

APPRAISAL OF:

124-134 Atlantic Avenue - Commercial Condominium
88-94 Amity Street - Apartment Building
86 Amity Street - Apartment Building
82 Amity Street - Apartment Building
78 Amity Street - Administrative Offices
76 Amity Street - Administrative Offices
74 Amity Street - Apartment Building
113 Congress Street - Administrative Offices
43 Columbia Place - Apartment Building
336 Flatbush Avenue - Mixed-Use Building
184 Sterling Avenue - Medical Offices
112 Pacific Street - Administrative Offices
385-389 Hicks Street - Engineers Building

Volume II

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
Non-Core 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 non-core 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 non-core property, as of October 1, 2013, based on its highest and best use.

The appraisal report is divided into three volumes. Volume I of this appraisal report is of 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.

This is Volume II of the appraisal report. It contains the appraisals of eleven 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, commercial condominium, mixed-use building, and administrative offices. A brief description of each property is summarized in the next table:

<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

October 31, 2013
Mr. Kenneth K. Fisher
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Volume III contains the descriptions, photographs and tax maps of the comparable sales that are used in our appraisals of both the core and non-core buildings.

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 thirteen non-core hospital properties as of October 1, 2013, is \$48,200,000. 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
NYS Certification #460000017997



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



Summary of Values

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	Highest and Best Use	Reconciled Value	Indicated Value per SF of GBA	Indicated Value per SF of FAR
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

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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. The townhouses located at 76 and 78 Amity Street have been valued to their highest and best use as one townhouse property due to their current configuration.

<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
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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

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.

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

OWNERSHIP AND OCCUPANCY

According to the most recent deeds for each of the properties, the contract and transfer dates are the same for all thirteen 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.

<i>Subject Property Transfers</i>					
<i>Address</i>	<i>Block/Lot</i>	<i>Building Use</i>	<i>Contract Date</i>	<i>Transfer Date</i>	<i>Sale Price</i>
124-134 Atlantic Avenue	285/1001	Comm. Condo	1/1/2011	5/29/2011	\$5,500,000
88-94 Amity Street	295/14	Apt. Bldg.	1/1/2011	5/29/2011	\$10,200,000
86 Amity Street	295/13	Apt. Bldg.	1/1/2011	5/29/2011	\$900,000
82 Amity Street	295/11	Apt. Bldg.	1/1/2011	5/29/2011	\$1,200,000
78 Amity Street	295/9	Admin Offices	1/1/2011	5/29/2011	\$950,000
76 Amity Street	295/8	Admin Offices	1/1/2011	5/29/2011	\$1,000,000
74 Amity Street	295/7	Apt. Bldg.	1/1/2011	5/29/2011	\$1,600,000
113 Congress Street	295/38	Admin Offices	1/1/2011	5/29/2011	\$1,700,000
43 Columbia Place	259/8	Apt. Bldg.	1/1/2011	5/29/2011	\$2,400,000
336 Flatbush Avenue	1058/30	Mixed-Use	1/1/2011	5/29/2011	\$700,000
184 Sterling Avenue	1058/28	Medical Office	1/1/2011	5/29/2011	\$1,400,000
112 Pacific Street	291/8	Admin Offices	1/1/2011	5/29/2011	\$6,130,000
385-389 Hicks Street	295/3	Engineers	1/1/2011	5/29/2011	\$3,200,000
					\$36,880,000

INSPECTIONS OF THE PROPERTIES

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 eleven 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. Two additional properties are located on the border of Park Slope and

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

Prospect Heights, Brooklyn. As currently configured, the buildings consist of medical buildings, apartment buildings, townhouses, and a commercial condominium that were used as part of the former teaching college campus.

The purpose of this appraisal is to estimate the fair market value of each of thirteen 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 three other scenarios: 1. The conversion to or continued use as medical office buildings, 2. The conversion to or continued use as rental apartment buildings, and 3. Conversion to single family townhouses.

The appraisals are divided into six sections based on our concluded highest and best use. The sections include the following categories:

- Section 1 – Commercial Condominium – 124-134 Atlantic Avenue
- Section 2 – Elevator Apartment Building – 88-94 Amity Street
- Section 3 – Townhouses – 74, 76, 78, 82, & 86 Amity Street and 113 Congress Street
- Section 4 – Walk-Up Apartment Building – 43 Columbia Place
- Section 5 – Mixed-Use & Office Buildings – 336 Flatbush Avenue and 184 Sterling Avenue
- Section 6 – Residential Development Sites – 385 Hicks Street and 112 Pacific Street

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

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. 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:

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

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.

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.

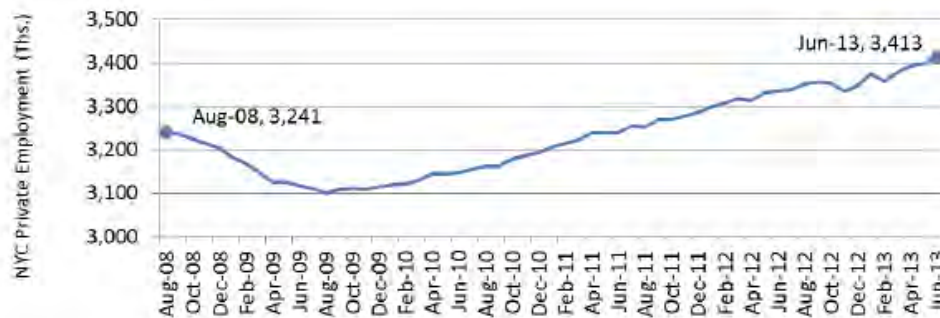
Although it has experienced job losses in the last two months, professional and business services employment showed an overall expansion so far this year. Over the last six months, this category has grown by 5,700 jobs; a quarter of the job additions have come from the temporary services subsector. While 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

Townhouse Ownership

The residential housing stock in Brooklyn consists of three major components. The largest component is the non-subsidized rental housing component, most of which is under some form of rent control or rent stabilization. The second largest component is the “tenant” ownership component, which consists of condominiums and cooperatives. Most of the cooperative

apartments were created through the conversion of pre-existing rental apartment buildings. Many of the condominium units were constructed new beginning in the 1980s. The third component consists of government owned and heavily subsidized rental apartment buildings. The majority of the market consists of rental units, approximately 54 percent of which are governed by a maze of rent regulations at state and city levels. Tax abatement and incentive plans continue to play a large role in shaping the city's residential housing development, as do zoning laws and designations of historic preservation districts.

Cobble Hill is a charming and highly sought after neighborhood in Brooklyn. The serene streets, manicured parks, and the highly-ranked schools in Cobble Hill make the neighborhood a prime residential destination for families with young children. The demand for townhouses in Cobble Hill is high as their size and configuration is conducive to raising a family. However, the supply is low as townhouses and brownstones generally were not built in Cobble Hill after the early 20th century. Sensing the renewed demand and general lack of supply in the market, developers have begun building townhouses in the neighborhood again that feature the aesthetics of a historic brownstone but also include the luxuries and efficiencies of modern construction.

There are 12 single-family luxury townhouses that are either currently under construction or have been recently completed within a one-block radius of the subject properties. Three of these townhouses are located one block east of the subject properties at 357-361 Henry Street, between Amity Street and Congress Street. These three-story plus English basement townhouses are each approximately 4,000 square feet in size and are listed for sale for \$4,800,000 or \$1,200 per square foot.

