

EXHIBIT 14

APPRAISAL OF:

339 Hicks Street - Fuller Pavilion
91-95 Pacific Street - Othmer Pavilion
355-363 Hicks Street - Polak Pavilion
340 Henry Street/97 Amity Street - Medical Offices
350 Henry Street - Polhemus Building
349 Henry Street - Medical Offices
352 Hicks Street - Parking Garage

Volume I

FOR:

SUNY Downstate Medical Center/Long Island College Hospital, Brooklyn, NY
c/o Cozen O'Connor
277 Park Avenue
New York, New York 10172

AS OF:

October 1, 2013

BY:

Landauer Valuation & Advisory
A Division of Newmark Grubb Knight Frank
125 Park Avenue
New York, New York 10017

October 31, 2013

Kenneth K. Fisher, Esq.
Cozen O'Connor
277 Park Avenue
New York, New York 10172
(212) 883-4962

**Re: SUNY Downstate Medical Center/Long Island College Hospital
Core Hospital Properties Located in Brooklyn, New York**

Dear Mr. Fisher:

In accordance with your request, we prepared an appraisal report to determine the fair market value of the core hospital properties owned by Downstate at LICH Holding Company, Inc. (SUNY Downstate Medical Center, formerly Long Island College Hospital) located in the Borough of Brooklyn, City and State of New York. The purpose of this appraisal is to estimate the fair market value of each property, as of October 1, 2013, based on its highest and best use.

The appraisal report is divided into three volumes. Volume I contains appraisal reports for seven core hospital properties that are located on the main campus of the Medical Center in Cobble Hill, Brooklyn. The buildings consist of three hospital buildings, three medical office buildings, and a parking garage with a legal capacity of 430 vehicles. A brief description of each property is summarized in the next table:

<i>Descriptions of the Primary SUNY Downstate Medical Center/Long Island Hospital Properties</i>									
	<i>Address</i>	<i>Building Name</i>	<i>Block/Lot</i>	<i>Approximate Land Area</i>	<i>Approximate Gross Building Size</i>	<i>Approximate Useable Building Size</i>	<i>Year Built</i>	<i># of Stories</i>	<i>Use/Former Use</i>
1	339 Hicks St. (70-84 Atlantic Ave.)	Fuller Pavilion	Pt of 284/1	Part of 49,132	232,308	185,846	1970	12	Hospital - in patient
2	91-95 Pacific St.	Othmer Pavilion	Pt of 284/1	Part of 49,132	108,635	86,908	1990	10	Hospital - out patient
3	355-363 Hicks St.	Polak Pavilion	Pt of 290/13	Part of 80,800	149,516	119,613	1983	6	Hospital - in patient
4	340 Henry St. (97 Amity St.)	Medical Offices	Pt of 290/13	Part of 80,800	145,500	109,125	1900	6	Medical Office Building
5	350 Henry St.	Polhemus Building	295/21	6,834	51,600	38,700	1900	8	Medical Office Building
6	349 Henry St.	Medical Offices	291/1	11,533	48,015	38,412	1948	5	Medical Office Building
7	352 Hicks St.	Garage (430 spaces)	282/50	24,666	175,000	NA	1997	7	Parking Garage

Volume II consists of eleven non-core hospital properties that are located on the main campus of the Medical Center in Cobble Hill, Brooklyn and two additional buildings located in Prospect Heights, Brooklyn. The buildings consist of apartment buildings, medical office buildings, a commercial condominium, mixed-use building, and medical or administrative offices. A brief description of each property is summarized in the next table:

October 31, 2013
Mr. Kenneth K. Fisher
Page - 2 -

<i>Descriptions of SUNY Downstate Medical Center/Long Island Hospital Properties</i>					
<i>Address</i>	<i>Building Name/ Current Use</i>	<i>Block/Lot</i>	<i>Land Area</i>	<i>Building Size</i>	<i>Year Built</i>
124-134 Atlantic Avenue	Commercial Condominium	285/1001	15,200	12,500	1900
88-94 Amity Street	Apartment Building	295/14	15,000	40,600	1963
86 Amity Street	Apartment Building	295/13	2,500	3,000	1931
82 Amity Street	Apartment Building	295/11	1,481	3,840	1900
78 Amity Street	Administrative Offices	295/9	1,450	3,151	1900
76 Amity Street	Administrative Offices	295/8	1,406	3,430	1900
74 Amity Street	Apartment Building	295/7	1,875	5,431	1900
113 Congress Street	Administrative Offices	295/38	2,500	5,800	1931
43 Columbia Place	Apartment Building	259/8	2,100	6,810	1900
336 Flatbush Avenue	Mixed-Use Building	1058/30	2,700	13,108	1920
184 Sterling Avenue	Medical Offices	1058/28	4,885	6,511	1930
112 Pacific Street	Administrative Offices	291/8	9,142	10,000	1930
385-389 Hicks Street	Engineers Building	295/3	7,650	7,650	1931

Volume III consists of descriptions, photographs and tax maps of the comparable sales that were used in our appraisals of both the core and non-core hospital buildings.

The Fuller, Othmer, and Polak Buildings would require a zoning variance to allow conversion of the entire building area to residential condominiums. In determining the highest and best use of the three buildings, we assumed that a variance would be granted.

This appraisal is presented in a summary narrative format and conforms with and is subject to the Code of Professional Ethics and Conduct of the Appraisal Practice and the Uniform Standards of Professional Appraisal Practice (USPAP) as established by the Appraisal Foundation. This report complies with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Appraisal Practice (USPAP) for a summary appraisal report. This report is made subject to the assumptions and limiting conditions and certificate appearing in the Addenda of the appraisal report and does not address any environmental factors that may be present on the property.

The appraisal presents summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the value estimates rendered. Supporting documentation regarding the data, reasoning, and analyses is retained within the appraisal files.

After careful research of all pertinent information pertaining to the subject properties, analysis of all the available data, and our experience in appraising similar properties in the New York City area, we are of the opinion that the aggregate current market value of the seven core hospital properties as of October 1, 2013, is \$212,800,000.

October 31, 2013
Mr. Kenneth K. Fisher
Page - 3 -

We are also of the opinion that the aggregate current market value of the thirteen non-core hospital properties as of October 1, 2013 is \$48,200,000. The total value of seven core hospital properties and thirteen non-core hospital properties as of October 1, 2013 is \$261,000,000. The individual property values are summarized in the table immediately following this letter.

Landauer Valuation & Advisory previously prepared appraisal reports for the Long Island College Hospital properties in 2008 and 2009. Kathryn Cosentino and Randal Grenier participated in the preparation of this report.

Respectfully submitted,



Robert Von Ancken, MAI, CRE, FRICS
Chairman Landauer Valuation and Advisory
NYS Certification #460000017997



Robert H. Mayer, MAI
Managing Director
NYS Certification #460000020549

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Summary of Values

Descriptions of the SUNY Downstate Medical Center/Long Island Hospital Properties		Value Indicated by the Use of					Reconciled Values Based on Highest & Best Use			
		Residual DCF	Direct Capitalization	Direct Capitalization	Sales Comparison Approach	Residual DCF				Highest & Best Use
Address	Building Name	Residential Condo Conversion & Sellout	Medical Office Conversion	Conversion to Rental Apartment Building	Continued Medical Office Use	Garage Condo Conversion & Sellout				
1	339 Hicks St. (70-84 Atlantic Ave.)	Fuller Pavilion	\$59,400,000	\$27,800,000	\$29,900,000	NA	NA	Residential Condominiums	\$59,400,000	\$255.70
2	91-95 Pacific St.	Othmer Pavilion	\$26,000,000	\$13,000,000	\$14,000,000	NA	NA	Residential Condominiums	\$26,000,000	\$239.33
3	355-363 Hicks St.	Polak Pavilion	\$37,000,000	\$17,900,000	\$19,200,000	NA	NA	Residential Condominiums	\$37,000,000	\$247.47
4	340 Henry St. (97 Amity St.)	Henry Building - Medical Offices	\$32,800,000	\$17,400,000	\$18,700,000	NA	NA	Residential Condominiums	\$32,800,000	\$225.43
5	350 Henry St.	Polhemus Building	\$12,800,000	\$6,150,000	\$6,600,000	NA	NA	Residential Condominiums	\$12,800,000	\$248.06
6	349 Henry St.	Medical Offices	\$11,900,000	\$15,600,000	\$6,100,000	\$19,200,000	NA	Medical Offices	\$19,200,000	\$399.88
7	352 Hicks St.	Garage (430 spaces)	NA	NA	NA	NA	\$25,600,000	Parking Garage Condo	\$25,600,000	\$59,535

* Indicated value per square foot of gross building area for the residential buildings and indicated value per parking space for the garage. \$212,800,000

We made the assumption that the Fuller, Othmer, and Polak buildings would be granted a variance to allow conversion of the entire building area to residential condominiums.

We assume the garage will satisfy any zoning parking requirements for the buildings with highest and best use as residential condominiums.

Descriptions of the SUNY Downstate Medical Center/Long Island Hospital Non-Core Properties		Value Indicated by the Use of						Reconciled Values Based on Highest & Best Use			
		Residual DCF	Direct Capitalization	Direct Capitalization	Sales Comparison Approach	Sales Comparison Approach	Sales Comparison Approach				
Address	Building Name/ Current Use	Residential Condo Conversion	Rental Apartment Building	Medical Office Building or Office Building	Townhouse/ Apartment Building	Medical Office Building or Office Building	Residential Development Site				
124-134 Atlantic Avenue	Commercial Condominium	NA	NA	\$3,100,000	NA	\$3,500,000	NA	Medical Office Building	\$3,500,000	\$280.00	NA
88-94 Amity Street	Apartment Building	\$8,800,000	\$9,700,000	NA	\$13,200,000	NA	NA	Rental Apartment Building	\$13,200,000	\$325.12	NA
86 Amity Street	Apartment Building	NA	\$1,070,000	NA	\$1,580,000	NA	NA	Single Family Townhouse	\$1,580,000	\$526.67	NA
82 Amity Street	Apartment Building	NA	\$1,590,000	NA	\$2,020,000	NA	NA	Single Family Townhouse	\$2,020,000	\$526.04	NA
78 Amity Street	Administrative Offices	NA	\$2,290,000	NA	\$3,460,000	NA	NA	Single Family Townhouse	\$3,460,000	\$525.76	NA
76 Amity Street	Administrative Offices	NA	Included Above	NA	Included Above	NA	NA	Single Family Townhouse	Included Above	Included Above	NA
74 Amity Street	Apartment Building	NA	\$1,690,000	NA	\$2,580,000	NA	NA	Single Family Townhouse	\$2,580,000	\$475.05	NA
113 Congress Street	Administrative Offices	NA	\$2,040,000	NA	\$2,760,000	NA	NA	Single Family Townhouse	\$2,760,000	\$475.86	NA
43 Columbia Place	Apartment Building	NA	\$2,900,000	NA	\$2,900,000	NA	NA	Rental Apartment Building	\$2,900,000	\$425.84	NA
336 Flatbush Avenue	Mixed-Use Building	NA	\$4,200,000	NA	\$4,600,000	NA	NA	Renovated Mixed-Use Bldg.	\$4,600,000	\$350.93	NA
184 Sterling Avenue	Medical Offices	NA	NA	\$2,500,000	NA	\$2,600,000	NA	Residential Development Site	\$2,600,000	\$399.32	NA
112 Pacific Street	Administrative Offices	NA	NA	\$1,300,000	NA	NA	\$5,000,000	Residential Development Site	\$5,000,000	NA	\$225.07
385-389 Hicks Street	Engineers Building	NA	NA	NA	NA	NA	\$4,000,000	Residential Development Site	\$4,000,000	NA	\$215.18

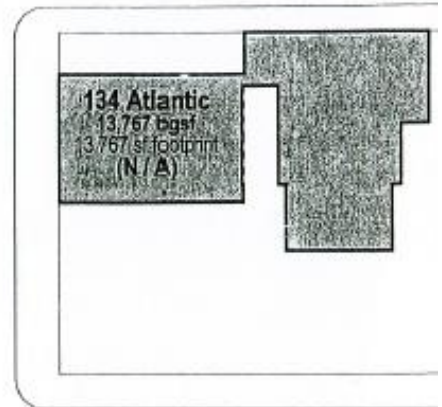
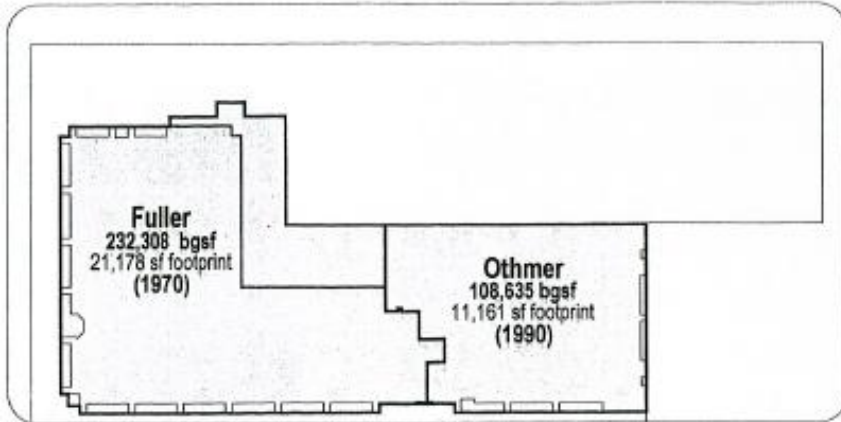
\$48,200,000

TABLE OF CONTENTS

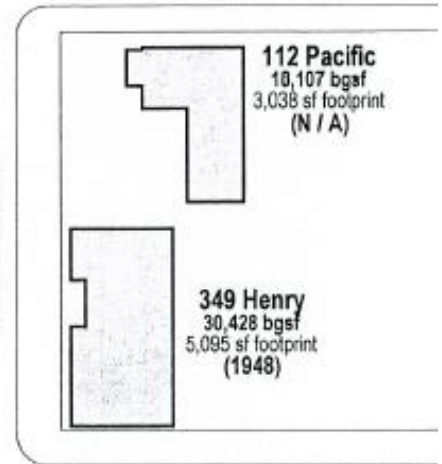
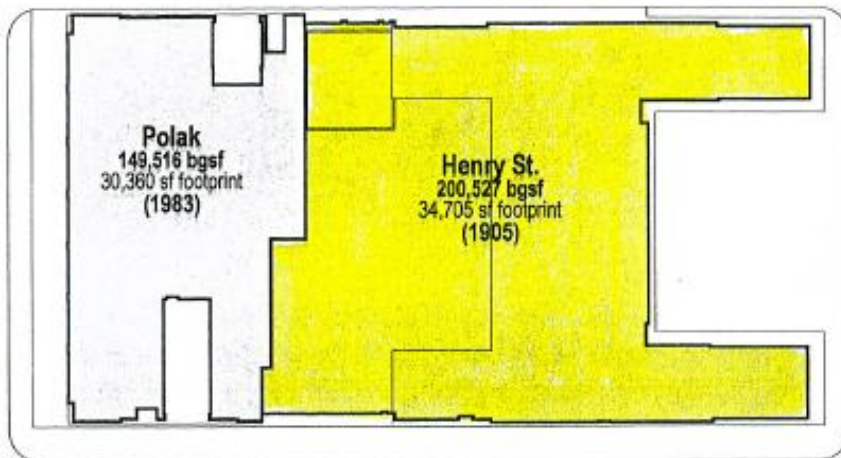
	Page
PROPERTY IDENTIFICATION	2
PURPOSE OF THE APPRAISAL	2
INTENDED USE AND USER OF REPORT.....	2
PROPERTY RIGHTS APPRAISED	2
EFFECTIVE DATE OF APPRAISAL	2
OWNERSHIP AND OCCUPANCY	2
INSPECTION OF THE PROPERTY	3
DEFINITION OF MARKET VALUE.....	3
THE APPRAISAL PROBLEM	3
SCOPE OF WORK	4
EXTRAORDINARY ASSUMPTIONS	5
HYPOTHETICAL CONDITIONS.....	5
NEW YORK CITY ECONOMIC OUTLOOK	5
BROOKLYN	8
BROOKLYN’S RESIDENTIAL MARKET	9
BROOKLYN’S OFFICE MARKET	10
NEIGHBORHOOD ANALYSIS.....	12
ZONING ANALYSIS	16
HIGHEST AND BEST USE	17
FULLER PAVILION – 339 HICKS STREET	18
THE OTHMER BUILDING – 91-95 PACIFIC STREET	43
POLAK BUILDING – 335-363 HICKS STREET	61
340 HENRY STREET/97 AMITY STREET	79
POLHEMUS BUILDING – 350 HENRY STREET	101
349 HENRY STREET	119
PARKING GARAGE – 352 HICKS STREET.....	138
ADDENDA.....	150
COZEN O’CONNOR MEMORANDUM.....	151
BASIC ASSUMPTIONS AND LIMITING CONDITIONS	157
CERTIFICATE OF APPRAISAL	160



Campus Footprints

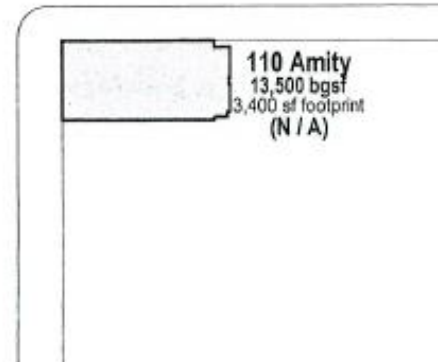
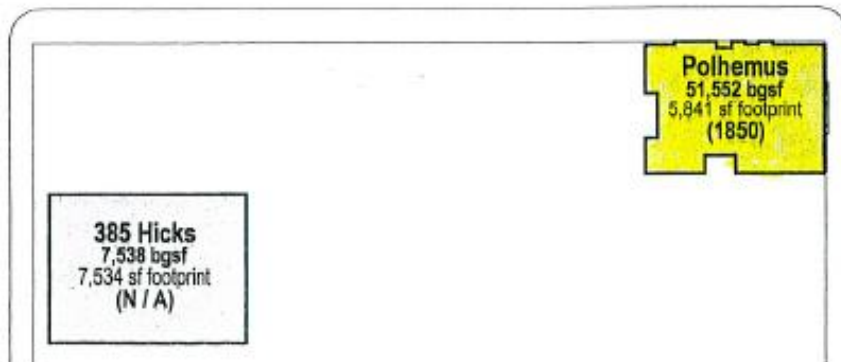


PACIFIC STREET



HENRY STREET

AMITY STREET



PROPERTY IDENTIFICATION

The properties that are the subject of this report are listed below along with their New York City Tax Map number and a brief description of each property.

<i>Descriptions of the Primary SUNY Downstate Medical Center/Long Island Hospital Properties</i>									
	<i>Address</i>	<i>Building Name</i>	<i>Block/Lot</i>	<i>Approximate Land Area</i>	<i>Approximate Gross Building Size</i>	<i>Approximate Useable Building Size</i>	<i>Year Built</i>	<i># of Stories</i>	<i>Use/Former Use</i>
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2	91-95 Pacific St.	Othmer Pavilion	Pt of 284/1	Part of 49,132	108,635	86,908	1990	10	Hospital - out patient
3	355-363 Hicks St.	Polak Pavilion	Pt of 290/13	Part of 80,800	149,516	119,613	1983	6	Hospital - in patient
4	340 Henry St. (97 Amity St.)	Medical Offices	Pt of 290/13	Part of 80,800	145,500	109,125	1900	6	Medical Office Building
5	350 Henry St.	Polhemus Building	295/21	6,834	51,600	38,700	1900	8	Medical Office Building
6	349 Henry St.	Medical Offices	291/1	11,533	48,015	38,412	1948	5	Medical Office Building
7	352 Hicks St.	Garage (430 spaces)	282/50	24,666	175,000	NA	1997	7	Parking Garage

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the fair market value of each property based on its highest and best use.

INTENDED USE AND USER OF REPORT

The intended user of this report is the SUNY Downstate Medical Center. The report will be used to assist in financial planning and in determining prospective use of the subject properties.

PROPERTY RIGHTS APPRAISED

The property rights to be appraised are that of the fee simple estate, which 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.”¹

EFFECTIVE DATE OF APPRAISAL

The effective date of the appraisal is October 1, 2013.

OWNERSHIP AND OCCUPANCY

According to the most recent deeds for each of the properties, the contract and transfer dates are the same for all seven properties, January 1, 2011 and May 29, 2011, respectively. The seller name for each property is The Long Island College Hospital and the buyer name for each property is Downstate at LICH Holding Company, Inc. A summary of the transactions are indicated on the next table.

¹ The Appraisal of Real Estate, 13th Edition, 2008, Page 111.

<i>Subject Property Transfers</i>					
<i>Address</i>	<i>Block/Lot</i>	<i>Building Name</i>	<i>Contract Date</i>	<i>Transfer Date</i>	<i>Sale Price</i>
339 Hicks Street	Part 284/1	Fuller Pavilion	1/1/2011	5/29/2011	\$66,690,000
91-95 Pacific Street	Part 284/1	Othmer Pavilion			
355-363 Hicks Street	Part 290/13	Polak Pavilion	1/1/2011	5/29/2011	\$44,310,000
340 Henry Street/97 Amity Street	Part 290/13	Medical Offices			
350 Henry Street	295/21	Medical Offices	1/1/2011	5/29/2011	\$29,910,000
349 Henry Street	291/1	Medical Offices	1/1/2011	5/29/2011	\$10,360,000
352 Hicks Street	282/50	Parking Garage	1/1/2011	5/29/2011	\$17,200,000

INSPECTION OF THE PROPERTY

The subject properties were inspected by Robert Von Ancken, Robert H. Mayer, Kathryn Cosentino, and Randal E. Grenier on September 26 and October 1, 2013.

DEFINITION OF MARKET VALUE

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 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 that neither is under undue duress.²

THE APPRAISAL PROBLEM

The subject properties consist of seven individual buildings that are located in Cobble Hill, Brooklyn, on the campus of the SUNY Downstate Medical Center, formerly the Long Island College Hospital campus. As currently configured, the buildings consist of hospital buildings, medical office buildings, and a parking garage that were used as part of the former teaching college campus. As of the dates of inspection, the buildings were partially occupied and not operated to full capacity as a hospital.

The purpose of this appraisal is to estimate the fair market value of each of seven properties, as of October 1, 2013, based on their highest and best use.

In order to determine the highest and best use of each building, we analyzed various alternate uses for each building to determine the maximally productive use and the use that produced the greatest return to an investor. The analysis included an estimate of the cost to perform the necessary renovations and the down time needed in order to perform the renovations. Our analysis of alternate uses includes a residual discounted cash flow analysis for the conversion and sellout of residential condominiums. We also used direct capitalization to determine the value of the buildings under two other scenarios: 1. the conversion to medical office buildings

² The Appraisal of Real Estate, 13th Edition, 2008, Page 23

and 2. the conversion to rental apartment buildings. We estimated the value of the parking garage by a residual cash flow analysis for the conversion and sellout of garage condominiums.

Each section of this report contains one individual subject property with a building description and an indication of method(s) of valuation as it applies to each individual building. Each section will conclude to a reconciled value based on the highest and best use as of the valuation date, October 1, 2013.

According to the City's Zoning Resolution, parking is a requirement for residential uses in an R6 zoning district. If conversion is pursuant to the Quality Housing regulations, accessory off-street parking is required for 50% of the dwelling units; otherwise it is required for 70% of the dwelling units. Therefore, the parking garage at 352 Hicks Street with a legal capacity for 430 vehicles is an important element in our consideration of highest and best use for either conversion to residential condominiums or as medical office use.

SCOPE OF WORK³

Scope of Work refers to the type and extent of research and analyses in an assignment. The appraiser is responsible for determining the appropriate scope of work in the appraisal assignment. The appraiser is responsible for determining the appropriate scope of work in the appraisal assignment. Scope of work for an assignment is acceptable if it leads to credible assignment results, is consistent with the expectations of parties who are regularly intended users for similar assignments, and is consistent with what the actions of the appraiser's peers would be in the same or a similar assignment.

In the appraisal report, the scope of work that was applied to develop the opinions and conclusions must be clearly disclosed. The scope of work disclosure must be sufficient so that the intended users understand the scope of work that was performed. The scope of work discussions should address the following topic areas:

1. The extent to which the property was identified;
2. The extent to which the property was inspected;
3. The type and extent of data research;
4. The type and extent of analyses applied.

Steps taken to complete this assignment are described in individual sections of the report. This appraisal of the subjects has been presented in the form of a summary appraisal report, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Code of Professional Ethics and Conduct of the Appraisal Institute, the Uniform Standards of

Professional Appraisal Practice (USPAP) as established by the Appraisal Foundation, and the appraisal requirements established by the State of New York.

³ The Appraisal of Real Estate, 13th Edition, 2008, Page 135

EXTRAORDINARY ASSUMPTIONS

An extraordinary assumption is 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 conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. No extraordinary assumptions were employed in this appraisal.

HYPOTHETICAL CONDITIONS

A hypothetical condition is that which is contrary to what exists but is supposed for the purpose of 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. No hypothetical conditions were employed in this appraisal.

NEW YORK CITY ECONOMIC OUTLOOK

The following information has been compiled from the most recent available economic reports, including the Monthly Report on Current Economic Conditions – July 2013, published by the New York City Office of Management and Budget, as well as NYC Employment Alert – June 2013.

U.S. Economic Overview

Although the fundamentals, particularly housing, appear favorable for long-term growth, sequester related federal spending cuts and the global economic slowdown pose challenges for the U.S. economy. While a portion of the population is benefitting from buoyant equity markets and higher home prices, the majority of wage-earners are facing a slowdown of disposable income - held back by low wage growth and expiration of the payroll tax holiday.

The labor market is underperforming both with respect to job and wage growth. The private sector has added about 200,000 jobs per month during the second quarter, but the rate of hiring remains doggedly low – the May hiring rate was essentially unchanged from a year ago. On top of stagnation in wage-rate growth, the two percent payroll tax increase has combined to suppress disposable personal income growth.

New York City Employment

The City's labor markets have continued to expand at a brisk pace for the third consecutive year, continuing to hit new record employment levels. Year-to-date through June, the City gained nearly 67,000 private sector jobs, compared to an expansion of roughly 50,000 jobs over the same period last year. Additionally, as of June 2013, private employment in the City stood 172,000, or 5.3 percent, above the pre-recession peak.

Employment growth has come from virtually every private sector employment category in the first half of 2013. Not surprisingly, due to the buoyant tourist activity in the City, the leisure and

hospitality sector has been responsible for nearly one out of every five jobs created during that time, expanding by 13,000 jobs. The retail trade sector has also benefitted from the high tourist volume, adding 6,200 jobs in the last six months. Going hand in hand with retail, wholesale trade gained 2,600 jobs during that time.

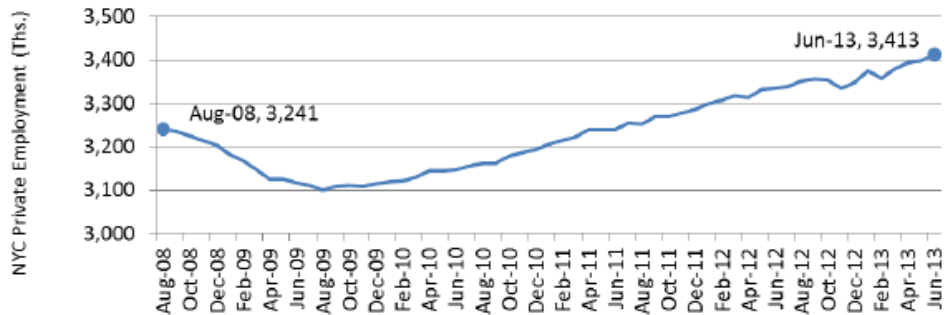
Although it has experienced job losses in the last two months, professional and business services employment showed an overall expansion so far this year. Over the last six months, this category has grown by 5,700 jobs; a quarter of the job additions have come from the temporary services subsector. While professional and business services has surpassed the pre-recession peak by 28,000 jobs, some of its subsectors still remain below the pre-recession peak levels: The legal, accounting, and architectural services subsectors have yet to regain all of the jobs lost during the recession.

What comes as a pleasant surprise so far this year is the fact that the financial activities sector has performed rather well, gaining 3,700 jobs year-to-date. More than half of the jobs created in this sector have come from the high-paying securities subsector, while real estate and banking have accounted for 400 and 1,000 job gains, respectively. However, the insurance subsector struggled, losing a net 200 jobs in the last six months.

The non-cyclical education and health services sectors maintained their upward trajectory, adding a combined 25,000 jobs in the last six months. As long as the City's population continues to expand, these two sectors will likely experience growth. Construction has also seen robust growth thus far in 2013, adding 7,900 jobs from January through June.

While most sectors are expanding at a decent pace, there are a few that have struggled so far this year. Most surprisingly, the information industry has cut jobs in 2013. Year-to-date through June, the information sector shed 1,100 jobs, while at this point last year, it had grown by 5,000 jobs. Manufacturing continues its long, secular decline. Over the last six months, the manufacturing sector has lost an additional 500 jobs, falling below the 75,000 employment level for the first time in the history of the current series.

Private employment in the City continues to grow at a brisk pace. As of June 2013, private employment set a new record high and stood 5.3 percent higher than the pre-recession peak.



New York City Office of Management and Budget
Monthly Report on Economic Conditions -7/30/2013

New York City Tourism

The tourism industry had a record year in 2012 as the City welcomed 52 million visitors, an all-time high. The momentum has continued into 2013, which is shaping up to be another strong year. The sector has been a vital engine of growth for the City’s economy. During 2012, hoteliers have benefitted from the growth in visitor arrivals, even as they allocate scarce capacity to accommodate displaced residents and relief workers in the aftermath of Sandy. The combination of strong tourist and storm-related demand pushed up occupancy rates to record levels during the year 2012.

Local airports welcomed the most international visitors ever in 2012, while overall arrivals including domestic air traffic was the second highest after 2007. Growing tourist arrivals have been a boon for hotel construction. In 2012, the City added over 3,000 new rooms to hotel inventories, with more projects slated for completion in 2013. The expansion of room inventory has not kept pace with demand, as evident in persistently high occupancy rates and rising average daily room rates

The fortunes of the industry will continue to support employment levels in retail sales and leisure and hospitality, as well as the hotel construction industry. Though the European financial crisis continues to weigh on visitor volumes from that region, the diversification of arrivals towards guests from emerging markets has helped reduce risks to the sector.

New York City Personal Income

The latest data on personal income showed that there was substantial growth in personal income in New York City. In 2011, personal income stood at \$455.5 billion, over five percent higher than 2010. Wage and salary disbursements grew 4.8 percent, while proprietors’ income climbed 2.9 percent. Overall, per-capita personal income for New York City stood at \$55,245, an increase of 4.4 percent over the previous year.

BROOKLYN

Brooklyn is located on the westernmost point of Long Island and shares its only land boundary with Queens to the northeast. The southerly border is the Atlantic Ocean and the East River and Upper New York Bay surrounds the northerly and westerly borders. According to the US Census Bureau, Kings County has a total land area of 96.9 square miles.

Long considered the back office of Manhattan's businesses, nearly 44% of the working population works in Brooklyn. Formerly a dense manufacturing community, Brooklyn continues to house industrial design firms, food processing businesses, clothing manufacturing, furniture, fabricated metals, and film and television production industries. According to the New York State Department of Labor, unemployment in Brooklyn as of August 2013 stood at 9.6%, compared with unemployment rates of 8.7% and 7.5% for New York City and New York State, respectively. Brooklyn's unemployment rate is the second highest in New York City, but has fallen 0.6% from levels observed in August 2012.

Neighborhoods

Brooklyn has many well-defined neighborhoods, many of which developed from distinct towns and villages that date back to its founding in the Dutch colonial era in the early 1600s. Downtown Brooklyn is the third-largest central business district in New York City, after Midtown Manhattan and Lower Manhattan. It has many commercial towers and a rapidly increasing number of residential buildings. The northwestern neighborhoods between the Brooklyn Bridge and Prospect Park, including Boerum Hill, Brooklyn Heights, Carroll Gardens, Cobble Hill, Clinton Hill, Vinegar Hill, DUMBO, Fort Greene, Gowanus, Park Slope, Prospect Heights, and Red Hook, are characterized by many 19th century brick townhouses and brownstones. These neighborhoods include some of the most gentrified and affluent neighborhoods in Brooklyn, along with ample subway lines, cultural institutions, and high-end restaurants.

Neighborhoods of Williamsburg and Greenpoint are located further north along the East River. Traditionally a working class community, recent zoning changes have allowed the construction of many residential condominiums along the waterfront with beautiful views of Manhattan.

Central and southern Brooklyn contain a variety of culturally distinct neighborhoods that are influenced by immigrants who moved out of tenement buildings in Manhattan's Lower East Side in the late 19th and early 20th centuries. Borough Park is largely Orthodox Jewish and Bedford-Stuyvesant is one of the City's finest African-American neighborhoods. Bensonhurst is historically Italian-American and East Flatbush and Fort Greene are homes to many middle class black professionals. Brighton Beach has many Russian and Pakistani Americans and Sunset Park is home to Mexican and Chinese American communities.

Transportation

Brooklyn is served by a network of limited-access highways that include the Brooklyn-Queens Expressway, Interstate 287, the Prospect Expressway, and the Belt Parkway. There are three

main bridges to Manhattan, the Brooklyn, Manhattan, and Williamsburg bridges plus the Brooklyn-Battery Tunnel. The Verrazano Narrows Bridge links to Staten Island and the Kosciusko and McGuinness Boulevard Bridges link to Queens. Brooklyn has 18 New York City Subway lines and a public bus network that covers the entire borough. These services provide local service and transportation directly to Manhattan. There are three commuter rail stations in Brooklyn, including East New York, Nostrand Avenue, and Atlantic Terminal, the terminus station of the Atlantic Branch of the Long Island Rail Road. Finally, Brooklyn's waterfront was a major shipping port but more recently the bulk of shipping cargo services have transferred to New Jersey. There is a new cruise ship terminal in Red Hook that provides docking service for the Queen Mary 2.

BROOKLYN'S RESIDENTIAL MARKET

Living in Brooklyn has become a primary alternative to the high cost of living in Manhattan. As a result, there is a shortage of Brooklyn housing, both rental and ownership apartments. According to the third quarter 2013 Elliman Report, listing inventory of all condominium and cooperative apartments available for sale fell sharply from 5,602 in the third quarter of 2012 to 3,816 in the third quarter of 2013. At the same time the average price for apartments rose 13.1% from \$614,437 to \$694,777.

The subject properties if converted to residential condominiums would fall into the New Development category of the Douglas Elliman survey of Brooklyn residential sales. As of the third quarter of 2013 report, the average sale price increased 25.2% from \$752,957 in the third quarter of 2012 to \$942,547 in the third quarter of 2013. The average price per square foot increased 19.7% and the median sales price increased 20.5% during that same time period. The decline in the number of sales coupled with the increases in average and median sale prices represents a lack of supply. The pipeline for new construction of apartments in Brooklyn is being depleted as new development struggles to keep up with demand.

<i>New Development Condominiums - Brooklyn Third Quarter 2013</i>			
	3rd Qtr 2013	% Change	3rd Qtr 2012
Average Sales Price	\$942,547	25.2%	\$752,957
Average Price per Square Foot	\$880	19.7%	\$735
Median Sales Price	\$750,000	20.5%	\$622,395
Number of Sales	197	-29.1%	278
Days on Market	104	0.0%	104
Listing Discount	1.70%		1.80%

Source: The Elliman Report - Brooklyn Sales 3rd Quarter 2013

Brooklyn Apartment Rents

We surveyed a number of apartment asking rents on September 25, 2013 to determine the average annual rent per square foot for Brooklyn apartments. The survey of 111 available apartments ranged from studios to three-bedroom units and the apartments were located in Cobble Hill, Boerum Hill, Brooklyn Heights, Carroll Gardens, and Downtown Brooklyn, all neighborhoods with characteristics similar to Cobble Hill.

The tables below summarize the adjusted asking rents and the rents per square foot for studios, one-, two-, and three-bedroom apartments that are located in various Brooklyn neighborhoods. We adjusted the asking rents by -3.0% to account for a negotiability factor, as the contract rent will likely be negotiated slightly lower than the asking rent.

<i>Brooklyn Apartment Rents per Square Foot - As of October 2013</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts.
Three Bedrooms	\$46.54	\$48.46	\$54.00	\$33.75	8
Two Bedrooms	\$50.50	\$50.01	\$76.00	\$30.00	46
One Bedroom	\$54.36	\$56.04	\$74.48	\$28.00	38
Studio	\$52.20	\$53.03	\$69.93	\$36.44	19
Total Number of Apartments in the Survey					111

Source: Compiled by Landauer from Various Rental Listings from Corcoran, Douglas Elliman

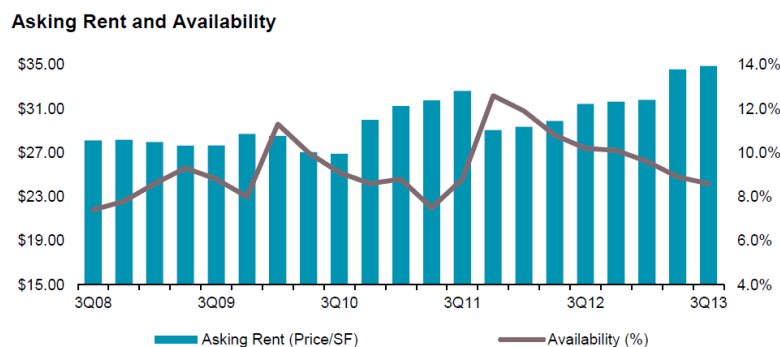
<i>Brooklyn Apartment Rents - As Of October 2013</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts.
Three Bedrooms	\$4,381.25	\$4,500.00	\$5,400.00	\$3,600.00	8
Two Bedrooms	\$4,628.11	\$4,500.00	\$6,850.00	\$3,000.00	46
One Bedroom	\$3,421.03	\$3,325.00	\$6,250.00	\$1,950.00	38
Studio	\$2,707.11	\$2,400.00	\$4,300.00	\$1,900.00	19
Total Number of Apartments in the Survey					111

Source: Compiled by Landauer from Various Rental Listings from Corcoran, Douglas Elliman

BROOKLYN'S OFFICE MARKET

According to the Newmark Grubb Knight Frank Office Market report for the third quarter of 2013, the Downtown Brooklyn office market vacancy rate declined to 4.1% in the third quarter of 2013 from 4.4% in the second quarter and was lower than 6.1% reported one year ago. Average asking rents climbed to a 10-year high at \$34.89 per square foot, up from \$34.59 per square foot reported in the second quarter. There were reportedly no office buildings under construction as of the second quarter.

Downtown Brooklyn Office Market: 3rd Quarter 2013



Source: Newmark Grubb Knight Frank

The table below summarizes contract rental rates for office leases in Downtown Brooklyn that were contracted within the last three years.

<i>Brooklyn Office Rents</i>						
<i>Address</i>	<i>Tenant</i>	<i>Lease Date</i>	<i>Size</i>	<i>Floor</i>	<i>Rent/SF/Yr</i>	<i>Term</i>
32 Court Street	Non-Profit	1/30/2011	2,443	2	\$26.00	10 Years
15 MetroTech Center	Education	5/31/2011	35,145	6	\$22.00	9 Years
2 MetroTech Center	Education	6/9/2011	89,149	6,9,10	\$29.00	15 Years
16 Court Street	Legal Services	8/4/2011	4,254	22	\$32.00	5 Years
16 Court Street	Non-Profit	8/4/2011	4,102	21	\$32.00	5 Years
4 MetroTech Center	Insurance	10/1/2011	36,197	20	\$23.00	10 Years
4 MetroTech Center	Financial Services	10/1/2011	54,464	8	\$20.00	11 Years
55 Washington Street	Business Services	2/1/2012	8,634	6	\$23.49	5 Years
16 Court Street	Legal Services	11/29/2012	4,330	26	\$36.00	10 Years
175 Remsen Street	Non-Profit	12/11/2012	10,806	9	\$27.50	10 Years
20 Jay Street	Business Services	3/27/2013	2,510	10	\$32.27	1 Year
25 Chapel Street	Non-Profit	3/22/2013	6,000	9	\$23.50	10 Years
16 Court Street	Legal Services	4/3/2013	2,746	33	\$33.76	5 Years
16 Court Street	Legal Services	6/21/2013	1,545	9	\$35.00	5 Years

The unadjusted office rents range from \$20.00 to \$36.00 per square foot with an average and median value of \$28.25 per square foot.

