residential rental development sites and only a small group, scattered throughout Manhattan, were uncovered for this alternate valuation. As a result, a search for recent (through 1st Q 2016) land transactions in core Manhattan where the developer planned rentals produced only three results, as mapped below.

Comparable sales of properties planned for market rate residential development were derived and confirmed through a thorough investigative search of public records as well as discussions with knowledgeable parties. In addition we have relied upon several recognized data sources for comparable sales such as CoStar Comps and Property Shark.

Map of Comparable Market Rate Rental Development Site Sales

Comparable Sale 1			
Sale Data			
Property Address:	433 West 53rd St. / 440 West 54th St.	**Contract Date:**	August 19, 2015
Municipality:	New York, NY	**Sale Date:**	January 7, 2016
Block/Lot:	Block 1069, Lot 51	**Purchase Price:**	$25,000,000
Grantor:	433-435 West 53rd Street, LLC	**Price Per Buildable Sq. Ft.:**	**$593**
Grantee:	Emmut Properties*	**Doc ID #:**	2016011100553001
Site Data			
Land Area (Sq. Ft.):	10,042	**Description:**	Rectangular, through-block parcel
Frontage (Feet):	50 - West 53rd Street 50 - West 54th Street	**Maximum FAR:**	4.20
Zoning:	C6-2 in Special Clinton District	**Buildable Square Feet:**	42,174
Improvements			
Building Area (Sq. Ft.):	14,000	**Description:**	Television and film studio
Year Built:	circa 1963		
# of Stories:	One and part-two		

Photograph and Tax Map

Comments

Buyer is reportedly building a market rate rental development of approximately 60 units. Small unit sizes (avg. 625 sq. ft. net) further support assertion that rentals are being built here.

Broker involved with sale indicated property is owner-occupied with no leases; owner will continue to operate property until plans are in place and will be demolished.

Comparable Sale 2

Sale Data

Property Address:	644 East 14th Street	**Grantor:**	14 Ave C LLC*
Block/Lot:	Block 396, Lot 29	**Grantee:**	644 E 14 LLC
Cross Streets:	Corner with Avenue C	**Contract Date:**	February 20, 2014
Neighborhood:	Alphabet City/East Village	**Sale Date:**	April 30, 2014
Municipality:	New York, NY	**Doc ID #:**	2014051900494001
Purchase Price:	**$15,000,000**	**Price Per Sq. Ft. of ZFA**	**$243**

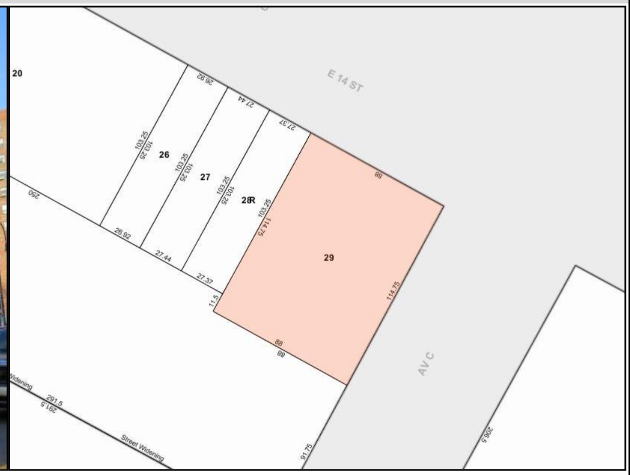
Site Data

Land Area (Sq. Ft.):	10,098	**Zoning:**	R7-2 with C1-5 and part C2-5 overlay
Frontage (Feet):	88 - East 14th Street 114.75 - Avenue C	**Floor Area Ratio (FAR):**	3.44 (residential) 6.5 (community facility) and 2.0 (commercial overlay)
Description:	Rectangular, corner parcel	**Buildable Square Feet:**	61,789

Improvements

Building Area (Sq. Ft.):	9,112	**Description:**	One-story retail building
Year Built:	1952		
# of Stories:	One		

Photograph and Tax Map



Comments

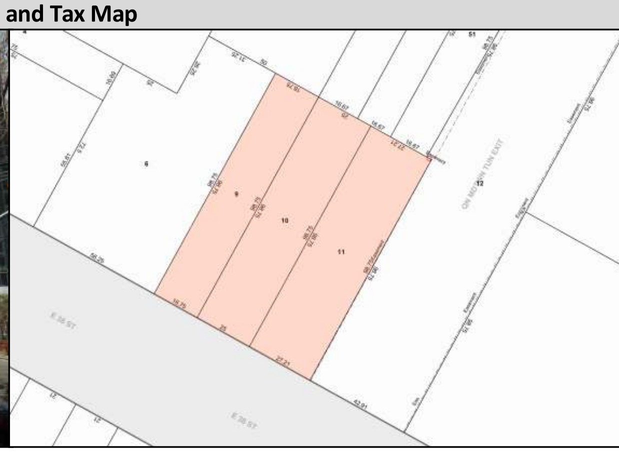
*c/o Arun Bhatia Development

Buyer has not demolished the existing structure, but has been disapproved to construct a 15-story residential, commercial and community facility building totaling 61,789 square feet.

Property sits directly opposite Con Edison facility. According to press reports, the property was under 3 to 6 feet of water during Hurricane Sandy.

As of this writing, this sale is reported to be in contract to be sold again for $24,200,000 or $391 psf of analyzed ZFA

Comparable Sale 3			
Sale Data			
Property Address:	211-215 East 38th Street	**Grantor:**	Various related entities
Block/Lot:	Block 919, Lots 9, 10 & 11	**Grantee:**	Kent 38th St LLC
Cross Streets:	QMT exit, between 2nd and 3rd Aves.	**Contract Date:**	April 17, 2015
Neighborhood:	Murray Hill	**Sale Date:**	January 21, 2016
Municipality:	New York, NY	**Doc ID #:**	2014051900494001
Purchase Price:	**$36,700,000**	**Price Per Sq. Ft. of ZFA**	**$524**
Site Data			
Land Area (Sq. Ft.):	7,007	**Zoning:**	C1-9
Frontage (Feet):	70.96 - East 38th Street 98.75 - Midtown Tunnel Exit	**Floor Area Ratio (FAR):**	10.00
Description:	Rectangular, corner parcel	**Buildable Square Feet:**	70,073
Improvements			
Building Area (Sq. Ft.):	9,112	**Description:**	One-story retail building
Year Built:	1952		
# of Stories:	One		
Photograph and Tax Map			



Comments

Property was purchased by BLDG Management, to add to existing parcels. It is expected that this may be expanded to include a larger rental development.