Directly south of the subject properties, nine luxury single-family townhouses are under construction at 110-126 Congress Street as part of the Townhouses at Cobble Hill development. Of the nine units in the development, three are currently available. The available units vary from 3,400 to 4,000 square feet in size and are currently listed at prices that range from \$3,875,000 to \$4,175,000 or \$940 to \$1,100 per square foot. The increase in investment activity and the premium asking prices observed for luxury single-family townhouses in Cobble Hill serve as evidence of the strength of the market in the area.

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

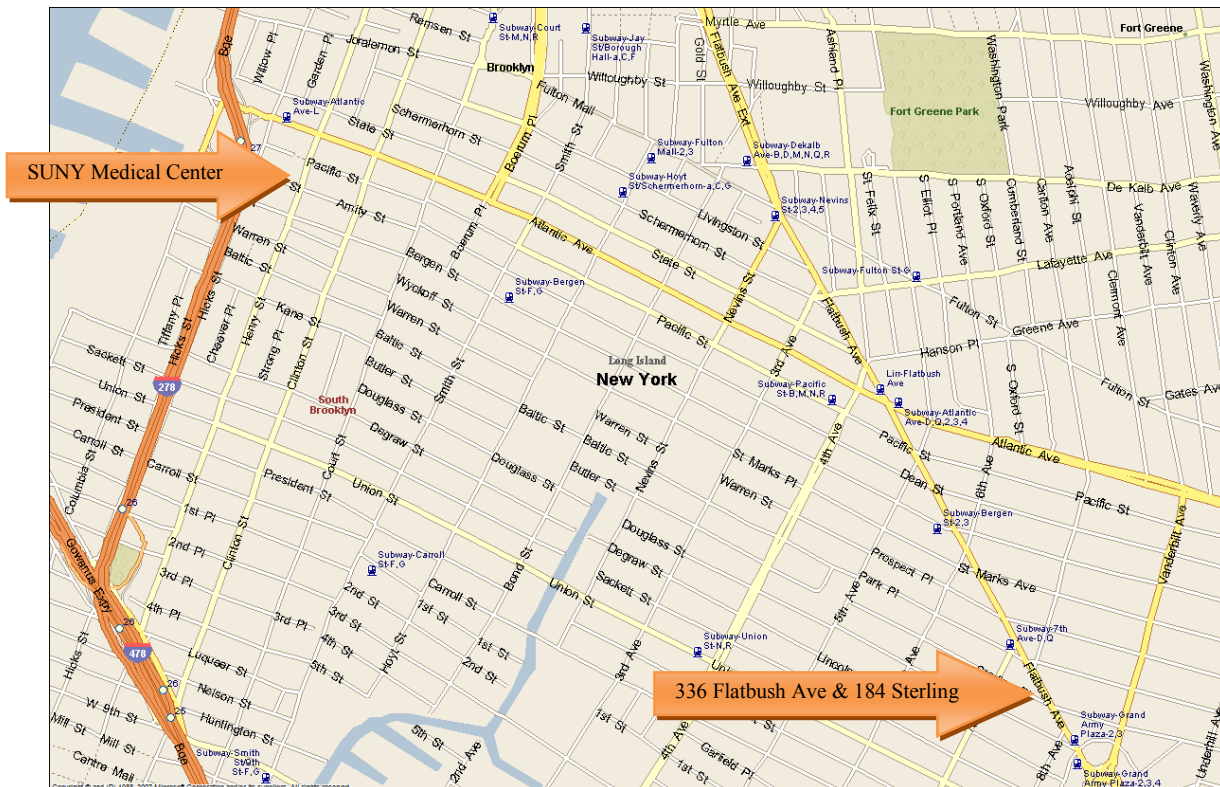


Bus Map



Source: Metropolitan Transit Authority

Area Map



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 with the exception of the commercial condominium at 124-134 Atlantic Avenue, 113 Congress Street, and the Polhemus Building at 350 Henry Street.

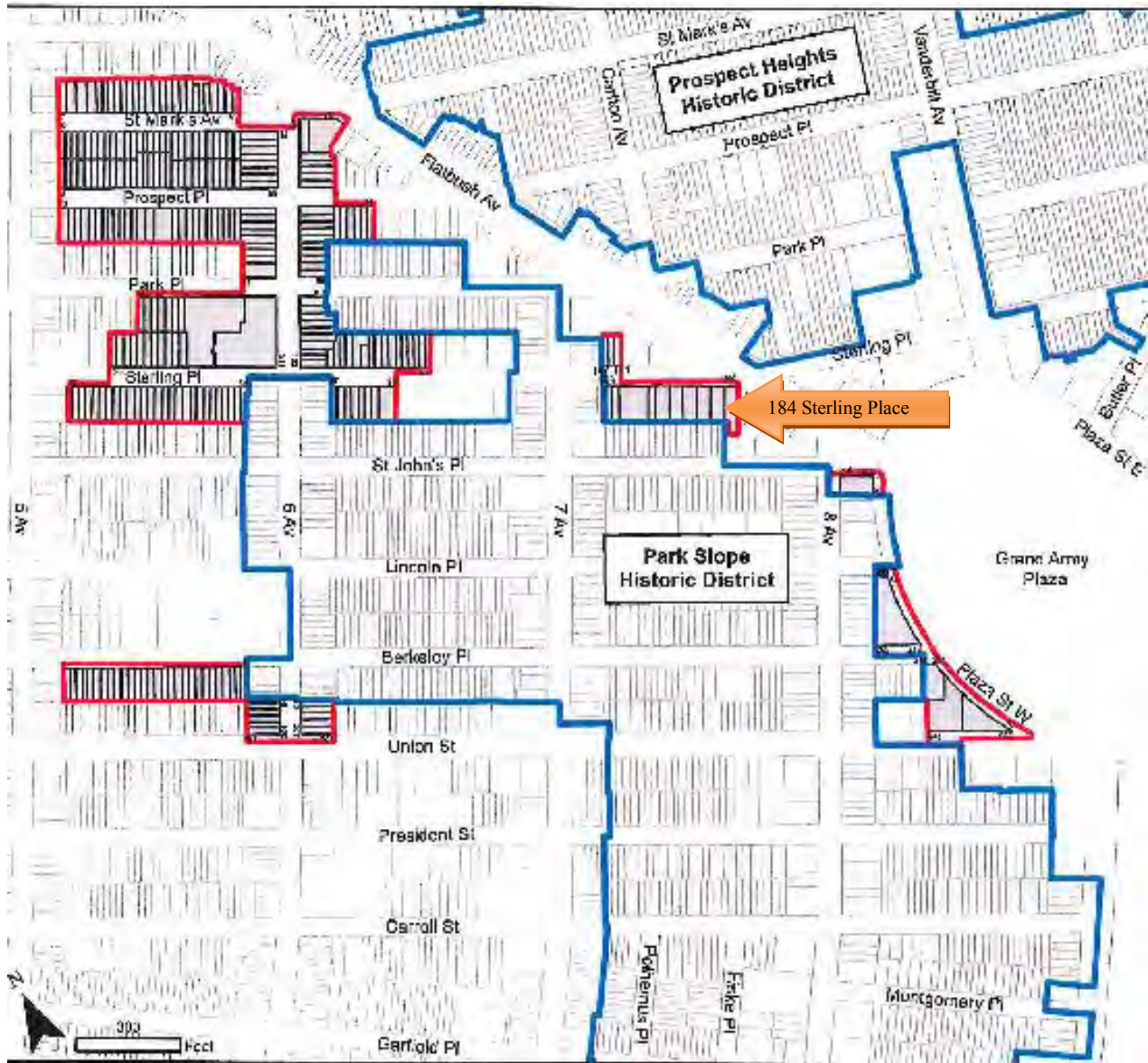


Source: The City of New York Landmarks Preservation Commission

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



The map below is the proposed Park Slope Historic District Extension II which includes the subject property located at 184 Sterling Place on the border of Park Slope and Prospect Heights. The adjacent property at 336 Flatbush Avenue is not included in the extension. The proposal has been calendared as of September 17, 2013 by the Landmarks Preservation Commission.