We researched medical office rents for Brooklyn and found the following Downtown and Prospect Heights asking rents. Medical office rents are typically higher than general offices due to their more sophisticated build-out with examination rooms, laboratories, consultation rooms, reception areas, and file rooms. The asking medical office rents range from \$35.01 to \$48.00 per square foot. After considering a negotiability factor of -3.0%, the rents range from \$33.96 to \$46.56 per square foot.

<i>Available as of October 2013</i>				
<i>Address</i>	<i>Office Use</i>	<i>Sq. Ft.</i>	<i>Rent/Mo.</i>	<i>Rent/SF</i>
535 Clinton Avenue	Medical Office	10,730	\$34,873	\$39.00
535 Clinton Avenue	Medical Office	4,917	\$19,668	\$48.00
535 Clinton Avenue	Medical Office	10,026	\$36,762	\$44.00
One Hanson Place	Medical Office	994	\$2,900	\$35.01
One Hanson Place	Medical Office	1,310	\$4,100	\$37.56
One Hanson Place	Medical Office	3,157	\$10,523	\$40.00
One Hanson Place	Medical Office	1,087	\$3,850	\$42.50
One Hanson Place	Medical Office	2,105	\$6,599	\$37.62
One Hanson Place	Medical Office	2,779	\$10,000	\$43.18

NEIGHBORHOOD ANALYSIS

New York City subdivides the boroughs into Community Districts, which are local political districts that provide input to various city agencies concerning items requiring citizen review. In most cases, Community District boundaries correspond with commonly-acknowledged dividing lines between different neighborhoods, although Community District boundaries are fixed and neighborhood boundaries tend to be more fluid and generally align with changes in land use, traffic patterns or physical barriers. The subject properties are located in Brooklyn Community District #6. A breakdown of the present land use in the subject’s Community District is shown in the following table:



	Lots	Lot Area	
		Sq. Ft.(000)	%
1- 2 Family Residential	4,365	7,800.7	12.5
Multi-Family Residential	5,802	16,439.1	26.4
Mixed Resid. / Commercial	1,602	3,872.0	6.2
Commercial / Office	262	4,047.5	6.5
Industrial	588	11,960.1	19.2
Transportation / Utility	165	4,157.8	6.7
Institutions	211	3,142.0	5.0
Open Space / Recreation	45	3,773.3	6.1
Parking Facilities	263	2,322.6	3.7
Vacant Land	481	2,579.4	4.1
Miscellaneous	123	2,195.9	3.5
Total	13,907	62,290.6	100.0

Source: New York City Department of City Planning

All of the subject properties are located within Brooklyn District 6. District 6 is bounded by the Upper New York Bay and the East River to the west, Atlantic Avenue, Warren Street, and Pacific Street to the north, Prospect Park West to the east, and 15th Street and the Gowanus Creek to the south. Community District 6 includes the neighborhoods of Park Slope, Red Hook, Gowanus, Carroll Gardens, and Cobble Hill. The Red Hook and areas surrounding the Gowanus Canal are primarily used for industrial, manufacturing, transportation, and utility purposes. Residential uses are concentrated on the easterly section of the district and the central part with 12.5% for one- and two-family residences and multifamily accounting for 26.4% of the land use in the district. The subject properties are located along and immediately south of Atlantic Avenue in the northwest section of Brooklyn Community District 6.

Cobble Hill is an active residential and commercial neighborhood and it has a wide variety of rental, condominium and cooperative residential buildings in addition to lovely townhouses along tree-lined streets. Generally there are many retail uses along Atlantic Avenue located two blocks immediately north of the main hospital campus that accommodates the vast residential population. Retail uses are services that include restaurants, delis, laundry and dry cleaners, grocery stores and miscellaneous services. Atlantic Avenue is a major east-west thoroughfare that provides direct access to the Brooklyn Queens Expressway.

Transportation and access to the neighborhood is excellent. Five subway lines have major



stations and transfer points within the neighborhood. The Atlantic Avenue terminal of the Long Island Railroad is also located in the area and there are nine municipal bus lines servicing the area. The Brooklyn Queens Expressway and the Manhattan and Brooklyn bridges provide connections with Manhattan. Public transportation is available along Atlantic Avenue and subway stations are available at Joralemon and Court Streets for the R, 2, 3, 4, & 5 trains and for the A, C, & F, trains at the Jay Street Metro-Tech station. The neighborhood has easy access to the highway system surrounding the city via the Brooklyn Queens Expressway.

Subway Map



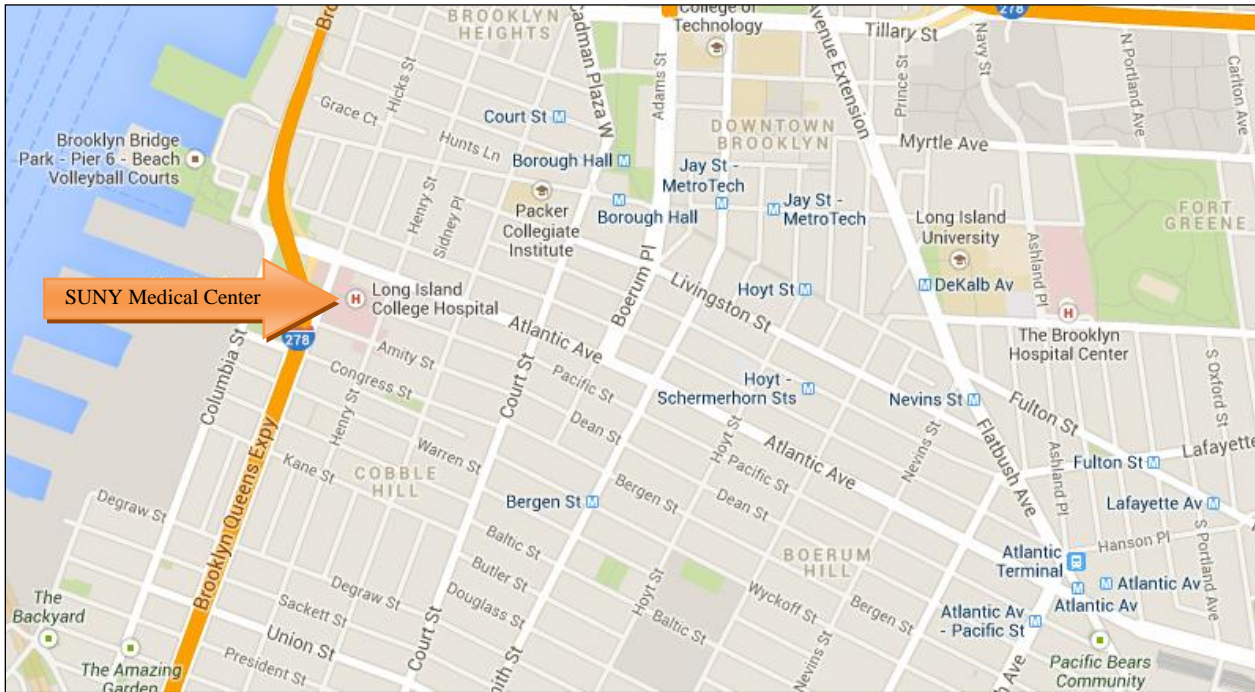
Bus Map



Source: Metropolitan Transit Authority



Area Map



Source: Google Maps



The Polhemus building at 350 Henry Street is located within the Cobble Hill Historic District Extension. While the main hospital campus is flanked by the Cobble Hill Historic District to the north, east, and south, the main campus is not part of that district.



Source: The City of New York Landmarks Preservation Commission

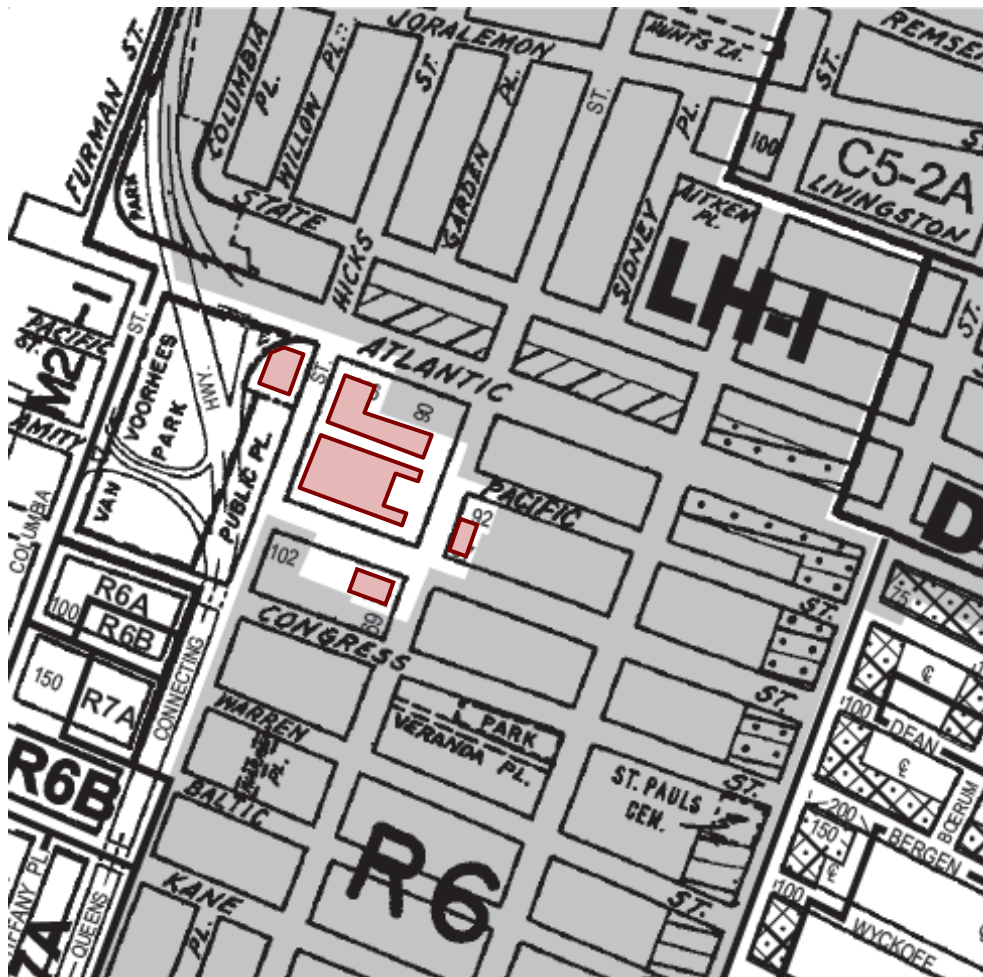
- Cobble Hill Historic District
- Cobble Hill Historic District Extension
- LICH Properties



ZONING ANALYSIS

The subject properties are located in an R6 residential zoning district in Cobble Hill, Brooklyn NY. This district has optional quality housing regulations that produce lower buildings with high lot coverage. Wide streets typically allow for more apartments than might be achievable under height factor regulations. The R6 optional regulations for buildings on or within 100 feet of a wide street are the same as those in R6A districts. The FAR permitted for residential use is 2.43 (or 3.0 for Quality Housing buildings on a wide street) and the base height before setback is 40 to 60 feet with a maximum building height of 70 feet. The maximum FAR for community facilities is 4.8.

Zoning Map – The highlighted areas indicate the locations of the subject properties on the main campus.



Reference is made to a memorandum that was provided by the Cozen O'Connor law firm and is included in the addenda of this report. That report addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 4 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no

enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof.”

The Zoning Resolution permits residential conversion of the entire floor area of non-residential buildings constructed prior to December 15, 1961 (includes 340 Henry Street and 350 Henry Street, Polhemus Building) in zoning districts where residential use is allowed on an as-of-right basis, even if the building is currently overbuilt, subject to the provisions of Article 1, Chapter 5 of the Zoning Resolution (Residential Conversion of Existing Non-Residential Buildings). Any potential loss factor in the conversion process would be on a building-by-building basis and would be subject to the design discretion of a developer consistent with legal requirements.

Buildings converted to residential use that are constructed after December 15, 1961 may be restricted to 2.43 FAR of residential floor area on an as-of-right basis, even if the floor area of the existing building is larger. However, the site may be a candidate for a variance at the discretion of the Board of Standards and Appeals (BSA) to allow conversion of the entire building, provided that the statutory findings of ZR 72-21 can be made. Only a portion of a building may be converted on an as-of-right basis, but it may be a candidate for a variance based on the following criteria:

1. There is a unique physical condition that gives rise to a practical difficulty or unnecessary hardship.
2. As a result of the unique physical condition, the proposed building cannot yield a reasonable economic return when used in conformance with zoning.
3. The building is functionally obsolescent, making its occupancy for a conforming use impractical and creates an unnecessary hardship in developing the site in conformity with the current zoning.
4. The proposed variance, if granted, will not alter the essential character of the neighborhood, the hardship is not self-created, and if granted, the variance is the minimum variance necessary to afford relief.

The zoning conclusions will be discussed in the individual sections of this report as they pertain to each subject property.

HIGHEST AND BEST USE

Highest and best use may be defined as “that reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.”⁴

In order for the subject site to fulfill its highest and best use, that use must meet 4 criteria: (1) It must be physically possible, (2) legally permissible, (3) financially feasible, and (4) maximally productive. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved. The highest and best use of each subject property will be discussed in the individual valuation sections of this report.

⁴ The Appraisal of Real Estate, 13th Edition, 2008, Page 277.

EXECUTIVE SUMMARY – Fuller Pavilion at 339 Hicks Street

Addresses:	339 Hicks Street – Fuller Pavilion
Neighborhood:	Cobble Hill
Tax Block/Lot:	Part of Block 284 Lot 1
Zoning:	R6 with an FAR of 4.80 for community facility use and 3.0 for residential use.
Improvements:	The Fuller Pavilion is part of an acute-care hospital and consists of a 12-story with basement in-patient hospital. The mechanical space is primarily located in the basement and on the 12 th floor. The Fuller Pavilion contains 232,308 square feet and was built in 1970.
Highest and Best Use:	The highest and best use for the Fuller Pavilion is for conversion to condominium apartments.
Inspection Date:	September 26, 2013
Date of Value:	October 1, 2013
Valuations:	
Cost Approach:	NA
Sales Comparison Approach:	NA
Income Approach:	
Direct Capitalization	
For Medical Office Use:	\$27,800,000
For Rental Apartment Use:	\$29,900,000
Residual Discounted Cash Flow	
For Residential Condominiums:	\$59,400,000
Reconciled Value:	\$59,400,000 \$255.70 per square foot of GBA



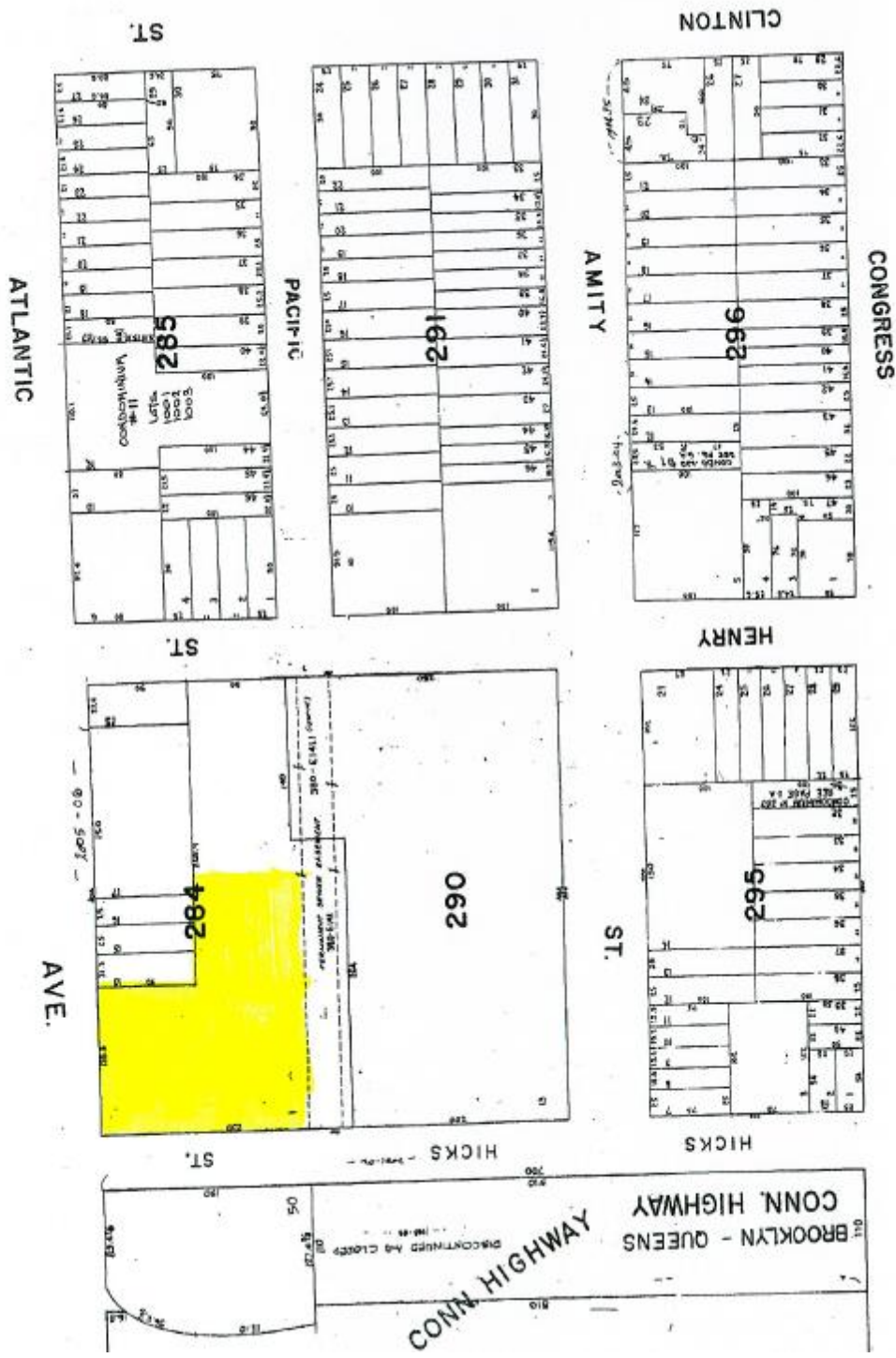
Subject Photo – 339 Hicks Street – The Fuller Pavilion



Fuller Pavilion – 339 Hicks Street



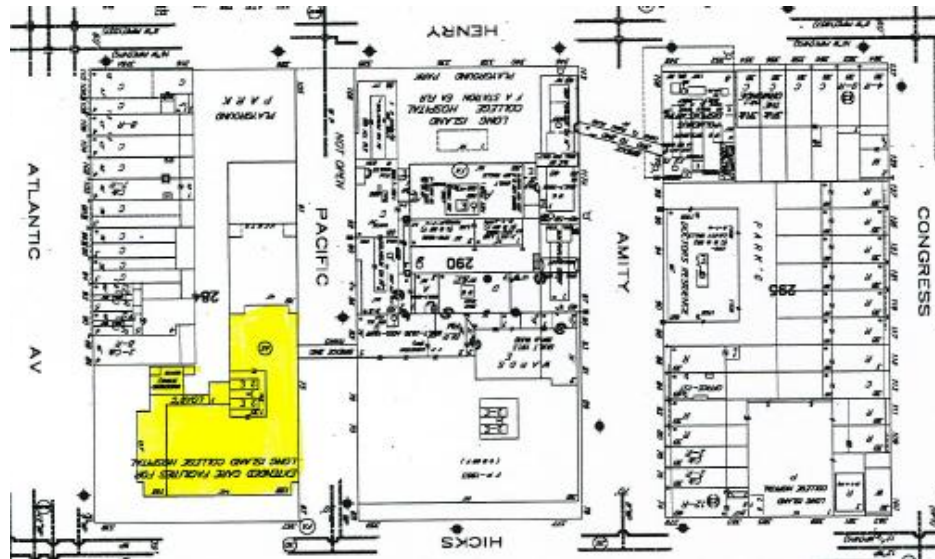
Tax Map



The Fuller Pavilion – Park of Block 284 Lot 1



Overlay Map



PROPERTY DESCRIPTION – 339 Hicks Street – The Fuller Pavilion

Site

The subject site is located on the southeast corner of Atlantic Avenue and Hicks Street in the Cobble Hill section of Brooklyn, Community District 6. The full site contains both the Fuller and Othmer Hospital buildings plus a neighborhood park on the Henry Street frontage of Block 284 Lot 1. Site improvements include concrete sidewalk and curbs, decorative and security lighting, landscaped seating areas along Hicks and Atlantic Avenue, security gates, and wrought iron fences, gates, and railings. The main entrance has a brick handicap ramp and stairway entrance to the main reception area on Hicks Street. The building was constructed in 1970 and formerly had 323 available hospital beds. Other major former functions include imaging, rehab therapy and food service. The building contains 232,308 above grade gross square feet and has 13' floor-to-floor heights. At the time of inspection, portions of the building were not being fully utilized as hospitals.

Improvements – Fuller Pavilion

The site is improved with an 11-story plus mechanical penthouse (12th floor) in-patient hospital building that is connected to two adjacent hospital buildings at 91-95 Pacific Street (Othmer Building) and 355-363 Hicks Street (Polak Building).

Building Façade:

The building was originally constructed in 1970 and floors were upgraded periodically. Exterior walls are primarily brick veneer on concrete masonry over steel frame with spray-on fireproofing and concrete slab floor construction. Windows are aluminum framed double glazed units in masonry openings. All windows are

original.

- Roof: The building has a built-up system original to the construction of the building. It has rubberized sheeting, metal coping and flashing.
- Heating System: Heat is supplied by the system located in the adjoining Polak Building. It is described in the Polak Building Heating System section.
- Cooling System: This building has two 700-ton gas fired absorption chillers located on the 12th floor. Pumping is provided by two double-suction chilled water pumps, two double suction condenser water pumps and a single back-up double-suction pump which can serve either chilled or condenser water using manual isolation valves and common shared piping. The second, first, and basement spaces are cooled by a packaged rooftop (2nd floor) unit.
- HVAC Systems: Most of the air handling units are located on the 12th floor and are connected to vertical risers which serve various zones in the hospital.
- Fire Sprinkler Systems: Fire water and pressure is supplied from the water storage tank on the roof. (20,000 gallon domestic water and 10,000 gallon fire reserve) The building is partially sprinkled in the basement, corridors, some storage areas, and kitchen (partially).
- Fire Alarm System: Honeywell system is monitored 24 hours in the main boiler plant. The fire alarm system is a zone coded system located in the corridor of the basement.
- Electrical Power: The Fuller Building electrical systems, while mostly original, were upgraded and renovated on the 1st, 2nd, and 3rd floors. Emergency power for the building is supplied from two diesel engine generator sets. One generator is temporarily located outside the Atlantic Avenue entrance.
- Basement: The basement has some mechanical rooms and radiology offices.
- First Floor: The main entrance to the building is on Hicks Street and there is a secondary entrance that is not used on Atlantic Avenue. Atlantic Avenue also has a truck delivery/service entrance with loading docks. The truck entrance has large metal gates and chain link fencing providing security to the service entrance.

The main entrance on Hicks Street has the Au bon pain coffee shop

and a Taco Bell restaurant. The main corridor extends to the elevator banks and into the adjacent Othmer Building. The Fuller Building has four elevators and the extension has two freight elevators that are shared with the Othmer Building. The freight elevators have metal cabs and 4,500 lb. capacity. This level has the admitting department, patients' accounts and public lavatories.

Second Floor:

The second floor has a full-service kitchen and cafeteria with many walk-in coolers and freezers, commercial grade stainless steel restaurant equipment, and cafeteria style seating. Dietary services and offices are found on this level.

Floors Three Through
Eleven:

The Fuller Pavilion was an in-patient facility and each of these floors has essentially the same layout with a central hall corridor with patient rooms, storage rooms, nurses' stations, consultation rooms, and examination rooms extended from the corridors. Each room has a private bathroom and waiting rooms are usually in the corridors. There are monitors, special oxygen and cables on every floor plus smoke detectors throughout the building. The hallways have drop ceiling tiles with recessed lighting, vinyl tile flooring and printed walls. The 11th floor of the Fuller Building is the stroke unit and neurosurgery, the 10th floor is surgery recovery rooms. The third floor is the physical therapy floor with an open gym and patient recovery rooms after surgery. The 7th floor was renovated approximately ten years ago and it features semi-modern finishes for the Breast Clinic.

The patient rooms have wireless computers (COWS) on wheels installed approximately six years ago with ceiling mounted antennas. Every floor has a pantry, individual heating and cooling controls, and they are wired for cable and oxygen. Each floor has specialty treatments such as physical and occupational therapy, pediatric services, oncology/hematology, respiratory care, renal dialysis, nephrology, medical/surgical and various other services.

12th Floor:

This level has storage rooms for linens and mechanical rooms including the chillers and cooling towers.

Comments:

The building is over 40 years old and has been maintained in good condition with periodic upgrades and the additions of the adjoining Polak and Othmer buildings. While some mechanical systems are old and in need of replacement, the three buildings are equipped to function with shared use of the mechanicals. Each building has a function that contributes to the overall in-patient, out-patient, and

surgical needs that full-service hospitals provide. The Fuller Pavilion had 323 in-patient beds.

ASSESSMENT AND REAL ESTATE TAXES

The actual and transitional assessed values for 2013/2014 are summarized in the table below. The assessment and real estate taxes are for the entire lot which includes the Fuller Pavilion and the Othmer Pavilion.

<u>339-355 Hicks Street Fuller & 91-95 Pacific Street - Othmer</u>	<u>Block 384</u>	<u>Lot 1</u>
2013/2014	Actual	Transitional
Land	\$1,890,000	\$1,890,000
Improvements	<u>\$38,731,950</u>	<u>\$38,973,690</u>
Total	\$40,621,950	\$40,863,690
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$4,179,186	
Assessor's 100% Market Value	\$90,271,000	

The tax assessor assigns two values to each property, the “transitional” and “target”, or “actual”, values. The transitional value represents an interim assessment. When a property’s target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessment is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption. The estimate of real estate taxes for the entire tax lot Block 284 Lot 1 for tax year 2013/2014 based on the 2012/2013 Class 4 tax rate of 10.288% is \$4,179,186.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 49,132 square feet of land area. Both the Fuller and Othmer Pavilions were constructed on Block 284 Lot 1 with a total area of 340,943 square feet of gross building area or approximately 6.9 FAR (Fuller with 232,308 square feet and Othmer with 108,635 square feet). As constructed with a total of 340,943 square feet of gross floor area, the buildings are overbuilt.

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that “...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance

of a building or other structure or any portion thereof.”

The Fuller Building was constructed in 1970 and the Othmer Pavilion was constructed in 1990, and according to the Zoning Resolution up to 2.43 FAR (or 119,391 square feet of floor area) of the Fuller and Othmer Pavilions may be converted to residential use on an as-of-right basis. However, the site may be a candidate for a variance at the discretion of the Board of Standards and Appeals (BSA) that would permit the conversion of the entire existing building to another permitted use. Conditions that support the granting of a variance include the following:

1. There is a unique physical condition that gives rise to a practical difficulty or unnecessary hardship.
2. As a result of the unique physical condition, the proposed building cannot yield a reasonable economic return when used in conformance with zoning.
3. The building is functionally obsolescent, making its occupancy for a conforming use impractical and creates an unnecessary hardship in developing the site in conformity with the current zoning.
4. The proposed variance, if granted, will not alter the essential character of the neighborhood, the hardship is not self-created, and if granted, the variance is the minimum variance necessary to afford relief.

Based on the building’s excessive size and functional obsolescence, we made the assumption that the Fuller and Othmer Pavilions would be granted a variance to allow conversion of the entire buildings to residential condominiums, medical offices, or residential rental apartment buildings. If granted a variance, the conversion of the Fuller and Othmer Buildings will not alter the essential character of the neighborhood. The buildings as currently used have become obsolete and cannot continue to operate as hospital buildings.

HIGHEST AND BEST USE

Highest and best use is defined as “the reasonably probable and legal use of vacant land or an improved property that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value”.⁵

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and community facility uses. Our understanding of the Zoning Resolution is that community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without

⁵ The Appraisal of Real Estate, 13th Edition, 2008, Page 277

sleeping accommodations are also permitted in the R6 zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 49,132 square foot site is 119,391 square feet of floor area and 235,834 square feet for community facility use on the lot that is improved with both the Fuller and Othmer Pavilions.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is the development of residential condominiums to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a 12-story hospital building that is built in excess of the FAR permitted by Zoning Regulations. The subject property is located in an R6 residential zone which permits residential and community facility uses. As-of-right, only 2.43 FAR of the existing floor area could legally be converted to residential use. As previously noted, we assumed the Fuller and Othmer Pavilions would be granted a variance to allow conversion of the entire floor area of the existing building to medical office or residential use which would be legal uses in an R6 zone. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted as community facilities in the R6 zone.

Physically Possible

The existence of the improvements attests to the physical possibility of using the buildings.

Financially Feasible

In the analysis of the Fuller and Othmer Pavilions as medical offices, rental apartment buildings, or residential condominiums, all three of the alternative uses produced a positive investment return and are, therefore financially feasible.

<i>339 Hicks Street - Fuller Pavilion</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$59,400,000
Medical Office Conversion	Direct Capitalization	\$27,800,000
Rental Apartment Building Conversion	Direct Capitalization	\$29,900,000
Reconciled Value - Highest & Best Use		\$59,400,000

Demand for residential condominiums in Brooklyn is strong and supported by statistics reported in the third quarter 2013 Prudential Douglas Elliman Report. The average sale price increased 25.2%, the median sale price increased 20.5%, and the average price per square foot increased 19.7% during that same one-year time period. Dwindling supply of condominiums in Brooklyn coupled with increasing sales prices is an indication of a strong market for condominiums. The new development condo sales accounted for 14.6% of all borough sales which is consistent with the four-year average of 15.2%.

<i>New Development Condominiums - Brooklyn Third Quarter 2013</i>			
	3rd Qtr 2013	% Change	3rd Qtr 2012
Average Sales Price	\$942,547	25.2%	\$752,957
Average Price per Square Foot	\$880	19.7%	\$735
Median Sales Price	\$750,000	20.5%	\$622,395
Number of Sales	197	-29.1%	278
Days on Market	104	0.0%	104
Listing Discount	1.70%		1.80%

Source: The Elliman Report - Brooklyn Sales 3rd Quarter 2013

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is conversion of the entire structure to residential condominiums and selling them out over a period of seven years.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the Fuller Pavilion, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. In the absence of recent hospital building sales in the boroughs and because the highest and best use of the Fuller and Othmer Buildings is for conversion to residential condominiums, the sales comparison approach was not used. The age of the building and the difficulty in estimating depreciation of the hospital buildings in the cost approach plus the absence of a market for the resale of hospital buildings made the resulting value derived from the cost approach irrelevant.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the Fuller and Othmer Pavilions as converted to residential condominiums. In support of our determination of the highest and best use, we used direct capitalization to indicate the value of the building as converted to medical office use and as converted of a rental apartment building. We concluded the highest and best use of the Fuller and Othmer Buildings and the use that produced the greatest return on the investment was conversion and sellout of residential condominiums.

The Fuller Building has a gross building area of 232,308 square feet. In the conversion of the

building to residential condominiums, medical office use, or as a rental apartment building, we deducted a loss factor of 20.0% of the gross area to arrive at a useable area of 185,846 square feet. Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 20.0% loss factor.

Direct Capitalization – Conversion to Medical Office Building Use

Direct capitalization is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted from market data. Only one year's income is used. Yield and value change are implied, but not identified.⁶ We used direct capitalization to estimate the value of the Fuller Building as if converted to office building use.

Applying an overall capitalization rate of 6.50% to the projected NOI of \$5,863,777 results in a value of \$90,211,954. It would require approximately three years to renovate and lease the offices. We deducted the lost rent over the three-year period, work letters to modify the space for tenant's use, and leasing commissions of 32.0% of the first year's rent. We also deducted the cost to renovate and convert the hospital building into medical office space at the rate of \$150.00 per square foot. The indicated value was rounded to \$27,800,000.

⁶ The Appraisal of Real Estate, 13 Edition, 2008, Page 499

<i>Medical Office Conversion</i>			
<i>339 Hicks Street - Fuller Pavilion</i>			
	232,308	sq. ft.	
<i>Income</i>			
Income from Offices	@	\$45.00 per sq. ft.	\$10,453,860
Less Vacancy & Credit Loss	@	10.00%	<u>-\$1,045,386</u>
Effective Gross Income			\$9,408,474
<i>Expenses</i>			
		per sq. ft.	
Operating Expenses	@	\$10.00	\$2,323,080
Miscellaneous	@	\$0.01	\$2,000
Reserves for Replacements	@	\$0.25	\$58,077
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$1,161,540</u>
Total Expenses		\$15.26	<u>\$3,544,697</u>
Net Operating Income			\$5,863,777
Capitalization Rate			6.50%
Stabilized Market Value			\$90,211,954
Less: Rent Loss (Year 1: 33% Leased)		33%	-\$8,728,973
Less: Rent Loss (Year 2: 66% Leased)		66%	-\$5,279,199
Less: Rent Loss (Year 3: 100% Leased)		100%	-\$1,777,156
Less: Work Letters (\$25 Per Sq.Ft.)			-\$5,807,700
Less: 3 Months of Free Rent			-\$2,613,465
Less: Leasing Commissions (32% of 1st Year Rent)			<u>-\$3,345,235</u>
Market Value - before conversion costs			\$62,660,225
Less Conversion Costs @ \$150.00 per square foot			<u>-\$34,846,200</u>
Indicated Value			\$27,814,025
Rounded			\$27,800,000

Potential Gross Income

In the absence of contract rents for Brooklyn medical offices, we researched asking rents in the surrounding neighborhood. The table below summarizes asking rents that are located in the Downtown areas and Prospect Heights, Brooklyn. The asking rents range from \$35.01 to \$48.00 per square foot. We made a negotiability factor adjustment of -3.0% to the comparable rents to account for the resulting contract rent after a period of negotiating between lessor and lessee. After adjusting for the negotiability factor the asking rents range from \$33.96 to \$46.56 per square foot.

<i>Available as of October 2013</i>					<i>Negotiability</i>	<i>Adjusted</i>
<i>Address</i>	<i>Office Use</i>	<i>Sq. Ft.</i>	<i>Rent/Mo.</i>	<i>Rent/SF</i>	<i>Factor</i>	<i>Rent/SF</i>
535 Clinton Avenue	Medical Office	10,730	\$34,873	\$39.00	-3.00%	\$37.83
535 Clinton Avenue	Medical Office	4,917	\$19,668	\$48.00	-3.00%	\$46.56
535 Clinton Avenue	Medical Office	10,026	\$36,762	\$44.00	-3.00%	\$42.68
One Hanson Place	Medical Office	994	\$2,900	\$35.01	-3.00%	\$33.96
One Hanson Place	Medical Office	1,310	\$4,100	\$37.56	-3.00%	\$36.43
One Hanson Place	Medical Office	3,157	\$10,523	\$40.00	-3.00%	\$38.80
One Hanson Place	Medical Office	1,087	\$3,850	\$42.50	-3.00%	\$41.23
One Hanson Place	Medical Office	2,105	\$6,599	\$37.62	-3.00%	\$36.49
One Hanson Place	Medical Office	2,779	\$10,000	\$43.18	-3.00%	\$41.88

In the absence of contract medical office rents for the Fuller Building, we researched contract rents for general offices in the immediate neighborhood of Cobble Hill and expanded our search to include Brooklyn Heights, Carroll Gardens, and Downtown Brooklyn. The table below summarizes the office rents that range from \$20.00 to \$36.00 per square foot for terms that range from one year to fifteen years. The office rents are located on various upper level floors and range in size from 1,545 square feet to 89,149 square feet. The Fuller Building has a rentable area of 185,846 square feet on eleven floors. Contract rents for offices were adjusted to indicate a rent for the subject's conversion to a multi-tenant office building.

<i>Brooklyn Office Rents</i>						
<i>Address</i>	<i>Tenant</i>	<i>Lease Date</i>	<i>Size</i>	<i>Floor</i>	<i>Rent/SF/Yr</i>	<i>Term</i>
32 Court Street	Non-Profit	1/30/2011	2,443	2	\$26.00	10 Years
15 MetroTech Center	Education	5/31/2011	35,145	6	\$22.00	9 Years
2 MetroTech Center	Education	6/9/2011	89,149	6,9,10	\$29.00	15 Years
16 Court Street	Legal Services	8/4/2011	4,254	22	\$32.00	5 Years
16 Court Street	Non-Profit	8/4/2011	4,102	21	\$32.00	5 Years
4 MetroTech Center	Insurance	10/1/2011	36,197	20	\$23.00	10 Years
4 MetroTech Center	Financial Services	10/1/2011	54,464	8	\$20.00	11 Years
55 Washington Street	Business Services	2/1/2012	8,634	6	\$23.49	5 Years
16 Court Street	Legal Services	11/29/2012	4,330	26	\$36.00	10 Years
175 Remsen Street	Non-Profit	12/11/2012	10,806	9	\$27.50	10 Years
20 Jay Street	Business Services	3/27/2013	2,510	10	\$32.27	1 Year
25 Chapel Street	Non-Profit	3/22/2013	6,000	9	\$23.50	10 Years
16 Court Street	Legal Services	4/3/2013	2,746	33	\$33.76	5 Years
16 Court Street	Legal Services	6/21/2013	1,545	9	\$35.00	5 Years

We adjusted the comparable office rents for market conditions at the rate of 3.0% annually from the contract date to the date of value. The comparable rents are for office use and since medical facilities generally command a higher rent we made an upward adjustment to each office rent to account for the premium our medical offices would command. After adjusting the rents for market conditions, the rents were adjusted for condition and office size. All of the comparable office rents were located on upper floors, similar to the subject, and no adjustments for floor

level were warranted. Size adjustments were made to the rents to account for higher rents on a per-square-foot basis for smaller spaces than larger office units. The location of the comparable offices in downtown Brooklyn is considered similar to the subject's location just south of Atlantic Avenue and within close proximity to public transportation hubs. Location adjustments are not warranted.

<i>Adjustments to the Brooklyn Office Rents</i>								
<i>Address</i>	<i># of Months</i>	<i>Market Conditions</i>	<i>Adjusted Rent/SF</i>	<i>Medical Adj.</i>	<i>Condition</i>	<i>Size</i>	<i>Total Adjustments</i>	<i>Adjusted Rent/SF</i>
32 Court Street	32	8.0%	\$28.08	10.0%	10.0%	-5.0%	15.0%	\$32.29
15 MetroTech Center	28	7.0%	\$23.54	10.0%	10.0%	5.0%	25.0%	\$29.43
2 MetroTech Center	28	7.0%	\$31.03	10.0%	10.0%	5.0%	25.0%	\$38.79
16 Court Street	26	6.5%	\$34.07	10.0%	10.0%	-5.0%	15.0%	\$39.18
16 Court Street	26	6.5%	\$34.07	10.0%	10.0%	-5.0%	15.0%	\$39.18
4 MetroTech Center	24	6.0%	\$24.38	10.0%	10.0%	5.0%	25.0%	\$30.48
4 MetroTech Center	24	6.0%	\$21.20	10.0%	10.0%	5.0%	25.0%	\$26.50
55 Washington Street	20	5.0%	\$24.67	10.0%	10.0%	0.0%	20.0%	\$29.60
16 Court Street	10	2.5%	\$36.91	10.0%	10.0%	0.0%	20.0%	\$44.29
175 Remsen Street	10	2.5%	\$28.19	10.0%	10.0%	0.0%	20.0%	\$33.83
20 Jay Street	6	1.5%	\$32.77	10.0%	10.0%	-5.0%	15.0%	\$37.68
25 Chapel Street	6	1.5%	\$23.85	10.0%	10.0%	-5.0%	15.0%	\$27.43
16 Court Street	6	1.5%	\$34.26	10.0%	10.0%	-5.0%	15.0%	\$39.40
16 Court Street	3	0.8%	\$35.29	10.0%	10.0%	-5.0%	15.0%	\$40.59

After making all of the adjustments to the contract rents, the adjusted rents ranged from \$26.50 to \$44.29 per square foot and averaged \$34.90 per square foot. The median rent was \$35.75 per square foot.

Based on this analysis of contract office rents and asking medical office rents and with greater weight placed on the adjusted medical office rents, we selected \$45.00 per square foot for the Fuller and Othmer Pavilions medical office rents.