DISCUSSION OF ADJUSTMENTS TO COMPARABLE SALES

Intangible/Transactional Adjustments for all sales are discussed below

Property Rights: All comparable sales represent the sale of the fee simple interest, or a leased fee interest with short term leases remaining, which is tantamount to fee simple for valuation purposes and no adjustments were made.

Financing: No adjustments are made for financing; all sales were typically financed or required no financing.

Conditions of Sale: No atypical motivations were detected and no adjustments were made to any of the sales.

Market Conditions (time): Sales of development sites in Manhattan through May 2015 increased over prior quarters as financing for the sites remained favorable and demand for new residential product was high. As discussed, the appetite for development land in prime areas had been by all measures unprecedented. Demand came not only from well-capitalized local developers but from investors from around the world.

The sale dates of the comparable sales analyzed range from April 2014 to a property reported to be in contract as of the date of appraisal. In some submarkets around New York City, land with zoning that allows residential development has more than doubled in the last few quarters. Based upon past and current market conditions, we have applied upward adjustments to all sales equivalent to 2.0% per month as the market for residential development parcels in the subject's market segment has shown increasing strength; however the demand has been generated by condominium development as opposes to rental development, where there is less demand for sites at these price levels. A number of indications point to a reduction in the appreciation for land values, and the market conditions adjustment is applied through June 2015, where afterwards it has become apparent that the market for new development projects, both rental and condominium, has softened. Since then, flattening rental rates suggest a decrease in pricing and we have applied a -1.5% per month adjustment for the time period of October 1, 2015 through our date of value.

Sale No. 1 (443 West 53rd Street): This is the sale of a 10,042 square foot, through-block development site located between Ninth and Tenth Avenues in Clinton. The property is to be developed with a fully-market rate rental apartment building. The property is zoned C6-2 in the Special Clinton District and FAR is 4.2, therefore a development of 42,174 can be achieved on the site. The property entered into contract on approximately October 1, 2015 and was in contract as of the appraisal date, and has reportedly closed as of this writing (first week of January 2016) for a price of $25,000,000 or $593 per square foot. Demolition costs for the existing 14,000 square-foot structure is estimated at $30 per square foot and is added to the sale price, bringing the total price to $24,420,000 or $603 per square foot of ZFA.

Sale No. 2 (644 East 14th Street): This is the sale of a 10,098 square-foot, rectangular corner development site located along the southeasterly corner of East 14th Street and Avenue C. The property entered into contract on February 20, 2014 and sold on April 30, 2014 for an indicated purchase price of $15,000,000. The property is zone R7-2 with a split commercial overlay of C1-5 and C2-5. Maximum FAR for residential development in this zone is 3.44, however with a mix of uses, including community facility, an FAR of 6.50 can be achieved. The grantee has applied to construct a 61,789-square-foot mixed-use project on the site comprised of residential, commercial and community facility to an FAR of 6.11. Given other site constraints, the developer is maximizing FAR on this site and therefore the 61,789 square feet is the unit of comparison for this sale; thus, the sale price is $243 per square foot. Demolition costs for the existing 9,112 square-foot structure is estimated at $30 per square foot and is added to the sale price, bringing the total price to $15,273,360 or $247 per square foot of ZFA. It has been reported that after drawing plans and seeking to obtain approvals to build, this property is currently in contract for $24,200,000, or $396 per square foot, including estimated demolition costs.

Sale No. 3 (211-215 East 38th Street): This is the sale of a 7,007 square-foot rectangular corner parcel located along East 38th Street and the Queens Midtown Tunnel exit, between Second and Third Avenues. The property is zoned C1-9 and has a base FAR of 10.0, with the ability to expand to 12.0 with inclusionary housing. The buyer owns other parcels along East 38th Street and this is a component of a larger development opportunity. The property entered into contract on April 17, 2015 and sold on January 21, 2016 for an indicated purchase price of $36,700,000 or $524 per square foot of ZFA at a 10.0 FAR. The properties were delivered with 120-day termination notices, so no buyout costs are estimated. Demolition costs to raze the existing 9,112 square feet of improvements are estimated at $30 per square foot, and is added to the sale price, bringing the total price to $528 per square foot.

Physical/Locational Adjustments

Location: The receiving site is located along West Street/NYS Route 9A and abutted southerly by a NYC Sanitation parking garage. According to the NYS Traffic Data Viewer, a daily average of nearly 59,000 cars pass in front of the subject property along West Street, some of which drive at high speeds. Additionally, at this part of West Street/9A, there are a number of traffic lights, including one located at the intersection of West Street and Clarkson Street. Opposite the property across Washington Street is a 500,000 square foot UPS facility, and opposite the receiving site across West Houston Street is a FedEx facility. Although a number of the surrounding properties are judged to be a nuisance and are burdened by truck traffic, the structures are mid-rise and would not block views from the potential development above 142 feet in elevation, the height of the sanitation facility. Despite the surrounding nuisances, the receiving development will have direct water views to the west, an amenity not shared by all comparable sales. All comparable sales were adjusted upward for location as their locations in Alphabet City, Clinton, and Murray Hill are judged to be inferior locations than the subject development location.

Flooding: Comparable sale 2 has a recent history of flooding and is located in flood zones; this sale was adjusted upward. No other sales experience the same flood issues as these sales and were not adjusted.

Frontage/Configuration: The receiving site will be comprised of two block-front parcels with ample frontages on four streets. Comparable sale 1 is a through-block site with frontage on two streets, which is inferior to a corner development, and an upward adjustment was made. Comparable sales 2 and 3 are corner development sites and do not require adjustment for configuration.

Community Facility/Affordable: At this stage in the valuation of the development rights, we are concerned with the value of the market rate rental component of the development and have adjusted sales that include other uses within the development. In order to maximize development potential, and qualify for tax abatements/exemptions, sale 2 was built with community facility and was adjusted upward to reflect the impact on value that on-site community facilities have as compared to fully market-rate projects. Where allowed by zoning, community facilities are typically included in developments in order to maximize FAR of the commercial and residential components. Depending on their location within a development, community facilities typically do not generate the rent of commercial or residential spaces, which is judged to be the case with this comparable sale. Therefore, the inclusion of lower-value community facility space averages down the sale price on a per-square-foot basis, and an upward adjustment was made to reflect this.