ZONING ANALYSIS

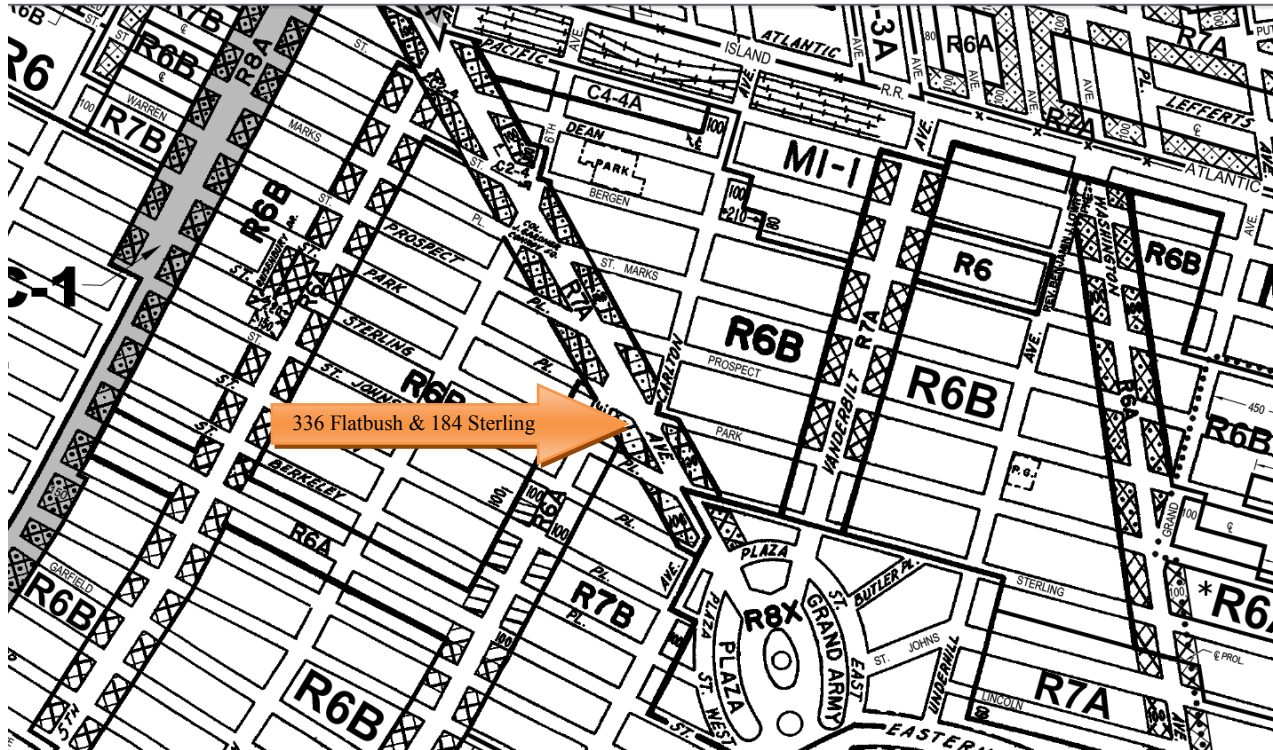
With the exception of the two properties located in Prospect Heights, the subject properties are located in an R6 residential zoning district in Cobble Hill, Brooklyn NY. This district has optional quality housing regulations that produce lower buildings with high lot coverage. Wide streets typically 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 two properties located further south in the Prospect Heights section of Brooklyn are located in an R7A zoning district with a C2-4 commercial overlay. The maximum allowable FAR in the district is 4.0 for residential use and 2.0 for commercial use.



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 is 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 – 134-134 Atlantic Avenue – Commercial Condominium

Addresses: 130-134 Atlantic Avenue, Brooklyn, NY
124 Atlantic Avenue, Brooklyn, NY

Neighborhood: Cobble Hill

Tax Block/Lot: Block 285 Lot 1001

Zoning: R6 – in the Cobble Hill Historic District

Improvements: There are three independent units on the grade level of Atlantic Avenue that are vacant and a larger lower level unit that is used as medical offices.

<i>Commercial Condominium - 124 - 134 Atlantic Avenue</i>		
<i>Address</i>	<i>Sq. Ft.</i>	<i>Access and Location</i>
124 Atlantic Avenue	420	Street grade access on Atlantic Avenue
130 Atlantic Avenue	720	Street grade access on Atlantic Avenue
132 Atlantic Avenue	720	Street grade access on Atlantic Avenue
134 Atlantic Avenue	10,640	Lower Level access from Pacific St & Elevator at 134 Atlantic
Total	12,500	Square Feet

Highest & Best Use: Continued office use

Inspection Date: September 26, 2013 and October 1, 2013

Date of Value: October 1, 2013

Indicated Value Lot 1001: Income Approach – Direct Capitalization \$3,100,000

Sales Comparison Approach

124 Atlantic Avenue	\$ 140,000
130 Atlantic Avenue	\$ 230,000
132 Atlantic Avenue	\$ 230,000
134 Atlantic Avenue	<u>\$2,900,000</u>
Aggregate Total Value	\$3,500,000