Vacancy & Collection Loss

A typical landlord anticipates some vacancy and credit loss for turnover time and loss of rent while searching for a new tenant. We applied a vacancy rate of -10.0% to the market rent.

Operating Expenses

In the absence of operating expenses for the subject property as an office building, we researched comparable operating expenses of Brooklyn offices. Building owners file their expenses with the Department of Finance when they contest their real estate tax assessment and attempt to lower their tax burden. Six buildings reported the following expenses for 2011. The table is followed by a table summarizing the average and median price per square foot for each expense category.

Office Buildings

Address	1) 146 Concord Street		2) 57-63 Willoughby St.		3) 81 Willoughby Street		4) 240 Livingston Street		5) 32 Court Street		6) 175 Renssen Street	
Property Description	12-story Office		6-story Office		8-story Office		8-story Office		23-story office		12-story office	
SF of GBA	309,952		96,586		73,860		306,853		110,000		129,520	
	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.
Fuel	\$183,225	\$0.59	\$57,788	\$0.60	\$0	\$0.00	\$192,509	\$0.63	\$85,249	\$0.77	\$0	\$0.00
Light & Power	\$348,431	\$1.12	\$134,839	\$1.40	\$141,176	\$1.91	\$249,544	\$0.81	\$210,857	\$1.92	\$365,435	\$2.82
Cleaning Contracts	\$400,908	\$1.29	\$165,672	\$1.72	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$225,208	\$1.74
Wages & Payroll	\$342,113	\$1.10	\$233,775	\$2.42	\$100,539	\$1.36	\$505,681	\$1.65	\$603,019	\$5.48	\$0	\$0.00
Repairs & Maintenance	\$614,399	\$1.98	\$182,027	\$1.88	\$128,515	\$1.74	\$237,875	\$0.78	\$188,036	\$1.71	\$322,339	\$2.49
Management & Admin.	\$356,423	\$1.15	\$204,945	\$2.12	\$158,279	\$2.14	\$406,903	\$1.33	\$183,060	\$1.66	\$127,345	\$0.98
Insurance	\$115,993	\$0.37	\$26,877	\$0.28	\$37,087	\$0.50	\$149,283	\$0.49	\$90,838	\$0.83	\$45,304	\$0.35
Water & Sewer	\$35,221	\$0.11	\$23,765	\$0.25	\$35,766	\$0.48	\$56,985	\$0.19	\$19,831	\$0.18	\$45,295	\$0.35
Advertising	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$3,783	\$0.03
Int. Paint & Decorating	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$12,073	\$0.11	\$0	\$0.00
Leasing Commissions	\$61,422	\$0.20	\$8,257	\$0.09	\$0	\$0.00	\$0	\$0.00	\$56,421	\$0.51	\$449,287	\$3.47
Miscellaneous	<u>\$282,585</u>	<u>\$0.91</u>	<u>\$1,141</u>	<u>\$0.01</u>	<u>\$0</u>	<u>\$0.00</u>	<u>\$107,919</u>	<u>\$0.35</u>	<u>\$0</u>	<u>\$0.00</u>	<u>\$0</u>	<u>\$0.00</u>
Expenses Before RE Tax	\$2,740,720	\$8.84	\$1,039,086	\$10.76	\$601,362	\$8.14	\$1,906,699	\$6.21	\$1,449,384	\$13.18	\$1,583,996	\$12.23
Real Estate Taxes	\$1,480,604	<u>\$4.78</u>	\$112,467	<u>\$1.16</u>	\$210,804	<u>\$2.85</u>	\$1,029,088	<u>\$3.35</u>	\$668,224	<u>\$6.07</u>	\$675,587	<u>\$5.22</u>
Total Expenses	\$4,221,324	\$13.62	\$1,151,553	\$11.92	\$812,166	\$11.00	\$2,935,787	\$9.57	\$2,117,608	\$19.25	\$2,259,583	\$17.45

Total operating expenses before real estate taxes range from \$6.21 to \$13.18 per square foot, and real estate taxes range from \$1.16 to \$6.07 per square foot. The comparable expenses support our estimate for the subject expenses at \$10.26 per square foot, which includes reserves for replacements at \$0.25 per square foot for operating expenses and \$5.00 per square foot for real estate taxes for the Fuller Building as converted to medical offices.

Brooklyn Office Buildings Expenses Per Sq. Ft.				
2011	Average	Median	Maximum	Minimum
Fuel	\$0.43	\$0.59	\$0.77	\$0.50
Light & Power	\$1.66	\$1.65	\$2.82	\$0.81
Cleaning Contracts	\$0.79	\$0.65	\$1.74	\$0.36
Wages & Payroll	\$2.00	\$1.50	\$5.48	\$0.17
Repairs & Maintenance	\$1.76	\$1.81	\$2.49	\$0.78
Management & Admin.	\$1.56	\$1.50	\$2.14	\$0.26
Insurance	\$0.47	\$0.43	\$0.83	\$0.28
Water & Sewer	\$0.26	\$0.22	\$0.48	\$0.39
Advertising	\$0.00	\$0.00	\$0.03	\$0.26
Int. Paint & Decorating	\$0.02	\$0.00	\$0.11	\$0.00
Leasing Commissions	\$0.71	\$0.14	\$3.47	\$0.00
Miscellaneous	<u>\$0.21</u>	<u>\$0.01</u>	<u>\$0.91</u>	<u>\$0.00</u>
Expenses Before RE Tax	\$9.89	\$9.80	\$13.18	\$6.21
Real Estate Taxes	<u>\$3.91</u>	<u>\$4.07</u>	<u>\$6.07</u>	<u>\$1.16</u>
Total Expenses	\$13.80	\$12.77	\$19.25	\$9.57

Source: Department of Finance

Capitalization Rate Selection

We researched capitalization rates that were indicated by sales of Brooklyn office buildings. Two of the seven sales are medical office buildings with capitalization rates of 6.81% and 7.0%. Overall, the capitalization rates range from 6.4% to 8.4% and average 7.04%. The median

capitalization rate was 6.81%.

<i>Capitalization Rates for Brooklyn Office Building Sales</i>									
<i>Address</i>	<i>Block/Lot</i>	<i>Building Use</i>	<i>Land Area</i>	<i>Building Size</i>	<i>Contract Date</i>	<i>Transfer Date</i>	<i>Sale Price</i>	<i>Price per Sq. Ft.</i>	<i>Capitalization Rate</i>
2095 Flatbush Avenue	7869/1	Class C Medical	27,878	7,500	9/1/2012	11/15/2012	\$6,200,000	\$826.67	6.81%
1517 Voorhies Street	7459/59	Class C Medical	3,202	12,540	4/1/2013	6/26/2013	\$4,325,000	\$344.90	7.00%
1623-27 Kings Highway	6779/20	Class B Office	4,356	21,960	10/9/2012	10/9/2012	\$13,250,000	\$603.37	6.78%
447 86th Street	6035/60	Class C Office	6,098	12,170	9/20/2012	11/14/2012	\$10,000,000	\$821.69	8.40%
885 Flatbush Avenue	5103/28	Class C Office	8,276	28,693	2/28/2013	4/19/2013	\$8,900,000	\$310.18	6.40%
2444 86th Street	6865/43	Class C Office	9,583	24,000	6/7/2013	8/8/2013	\$4,500,000	\$187.50	6.80%
1605 Voorhies Avenue	7459/50	Class C Office	2,178	10,986	4/1/2013	7/9/2013	\$3,600,000	\$327.69	7.09%

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of office buildings both nationally for medical office buildings and regionally for Manhattan office buildings. Their findings are summarized in the next table.

<i>Overall Capitalization Rates</i>		
<u>National Medical Office Buildings</u>		
From	To	Average
5.50%	11.00%	7.85%
<u>Manhattan Office Market</u>		
From	To	Average
4.00%	6.00%	4.96%

Source: Korpacz Second Quarter 2013

RERC reports the average New York City going-in capitalization rate for suburban offices is 7.2% during the second quarter of 2013. Based on this analysis of contracted capitalization rates and statistics, we chose a capitalization rate of 6.5%.

Conversion Costs

Marshall & Swift Segregated Cost Estimates were used to indicate the cost to convert the existing hospital building into residential condominiums at \$200.00 per square foot. Converting the building to medical offices would be less costly because commercial finishes to walls and floors would be lower grade, fewer partitions would be necessary, and no appliances and fixtures for the kitchens and bathrooms are necessary. Therefore, our estimate to convert the hospital buildings to medical offices is estimated at \$150.00 per square foot.

Conclusion – Medical Office Building Conversion

Based on this analysis the indicated value of the Fuller Pavilion as converted to a medical office building as of October 1, 2013, is \$27,800,000 after deducting lease-up costs, rent loss during the conversion period and conversion costs.

Direct Capitalization – Conversion to Residential Rental Apartment Building Use

We used direct capitalization to estimate the value of the Fuller Building as if converted to a

residential rental apartment building.

Applying an overall capitalization rate of 6.00% to the projected NOI of \$5,422,694 results in a value of \$90,373,197. It would require approximately three years to renovate and lease the rental apartments. We deducted the lost rent over the three-year period. We also deducted the cost to renovate and convert the hospital building into residential rental space at the rate of \$200.00 per square foot. The indicated value was rounded to \$29,900,000.

Rental Apartment Building Conversion

339 Hicks Street - Fuller Pavilion

232,308 sq. ft.

Income

Income from Apartment Rent	@	\$50.00 per sq. ft.	\$9,292,320
Less Vacancy & Credit Loss	@	3.50%	<u>-\$325,231</u>
Effective Gross Income			\$8,967,089

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$2,323,080
Miscellaneous	@	\$0.01	\$2,000
Reserves for Replacements	@	\$0.25	\$58,077
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$1,161,540</u>
Total Expenses		\$15.26	<u>\$3,544,697</u>

Net Operating Income \$5,422,392

Capitalization Rate 6.00%

Indicated Market Value Before Leaseup & Construction Costs		\$90,373,197
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$7,759,087
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$4,692,622
Less: Rent Loss (Year 3: 100% Leased)	100%	<u>-\$1,579,694</u>
Indicated Market Value		\$76,341,793
Less Conversion Costs @ \$200.00 per square foot gba		<u>-\$46,461,600</u>
Indicated Value		\$29,880,193
Rounded		\$29,900,000

Potential Gross Income

In the absence of contract rents for Brooklyn apartments, we researched asking rents in the surrounding neighborhood. The table below summarizes asking rents that are located in Cobble Hill, Downtown, Carroll Gardens, Brooklyn Heights, and Boerum Hill neighborhoods. The asking rents include 111 apartments that contain studio, one-, two-, and three-bedroom units. The average rents are followed by a table that indicates the average and median rents per square foot for the same apartments. We applied a -3.0% negotiability factor to the asking rents to account for the typically lower contract rent that results after a period of negotiation.

Brooklyn Apartment Rents - As Of October 2013					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts.
Three Bedrooms	\$4,381.25	\$4,500.00	\$5,400.00	\$3,600.00	8
Two Bedrooms	\$4,628.11	\$4,500.00	\$6,850.00	\$3,000.00	46
One Bedroom	\$3,421.03	\$3,325.00	\$6,250.00	\$1,950.00	38
Studio	\$2,707.11	\$2,400.00	\$4,300.00	\$1,900.00	19
Total Number of Apartments in the Survey					111

Source: Compiled by Landauer from Various Rental Listings from Corcoran, Douglas Elliman

Brooklyn Apartment Rents per Square Foot - As of October 2013					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts.
Three Bedrooms	\$46.54	\$48.46	\$54.00	\$33.75	8
Two Bedrooms	\$50.50	\$50.01	\$76.00	\$30.00	46
One Bedroom	\$54.36	\$56.04	\$74.48	\$28.00	38
Studio	\$52.20	\$53.03	\$69.93	\$36.44	19
Total Number of Apartments in the Survey					111

Source: Compiled by Landauer from Various Rental Listings from Corcoran, Douglas Elliman

The average size of the two-bedroom units in our rent survey was 1,142 square feet and the median size was 1,006 square feet. We anticipate the average size of the subject's converted apartments will contain two bedrooms and 1 ½ to two bathrooms with a potential gross income averaging \$50.00 per square foot. The average size of the two-bedroom units on our rent survey was 1,142 square feet and the median size was 1,006 square feet.

Vacancy & Collection Loss

A typical landlord anticipates some vacancy and credit loss for turnover time and loss of rent while searching for a new tenant. We applied a vacancy rate of -3.5% to the potential gross rent.

Operating Expenses and Real Estate Taxes

In the absence of operating expenses for the subject property as a residential rental apartment building, we researched comparable operating expenses of Brooklyn apartment buildings. Building owners file their expenses with the Department of Finance when they contest the assessment and attempt to lower their tax burden. Six elevator apartment buildings reported the following expenses for 2011. The table is followed by a table summarizing the average and median expense per square foot for each category.



Elevator Apartment Buildings

Address	1) 337 State Street		2) 35 Orange Street		3) 136 Hicks Street		4) 25 Monroe Place		5) 200 Clinton Street		6) 182 Montague St.	
Property Description	6-story/60 apartments		6-story/48 apartments		6-story/46 apartments		12 story/67 apartments		6-story/89 apartments		34-story/186 apts.	
SF of GBA	39,770		47,136		48,414		60,720		73,032		182,000	
	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.
Fuel	\$50,213	\$1.26	\$97,885	\$2.08	\$39,794	\$0.82	\$43,700	\$0.72	\$50,799	\$0.70	\$93,806	\$0.52
Light & Power	\$7,868	\$0.20	\$15,218	\$0.32	\$10,764	\$0.22	\$14,055	\$0.23	\$41,044	\$0.56	\$126,057	\$0.69
Cleaning Contracts	\$11,145	\$0.28	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$4,774	\$0.07	\$18,404	\$0.10
Wages & Payroll	\$35,360	\$0.89	\$50,032	\$1.06	\$7,810	\$0.16	\$101,053	\$1.66	\$66,855	\$0.92	\$550,007	\$3.02
Repairs & Maintenance	\$202,668	\$5.10	\$43,230	\$0.92	\$63,049	\$1.30	\$89,310	\$1.47	\$45,911	\$0.63	\$100,801	\$0.55
Management & Admin.	\$82,866	\$2.08	\$44,630	\$0.95	\$62,988	\$1.30	\$110,155	\$1.81	\$95,753	\$1.31	\$680,205	\$3.74
Insurance	\$17,239	\$0.43	\$19,479	\$0.41	\$10,005	\$0.21	\$27,313	\$0.45	\$38,177	\$0.52	\$114,594	\$0.63
Water & Sewer	\$22,331	\$0.56	\$22,811	\$0.48	\$20,303	\$0.42	\$24,033	\$0.40	\$25,181	\$0.34	\$117,142	\$0.64
Advertising	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$24,749	\$0.14
Int. Paint & Decorating	\$0	\$0.00	\$4,954	\$0.11	\$0	\$0.00	\$6,516	\$0.11	\$89,389	\$1.22	\$41,485	\$0.23
Leasing Commissions	\$0	\$0.00	\$32,127	\$0.68	\$0	\$0.00	\$5,750	\$0.09	\$0	\$0.00	\$0	\$0.00
Miscellaneous	<u>\$2,631</u>	<u>\$0.07</u>	<u>\$78,002</u>	<u>\$1.65</u>	<u>\$18,364</u>	<u>\$0.38</u>	<u>\$39,329</u>	<u>\$0.65</u>	<u>\$77,523</u>	<u>\$1.06</u>	<u>\$188,519</u>	<u>\$1.04</u>
Expenses Before RE Tax	\$432,321	\$10.87	\$408,368	\$8.66	\$233,077	\$4.81	\$461,214	\$7.60	\$535,406	\$7.33	\$2,055,769	\$11.30
Real Estate Taxes	\$233,309	\$5.87	\$149,983	\$3.18	\$295,979	\$6.11	\$503,319	\$8.29	\$460,109	\$6.30	\$1,362,352	\$7.49
Total Expenses	\$665,630	\$16.74	\$558,351	\$11.85	\$529,056	\$10.93	\$964,533	\$15.88	\$995,515	\$13.63	\$3,418,121	\$18.78

The selected operating expenses range from \$4.81 to \$11.30 per square foot before real estate taxes, and the real estate taxes range from \$3.18 to \$8.29 per square foot. The comparable expenses support our estimate for the subject expenses at \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes for the Fuller Building as converted to a rental apartment building. We also applied a minor miscellaneous expense and a reserve for the replacement of capital items.

Elevator Apartment Buildings

2011 Expenses	Average	Median	Maximum	Minimum
Fuel	\$1.02	\$0.77	\$2.08	\$0.50
Light & Power	\$0.37	\$0.28	\$0.69	\$0.20
Cleaning Contracts	\$0.07	\$0.03	\$0.28	\$0.36
Wages & Payroll	\$1.29	\$0.99	\$3.02	\$0.17
Repairs & Maintenance	\$1.66	\$1.11	\$5.10	\$0.55
Management & Admin.	\$1.87	\$1.56	\$3.74	\$0.26
Insurance	\$0.44	\$0.44	\$0.63	\$0.21
Water & Sewer	\$0.47	\$0.45	\$0.64	\$0.39
Advertising	\$0.02	\$0.00	\$0.14	\$0.26
Int. Paint & Decorating	\$0.28	\$0.11	\$1.22	\$0.00
Leasing Commissions	\$0.13	\$0.00	\$0.68	\$0.00
Miscellaneous	<u>\$0.81</u>	<u>\$0.84</u>	<u>\$1.65</u>	<u>\$0.07</u>
Expenses Before RE Tax	\$8.43	\$8.13	\$11.30	\$4.81
Real Estate Taxes	<u>\$6.21</u>	<u>\$6.21</u>	<u>\$8.29</u>	<u>\$3.18</u>
Total Expenses	\$14.63	\$14.76	\$18.78	\$10.93

Capitalization Rate Selection

We research capitalization rates that were indicated by sales of Brooklyn elevator apartment buildings. The capitalization rates for residential buildings sales range from 4.50% to 7.64%. The average capitalization rate is 6.00% and the median rate is 6.5%.

<i>Capitalization Rates for Brooklyn Elevator Apartment Building Sales</i>									
<i>Address</i>	<i>Block/Lot</i>	<i># of Units</i>	<i>Building Size</i>	<i>Contract Date</i>	<i>Transfer Date</i>	<i>Sale Price</i>	<i>Price per Sq. Ft.</i>	<i>Price per Apartment</i>	<i>Capitalization Rate</i>
1625 Rockaway Parkway	8224/22	153	133,326	2/3/2011	6/7/2011	\$14,538,861	\$109.05	\$95,025	4.50%
719-23 Eighth Avenue	1089/1	32	31,468	5/10/2012	7/25/2012	\$12,300,000	\$390.87	\$384,375	4.66%
139 Emerson Place	1909/11	50	50,000	7/3/2012	8/29/2012	\$11,000,000	\$220.00	\$220,000	6.70%
204 Huntington Atrreet	476/19	60	62,404	2/24/2012	4/24/2012	\$24,500,000	\$392.60	\$408,333	7.64%
42-50 Orange Street	226/8	20	15,355	5/13/2013	7/9/2013	\$9,000,000	\$586.13	\$450,000	6.50%

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of rates from 3.50% to 10.00% and an average of 5.7%. The going-in capitalization rate indicated in the New York City RERC report for apartment buildings is 5.60%.

<i>Overall Capitalization Rates</i>		
<u>National Apartment Buildings</u>		
From	To	Average
3.50%	10.00%	5.70%

Source: Korpacz, Second Quarter 2013

Massey Knakal indicates the average capitalization rate for elevator buildings in Brooklyn was 6.11% as of the fourth quarter of 2012. Based on this analysis of contracted capitalization rates and statistics, we chose a capitalization rate of 6.0% for the rental apartment building.

Conversion Costs

Marshall & Swift Segregated Cost Estimates were used to indicate the cost to convert the existing hospital building into residential condominiums at \$200.00 per square foot. We used the same cost estimates for the conversion of the building to residential rental units.

Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the Fuller Pavilion as converted to a residential rental apartment building as of October 1, 2013, is \$29,900,000 after deducting rent lost during the three-year reconstruction and lease-up period.

Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums

Discounted cash flow (DCF) analysis is a procedure in which a yield rate is applied to a set of income streams and a reversion to determine whether the investment property will produce a required yield given a known acquisition price.⁷ We used this technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the building and sell the apartments over a seven-year period at market rates.

We prepared a discounted cash flow (DCF) analysis wherein the first two years are estimated to

⁷ The Appraisal of Real Estate, 13th Edition, Page 540

be the time needed to convert the Fuller Pavilion into residential condominiums and the remaining five years of the DCF are the sellout period for the apartments. The Fuller Pavilion has a gross building area of 232,308 square feet of which approximately 20% is a loss factor resulting in a useable area of 185,846 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current sale price is \$825,000 per apartment, \$825.00 per square foot.

DCF Assumptions:

Construction Period:	24 months
Sellout Period:	60 months
Real Estate Taxes:	\$5.00 per square foot
Operating Expenses:	\$10.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$200.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	
Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales
State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

Potential Gross Income from Sale of Condominiums

According to REBNY’s Mid-2013 Residential Sale Report, the median apartment sale price per square foot for Cobble Hill Brooklyn apartments was \$835.00, up from \$764.00 per square foot as of mid 2012. We researched apartments available for sale in the Brooklyn neighborhoods of Cobble Hill, Carroll Gardens, Brooklyn Heights, and Boerum Hill. The two-bedroom units are summarized in the table below. The average asking price for a two-bedroom unit in these neighborhoods is \$895.00 per square foot and the range of asking prices is from \$590.28 to \$1,036.81 per square foot.

<i>Brooklyn Two-Bedroom Condominium Apartments For Sale</i>							
<i>Address</i>	<i>Neighborhood</i>	<i>Unit #</i>	<i># of Bedrooms</i>	<i># of Baths</i>	<i>Square Feet</i>	<i>Asking Price</i>	<i>Asking Price per Sq. Ft.</i>
101 Warren Street	Cobble Hill	A1F	2	2.5	1,616	\$1,595,000	\$987.00
505 Court Street	Carroll Gardens	8F	2	1	999	\$999,000	\$1,000.00
162 Huntington Street	Carroll Gardens	4R	2	2.5	964	\$895,000	\$928.42
560 State Street	Boerum Hill	5B	2	1.5	1,440	\$850,000	\$590.28
38 Wyckoff Street	Cobble Hill	4L	2	1	850	\$850,000	\$1,000.00
360 Furman Street	Brooklyn Heights	1119	2	1	815	\$845,000	\$1,036.81
492 Henry Street	Carroll Gardens	1I	2	1	1,100	\$799,000	\$726.36
93 Rapelye Street	Carroll Gardens	6G	2	1	866	\$775,000	\$894.92
378 Baltic Street	Boerum Hill	10D	2	2	746	\$759,000	\$1,017.43
463 Degraw Street	Carroll Gardens	2F	2	1	707	\$679,000	\$960.40
326 State Street	Boerum Hill	2A	2	1	780	\$625,000	\$801.28
129 Baltic Street	Cobble Hill	5D	2	1	763	\$599,000	\$785.06
463 Degraw Street	Carroll Gardens	2C	2	1	498	\$449,000	\$901.61

One-bedroom apartments in the same neighborhoods range from \$615.82 to \$1,231.26 per square foot and average \$896.00 per square foot.

<i>Brooklyn One-Bedroom Condominium Apartments For Sale</i>							
<i>Address</i>	<i>Neighborhood</i>	<i>Unit #</i>	<i># of Bedrooms</i>	<i># of Baths</i>	<i>Square Feet</i>	<i>Asking Price</i>	<i>Asking Price per Sq. Ft.</i>
360 Furman Street	Brooklyn Heights	1120	1	2	1,285	\$1,250,000	\$972.76
360 Furman Street	Brooklyn Heights	535	1	1	1,082	\$1,150,000	\$1,062.85
233 Pacific Street	Cobble Hill	2B	1	2	934	\$1,150,000	\$1,231.26
120 Boerum Place	Cobble Hill	3A	1	2	1,123	\$995,000	\$886.02
110 Livingston Street	Brooklyn Heights	3U	1	1	907	\$887,000	\$977.95
360 Furman Street	Brooklyn Heights	1041	1	1.5	920	\$835,000	\$907.61
360 Furman Street	Brooklyn Heights	606	1	1	782	\$785,000	\$1,003.84
557 Atlantic Avenue	Boerum Hill	3F	1	1	723	\$650,000	\$899.03
360 Furman Street	Brooklyn Heights	1122	1	1	589	\$595,000	\$1,010.19
463 Degraw Street	Boerum Hill	1D	1	1	973	\$585,000	\$601.23
423 Hicks Street	Cobble Hill	3E	1	1	726	\$459,320	\$632.67
443 Hicks Street	Cobble Hill	6H	1	1	531	\$327,000	\$615.82
395 Smith Street	Carroll Gardens	2C	1.5	1	801	\$675,000	\$842.70

We chose an average sale price of \$825.00 per square foot for the apartments to be sold at the converted Fuller Pavilion. According to REBNY, condominium apartments located in Brooklyn Heights, Boerum Hill, and Vinegar Hill/Dumbo generally sell for an average price in excess of \$1,000,000. Carroll Gardens and Downtown area condominiums generally average \$900,000 and Fort Greene and Williamsburg condominiums sell for an average of \$800,000. The estimated sale price of \$825.00 per square foot reflects the Fuller Building conversion and the somewhat awkward layout of the apartments, few river views from the apartments, and a less architecturally distinctive building as a residential condominium. The windows are smaller than typical newly built condominium buildings and the configuration of apartments is limited by the existing structure.

The estimated apartment prices increase at the rate of 3.0% annually. We anticipate that 30% of the apartments will have been presold by the beginning of the third year, with the remaining units sold over five years at the rate of 14.0% of the units per year.

We deducted the cost of sales and marketing at the rate of 10.0% of sales and transfer taxes totaling 1.825% of sales from the gross proceeds from the sale of residential units to arrive at the net proceeds from the sale of residential apartments.

Operating Expenses and Real Estate Taxes

The same operating expense and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes which are increased 3.0% annually. Real estate taxes and operating expenses are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Fuller Pavilion to apartments is summarized on the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$110.06 per square foot. We applied a height multiplier for the 12-story Fuller Building, a current cost multiplier, and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$200.00 per square foot. We estimate the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000.

COST ESTIMATION - Fuller Pavilion

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$17.09
41/2	Ceiling		\$2.36
41/2	Partitions		\$24.60
41/3	Plumbing		\$9.44
41/3	Sprinkler		\$2.63
41/4	HVAC		\$10.73
41/4	Electrical		\$11.78
41/7	Roof Cover		\$2.71
42/7	Appliances		<u>\$28.72</u>
		Total	\$110.06
<u>Multipliers</u>			
41/8	Height Multiplier	1.02250	\$112.54
99/3	Current Cost: Eastern A	1.04	\$117.04
99/9	Locality: Brooklyn A	1.41	\$165.02
		Total	\$165.02
<u>Fees</u>			
	Architect/Engineer	6%	\$9.90
	Contingency	15%	<u>\$24.75</u>
		Total	\$199.68

Entrepreneurial Incentive

Entrepreneurial incentive is a market-derived figure that represents the amount an entrepreneur expects to receive for his or her contribution to a project and risk.⁸ The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of discount rates from 5.00% to 14.00% and an average of 8.04%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings is 8.10%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Fuller Pavilion as converted to residential condominiums as of October 1, 2013 is \$59,400,000.

⁸ The Appraisal of Real Estate, 13th Edition, 2008, Page 389



Fuller Pavilion Conversion to Residential Condominium Units										
Assumptions										
Unit Data	# of Apartments	Total Residential	Average S.F.	Sales	Avg. Sale Price					
	17 on each floor	Useable Sq.Ft.	Per Apt. Unit	Price P.S.F.	Per Apt.					
Total Area	186	185,846	1,000	\$825	\$825,000					
Construction & Sellout Period For Units:	84 months									
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales									
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% City + 1.425% State)									
Operating Expenses During Sellout:	\$10.00									
Real Estate Taxes During Sellout	\$5.00									
Total Residential Floor Area	185,846 sq. ft. gross area less 20.0% for lobby, circulation, & corridors									
Square Footage for Operating Expenses:	232,308 sq. ft. gba									
Square footage for Tax Expenses:	232,308 sq. ft. gba									
Discount Rate for Condo	6.0%									
Entrepreneur Incentive	15.0%									
Legal Cost for Conversion	\$300,000									
Cost to Convert to Apartments	\$200 per sq.ft.									
				Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
General Inflation Growth Rate:				-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate				-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Sales Price per square foot				\$825	\$850	\$875	\$901	\$929	\$956	\$985
Operating Expenses				\$10.00	\$10.30	\$10.61	\$10.93	\$11.26	\$11.59	\$11.94
Real Estate Taxes				\$5.00	\$5.15	\$5.30	\$5.46	\$5.63	\$5.80	\$5.97
Income From Residential Condominium Component:										
				Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
Proceeds From Sale of Residential Units				\$0	\$0	\$71,570,694	\$23,455,668	\$24,159,338	\$24,884,118	\$25,630,642
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)				\$0	\$0	(\$8,463,235)	(\$2,773,633)	(\$2,856,842)	(\$2,942,547)	(\$3,030,823)
Net Proceeds From Sale of Residential Units				\$0	\$0	\$63,107,459	\$20,682,036	\$21,302,497	\$21,941,571	\$22,599,819
Less Operating Expenses Carried				\$0	\$0	\$1,380,151	\$1,066,167	\$732,101	\$377,032	\$0
Less Real Estate Taxes Carried				<u>\$1,161,540</u>	<u>\$1,196,386</u>	<u>\$690,076</u>	<u>\$533,083</u>	<u>\$366,051</u>	<u>\$188,516</u>	<u>\$0</u>
<i>Total Expenses</i>				\$1,161,540	\$1,196,386	\$2,070,227	\$1,599,250	\$1,098,152	\$565,548	\$0
Prerenovation Cost Cash Flow From Sale of Residential Units				(\$1,161,540)	(\$1,196,386)	\$61,037,233	\$19,082,785	\$20,204,345	\$21,376,023	\$22,599,819
Less: Legal Cost for Conversion				\$300,000	\$0	\$0	\$0	\$0	\$0	\$0
Less: Apartment Upgrade Cost				\$23,230,800	\$23,927,724	\$0	\$0	\$0	\$0	\$0
Total Conversion Cost				\$23,530,800	\$23,927,724	\$0	\$0	\$0	\$0	\$0
Less: Entrepreneur Incentive				<u>\$3,529,620</u>	<u>\$3,589,159</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
				\$27,060,420	\$27,516,883	\$0	\$0	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units				(\$28,221,960)	(\$28,713,269)	\$61,037,233	\$19,082,785	\$20,204,345	\$21,376,023	\$22,599,819
Net Present Value of Condo Sell-Out						\$59,381,478				
Indicated Value						\$59,400,000	Rounded			
\$/Square Foot of GBA						\$255.70				

EXECUTIVE SUMMARY – The Othmer Building – 91-95 Pacific Street

Addresses: 91-95 Pacific Street – The Othmer Building

Neighborhood: Cobble Hill

Tax Block/Lot: Part of Block 284 Lot 1

Zoning: R6 with an FAR of 4.80 for community facility use.

Improvements: The Othmer Pavilion is adjoined to the Fuller Pavilion and is part of the acute-care hospital. The building consists of eight stories with a basement and sub-basement. The 8th floor contains the majority of the mechanical space. The Othmer Pavilion contains 108,635 square feet and was built in 1990.

Highest and Best Use: Conversion to residential condominiums

Inspection Date: September 26, 2013

Date of Value: October 1, 2013

Valuations:

Cost Approach: NA

Sales Comparison Approach: NA

Income Approach:

Direct Capitalization

For Medical Office Use: \$13,000,000

For Rental Apartment Use: \$14,000,000

Residual Discounted Cash Flow

For Residential Condominiums: \$26,000,000

Reconciled Value: \$26,000,000
\$239.33 per square foot of GBA

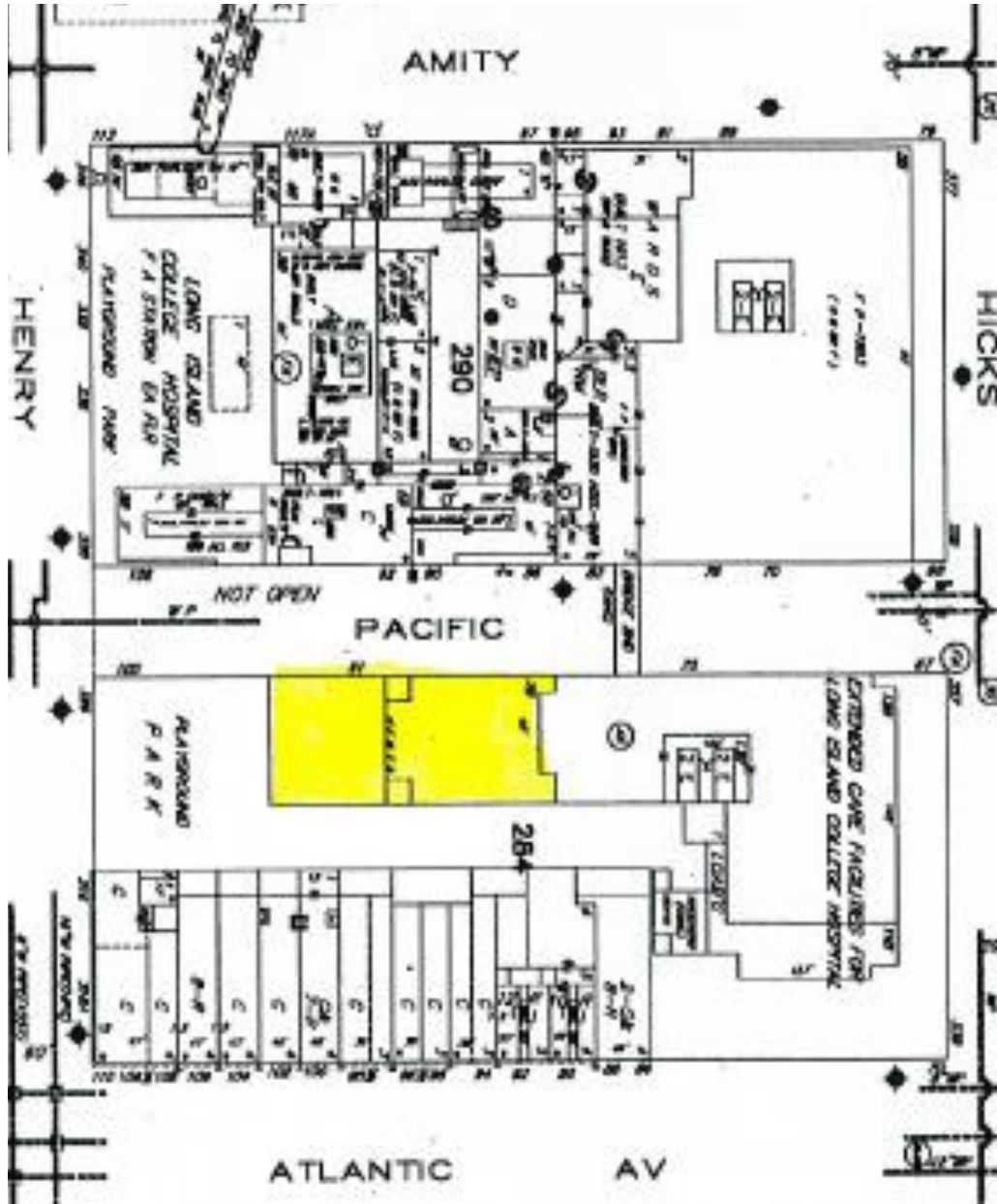
Subject Photo – The Othmer Building– 91-95 Pacific Street

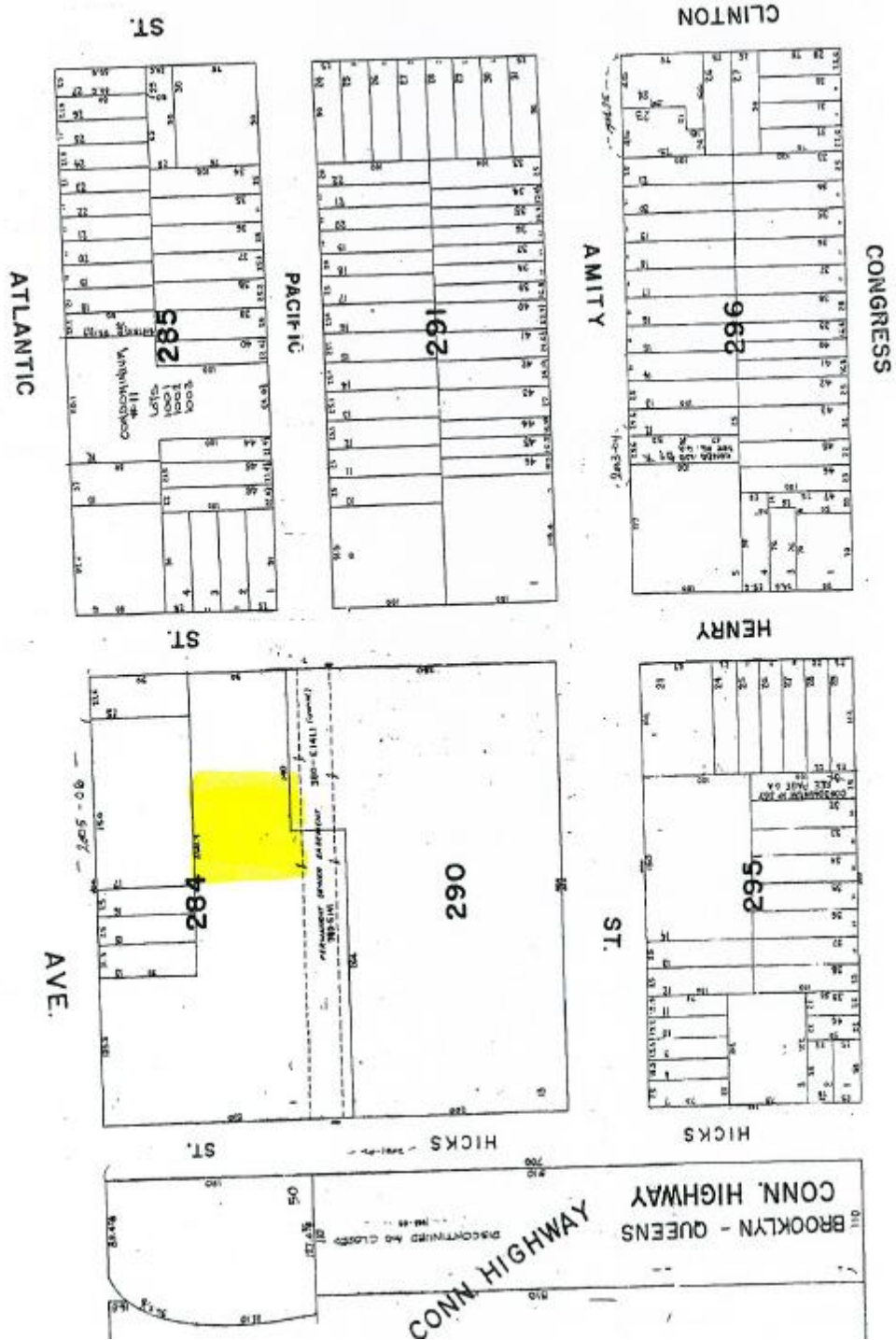


Othmer Building – 91-95 Pacific Street



Overlay Map





The Othmer Building – Part of Block 284 Lot 1

Property Description – 91-95 Pacific Street – The Othmer Building

Site

The subject site is located on the south side of Henry Street between Amity Street and Atlantic Avenue in the Cobble Hill section of Brooklyn. The full site contains both the Fuller and Othmer Hospital buildings on Block 284 Lot 1. Site improvements include concrete sidewalk and curbs, landscaped seating areas and playground equipment along Henry Street, security gates, and wrought iron railings. The main entrance is through the Fuller Pavilion main entrance on Hicks Street.

Improvements – Othmer Building

The site is improved with a seven-story plus mechanical penthouse out-patient hospital building that is connected to two adjacent hospital buildings at 339 Hicks Street (Fuller Pavilion) and 355-363 Hicks Street (Polak Building). Constructed in 1990, the building formerly housed radiation oncology, imaging and the primary conference center for the campus. Other major functions included various specialty clinics and faculty practices, the dialysis center, endoscopy, and nuclear medicine. At the time of inspection, most of the floors were not in operation.