421-a Adjustment: For the hypothetical valuation in which the proposed plans are undertaken and the 421-a abatement program is in place, we consider the contributory value of this benefit to the market rate rental portion of the land. As solved for in the income approach in this addenda, the 421-a program adds approximately $161 per square foot of value, or 27% of the value of this approach. There is risk to realizing the benefit, largely associated with the construction of the improvements, as the full present value of the benefit is not realized until the property is built and leased up for occupancy. Accordingly this adjustment of 20% will not produce a dollar-for-dollar, adjustment but represents the majority of the value of the benefit to the proposed projects. None of the comparable sales have sought 421-a as of this writing and all are adjusted upward.

Retail Component: This component of the valuation considers prices paid for development land for rental development. Comparable sale 2 will include retail components, but it is expected to achieve similar income as the residential portion and no adjustment was required.

Zoning/Use: The uses for the comparable developments are similar to what is assumed for the receiving development, once rezoned. However, the density and height limits of the proposed rental component of the receiving site is greater than what is achieved on the comparable development sites 1 and 2. The receiving site rental component is projected to reach a height of 230 feet, which far exceeds the allowable height for the sale developments 1 and 2, and both are adjusted upwards. There is no height limit for sale 3, and the 10.0 FAR as of right is superior to the subject receiving site, and a downward adjustment was applied.

COMPARABLE SALES ADJUSTMENT GRID – MARKET RATE RENTAL DEVELOPMENT SITE SALES

	SALE 1	SALE 2	SALE 3	RECEIVING PROPERTY
Property Address:	**433 West 53rd St. / 440 West 54th St.**	**644 East 14th Street**	**211-215 East 38th Street**	**St. John's Terminal**
Block/Lot:	**Block 1069, Lot 51**	**Block 396, Lot 29**	**QMT exit, between 2nd and 3rd Aves.**	**Block 596, Lot 1**
Intersection:	Between 9th and 10th Aves.	Corner with Avenue C	QMT exit, between 2nd and 3rd Aves.	**West Street, Clarkson Street, Washington Street**
Neighborhood:	Clinton	Alphabet City/East Village	Murray Hill	**Hudson Square**
Municipality:	New York, NY	New York, NY	New York, NY	**New York, NY**
Contract Date:	8/19/2015	2/20/2014	4/17/2015	---
Sale Date:	1/7/2016	4/30/2014	1/21/2016	**4/1/2016**
Frontages	50 - West 53rd Street 50 - West 54th Street	88 - East 14th Street 114.75 - Avenue C	70.96 - East 38th Street 98.75 - Midtown Tunnel Exit	**282 - Clarkson Street** **849 - West Street** **852 - Washington Street**
Zoning	C6-2 in Special Clinton District	R7-2 with C1-5 and part C2-5 overlay	C1-9	**Rezoned C6-3**
Land Area (Sq. Ft.)	10,042	10,098	7,007	**100,730**
FAR	4.20	3.44 (residential) 6.5 (community facility) and 2.0 (commercial overlay)	10.00	**7.52**
Buildable Sq. Ft. ZFA	**42,174**	**61,789**	**70,073**	**210,300**
Building on Site	14,000	9,112	9,112	---
Sales Price	**$25,000,000**	**$15,000,000**	**$36,700,000**	---
Plus Demolition Costs @$30/SF	$420,000	$273,360	$273,360	---
Gross Sales Price for Max FAR	**$25,420,000**	**$15,273,360**	**$36,973,360**	
Price per Buildable Sq. Ft.	**$603**	**$247**	**$528**	
Intangible Adjustments				
Property Rights	0.0%	0.0%	0.0%	
Adjusted Price Per Square Foot	**$603**	**$247**	**$528**	
Financing	0.0%	0.0%	0.0%	
Adjusted Price Per Square Foot	**$603**	**$247**	**$528**	
Conditions of Sale/Atypical Motivation	0.0%	0.0%	-5.0%	
Adjusted Price Per Square Foot	**$603**	**$247**	**$501**	
Market Conditions	-4.20%	13.07%	-3.50%	
Adjusted Price Per Square Foot	**$577**	**$279**	**$484**	
Physical Adjustments				
Location	10.0%	30.0%	15.0%	
Nuisance/Flooding	0.0%	10.0%	0.0%	
Frontage/Configuration	5.0%	0.0%	0.0%	
Community Facility/Affordable	0.0%	25.0%	0.0%	
421-a Benefits	20.0%	20.0%	20.0%	
Retail Component	0.0%	0.0%	0.0%	
Zoning/Use/Floors	5.0%	5.0%	-5.0%	
Net Adjustments	40.0%	90.0%	30.0%	
Adjusted Price Per Square Foot	**$808**	**$531**	**$629**	

Conclusion of Value – Market Rate Rental Development Sites

Adjusted comparable sales range from $531 to $808 per square foot and average $656 and $629 per square foot based on the mean and median, respectively. While we cannot adjust for all factors, we have considered intangible aspects of the comparable properties that impact sales prices such as property rights and market conditions. In addition, we have considered an array of physical differences between the receiving site development site and the comparable sales and made market-based adjustments to the comparable sales.

Summary of Adjusted Prices

Minimum	$531
Maximum	$808
Mean	$656
Median	$629
Conclusion	**$640**

In our conclusion of market value for this component of the proposed receiving site property development, we conclude between the averages, rounding to $640 per square foot.

Therefore it is our opinion that the market value of the development rights associated with the **market rate rental component** of the receiving site property development, as of April 1, 2016, was:

$640 PER SQUARE FOOT – MARKET RATE RENTAL COMPONENT

421-a Tax Abatement – For Alternative Valuation Scenario

Under the hypothetical condition of this alternative valuation, when developed with affordable housing components under the rental scenarios, the market rate rental and the low-income affordable housing components within the receiving site's proposed development will be eligible for 421-a benefits. The 421-a program was most recently available for new housing developments with three or more units, located on sites that were vacant, underutilized, or had a "nonconforming" zoning use, and that either sit outside the 421-a Geographic Exclusion Area (GEA), or include on-site affordable. The program has been a controversial issue on both the NY State and NYC levels and has been revisited and renegotiated on a number of occasions, most recently in June 2015, when a new version of the abatement program was created. Under the program, owners are exempt from paying the increase in property taxes that result from the new construction. Under its later iteration, 421-a was available for condominium developments under 35 units in the outer-boroughs or for rental developments with on-site affordable housing and outside the GEA.