Reconciled Value \$3,500,000

Indicated Value per Square Foot \$280.00

Subject Photos



130-134 Atlantic Avenue – Front View

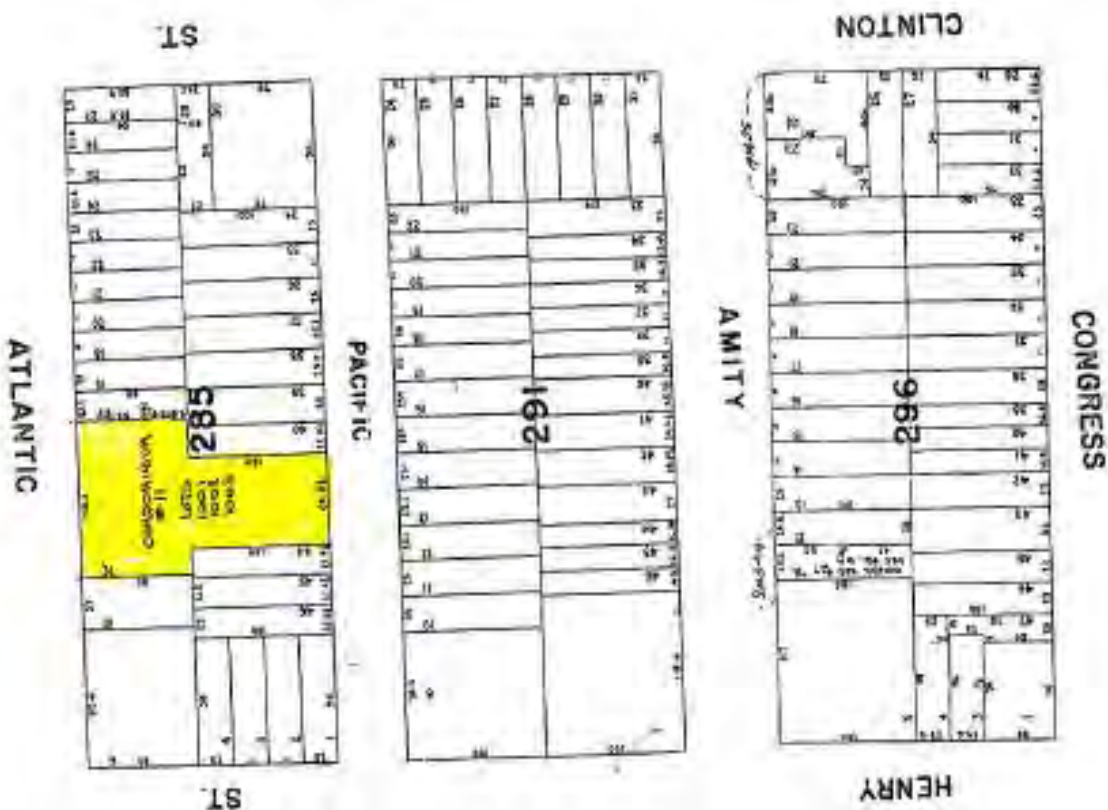


Pacific Street – Rear View



124 Atlantic Avenue

Tax Map



Property Description

Site

The subject site is located on the south side of Atlantic Avenue between Henry and Clinton Streets in the Cobble Hill section of Brooklyn. The street is a major east- and westbound thoroughfare that has direct access to Route 278 Brooklyn-Queens Expressway. Atlantic Avenue is a busy commercial street with commercial uses on the ground floor and offices or apartments on the floors above. The subject site has frontage of 110 feet on Atlantic Avenue and depth of 180 feet and frontage of 64 feet on the north side of Pacific Street. Pacific Street is lined with single and multifamily townhouses. Site improvements include concrete sidewalks and curbs, some street lights, and wrought iron railing at the rear and stairway access at both the Atlantic Avenue and Pacific Street sides of the building leading to the lower level office entrance. The building has a brick façade and large double-hung windows. The Pacific Street side faces lovely townhouse buildings on a tree-lined residential street. The site is located in the Cobble Hill Historic Landmark District. There is a courtyard dividing the lower level offices into two sections.

Improvements

The condominium consists of four units that are the commercial portion of a residential cooperative building that was constructed in 1900 and converted to condominium use in the 1980s. The four units are briefly described in the next table:

<i>Address</i>	<i>Sq. Ft.</i>	<i>Access and Location</i>
124 Atlantic Avenue	420	Street grade access on Atlantic Avenue
130 Atlantic Avenue	720	Street grade access on Atlantic Avenue
132 Atlantic Avenue	720	Street grade access on Atlantic Avenue
134 Atlantic Avenue	10,640	Lower Level access from Pacific St & Elevator at 134 Atlantic
Total	12,500	Square Feet

The three grade level office units along Atlantic Avenue each have independent recessed doorway access to the units. They have been vacant for a number of years and are in fair condition. They all need cleaning and upgraded wall and floor coverings. The units have tall ceiling heights with suspended fluorescent lighting and some decorative sconces. The smallest unit at 124 Atlantic Avenue is one large room with a lavatory in the rear. The other two units at 130 and 132 Atlantic Avenue have multiple rooms.

134 Atlantic Avenue

The subject property is located in the lower level of a four-story residential cooperative building. Access to the office is from a small lobby located at 134 Atlantic Avenue with both an elevator and stairway, and there is a second entrance to the lower level offices along Pacific Street.

Main Lobby: The main entrance to the lower level medical offices is at grade at 134 Atlantic Avenue. It is a small vestibule with tall windows and good natural lighting. The lobby has stairway and elevator access to the lower level offices. There is a secondary entrance on Pacific Street which is via

an exterior below-grade stairway.

- Lower Level: The medical offices consist of a variety of private clinics, staff rooms, and labs. The offices are typical older medical facilities with examination rooms, consultation rooms, file rooms, and receptionist and waiting rooms. The offices have a combination of vinyl tile and carpeting on the floors, stationery and moveable office partitions, and drop ceiling tiles with recessed fluorescent lighting. Some areas have hallways that have low ceilings (approximately 7 feet). There is a small courtyard along the hallway in the lower level with mature and overgrown trees and bushes. The lower level office area reportedly contains 10,640 square feet.
- Mechanicals: The building is heated with low-pressure gas boilers located in the basement that provide steam for heat exchangers. There is one cooling tower at the Pacific Street side and seven air handling systems, some of which are newer and some are more than 20 years old. The elevator is a 2,500 lb. capacity unit with metal cab and carpeting. The office level is sprinklered.
- Comments: The offices appear to be older and dated in appearance. The low ceiling heights, narrow hallways, and minimal natural lighting create an unattractive and dark office environment.

124-132 Atlantic Avenue

The smaller units are located at the grade level of a five-story residential building that is located on the south side of Atlantic Avenue between Henry and Clinton Streets. The building contains 60 apartments on the second through fifth floors.

- First Floor: The three units have large windows facing the grade level street and a recessed doorway from Atlantic Avenue. The units have 420, 720, and 720 square feet and were formerly used as office space. The offices have carpeted floors, plaster and paneled walls, 12 foot ceiling heights, and fluorescent lighting fixtures.
- Mechanicals: The units are heated and cooled with a heat pump system that has a cooling tower on the roof and heat pumps in the basement's 5-ton system. The offices are cooled by window air conditioning units.
- Comments: Atlantic Avenue is a busy commercial thoroughfare with some retail uses along the grade level of high rise buildings. This area of Atlantic Avenue is less densely developed with retail uses and there appear to be more offices at grade level which would command a lower rent. The R6 zoning restricts use to residential and community facility, not retail use.

ASSESSMENT AND REAL ESTATE TAXES

The actual and transitional assessed values for 2013/2014 are summarized in the table below.

<u>124-134 Atlantic Avenue</u>	<u>Block 285</u>	<u>Lot 1001</u>
2013/2014	Actual	Transitional
Land	\$135,000	\$135,000
Improvements	<u>\$1,900,350</u>	<u>\$1,349,640</u>
Total	\$2,035,350	\$1,484,640
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$152,740	
Assessor's 100% Market Value	\$4,523,000	

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 285 Lot 1001 for tax year 2013/2014 based on the 2012/2013 Class 4 tax rate of 10.288% is \$152,740 which equates to \$12.22 per square foot.

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 15,200 square feet of land area. As improved with a 52,058 square foot building, the site is over improved for residential use (36,936 sq. ft. of FAR) but not for community facility use (72,960 sq. ft. of FAR).

Permitted uses include all residential uses and community facility uses such as schools, libraries, museums, college dormitories, nursing homes and residential facilities for special need populations. Houses of worship, community centers, hospitals, ambulatory health care facilities and non-profit facilities without sleeping accommodations are also permitted.

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”.

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. Because the subject property is a commercial condominium that shares the land with approximately sixty cooperative apartments, the highest and best use is as improved.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a five-story commercial and residential condominium building that is built in excess of the FAR permitted by residential 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. 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 building.

Financially Feasible

In the analysis of the commercial condominium as medical offices or community facility the two valuation methods produced positive investment returns indicating use as continued medical offices or community facility are financially feasible.