Building Façade:	The building was originally constructed in 1990. Exterior walls are primarily brick veneer on concrete masonry over steel frame with spray-on fireproofing and concrete slab floor construction. Windows are aluminum framed double glazed units in masonry openings. All windows and glazed entrances are original to the building. The building contains 108,635 square feet with 13' floor-to-floor ceiling heights.
Roof:	The building has a built-up system original to the construction of the building. It has rubberized sheeting, metal coping and flashing.
Heating System:	Heat is supplied by the system located in the Polak Building. It is described in the Polak Building Heating System section.
Cooling System:	This building has two 350-ton York centrifugal chillers. There is a chiller in the sub-basement, connected to a roof mounted dry cooler, which serves radiation therapy equipment.
HVAC Systems:	The sixth floor mechanical space houses four air handlers. These units supply vertical shafts connected to zones on each floor. AC-1 and AC-3 serve patient rooms and are equipped with 99.99% final HEPA filters. AC-2 serves a single duct system in the first floor conference rooms. The X-Ray area on the 7 th floor is served by a small dedicated air handler on the 6 th floor.

- Fire Sprinkler Systems:** Fire sprinkler demand is supplied by the adjacent Fuller Pavilion and pressurized by the Fuller Pavilion water tower. The building is partially sprinkled on some corridors. The basement and sub-basement are reportedly sprinkled.
- Fire Alarm System:** The fire alarm system is a zone coded system with the fire alarm control panel manufactured by Farraday and the fire alarm transmitter manufactured by Honeywell. The fire alarm control panel is located in the corridor of the basement.
- Electrical Power:** To accommodate electrical service to the Othmer building from the Fuller Building, switchboards A and B had to be modified. Normal power is supplied to the electrical switchgear room at 277/480 VAC from SWBD B through a 1500KVA transformer located in the Fuller Building. Emergency power for the Othmer Building is supplied from a Stewart & Stehenson emergency generator for the Fuller Building.
- Sub-Basement:** This is the radiation and oncology department where the hospital installed walls that are three feet wide and rooms with six inch lead doors to treat cancer patients.
- Basement:** This level has the ultrasound equipment for bone density and MRI care. There is special camera equipment and dark lighting to view the results of these treatments. This level has examination rooms and department offices. This level has a wall of monitors for the Fuller and Othmer buildings and it has the team station room. There is also a generator room but the generator needs to be replaced.
- First Floor:** The main entrance to the building is through the main entrance to the Fuller Pavilion on Hicks Street. This level has a number of conference rooms with movable partitions that allow for varying sizes of conferences and smaller spaces. This floor has a chapel and public lavatories.
- Second Floor:** This floor has the dental clinic offices and administrative uses. There is also the vascular surgery department and offices.
- Third Floor:** This level has the Neurology Department, clinic, and faculty practice. There is Respiratory therapy and the pulmonary department offices.
- Fourth Floor:** This floor has the ophthalmology department, clinic, and offices. There are also the nephrology research labs and administrative

offices.

- Fifth Floor: This level has the renal dialysis outpatient clinic.
- Sixth Floor: This floor houses the gastroenterology department plus endoscopy and urology department and offices.
- Seventh Floor: This floor has the urology department faculty practice and nuclear medicine department.
- Eighth Floor: This is the mechanical penthouse.
- Comments: The Othmer Building is the newest hospital building in the campus and it connects on every floor to the Fuller Pavilion. While no patients sleep in this building, it services many outpatient functions. Mechanical systems are shared and functions of each building interact to provide full hospital services. The building is generally in excellent condition having been built in 1990 and 1997 and upgraded periodically as needed. The basement and sub-basement facilities are relatively new and the equipment is state of the art. The hospital installed a special machine for medical stents which was very expensive and it is one of only two in the city.

ASSESSMENT AND REAL ESTATE TAXES

The actual and transitional assessed values for 2013/2014 are summarized in the table below. The assessment and real estate taxes are for the entire lot which includes the Fuller Pavilion and the Othmer Pavilion.

<u>339-355 Hicks Street Fuller & 91-95 Pacific Street - Othmer</u>	<u>Block 384</u>	<u>Lot 1</u>
2013/2014	Actual	Transitional
Land	\$1,890,000	\$1,890,000
Improvements	<u>\$38,731,950</u>	<u>\$38,973,690</u>
Total	\$40,621,950	\$40,863,690
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$4,179,186	
Assessor's 100% Market Value	\$90,271,000	

The tax assessor assigns two values to each property, the “transitional” and “target”, or “actual”, values. The transitional value represents an interim assessment. When a property’s target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessment is used in computing taxes. The subject property is

currently entirely exempt, but we assume that it will lose its exemption. The estimate of real estate taxes for the entire tax lot Block 284 Lot 1 for tax year 2013/2014 based on the 2012/2013 Class 4 tax rate of 10.288% is \$4,179,186.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 49,132 square feet of land area. Both the Fuller and Othmer Pavilions were constructed on Block 284 Lot 1 with a total area of 340,943 square feet of gross building area or approximately 6.9 FAR (Fuller with 232,308 square feet and Othmer with 108,635 square feet). As constructed with 340,943 square feet of gross floor area, the buildings are overbuilt.

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

The Fuller Building was constructed in 1970 and the Othmer Pavilion was constructed in 1990, and according to the Zoning Resolution up to 2.43 FAR (or 119,391 square feet of floor area) of the Fuller and Othmer Pavilions may be converted to residential use on an as-of-right basis. However, the site may be a candidate for a variance at the discretion of the Board of Standards and Appeals (BSA) that would permit the conversion of the entire existing building to another permitted use. Conditions that support the granting of a variance include the following:

1. There is a unique physical condition that gives rise to a practical difficulty or unnecessary hardship.
2. As a result of the unique physical condition, the proposed building cannot yield a reasonable economic return when used in conformance with zoning.
3. The building is functionally obsolescent, making its occupancy for a conforming use impractical and creates an unnecessary hardship in developing the site in conformity with the current zoning.
4. The proposed variance, if granted, will not alter the essential character of the neighborhood, the hardship is not self-created, and if granted, the variance is the minimum variance necessary to afford relief.

Based on the building's excessive size and functional obsolescence, we made the assumption that the Fuller and Othmer Pavilions would be granted a variance to allow conversion of the entire building to either residential condominiums, medical offices, or residential rental apartment buildings. If granted, the conversion of the Fuller and Othmer Buildings will not alter the essential character of the neighborhood. The buildings as currently used have become obsolete

and cannot continue to operate as hospital buildings.

HIGHEST AND BEST USE

The same methodology was used to determine the highest and best use for each of the subject properties. Each section will fully describe and conclude to the highest and best use as it pertains to the property.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and community facility uses. Our understanding of the Zoning Resolution is that community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 49,132 square foot site is 119,391 square feet of floor area and 235,834 square feet for community facility use on the lot that is improved with both the Fuller and Othmer Pavilions.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is the development of residential condominiums to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with an eight-story hospital building that is built in excess of the FAR permitted by Zoning Regulations. The subject property is located in an R6 residential zone which permits residential and community facility uses. As-of-right, only 2.43 FAR of the existing floor area could legally be converted to residential use. As previously noted, we assumed the Fuller and Othmer Pavilions would be granted a variance to allow conversion of the entire floor area of the existing building to medical office or residential use which would be legal uses in an R6 zone. Community facilities such as hospital use, ambulatory

health care facilities and non-profit facilities without sleeping accommodations are also permitted as community facilities in the R6 zone.

Physically Possible

The existence of the improvements attests to the physical possibility of using the buildings.

Financially Feasible

In the analysis of three alternative uses of the Fuller and Othmer Pavilions as medical offices, rental apartment buildings, or residential condominiums, we concluded to the financially feasible use that would produce the greatest return to an investor. All three of the alternative uses produced a positive investment return, however, the conversion to residential condominiums produced the greatest return to an investor as illustrated in the next table.

<i>91-91 Pacific Street - Othmer Pavilion</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$26,000,000
Medical Office Conversion	Direct Capitalization	\$13,000,000
Rental Apartment Building Conversion	Direct Capitalization	\$14,000,000
Reconciled Value - Highest & Best Use		\$26,000,000

Demand for residential condominiums in Brooklyn is strong and supported by statistics reported in the third quarter 2013 Prudential Douglas Elliman Report. The average sale price increased 25.2%, the median sale price increased 20.5%, and the average price per square foot increased 19.7% during that same one-year time period. Dwindling supply of condominiums in Brooklyn coupled with increasing sales prices is an indication of a strong market for condominiums. The new development condo sales accounted for 14.6% of all borough sales which is consistent with the four-year average of 15.2%.

<i>New Development Condominiums - Brooklyn Third Quarter 2013</i>			
	3rd Qtr 2013	% Change	3rd Qtr 2012
Average Sales Price	\$942,547	25.2%	\$752,957
Average Price per Square Foot	\$880	19.7%	\$735
Median Sales Price	\$750,000	20.5%	\$622,395
Number of Sales	197	-29.1%	278
Days on Market	104	0.0%	104
Listing Discount	1.70%		1.80%

Source: The Elliman Report - Brooklyn Sales 3rd Quarter 2013

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is conversion of the entire structure to residential condominiums and selling the apartments out over a period of seven years.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the Fuller Pavilion, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. In the absence of recent hospital building sales in the boroughs and because the highest and best use of the Fuller and Othmer Buildings is for conversion to residential condominiums, the sales comparison approach was not used. The age of the building and the difficulty in estimating depreciation of the hospital buildings in the cost approach plus the absence of a market for the resale of hospital buildings made the resulting value derived from the cost approach irrelevant.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the Fuller and Othmer Pavilions as converted to residential condominiums. In support of our determination of the highest and best use, we used direct capitalization to indicate the value of the building as converted to medical office use and as converted to a rental apartment building. We concluded the highest and best use of the Fuller and Othmer Buildings and the use that produced the greatest return on the investment was conversion and sellout of residential condominiums.

The Othmer Building has a gross building area of 108,635 square feet. In the conversion of the building to residential condominiums, medical office use, or as a rental apartment building, we deducted a loss factor of 20.0% of the gross area to arrive at a useable area of 86,908 square feet. Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 20.0% loss factor.

Because the Fuller Pavilion and the Othmer Building are very similar in use, effective age, and configuration, the same assumptions were used in the direct capitalization and discounted cash flow analyses for both buildings. We relied on the same comparable income potential, expense comparables, and methodology for all three scenarios of the valuation.

Direct Capitalization – Conversion to Medical Office Building Use

By use of direct capitalization, we estimated the value of the Othmer Building as converted to medical offices in the same manner as the Fuller Pavilion analysis in the previous section of this report. Because the buildings are very similar in use and configuration plus they share the same tax lot, we used the same income and expense assumptions. We used direct capitalization to estimate the value of the Othmer Building as if converted to office building use.

Applying an overall capitalization rate of 6.50% to the projected NOI of \$2,741,034 results in a value indicated of \$42,169,750. It would require approximately three years to renovate and lease the offices. We deducted the lost rent over the three-year period, work letters to modify the space for tenant's use, and leasing commissions of 32.0% of the first year's rent. We also

deducted the cost to renovate and convert the hospital building into medical office space at the rate of \$150.00 per square foot. The indicated value of the Othmer Building as converted to medical offices was rounded to \$13,000,000.

Medical Office Conversion

91-95 Pacific Street - Othmer Building

108,635 sq. ft.

Income

Income from Offices	@	\$45.00 per sq. ft.		\$4,888,575
Less Vacancy & Credit Loss	@	10.00%		<u>-\$488,858</u>
Effective Gross Income				\$4,399,718

Expenses

		per sq. ft.		
Operating Expenses	@	\$10.00	\$1,086,350	
Miscellaneous	@	\$0.02	\$2,000	
Reserves for Replacements	@	\$0.25	\$27,159	
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$543,175</u>	
Total Expenses		\$15.27		<u>\$1,658,684</u>

Net Operating Income \$2,741,034

Capitalization Rate 6.50%

As Stabilized Market Value				\$42,169,750
Less: Rent Loss (Year 1: 33% Leased)		33%		-\$4,081,960
Less: Rent Loss (Year 2: 66% Leased)		66%		-\$2,468,730
Less: Rent Loss (Year 2: 100% Leased)		100%		-\$831,058
Less: Work Letters (\$25 Per Sq.Ft.)				-\$2,715,875
Less: 3 Months of Free Rent				-\$1,222,144
Less: Leasing Commissions (32% of 1st Year Rent)				<u>-\$1,564,344</u>
Market Value				\$29,285,639
Less Cost of Conversion at \$150.00 per square foot of gba				<u>-\$16,295,250</u>
Indicated Value				\$12,990,389
Rounded				\$13,000,000

Potential Gross Income and Expenses

The same comparable rents for general offices and medical offices were used to estimate the rent for the Othmer Building as for the Fuller Pavilion as medical offices. Our estimate for the Othmer Building medical office rent is \$45.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 10.0% to the potential gross income to determine the effective gross income of the building as fully rented medical offices.

Operating Expenses and Real Estate Taxes

The same comparable expenses for office buildings were used to estimate the expenses and real estate taxes for the Othmer Building as were used for the Fuller Pavilion. The reconciled

operating expenses total \$10.27 per square foot, and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller Pavilion, the capitalization rate for the Othmer Building conversion to medical offices was 6.5%.

Conversion Costs

Conversion costs for the Othmer Building as a medical office building were estimated at \$150.00 per square foot.

Conclusion – Medical Office Building Conversion

Based on this analysis the indicated value of the Othmer Pavilion as converted to a medical office building as of October 1, 2013, is rounded to \$13,000,000 after deducting lease-up costs, rent loss during the conversion period, and conversion costs.

Direct Capitalization – Conversion to a Rental Apartment Building

By use of direct capitalization, we estimated the value of the Othmer Building as converted to a rental apartment building in the same manner as the Fuller Pavilion analysis in the previous section of this report. Because the buildings are very similar in use and configuration plus they share the same tax lot, we used the same income and expense assumptions.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$2,534,627 results in a value indication of \$42,243,788. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the hospital building into rental apartments at the rate of \$200.00 per square foot. The indicated value of the Othmer Building as converted to medical offices was rounded to \$14,000,000.

Rental Apartment Building Conversion
91-95 Pacific Street - Othmer Building

108,635 sq. ft.

Income

Income from Offices	@	\$50.00 per sq. ft.	\$4,345,400
Less Vacancy & Credit Loss	@	3.50%	<u>-\$152,089</u>
Effective Gross Income			\$4,193,311

Expenses

Operating Expenses	@	\$10.00	\$1,086,350
Miscellaneous	@	\$0.02	\$2,000
Reservs for Replacements	@	\$0.25	\$27,159
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$543,175</u>
Total Expenses		\$15.27	<u>\$1,658,684</u>

Net Operating Income \$2,534,627

Capitalization Rate 6.00%

Indicated Market Value Before Leaseup & Construction Costs			\$42,243,788
Less: Rent Loss (Year 1: 33% Leased)		33%	-\$3,628,409
Less: Rent Loss (Year 2: 66% Leased)		66%	-\$2,194,427
Less: Rent Loss (Year 2: 100% Leased)		100%	<u>-\$738,718</u>
Indicated Market Value			\$35,682,234
Less Conversion Costs @ \$200.00 per square foot gba			<u>-\$21,727,000</u>
Indicated Value			\$13,955,234
Rounded			\$14,000,000

Potential Gross Income and Expenses

The same comparable rents for neighborhood apartments were used to estimate the rent of the apartments at the converted Othmer Building as for the Fuller Pavilion. Our estimate for the Othmer Building apartment rent is \$50.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 3.50% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for apartment buildings were used to estimate the expenses and real estate taxes for the Othmer Building as were used for the Fuller Pavilion. The reconciled operating expenses total \$10.27 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller Pavilion, the capitalization rate for the Othmer Building conversion to a rental apartment building is 6.0%.

Conversion Costs

Conversion costs for the Othmer Building as a rental apartment building were estimated at \$200.00 per square foot, the same as for the Fuller Building. The costs are based on Marshall & Swift Cost Estimates for apartment buildings.

Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the Othmer Pavilion as converted to a rental apartment building as of October 1, 2013, is rounded to \$14,000,000 after deducting rent loss during the conversion period and conversion construction costs.

Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the Othmer Building and sell the apartments over a seven-year period at market rates in the same manner as the Fuller Pavilion in the previous section of this report.

We prepared a discounted cash flow (DCF) analysis wherein the first two years are estimated to be the time needed to convert the Othmer Pavilion into residential condominiums and the remaining five years of the DCF are the sellout period for the apartments. The Othmer Building has a gross building area of 108,635 square feet of which approximately 20% is a loss factor resulting in a useable area of 86,908 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current sale price is \$800,000 per apartment, \$800.00 per square foot.

DCF Assumptions:

Construction Period:	24 months
Sellout Period:	60 months
Real Estate Taxes:	\$5.00 per square foot
Operating Expenses:	\$10.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$200.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	
Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales

State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted Othmer Building is based on the previous analysis in the Fuller Pavilion section of this report. We chose an average sale price of \$800.00 per square foot for the new apartments. The apartment sale price estimate for the Othmer Building is slightly lower than the Fuller Pavilion apartments because the building has fewer floors and the views are toward the city rather than the river and Manhattan. Apartments located on higher floor levels of the Fuller Pavilion command higher unit prices.

The estimated apartment prices increase at the rate of 3.0% annually. We anticipate that 30.0% of the apartments will have been presold by the beginning of the third year, with the remaining units sold over five years at the rate of 14.0% of the units per year.

The cost of sales and marketing at the rate of 10.0% of sales and transfer taxes totaling 1.825% of sales were deducted from the gross proceeds from the sale of apartment units to arrive at the net proceeds from the sale of residential apartments.

Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Othmer Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$110.07 per square foot. We applied a height multiplier for the 8-story Othmer Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$200.00 per square foot.

We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000.

The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

COST ESTIMATION - Othmer Pavilion

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$17.09
41/2	Ceiling		\$2.36
41/2	Partitions		\$24.60
41/3	Plumbing		\$9.44
41/3	Sprinkler		\$2.63
41/4	HVAC		\$10.73
41/4	Electrical		\$11.78
41/7	Roof Cover		\$2.71
42/7	Appliances		\$28.73
		Total	\$110.07
<u>Multipliers</u>			
41/8	Height Multiplier	1.01750	\$111.99
99/3	Current Cost: Eastern A	1.04	\$116.47
99/9	Locality: Brooklyn A	1.41	\$164.22
		Total	\$164.22
<u>Fees</u>			
	Architect/Engineer	6%	\$9.85
	Contingency	15%	\$24.63
		Total	\$198.71

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of discount rates from 5.00% to 14.00% and an average of 8.04%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings is 8.10%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Othmer Building as converted to residential condominiums as of October 1, 2013 is \$26,000,000.



Othmer Building Conversion to Residential Condominium Units							
Assumptions	# of Apartments	Total Residential	Average S.F.	Sales	Avg. Sale Price		
Unit Data	14 on each floor	Useable Sq.Ft.	Per Apt. Unit	Price P.S.F.	Per Apt.		
Total Area	87	86,908	1,000	\$800	\$800,000		
Construction & Sellout Period For Units:	84 months						
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales						
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% City + 1.425% State)						
Operating Expenses During Sellout:	\$10.00						
Real Estate Taxes During Sellout	\$5.00						
Total Residential Floor Area	86,908 sq. ft. gross area less 20.0% for lobby, circulation, & corridors						
Square Footage for Operating Expenses:	108,635 sq. ft. gba						
Square footage for Tax Expenses:	108,635 sq. ft. gba						
Discount Rate for Condo	6.0%						
Entrepreneur Incentive	15.0%						
Legal Cost for Conversion	\$300,000						
Cost to Convert to Apartments	\$200 per sq.ft.						
	Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
General Inflation Growth Rate:	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Sales Price per square foot	\$800	\$824	\$849	\$874	\$900	\$927	\$955
Operating Expenses	\$10.00	\$10.30	\$10.61	\$10.93	\$11.26	\$11.59	\$11.94
Real Estate Taxes	\$5.00	\$5.15	\$5.30	\$5.46	\$5.63	\$5.80	\$5.97
Income From Residential Condominium Component:	Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
Proceeds From Sale of Residential Units	\$0	\$0	\$32,454,645	\$10,636,272	\$10,955,361	\$11,284,021	\$11,622,542
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)	\$0	\$0	(\$3,837,762)	(\$1,257,739)	(\$1,295,471)	(\$1,334,336)	(\$1,374,366)
Net Proceeds From Sale of Residential Units	\$0	\$0	\$28,616,884	\$9,378,533	\$9,659,889	\$9,949,686	\$10,248,176
Less Operating Expenses Carried	\$0	\$0	\$645,405	\$498,575	\$342,355	\$176,313	\$0
Less Real Estate Taxes Carried	\$543,175	\$559,470	\$322,702	\$249,288	\$171,178	\$88,156	\$0
<i>Total Expenses</i>	\$543,175	\$559,470	\$968,107	\$747,863	\$513,533	\$264,469	\$0
Prerenovation Cost Cash Flow From Sale of Residential Units	(\$543,175)	(\$559,470)	\$27,648,776	\$8,630,670	\$9,146,357	\$9,685,217	\$10,248,176
Less: Legal Cost for Conversion	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0
Less: Apartment Upgrade Cost	\$10,863,500	\$11,189,405	\$0	\$0	\$0	\$0	\$0
Total Conversion Cost	\$11,163,500	\$11,189,405	\$0	\$0	\$0	\$0	\$0
Less: Entrepreneur Incentive	\$1,674,525	\$1,678,411	\$0	\$0	\$0	\$0	\$0
	\$12,838,025	\$12,867,816	\$0	\$0	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units	(\$13,381,200)	(\$13,427,286)	\$27,648,776	\$8,630,670	\$9,146,357	\$9,685,217	\$10,248,176
Net Present Value of Condo Sell-Out	\$25,954,743						
Indicated Value	\$26,000,000 Rounded						
\$/Square Foot of GBA	\$239						

EXECUTIVE SUMMARY – Polak Building – 335-363 Hicks Street

Addresses: 225-262 Hicks Street – Polak Building

Neighborhood: Cobble Hill

Tax Block/Lot: Part of Block 290 Part of Lot 13

Zoning: R6 with an FAR of 4.80 for community facility use.

Improvements: The Polak Pavilion is located on the south side of Pacific Street and is connected to the Henry Street Building. The building consists of six stories with a basement. The mechanical space is primarily located in the basement and in the penthouse on the 6th floor. The Polak building contains 149,516 square feet and was constructed in 1983.

Highest and Best Use: Conversion to residential condominiums

Inspection Date: September 26, 3013

Date of Value: October 1, 2013

Valuations:

Cost Approach: NA

Sales Comparison Approach: NA

Income Approach:

Direct Capitalization

For Medical Office Use: \$17,900,000

For Rental Apartment Use: \$19,200,000

Residual Discounted Cash Flow

For Residential Condominiums: \$37,000,000

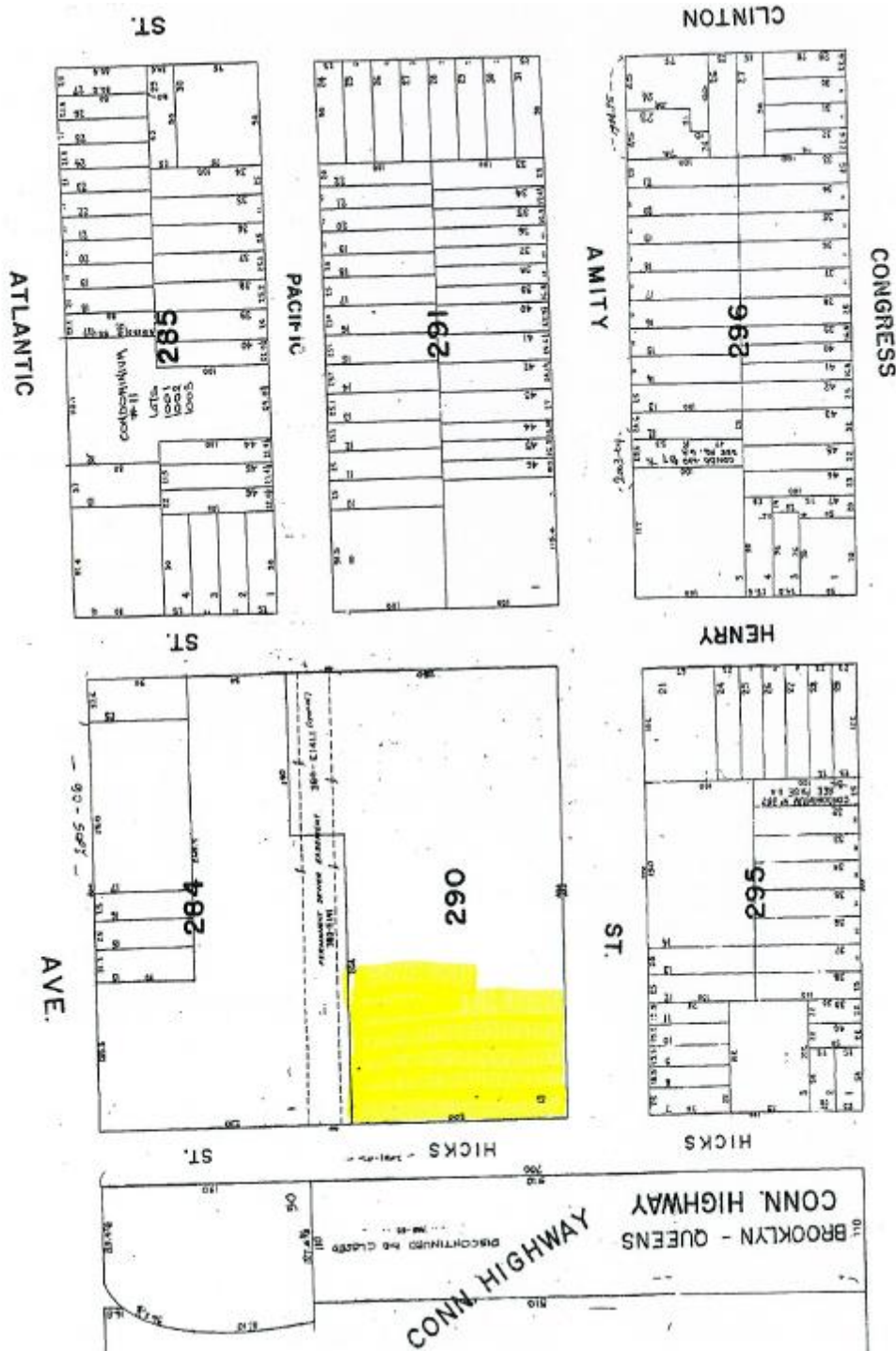
Reconciled Value: \$37,000,000
\$247.47 per square foot of GBA



Subject Photo – Polak Building – 355-363 Hicks Street



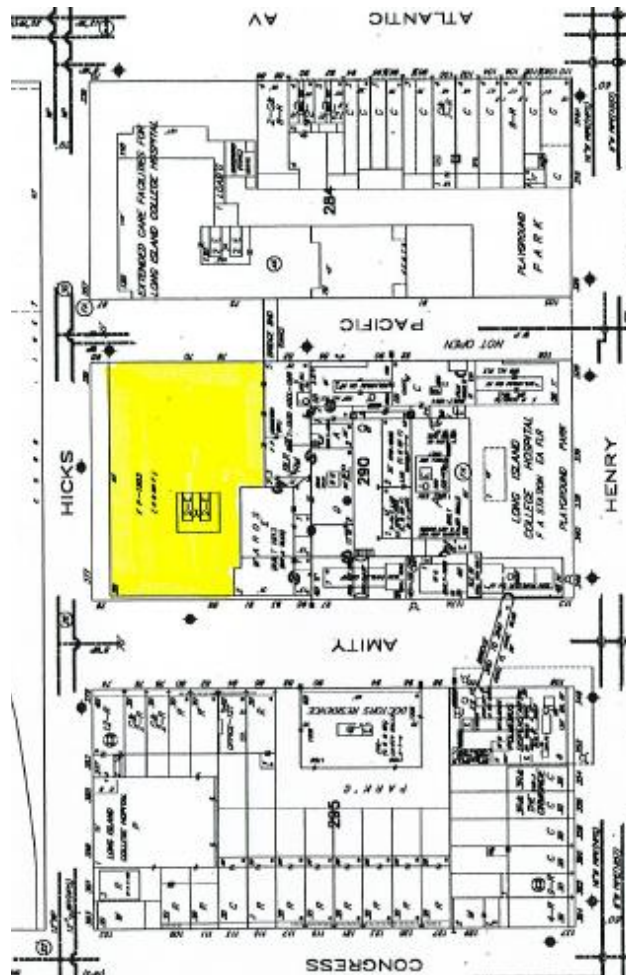
Polak Building – 355-363 Hicks Street



The Polak Building – Part of Block 290 Lot 13



Overlay Map



Site

The subject site is located on the full block front on the north side of Hicks Street between Amity Street and Pacific Avenue in the Cobble Hill section of Brooklyn. The full site contains both the Polak Pavilion and 240 Henry Street/97 Amity Street medical office buildings on Block 290 Lot 13. Site improvements include concrete sidewalk and curbs, and minimal landscaping. There is a public park with fenced-in playground equipment on the Henry Street frontage of the site.

Improvements – Polak Building

The site is improved with a five-story plus mechanical penthouse (6th floor) hospital building that is connected to two adjacent hospital buildings at 339 Hicks Street (Fuller Pavilion) and 91-95 Pacific Street (Othmer Building). The building is primarily the trauma center with emergency rooms, ICU, cardiac care, and labor and delivery rooms. The building was originally designed to accommodate 12 stories but because of public complaints it was reduced to only six stories. The building was renovated and rebuilt as a state of the art trauma center approximately eleven years ago. Constructed in 1983, the building houses 124 available beds, including maternity services

with 30 beds, some adult acute care and all 23 of the campus' available adult ICU beds. Other major functions include all of surgery, CSPD, ED and pharmacy. The building contains 149,516 above grade gross building area. At the time of inspection, the building was partly occupied and not fully operating as a hospital.

Building Façade: The six-story building was originally constructed in 1983. Exterior walls are primarily brick veneer on concrete masonry over steel frame with spray-on fireproofing and concrete slab floor construction. Windows are aluminum framed double glazed units in masonry openings. All windows and glazed entrances are original to the building.

Roof: The building has a built-up system original to the construction of the building.

Heating System: The heating system for the three hospital buildings is located in the basement level of the Polak building. There are three 970 bhp (boiler horse power) Cleaver Brooks boilers. The boilers produce 125 psi steam which is distributed to the Henry Street, Fuller, and Othmer buildings. The boilers are dual fuel, running on either natural gas or #2 fuel oil. Natural gas is provided by the local utility on an interruptible rate schedule. Generally, during weather below about 20°F the boilers are run on #2 fuel oil. Auxiliary boiler equipment includes water softeners, surge tank and duplex fuel oil pumps. Condensate is returned to the plant via condensate pumping sets in various locations around the site. All three boilers are on a common header and can be operated in parallel. Peak winter demand on the boilers is about 1000 hp. The entering steam pressure of 125 psi is reduced to about 10 psi at pressure reducing stations at all buildings served by the main boiler plant. The heating system distribution equipment consists of low pressure steam heating coils in most air handlers and some locations with steam constant air volume (CAV) coils. Low pressure steam is passed through shell and tube heat exchangers to provide heating hot water for perimeter fan coils and CAV reheat terminals, in most location. Boiler steam is also being used for humidification.

Cooling System: The building is equipped with a 700-ton and a 350-ton absorption chiller. The 700-ton chiller is working but the 350-ton chiller is broken and not repairable. These chillers are served by two cooling towers. One cooling tower is original and the other is approximately ten years old.

HVAC Systems: The Polak Building has four air handlers, all located in the basement. These units are supplied with 100% outside air. AH-1

is a 76,000 cfm unit serving the first, second, and third floors. The unit is a dual duct system. The areas served include examination rooms, treatment rooms, patient rooms and many operating rooms. The unit has two fans, but is not configured to facilitate independent (partial) operating or significant maintenance. AH-2 serves the emergency room. AH-3 serves the pharmacy and sterilization department. AH-4 is located on the 6th floor and serves portions of the 4th and 5th floors. The basement mechanical space is served by a heating and ventilating unit, HV-1. The perimeter spaces of the building have a two-pipe fan coil system, which is switched to alternately serve as heating and cooling twice a year.

Fire Sprinkler Systems: There are two fire services, one from Amity Street and one from Hicks Street. The building is partially sprinkled with concealed and pendant heads in newer areas and the 6th floor mechanical room.

Fire Alarm System: The fire alarm system is a zone coded system with the fire alarm control panel manufactured by Farraday and the fire alarm transmitter manufactured by Honeywell. The fire alarm control panel is located in the corridor of the basement of the Fuller Building.

Electrical Power: Commercial electrical power is supplied from a Con Edison electrical vault at 120/208VAC, 4000 amp bus. Each service is metered and totalized by Con Edison. Emergency power for the Polak building is supplied from two diesel engine generator sets, one in the Amity building and one in the Polak basement. There is a temporary portable generator on Amity Street.

Basement: The basement has the sterile processing room, biomedical engineering, storage rooms, and the mechanical equipment that serves the adjacent hospital buildings. This is the primary plant engineering and mechanical room for the main campus buildings.

First Floor: The main entrance to the building is through the emergency rooms doors on Amity Street. There are two overhead garage style loading docks for ambulance service to the emergency rooms. The first floor has a pharmacy and psychiatric units in addition to a pediatrics emergency and trauma room and a very busy emergency room.

Second Floor: The second floor has 16 operating rooms and accompanying nursing and surgical services.

- Third Floor: The third floor is the ICU. There is a monitoring system for patients in which the patients are monitored by wireless systems and irregularities are immediately relayed to computers.
- Fourth Floor: This floor is the labor and delivery floor. There is a nursery, neo-natal ICU, and birthing rooms. There are patient rooms plus nurses' stations and accompanying examination and consultation offices.
- Fifth Floor: This is the cardiac care unit with typical patient rooms, nurses' stations, and overnight facilities for patients. There is the telemetry unit with 28 available beds and geriatric medicine unit with 12 beds. There are patient rooms plus nurses' stations and accompanying examination and consultation offices.
- Sixth Floor: Mechanical spaces with the cooling equipment.
- Comments: This portion of the hospital was upgraded approximately twelve years ago and it has state of the art trauma setups. It was formerly a very busy part of the hospital. There is an electronic inventory control system in the hospital.

ASSESSMENT AND REAL ESTATE TAXES

The actual and transitional assessed values for 2013/2014 are summarized in the table below. The assessment and real estate taxes are for the entire lot which includes the Polak Pavilion and the 340 Henry Street/97 Amity Street.

<u>355-363 Hicks Street Polak & 340 Henry Street/97 Amity Street</u>	<u>Block 290</u>	<u>Lot 13</u>
2013/2014	Actual	Transitional
Land	\$3,510,000	\$3,510,000
Improvements	<u>\$37,656,450</u>	<u>\$38,418,032</u>
Total	\$41,166,450	\$41,928,032
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$4,235,204	
Assessor's 100% Market Value	\$91,481,000	

The tax assessor assigns two values to each property, the “transitional” and “target”, or “actual”, values. The transitional value represents an interim assessment. When a property’s target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower

of the actual or transitional assessment is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption. The estimate of real estate taxes for the entire tax lot Block 290 Lot 13 for tax year 2013/2014 based on the 2012/2013 Class 4 tax rate of \$10.288% is \$4,235,204.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 80,800 square feet of land area. Both the Polak and Henry Street medical offices are constructed on Block 290 Lot 13 with a total building area of 295,016 square feet of gross building area or approximately 3.65 FAR (Polak with 149,516 square feet and Henry Street Building with 145,500 square feet). As constructed with a total of 295,016 square feet of gross floor area, the buildings are overbuilt.

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

The Polak Building was constructed in 1983 and the Henry Building was constructed in 1905. According to the Zoning Resolution, buildings constructed before December 15, 1961 are permitted to convert the entire floor area of an existing building to residential use. The entire building area of the Henry Building can be converted to residential use. Buildings constructed after December 15, 1961 are permitted up to 2.43 FAR to be converted to residential use on an as-of-right basis. However, the Polak Building may be a candidate for a variance at the discretion of the Board of Standards and Appeals (BSA) that would permit the conversion of the entire existing floor area of the building to another permitted use. Conditions that support the granting of a variance include the following:

1. There is a unique physical condition that gives rise to a practical difficulty or unnecessary hardship.
2. As a result of the unique physical condition, the proposed building cannot yield a reasonable economic return when used in conformance with zoning.
3. The building is functionally obsolescent, making its occupancy for a conforming use impractical and creates an unnecessary hardship in developing the site in conformity with the current zoning.
4. The proposed variance, if granted, will not alter the essential character of the neighborhood, the hardship is not self-created, and if granted, the variance is the minimum variance necessary to afford relief.

Based on the building's excessive size and functional obsolescence, we made the assumption that

the Polak Building would be granted a variance to permit conversion of the entire floor area of the building to either residential condominiums, medical offices, or residential rental apartment buildings. Due to the advanced age of the Henry Building, the variance is unnecessary. If granted a variance, the conversion of the Polak Building would not alter the essential character of the neighborhood. The buildings as currently used have become obsolete and cannot continue to operate as hospital buildings.

HIGHEST AND BEST USE

The same methodology was used to determine the highest and best use for each of the subject properties. Each section will fully describe and conclude to the highest and best use as it pertains to the individual property.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and community facility uses. Our understanding of the Zoning Resolution is that community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 80,800 square foot site is 196,344 square feet of floor area and 387,840 square feet for community facility use on the lot that is improved with both the Polak Pavilion and the Henry Street medical office building.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is the development of residential condominiums to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a six-story hospital building that is built in

excess of the FAR permitted by Zoning Regulations. The subject property is located in an R6 residential zone which permits residential and community facility uses. As-of-right, only 2.43 FAR of the existing floor area could legally be converted to residential use. As previously noted, we assumed the Polak Pavilion would be granted a variance to allow conversion of the entire floor area of the existing building to medical office or residential use which would be legal uses in an R6 zone. The Henry Building does not need a variance due to its advanced age. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted as community facilities in the R6 zone.

Physically Possible

The existence of the improvements attests to the physical possibility of using the buildings.

Financially Feasible

In the analysis of the Polak Pavilion and the Henry Building as medical offices, rental apartment buildings, or residential condominiums, all three of the alternative uses produced a positive investment return and are, therefore financially feasible.

<i>355-363 Hicks Street - Polak Pavilion</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$37,000,000
Medical Office Conversion	Direct Capitalization	\$17,900,000
Rental Apartment Building Conversion	Direct Capitalization	\$19,200,000
Reconciled Value - Highest & Best Use		\$37,000,000

Demand for residential condominiums in Brooklyn is strong and supported by statistics reported in the third quarter 2013 Prudential Douglas Elliman Report. The average sale price increased 25.2%, the median sale price increased 20.5%, and the average price per square foot increased 19.7% during that same one-year time period. Dwindling supply of condominiums in Brooklyn coupled with increasing sales prices is an indication of a strong market for condominiums. The new development condo sales accounted for 14.6% of all borough sales which is consistent with the four-year average of 15.2%.

<i>New Development Condominiums - Brooklyn Third Quarter 2013</i>			
	3rd Qtr 2013	% Change	3rd Qtr 2012
Average Sales Price	\$942,547	25.2%	\$752,957
Average Price per Square Foot	\$880	19.7%	\$735
Median Sales Price	\$750,000	20.5%	\$622,395
Number of Sales	197	-29.1%	278
Days on Market	104	0.0%	104
Listing Discount	1.70%		1.80%

Souce: The Elliman Report - Brooklyn Sales 3rd Quarter 2013

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is

conversion of the entire structure to residential condominiums and selling them out over a period of seven years.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the Polak Pavilion, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. In the absence of recent hospital building sales in the boroughs and because the highest and best use of the Polak and Henry Buildings is for conversion to residential condominiums, the sales comparison approach was not used. The age of the building and the difficulty in estimating depreciation of the hospital buildings in the cost approach plus the absence of a market for the resale of hospital buildings made the resulting value derived from the cost approach irrelevant.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the Polak and Henry Buildings as converted to residential condominiums. In support of our determination of the highest and best use, we used direct capitalization to indicate the value of the building as converted to medical office use and as converted to a rental apartment building. We concluded the highest and best use of the Polak and Henry Buildings and the use that produced the greatest return on the investment was conversion and sellout of residential condominiums.