As per the hypothetical condition requested by the client whereby we have been requested to incorporate an analysis of 421-a benefits into this valuation, the length of the benefits assumed under the alternative scenario in this appraisal reflect the 35-year schedule. In the 35-year schedule the improvement assessment is abated for 25 years and is reduced for the final 10 years by the percentage of affordable dwellings in the development. The subject valuation scenario assumes a 50% affordable scenario, known as Option B of the most recent 421-a, with the requirement that 30% of the units must be affordable: at least 10% at up to 70% of AMI and 20% at up to 130% of AMI. The proposed project calls for a 50/30/20 mixed-income structure in which 20% of the units are priced at 60% AMI and 30% are priced at 130% AMI.

Based on historical trends of similar properties, taxes on properties such as what is proposed for the receiving site's proposed development can expect to increase on average at 1% per year. Additionally, assessments for this property type can be expected to increase in the range of 3% to 8% per year, on average. The 421-a exemption is applied to the development, post-construction, which is assumed to be three years following the appraisal date. We discount to present value the per-square-foot tax savings generated by the 421-a exemption. In computing the present value of the tax savings, we estimate that the proposed taxes would increase 3% per annum and the savings are discounted at the relatively low rate of 6%, reflective of the risk level associated with these savings.

Mini-Tax – Real Estate Taxes During Construction of 421-a Project

The 421-a benefits are computed on the improvements, less the applicable mini-tax during the development, and we deduct the estimated pro-rata share of the mini-tax as of the date of appraisal from the taxable improvements that generate the 421-a benefits. The mini-tax is computed by using the assessment in effect during the tax year prior to commencement of construction. In this analysis the allocable mini-tax is computed by allocating the pro-rata share of the rental and affordable rental components from the total proposed development, and applying that ratio to current taxes. The market rate rental and the affordable components total

429,000 square feet, which is 25% of the total proposed project of 1,711,000 square feet, inclusive of all residential and commercial uses.

We reported the current taxes as of the appraisal date earlier in the report to be $8,775,021. After applying 25% to this figure, the mini-tax is computed to be $2,193,755.

Projected Taxes and 421-a

In computing the estimated annual taxes, we consider both comparable assessments of newer apartment buildings and are also guided by the 2015 NYC Tax Guidelines which indicates that for post-1973 elevator buildings taxes should be approximately 29% of effective gross income. In addition, the guidelines indicate that for the low-end of the range for Post 1973 regulated residential buildings, 20% of the effective gross income is appropriate for real estate taxes.

Taxes as a Percentage of Income:

Based on market assumptions regarding rental rates for newly-constructed market rate apartments, we have derived the following estimated annual tax benefit, post-construction. Market rent is estimated to be an average rent of $91 per square foot, inclusive of $1 per square foot for amenity fees and other charges. Stabilized occupancy is estimated to be 97% for the market rate component and 99% for the affordable components. Furthermore, we have been provided AMI figures for this project by HPD and the following rents and unit square footages have been considered.

Middle-Income	# of Units	% of Units	Avg. Unit Sq. Ft.	Total Rent per Unit	Total Rent
30% @ 130% AMI	168				
Studio Apts.	42	25%	450	$ 19,716	$828,072
1BR Apts.	42	25%	600	$ 24,780	$1,040,760
2BR Apts.	84	50%	750	$ 29,796	$2,502,864
				Total Rent	$4,371,696

Low-Income	# of Units	% of Units	Avg. Unit Sq. Ft.	Total Rent per Unit	Total Rent
20% @ 60% AMI	112				
Studio Apts.	28	25%	450	$ 10,404	$291,312
1BR Apts.	28	25%	600	$ 11,172	$312,816
2BR Apts.	56	50%	750	$ 13,476	$754,656
				Total Rent	$1,358,784

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421-a Computations

The computations of the 421-a abatement allocable to the eligible rental components are presented in the table below.

Type	Rent PSF	RSF	Rental Income
Market Rent PSF	$91.00	182,172	$16,577,686
Affordable Rental PSF (30% component)		108,108	$4,371,696
Affordable Rental PSF (20% component)		72,072	$1,358,784
Total Income			**$22,308,166**
EGI @ 97% Market, 99% Affordable			$21,753,531
Taxes as % of Income - 29% market, 20% affordable			$5,797,938
Comparable Property Data - $15 PSF blended			$6,372,000
Conclusion			**$6,100,000**
Less Mini-Tax (Rental Portion of Land Taxes)			($2,193,755)
RE Taxes - Improvements			$3,906,245

We conclude at full taxes for the affordable rental and market rental components at $6,100,000, in between the comparable tax data, and the estimated taxes derived as a percentage of income. From the estimated taxes, we deduct the mini-tax, to arrive at the full taxes on the proposed improvements that are exempt in 421-a computation. The current 421-a savings are projected through the 35-year analysis at an estimated growth rate of 3% per annum and the present value of the benefit is calculated utilizing a discount rate of 6%. The present value calculations can be found on the following page.

Computation of 421-a Benefits – 35-Year Schedule

Discount Period	Exemption %	3%/annum Tax Growth	PV @ 6%	Type
1	100%	$3,906,245		construction
2	100%	$4,023,432		construction
3	100%	$4,144,135		construction
4	100%	$4,268,459	$3,381,019	post-construction
5	100%	$4,396,513	$3,285,330	post-construction
6	100%	$4,528,408	$3,192,349	post-construction
7	100%	$4,664,261	$3,102,000	post-construction
8	100%	$4,804,188	$3,014,207	post-construction
9	100%	$4,948,314	$2,928,899	post-construction
10	100%	$5,096,763	$2,846,006	post-construction
11	100%	$5,249,666	$2,765,459	post-construction
12	100%	$5,407,156	$2,687,191	post-construction
13	100%	$5,569,371	$2,611,138	post-construction
14	100%	$5,736,452	$2,537,238	post-construction
15	100%	$5,908,546	$2,465,430	post-construction
16	100%	$6,085,802	$2,395,653	post-construction
17	100%	$6,268,376	$2,327,852	post-construction
18	100%	$6,456,427	$2,261,969	post-construction
19	100%	$6,650,120	$2,197,951	post-construction
20	100%	$6,849,624	$2,135,745	post-construction
21	100%	$7,055,113	$2,075,299	post-construction
22	100%	$7,266,766	$2,016,565	post-construction
23	100%	$7,484,769	$1,959,492	post-construction
24	100%	$7,709,312	$1,904,035	post-construction
25	100%	$7,940,591	$1,850,147	post-construction
26	100%	$8,178,809	$1,797,784	post-construction
27	100%	$8,424,173	$1,746,904	post-construction
28	100%	$8,676,899	$1,697,463	post-construction
29	50%	$4,468,603	$824,711	post-construction
30	50%	$4,602,661	$801,370	post-construction
31	50%	$4,740,741	$778,690	post-construction
32	50%	$4,882,963	$756,651	post-construction
33	50%	$5,029,452	$735,237	post-construction
34	50%	$5,180,335	$714,428	post-construction
35	50%	$5,335,745	$694,208	post-construction
36	50%	$5,495,818	$674,561	post-construction
37	50%	$5,660,692	$655,470	post-construction
38	50%	$5,830,513	$636,919	post-construction
		Total PV	**$68,455,370**	
Per Sq. Ft. of ZFA - Market and Affordable			$161	

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Conclusion

Using both the projected income for the subject property's rental portion, coupled with the comparable tax data we have estimated that the total present value of the 421-a benefits under the current program result in a benefit of $68,455,370 or $161 per square foot of all low-income affordable and market rental square footage, area which can enjoy benefits generated by 421-a.