<i>124-134 Atlantic Avenue Commercial Condominium</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Medical Office Use - All Four Units	Direct Capitalization	\$2,900,000
Community Facility Use - 124 Atlantic Avenue	Sales Comparison Approach	\$140,000
Community Facility Use - 130 Atlantic Avenue	Sales Comparison Approach	\$230,000
Community Facility Use - 132 Atlantic Avenue	Sales Comparison Approach	\$230,000
Medical Office Use - 134 Atlantic Avenue	Sales Comparison Approach	\$2,900,000
Aggregate Value of All Four Units	Sales Comparison Approach	\$3,500,000

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is continued medical offices or community facility uses.

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the commercial condominium, the income approach using direct capitalization was used to indicate its value to its highest and best use. The sales comparison approach was also used to indicate the value as a commercial condominium. The cost approach was not used to value the subject as a commercial condominium because the advanced age of the building and the difficulty in estimating depreciation of commercial buildings in the cost approach.

The income approach was used in the form of a direct capitalization to estimate the value of the commercial condominium in its current use as medical offices or as a community facility. We concluded the highest and best use of the commercial condominium and the use that produced the greatest return on the investment was continued medical office use or community facility use.

Direct Capitalization – Continued Medical Office and Community Facility 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.⁵ We used direct capitalization to estimate the value of the commercial condominium in its current configuration.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$234,605 results in a value of \$3,910,083. It would require approximately one year to renovate and lease the offices. We deducted the lost rent over the one-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 was rounded to \$3,100,000.

124-134 Atlantic Avenue - Medical Offices

10,640 sq. ft. GBA below grade
1,860 sq. ft. street grade

Income

Income from Below Grade Office	@	\$35.00 per sq. ft.	\$372,400
Income from Street Office	@	\$55.00 per sq. ft.	<u>\$102,300</u>
Potential Gross Income			\$474,700
Less Vacancy & Credit Loss	@	10.00%	<u>-\$47,470</u>
Effective Gross Income			\$427,230

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$125,000
Miscellaneous		\$0.16	\$2,000
Reserves for Replacements	@	\$0.25	\$3,125
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$62,500</u>
Total Expenses		\$15.41	\$192,625

Net Operating Income \$234,605

Capitalization Rate 6.00%

"As Stabilized" Market Value		\$3,910,083
Less: Rent Loss (Year 1: 50% Leased)	50%	-\$237,350
Less: Work Letters (\$25 Per Sq.Ft.)		-\$312,500
Less: 3 Months of Free Rent		-\$118,675
Less: Leasing Commissions (32% of 1st Year Rent)		<u>-\$151,904</u>
Indicated Market Value		\$3,089,654
Rounded		\$3,100,000
Indicated Value per Square Foot		\$248.00

⁵ The Appraisal of Real Estate, 13 Edition, 2008, Page 499

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, 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 1,860 square feet at grade and 10,640 square feet below grade. Contract rents for offices were adjusted to indicate a rent for the subject's medical office space.

<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. The subject property's ground-floor and below-grade levels are considered in our market rent conclusion. 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 \$35.00 per square foot for the lower level medical office rents. The offices on the grade level are considered more valuable because of their easy access on a heavily traveled major highway just off the 278 Expressway. The grade level rent was estimated at \$55.00 per square foot. Retail uses are not permitted in an R6 zone.

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 condo unit, 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 amount per square foot for each expense category.

<u>Office Buildings</u>												
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	\$282,585	\$0.91	\$1,141	\$0.01	\$0	\$0.00	\$107,919	\$0.35	\$0	\$0.00	\$0	\$0.00
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	\$4.78	\$112,467	\$1.16	\$210,804	\$2.85	\$1,029,088	\$3.35	\$668,224	\$6.07	\$675,587	\$5.22
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 \$10.41 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	\$0.21	\$0.01	\$0.91	\$0.00
Expenses Before RE Tax	\$9.89	\$9.80	\$13.18	\$6.21
Real Estate Taxes	\$3.91	\$4.07	\$6.07	\$1.16
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 7.00%. Overall, the capitalization rates range from 6.4% to 8.4% and average 7.04%. The median capitalization rate was 6.81%.

Capitalization Rates for Brooklyn Office Building Sales									
Address	Block/Lot	Building Use	Land Area	Building Size	Contract Date	Transfer Date	Sale Price	Price per Sq. Ft.	Capitalization Rate
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.

Overall Capitalization Rates		
National Medical Office Buildings		
From	To	Average
5.50%	11.00%	7.85%
Manhattan Office Market		
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 6.0%.

Conclusion – Continued Medical Office or Community Facility Use

Based on this analysis the indicated value of the commercial condominium as converted to a medical office building as of October 1, 2013, is \$3,100,000 after deducting lease-up costs, rent loss during the lease-up period and commissions.

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 commercial condominium. We researched Brooklyn neighborhoods for sales of condominiums deemed comparable to the subject property. The sales are located throughout Brooklyn and the sale prices range from \$880,000 to \$7,866,175 for commercial condominiums used for medical offices that range in unit prices from \$203.42 to \$369.22 per square foot. The contract dates range from April 2011 to January 2013.

The comparable sales adjustment grids on the following pages are followed by an explanation of the elements of comparison and description of each comparable sale. Full descriptions of the comparable commercial condominium sales including a photograph and tax map are featured beginning on Page 38 of Volume III of this report.

The comparable sales location map below shows the proximity of the subject property to the Brooklyn condominium sales that are used for medical office purposes.

Comparable Commercial Condominium Sales Location Map





<u>Property Information</u>	<u>SUBJECT</u>	<u>Comparable #1</u>	<u>Comparable #2</u>	<u>Comparable #3</u>	<u>Comparable #4</u>	<u>Comparable #5</u>
Address	124 Atlantic Ave	3049 6th Street	355 Ovington Ave.	1711 Sheepshead Bay	195 Montague	142-144 Joralemon
Neighborhood	Cobble Hill	Brighton Beach	Bay Ridge	Sheepshead Bay	Brooklyn Heights	Brooklyn Heights
Block/Lot	285/1001	8676/1101	5872/1008	8772/1219	244/1001	264/15
Zoning	R6	R6	R6	R4	C5-2A	C5-2A
Condo Square Footage	420	3,541	2,700	3,369	13,027	2,890
Floor Level	1	1	2	1	8	2
Year Constructed - Building	1900	1935	1986	2000	1960	1927
Year Renovated - Building	1986	1987			1995	2003
Building Size	61,063	9,703	14,260	42,000	322,000	62,400
Building Class	Class C	Class C	Class C	Class C	Class B	Class B
Valuation/Contract Date	10/1/2013	4/11/2011	7/1/2012	3/28/2012	7/17/2012	1/31/2013
Transfer Date		5/4/2011	8/23/2012	4/27/2012	7/27/2012	2/8/2013
Sale Price		\$1,493,862	\$750,000	\$1,150,000	\$2,650,000	\$880,000
Sale Price Per Sq. Ft. of GBA		\$421.88	\$277.78	\$341.35	\$203.42	\$304.50
<u>Adjustments</u>						
# of Months		29	15	18	14	8
Market Conditions at 0.5% Per Month		14.5%	7.5%	9.0%	7.0%	4.0%
Adjusted Price Per Sq. Ft.		\$483.05	\$298.61	\$372.07	\$217.66	\$316.68
Location		5%	5%	5%	0%	0%
Size		5%	5%	5%	10%	5%
Floor		0%	0%	0%	0%	0%
Building Class and Condition		0%	0%	-5%	-5%	-5%
Total Adjustments		10%	10%	5%	5%	0%
Adjusted Price Per Sq. Ft.		\$531.35	\$328.47	\$390.67	\$228.55	\$316.68
Indicated Price Per Sq. Ft.	\$325					
Indicated Value	\$136,500					
Rounded	\$140,000					