The Polak Building has a gross building area of 149,516 square feet. In the conversion of the building to residential condominiums, medical office use, or as a rental apartment building, we deducted a loss factor of 20.0% of the gross area to arrive at a useable area of 119,613 square feet. Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 20.0% loss factor.

Direct Capitalization – Conversion to Medical Office Building Use

By use of direct capitalization, we estimated the value of the Polak Building as converted to medical offices in the same manner as the Fuller and Othmer Pavilions analysis in the previous sections of this report. Because the buildings are very similar in use and configuration plus they share a tax lot with another building, we used the same income and expense assumptions. We used direct capitalization to estimate the value of the Polak Building as if converted to office building use.

Applying an overall capitalization rate of 6.50% to the projected NOI of \$3,773,254 results in a value of \$58,050,058. It would require approximately three years to renovate and lease the offices. We deducted the lost rent over the three-year period, work letters to modify the space for tenant's use, and leasing commissions of 32.0% of the first year's rent. We also deducted the cost to renovate and convert the hospital building into medical office space at the rate of \$150.00

per square foot. The indicated value of the Polak Building as converted to medical offices was rounded to \$17,900,000.

Medical Office Conversion

355-363 Hicks Street - Polak Building

149,515 sq. ft.

Income

Income from Offices	@	\$45.00 per sq. ft.	\$6,728,175
Less Vacancy & Credit Loss	@	10.00%	<u>-\$672,818</u>
Effective Gross Income			\$6,055,358

Expenses

per sq. ft.

Operating Expenses	@	\$10.00	\$1,495,150
Miscellaneous	@	\$0.01	\$2,000
Reserves for Replacements	@	\$0.25	\$37,379
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$747,575</u>
Total Expenses		\$15.26	<u>\$2,282,104</u>

Net Operating Income \$3,773,254

Capitalization Rate 6.50%

As Stabilized Market Value		\$58,050,058
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$5,618,026
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$3,397,728
Less: Rent Loss (Year 2: 100% Leased)	100%	-\$1,143,790
Less: Work Letters (\$25 Per Sq.Ft.)		-\$3,737,875
Less: 3 Months of Free Rent		-\$1,682,044
Less: Leasing Commissions (32% of 1st Year Rent)		<u>-\$2,153,016</u>
Market Value		\$40,317,579
Less Cost of Conversion to offices at \$150.00 per square foot of gba		<u>-\$22,427,250</u>
Indicated Value		\$17,890,329
Rounded		\$17,900,000

Potential Gross Income and Expenses

The same comparable rents for general offices and medical offices were used to estimate the rent for the Polak Building as for the Fuller and Othmer Pavilions as medical offices. Our estimate for the Polak Building medical office rent is \$45.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 10.0% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for office buildings were used to estimate the expenses and real estate taxes for the Polak Building as were used for the Fuller and Othmer Pavilions. The reconciled operating expenses total \$10.26 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller and Othmer Pavilions, the capitalization rate for the Polak Building conversion to medical offices was 6.5%.

Conversion Costs

Conversion costs for the Polak Building as a medical office building were taken from Marshall & Swift Valuation and were estimated at \$150.00 per square foot.

Conclusion – Medical Office Building Conversion

Based on this analysis the indicated value of the Polak Pavilion as converted to a medical office building as of October 1, 2013, is rounded to \$17,900,000 after deducting lease-up costs, rent loss during the conversion period, and conversion costs.

Direct Capitalization – Conversion to a Rental Apartment Building

By use of direct capitalization, we estimated the value of the Polak Building as converted to a rental apartment building in the same manner as the Fuller Othmer Pavilions analyses in the previous sections of this report. Because the buildings are very similar in use and configuration plus they share a tax lot with another building, we used the same income and expense assumptions. We used direct capitalization to estimate the value of the Polak Building as if converted to a rental apartment building.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$3,489,175 results in a value indication of \$58,152,921. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the hospital building into rental apartments at the rate of \$200.00 per square foot. The indicated value of the Polak Building as converted to medical offices was rounded to \$19,200,000.

Rental Apartment Building Conversion
355-363 Hicks Street - Polak Building

149,515 sq. ft.

Income

Income from Apartment Rent	@	\$50.00 per sq. ft.	\$5,980,600
Less Vacancy & Credit Loss	@	3.50%	<u>-\$209,321</u>
Effective Gross Income			\$5,771,279

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$1,495,150
Miscellaneous	@	\$0.01	\$2,000
Reserves for Replacements	@	\$0.25	\$37,379
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$747,575</u>
Total Expenses		\$15.26	<u>\$2,282,104</u>

Net Operating Income \$3,489,175

Capitalization Rate 6.00%

Indicated Market Value Before Leaseup & Construction Costs		\$58,152,921
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$4,993,801
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$3,020,203
Less: Rent Loss (Year 2: 100% Leased)	100%	<u>-\$1,016,702</u>
Indicated Market Value		\$49,122,215
Less Conversion Costs @ \$200.00 per square foot gba		<u>-\$29,903,000</u>
Indicated Value		\$19,219,215
Rounded		\$19,200,000

Potential Gross Income and Expenses

The same comparable rents for neighborhood apartments were used to estimate the rent of the apartments at the converted Polak Building as for the Fuller and Othmer Pavilions. Our estimate for the Polak Building apartment rent is \$50.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 3.50% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for apartment buildings were used to estimate the expenses and real estate taxes for the Polak Building as were used for the Fuller and Othmer Pavilions. The reconciled operating expenses total \$10.26 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller and Othmer Pavilions, the capitalization rate for the Polak Building conversion to a rental apartment building is 6.0%.

Conversion Costs

Conversion costs for the Polak Building as a rental apartment building were estimated at \$200.00 per square foot. The costs are based on Marshall & Swift Cost Estimates for apartment buildings.

Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the Polak Pavilion as converted to a rental apartment building as of October 1, 2013, is rounded to \$19,200,000 after deducting rent loss during the conversion period and construction conversion costs.

Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the Polak Building and sell the apartments over a seven-year period at market rates in the same manner as the Fuller and Othmer Pavilions in the previous sections of this report.

We prepared a discounted cash flow (DCF) analysis wherein the first two years are estimated to be the time needed to convert the Polak Pavilion into residential condominiums and the remaining five years of the DCF are the sellout period for the apartments. The Polak Building has a gross building area of 149,516 square feet of which approximately 20% is a loss factor resulting in a useable area of 119,613 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current sale price is \$800,000 per apartment, \$800.00 per square foot.

DCF Assumptions:

Construction Period:	24 months
Sellout Period:	60 months
Real Estate Taxes:	\$5.00 per square foot
Operating Expenses:	\$10.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$200.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	
Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales

State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted Polak Building is based on the previous analysis in the Fuller and Othmer Pavilions sections of this report. We chose an average sale price of \$800.00 per square foot for the new apartments. The apartment sale price estimate for the Polak Building is slightly lower than the Fuller Pavilion apartments and the same as the Othmer Building because the building has five floors and the views from the upper levels of the Fuller Pavilion command higher apartment prices.

The estimated apartment costs increases at the rate of 3.0% annually. We anticipate that 30.0% of the apartments will have been presold by the beginning of the third year, with the remaining units sold over five years at the rate of 14.0% of the units per year.

The cost of sales and marketing at the rate of 10.0% of sales and transfer taxes totaling 1.825% of sales were deducted from the gross proceeds from the sale of apartment units to arrive at the net proceeds from the sale of residential apartments.

Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Polak Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$110.13 per square foot. We applied a height multiplier for the six-story Polak Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$200.00 per square foot.

We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000.

The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

COST ESTIMATION - Polak Pavilion

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$17.09
41/2	Ceiling		\$2.36
41/2	Partitions		\$24.60
41/3	Plumbing		\$9.44
41/3	Sprinkler		\$2.63
41/4	HVAC		\$10.73
41/4	Electrical		\$11.78
41/7	Roof Cover		\$2.71
42/7	Appliances		\$28.79
		Total	\$110.13
<u>Multipliers</u>			
41/8	Height Multiplier	1.00750	\$110.95
99/3	Current Cost: Eastern A	1.04	\$115.39
99/9	Locality: Brooklyn A	1.41	\$162.70
		Total	\$162.70
<u>Fees</u>			
	Architect/Engineer	6%	\$9.76
	Contingency	15%	\$24.41
		Total	\$196.87

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of discount rates from 5.00% to 14.00% and an average of 8.04%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings is 8.10%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Polak Building as converted to residential condominiums as of October 1, 2013 is \$37,000,000.



Polak Building Conversion to Residential Condominium Units											
Assumptions											
Unit Data	# of Apartments	Total Residential	Average S.F.	Sales	Avg. Sale Price						
	20 on each floor	Useable Sq.Ft.	Per Apt. Unit	Price P.S.F.	Per Apt.						
Total Area	120	119,612	1,000	\$800	\$800,000						
Construction & Sellout Period For Units:	84 months										
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales										
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% City + 1.425% State)										
Operating Expenses During Sellout:	\$10.00										
Real Estate Taxes During Sellout	\$5.00										
Total Residential Floor Area	119,612 sq. ft. gross area less 20.0% for lobby, circulation, & corridors										
Square Footage for Operating Expenses:	149,515 sq. ft. gba										
Square footage for Tax Expenses:	149,515 sq. ft. gba										
Discount Rate for Condo	6.0%										
Entrepreneur Incentive	15.0%										
Legal Cost for Conversion	\$300,000										
Cost to Convert to Apartments	\$200 per sq.ft.										
					Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
General Inflation Growth Rate:					-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate					-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Sales Price per square foot					\$800	\$824	\$849	\$874	\$900	\$927	\$955
Operating Expenses					\$10.00	\$10.30	\$10.61	\$10.93	\$11.26	\$11.59	\$11.94
Real Estate Taxes					\$5.00	\$5.15	\$5.30	\$5.46	\$5.63	\$5.80	\$5.97
Income From Residential Condominium Component:					Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
Proceeds From Sale of Residential Units					\$0	\$0	\$44,667,523	\$14,638,765	\$15,077,928	\$15,530,266	\$15,996,174
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)					<u>\$0</u>	<u>\$0</u>	<u>(\$5,281,935)</u>	<u>(\$1,731,034)</u>	<u>(\$1,782,965)</u>	<u>(\$1,836,454)</u>	<u>(\$1,891,548)</u>
Net Proceeds From Sale of Residential Units					\$0	\$0	\$39,385,588	\$12,907,731	\$13,294,963	\$13,693,812	\$14,104,627
Less Operating Expenses Carried					\$0	\$0	\$645,405	\$498,575	\$342,355	\$176,313	\$0
Less Real Estate Taxes Carried					<u>\$543,175</u>	<u>\$559,470</u>	<u>\$322,702</u>	<u>\$249,288</u>	<u>\$171,178</u>	<u>\$88,156</u>	<u>\$0</u>
<i>Total Expenses</i>					\$543,175	\$559,470	\$968,107	\$747,863	\$513,533	\$264,469	\$0
Prerenovation Cost Cash Flow From Sale of Residential Units					(\$543,175)	(\$559,470)	\$38,417,481	\$12,159,868	\$12,781,431	\$13,429,343	\$14,104,627
Less: Legal Cost for Conversion					\$300,000	\$0	\$0	\$0	\$0	\$0	\$0
Less: Apartment Upgrade Cost					\$14,951,500	\$15,400,045	\$0	\$0	\$0	\$0	\$0
Total Conversion Cost					\$15,251,500	\$15,400,045	\$0	\$0	\$0	\$0	\$0
Less: Entrepreneur Incentive					<u>\$2,287,725</u>	<u>\$2,310,007</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
					\$17,539,225	\$17,710,052	\$0	\$0	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units					(\$18,082,400)	(\$18,269,522)	\$38,417,481	\$12,159,868	\$12,781,431	\$13,429,343	\$14,104,627
Net Present Value of Condo Sell-Out							\$36,967,702				
Indicated Value							\$37,000,000	Rounded			
\$/Square Foot of GBA							\$247				

EXECUTIVE SUMMARY – 340 Henry Street/97 Amity Street

The subject property consists of medical office building located on the main campus of SUNY Downstate Medical Center formerly Long Island College Hospital in the Cobble Hill neighborhood in the Borough of Brooklyn, City and State of New York. The property is identified on the New York City Tax Rolls as Block 295 and part of Lot 13.

Effective Date of Value:	October 1, 2013
Date of Inspection:	September 26, 2013
Purpose of the Appraisal:	The purpose of this report is to provide an opinion of the fair market value in accordance with its highest and best use.
Zoning:	R6 Residential District
Site Description – 340 Henry Street:	The site is a portion of an 80,800 square foot site located on the full block between Amity and Pacific Streets and between Hicks and Henry Streets. According to hospital information, the portion of the site that is allocated to the appraisal of 340 Henry Street, a.k.a. 97 Amity Street is 34,705 square feet.
Building Description – 340 Henry Street:	The site is improved with two separate buildings, one of which is the subject of this section of the report. It is a 5- and 6-story medical office building that was built in 1905 and upgraded periodically and now houses primary and specialty care outpatient services, support services such as the medical library, medical records, and clinical lab, and administrative and faculty offices. The building has approximately 145,500 square feet of gross building area plus basement and sub-basement of 37,700 square feet.

Valuations

Cost Approach:	NA
Sales Comparison Approach:	NA
Income Approach:	
Direct Capitalization	
For Medical Office Use:	\$17,400,000
For Rental Apartment Use:	\$18,700,000
Residual Discounted Cash Flow	
For Residential Condominiums:	\$32,800,000
Reconciled Value:	\$32,800,000
	\$225.43 per square foot of GBA



Subject Photos – 340 Henry Street

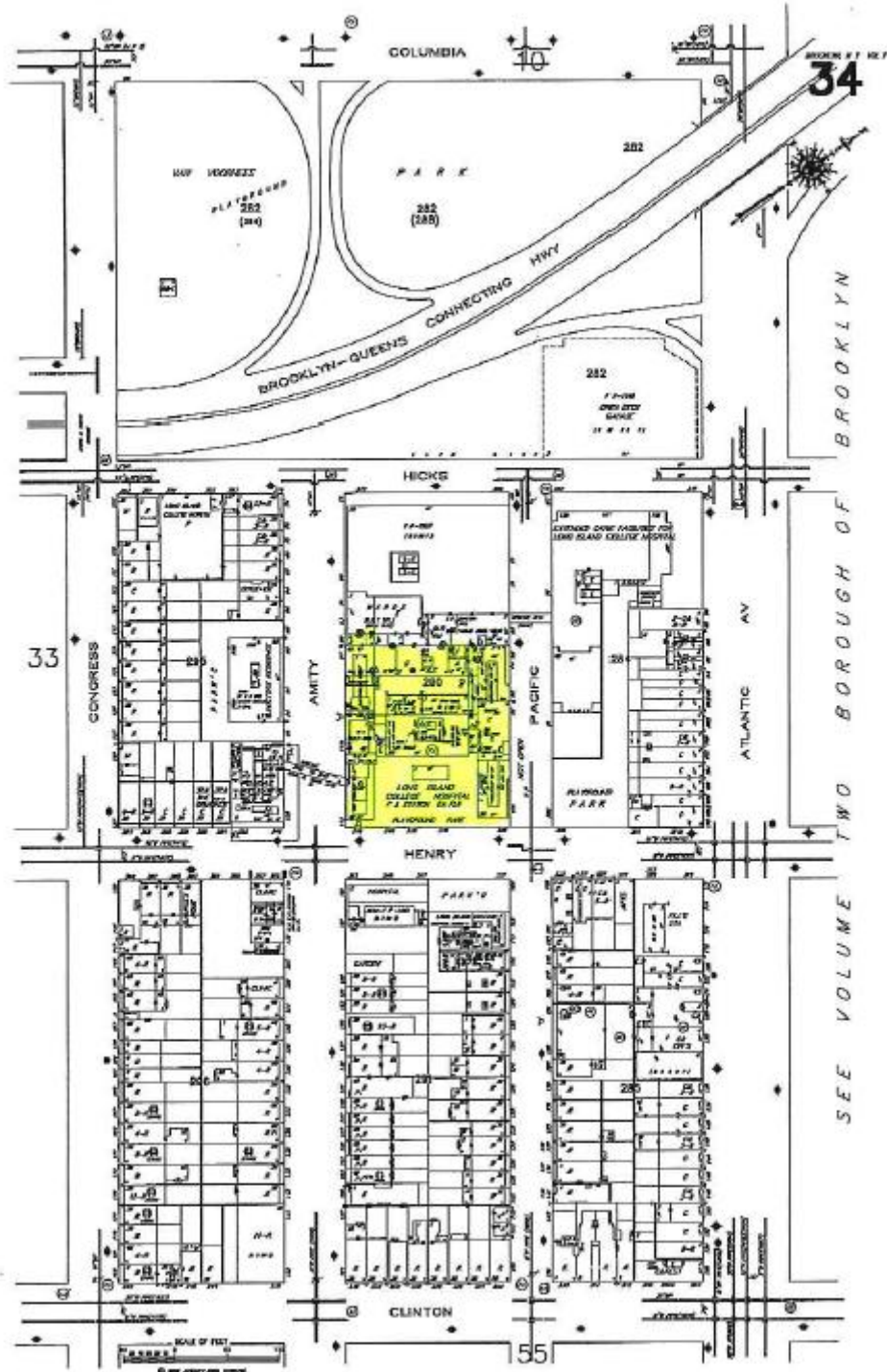


340 Henry Street Facing North from the Northwest Corner of Amity Street



TAX MAPS – Easterly Portion of Block 290 Lot 13 – 340 Henry Street





PROPERTY DESCRIPTION

Site Description - 340 Henry Street, a.k.a. 97 Amity Street

The subject site includes the full block with 404 front feet along the north side of Amity Street, 404 front feet along the south side of Pacific Street, 200 front feet along the east side of Hicks Street, and 250 front feet along the east side of Henry Street. The site slopes slightly to allow for six stories on the Pacific Street elevation and five stories on the Amity Street elevation. The buildings are built nearly full on the lot with the exception of a playground, park, and public open space located along Henry Street.

Amity Street is a two-way east-west bound street and Henry Street is a one-way south bound street. Pacific Street at the north side of the building is for pedestrian use only and there is wrought iron fencing blocking the Henry Street entrance.

Site improvements to the entire tax lot include the playground and equipment, street lights, decorative iron fencing along some elevations of the building, and concrete curbs and sidewalks. There are mature trees and shrubbery planted along Henry Street. Pacific Street has been closed off except as a fire lane with ornamental gates and decorative pavers.

Building Description – 340 Henry Street, a.k.a. 97 Amity Street

The Henry Building was constructed in 1905 and today houses primary and specialty care outpatient services, support services such as the medical library, medical records, and clinical lab, and administrative and faculty offices. The six-story building contains 145,500 square feet of gross building area and it has 14' floor-to-floor ceiling heights. The building is part of the SUNY Downstate Medical Center/Long Island College Hospital campus of buildings and is interconnected on some floors, the basement, and with a bridge on the third floor connecting to the Polhemus Building. The heating plant for the Henry Street building is located in the adjacent Polak Building.

The above-grade building area is 145,500 square feet and the basement and sub-basement contain 27,700 square feet. At the time of inspection, the building was partly occupied.

Basement: The basement is primarily unfinished and has pump rooms, elevator pits, some storage rooms, housekeeping rooms, and receiving areas.

First Floor: The main entrance to the Henry Building is located on Amity Street with a canopy double doorway leading to a vestibule and small manned lobby. The center hallway leads to four separate wings that contain clinics, labs, or administrative offices. The main hallway also leads to four elevators that service four wings of the building. The medical library is located on this floor as well as Pediatrics and Orthopedic offices. The hallways or wings generally have 6 foot hallways with 12 foot deep receptionist areas, consulting offices, or examination rooms on each side. There are also lavatories and various administrative offices.

- Second Floor:** The second floor is configured generally the same with the center core of the building leading to the four separate wings. The interior was upgraded about ten years ago with new wall and floor coverings, new ceiling tiles, and neutral colored painted walls. The second floor has ambulatory surgery rooms and other clinical uses with receptionist areas, consulting rooms, examination rooms and labs. Medical records, pediatrics specialty clinics, administrative offices, conference rooms, and OR waiting room and booking office are located on this floor.
- Third Floor:** The third floor is similar to the second with new upgrades, cosmetic improvements and nearly the same layout for offices. There is access to the Polhemus Building via a walkway over Amity Street and Polak building which is immediately adjacent on the same tax lot. The third floor has the OBGYN outpatient clinic, ultrasound, pathology and histology departments.
- Fourth Floor:** Having the same H-shaped layout as the lower floors, this floor houses the executive suites, nursing administrative and legal offices, infectious control office, public affairs offices, family medicine, security and administrative office.
- Fifth Floor:** In addition to having the typical office layout of the preceding floors, the fifth floor has the lower level of a two-story teaching amphitheater that is currently not used. The CATH lab, cardiology, and pediatric outpatient clinics are located on this floor.
- Sixth Floor:** This level has the engineering administrative offices, housekeeping, and psychiatry departments.

The following engineering systems assessment was provided by Long Island College Hospital:

- Heating System:** The heating plant is located in the basement level of the adjoining Polak Building. There are three 970 bhp (boiler horse power) Cleaver Brooks boilers. The boilers produce 125 psi steam which is distributed to the Henry Street, Fuller, and Othmer Buildings. The boilers are dual fuel, running on either natural gas or #2 fuel oil. Natural gas is provided by the local utility on an interruptible rate schedule. Generally during weather below 20°F the boilers use #2 fuel oil. Auxiliary boiler equipment includes water softeners, surge tank and duplex fuel oil pumps. Condensate is returned to the plant via condensate pumping sets in various locations around the site. All three boilers are on a common header and can be operating in parallel. Peak winter demand on the boilers is about 1000 hp. The entering steam pressure of 125 psi is reduced to about 10 psi at pressure reducing stations in the Henry building. The heating system distribution equipment consists of low pressure steam heating coils in most air handlers and some locations with

steam constant air volume (CAV) coils. Low pressure steam is passed through shell and tube heat exchangers to provide heating hot water for perimeter fan coils and CAV reheat terminals. Boiler steam is also being used for humidification.

Cooling System: There are two chillers in this building; a 350-ton York centrifugal and a 170-ton gas-fired Teco chiller. The centrifugal chiller is operating, but the gas-fired unit is broken and there are no plans to repair it. The chillers are located in a two-story mechanical room built adjacent to the building. Two 350-ton cooling towers are located on the roof.

HVAC Systems: This building is served by a variety of air handler types. Floors 3, 4, 5, and 6 are served by single duct units, one per floor. There are five large units and several smaller units located throughout the hospital. AHU-3 serves the third floor labs and OB/GYN has had coils replaced about ten years ago and is nearing the end of its useful life.

Plumbing Systems: The domestic CW, HW, HWR, storm and sanitary risers are new(er), installed approximately 15 years ago. The distribution piping is original (circa 1920s, 1930s, 1948) and as modified by renovations and additions over the past 56-84 years. The domestic water service includes PRVs at the booster pumps, and at Hemodialysis.

Domestic water piping includes galvanized steel threaded pipe, Type-L copper with bronze fittings, and solder joints, and the older and original piping includes thicker "TP" Red Brass fittings. There are two water services supplying the building. One is located in floor space below the sidewalk, and rises in a pit from below the floor. This service is 3", with a 3" meter, and new 3" RPZ backflow preventer is being installed and a 3" automatic control valve. This service extends to a 10-year-old Federal simplex (single pump) booster package with controller and pressure maintenance tank. The second water service is a 4" service (rusted, corroded, and leaking) with meter, 2 parallel RPZs and extends 4" to an old Peerless duplex booster pump with 2 15 HP pumps. The two water services are interconnected. There is one additional 3" water service which is not being utilized.

Domestic hot water is generated by a Patterson-Kelly horizontal storage type, semi-instantaneous steam water heater. This water heater and HWR pumps are in the process of being replaced by facilities staff. The new water heaters are 2 Patterson Kelly "PK Compact" instantaneous water heaters with 110°F outlet and 3 new HWR pumps.

There are two RO water systems.

Sanitary piping primarily hub and spigot cast-iron, with lead and oakum, and elastomeric joints. Additionally, there is hubless piping, and other piping materials, a mismatch of cut and patch work. Vent piping also includes threaded, hubless, and copper solder. There are 4 combined building sewers, 2 Amity Street and 2 Pacific Street. One has 2 6-inch building drains extending to the building sewer, both with hub and spigot lead and oakum joints. Two others are 6-inch. One is another 8-inch. There are 3 duplex submersible sewage pumps within the building, all are 20 years old or older. One is 3' x 3' basin cover and pit with duplex 3-inch submersible sewage pumps, threaded and hubless piping. One is a 3' x 3' basin cover and pit, duplex vertical shaft sewage pump with 2 ½ HP A. O. Smith motor pumps. One is submersible simplex pump.

There are point of use neutralization tanks serving labs on the 1st and 3rd floors. The tank has a 6-inch inlet and a 6-inch hubless cast iron outlet pipe connection, and receives drainage from above, and from a local suspended floor receptor. The drainage extends to the 6-inch sanitary building sewer in adjacent room.

Emergency fixtures (eye, face, and showers) are supplied cold water only. Emergency fixtures include emergency eyewash and showers in some areas.

Medical compressed air is supplied from new triplex compressor in the Polak building, to the 5th floor CATH Lab, E.P. Lab, and Cardiology.

O₂ is supplied to the 5th floor Cardiology from the LOX tank farm.

Oxygen is supplied from two Liquid Oxygen Tanks located in an attached brick walled tank farm at the 97 Amity Building on a private street. The tank farm was relocated to this location circa 1985/1987. Tanks include one 300 gallon main tank, with 250 PSI rated customer station BOC gases. The reserve tank is a 90 gallon. The systems include two vaporizers, alarms, and heat exchanger. These tanks supply oxygen to the Fuller Pavilion, Polak Pavilion, Henry Street Building, and the Othmer building.

**Fire Sprinkler
System:**

Fire service is 6-inches from Pacific Street. Piping is black steel with mechanical joints. This service is interconnected with the adjacent Polak Pavilion standpipes. The fire pump in the Polak Pavilion can supply both the Polak Pavilion and the Henry Building. The building has standpipes with hose connections and hose stations. The building is partially, limited area, sprinkler with recessed and semi-recessed sprinkler heads. The sprinkler system is supplied from the fire pump in the Polak Building.

Fire Alarm System: The fire alarm system is a zone coded system manufactured by Farraday and

installed approximately 30 years ago. The fire alarm control panel location is in the corridor of the basement. The system does not have expansion capability.

Electrical Power: **Normal Power Distribution:** Normal power to the Henry Street Building is supplied from the switchboard C (NTB) in the Polak building at 120/208 VAC. This switchboard supplies power to a main distribution switchboard MDB-B located in the basement of the Henry Building. The main switch is 5000AF fused at 2000A. This switchboard has feeders to the Pacific Street switchboard room, feeder to panel BB in the Amity Building, feed to 568A and other main distribution panels on the floor. A 600A disconnect switch is also installed on the switchboard to supply power to a recently added load.

Emergency Power Distribution: Emergency power at 97 Amity consists of a single diesel engine driven generator. HSB rates at 410KW/500KVA, 120/208 VAC. A temporary generator has been installed outside and space for a new generator has been identified on the first floor for a new 600KW/750KVA, 280/277VAC generator.

Emergency power at 120/208VAC is supplied to the main switchboard HSB located in the Amity Building switchboard room through the following automatic transfer switch:

Exterior Wall Systems: 340 Henry Street is the oldest building in the main complex. The six-story building was constructed circa 1905 and the exterior walls are primarily brick veneer on clay tile. The facades are in generally good condition however, the parapets all around have developed open mortar joints; some have evidence of efflorescence at the base of the parapets.

Exterior Windows/Curtain Wall Systems: Exterior windows are aluminum framed double glazed replacement units in existing masonry openings. Replacement windows are fifteen years old and in good condition. Caulking around windows is missing and deteriorated.

Roofing Systems: The building has a combination of built-up and rubber-ballasted EPDM of various vintages on the main upper roof as well as the lower roof over the labs. It is built-up roofing with stone-covered ballasted single-ply covering.

Structural Systems: The building has a concrete encased steel frame with concrete slab floor construction. No problems or issues have been identified.

Elevator/Vertical Transport Systems: Modernization has been performed on all elevators including ADA

compliance. No problems or issues have been identified. Four elevators service the building. Each elevator has a metal cab and capacity as follows:

- Elevator A: 3,500 lb.
- Elevator B: 4,500 lb.
- Elevator C: 3,500 lb.
- Elevator D: 4,000 lb.

Interior Architectural

Upgrades: The building is over 100 years old and has undergone many transformations. Although its floor plate is outdated in terms of modern patient room planning, it still serves effectively as a service and administrative center. The building has been well maintained.

Interior Finishes: The offices, corridors, and wings of the building are periodically upgraded as needed and include replacement of ceiling tiles, lighting fixtures, new wall finishes (paint or wall covering), new flooring (VCT or carpet), and new corner or bumper guards as required.

The building has a two-story teaching amphitheater on the fifth and sixth floors. There are a variety of public lavatories throughout the building and most of them appear to be modernized with ceramic tile floor and wall tiles, newer fixtures, and modern appearances.

Comments: Although there have been many cosmetic upgrades to the offices, the building systems are very old as previously described. The hallways are generally 6 feet wide and the offices are another 12 feet wide.

ASSESSED VALUE AND REAL ESTATE TAXES

The Polak and Henry Buildings are listed on the New York City tax rolls as Block 290 Lot 13. The property is classified as Class 4 and is completely exempt from property taxes. The 2013/2014 assessed valuation is as follows:

<u>355-363 Hicks Street Polak & 340 Henry Street/97 Amity Street</u>	<u>Block 290</u>	<u>Lot 13</u>
2013/2014	Actual	Transitional
Land	\$3,510,000	\$3,510,000
Improvements	<u>\$37,656,450</u>	<u>\$38,418,032</u>
Total	\$41,166,450	\$41,928,032
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$4,235,204	
Assessor's 100% Market Value	\$91,481,000	

The tax assessor assigns two values to each property, the “transitional” and “target”, or “actual”, values. The transitional value represents an interim assessment. When a property’s target

assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessment is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption. The estimate of real estate taxes for the entire tax lot Block 290 Lot 13 for tax year 2013/2014 based on the 2012/2013 Class 4 tax rate of \$10.288% is \$4,235,204.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 80,800 square feet of land area. Both the Polak and Henry Street offices were constructed on Block 290 Lot 13 with a total building area of 295,016 square feet of gross building area or approximately 3.65 FAR (Polak with 149,516 square feet and Henry with 145,500 square feet). As constructed with a total of 295,016 square feet of gross floor area, the buildings are overbuilt.

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

The Henry Building was constructed in 1905. According to the Zoning Resolution, buildings constructed before December 15, 1961 are permitted to convert the entire floor area of the existing building to residential use. The entire building floor area of the Henry Building can be converted to residential use. Due to the advanced age of the Henry Building, a variance to convert the entire building to an alternate legal use is unnecessary.

HIGHEST AND BEST USE

The same methodology was used to determine the highest and best use for each of the subject properties. Each section will fully describe and conclude to the highest and best use as it pertains to the individual property.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and

community facility uses. Our understanding of the Zoning Resolution is that community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 80,800 square foot site is 196,344 square feet of floor area and 387,840 square feet for community facility use on the lot that is improved with both the Polak Pavilion and 340 Henry Street medical offices.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is the development of residential condominiums to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a six-story medical office building that is built in excess of the FAR permitted by Zoning Regulations. The subject property is located in an R6 residential zone which permits residential and community facility uses. Since the Henry Building, having been constructed prior to December 16, 1961, its entire floor area can be converted to another legal use as of right. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

The existence of the improvements attests to the physical possibility of using the buildings.

Financially Feasible

In the analysis of the Henry Building as medical offices, rental apartment buildings, or residential condominiums, all three of the alternative uses produced a positive investment return and are, therefore financially feasible.

<i>340 Henry Street/97 Amity Street - Medical Offices</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$32,800,000
Medical Office Conversion	Direct Capitalization	\$17,400,000
Rental Apartment Building Conversion	Direct Capitalization	\$18,700,000
Reconciled Value - Highest & Best Use		\$32,800,000

Demand for residential condominiums in Brooklyn is strong and supported by statistics reported in the third quarter 2013 Prudential Douglas Elliman Report. The average sale price increased 25.2%, the median sale price increased 20.5%, and the average price per square foot increased 19.7% during that same one-year time period. Dwindling supply of condominiums in Brooklyn coupled with increasing sales prices is an indication of a strong market for condominiums. The new development condo sales accounted for 14.6% of all borough sales which is consistent with the four-year average of 15.2%.

<i>New Development Condominiums - Brooklyn Third Quarter 2013</i>			
	3rd Qtr 2013	% Change	3rd Qtr 2012
Average Sales Price	\$942,547	25.2%	\$752,957
Average Price per Square Foot	\$880	19.7%	\$735
Median Sales Price	\$750,000	20.5%	\$622,395
Number of Sales	197	-29.1%	278
Days on Market	104	0.0%	104
Listing Discount	1.70%		1.80%

Souce: The Elliman Report - Brooklyn Sales 3rd Quarter 2013

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is conversion of the entire structure to residential condominiums and selling them out over a period of seven years.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the Henry Building, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. In the absence of recent large medical office building sales in the boroughs and because the highest and best use of the Henry Building is for conversion to residential condominiums, the sales comparison approach was not used. The age of the building and the difficulty in estimating depreciation of the hospital buildings in the cost approach plus the absence of a market for the resale of hospital buildings made the resulting value derived from the cost approach irrelevant.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the Henry Building as converted to residential condominiums. In support of our determination of the highest and best use, we used direct capitalization to indicate the value of the building as converted to medical office use and as converted to a rental apartment building. We concluded the highest and best use of the Henry Building and the use that produced the greatest return on the investment was conversion and sellout of residential condominiums.

The Henry Building has a gross building area of 145,500 square feet. In the conversion of the building to residential condominiums, medical office use, or as a rental apartment building, we

deducted a loss factor of 25.0% of the gross area to arrive at a useable area of 109,125 square feet. Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 25.0% loss factor. We used a larger loss factor for the Henry Building than for the Fuller, Othmer, and Polak buildings because its H-shape has wings that are too narrow to allow for apartments or offices on both sides of a hallway.

Direct Capitalization – Conversion to Medical Office Building Use

By use of direct capitalization, we estimated the value of the Henry Building as converted to medical offices in the same manner as the Fuller, Othmer, and Polak Pavilions analyses in the previous sections of this report. Because the buildings are very similar in use and configuration plus they share a tax lot with another building, we used the same income and expense assumptions. We used direct capitalization to estimate the value of the Henry Building as if converted to medical office building use.

Applying an overall capitalization rate of 6.50% to the projected NOI of \$3,671,875 results in a value indication of \$56,490,385. It would require approximately three years to renovate and lease the offices. We deducted the lost rent over the three-year period, work letters to modify the space for tenant's use, and leasing commissions of 32.0% of the first year's rent. We also deducted the cost to renovate and convert the hospital building into medical office space at the rate of \$150.00 per square foot. The indicated value of the Henry Building as converted to medical offices was rounded to \$17,400,000.

Medical Office Conversion

340 Henry Street/97 Amity Street

145,500 sq. ft. GBA

Income

Income from Office	@	\$45.00 per sq. ft.	\$6,547,500
Less Vacancy & Credit Loss	@	10.00%	<u>-\$654,750</u>
Effective Gross Income			\$5,892,750

Expenses

Operating Expenses	@	per sq. ft. \$10.00	\$1,455,000
Miscellaneous		\$0.01	\$2,000
Reserves for Replacements	@	\$0.25	\$36,375
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$727,500</u>
Total Expenses		\$15.26	<u>\$2,220,875</u>

Net Operating Income \$3,671,875

Capitalization Rate 6.50%

"As Stabilized" Market Value		\$56,490,385
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$5,467,163
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$3,306,488
Less: Rent Loss (Year 3: 100% Leased)	100%	-\$1,113,075
Less: Work Letters (\$25 Per Sq.Ft.)		-\$3,637,500
Less: 3 Months of Free Rent		-\$1,636,875
Less: Leasing Commissions (32% of 1st Year Rent)		<u>-\$2,095,200</u>
"As Is" Market Value		\$39,234,085
Less Conversion Costs @ \$150.00 per square foot		<u>-\$21,825,000</u>
Indicated Value		\$17,409,085
Rounded		\$17,400,000

Potential Gross Income and Expenses

The same comparable rents for general offices and medical offices were used to estimate the rent for the Henry Building as for the Fuller, Othmer, and Polak Pavilions as medical offices. Our estimate for the Henry Building medical office rent is \$45.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 10.0% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for office buildings were used to estimate the expenses and real estate taxes for the Henry Building as were used for the Fuller, Othmer, and Polak Pavilions. The reconciled operating expenses total \$10.26 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller, Othmer, and Polak Pavilions, the capitalization rate for the Henry Building conversion to medical offices was 6.5%.

Conversion Costs

Conversion costs for the Henry Building as a medical office building were taken from Marshal & Swift Valuation and were estimated at \$150.00 per square foot.

Conclusion – Medical Office Building Conversion

Based on this analysis the indicated value of the Henry Building as converted to a medical office building as of October 1, 2013, is rounded to \$17,400,000 after deducting lease-up costs, rent loss during the conversion period, and conversion costs.

Direct Capitalization – Conversion to a Rental Apartment Building

By use of direct capitalization, we estimated the value of the Henry Building as converted to a rental apartment building in the same manner as the Fuller, Othmer, and Polak Pavilions analyses in the previous sections of this report. Because the buildings are very similar in use and configuration plus they share a tax lot with another building, we used the same income and expense assumptions. We used direct capitalization to estimate the value of the Henry Building as if converted to a rental apartment building.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$3,395,425 results in a value indication of \$56,590,417. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the hospital building into rental apartments at the rate of \$200.00 per square foot. The indicated value of the Henry Building as converted to rental apartments was rounded to \$18,700,000.

Rental Apartment Building Conversion

340 Henry Street/97 Amity Street

145,500 sq. ft. GBA

Income

Income from Apartment Rents	@	\$50.00 per sq. ft.	\$5,820,000
Less Vacancy & Credit Loss	@	3.50%	<u>-\$203,700</u>
Effective Gross Income			\$5,616,300

Expenses

Operating Expenses	@	per sq. ft. \$10.00	\$1,455,000
Miscellaneous		\$0.01	\$2,000
Resesrves for Replacements	@	\$0.25	\$36,375
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$727,500</u>
Total Expenses		\$15.26	<u>\$2,220,875</u>

Net Operating Income \$3,395,425

Capitalization Rate 6.00%

Indicated Market Value Before Leaseup & Construction Costs			\$56,590,417
Less: Rent Loss (Year 1: 33% Leased)		33%	-\$4,859,700
Less: Rent Loss (Year 2: 66% Leased)		66%	-\$2,939,100
Less: Rent Loss (Year 3: 100% Leased)		100%	<u>-\$989,400</u>
Indicated Market Value			\$47,802,217
Less Conversion Costs @ \$200.00 per square foot gba			<u>-\$29,100,000</u>
Indicated Value			\$18,702,217
Rounded			\$18,700,000

Potential Gross Income and Expenses

The same comparable rents for neighborhood apartments were used to estimate the rent of the apartments at the converted Henry Building as for the Fuller, Othmer, and Polak Pavilions. Our estimate for the Henry Building apartment rent is \$50.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 3.50% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for apartment buildings were used to estimate the expenses and real estate taxes for the Henry Building as were used for the Fuller, Othmer, and Polak Pavilions. The reconciled operating expenses total \$10.26 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller, Othmer, and Polak Pavilions, the capitalization rate for the Henry Building conversion to a rental apartment building is 6.0%.

Conversion Costs

Conversion costs for the Henry Building as a rental apartment building were estimated at \$200.00 per square foot. The costs are based on Marshall & Swift Cost Estimates for apartment buildings.

Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the Henry Pavilion as converted to a rental apartment building as of October 1, 2013, is rounded to \$18,700,000 after deducting rent loss during the conversion period and construction conversion costs.

Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the Henry Building and sell the apartments over a seven-year period at market rates in the same manner as the Fuller, Othmer, and Polak Pavilions in the previous sections of this report.

We prepared a discounted cash flow (DCF) analysis wherein the first two years are estimated to be the time needed to convert the Henry Building into residential condominiums and the remaining five years of the DCF are the sellout period for the apartments. The Henry Building has a gross building area of 145,500 square feet of which approximately 25% is a loss factor resulting in a useable area of 109,125 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current sale price is \$775,000 per apartment, \$775.00 per square foot.