In the residual analyses, the benefit to each of the two components is allocated on the basis of pro-rata tax liability. The total non-abated taxes for the market rate rental component is estimated to be $4,663,303 and the total non-abated taxes for the low-income affordable component is estimated to be $1,134,635. The market rate component therefore should enjoy 81% of the total benefit, or $55,058,907, and the balance of $16,655,975 it attributable to the low-income affordable component.

RESIDUAL ANALYSES

Market Rate Rental and Low-Income Affordable Component with LHTC

In the residual analyses contained in this alternative valuation we have incorporated by reference much of the methodology and explanations used to develop the residual analyses in the body of the report. We undertake an analysis of the proposed market rate component of the subject receiving site, and have also developed a residual analysis of the low-income affordable housing component under the assumptions that both 421-a and LIHTC apply to this component.

INPUTS – MARKET RATE RESIDUAL

Market Rate Units – The balance of the rental units in the subject receiving site is to be occupied with 280 market rate apartments. For the purposes of analysis we assume that market rate apartments will have 25% studios, 25% one-bedrooms and 50% two-bedroom units. As discussed in the residential market analysis, it is our opinion that a high-rise market rate apartment building will command near the top of the market for rental rates in the immediate area and nearby competing markets. It is our estimate that current average market rent is $91 per square foot for a new rental apartment building, inclusive of amenity fees, inflated 3% per annum through the date of stabilized income of 2020. The current estimated market rent is presented below.

	Market Rent PSF	# of Units	NSF	Total Rent
Rent PSF (incl. amenity fees)	$91	280	182,172	$16,577,686
Vacancy & Collection @			3.0%	$497,331
Potential Gross Income				$16,080,356

Vacancy

Based on this information we have estimated a general vacancy and collection loss allowance for the market rate component of 3%. The composition of the rate includes 2% vacancy estimate and 1% collection loss.

Market Rate Rental Component - Expense Projections

EXPENSES	PSF	Per Unit		Per Unit
Payroll @		$3,000	$840,000	
Repairs and Maintenance @		$1,250	$350,000	
Professional Fees @		$150	$42,000	
Management		4.00%	$643,214	
Utilities (incl. w&s)		$1,800	$504,000	
Insurance		$450	$126,000	
Reserves		$350	$98,000	
RE Taxes @ 29% of Income	29%		$4,663,303	
Total Expenses			$7,266,517	$25,952

Discussion of Expenses

We incorporate by reference the discussion of the expenses for apartment properties, with the note that for a luxury apartment building, the staffing levels will be notably higher than for a senior affordable or low-income affordable development. It is anticipated that a building of this size could have as many as 15 full-time employees with benefits, including an on-site superintendent, 3-4 concierge, 3-4 doormen, on-site leasing staff of 1 to 2 people, live-in superintendent and 1-2 porters. Based on comparable expenses presented below, and those contained within our files, this expense is estimated at $3,000 per apartment.

We have also estimated annual repairs and maintenance at $1,250 per unit, and reserves at $350 per unit, both of which are notably higher than low-income affordable and senior affordable estimates. For a luxury-type building, in order to maintain a high level of occupancy, these expenses are required and are in line with comparable data we have obtained.

Comparable expenses, excluding taxes, for Luxury Rental Buildings are presented in the table below:

Comparables	1		2		3		4		5	
Location	Midtown West		Midtown		Midtown West		West Chelsea		Chelsea	
No. of Stories	34		47		44		34		53	
Built	1998		2002		2007		2008		2008	
No. of Units	375		376		835		370		337	
Building (Gross Sq. Ft.)*	319,967		294,768		807,316		387,468		345,294	
Expense Year	LL's 2013 Budget		LL's 2013 Budget		Actual 2014		Actual 2014		Actual 2014	
	$/Unit	$/PSF	$/Unit	$/PSF	$/Unit	$/PSF	$/Unit	$/PSF	$/Unit	$/PSF
Effective Gross Income (EGI)	$30,509	$ 35.76	$39,314	$ 50.15	$ 36,671	$ 37.93	$ 39,151	$ 37.39	$ 51,780	$ 50.54
Expenses										
Property Insurance	455	0.53	602	0.77	498	$ 0.51	349	$ 0.33	688	$ 0.67
Payroll and related taxes	3,251	3.81	3,455	4.41	2,533	$ 2.62	2,867	$ 2.74	4,070	$ 3.97
Repairs & Maintenance	1,513	1.77	2,143	2.74	1,367	$ 1.41	1,852	$ 1.77	3,080	$ 3.01
Utilities	1,568	1.84	1,573	2.01	2,098	$ 2.17	1,852	$ 1.77	2,055	$ 2.01
Leasing and Marketing Expenses	- -	- -	- -	- -	679	$ 0.70	1,342	$ 1.28	-	$ -
Professional and Miscellaneous	2,030	2.69	2,131	2.72	685	$ 0.71	1,333	$ 1.27	500	$ 0.49
Management	413	0.48	412	0.53	1,157	$ 1.20	1,029	$ 0.98	3,259	$ 3.18
Total Operating Expenses	$ 9,230	$ 11.12	$ 10,316	$ 13.18	$ 9,016	$ 9.33	$ 10,625	$ 10.15	$ 13,653	$ 13.32

	$ Per Unit	$/PSF
Average Expenses (Comparables)	$ 10,568	$ 11.42

*Note: Building square footages are the assessor's estimate of gross building area above grade.