<u>Property Information</u>	<u>SUBJECT</u>	<u>Comparable #1</u>	<u>Comparable #2</u>	<u>Comparable #3</u>	<u>Comparable #4</u>	<u>Comparable #5</u>
Address	130 Atlantic Ave	3049 6th Street	355 Ovington Avenue	1711 Sheepshead Bay	195 Montague	142-144 Joralemon
Neighborhood	Cobble Hill	Brighton Beach	Bay Ridge	Sheepshead Bay	Brooklyn Heights	Brooklyn Heights
Block/Lot	285/1001	8676/1101	5872/1008	8772/1219	244/1001	264/15
Zoning	R6	R6	R6	R4	C5-2A	C5-2A
Square Footage	720	3,541	2,700	3,369	13,027	2,890
Floor Level	1	1	2	1	8	2
Year Constructed - Building	1900	1935	1986	2000	1960	1927
Year Renovated - Building	1986	1987			1995	2003
Building Size	61,063	9,703	14,260	42,000	322,000	62,400
Building Class	Class C	Class C	Class C	Class C	Class B	Class B
Valuation/Contract Date	10/1/2013	4/11/2011	7/1/2012	3/28/2012	7/17/2012	1/31/2013
Transfer Date		5/4/2011	8/23/2012	4/27/2012	7/27/2012	2/8/2013
Sale Price		\$1,493,862	\$750,000	\$1,150,000	\$2,650,000	\$880,000
Sale Price Per Sq. Ft. of GBA		\$421.88	\$277.78	\$341.35	\$203.42	\$304.50
<u>Adjustments</u>						
# of Months		29	15	18	14	8
Market Conditions at 0.5% Per Month		14.5%	7.5%	9.0%	7.0%	4.0%
Adjusted Price Per Sq. Ft.		\$483.05	\$298.61	\$372.07	\$217.66	\$316.68
Location		5%	5%	5%	0%	0%
Size		5%	5%	5%	10%	5%
Floor		0%	0%	0%	0%	0%
Building Class and Condition		0%	0%	-5%	-5%	-5%
Total Adjustments		10%	10%	5%	5%	0%
Adjusted Price Per Sq. Ft.		\$531.35	\$328.47	\$390.67	\$228.55	\$316.68
Indicated Price Per Sq. Ft.	\$325					
Indicated Value	\$234,000					
Rounded	\$230,000					



<u>Property Information</u>	<u>SUBJECT</u>	<u>Comparable #1</u>	<u>Comparable #2</u>	<u>Comparable #3</u>	<u>Comparable #4</u>	<u>Comparable #5</u>
Address	132 Atlantic Ave	3049 6th Street	355 Ovington Avenue	1711 Sheepshead Bay	195 Montague	142-144 Joralemon
Neighborhood	Cobble Hill	Brighton Beach	Bay Ridge	Sheepshead Bay	Brooklyn Heights	Brooklyn Heights
Block/Lot	285/1001	8676/1101	5872/1008	8772/1219	244/1001	264/15
Zoning	R6	R6	R6	R4	C5-2A	C5-2A
Square Footage	720	3,541	2,700	3,369	13,027	2,890
Floor Level	1	1	2	1	8	2
Year Constructed - Building	1900	1935	1986	2000	1960	1927
Year Renovated - Building	1986	1987			1995	2003
Building Size	61,063	9,703	14,260	42,000	322,000	62,400
Building Class	Class C	Class C	Class C	Class C	Class B	Class B
Valuation/Contract Date	10/1/2013	4/11/2011	7/1/2012	3/28/2012	7/17/2012	1/31/2013
Transfer Date		5/4/2011	8/23/2012	4/27/2012	7/27/2012	2/8/2013
Sale Price		\$1,493,862	\$750,000	\$1,150,000	\$2,650,000	\$880,000
Sale Price Per Sq. Ft. of GBA		\$421.88	\$277.78	\$341.35	\$203.42	\$304.50
<u>Adjustments</u>						
# of Months		29	15	18	14	8
Market Conditions at 0.5% Per Month		14.5%	7.5%	9.0%	7.0%	4.0%
Adjusted Price Per Sq. Ft.		\$483.05	\$298.61	\$372.07	\$217.66	\$316.68
Location		5%	5%	5%	0%	0%
Size		5%	5%	5%	10%	5%
Floor		0%	0%	0%	0%	0%
Building Class and Condition		0%	0%	-5%	-5%	-5%
Total Adjustments		10%	10%	5%	5%	0%
Adjusted Price Per Sq. Ft.		\$531.35	\$328.47	\$390.67	\$228.55	\$316.68
Indicated Price Per Sq. Ft.	\$325					
Indicated Value	\$234,000					
Rounded	\$230,000					



<u>Property Information</u>	<u>SUBJECT</u>	<u>Comparable #1</u>	<u>Comparable #2</u>	<u>Comparable #3</u>	<u>Comparable #4</u>	<u>Comparable #5</u>
Address	134 Atlantic Ave	3049 6th Street	355 Ovington Avenue	1711 Sheepshead Bay	195 Montague	142-144 Joralemon
Neighborhood	Cobble Hill	Brighton Beach	Bay Ridge	Sheepshead Bay	Brooklyn Heights	Brooklyn Heights
Block/Lot	285/1001	8676/1101	5872/1008	8772/1219	244/1001	264/15
Zoning	R6	R6	R6	R4	C5-2A	C5-2A
Square Footage	10,640	3,541	2,700	3,369	13,027	2,890
Floor Level	Basement	1	2	1	8	2
Year Constructed - Building	1900	1935	1986	2000	1960	1927
Year Renovated - Building	1986	1987			1995	2003
Building Size	61,063	9,703	14,260	42,000	322,000	62,400
Building Class	Class C	Class C	Class C	Class C	Class B	Class B
Valuation/Contract Date	10/1/2013	4/11/2011	7/1/2012	3/28/2012	7/17/2012	1/31/2013
Transfer Date		5/4/2011	8/23/2012	4/27/2012	7/27/2012	2/8/2013
Sale Price		\$1,493,862	\$750,000	\$1,150,000	\$2,650,000	\$880,000
Sale Price Per Sq. Ft. of GBA		\$421.88	\$277.78	\$341.35	\$203.42	\$304.50
<u>Adjustments</u>						
# of Months		29	15	18	14	8
Market Conditions at 0.5% Per Month		14.5%	7.5%	9.0%	7.0%	4.0%
Adjusted Price Per Sq. Ft.		\$483.05	\$298.61	\$372.07	\$217.66	\$316.68
Location		5%	5%	5%	0%	0%
Size		-5%	-5%	-5%	0%	-5%
Floor		-10%	-10%	-10%	-10%	-10%
Building Class and Condition		0%	0%	-5%	-5%	-5%
Total Adjustments		-10%	-10%	-15%	-15%	-20%
Adjusted Price Per Sq. Ft.		\$434.74	\$268.75	\$316.26	\$185.01	\$253.34
Indicated Price Per Sq. Ft.	\$275					
Indicated Value	\$2,926,000					
Rounded	\$2,900,000					

Elements of Comparison

The comparable commercial condominium sales are located in various Brooklyn neighborhoods of Brooklyn Heights, Brighton Beach, Sheepshead Bay, and Midwood. The sales were contracted between April 2011 and January 2013 for unit prices that ranged from \$203.42 to \$369.22 per square foot of gross area.