DCF Assumptions:

Construction Period:	24 months
Sellout Period:	60 months
Real Estate Taxes:	\$5.00 per square foot
Operating Expenses:	\$10.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$200.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	
Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales

State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted Henry Building is based on the previous analysis in the Fuller, Othmer, and Polak Pavilions sections of this report. We chose an average sale price of \$775.00 per square foot for the new apartments. The apartment sale price estimate for the Henry Building is slightly lower than the other converted hospital apartments because the building has only six floors, and views from the Henry Building and configuration of the apartments are considered less desirable.

The estimated apartment prices increase at the rate of 3.0% annually. We anticipate that 30.0% of the apartments will have been presold by the beginning of the third year, with the remaining units sold over five years at the rate of 14.0% of the units per year.

The cost of sales and marketing at the rate of 10.0% of sales and transfer taxes totaling 1.825% of sales were deducted from the gross proceeds from the sale of apartment units to arrive at the net proceeds from the sale of residential apartments.

Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Henry Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$110.00 per square foot. We applied a height multiplier for the six-story Henry Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$200.00 per square foot.

We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000.

The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

COST ESTIMATION - 340 Henry Street/97 Amity Street

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$17.09
41/2	Ceiling		\$2.36
41/2	Partitions		\$24.60
41/3	Plumbing		\$9.44
41/3	Sprinkler		\$2.63
41/4	HVAC		\$10.73
41/4	Electrical		\$11.78
41/7	Roof Cover		\$2.71
42/7	Appliances		\$28.67
		Total	\$110.00
<u>Multipliers</u>			
41/8	Height Multiplier	1.00750	\$110.83
99/3	Current Cost: Eastern A	1.04	\$115.26
99/9	Locality: Brooklyn A	1.41	\$162.52
		Total	\$162.52
<u>Fees</u>			
	Architect/Engineer	6%	\$9.75
	Contingency	15%	\$24.38
		Total	\$196.65

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of discount rates from 5.00% to 14.00% and an average of 8.04%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings is 8.10%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Henry Building as converted to residential condominiums as of October 1, 2013 is \$32,800,000.



340 Henry Street/97 Amity Street Conversion to Residential Condominium Units							
Assumptions							
Unit Data	# of Apartments	Total Residential Useable Sq.Ft.	Average S.F. Per Apt. Unit	Sales Price P.S.F.	Avg. Sale Price Per Apt.		
Total Area	109	109,125	1,000	\$775	\$775,000		
Construction & Sellout Period For Units:	84 months						
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales						
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% City + 1.425% State)						
Operating Expenses During Sellout:	\$10.00						
Real Estate Taxes During Sellout	\$5.00						
Total Residential Floor Area	109,125 sq. ft. gross area less 20.0% for lobby, circulation, & corridors						
Square Footage for Operating Expenses:	145,500 sq. ft. gba						
Square footage for Tax Expenses:	145,500 sq. ft. gba						
Discount Rate for Condo	6.0%						
Entrepreneur Incentive	15.0%						
Legal Cost for Conversion	\$300,000						
Cost to Convert to Apartments	\$200 per sq.ft.						
	Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
General Inflation Growth Rate:	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Sales Price per square foot	\$775	\$798	\$822	\$847	\$872	\$898	\$925
Operating Expenses	\$10.00	\$10.30	\$10.61	\$10.93	\$11.26	\$11.59	\$11.94
Real Estate Taxes	\$5.00	\$5.15	\$5.30	\$5.46	\$5.63	\$5.80	\$5.97
Income From Residential Condominium Component:							
	Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
Proceeds From Sale of Residential Units	\$0	\$0	\$39,477,813	\$14,181,304	\$14,606,743	\$15,044,945	\$15,496,294
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)	\$0	\$0	<u>(\$4,668,251)</u>	<u>(\$1,676,939)</u>	<u>(\$1,727,247)</u>	<u>(\$1,779,065)</u>	<u>(\$1,832,437)</u>
Net Proceeds From Sale of Residential Units	\$0	\$0	\$34,809,562	\$12,504,365	\$12,879,496	\$13,265,881	\$13,663,857
Less Operating Expenses Carried	\$0	\$0	\$645,405	\$498,575	\$342,355	\$176,313	\$0
Less Real Estate Taxes Carried	<u>\$543,175</u>	<u>\$559,470</u>	<u>\$322,702</u>	<u>\$249,288</u>	<u>\$171,178</u>	<u>\$88,156</u>	<u>\$0</u>
Total Expenses	\$543,175	\$559,470	\$968,107	\$747,863	\$513,533	\$264,469	\$0
Prerenovation Cost Cash Flow From Sale of Residential Units	(\$543,175)	(\$559,470)	\$33,841,454	\$11,756,502	\$12,365,963	\$13,001,411	\$13,663,857
Less: Legal Cost for Conversion	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0
Less: Apartment Upgrade Cost	\$14,550,000	\$14,986,500	\$0	\$0	\$0	\$0	\$0
Total Conversion Cost	\$14,850,000	\$14,986,500	\$0	\$0	\$0	\$0	\$0
Less: Entrepreneur Incentive	\$2,227,500	\$2,247,975	\$0	\$0	\$0	\$0	\$0
	\$17,077,500	\$17,234,475	\$0	\$0	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units	(\$17,620,675)	(\$17,793,945)	\$33,841,454	\$11,756,502	\$12,365,963	\$13,001,411	\$13,663,857
Net Present Value of Condo Sell-Out	\$32,759,656						
Indicated Value	\$32,800,000 Rounded						
\$/Square Foot of GBA	\$225						

EXECUTIVE SUMMARY – Polhemus Building – 350 Henry Street

The property that is the subject of this report consists of medical office building located on the main campus of SUNY Downstate Medical Center formerly Long Island College Hospital in the Cobble Hill neighborhood in the Borough of Brooklyn, City and State of New York. The building is identified on the New York City Tax Rolls as Block 295 Lot 21.

Effective Date of Value:	October 1, 2013
Date of Inspection:	September 26, 2013
Purpose of Appraisal:	The purpose of this report is to provide an opinion of the fair market value of the subject property in accordance with its highest and best use.
Zoning:	R6 Residential District in the Cobble Hill Historic District
Site Description – 350 Henry Street:	The site is a 6,834 square foot site located on the southwest corner of Amity and Henry Streets in the Cobble Hill section of the borough of Brooklyn. The site has 67 feet of frontage on Henry Street and 102 feet of frontage on Amity Street.
Building Description – 350 Henry Street:	The site is improved with an eight-story plus basement historic landmark structure that contains 51,600 square feet of above-grade gross building area. The building was used for hospital administrative offices, doctor’s offices, and nurses training.

Valuations – 350 Henry Street

Cost Approach:	NA
Sales Comparison Approach:	NA
Income Approach:	
Direct Capitalization	
For Medical Office Use:	\$6,150,000
For Rental Apartment Use:	\$6,600,000
Residual Discounted Cash Flow	
For Residential Condominiums:	\$12,800,000
Reconciled Value:	\$12,800,000
	\$248.06 per square foot of GBA



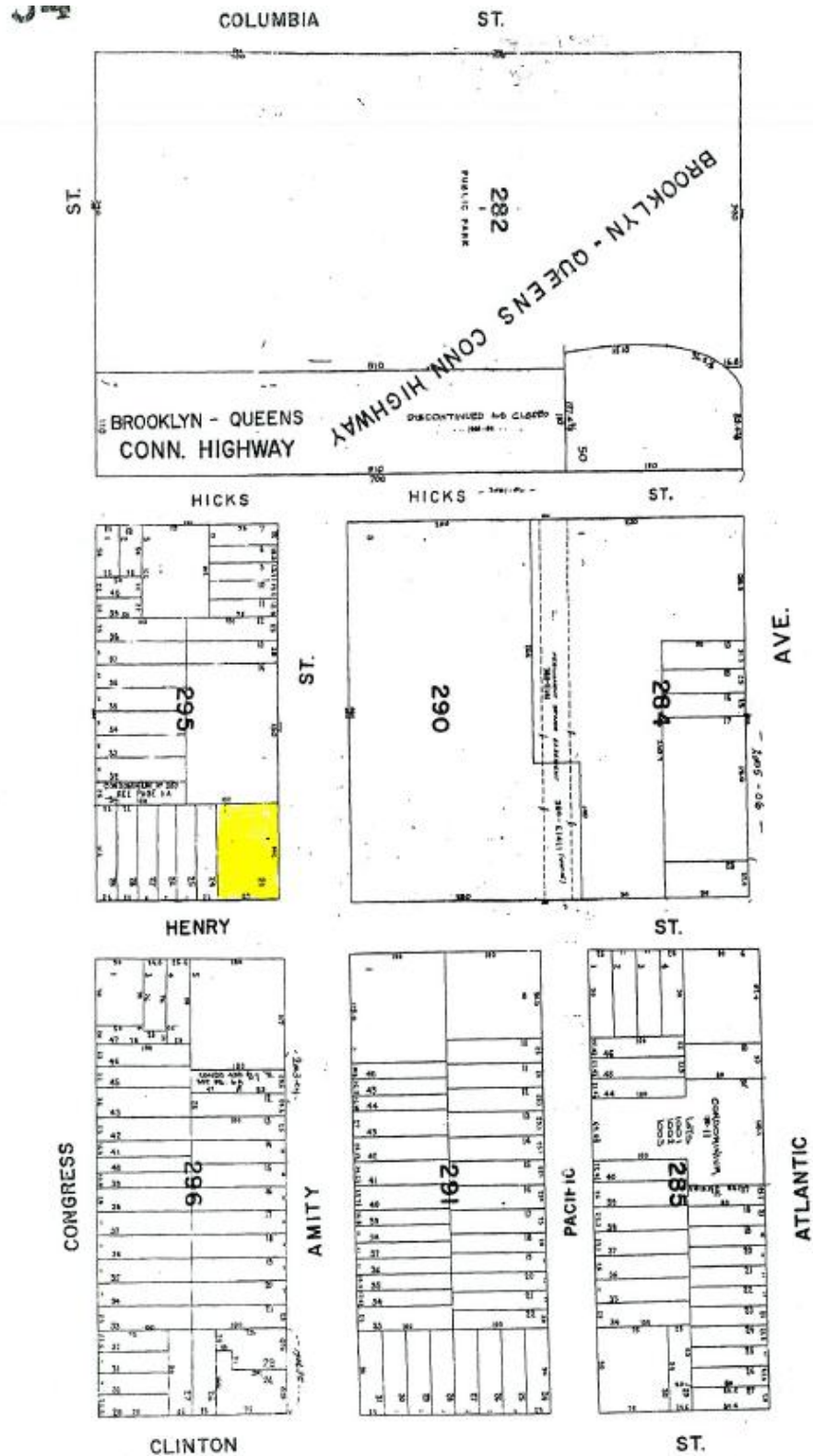
Subject Photo – 350 Henry Street



350 Henry Street – Polhemus Building

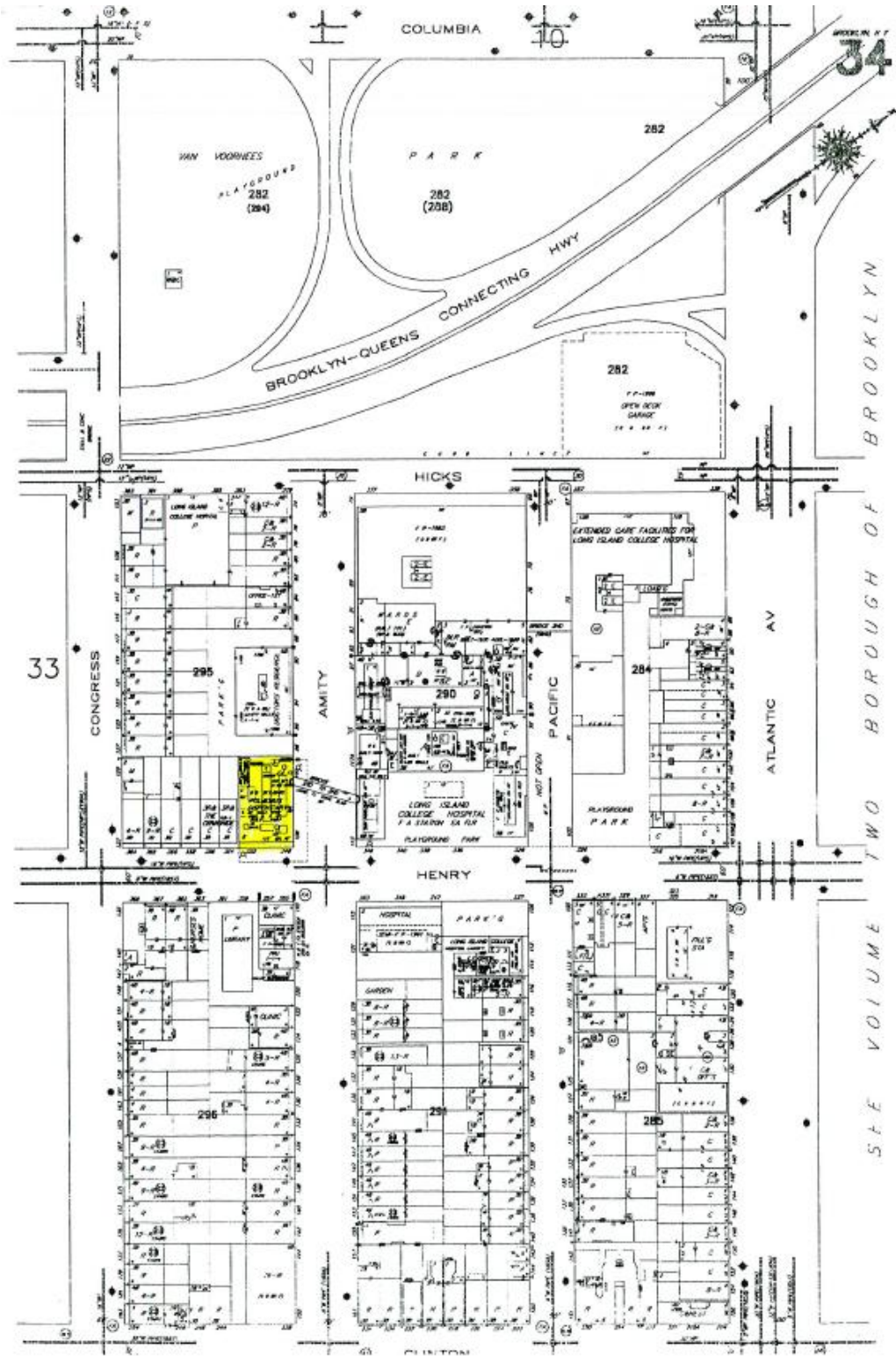


Tax Map – 350 Henry Street





Overlay Tax Map



PROPERTY DESCRIPTION

Site Description – 350 Henry Street, Polhemus Building

The subject site is located on the southwest corner of Amity and Henry Street in the Cobble Hill section of Brooklyn. The site has 67 feet of frontage along the west side of Henry Street and 102 feet of frontage along the south side of Amity Street for a total site area of 6,834 square feet. Amity Street is an east and west bound street and Henry Street is a one-way south bound street.

Site improvements include street lights and concrete curbs and sidewalks. There is one curb cut that provides access to a garage off Amity Street.

Building Description – 350 Henry Street, Polhemus Building

The Polhemus Building was constructed in 1850 and formerly housed the Departments of Surgery and Anesthesia faculty practices and offices, the Allergy and Asthma Clinic and some support offices. Most of the structure is currently vacant including the nursing classroom on the eighth floor and nursing staff offices on the seventh floor. There are two unused amphitheatres in the building and the building is landmarked as well as located in the Cobble Hill Historic District Extension. The building was nearly empty at the time of inspection.

Basement: There is an unfinished basement and partial sub basement in the building. The basement has the employee locker rooms and heating systems. Steam comes from the central heating plant in the Polak Building. The basement has the mechanical rooms, storage, and some administrative and housekeeping offices. The basement floor has standing water in some places and rotted steel support columns.

Staircases and Elevator: There is a 3,000 lb. capacity elevator that has a metal cab and services all 8 floors (not the basement). There is a main spiral staircase that opens to the floors above. It has marble wainscoting, wide steel risers, metal balustrade, and very ornate appearance. However, it probably would not conform to today's fire codes. There is a second, smaller staircase at the westerly end of the building.

First Floor: Access to the building is via Henry Street to a manned vestibule and small lobby that accesses the main stairway and the elevator. There is a second entrance from Amity Street that enters into a private office and back stairway. The lobby has old tile flooring and vaulted ceiling heights. The offices are finished with old style fixtures, some temporary partitions, private as well as open offices, and examination rooms. The ceiling in the offices has drop tiles with recessed fluorescent tube lighting. The office floor has a combination of carpeting and tiles. The office has a receptionist area with waiting room for patients, private consulting rooms, public lavatories, and examination rooms. The first and second floors formerly housed the Surgery Department offices and administration which

are now vacant.

- Second Floor:** This floor has another medical office with receptionist area and waiting room, private consulting rooms, lavatories, and examination rooms. There is also a large conference room with staff lounge with small kitchen facilities. Again there is a front main stairway and rear stairway. The second floor is vacant.
- Third Floor:** This floor has beautifully restored woodworking and stained glass panels in some offices and in the hallway. The main offices have decorative wood ceilings and elaborate ceiling lighting fixtures. There are wood panels and bookshelves lining some of the walls and very ornate ceiling moldings. This floor has a walkway bridge access to the Henry Street building over Amity Street and the lower level of one amphitheater in the building. This amphitheater has older theater seating on the tiers and a stage for the instructor at the base. This level formerly housed the Anesthesia Department offices and administration. One of the offices was occupied.
- Fourth Floor:** Most of the fourth floor is the top level of the amphitheater with approximately 2,000 square feet. There is a small area of offices which are in older condition with dated fixtures and wall and floor coverings. The amphitheater can be accessed at both the third and fourth floor levels. This level formerly housed the Anesthesia department, Pain Management, and part of the Surgery Department offices.
- Fifth Floor:** This level is the lower level of the amphitheater and again the offices are dated and in older condition. There is a stage in the amphitheater at this level and access is from both the fifth and sixth floors. The fifth level formerly housed the Nursing & Education administrative offices, Hematology/Oncology Department, and Biomedical administrative offices.
- Sixth Floor:** Most of the sixth floor is the top level of the second amphitheater with offices around the perimeter of the floor. The offices are older style with dated floor and wall coverings and housed the Asthma and Allergy Clinic and Research Department. There are examination rooms, consulting rooms, and the receptionist area and waiting room.
- Seventh Floor:** This floor has a larger office area due to absence of the amphitheatres. There is a large open office and smaller private offices around the perimeter of the building.
- Eighth Floor:** This floor has a large open classroom in the center with smaller offices and public lavatories on the perimeter. There is stairway access to the roof via a metal spiral staircase. The finishes on this floor have dated floor and wall coverings. This floor has the open front stairway that is featured

throughout the building but the rear stairway is smaller and closed, more typical of rear stairways.

Roof: The roof is newer and there are excellent views of Manhattan, downtown Brooklyn, and the East River from the roof. The roof is a slanted, built up rubber membrane with tile coping, brick parapet and many skylights. It is accessed by a very narrow spiral staircase from the eighth floor.

Windows: Most of the windows are newer double-hung, double pane units and there are some older wood-framed windows. Some windows have air condition units.

Mechanicals: The heating system includes circulating steam from the main power plant. The electric system has 1600 amp and 450 volts. The building has a Class C fire alarm system that was installed in the late 1990s.

Comments: Many features of the building are interesting because of the high quality of the construction in 1850. Doors to the offices are solid oak paneled doors, some with windows, and the staircases have elaborate railings with wide steel risers. Some walls are marble wainscoting and some woodwork in the offices, particularly on the third floor, are beautifully restored. However the building is generally in very old condition with old mechanicals and many walls and floor coverings are dated, worn, and appear very old. The two amphitheaters are unused and in a state of disrepair. There are many old very ornate light fixtures throughout the building and many of the wood walls and doors are in a poor state of repair. The stairways have many large open pipes that are used for heat or sprinkler systems to the building.

ASSESSED VALUE AND REAL ESTATE TAXES

The Polhemus Building is listed on the New York City tax rolls as Block 295 Lot 21. The property is classified as Class 4 and is completely exempt from property taxes. The 2013/2014 assessed valuation and estimate of taxes are as follows:

<u>350 Henry Street</u>	<u>Block 295</u>	<u>Lot 21</u>
2013/2014	Actual	Transitional
Land	\$288,450	\$285,660
Improvements	<u>\$2,952,450</u>	<u>\$2,959,830</u>
Total	\$3,240,900	\$3,245,490
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$333,424	
Assessor's 100% Market Value	\$7,202,000	

The tax assessor assigns two values to each property, the “transitional” and “actual” values. The

transitional value represents an interim assessment. When a property's target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessments is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 6,834 square feet of land area. The Polhemus Building with medical offices was constructed on Block 295 Lot 21 in 1850 with a total of 51,600 square feet of gross building area or approximately 7.55 FAR. As constructed with a total of 51,600 square feet of gross floor area, the building is overbuilt.

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

The Polhemus Building was constructed in 1850. According to the Zoning Resolution, buildings constructed before December 15, 1961 are permitted to convert the entire existing floor area of the building to residential use. Due to the advanced age of the Henry Building, a variance to convert the entire building to an alternate legal use is unnecessary. The building is located in the extended Cobble Hill Historic District and as such must comply with the regulations of the Landmark Preservation Commission (LPC) when making alterations to the building.

HIGHEST AND BEST USE

The same methodology was used to determine the highest and best use for each of the subject properties. Each section will fully describe and conclude to the highest and best use as it pertains to the individual property.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and community facility uses. Our understanding of the Zoning Resolution is that community

facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 6,834 square foot site is 16,607 square feet of floor area and 32,803 square feet for community facility use on the lot that is improved with the Polhemus Building.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is the development of residential condominiums to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is improved with an eight-story medical office building that is built in excess of the FAR permitted by Zoning Regulations. The subject property is located in an R6 residential zone which permits residential and community facility uses. Since the Polhemus Building was constructed prior to December 16, 1961, its entire floor area can be converted to another legal use as of right. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone. The Polhemus Building is located in a Historic District and as such must comply with the Historic Preservation Commission regulations when making changes to the building.

Physically Possible

The existence of the improvements attests to the physical possibility of using the buildings.

Financially Feasible

In the analysis the Polhemus Building as medical offices, rental apartment buildings, or residential condominiums, all three of the alternative uses produced a positive investment return and are, therefore financially feasible.

<i>350 Henry Street - Polhemus Building</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$12,800,000
Medical Office Conversion	Direct Capitalization	\$6,150,000
Rental Apartment Building Conversion	Direct Capitalization	\$6,600,000
Reconciled Value - Highest & Best Use		\$12,800,000

Demand for residential condominiums in Brooklyn is strong and supported by statistics reported in the third quarter 2013 Prudential Douglas Elliman Report. The average sale price increased 25.2%, the median sale price increased 20.5%, and the average price per square foot increased 19.7% during that same one-year time period. Dwindling supply of condominiums in Brooklyn coupled with increasing sales prices is an indication of a strong market for condominiums. The new development condo sales accounted for 14.6% of all borough sales which is consistent with the four-year average of 15.2%.

<i>New Development Condominiums - Brooklyn Third Quarter 2013</i>			
	3rd Qtr 2013	% Change	3rd Qtr 2012
Average Sales Price	\$942,547	25.2%	\$752,957
Average Price per Square Foot	\$880	19.7%	\$735
Median Sales Price	\$750,000	20.5%	\$622,395
Number of Sales	197	-29.1%	278
Days on Market	104	0.0%	104
Listing Discount	1.70%		1.80%

Source: The Elliman Report - Brooklyn Sales 3rd Quarter 2013

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is conversion of the entire structure to residential condominiums and selling them out over a period of seven years.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the Polhemus Building, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. In the absence of recent large medical office building sales in the boroughs and because the highest and best use of the Polhemus Building is for conversion to residential condominiums, the sales comparison approach was not used. The age of the building and the difficulty in estimating depreciation of the hospital buildings in the cost approach made the resulting value derived from the cost approach irrelevant.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the Polhemus Building as converted to residential condominiums. In support of our determination of the highest and best use, we used direct capitalization to indicate the value of the building as converted to medical office use and as converted to a rental apartment building. We concluded the highest and best use of the Polhemus Building and the use that produced the greatest return on the investment was conversion and sellout of residential condominiums.

The Polhemus Building has a gross building area of 51,600 square feet. In the conversion of the building to residential condominiums, medical office use, or as a rental apartment building, we deducted a loss factor of 25.0% of the gross area to arrive at a useable area of 38,700 square feet.

Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 25.0% loss factor.

Direct Capitalization – Conversion to Medical Office Building Use

By use of direct capitalization, we estimated the value of the Polhemus Building as converted to medical offices in a similar manner used in previous sections of this report. Because the buildings are very similar in proposed uses, we used the same income and expense assumptions. Direct capitalization was used to estimate the value of the Polhemus Building as converted to medical office building use.

Applying an overall capitalization rate of 6.50% to the projected NOI of \$1,300,900 results in a value indication of \$20,013,846. It would require approximately three years to renovate and lease the offices. We deducted the lost rent over the three-year period, work letters to modify the space for tenant's use, and leasing commissions of 32.0% of the first year's rent. We also deducted the cost to renovate and convert the hospital building into medical office space at the rate of \$150.00 per square foot. The Polhemus Building has a lovely wide spiral staircase that extends from the first floor to the eighth floor that would not comply with fire codes for modern residential buildings. In addition, there are two amphitheaters in the building that would need extensive renovations to convert to residential use. The indicated value of the Henry Building as converted to medical offices was rounded to \$6,150,000.

Medical Office Use

350 Henry Street - Polhemus

51,600 sq. ft.

Income

Income from Offices	@	\$45.00 per sq. ft.	\$2,322,000
Less Vacancy & Credit Loss	@	10.00%	<u>-\$232,200</u>
Effective Gross Income			\$2,089,800

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$516,000
Miscellaneous	@	\$0.04	\$2,000
Reserves for Replacements	@	\$0.25	\$12,900
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$258,000</u>
Total Expenses		\$15.29	<u>\$788,900</u>

Net Operating Income \$1,300,900

Capitalization Rate 6.50%

"As Stabilized" Market Value		\$20,013,846
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$1,938,870
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$1,172,610
Less: Rent Loss (Year 2: 100% Leased)	100%	-\$394,740
Less: Work Letters (\$25 Per Sq.Ft.)		-\$1,290,000
Less: 3 Months of Free Rent		-\$580,500
Less: Leasing Commissions (32% of 1st Year Rent)		<u>-\$743,040</u>
"As Is" Market Value		\$13,894,086
Less Conversion Costs @ \$150.00 per square foot		<u>-\$7,740,000</u>
Indicated Value		\$6,154,086
Rounded		\$6,150,000

Potential Gross Income and Expenses

The same comparable rents for general offices and medical offices previously used in this report were used to estimate the rent for the Polhemus Building. Our estimate for the Polhemus Building medical office rent is \$45.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 10.0% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for office buildings were used to estimate the expenses and real estate taxes for the Polhemus Building as were used for the previous hospital buildings. The reconciled operating expenses total \$10.29 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the other hospital buildings, the capitalization rate for the Polhemus Building conversion to medical offices was 6.5%.

Conversion Costs

Conversion costs for the Polhemus Building as a medical office building were taken from Marshal & Swift Valuation and were estimated at \$150.00 per square foot.

Conclusion – Medical Office Building Conversion

Based on this analysis the indicated value of the Polhemus Building as converted to a medical office building as of October 1, 2013, is rounded to \$6,150,000 after deducting lease-up costs, rent loss during the conversion period, and conversion costs.

Direct Capitalization – Conversion to a Rental Apartment Building

By use of direct capitalization, we estimated the value of the Polhemus Building as converted to a rental apartment building in the same manner as the other hospital buildings in previous sections of this report. Because the buildings are very similar in proposed use, we used the same income and expense assumptions. We used direct capitalization to estimate the value of the Polhemus Building as if converted to a rental apartment building.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$1,202,860 results in a value indication of \$20,047,667. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the hospital building into rental apartments at the rate of \$200.00 per square foot. The indicated value of the Polhemus Building as converted to medical offices was rounded to \$6,600,000.

Rental Apartment Building Conversion

350 Henry Street - Polhemus

51,600 sq. ft.

Income

Income from Apartment Rent	@	\$50.00 per sq. ft.	\$2,064,000
Less Vacancy & Credit Loss	@	3.50%	<u>-\$72,240</u>
Effective Gross Income			\$1,991,760

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$516,000
Miscellaneous	@	\$0.04	\$2,000
Reserves for Replacements	@	\$0.25	\$12,900
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$258,000</u>
Total Expenses		\$15.29	<u>\$788,900</u>

Net Operating Income \$1,202,860

Capitalization Rate 6.00%

Indicated Market Value Before Leaseup & Construction Costs		\$20,047,667
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$1,723,440
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$1,042,320
Less: Rent Loss (Year 2: 100% Leased)	100%	<u>-\$350,880</u>
Indicated Market Value		\$16,931,027
Less Conversion Costs @ \$200.00 per square foot gba		<u>-\$10,320,000</u>
Indicated Value		\$6,611,027
Rounded		\$6,600,000

Potential Gross Income and Expenses

The same comparable rents for neighborhood apartments were used to estimate the rent of the apartments at the converted Polhemus Building as for the other hospital buildings. Our estimate for the Polhemus Building apartment rent is \$50.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 3.50% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for apartment buildings were used to estimate the expenses and real estate taxes for the Polhemus Building as were used for the other hospital buildings. The reconciled operating expenses total \$10.29 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the other hospital buildings, the capitalization rate for the Polhemus Building conversion to a rental apartment building is 6.0%.

Conversion Costs

Conversion costs for the Polhemus Building as a rental apartment building were estimated at \$200.00 per square foot. The costs are based on Marshall & Swift Cost Estimates for apartment buildings.

Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the Polhemus Building as converted to a rental apartment building as of October 1, 2013, is rounded to \$6,600,000 after deducting rent loss during the conversion period and construction conversion costs.

Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the Polhemus Building and sell the apartments over a seven-year period at market rates in the same manner as the other hospital buildings in the previous sections of this report.

We prepared a discounted cash flow (DCF) analysis wherein the first year is estimated to be the time needed to convert the Polhemus Building into residential condominiums and the remaining three years of the DCF are the sellout period for the apartments. The Polhemus Building has a gross building area of 51,600 square feet of which approximately 25% is a loss factor resulting in a useable area of 38,700 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current average sale price is \$825,000 per apartment, \$825.00 per square foot.

DCF Assumptions:

Construction Period:	12 months
Sellout Period:	36 months
Real Estate Taxes:	\$5.00 per square foot
Operating Expenses:	\$10.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$200.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	
Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales

State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted Polhemus Building is based on the previous analysis of the other hospital buildings in sections of this report. We chose an average sale price of \$825.00 per square foot for the new apartments. The apartment sale price estimate for the Polhemus Building is at the higher end of the range because the building is located in the Historic District and there is a premium to the quality of the building.

The estimated apartment costs increases at the rate of 3.0% annually. We anticipate that 50.0% of the apartments will have been presold by the beginning of the second year, with the remaining units sold over two years at the rate of 25.0% of the units per year.

The cost of sales and marketing at the rate of 10.0% of sales and transfer taxes totaling 1.825% of sales were deducted from the gross proceeds from the sale of apartment units to arrive at the net proceeds from the sale of residential apartments.

Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Polhemus Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$111.00 per square foot. We applied a height multiplier for the eight-story Polhemus Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$200.00 per square foot.

We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000.

The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

COST ESTIMATION - Polhemus Building - 350 Henry Street

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$17.09
41/2	Ceiling		\$2.36
41/2	Partitions		\$24.60
41/3	Plumbing		\$9.44
41/3	Sprinkler		\$2.63
41/4	HVAC		\$10.73
41/4	Electrical		\$11.78
41/7	Roof Cover		\$2.71
42/7	Appliances		\$28.92
		Total	\$110.26
<u>Multipliers</u>			
41/8	Height Multiplier	1.01250	\$111.64
99/3	Current Cost: Eastern A	1.04	\$116.10
99/9	Locality: Brooklyn A	1.41	\$163.70
		Total	\$163.70
<u>Fees</u>			
	Architect/Engineer	6%	\$9.82
	Contingency	15%	\$24.56
		Total	\$198.08

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of discount rates from 5.00% to 14.00% and an average of 8.04%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings is 8.10%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Polhemus Building as converted to residential condominiums as of October 1, 2013 is \$12,800,000.

Polhemus Building, 350 Henry Street Conversion to Residential Condominium Units					
Assumptions		Total Residential	Avg. Sq.Ft.	Sales	Average
Unit Data	# of Apts.	Sq.Ft.	Per Apt.	Price P.S.F.	Sales Price
Total Area	39	38,700	1,000	\$825	\$825,000
Avg. Sellout Period For Units:	36 months				
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales				
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% State + 1.425% City)				
Operating Expenses During Sellout:	\$10.00				
Real Estate Taxes During Sellout	\$5.00				
Total Residential Gross Floor Area	38,700 sq. ft. gross area less 25.0% for lobby, circulation, & corridors				
Square Footage for Operating Expenses:	51,600 sq. ft. gba				
Square footage for Tax Expenses:	51,600 sq. ft. gba				
Discount Rate for Condo	6.0%				
Entrepreneur Incentive	15.0%				
Legal Cost for Conversion	\$300,000				
Cost to Convert to Apartments	\$200.00 per sq.ft.				
		Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 65-Sep 17
General Inflation Growth Rate:		-	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate		-	3.00%	3.00%	3.00%
Average Sales Price		\$825	\$850	\$875	\$901
Operating Expenses		\$10.00	\$10.30	\$10.61	\$10.93
Real Estate Taxes		\$5.00	\$5.15	\$5.30	\$5.46
Income From Residential Condominium Component:		Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 65-Sep 17
Proceeds From Sale of Residential Units		\$0	\$16,442,663	\$8,467,971	\$8,722,010
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)		<u>\$0</u>	<u>(\$1,944,345)</u>	<u>(\$1,001,338)</u>	<u>(\$1,031,378)</u>
Net Proceeds From Sale of Residential Units		\$0	\$14,498,318	\$7,466,634	\$7,690,633
Less Operating Expenses Carried		\$0	\$265,740	\$273,712	\$0
Less Real Estate Taxes Carried		<u>\$258,000</u>	<u>\$132,870</u>	<u>\$136,856</u>	<u>\$0</u>
<i>Total Expenses</i>		<u>\$258,000</u>	<u>\$398,610</u>	<u>\$410,568</u>	<u>\$0</u>
Prerenovation Cost Cash Flow From Sale of Residential Units		(\$258,000)	\$14,099,708	\$7,056,065	\$7,690,633
Less: Legal Cost for Conversion		\$300,000	\$0	\$0	\$0
Less: Apartment Upgrade Cost		<u>\$10,320,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Conversion Cost		\$10,620,000	\$0	\$0	\$0
Less: Entrepreneur Incentive		<u>\$1,593,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
		\$12,213,000	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units		(\$12,471,000)	\$14,099,708	\$7,056,065	\$7,690,633
Net Present Value of Condo Sell-Out		\$12,799,705			
Indicated Value		\$12,800,000	Rounded		
\$/Square Foot		\$248			

EXECUTIVE SUMMARY – 349 Henry Street

Addresses: 349 Henry Street, Brooklyn, NY

Neighborhood: Cobble Hill

Tax Block/Lot: Block 291 Lot 1

Zoning: R6

Improvements: The 11,533 square foot site is improved with five-story medical office building that is used for out-patient clinics. The building was renovated in 2002.

Highest & Best Use: Continued medical office building use

Inspection Date: September 26, 2013

Date of Value: October 1, 2013

Valuations:

Cost Approach: NA

Sales Comparison Approach
Medical Office Use: \$19,200,000

Income Approach:

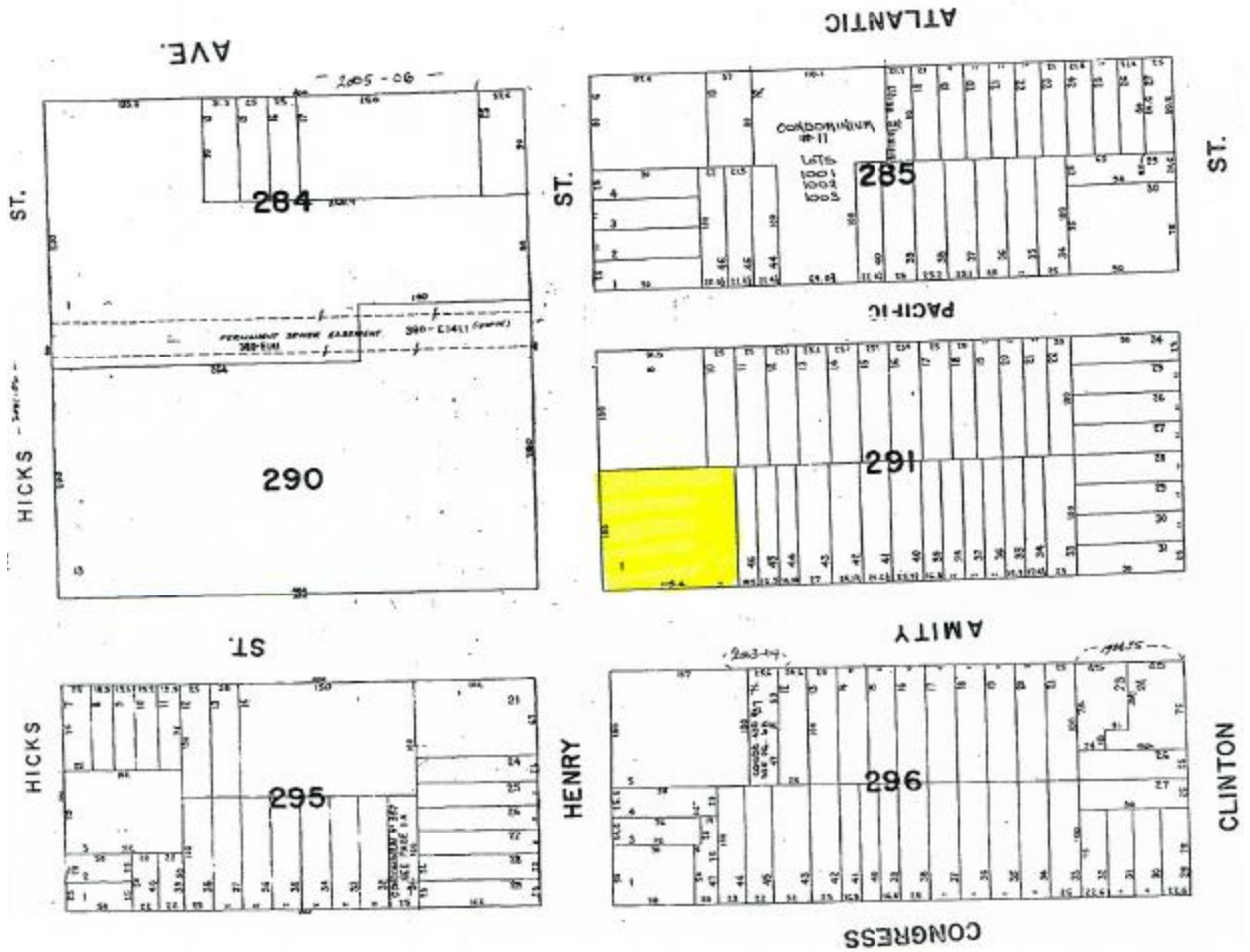
Direct Capitalization
For Medical Office Use: \$15,600,000
For Rental Apartment Use: \$6,100,000

Residual Discounted Cash Flow
For Residential Condominiums: \$11,900,000

Reconciled Value: \$19,200,000
\$399.88 per square foot of GBA



Tax Map – 349 Henry Street



349 Henry Street – Block 291 Lot 1

Subject Photo – 249 Henry Street



349 Henry Street – Front View Property Description

Site

The subject site is located on the northeast Corner of Henry and Amity Streets in the Cobble Hill section of Brooklyn. The building is located across the street from the hospital main campus. The rectangular site has 100 feet of frontage on the east side of Henry Street and 115.3 feet of frontage on the north side of Amity Street for a total land area of 11,533 square feet. Site improvements include concrete sidewalk and curbs, decorative wrought iron fencing, and some chain link fencing.

Improvements

The site is improved with a five-story medical office building that contains 48,015 square feet of gross building area. The building was completely gut renovated in 2002 and it is used for out-patient care clinics and offices.