Construction Costs

We have consulted a number of sources, including a number of construction costs comparables for new and contemplated projects contained within our files. The comparables are a mix of mid- and high-rise luxury apartment projects with full amenity packages located in Manhattan and Brooklyn. The total construction budgets of four (4) recently-constructed luxury residential projects are presented in the table on the following page:

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Address	Confidential	Confidential	Confidential	Confidential	**Conclusion**
Property Type	Condominium	Multi-family	Multi-family	Multi-family	**Multi-family**
Year of Cost Data	2014	2012	2015	2015	**2016**
Cost Data	Budget	Actual	Budget	Budget	**Projected**
Size (sf) - Gross	256,250	961,323	428,730	1,052,000	**220,815**
Hard Cost	$110,186,000	$483,286,594	$178,460,000	$486,743,389	
PSF	$430	$503	$416	$463	**$525**
Soft Cost	$43,874,400	$105,570,089	$43,427,060	$89,356,722	
PSF	$171	$110	$101	$85	**$125**
Total	$154,060,400	$588,856,683	$221,887,060	$576,100,111	
PSF	$601	$613	$518	$548	**$650**

*excludes lease-up

Based on the available data, hard and soft costs were estimated to be $650 per square foot of above-grade space, which is above the range of the comparable data, as construction costs have risen in the last 2 years. According to a March 16, 2016 report published by the New York Building Congress, NYC construction costs increased by twice the national average, rising 5% from 2014 to 2015[14]. We also include developer's estimated profit, or entrepreneurial incentive of 15% for a project of this size in this location. Added together, this equates to a total development budget of $165,059,213, which translates into $748 per square foot or $589,497 per unit. For comparison purposes, the estimated costs for this component are notably higher than the per-unit cost data obtained for the low-income affordable and senior affordable developments.

Discount and Terminal Capitalization Rates

Also incorporated by reference is the discussion and analysis of capitalization rates and discount rates for these components. We utilize a discount rate of 6% for this component as well, as this is consistent with the risks and return of the investment modeled, and is supported with the data presented.

The terminal capitalization rate of 3.0% is utilized to convert the reversion income into a reversionary value. This capitalization rate is consistent with sales of newer apartment properties in the Manhattan market, and reflects investors' expectation for returns on the asset type proposed for this component of the subject receiving site.

The land residual analysis for the market rate apartment component is presented on the following page.

[14] http://www.buildingcongress.com/outlook/031616.html

Land Residual - Market Rate Rental Component

The stabilized income and expenses as of the appraisal date were trended 3% per annum to develop the 2019 Net Operating Income (NOI). A lease-up of $7,245,954 and one months' free rent for all units during lease-up, equivalent to $1,509,574 was deducted from the stabilized income to reflect downtime associated with leasing the units. As discussed, these units are projected to be highly desirable, thus the downtime reflects average occupancy of 60% in year one. The reversion is computed by capitalizing 2020 NOI, at a capitalization rate of 3.5% and deducting sales costs of 4%. The cash flows have been discounted at a rate of 6%, using annual discounting.

Year		1	2	3	4	
					REVERSION	
		4/1/2016	4/1/2017	4/1/2018	4/1/2019	
INCOME						
Potential Gross Income		$0	$0	$0	$18,114,885	
Vacancy % Collection Loss @	3.0%				$543,447	
Annual EGI		**$0**	**$0**	**$0**	**$17,571,439**	a
Operating Expenses (full taxes) @		$0	$0	$0	$7,711,286	b
Net Operating Income		**$0**	**$0**	**$0**	**$9,860,152**	c (a-b)
DEVELOPMENT COSTS						
Construction (hard, soft, lease-up & profit)		$33,011,843	$82,529,606	$49,517,764	$0	
Lease-up Downtime					$7,245,954	
Free Rent (1 month)					$1,509,574	
Total Development Costs		**$33,011,843**	**$82,529,606**	**$49,517,764**	**$8,755,528**	d
Cash Flow		-$33,011,843	-$82,529,606	-$49,517,764	-$1,104,624	e (c-d)
Reversion (4% sales costs, 3.5% cap rate)					$278,563,390	f
Total Cash Flow		-$33,011,843	-$82,529,606	-$49,517,764	$277,458,765	g (e+f)
Cash Flow Discounted @	6.00%	-$31,143,248	-$73,451,056	-$41,576,069	$219,773,330	
NPV of Cash Flow		$73,602,957				
PV of 421-a (allocated by pro-rata % of tax burden)		$55,058,907				
Total PV		**$128,661,864**				
Rounded		$128,700,000				
PSF of ZFA		$612				

Key: Annual operating expenses (b) are deducted from annual effective gross income (a) to arrive at annual net operating income, or NOI. The annual development costs are then deducted from estimated NOI to arrive at annual cash flows (e). In year 4, the reversion, which is next year's capitalized income, is an additional cash flow and is discounted with year 4's cash flow, as it is assumed to occur at the end of year 4.

Conclusion – Market Rate Rental Allocable Land Residual

The results of the land residual approach for the market rate rental component illustrate that the project is feasible to develop, in that it produces positive land value, but the project would produce a land value of $350 per square foot of ZFA without 421-a. Thus the total present value of the market rate rental component is $128,700,000 or $612 per square foot of allocated ZFA.

LAND RESIDUAL – LOW-INCOME AFFORDABLE COMPONENT WITH 421-A and LIHTC

We have incorporated by reference the entirety of the analysis and discussion of this component found in the body of the report with the following two exceptions:

- The component, under this hypothetical alternative valuation, is eligible to benefit from its pro-rata share of 421- tax savings; and
- This component is eligible to participate in LIHTC program and generate allocable credit value

The real estate tax savings generated by a hypothetical 421-a tax abatement program are computed using both comparable property tax data, as well as a computation utilizing a percentage of income in accordance with estimated percentages of the NYC Finance department assessment guidelines. LIHTC benefits are assumed to be applicable to the low-income affordable component, as this alternative valuation assumes the 50/30/20 model of development. LIHTC benefits are computed based on qualifying construction costs, subject to per-unit caps.

421-a Tax Savings

We have allocated to the low-income component of the development, its pro-rata share of tax savings, as derived from its share of the current estimated tax burden as generated by this component and the market rate component. The total non-abated taxes for the market rate rental component is estimated to be $4,663,303 and the total non-abated taxes for the low-income affordable component is estimated to be $1,134,635. The market rate component therefore should enjoy 81% of the total benefit, or $55,058,907, and the balance of $16,655,975 it attributable to the low-income affordable component.