Changes in Market Conditions over Time

The comparable sales were contracted between April 2011 and January 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 Brooklyn Heights location, the comparables are located at a greater distance from the hub of commercial activity in more remote parts of Brooklyn.

Building Size

Smaller condominium units tend to sell at a higher unit price than larger units with the same utility. All of the comparable sales are medical office condominium that range in size from 2,890 to 30,000 square feet of gross building area. The subject has 10,640 gross square feet on the lower level and individual units of 420, 720, and 720 square feet. Each of the comparable sales was adjusted accordingly to reflect their sizes.

Floor Level

The comparable condos are located on the first through eighth floors of their respective buildings. The smaller subject units are located on the first floor and the larger unit is located on the lower level. The lower level offices were adjusted downward to reflect inferior access and visibility.

Building Class and Condition

The subject condominium units are in fair condition and in need of upgrades. As currently configured they are a Class C office. The comparables range from Class A to Class C. The comparable condominium sales were adjusted accordingly.

Description of the Comparable Sales and Adjustments

Comparable Commercial Condominium Sale #1 – is the sale of a medical office condominium located at 3049 Brighton 6th Street in Brighton Beach. The first floor condo contains 3,541 square

feet and it is the only condo in the building. The property has excess land with ten parking spaces. The Class C medical office is located in an R6 zoning district. The sale price of \$1,493,862 contracted on April 11, 2011 has a unit price of \$369.22 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward on all four adjustment grids for its location in Brighton Beach in a more remote part of Brooklyn. The sale contains 4,046 square feet on the grade level of the building. The three smaller subject units were adjusted upward for their smaller sizes and the larger subject unit was adjusted downward for size. While no floor-level adjustment was warranted for the smaller grade level subject units, a downward adjustment was made to the lower level unit.

Comparable Commercial Condominium Sale #2 – is the sale of a medical office condominium located at 355 Ovington Avenue, Bay Ridge, Brooklyn. According to CoStar, the building was constructed in 1986 for medical office use. The two-story building contains 14,260 square feet of gross building area. The sale was contracted on July 1, 2012 for \$750,000 which equates to a unit price of \$277.78 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward on all four adjustment grids for its location in Bay Ridge in a more remote part of Brooklyn. The sale contains 2,700 square feet on the second level of the building. The three smaller subject units were adjusted upward for their smaller sizes and the larger subject unit was adjusted downward for size. While no floor-level adjustment was warranted for the smaller grade level subject units, a downward adjustment was made to the lower level unit.

Comparable Commercial Condominium Sale #3 – is the sale of a medical office condominium located at 1711 Sheepshead Bay, Brooklyn. According to CoStar, the building was constructed in 2000 and this sale represents the sale of units C1 and C2 which contain 3,369 square feet on the first floor of the building. The sale was contracted on March 28, 2012 for \$1,150,000 which equates to a unit price of \$341.35 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward on all four adjustment grids for its location in Sheepshead Bay in a more remote part of Brooklyn. The smaller subject units were adjusted upward for their smaller sizes and the larger subject unit was adjusted downward for its larger size. The larger subject unit was also adjusted downward for its inferior lower level location. The comparable condo's age and condition were considered superior to the subject's which warranted downward adjustments to the subject units.

Comparable Commercial Condominium Sale #4 – is the sale of a medical office condominium located at 195 Montague Street in the Montague Pavilion Condominium building. The Class B office, Unit K, contains 13,027 square feet of medical office space in a building that was constructed in 1960. The contract date was July 17, 2012 for a sale price of \$2,650,000 which equates to a unit price of \$203.42 per square foot. After adjusting the comparables for market conditions, the smaller subject units were adjusted upward for their smaller sizes. The larger subject unit was adjusted downward for its lower level location. The comparable condo's age, condition, and Class B designation were considered superior to the subject's which warranted downward adjustments to the subject units.

Comparable Commercial Condominium Sale #5 – is the sale of a medical office condominium located at 142-144 Joralemon Street in Brooklyn Heights, Brooklyn. The Class B office contains

2,890 square feet of medical office space in a building that was constructed in 1927 and renovated in 2003. The building is known as the Medical Arts Building. The contract date was January 31, 2013 for a sale price of \$880,000 which equates to a unit price of \$304.50 per square foot. After adjusting the comparables for market conditions, the smaller subject units were adjusted upward for their smaller sizes. The larger subject unit was adjusted downward for its lower level location and downward for its larger size. The comparable condo's age, condition, and Class B designation were considered superior to the subject's which warranted downward adjustments to the subject units.

Conclusions of Value – 124, 130, 132 Atlantic Avenue

After making the adjustments to the comparable medical office condominium sales, the range of unit prices are from \$228.55 to \$465.03 per square foot and average \$343.64. The median adjusted price is \$317.27 per square foot. The indicated value of the three smaller units is \$325.00 per square foot and it is calculated as follows (rounded):

124 Atlantic Avenue – 420 square feet x \$325.00 per square foot = \$140,000 rounded

130 Atlantic Avenue – 720 square feet x \$325.00 per square foot = \$230,000 rounded

132 Atlantic Avenue – 720 square feet x \$325.00 per square foot = \$230,000 rounded

Aggregate Indicated Value of Three Grade Level Condominium Units = \$600,000

Conclusions of Value – 134 Atlantic Avenue

After making the adjustments to the comparable medical office condominium sales, the range of unit prices are from \$185.01 to \$380.48 per square foot and average \$281.82. The median adjusted price is \$274.01 per square foot. The indicated value of the larger condominium unit is \$275.00 per square foot, and it is calculated as follows (rounded):

134 Atlantic Avenue – 10,640 square feet x \$275.00 per square foot = \$2,900,000 rounded

Aggregate Indicated Value of Three Grade Level Condominium Units and Lower Level
Condominium Unit = \$3,500,000

EXECUTIVE SUMMARY – 88-94 Amity Street – Elevator Apartment Building

Addresses: 88-94 Amity Street

Neighborhood: Cobble Hill

Tax Block/Lot: Block 295 Lot 14

Zoning: R6 with an FAR of 4.80 for community facility use and 2.43 for residential use.

Land Size: 15,000 square feet

Improvements: The subject property is improved with a seven-story elevator apartment building with offices on the first floor and 48 apartments on the upper levels. The building contains 40,600 square feet of gross building area.