Façade and Roof: The façade of the building is a combination of brick and metal with metal-framed double paned windows.

Mechanicals: The building is heated by the boilers located in the adjacent building at 112 Pacific Street which are fueled by the hospitals steam plant. The building has two elevators that service the basement to fifth floor. One elevator has 2,000 lb. capacity and the other elevator has 4,000 lb. capacity.

First Floor: The first floor has a reception area and pharmacy plus endocrinology offices.

Floors Two – Five: These floors are essentially designed the same with an elevator bank that leads to the receptionist and waiting rooms on the northerly end of the building. A center hallway runs along the length of the building and there are offices, examination rooms, lavatories, and various storage and file rooms along each side of the hallway. The offices are modern and bright with natural lighting from the large windows. The ceiling has drop ceiling tiles with recessed fluorescent lighting and there are commercial coverings on the floors.

Basement: The basement has open offices and administrative offices, employee lounge and employee health services. The basement is sprinkled.

Comments: The building was completely renovated in 2002 which included two new elevators, new windows, plumbing, central air conditioning, and new office floor and wall coverings. The building reportedly has zoned control heating and cooling system. It is wired for efficient communications.

ASSESSED VALUE AND REAL ESTATE TAXES

The subject property at 349 Henry Street is listed on the New York City tax rolls as Block 291 Lot 1. The property is classified as Class 4 and is completely exempt from property taxes. The 2013/2014 assessed valuation and estimate of taxes are as follows:

<u>349 Henry Street</u>	<u>Block 291</u>	<u>Lot 1</u>
2013/2014	Actual	Transitional
Land	\$1,890,000	\$1,890,000
Improvements	<u>\$38,731,950</u>	<u>\$38,973,690</u>
Total	\$40,621,950	\$40,863,690
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$4,179,186	
Assessor's 100% Market Value	\$90,271,000	

The tax assessor assigns two values to each property, the “transitional” and “actual” values. The transitional value represents an interim assessment. When a property’s target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessments is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 11,533 square feet of land area. The building with medical offices was constructed on Block 291 Lot 1 in the 1948 with a total of 48,015 square feet of gross building area or approximately 4.16 FAR. As constructed with a total of 48,015 square feet of gross floor area, the building is overbuilt for residential use but complying for community facility use.⁹

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that “...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof.”

The subject building was constructed in the 1948. According to the Zoning Resolution, buildings constructed before December 15, 1961 are permitted to convert the entire existing floor area of the building to residential use. Due to the advanced age of the subject building, a variance to convert the entire building to an alternate legal use is unnecessary.

HIGHEST AND BEST USE

The same methodology was used to determine the highest and best use for each of the subject properties. Each section will fully describe and conclude to the highest and best use as it pertains to the individual property.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

⁹ The New York City Department of Finance records indicate that the gross building area is 48,015 square feet.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and community facility uses. Our understanding of the Zoning Resolution is that community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone. If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 11,533 square foot site is 28,025 square feet of floor area and 55,358 square feet for community facility use on the lot that is improved with the medical office building at 349 Henry Street.

Physically Possible

The rectangular configuration and level topography of the site would support either residential or community facility use.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is the development of residential condominiums to the maximum bulk permitted by zoning regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is improved with a five-story medical office building that is built in excess of the FAR permitted by Zoning Regulations for residential use, but is complying for community facility use. The subject property is located in an R6 residential zone which permits residential and community facility uses. As-of-right, only 2.43 FAR of the existing floor area could legally be converted to residential use. The building was constructed prior to December 16, 1961 which means the entire floor area of the building can be converted to another legal use without obtaining a variance from BSA. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

The existence of the improvements attests to the physical possibility of using the building.

Financially Feasible

In the analysis the subject building as medical offices, rental apartment buildings, or residential condominiums, all three of the alternative uses produced a positive investment return and are, therefore financially feasible.

<i>349 Henry Street - Medical Offices</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$11,900,000
Medical Office Conversion	Direct Capitalization	\$15,600,000
Rental Apartment Building Conversion	Direct Capitalization	\$6,100,000
Medical Office Building	Sales Comparison	\$19,200,000
Reconciled Value - Highest & Best Use		\$19,200,000

The subject building was completely renovated in 2002 and has been operated as a multi-tenant medical office building since the renovations. The offices are modern, attractively finished, and competitive in the local market.

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is continued use as a medical office building.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the medical office building located at 349 Henry Street, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. The age of the building and the difficulty in estimating depreciation of the buildings in the cost approach made the resulting value derived from the cost approach irrelevant. Due to the good condition of the renovated medical offices at 349 Henry Street, the sales comparison approach was also used to indicate a value as continued medical office use.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the building as converted to residential condominiums. In support of our determination of the highest and best use, we used direct capitalization to indicate the value of the building as continued medical office use and as converted to a rental apartment building. We concluded the highest and best use of the subject building and the use that produced the greatest return on the investment was continued use as a medical office building.

The subject building has a gross building area of 48,015 square feet. In the conversion of the building to residential condominiums, medical office use, or as a rental apartment building, we deducted a loss factor of 20.0% of the gross area to arrive at a useable area of 38,412 square feet. Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 20.0% loss factor.

Direct Capitalization – Continued Medical Office Building Use

By use of direct capitalization, we estimated the value of the subject building as continued medical office use in a similar manner used in previous sections of this report. Because the buildings are very similar in proposed uses, we used the same income and expense assumptions. Direct capitalization was used to estimate the value of the subject building as continued medical office building use.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$1,210,379 results in a value indication of \$20,172,979. It would require approximately two years to lease the vacant medical office space. We deducted the lost rent over the two-year period, work letters to modify the space for tenant's use, and leasing commissions of 32.0% of the first year's rent. The indicated value of the subject building as continued medical office use was rounded to \$15,600,000.

Medical Office

349 Henry Street - Medical Clinic

48,015 sq. ft. GBA

Income

Income from Office	@	\$45.00 per sq. ft.	\$2,160,675
Less Vacancy & Credit Loss	@	10.00%	<u>-\$216,068</u>
Effective Gross Income			\$1,944,608

Expenses

Operating Expenses	@	per sq. ft. \$10.00	\$480,150
Miscellaneous		\$0.04	\$2,000
Reserves for Replacements	@	\$0.25	\$12,004
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$240,075</u>
Total Expenses		\$15.29	\$734,229

Net Operating Income \$1,210,379

Capitalization Rate 6.00%

"As Stabilized" Market Value		\$20,172,979
Less: Rent Loss (Year 1: 50% Leased)	50%	-\$1,620,506
Less: Rent Loss (Year 2: 100% Leased)	100%	-\$540,169
Less: Work Letters (\$25 Per Sq.Ft.)		-\$1,200,375
Less: 3 Months of Free Rent		-\$540,169
Less: Leasing Commissions (32% of 1st Year Rent)		<u>-\$691,416</u>
"As Is" Market Value		\$15,580,344
Rounded		\$15,600,000

Potential Gross Income and Expenses

The same comparable rents for general offices and medical offices were used to estimate the rent for the subject building as were used for the prior medical offices conversions in this report. Our estimate for the subject building medical office rent is \$45.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 10.0% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for office buildings were used to estimate the expenses and real estate taxes for the subject building as were used for the Fuller, Othmer, and Polak Pavilions. The reconciled operating expenses total \$10.29 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller, Othmer, and Polak Pavilions, the capitalization rate used for these medical office conversions was 6.5%. Because the subject building is currently operating as a modern medical office facility and the costs are limited to work letters for new tenants, the capitalization rate used for the subject building is 6.0%.

Conversion Costs

The subject building was renovated in 2002 and continues to operate as modern multi-tenant medical offices. Conversion costs are unnecessary.

Conclusion – Medical Office Building Conversion

Based on this analysis the indicated value of the medical office building located at 349 Henry Street as continued operating as a medical office building as of October 1, 2013, is rounded to \$15,600,000 after deducting lease-up costs, rent loss during the lease-up period, and work letters for the new tenants.

Direct Capitalization – Conversion to a Rental Apartment Building

By use of direct capitalization, we estimated the value of the subject building as converted to a rental apartment building in the same manner as the Fuller, Othmer, and Polak Pavilions analyses in the previous sections of this report. We used the same income and expense assumptions based on the same comparable income and expenses. We used direct capitalization to estimate the value of the subject building as if converted to a rental apartment building.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$1,119,150 results in a value indication of \$18,652,504. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the medical office building into rental apartments at the rate of \$200.00 per square foot. The indicated value of the subject building as converted to rental apartments was rounded to \$6,100,000.

Rental Apartment Building Conversion
349 Henry Street - Medical Clinic

48,015 sq. ft. GBA

Income

Income from Office	@	\$50.00 per sq. ft.	\$1,920,600
Less Vacancy & Credit Loss	@	3.50%	<u>-\$67,221</u>
Effective Gross Income			\$1,853,379

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$480,150
Miscellaneous		\$0.04	\$2,000
Reserves for Replacements	@	\$0.25	\$12,004
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$240,075</u>
Total Expenses		\$15.29	<u>\$734,229</u>

Net Operating Income \$1,119,150

Capitalization Rate 6.00%

Indicated Market Value Before Leaseup & Construction Costs		\$18,652,504
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$1,603,701
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$969,903
Less: Rent Loss (Year 3: 100% Leased)	100%	<u>-\$326,502</u>
Indicated Market Value		\$15,752,398
Less Conversion Costs @ \$200.00 per square foot gba		<u>-\$9,603,000</u>
Indicated Value		\$6,149,398
Rounded		\$6,100,000

Potential Gross Income and Expenses

The same comparable rents for neighborhood apartments were used to estimate the rent of the apartments at the converted subject building as for the Fuller, Othmer, and Polak Pavilions. Our estimate for the subject building apartment rent is \$50.00 per square foot.

Vacancy and Credit Loss

We applied a vacancy and collection loss factor of 3.50% to the potential gross income to determine the effective gross income of the building as fully rented.

Operating Expenses and Real Estate Taxes

The same comparable expenses for apartment buildings were used to estimate the expenses and real estate taxes for the subject building as were used for the Fuller, Othmer, and Polak Pavilions. The reconciled operating expenses total \$10.29 per square foot and the real estate taxes are \$5.00 per square foot.

Capitalization Rate Selection

As previously indicated in the valuation of the Fuller, Othmer, and Polak Pavilions, the

capitalization rate for the subject building conversion to a rental apartment building is 6.0%.

Conversion Costs

Conversion costs for the subject building as a rental apartment building were estimated at \$200.00 per square foot. The costs are based on Marshall & Swift Cost Estimates for apartment buildings.

Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the subject building located at 349 Henry Street as converted to a rental apartment building as of October 1, 2013, is rounded to \$6,100,000 after deducting rent loss during the conversion period and construction conversion costs.

Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the subject building and sell the apartments over a four-year period at market rates in a similar manner as the Fuller, Othmer, and Polak Pavilions in the previous sections of this report.

We prepared a discounted cash flow (DCF) analysis wherein the first year is estimated to be the time needed to convert the subject building into residential condominiums and the remaining four years of the DCF are the sellout period for the apartments. The subject building has a gross building area of 48,015 square feet of which approximately 20% is a loss factor resulting in a useable area of 38,412 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current sale price is \$775,000 per apartment, \$775.00 per square foot.

DCF Assumptions:

Construction Period:	12 months
Sellout Period:	36 months
Real Estate Taxes:	\$5.00 per square foot
Operating Expenses:	\$10.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$200.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	

Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales
State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted medical office building located at 349 Henry Street is based on the previous analysis in the Fuller, Othmer, and Polak Pavilions sections of this report. We chose an average sale price of \$775.00 per square foot for the new apartments. The apartment sale price estimate for the subject building is slightly lower than the other converted hospital apartments because the building has five floors and views from the building and configuration of the apartments are considered less desirable.

The estimated apartment prices increase at the rate of 3.0% annually. We anticipate that 50.0% of the apartments will have been presold by the beginning of the second year, with the remaining units sold over two years at the rate of 25.0% of the units per year.

The cost of sales and marketing at the rate of 10.0% of sales and transfer taxes totaling 1.825% of sales were deducted from the gross proceeds from the sale of apartment units to arrive at the net proceeds from the sale of residential apartments.

Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.29 per square foot for operating expenses and \$5.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Henry Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$111.62 per square foot. We applied a height multiplier for the five-story Henry Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$200.00 per square foot. We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000. The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

COST ESTIMATION - 349 Henry Street

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$17.09
41/2	Ceiling		\$2.36
41/2	Partitions		\$24.60
41/3	Plumbing		\$9.44
41/3	Sprinkler		\$2.63
41/4	HVAC		\$10.73
41/4	Electrical		\$11.78
41/7	Roof Cover		\$2.71
42/7	Appliances		\$30.28
		Total	\$111.62
<u>Multipliers</u>			
41/8	Height Multiplier	1.0050	\$112.18
99/3	Current Cost: Eastern A	1.040	\$116.67
99/9	Locality: Brooklyn A	1.410	\$164.50
		Total	\$164.50
<u>Fees</u>			
	Architect/Engineer	6.0%	\$9.87
	Contingency	15.0%	\$24.67
		Total	\$199.04

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of multifamily buildings in the national market. Korpacz indicates a range of discount rates from 5.00% to 14.00% and an average of 8.04%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings is 8.10%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the subject property located at 249 Henry Street as converted to residential condominiums as of October 1, 2013 is \$11,900,000.



349 Henry Street Conversion to Residential Condominium Units						
Assumptions		Total Residential	Avg. Sq.Ft.	Sales	Average	
Unit Data	# of Apts.	Sq.Ft.	Per Apt.	Price P.S.F.	Sales Price	
Total Area	38	38,412	1,000	\$775	\$775,000	
Avg. Sellout Period For Units:	36 months					
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales					
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% State + 1.425% City)					
Operating Expenses During Sellout:	\$10.00					
Real Estate Taxes During Sellout	\$5.00					
Total Residential Gross Floor Area	38,412 sq. ft. gross area less 25.0% for lobby, circulation, & corridors					
Square Footage for Operating Expenses:	48,015 sq. ft. gba					
Square footage for Tax Expenses:	48,015 sq. ft. gba					
Discount Rate for Condo	6.0%					
Entrepreneur Incentive	15.0%					
Legal Cost for Conversion	\$300,000					
Cost to Convert to Apartments	\$200 per sq.ft.					
			Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 65-Sep 17
General Inflation Growth Rate:			-	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate			-	3.00%	3.00%	3.00%
Average Sales Price		\$775	\$798	\$822	\$847	
Operating Expenses		\$10.00	\$10.30	\$10.61	\$10.93	
Real Estate Taxes		\$5.00	\$5.15	\$5.30	\$5.46	
Income From Residential Condominium Component:			Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 65-Sep 17
Proceeds From Sale of Residential Units		\$0	\$15,331,190	\$7,895,563	\$8,132,429	
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)		\$0	<u>(\$1,812,913)</u>	<u>(\$933,650)</u>	<u>(\$961,660)</u>	
Net Proceeds From Sale of Residential Units		\$0	\$13,518,276	\$6,961,912	\$7,170,770	
Less Operating Expenses Carried		\$0	\$247,277	\$254,696	\$0	
Less Real Estate Taxes Carried		<u>\$240,075</u>	<u>\$123,639</u>	<u>\$127,348</u>	<u>\$0</u>	
<i>Total Expenses</i>		<u>\$240,075</u>	<u>\$370,916</u>	<u>\$382,043</u>	<u>\$0</u>	
Prerenovation Cost Cash Flow From Sale of Residential Units		<u>(\$240,075)</u>	\$13,147,360	\$6,579,869	\$7,170,770	
Less: Legal Cost for Conversion		\$300,000	\$0	\$0	\$0	
Less: Apartment Upgrade Cost		<u>\$9,603,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
Total Conversion Cost		\$9,903,000	\$0	\$0	\$0	
Less: Entrepreneur Incentive		<u>\$1,485,450</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
		\$11,388,450	\$0	\$0	\$0	
Net Cash Flow From Sale of Residential Units		<u>(\$11,628,525)</u>	\$13,147,360	\$6,579,869	\$7,170,770	
Net Present Value of Condo Sell-Out		\$11,935,303				
Indicated Value		\$11,900,000	Rounded			
\$/Square Foot		\$248				

Sales Comparison Approach – Continued Medical Office Use

The major premise of the sales comparison approach is that the market value of a property is directly related to the prices of comparable competitive properties. Based on the principle of substitution, an informed purchaser will pay no more for a property than the cost of acquiring an alternative property with the same utility. The price paid is usually the result of an extensive shopping process in which the purchaser is constantly comparing available alternatives. This approach provides the most reliable indication of value when sales of similar properties are available and the necessary adjustments are few in number and relatively minor.

The sales comparison approach is used in this appraisal report to determine an opinion of value for the medical office building. We researched Brooklyn neighborhoods for sales of office buildings deemed comparable to the subject property. The sales are located throughout Brooklyn and the sale prices range from \$3,300,000 to \$10,000,000 for office buildings that range in unit prices from \$272 to \$827 per square foot. The contract dates range from December 2011 to April 2013.

The comparable sales adjustment grid on the next page is followed by an explanation of the elements of comparison, a comparable sales location map, and a description of the adjustments made to each comparable sale. A complete description, photograph, and tax map for each comparable medical apartment building sale is found in Volume III, the Comparable Sales Book, on Page 12.



Comparable Medical Office Building Sales Adjustment Grid – 349 Henry Street

	Subject	Office - 1	Office - 2	Office - 3	Office - 4	Office - 5
Address	349 Henry Street	1302 Kings Hwy	2095 Flatbush Ave.	1517 Voorhies St.	104 Gold Street	1413-21 Fulton St.
Neighborhood	Cobble Hill	Gravesend	Flatlands	Sheepshead Bay	Dumbo	Bedford Stuyvesant
Block/Lot	291/1	6796/1	7869/1	7459/59	55/34	1854/52
Land Size	11,533	12,933	27,878	3,202	7,096	10,245
Frontage		21.25' & 79'	155.08' & 180'	32'	55.5' & 127.83'	107.67'
Zoning	R6	C4-4A	R3-2	C4-2	R6A	R7D/C2-4
Corner vs. Interior	Corner	Corner	2 Corners	Interior	Corner	Interior
Building Size	48,015	16,600	7,500	7,781	16,173	10,245
Occupancy at time of sale	Vacant	80%	100%	100%	100%	100%
Building Age	1948	1925	1986	2001	1972	1931
# of Stories	5	6	1	4	3	1
Typical Floor Plate	9,603	3,300	7,500	3,135	6,126	10,247
Property Use	Medical Offices	Class C Medical	Class C Medical	Class C Medical	Class C Medical	Class C Medical
Valuation/Contract Date	10/1/2013	7/6/2012	9/1/2012	4/1/2013	12/31/2012	12/19/2011
Transfer Date		10/16/2012	11/15/2012	6/26/2013	12/31/2012	6/6/2012
Sale Price		\$10,000,000	\$6,200,000	\$4,325,000	\$4,400,000	\$3,300,000
Sale Price per Sq. Ft. of GBA		\$602	\$827	\$556	\$272	\$322
<i>Adjustments</i>						
# of Months		15	13	6	9	21
Market Conditions	6.0% Annually	7.5%	6.5%	-3.0%	-3.0%	10.5%
Adjusted Price per Sq. Ft.		\$648	\$880	\$539	\$264	\$356
Location		5.0%	5.0%	5.0%	0.0%	5.0%
Building Size		-10.0%	-15.0%	-15.0%	-10.0%	-10.0%
Quality & Condition		5.0%	0.0%	5.0%	0.0%	5.0%
Avenue vs Side Street		-10.0%	-10.0%	0.0%	0.0%	0.0%
Occupancy		-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
Corner Influence		<u>0.0%</u>	<u>-5.0%</u>	<u>5.0%</u>	<u>0.0%</u>	<u>5.0%</u>
Total Adjustments		-30.0%	-45.0%	-20.0%	-30.0%	-15.0%
Adjusted Price per Sq. Ft.		\$453.31	\$484.22	\$431.33	\$184.73	\$302.54
Indicated Price per Sq. Ft.	\$400.00					
Indicated Value	\$19,206,000					
Rounded	\$19,200,000					

Comparable Sales Location Map



Elements of Comparison

The comparable medical office building sales are located in various Brooklyn neighborhoods of Dumbo, Gravesend, Sheepshead Bay, and Bedford Stuyvesant. The sales were contracted between December 2011 and April 2013 for unit prices that ranged from \$272 to \$827 per square foot of gross building area.

Changes in Market Conditions over Time

The comparable sales were contracted between December 2011 and April 2013. Market conditions reflect changes that have occurred in the marketplace from the contract date of the comparables to the date of this valuation. The sales market for commercial properties was strong in the last two years. Our market conditions adjustment was 6.0% annually

Location

The subject property is located in the Cobble Hill section of Brooklyn within close proximity to transportation hubs and access to Manhattan and Downtown Brooklyn commercial districts. With the exception of the Dumbo location, the comparables are located at a greater distance from the hub of commercial activity in more remote parts of Brooklyn.

Building Size

Smaller buildings tend to sell at a higher unit price than larger buildings with the same utility. All of the comparable sales are medical offices that range in size from 7,500 to 16,600 square feet of gross building area. The subject has 48,015 gross square feet. Each of the comparable sales was adjusted downward to reflect their smaller sizes.

Avenue versus Cross Street

The office buildings that are located along major thoroughfares in Brooklyn have greater exposure to traffic and generally command higher rents. The subject property is located along a neighborhood street with limited traffic exposure. The comparables that are located along major highways were adjusted downward for their superior locations.

Occupancy

Assuming the subject building would be delivered vacant, the comparable building sales were adjusting downward to account for the vacancy.

Corner Influence

Corner properties tend to sell at a premium because they have the advantages of greater flexibility in designing a building, greater natural lighting, and overall greater visibility for traffic. The subject property is a corner site with exposure in two directions. The comparable sales with interior locations were adjusted upward for absence of this amenity.

Description of the Comparable Sales and Adjustments

Comparable Office Building Sale #1 – is the sale of a six-story Class C medical office building that is located in the Gravesend section of Brooklyn at 1302 Kings Highway. The corner site contains 12,933 square feet and it is improved with a 16,600 square foot elevator building. The contract date was July 6, 2012 for a purchase price of \$10,000,000 which indicates a unit price of \$602 per square foot. After making the initial market conditions adjustment, the comparable sale was adjusted downward for its smaller building size and upward for the subject's superior condition. The sale was adjusted downward for its prominent thoroughfare location with heavy traffic and upward for its inferior condition. The final adjustment was downward because the subject property will be delivered vacant, and there is a down time needed to lease up the building after the sale.

Comparable Office Building Sale #2 – is the sale of a one-story medical office building that is located at 2095 Flatbush Avenue in the Flatlands section of Brooklyn. This is a newer building constructed in 1986 and it has a building area of 7,500 square feet of gross building area. The sale price of \$6,200,000 reflects a unit value of \$827 per square foot. After making the preliminary adjustments for market condition, the comparable sale was adjusted upward for its inferior location and downward for its smaller building size. The comparable sale was adjusted downward to account for its location along a prominent and heavy traffic thoroughfare. Because it has two corners, the sale was adjusted downward. The final adjustment was downward because the subject property will be delivered vacant and there is a down time needed to lease up

the building after the sale.

Comparable Office Building Sale #3 – is the sale of a four-story Class C medical office building that is located at 1517 Voorhies Street in Sheepshead Bay. The building has 7,781 square feet of gross building area. The sale price of \$4,325,000 reflects a unit price of \$556 per square foot. After making an adjustment for market conditions, the comparable sale was adjusted upward for the subject's superior condition and downward for its smaller building size. An upward adjustment was made for its interior location without the advantages of a corner. The final adjustment was downward because the subject property will be delivered vacant, and there is a down time needed to lease up the building after the sale.

Comparable Office Building Sale #4 – is the sale of a three-story walk-up, Class C medical office building that is located at 104 Gold Street. The 7,096 square foot building sold for \$4,400,000 with a contract date of December 31, 2012. The unit price reflected by the sale was \$272 per square foot. After adjusting the sale for market conditions, the sale was adjusted downward for its smaller building size. The sale was also adjusted downward because the subject property would be delivered vacant and there will be a down time to lease the building.

Comparable Office Building Sale #5 – is the sale of a one-story Class C medical office building that is located at 1413-1421 Fulton Street in the Bedford Stuyvesant neighborhood of Brooklyn. The contract date of December 19, 2011 indicated a sale price of \$3,300,000 which equates to a unit price of \$322 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and downward for its smaller building size. The sale was also adjusted upward because it is an interior location without the advantages of a corner location and downward for its interior location without the advantages of a corner site. The final adjustment was downward because the subject property will be delivered vacant and there is a down time needed to lease up the building after the sale.

After making the adjustments to the comparable medical office building sales, the range of unit prices are from \$184.73 to \$484.22 per square foot and average \$371.23. The median adjusted price is \$431.33 per square foot. The indicated value of the subject property is \$400.00 per square foot and it is calculated as follows:

$$48,015 \text{ square feet} \times \$400.00 \text{ per square foot} = \$19,200,000 \text{ rounded}$$

The indicated fair market value of the subject property via the sales comparison approach as of October 1, 2013, is \$19,200,000

EXECUTIVE SUMMARY – Parking Garage – 352 Hicks Street

Addresses: 352 Hicks Street, Brooklyn, NY

Neighborhood: Cobble Hill

Tax Block/Lot: Block 282 Lot 50

Zoning: R6 with a 2.43 FAR and maximum building potential of 59,936 square feet.

Land Size: 24,666 square feet

Improvements: Seven-story parking garage building with a legal capacity of 430 vehicles

Highest & Best Use: Continued parking garage use

Inspection Date: September 26, 2013

Date of Value: October 1, 2013

Valuations:

Sales Comparison Approach: NA

Income Approach: \$25,600,000

Cost Approach: NA

Reconciled Value: NA



Subject Photographs



Parking Garage Facing South from Atlantic Avenue

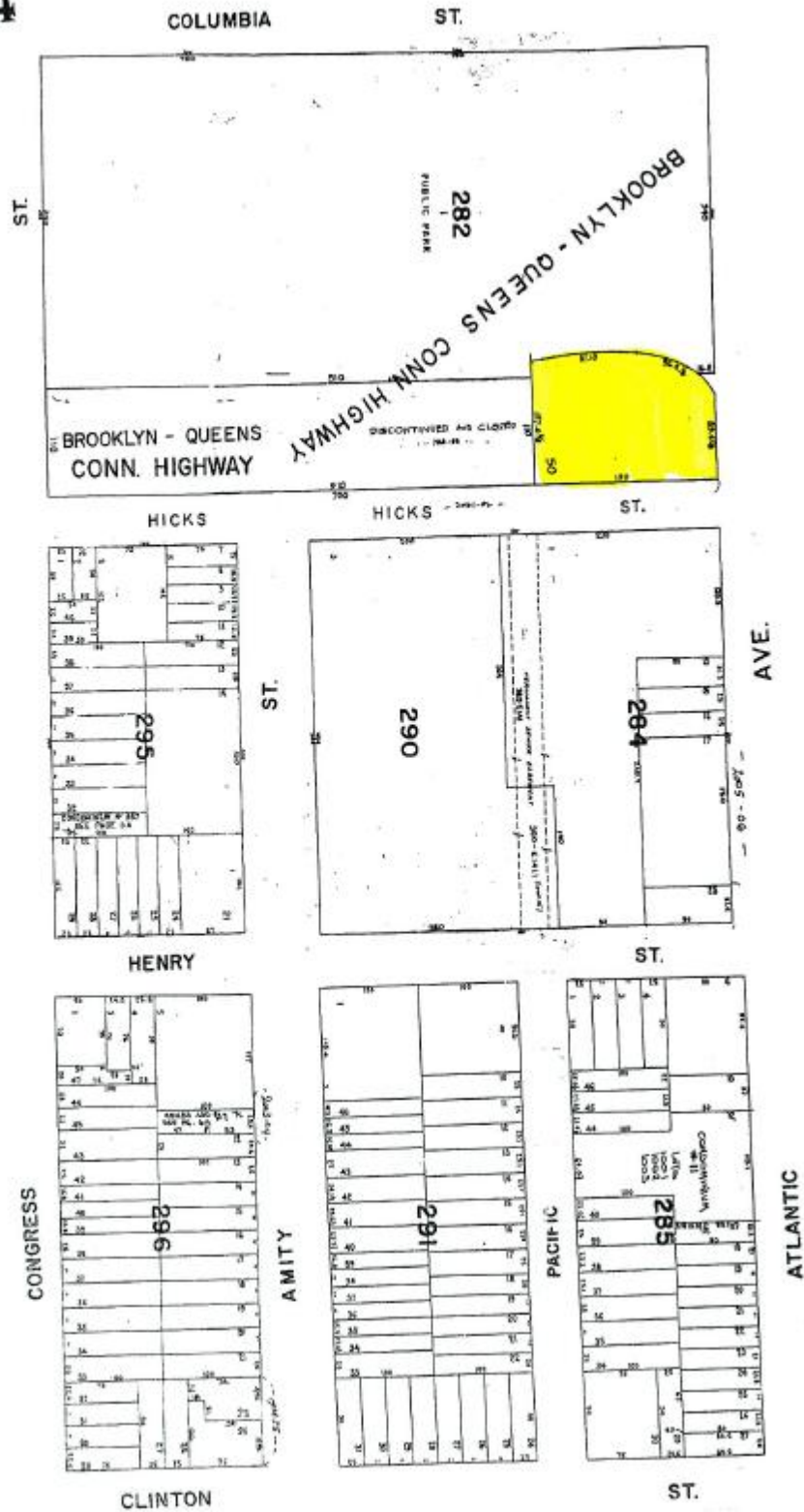


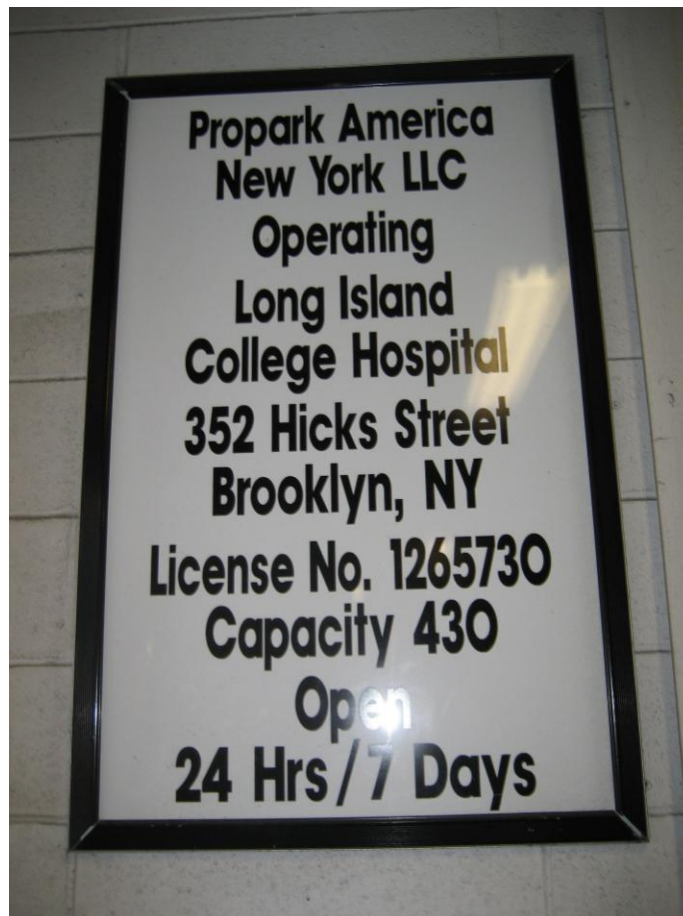
Facing North from Hicks Street



Tax Map

34





Property Description

Site

The subject property is an irregular shaped site with 190 feet of frontage along the west side of Hicks Street and depth of approximately 89.25 feet facing Atlantic Avenue and a total land area of 24,666 square feet. The site has the Brooklyn-Queens Highway and Atlantic Avenue exit ramp on the westerly side of the lot. The site is level, at grade and all public utilities are provided to the site. Site improvements include concrete sidewalk and curbs.

Improvements

The site is improved with a seven-story open parking garage that has a legal capacity for 430 vehicles. The parking garage has ramp access from the lower level to the roof top parking area. The garage is served by two 3,500 lb. hydraulic elevators with metal cabs and two stairways. The lower level is sprinklered and the ceiling heights are approximately 7 feet. Construction of the garage consists of metal decks covered with concrete. The building was constructed in 1997 and it has an attractive brick façade. Ingress and egress to the garage is on Hicks Street which is one way going in a northerly direction.

The garage is a park and lock facility wherein the owner of the vehicle takes a ticket on the way in and pays a cashier upon exiting the facility. There are no valet services and the car owner is responsible for the vehicle. There is a small office with lavatory and metal-framed window booth for a parking cashier. There is high intensity lighting in the garage that reportedly needs work due to winter salt and water issues. The southerly elevation has a large billboard advertising the Long Island College Hospital that faces the Brooklyn-Queens Highway.

ASSESSED VALUE AND REAL ESTATE TAXES

The subject property at 349 Henry Street is listed on the New York City tax rolls as Block 291 Lot 1. The property is classified as Class 4 and is completely exempt from property taxes. The 2013/2014 assessed valuation and estimate of taxes are as follows:

<u>352 Hicks Street</u>	<u>Block 282</u>	<u>Lot 50</u>
2013/2014	Actual	Transitional
Land	\$666,000	\$666,000
Improvements	<u>\$5,349,150</u>	<u>\$5,865,030</u>
Total	\$6,015,150	\$6,531,030
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$618,839	
Assessor's 100% Market Value	\$13,367,000	

The tax assessor assigns two values to each property, the “transitional” and “actual” values. The transitional value represents an interim assessment. When a property’s target assessment is

increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessments is used in computing taxes.

ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 24,666 square feet of land area. The parking garage was constructed on Block 282 Lot 50 in 1997 and it has a total of 175,000 square feet of gross building area. As constructed with a total of 175,000 square feet of gross floor area, the building is overbuilt.

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 7 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

HIGHEST AND BEST USE

The same methodology was used to determine the highest and best use for each of the subject properties. Each section will fully describe and conclude to the highest and best use as it pertains to the individual property.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. These criteria are usually considered sequentially, first for the land as if vacant and second for the site as improved.

Highest and Best Use as Vacant Land

Legally Permissible

The subject property is located in an R6 residential zone which permits residential and community facility uses. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential use is 2.43 and for community facility use is 4.8. The as-of-right maximum residential permitted use for the 24,666 square foot site is 59,938 square feet of floor area and 118,397 square feet for community facility use on the lot that is improved with the parking lot at 352 Hicks Street.

Financially Feasible

Both residential and medical office development would produce positive returns and are, therefore financially feasible.

Maximally Productive

Based on the strength of the residential market, the maximally productive use and the use that produces the greatest return to an investor is development of residential condominiums to the maximum bulk permitted by zoning regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is improved with a seven-story parking garage that is built in excess of the FAR permitted by zoning regulations. The subject property is located in an R6 residential zone which permits residential and community facility uses. As-of-right, only 2.43 FAR of the existing floor area could legally be converted to residential use or community facility. Community facilities such as hospital use, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted in the R6 zone.

Physically Possible

The existence of the improvements attests to the physical possibility of using the building as a parking garage. The parking garage has ramp access to all eight levels of parking and the ceiling heights are seven feet. The low ceiling heights and the slanted floor plates are not conducive to converting the structure to alternate uses such as medical offices or residential apartments.

Financially Feasible

Continued use of the subject building as a parking garage produces a positive investment return and therefore it is financially feasible.

<i>352 Hicks Street - Parking Garage</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Garage Condominium Conversion & Sellout	Discounted Cash Flow	\$25,600,000
Reconciled Value - Highest & Best Use		\$25,600,000

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is continued use as a parking garage and converting the parking spaces to garage condominiums.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the parking garage located at 352 Hicks Street, a discounted cash flow analysis was used to indicate its value to its highest and best use. The age of the building and the difficulty in estimating depreciation of the

buildings in the cost approach made the resulting value derived from the cost approach irrelevant. The absence of recent sales of parking garages in the boroughs made it impossible to use the sales comparison approach to indicate the value of the subject property.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the building as converted to garage condominiums.

Residual Discounted Cash Flow – Conversion and Sellout of Garage Condominiums

Discounted cash flow (DCF) analysis is a procedure in which a yield rate is applied to a set of income streams and a reversion to determine whether the investment property will produce a required yield given a known acquisition price. We used this technique to indicate the present value of the sellout of garage condominiums based on our estimate of the costs to convert the building to condominium ownership and sell the garage parking spaces over a seven-year period at market rates.

We prepared the DCF analysis wherein the first year is estimated to be the time needed to convert the garage into condominiums and the remaining six years of the DCF are the sellout period for the parking spaces. The garage has a legal capacity for 430 vehicles. We estimate the average sale price of \$85,000 for each space.

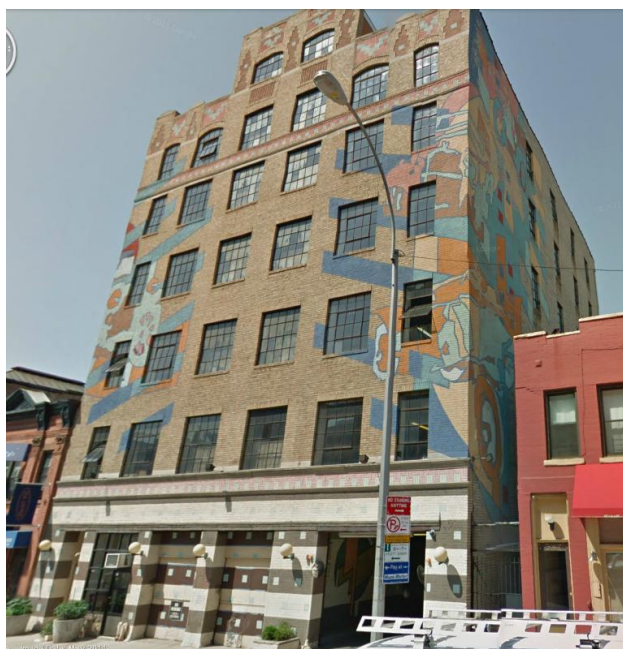
DCF Assumptions:

Construction Period:	12 Months
Sellout Period:	72 Months
Real Estate Taxes:	\$1.50 per square foot
Operating Expenses:	\$2.00 per square foot
Annual Increases	
Real Estate Taxes	3.0%
Operating Expenses	3.0%
Condo Sale Price	3.0%
Cost to Convert to Condominium:	\$300,000
Legal Costs:	\$200,000
Entrepreneurial Incentive:	15.0% of all conversion costs
Cost of Sales:	10.0%
Transfer Taxes:	1.825%
Discount Rate for Condo:	6.0%

Potential Gross Income from Sale of Condominiums

We researched garage condominium sales and found a Brooklyn garage at 845 Union Street in Park Slope with 145 garage condos. The six-story structure was constructed in 1928 and is used for parking and some of the spaces have been sold. The most recent sales are included in the next table. The garage sales range from \$42,500 to \$90,500 per space and average \$62,654 per space.

845 Union Street, Brooklyn, NY - Garage Condominium							
Block	Lot	Unit #	Square Feet	Contract	Sale Date	Sale Price	Price/SqFt
954	1119	601	112	3/7/2012	3/20/2012	\$50,000	\$446
954	1117	526	127	6/4/2013	7/2/2013	\$75,000	\$591
954	1112	521	127	5/21/2013	6/19/2013	\$62,500	\$492
954	1095	504	112	2/11/2011	3/16/2011	\$72,000	\$643
954	1072	408	112	9/25/2012	10/19/2012	\$49,000	\$438
954	1067	403	112	1/4/2013	1/22/2013	\$55,000	\$491
954	1066	402	112	11/22/2010	1/12/2011	\$42,500	\$379
954	1063	326	127	7/28/2011	9/19/2011	\$90,500	\$374
954	1058	321	127	3/11/2013	4/12/2013	\$50,000	\$394
954	1053	316	119	6/7/2013	6/7/2013	\$80,000	\$672
954	1045	308	112	3/9/2012	4/18/2012	\$50,000	\$446
954	1034	224	119	5/23/2013	6/28/2013	\$75,000	\$630
954	1017	207	112	10/29/2012	11/29/2012	\$63,000	\$563



845 Union Street

Garage space is also available at One Brooklyn Bridge Park at 360 Furman Street in Brooklyn Heights along the waterfront. The asking prices for these garage spaces range from \$125,000 to \$160,000 per space.