LIHTC

The alternate valuation is developed under the premise that the 210,300 square foot, non-condominium portion of the market rate residential development is constructed for market rate rentals. According to NYCHPD, by developing a market rate rental, the project is considered a 50/30/20 project, thereby availing the portion of the low-income component priced below 60% AMI to generate LIHTC. In the base case/highest and best use scenario analyzed within the body of this report, where all market rate residential components are developed as condominiums, NYCDCP stated that the low-income component would not be eligible for LIHTC.

We have incorporated by reference the discussion and analysis of LIHTC found in the body of the report, with alterations to the qualifying cost basis and percentage qualifying. The estimated development costs of the affordable component total $128,800,000, 40% of which is for apartments priced at 60% AMI. Since 40% is eligible to generate LIHTC, we estimated that 34.75% of the construction costs would be eligible for the qualifying cost basis. This assumes that approximately 87% of the development costs allocated to the affordable component have qualifying costs. This figure totals $399,625 per unit which is $375 per unit below the $400,000 per unit cap for qualifying cost basis.

The qualifying cost basis is further adjusted with the 30% Difficult to Develop Area Bonus, and the 4.0% credit under the 3.19% applicable federal rate is used to derive the annual credit. After syndicating the estimated credits, we estimate the total proceeds to be $17,147,725.

The computations of the estimated LIHTC generated by the 60% AMI portion of the low-income affordable component can be found below:

Construction Costs - per Appraiser Estimate	$128,800,000
Percentage Qualifying	34.75%
Qualifying Cost Basis	$44,758,000
Qualifying Cost Basis ($400k unit cap)	$44,758,000
Difficult to Develop Area Bonus	30%
Adjusted Qualifying Cost Basis	$13,427,400
Total Qualifying Cost Basis	$44,800,000
Credit Type - 4.0%	3.19%
Annual Credit to Investors	$1,429,120
Total LIHTC for 10-year Period	$14,291,200
Allocation to Limited Partner	99.99%
Sellable LIHTC for 10-Year Period	$14,289,771
Syndicator Raise	$1.20
Proceeds from sale of LIHTC	$17,147,725

While developers have options to either syndicate the tax credits and sell to investors, or retain them on a “pay as you go” method, it is assumed for purposes of analysis that the syndicate and raise is used. In our residual analyses, the LIHTC proceeds value is added back to the value of the land, with a one-year discount of 6.5%, to reflect for time-value and risks associated with sourcing the syndicator.

The land residual analysis for the low-income affordable component, with the hypothetical assumptions that LIHTC and 421-a benefits are included, is found on the following page.

Land Residual – Low-Income Affordable Component with 421-a and LIHTC

The stabilized income and expenses as of the appraisal date were trended 3% per annum to develop the 2019 Net Operating Income (NOI). A lease-up of $1,885,204 was deducted from the stabilized income to reflect downtime associated with leasing the units. As discussed, these units are projected to be highly desirable, thus the downtime costs are measured at $0 as the property is projected to be 100% pre-leased upon completion. The reversion is computed by capitalizing 2020 NOI, at a capitalization rate of 3% and deducting sales costs of 4%. The cash flows have been discounted at a rate of 6%, using annual discounting. Added back to the present value of the cash flows is the allocable 421-a benefits and LIHTC.

Year		1	2	3	4	
					REVERSION	
		4/1/2016	4/1/2017	4/1/2018	4/1/2019	
INCOME						
Potential Gross Income		$0	$0	$0	$6,261,850	
Vacancy % Collection Loss @	1.0%				$62,619	
Annual EGI		**$0**	**$0**	**$0**	**$6,199,232**	a
Operating Expenses (full taxes) @		$0	$0	$0	$3,692,352	b
Net Operating Income		**$0**	**$0**	**$0**	**$2,506,879**	c (a-b)
DEVELOPMENT COSTS						
Construction costs		$25,760,000	$64,400,000	$38,640,000	$0	
Lease-up Downtime (100% pre-leased)					$0	
Total Development Costs		**$25,760,000**	**$64,400,000**	**$38,640,000**	**$0**	d
Cash Flow		-$25,760,000	-$64,400,000	-$38,640,000	$2,506,879	e (c-d)
Reversion (4% sales costs, 3.0% cap rate)					$82,626,740	f
Total Cash Flow		-$25,760,000	-$64,400,000	-$38,640,000	$85,133,620	g (e+f)
Cash Flow Discounted @	6.00%	-$24,301,887	-$57,315,771	-$32,442,889	$67,433,801	
NPV of Cash Flow		-$46,626,746				
PV of 4% LIHTC - Discount Value one year @	6.5%	$16,101,150				
PV of 421-a (allocated by pro-rata % of tax burden)		$16,655,975				
Total PV		**-$13,869,620**				
Rounded		-$13,900,000				
PSF of ZFA		-$64				

Key: Annual operating expenses (b) are deducted from annual effective gross income (a) to arrive at annual net operating income, or NOI. The annual development costs are then deducted from estimated NOI to arrive at annual cash flows (e). In year 4, the reversion, which is next year's capitalized income, is an additional cash flow and is discounted with year 4's cash flow, as it is assumed to occur at the end of year 4.

Conclusion – Low Income Affordable Rental Allocable Land Residual

The results of the land residual approach for the low-income affordable component illustrate that the project is not feasible to develop on a standalone basis, but is nonetheless required under the

ULURP action for the subject receiving site. Thus the total present value of the low income affordable land component is -$13,900,000 or -$64 per square foot of allocated ZFA.

RECONCILIATION – ALTERNATIVE VALUATION

The market rate condominium value, and the senior affordable value were derived in the body of the report, and none of the hypothetical conditions used in the alternative valuation impacts the results of these approaches. Alternate values with 421-a benefits and the LIHTC benefit for the low-income affordable component have been determined in this alternate valuation and presented below:

Residential Space Type	Sales Value PSF	Income Value PSF	Conclusion
Market Rate Condo	$825	N/A	**$825**
Senior Affordable	N/A	-$58	**-$58**
Low-Income Affordable	N/A	-$64	**-$64**
Market Rate Rental	$640	$612	**$625**

In estimating the value of the market rate rental component we have undertaken both the sales comparison approach and the income capitalization approach to value. It is necessary to reconcile the different values estimated by the two approaches for the market rate rental component, and we reconcile to a value of $625 per square foot of ZFA, which places slightly more weight on the results of the income approach. As we have discussed, there is a relative paucity of arms-length comparable development site sales for market rate rental development. In addition, the weaknesses in the sales approach are further compounded from the lack of available data regarding the specific details of each sale.

The income capitalization approach reflects the residual value given a known proposed development. An assortment of inputs crucial to the development of this approach were not available, namely construction costs for this component of the project. All inputs were therefore derived from market data and may not reflect unique features of the site not measurable by available market data.