We chose an average sale price of \$85,000 for each parking space in the DCF analysis. The prices of the condos increase at the rate of 3.0% annually. We anticipate that presales and the second year sales will total 100 spaces and the remaining spaces will sell out at 66 per year.

Operating Expenses and Real Estate Taxes

Our estimate for the operating expenses and real estate taxes is based on a search for comparable expenses for Brooklyn garage properties. The table below has expenses for five buildings that were filed in 2011. Building owners file their expenses with the Department of Finance when they contest their real estate tax assessment and attempt to lower their tax burden. The table is followed by a table summarizing the average and median expenses per square foot for each expense category.

Comparable Expenses for Brooklyn Garage Buildings

Address	1) 226 Nevins St.		2) 49 Bond Street		3) 201-11 60 Street		4) 432 3 Avenue		5) 455 Hamilton Ave.	
Property Description	1-story garage		5-story garage		2-story garage		2-story garage		2-story garage	
SF of GBA	13,700		239,485		18,088		17,834		15,000	
2011	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.	Total	Per Sq. Ft.
Fuel	\$8,000	\$0.58	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Light & Power	\$1,324	\$0.10	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$16,654	\$1.11
Wages & Payroll	\$0	\$0.00	\$14,142	\$0.06	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Repairs & Maintenance	\$9,900	\$0.72	\$37,464	\$0.16	\$27,209	\$1.50	\$18,756	\$1.05	\$20,380	\$1.36
Management & Admin.	\$2,141	\$0.16	\$43,862	\$0.18	\$40,686	\$2.25	\$8,200	\$0.46	\$14,245	\$0.95
Insurance	\$6,341	\$0.46	\$24,762	\$0.10	\$6,955	\$0.38	\$6,266	\$0.35	\$3,742	\$0.25
Water & Sewer	\$1,757	\$0.13	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Expenses Before RE Tax	\$29,463	\$2.15	\$120,230	\$0.50	\$74,850	\$4.14	\$33,222	\$1.86	\$55,021	\$3.67
Real Estate Taxes	\$36,140	\$2.64	\$349,290	\$1.46	\$29,815	\$1.65	\$36,935	\$2.07	\$56,008	\$3.73
Total Expenses	\$65,603	\$4.79	\$469,520	\$1.96	\$104,665	\$5.79	\$70,157	\$3.93	\$111,029	\$7.40

The total operating expenses before real estate taxes range from \$0.50 to \$4.14 per square foot, and real estate taxes range from \$1.46 to \$3.73 per square foot. The comparable expenses support our estimate of \$1.50 per square foot for operating expenses and \$2.00 per square foot for the real estate taxes.

Comparable Garage Expense Summary

Price Per Sq. Ft.	Average	Median	Maximum	Minimum
Fuel	\$0.12	\$0.00	\$0.58	\$0.40
Light & Power	\$0.24	\$0.00	\$1.11	\$0.07
Wages & Payroll	\$0.01	\$0.00	\$0.06	\$0.41
Repairs & Maintenance	\$0.96	\$1.05	\$1.50	\$0.16
Management & Admin.	\$0.80	\$0.46	\$2.25	\$0.16
Insurance	\$0.31	\$0.35	\$0.46	\$0.10
Water & Sewer	\$0.03	\$0.00	\$0.13	\$0.01
Expenses Before RE Tax	\$2.46	\$2.15	\$4.14	\$0.50
Real Estate Taxes	\$2.31	\$2.07	\$3.73	\$1.46
Total Expenses	\$4.77	\$4.79	\$7.40	\$1.96

Renovation Costs

The renovations costs include installation of security system to access the garage spaces and general repairs as needed. Our estimate for renovations costs is \$300,000. Legal fees to convert the building to condominiums are \$200,000.

Entrepreneurial Incentive

Entrepreneurial incentive is a market-derived figure that represents the amount an entrepreneur expects to receive for his or her contribution to a project and risk. The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

Discount Rate Selection

Real Estate Research Corporation (RERC) and Korpacz report quarterly statistics derived from the sale of warehouse buildings in the national market. Korpacz indicates a range of discount rates from 5.75% to 9.50% and an average of 7.49%. The pre-tax yield rate indicated in the New York City RERC report for industrial warehouse buildings is 7.20%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn garage units and limited supply.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Fuller Pavilion as converted to residential condominiums as of October 1, 2013 is \$25,600,000.



Parking Garage Converted to Garage Condominium								
Assumptions								
Average Sale Price per Garage	\$85,000							
Construction & Sellout Period For Units:	84 months							
Comms. & Mktg. Exp. For Condo Units:	10.00% of sales							
Transfer Taxes	1.825%							
Operating Expenses During Sellout:	\$1.50							
Real Estate Taxes During Sellout	\$2.00							
Square Footage for Operating Expenses:	175,000 sq. ft. gba							
Square footage for Tax Expenses:	175,000 sq. ft. gba							
Discount Rate for Condo	6.0%							
Entrepreneur Incentive	15.0%							
Legal Cost for Conversion	\$200,000							
Cost to Convert to Apartments	\$300,000							
		Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
General Inflation Growth Rate:	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Sales Price per Parking Space	\$85,000	\$87,550	\$90,177	\$92,882	\$95,668	\$98,538	\$101,494	
Operating Expenses	\$1.50	\$1.55	\$1.59	\$1.64	\$1.69	\$1.74	\$1.79	
Real Estate Taxes	\$2.00	\$2.06	\$2.12	\$2.19	\$2.25	\$2.32	\$2.39	
		Oct 13-Sep 14	Oct 14-Sep 15	Oct 15-Sep 16	Oct 16-Sep 17	Oct 17-Sep 18	Oct 18-Sep 19	Oct 19-Sep 20
Income From Garage Condominium:								
# of Parking Spaces Sold	0	100	66	66	66	66	66	66
Proceeds From Sale of Garage Spaces	\$0	\$8,755,000	\$5,951,649	\$6,130,198	\$6,314,104	\$6,503,528	\$6,698,633	\$6,698,633
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)	\$0	(\$1,035,279)	(\$703,782)	(\$724,896)	(\$746,643)	(\$769,042)	(\$792,113)	
Net Proceeds From Sale of Parking Spaces	\$0	\$7,719,721	\$5,247,867	\$5,405,303	\$5,567,462	\$5,734,485	\$5,906,520	
Less Operating Expenses Carried	\$0	\$207,497	\$170,978	\$132,080	\$90,695	\$46,708	\$0	\$0
Less Real Estate Taxes Carried	<u>\$350,000</u>	<u>\$276,663</u>	<u>\$227,970</u>	<u>\$176,107</u>	<u>\$120,927</u>	<u>\$62,277</u>	<u>\$0</u>	<u>\$0</u>
<i>Total Expenses</i>	\$350,000	\$484,160	\$398,948	\$308,187	\$211,622	\$108,985	\$0	\$0
Prerenovation Cost Cash Flow From Sale of Garage Spaces	(\$350,000)	\$7,235,561	\$4,848,919	\$5,097,115	\$5,355,840	\$5,625,500	\$5,906,520	
Less: Legal Cost for Conversion	\$200,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Garage Upgrade Cost	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Conversion Cost	\$500,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Entrepreneur Incentive	\$75,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$575,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow From Sale of Garage Sapces	(\$925,000)	\$7,235,561	\$4,848,919	\$5,097,115	\$5,355,840	\$5,625,500	\$5,906,520	
Net Present Value of Condo Sell-Out	\$25,571,745							
Indicated Value	\$25,600,000 Rounded							
Indicated Value per Parking Space	\$59,535							

ADDENDA

Cozen O'Connor Memorandum



MEMORANDUM FOR DISCUSSION
PRIVILEGED AND CONFIDENTIAL

TO: File

FROM: Ken Fisher
Vivien Krieger

DATE: October 1, 2013

RE: LICH – Residential Conversion

We have analyzed the potential to convert the LICH Campus buildings to residential use under the relevant provisions of the New York City Zoning Resolution ("Zoning Resolution" or "ZR"). Specifically, the following properties (herein collectively referred to as the "LICH Buildings"):

<u>Hospital ID#</u>	<u>Address</u>	<u>Block/Lot</u>	<u>Zoning District</u>	<u>Landmark Status Y/N</u>	<u>Status</u>
1*	339 Hicks Street/Fuller Pavilion	284/1	R6	N	Post-1961 /Overbuilt Easement
2*	91-95 Pacific Street/Othmer Pavilion)	284/1	R6	N	Post-1961 /Overbuilt Easement
3**	340 Henry Street	290/13	R6	N	Pre-1961/CD6 Easement
4**	355-363 Hicks St. (Polak Pavilion)	290/13	R6	N	Pre-1961/CD6 Easement
5	350 Henry St. (Polhemus Building)	295/21	R6	Y	Pre-1961/CD6
6	349 Henry St.	291/1	R6/LH-1	N	Pre-1961/CD6
7	352 Hicks (PARKING GARAGE)	282/50	R6	N	Post-1961/Overbuilt
8	385-389 Hicks St.	295/3	R6/LH-1	N	Pre-1961/CD6
9	124-134 Atlantic Avenue	285/7501	R6/LH-1	Y	Pre-1961/CD6
10	88-94 Amity St.	295/14	R6	N	Post-1961/Overbuilt
11	86 Amity St.	295/13	R6	N	Pre-1961/CD6
12	82 Amity St.	295/11	R6/LH-1	N	Pre-1961/CD6
13	78 Amity St.	295/9	R6/LH-1	N	Pre-1961/CD6
14	76 Amity St.	295/8	R6/LH-1	N	Pre-1961/CD6
15	74 Amity St.	295/7	R6/LH-1	N	Pre-1961/CD6
16	113 Congress Street	295/38	R6/LH-1	Y	Pre-1961/CD6
17	43 Columbia Place	259/8	R6/LH-1	Y	Pre-1961/CD2
18	336 Flatbush Avenue	1058/30	R7A/C2-4/R7B	N	Pre-1961/CD6

277 Park Avenue New York, NY 10172

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Memorandum
October 1, 2013
Page 2

19	184 Sterling Place	1058/28	R7A/C2-4/R7B	N	Pre-1961/CD6
20	112 Pacific Street	291/8	R6	N	Pre-1961/CD6 Easement
LICH Property Listed With NYC Dept of Finance; Not Listed on Lease Agreement	393 Hicks St.	295/1	R6/LH-1	Y	Pre-1961/CD6

* DOB's online records show Block 284, Lot 1 as improved with one building.

** DOB's online records show Block 290, Lot 13 as improved with one building.

The analysis is limited to compliance with the Zoning Resolution, and will not address New York City Construction Codes, New York State Multiple Dwelling Law, or any other laws, rules or regulations other than the Zoning Resolution. We note that in analyzing the possibility for residential conversion we are not implying that residential is the highest and best use.

For purposes of this analysis, we have assumed that each of the LICH Buildings are complying or legally non-complying buildings (i.e., buildings which do not comply with one or more of the applicable bulk regulations) and used for conforming use(s).

Pre-1961 Buildings

Zoning Framework

Within Brooklyn Community Districts 2 and 6, where the Pre-1961 Buildings are located, the Zoning Resolution permits residential conversion and enlargement of non-residential buildings constructed prior to December 15, 1961 in zoning districts where residential use is allowed on an as-of-right basis subject to the provisions of Article I, Chapter 5 of the Zoning Resolution (Residential Conversion of Existing Non-Residential Buildings).

Non-complying buildings may be converted and enlarged pursuant to Article V, Chapter 4 of the Zoning Resolution (Non-Complying Buildings), which provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

Bulk Regulations Governing Conversion

The applicable density requirements of Articles II and III of the Zoning Resolution are modified in accordance with the provisions of ZR 15-111 (Number of permitted dwelling units), and the regulations governing open space ratio, yards, the minimum distance between two or more buildings on a single zoning lot and the minimum distance between windows and walls or lot lines are superseded and replaced by the requirements of ZR 15-112 (Light and air provisions) and ZR 15-12 (Open Space Equivalent).

ZR 15-111 allows all of the existing floor area to be converted to residences.

ZR 15-112(b) requires compliance with the light and air requirements of Section 277 of the Multiple Dwelling Law. This section sets forth minimum standards for light and air to "living rooms," including bedrooms and living rooms. Additionally, ZR 15-112(c) provides that where

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Memorandum
October 1, 2013
Page 3

there is more than one apartment per floor, the average width of each apartment must be at least one fourth of the depth.

Conclusion

Conversion of these buildings is permitted on an as-of-right basis (i.e., does not require discretionary approval of the Board of Standards and Appeals ("BSA") or NYC City Planning Commission) pursuant to Article I, Chapter 5. Any potential loss factor in the conversion process would be on a building-by-building basis and would be subject to the design discretion of a developer consistent with legal requirements.

Post-1961 Buildings

339 Hicks Street (Block 284, Lot 1)

According to the ZoLa website, the building located on Block 284, Lot 1 ("339 Hicks Street Building") was constructed after December 15, 1961 and therefore may not be converted under to Article I, Chapter 5.

The 339 Hicks Street Building is located in an R6 zoning district. This district permits community facility and residential use up to a base "floor area ratio" (as defined in ZR 12-10, "FAR") of 4.8 and up to 2.43 (or 3.0 for Quality Housing buildings on wide streets), respectively. ZoLa shows the building as comprising 354,047 square feet of gross floor area, or approximately 7.2 FAR. Therefore, the Building is overbuilt.

As noted above, Article V, Chapter 4 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

Consequently, only up to 2.43 FAR (or 119,391 square feet of floor area) of the 339 Hicks Street Building may be converted to residential use on an as-of-right basis. However, the site may be a candidate for variance (a discretionary action of the BSA). The 339 Hicks Street Building may be a candidate for a variance to allow conversion of the entire building, provided that the statutory findings of ZR 72-21 can be made. The first finding is that there is a unique physical condition that gives rise to a practical difficulty or unnecessary hardship. The second finding is that as a result of the unique physical condition, the proposed building cannot yield a reasonable economic return when used in conformance with zoning. A possible basis for the variance would be an argument that the building is functionally obsolescent, making its occupancy for a conforming use impractical and creates an unnecessary hardship in developing the site in conformity with the current zoning. It would also need to be shown that the proposed variance, if granted, will not alter the essential character of the neighborhood, the hardship is not self-created, and if granted, the variance is the minimum variance necessary to afford relief.

Additionally, the possibility of converting a portion of the building to be able to provide the required accessory off-street parking spaces could be explored by an architect. Providing parking within the existing building may reduce some of the existing community facility floor area.

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Memorandum
October 1, 2013
Page 4

Conclusion

Only a portion of this building may be converted on an as-of-right basis, but it may be a candidate for a variance based on, for example, functional obsolescence. The possibility of a variance is not meant to suggest that it would necessarily be obtained or necessarily represent the highest and best use.

88-94 Amity Street (Block 295, Lot 14)

According to the ZoLa website, the building located on Block 295, Lot 14 ("88-94 Amity Street Building") was constructed after December 15, 1961 and therefore may not be converted under to Article I, Chapter 5.

The 88-94 Amity Street Building is located in an R6 zoning district. ZoLa shows the building as comprising 40,600 square feet of gross floor area, or approximately 2.7 FAR. The Building may be slightly overbuilt. However, when mechanical deductions are taken, the Building may fall within the current FAR regulations, otherwise that portion may have to be reserved for another use.

Conclusion

If the building is overbuilt, a solution may be to use space unusable as floor area for mechanicals or community facility use.

352 Hicks Street (Parking Garage: Block 282, Lot 50)

Residential Conversion

The Parking Garage was constructed after December 15, 1961 and therefore may not be converted pursuant to Article I, Chapter 5.

The Parking Garage is located in an R6 zoning district. ZoLa shows the building as comprising 175,000 square feet of gross floor area. In addition to being able to deduct mechanical space, space that is used for parking up to 23 feet above curb level does not count as floor area. However, it appears that the building is overbuilt for residential purposes.

Consequently, only up to 2.43 FAR (or 59,938 square feet of floor area) of the Parking Garage may be converted to residential use on an as-of-right basis, or slightly higher if converted pursuant to the Quality Housing regulations. The remainder the Parking Garage would either have to remain as-is or be used as a conforming community facility use.

Easements

In consideration for fee title to Block 282, Lot 50 ("Parking Garage") and for closing a portion of a street, certain permanent and perpetual easements were granted in a deed dated July 6, 1995 recorded at Reel 355, Page 2369 (the "Deed"). Specifically, permanent and perpetual public access easements were granted for: Block 290, p/o Lot 13; Block 284, p/o Lot 1; Block 291, p/o Lot 8 ("Park Areas")¹. A permanent and perpetual easement was granted for: an exit from the

¹The Deed provides in Section 22 that that if requested in writing by the Mayor, Deputy Mayor or Parks Commissioner, that the Hospital shall grant to the City fee title to the Park Areas. The required notice period began

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Memorandum
October 1, 2013
Page 5

BQE to Atlantic Avenue running to the west of the Parking Garage. A permanent and perpetual sidewalk easement for: Block 284, p/o Lot 1 and Block 290, p/o Lot 13.

Conclusion

Only a portion of this building may be converted on an as-of-right basis.

Landmark Buildings

For the buildings that have been identified as landmarks, the alterations for a residential conversion that require an NYC Department of Buildings permit would be subject to approval by the NYC Landmarks Preservation Commission ("LPC"). LPC is the New York City agency that is responsible for identifying and designating the City's landmarks and the buildings in the City's historic districts. LPC also regulates changes to designated buildings.

A Certificate of No Effect on Protected Architectural Features is issued by LPC when the proposed work requires an NYC Department of Buildings permit (as would be the case for a conversion), but does not affect the protected architectural features of a building.

The addition of windows, a change in existing windows, the creation of a courtyard or an enlargement of a building within an historic district is likely to require a Certificate of Appropriateness.

ZR 54-41

ZR 54-41 provides that where there is demolition to the extent of 75% or more of the total floor area, reconstruction must comply with the current bulk regulations. In no event may any reconstruction create a non-compliance or increase the degree of non-compliance of an existing building (ZR 54-31).

Furthermore, where alterations result in both the removal of more than 75% of the floor area and 25% of the perimeter walls, and the replacement thereof, the alteration shall be considered a "development" (ZR 11-23, 12-10) and only a conforming use and complying building will be permitted (ZR 52-531, 54-41).

These provisions would allow, for example, the creation of courtyards to comply with light and air requirements, or cosmetic and structural changes to modernize the building(s).

August 15, 2009 and will end 20 years and 305 days from the date of the agreement (July 6, 1995; approximately May 1, 2018).

Section 23 provides that if the hospital fails to do so, the City may institute and pursue proceedings (either described in the agreement or as the City may deem appropriate) after giving 60 days' notice. Section 23(b)(ii) grants to the City the option to acquire the Park Areas forever, but if that subsection is ruled invalid, then subsection (i) shall not be effected. Subsection (i) grants to the City the option to acquire the Park Areas for a period of 21 years from the date of the agreement.

LEGAL17298406/7

Memorandum
October 1, 2013
Page 6

Parking

Required Residential Accessory Off-Street Parking

If conversion is pursuant to the Quality Housing regulations (R6(QH)/R7A/R7B), then accessory off-street parking is required for 50% of the dwelling units, otherwise it is required for 70% of the dwelling units (ZR 25-23). If a zoning lot is less than 10,000 square feet, the parking requirement is for 50% of the dwelling units.

Waiver for Residential Conversions

Parking here is waived if 20 or less spaces are required. This would apply to any of the zoning lots that would have 40 or fewer units (Quality Housing or less than a 10,000 square foot lot) or 29 or fewer units (ZR 25-262).

BSA Special Permit (ZR 73-46)

The BSA has the discretion to waive all or part of the required spaces, provided that the Board finds that there is neither a practical possibility of providing such spaces:

- (a) on the same zoning lot because of insufficient open space and the prohibitive cost of structural changes necessary to provide the required spaces within the building; nor
- (b) on a site located within 1,200 feet of the nearest boundary of the zoning lot because all sites within such radius are occupied by substantial improvements.

We note that we have not evaluated the current parking requirements for the existing uses nor parking requirements for any other use besides conversion to residential.

Limitations of Analysis

This analysis does not constitute opinion of counsel and may not be relied upon by any third party without our express written consent. This analysis is strictly limited to the Zoning Resolution. This analysis is as of the date hereof. We have not reviewed architectural plans or calculations and have based our review solely on the websites of the City of New York and the New York City Zoning Resolution. This analysis is subject to interpretations of the Zoning Resolution made by DOB from time to time.

KKF

LEGAL11729840617

BASIC ASSUMPTIONS AND LIMITING CONDITIONS

The appraiser assumes:

1. This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under the Uniform Standards of Professional Appraisal Practice.
2. Supporting documentation concerning some of the data, reasoning, and analyses is retained in the appraisal file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
3. The legal descriptions used in this report are assumed to be correct.
4. No survey of the property has been made by the appraiser and no responsibility is assumed in connection with such matters. Sketches in this report are included only to assist the reader in visualizing the property.
5. No responsibility is assumed for matters of a legal nature affecting title to the property nor is an opinion of title rendered. The title is assumed to be good and marketable.
6. Information furnished by others is assumed to be true, correct and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed by the appraiser.
7. All mortgages, liens, encumbrances, leases and servitude have been disregarded unless so specified within the report. The property is appraised as though under responsible ownership and competent management.
8. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover such factors.
9. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless non-compliance is stated, defined and considered in the appraisal report.
10. It is assumed that all applicable zoning, use and building code regulations and restrictions have been complied with, unless a non-conformity has been stated, defined and considered in the appraisal report.
11. It is assumed that the utilization of the land and improvements is within the boundaries of property lines of the property described and there is no encroachment or trespass unless noted within the report.
12. The appraiser is not an engineer. No engineering survey of the improvements described herein has been made, or made available. Any comments by the appraiser as to the general condition of the improvements or the condition of any of the building components are opinions based on the appraiser's real estate market experience and are not intended to be relied upon in lieu of a complete engineering study.
13. We assume there is no material amount of asbestos on the property, nor does the report take into consideration the possibility of the existence of radon gas, PCP transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks containing hazardous material. The report does not consider the cost of encapsulation treatment of removal of such materials. We take no responsibility for identifying the level of contaminants such as these or any others, if any are indeed found. We are not qualified to detect toxins or estimate any cost of removal or other treatment. If the

client/property owner has a concern about the existence of such hazardous conditions, the appraisers consider it imperative to retain the services of a qualified engineer or contractor to determine the existence and extent of such hazardous conditions. Such consultation should include the estimated cost associated with any required treatment or removal of hazardous material.

14. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is in non-compliance with one or more of the requirements of the act. If so, this fact could have a negative impact upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible non-compliance with the requirements of the ADA has not been considered in estimating the value of the property.
15. The projections of income and expenses are not predictions of the future. Rather, they are the appraiser's best estimates of current market thinking on future income and expenses. The appraiser and Newmark Grubb Knight Frank make no warranty or representation that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the appraiser's task to predict or in any way warrant the conditions of a future real estate market; the appraiser can only reflect what the investment community, as of the date of the appraisal, envisions for the future in terms of rental rates, expenses, supply and demand.

The following Limiting Conditions are submitted with this report:

1. All of the facts, conclusions and observations contained herein are consistent with information available as of the date of the report. The value of real estate is affected by many related and unrelated economic conditions, local and national. We, therefore, assume no liability for any unforeseen changes in the economy.
2. The appraiser will not be required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been previously made therefore.
3. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper written qualification and only in its entirety.
4. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.
 1. The value estimated herein applies only to the appraisal problem as stated, the value definition, the reported highest and best use, client and/or legal instruction, interest appraised, or other special conditions more fully described in the body of the report.

6. Disclosure of the contents of this report is governed by the Bylaws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales, or any other media without written consent and approval of the appraiser. Nor shall the appraiser, firm, or professional organization of which the appraiser is a member be identified without consent of the appraiser.
7. The appraisers have no present or contemplated interest in the property appraised.
8. Employment in this appraisal and compensation for the report is in no way contingent on the matter involved.
9. This appraisal has been made in conformity to the Standards of Practice of the Appraisal Institute, and represents the best judgment of the appraisers.
10. No responsibility is taken for changes in market conditions after the date of valuation or for the inability of the property owner to find a purchaser at the appraised value.
11. Further, we have not been engaged to evaluate the effectiveness of management, and we are not responsible for future marketing efforts and other management actions upon which actual results will depend.
12. Newmark Grubb Knight Frank has not, as part of its valuation, performed an audit or review of any of the financial information used and, therefore, does not express an opinion or any other form of assurance with regard to same. Under the terms of this engagement, we have no obligations to revise this report or the financial result to reflect events or conditions which occur subsequent to the date of the report.
13. Acceptance and/or use of this appraisal report by the client and/or any third party constitutes acceptance of the stated limiting conditions and assumptions. The appraisers' and/or reviewers' responsibility and liability extends only to the stated client, not to subsequent parties or users, and is limited to the amount of the fee received by the appraisers in conjunction with performance of this appraisal and related consulting and/or court preparation, deposition, and testimony.

CERTIFICATE OF APPRAISAL

Property: SUNY Downstate Medical College/Long Island College Hospital Campus

I certify that, to the best of my 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 my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My 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 Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have made a personal inspection of the property that is the subject of this report.
- No one, other than Robert Mayer, Kathryn Cosentino, and Randal Grenier, provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.
- I have not provided prior service on the subject properties within the last three years.

Date: October 31, 2013



Robert Von Ancken, MAI, CRE
Chairman
NYS Certification #46000001797

Property: SUNY Downstate Medical College/Long Island College Hospital Campus

I certify that, to the best of my 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 my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My 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 Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have made a personal inspection of the property that is the subject of this report.
- No one, other than Robert Von Ancken, Kathryn Cosentino, and Randal Grenier, provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.
- I have not provided prior service on the subject properties within the last three years.



Date: October 31, 2013

Robert H. Mayer, MAI
Managing Director
NYS Certification #46000020549

ROBERT VON ANCKEN, MAI, CRE, FRICS

Chairman – Landauer Valuation and Advisory

A Division of Newmark Grubb Knight Frank

CURRENT RESPONSIBILITIES

Robert Von Ancken, Chairman of Landauer Valuation and Advisory, a division of Newmark Grubb Knight Frank provides consulting and valuation services for a broad spectrum of property types and clients nationwide with a focus on the New York Metropolitan area. A significant portion of that work is for litigation support/expert witness services, as well as complex assignments involving market analysis, highest and best use, and land development analysis.

Mr. Von Ancken is experienced with office, mixed use, shopping center, apartment, and industrial buildings as well as co-op and condo conversions, vacant land, and special-use properties. He provides valuations for purposes of portfolio valuation reporting, joint ventures, acquisition/disposition, development, condemnation, portfolio valuation, financing, tax certiorari, bankruptcy proceedings, estate liquidation, and arbitration/court litigation. He also consults on acquisitions/dispositions, financial feasibility, variance appeals, site development deals, bankruptcy, arbitration, IRS taxes, and a variety of real estate interests and issues.

CAREER SUMMARY

Mr. Von Ancken is a New York City expert, having over 44 years of experience in the real estate business as an appraiser, consultant, expert witness, and licensed real estate broker. He has prepared appraisal and market studies for mortgage, income tax, estate, acquisition, sales, urban renewal and corporate purposes. Appraising unusual properties is his specialty.

Mr. Von Ancken has valued an exhaustive array of properties of all types, including such New York City landmarks as Rockefeller Center, Madison Square Garden, the World Trade Center, Macy's, Bloomingdale's, the General Motors Building, the Chrysler Building, the Empire State Building and Battery Park City. He also valued the real estate from the following estates: Sol Goldman, Jack Weiler, Harry Helmsley, Fred Trump, William Gottlieb and Jerome Green.

He has appeared as Expert Witness on more than 400 occasions for a variety of purposes including market rent and value disputes, tax certiorari proceedings, landmark issues, bankruptcies, and eminent domain appropriations. He has also assisted in the structuring of more than 20 long-term ground leases. He has redeveloped loft buildings into mixed-use buildings, tenement buildings into quality apartment buildings and owns and operates apartment buildings and strip retail centers in Manhattan and Connecticut.

EDUCATION

Mr. Von Ancken holds a Bachelor of Business Administration from City College of New York, School of Business & Public Administration. He has studied at the Graduate Division of City College Business School specializing in real estate. He has completed Courses I, II, IV, VI and others on appraisal problems, condemnation, capitalization, and report writing at the Appraisal Institute.

PROFESSIONAL DESIGNATIONS/AFFILIATIONS

- Certified as a General Real Estate Appraiser by the Department of State, State of New York, Identification #46000001797

- Certified as a General Real Estate Appraiser by the Department of State, State of New Jersey, Identification #RG01577
- Certified as a General Real Estate Appraiser by the Department of State, State of Connecticut, Identification #00000671
- Real Estate Broker (State of New York)
- Grubb & Ellis Securities, Inc. – Series 22 and Series 63 securities licenses
- Securities Offered Through Grubb & Ellis Securities, Inc.
- Member FINRA/SIPC

Mr. Von Ancken is a Member of the Real Estate Board of New York, former member of the Board of Governors, and past Chairman of the Appraisal Committee. He is a Member of the Society of Real Estate Counselors (CRE, 1981), the Society of Real Estate Appraisers (SREA), and the Appraisal Institute (MAI, 1972) of which he also served as President in 1987 to the New York Metropolitan District Chapter #4. He is also a Fellow of The Royal Institution of Chartered Surveyors (RICS), a Member of the Urban Land Institute, the American Arbitration Association, National Association of Realtors (NACORE, Appraisal Member), and the American Right-of-Way Association (Senior Member). Mr. Von Ancken has taught real estate brokerage at New York University and has served as an assistant professor in the graduate program of New York University's Real Estate Institute. He has worked with members of Baruch College, Stony Brook University, Rutgers and Princeton Architectural School to produce a special book published by City University on "Downtown 2030".

Mr. Von Ancken prepared appraisals on over 6,500 varying property types, including more than 500 office buildings and 2,500 apartment buildings plus loft buildings, factories, commercial taxpayers, rooming houses, catering halls, gas stations, parking garages, residential homes, walk-up apartments, regional and super regional malls and community shopping centers, hotels, hospitals, cooperative apartments, drive-ins, theaters, schools, farms, Grand Central Terminal, subdivisions and vacant land of all types.

CLIENT LIST

Banco Popular; Bank Leumi; Bank of Boston; Bank of Tokai; Bowery Savings Bank; Bronx Savings Bank; CBS/Westinghouse; Capital Cities/ABC, Inc.; Chase Manhattan Bank, N.A.; Chemical Bank & Trust Company; Citibank; Citicorp Real Estate; Community Savings Bank; Dai-Ichi Kangyo Bank; AIG; Bear Sterns; GE Credit Corp.; Dollar Dry Dock Commercial; East New York Savings Bank; East River Savings Bank; Eastern Savings Bank; Eastern National Bank; Empire of America; Federal Savings Bank; European American Bank; Federal Deposit Insurance Corporation; Fiduciary Trust Company; FinansSkandic; First Bank of Chicago; First Federal Savings & Loan Association; Flushing Savings Bank; Franklin Society Savings & Loan; Greater New York Savings Bank; Hong Kong & Shanghai Banking Corporation; Irving Trust Company; ITT: New York City Employees Retirement; Manufacturers Hanover Trust Company; Marine Midland; Mortgage Trust of America; National Bank of North America; New York State Employees Retirement Fund; New York State Teachers' Insurance Annuity Association; New York Bank of Savings; North Side Savings Bank; Orange Savings Bank of New Jersey; Queens County Savings Bank; Savings Bank of Rockland County; Sumitomo Realty & Development; Swiss Kredietbank; The Bank of East Asia, Ltd.; The Troy Savings Bank; The Bank of New York; UnionAmerica Mortgage & Equity Trust; U. S. Trust; Bradford Trust Co.; The Gulf Oil Co.; RKO Stanley Warner Theatre Corp.; National Academy of the Arts; Federated Department Stores, Inc.; The New York Times; Texaco; Exxon; American Refining Corp.; Dairylea Cooperative Inc.; The Disney Company; New York Urban League; Fortunoff's; Hooker Chemical & Plastics; The Trump Organization; Sheltering Arms Children's Services; The Hertz Corporation; McDonald's; Pace University; Columbia University; New York University; Princeton University; The City University New York; Ogden Development Corp.; Glen Alden Corp.;

International Terminal Operating Co., Inc.; Anheuser Busch Brewery; Rockrose Associates; Chicago Pneumatic Tool Company; Calhoun School; Cohen Brothers Co.; Teco Properties; Silverstein & Partners; Muss Tankoos Corp.; Tishman Realty Construction Corp.; Peat, Marwick, Mitchell & Co.; The Rockefeller Foundation; UNICEF; Home Equity Inc.; T.I. Home Transfer Service; Relocation Associates; Bide-A-Wee Association; The Allen Group; Howard Johnson's; Saks Fifth Avenue; The Trump Organization; Nissho Iwai; American Corp.; Philips International Holding Corp; and U. S. Postal Services; Securities Group; Broadway Management; Board of Church & Society; United Methodist Church; Harley Davidson; McCrory Corp.; N.A. Phillips Corp.; New Jersey Natural Gas; Columbus Lines, Inc.; EMES Management Corp.; Harper & Row Publishers; Farberware; ASEA, Inc.; Tribune Co.; U. S. Railway Association; Mitsubishi of America; NY Racing Association; International Speedway Corp.; The City of New York Arterial Highways; The Board of Education of the City of New York Educational Trust Fund; The Housing Authority of the City of New York; The Housing & Urban Development Corp. of the City of New York; New York City's Landmark Preservation Commission; New York City Economic Development Corp; The New York State Department of Transportation; The Urban Development Corporation of the State of New York; National Urban League; The Metropolitan Transportation Authority; The Port Authority of New York and New Jersey; New York State General Services Administration; New York State Department of Parks; New York State Department of Environmental Conservation; New York State Institutional Facilities Corp.; New York School Construction Authority; Village of Freeport, L.I.; City of Glen Cove; Villages of Huntington Station; Jersey City Urban Renewal Corp.; Arnold & Porter; Baer Marks & Upham; Benedict Ginsberg Sommerfield & Weiss; Bryan Cave; Cadwalader, Wickersham & Taft; Carb, Luria, Cook & Kufeld; Carro, Spanbock, Caster & CuiFFo; Chernofsky & deNoyelles; Cladbourne & Parke; Cohen Lans; Colton, Hartnick, Yamin & Sheresky; Cravath, Swaine & Moore; Davis & Gilbert; Davis, Polk & Wardwell; Debevoise & Plimpton; Dunnington, Bartholow & Miller; Foley, Hickey, Gilbert & O'Reilly; Fried, Frank, Harris, Shriver & Jacobson; Galef & Jacobs; Gaston & Snow; Goldstein, Goldstein, Rikon & Gottlieb; Graubard Mollen Horowitz Pomeranz & Shapiro; Graubard Miller; Harper & Matthews; Hill, Betts & Nash; Hoffinger Friedland Dobrish Bernfeld & Hasen; Hogan & Hartson; Kaye Scholer Fierman Hays & Handler; Kornstein, Veisz, Wexler & Pollard; Kramer, Levin, Neftalis, Nessen, Kamin & Frankel; Kozlov, Seaton & Romanini, P.C.; Kurzman Karelsen & Frank; Lampf, Lipkind, Prupis, Petigrow & LaBue; Manley, Burke & Fischer; Parker, Chapin, Flattau & Kimpl; Morgan Lewis; Patterson, Belknap, Webb & Tyler; Paul, Weiss, Rifkind, Wharton & Garrison; Pavia & Harcourt; Peter H. & Hubert J. Brandt; Pinney, Payne, Van Lenten, Burrell, Wolfe & Dilman, P.C.; Pryor, Cashman, Sherman & Flynn; Reavis & McGrath; Robinson Silverman Pearce Aronsohn & Berman; Rosenberg & Williamson; Rubin, Baum, Levin, Constant & Friedman; Schwartz, Weiss; Sonnenschein, Nath & Rosenthal; Steckler & Hoffman; Sperry, Weinberg & Waldman; Stroock & Stroock & Lavan; Teitelbaum, Hiller, Rodman, Paden & Hibsher, P.C.; Turk, Marsh, Kelly & Hoare; White & Case; Winston & Case; Yeager & Lang.

ROBERT H. MAYER, MAI

Managing Director – Landauer Valuation and Advisory
A Division of Newmark Grubb Knight Frank

CURRENT RESPONSIBILITIES

Robert H. Mayer is a Managing Director of the Landauer Valuation and Advisory, a division of Newmark Grubb Knight Frank. He focuses on valuations and consulting for litigation support, condemnation, rental redetermination, estates, financing and real estate transaction negotiations. Mr. Mayer specializes in the valuation of land and air rights and valuations to support just compensation in condemnation proceedings. He performs complicated financial modeling of existing and potential developments. He has appeared as Expert Witness for a variety of purposes, including value disputes, eminent domain appropriations and insurance litigation.

Recent successful cases in which he was involved include the properties condemned for the construction of the Fulton Street Transportation Center, the New York Times Building and the extension of the Number 7 Subway line. Mr. Mayer valued the excess development rights above Grand Central Terminal and developed a pricing mechanism that the Hudson Yards Development Corporation adopted in selling the development rights above the Eastern Rail Yards.

CAREER SUMMARY

Prior to joining Landauer, Mr. Mayer was Senior Appraiser at Michael M. Axler and Associates, Inc. where he provided valuation and consulting services to clients in connection with real estate transactions and financing. He managed a wide variety of projects, including the preparation of appraisals in support of tax certiorari proceedings and bankruptcy.

Before his tenure with Axler, Mr. Mayer was an appraiser at KTR Valuation and Consulting Services, LLC. He prepared appraisal and market studies for mortgage, estate, acquisitions, sales and corporate purposes.

EDUCATION

- BS in Finance from the Wharton School at the University of Pennsylvania
- Diploma in Real Estate Investment from the Real Estate Institute of New York University
- Continuing Education Courses

PROFESSIONAL DESIGNATIONS/AFFILIATIONS

- Member of the Appraisal Institute (MAI)
- Certified as a General Real Estate Appraiser by the Department of State, State of New York, ID #46000020549
- Licensed Real Estate Salesperson, State of New York
- Member of the Wharton Club of New York, Wharton Real Estate Institutional Real Estate Network, Wharton Real Estate Investors Affinity Group

GOVERNMENT CLIENT LIST

New York State Thruway Authority; New York City Economic Development Corporation; Federal Deposit Insurance Corporation, Metropolitan Transportation Authority; Union City (NJ) Redevelopment Agency;

Jersey City Redevelopment Agency; Hudson Yards Development Corp; Metropolitan Transportation Authority; Internal Revenue Service; New York State Department of Transportation

ATTORNEY CLIENT LIST

Goldstein Rikon & Rikon, P.C.; Bachner, Tally, Polevoy, Misher; Herrick, Feinstein LLP; Hofheimer, Gartlir & Gross; Opton, Handler, Gottlieb, Feiler, Landau & Hirsch; Bondy & Schloss; McDermott, Will & Emery; Kramer Levin Naftalis & Frankel LLP.; Morrison Cohen Singer & Weinstein LLP; Carter, Ledyard & Milburn LLP; Certilman, Balin, Adler & Hyman LLP

BANK AND FINANCIAL COMPANY CLIENT LIST

Bank Leumi Trust Company of New York; Bank of New York; Citibank NA; East River Savings Bank; Bank of America; Credit Lyonnais; Dime Savings Bank; Flushing Savings Bank; New York State Teacher's Insurance Annuity Association; Israel Discount Bank; Greater New York Savings Bank; National Bank of Canada; National Westminster Bank; NationsCredit; Crossland Savings; Republic Bank for Savings; Riggs Bank; Emigrant Savings Bank; Crossland Savings Bank; European-American Bank; Fleet Bank; River Bank; Westdeutsche Immobilien Bank, Deutsche Bank, Washington Mutual Bank; Lehman Brothers; J.P. Morgan Chase Bank; Merrill Lynch; Paine Webber; Heller Financial; American Capital Resources; Midland Loan Services; Belgravia; RECOLL; American Property Financial; Crimii Mae; Connecticut Mutual; Massachusetts Mutual; Citigroup

CORPORATE CLIENT LIST

Harlan Company; Greenthal Realty; Northcorp Realty; Carnivale Handbag Corp; The New School University; Brevard Owner Corp.; Jackson's Bistro and Jazz Club; Anthony Lepore (Ferarra's), Bari Restaurant Equipment Corp., Manhattan Church of Christ, American Continental Properties; Vornado