The reconciled value components produce the following estimated value of the subject receiving site's fee development rights:

Use	Total SF	% of Total SF	Market Value $/ PSF	Component PSF[1]
Market Rate Residential (Condo)	750,000	58.18%	$825	**$480**
Market Rate Residential (Rental)	210,300	16.31%	$625	**$102**
Senior Affordable	110,000	8.53%	-$58	**-$5**
Affordable	218,700	16.97%	-$64	**-$11**
Total Residential	1,289,000		Total PSF	**$566**
Value of 200,000 Fee Development Rights				$113,254,305
Rounded				**$113,300,000**

[1]Percentage of total square foot multiplied by market value PSF foot equals component value PSF

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We have applied the percentage of air rights to fee value for the subject receiving site to the value of the fee development as found in the accompanying fee land analysis, as follows:

Fee Development Value PSF	$566
Air Rights as % of Land	65.0%
Air Rights Value	$368
Sq. Ft. of Air Rights	200,000
Value of 200,000 Air Rights	$73,611,618
Rounded	**$73,600,000**

Therefore, after an analysis of all relevant data and based upon the assumptions, hypothetical conditions and conclusions presented within the alternative value of this report, it is our opinion that considering the blended uses of the proposed development for 550 Washington Street, and the limited market of both granting and eligible parcels for Pier 40 air rights, it is our opinion that the market value of the 200,000 square feet of subject air rights under the alternative scenarios as of April 1, 2016, was:

SEVENTY THREE MILLION SIX HUNDRED THOUSAND DOLLARS ($73,600,000)

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report and no interest with respect to the parties involved.
- We have not performed services as an appraiser, or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- Sharon Y. Locatell and Adam L. Wald, made an exterior inspection of the property development that is the subject of this report.
- No one provided real property appraisal assistance to the persons signing this report.
- As of the date of this report, Sharon Y. Locatell, MAI and Adam L. Wald, MAI have completed the continuing education program of the Appraisal Institute.

Adam L. Wald, MAI

Sharon Y. Locatell, MAI, CRE, MRICS

SHARON LOCATELL, MAI, CRE, MRICS - PRESIDENT
APPRAISERS & PLANNERS, INC.

Sharon Locatell is President of Appraisers & Planners, Inc. headquartered in New York City. She is the former Executive Director of Brown Harris Stevens Appraisal & Consulting, LLC, where she headed the division for 18 years. Appraisers & Planners is a general appraisal and consulting business. Ms. Locatell has nearly 25 years' experience in real estate valuation and consulting with a diversified background in terms of property type, and services offered. She is actively involved in market value appraisals, consulting assignments, arbitration proceedings, purchase price allocation studies, estate work, litigation support and expert witness testimony, and investment advisory consultation.

Sharon Locatell has acted as real estate appraiser and/or consultant to Rudin Management Company, Cord Meyer Development LLC , Jack Resnick & Sons, Inc., The LeFrak Organization Inc., The Shubert Organization, Richemont, New York Racing Association, Inc., Titan Capital, Emerald Creek Capital, Piaget, Roman Catholic Archdiocese of New York, Yeshiva University, Lord & Taylor, Wien & Malkin, Consolidated Edison, Friedman LLP, Rockefeller Center, GAP Inc., General Accident, as well as other institutions, corporations and individuals. Her valuations have also included Rockefeller Center and the MesseTurm in Frankfurt, Germany, one of Europe's tallest office buildings.

Sharon Locatell has testified as an expert witness in Federal District Court on numerous occasions, and in various local and state courts. She is also active as an arbitrator.

Ms. Locatell has experience in both consultation and valuation of all types of properties including commercial, residential, retail, industrial, vacant land, as well as lease analysis, and feasibility studies.

EDUCATION

Gettysburg College	Bachelor of Arts (BA)
Gettysburg, Pennsylvania	(1984-1988)
University of Florida	Masters Degree (MA)
Graduate School of Business	Real Estate and Urban Analysis
Administration	(1988-1990)

PROFESSIONAL AFFILIATIONS

Member of Appraisal Institute **MAI**
  Immediate Past President and Board Member of the New York Metropolitan Chapter
Counselor of Real Estate - **CRE**
Member – Royal Institution of Chartered Surveyors - **MRICS**
Member - Real Estate Board of New York
New York State Certified General Real Estate Appraiser #46000007350
New Jersey State Certified General Real Estate Appraiser #42RG00196800
Connecticut State Certified General Real Estate Appraiser #RCG0001066

ADAM L. WALD, MAI

PROFESSIONAL EXPERIENCE

8/2015 to Present:	Vice President - Appraisers and Planners, Inc.
1/2014 – 8/2015:	Senior Staff Appraiser – Appraisers and Planners, Inc.
2012 – 2013:	Associate Staff Appraiser – Appraisers and Planners, Inc.
2005 - 2012:	Staff Appraiser - Sterling Appraisals, Inc. Tuckahoe, New York

EDUCATION

Bachelor of Arts – Brandeis University

Major in Economics
Minor in International Business

New York University School of Continuing Professional Studies:

R1 – Introduction to Real Estate Appraisal
R2 – Valuation Principles and Procedures
G1 – Introduction to Income Property Valuation
G2 – Principles of Income Property Appraising
G3 – Applied Income Property Valuation
AQ-1 – Fair Housing, Fair Lending and Environmental Issues
15-Hour USPAP – Nation Uniform Standards of Professional Appraisal Practice

Appraisal Institute – Designation Education:

Business Practices and Ethics
Advanced Market Analysis and Highest and Best Use
Advanced Income Capitalization
Quantitative Analysis
General Appraiser Report Writing and Case Studies
Advanced Concepts and Case Studies

PROFESSIONAL AFFILIATIONS

Designated Member, Appraisal Institute

CURRENT LICENSE

State of New York - Certified General Appraiser #46000050707

APPRAISAL EXPERIENCE

As a staff appraiser for Appraisers & Planners, Inc. and Sterling Appraisals, Inc., Adam has worked exclusively in commercial real estate appraisal and consulting services and has amassed nearly 10 years' experience in real estate valuation and consulting. Property types appraised include multi-family, retail, industrial, manufacturing, office, institutional and land. Appraisal assignments include multi-tenant, single tenant, owner-occupied properties, leased fee and leasehold assignments. Appraisals have been prepared for an assortment of uses including estate and gift tax, tax certiorari, purchase and sale negotiations, litigation and condemnation.