Highest and Best Use: Continued use as a rental apartment building

Inspection Date: September 26, 3013

Date of Value: October 1, 2013

Valuations:

Cost Approach: NA

Sales Comparison Approach
For Rental Apartment Use: \$13,200,000

Income Approach:

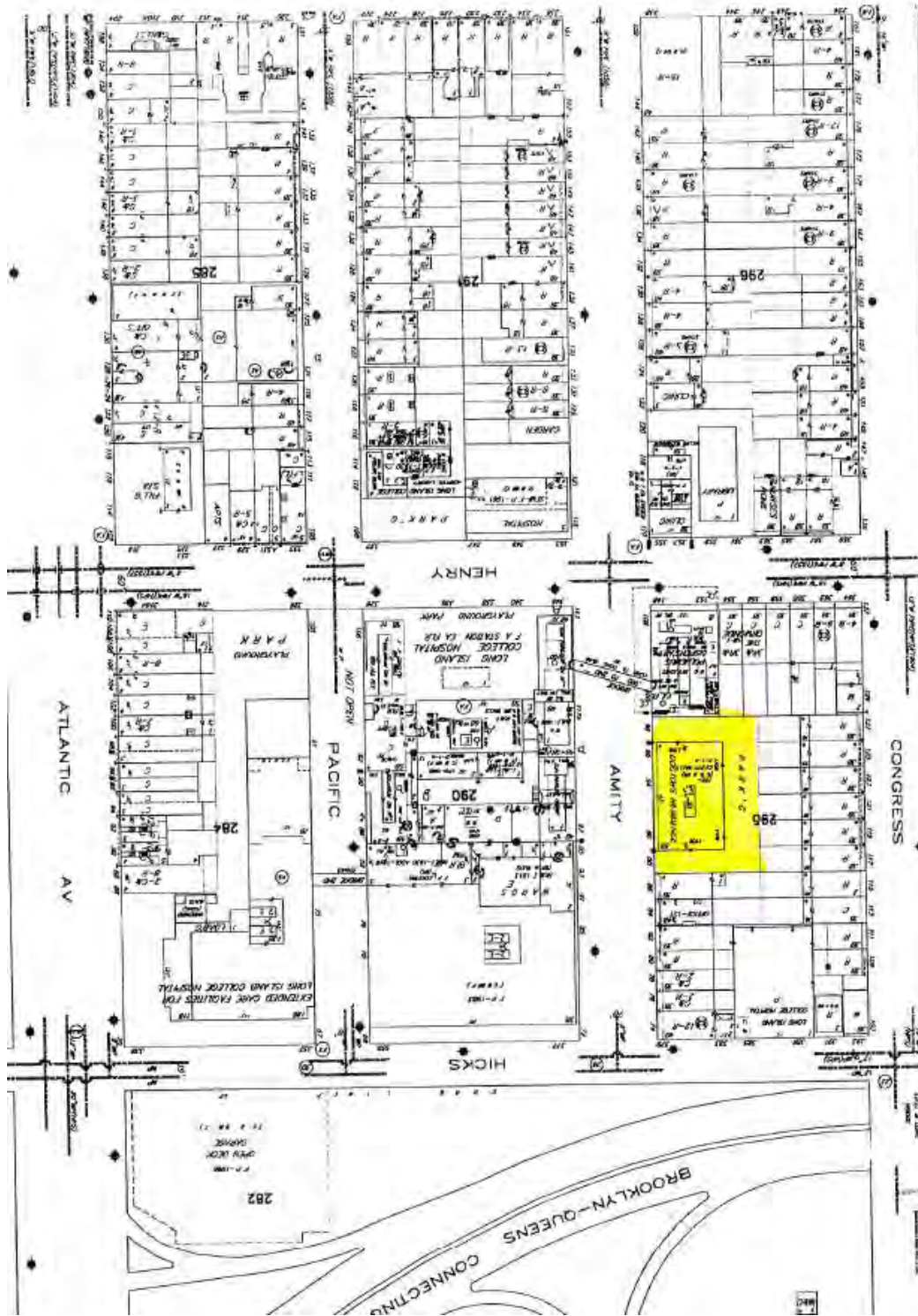
Direct Capitalization
For Rental Apartment Use: \$9,700,000

Residual Discounted Cash Flow
For Residential Condominiums: \$8,800,000

Reconciled Value: \$13,200,000
\$325.12 per square foot of GBA



Tax Map



Subject Photos



Front View

Property Description

Site

The subject site is located on the south side of Amity Street between Henry and Hicks Street in the Cobble Hill section of Brooklyn. The street is a cross street and the building is located across the street from the Long Island College Hospital main hospital campus buildings. The rectangular, interior site has 150 feet of frontage and depth of 100 feet for a total land area of 15,000 square feet. Site improvements include concrete sidewalk and curbs, chain link fencing surrounding the parking lot along two sides of the building plus a gate on Amity Street, and a small park area on the easterly side of the building. There are trees on the front and easterly side of the building and a planter in front of the building. The parking lot accommodates approximately ten vehicles. At the time of inspection, there was a sidewalk bridge mounted to the front of the building and improvements were being made to the façade for local law requirements.

Improvements

Building improvements include a seven-story, elevator apartment building that was constructed in 1966. The building has approximately 40,600 square feet of above grade gross building area and 48 apartments.

Façade: The building has a brown brick façade with white brick trim and a flat roof that is reportedly in good condition.

Windows: The windows are metal framed, single-glazed, double hung style. Some of the windows have air conditioner units.

Roof: The roof is a built-up mineral paper cap sheet with newer parapets, stone coping, and stainless steel ventilators, and copper flashing. There are seven antennas on the roof.

Basement: The building does not have a full basement but the boiler is located slightly below grade with access from the first floor. The building is heated by the hospital steam and water pump system. The electrical supply room has 1200 amps of electric.

Lobby: The lobby has a double vestibule entry with the main entrance to the building directly from Amity Street. The building has an intercom system that was installed in 2007 and mailboxes in the lobby. The lobby is not manned. The building has one 2,000 lb. capacity elevator with metal cab that serves floors one through seven.

First Floor: The first floor has offices for the Medical Board and administrative offices, storage rooms, mechanical rooms, and a laundry room. The offices have sheet rock ceilings and walls, vinyl tile flooring, and electric light fixtures. There is a laundry room with three washers and four dryers on this level.

Floors 2 through 7: There are a total of 48 apartments, eight on each floor. Each floor is identical and has two studio units, two two-bedroom apartments, and four one-bedroom apartments. The apartments are similarly finished with vinyl tile floors and painted walls. The kitchen is equipped with a four-burner electric range, stainless steel sink, wood cabinets with Formica countertops, and refrigerator. Each apartment has one full bathroom that is equipped with a set-in bathtub, wall-mounted sink, and toilet. The bathrooms have ceramic tiles on the floor and part of the walls.

Common Areas: Common hallways have vinyl tile flooring and painted plaster or block walls. Each hallway has a recycle and trash room and stairways at each end of the building. Entry to each apartment from the hallway is via a metal door.

Comments: The condition of the apartments is average and functional for existing use. Some of the wall and floor coverings are dated as are the appliances and fixtures. The rent includes electric and gas because the apartments are not individually metered.

Ownership and Occupancy: The subject property was formerly occupied by various hospital administrative offices on the first floor and hospital-affiliated tenants in the apartments. The apartments are occupied by faculty and staff members of Long Island College Hospital under unique terms, whereby employees sign an occupancy agreement in lieu of a lease. The purpose of this type of arrangement is twofold: (1) to supply affordable housing in close proximity to the medical facility so that in the event of emergencies, staff is close by and (2) to provide an amenity to recruit qualified personnel. The residential housing supply in Brooklyn has, for many years, been characterized by a shortage of affordable quality housing in stable neighborhoods. The hospital is able to mitigate some of these housing difficulties by maintaining a private stock of apartments for staff members. Under the occupancy agreement, the term is not specified and the agreement may be terminated immediately upon termination of employment with the hospital. Although the tenants enjoy housing accommodations close to employment, they do not receive the same protection as typical rent stabilization tenants.

Highest and Best Use: The highest and best use of the subject property is for continued residential rental apartment use.

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 Block 295 Lot 14.

<u>88-94 Amity Street</u>	<u>Block 295</u>	<u>Lot 14</u>
2013/2014	Actual	Transitional
Land	\$580,500	\$595,980
Improvements	<u>\$1,228,500</u>	<u>\$1,156,500</u>
Total	\$1,809,000	\$1,752,480
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$180,295	
Assessor's 100% Market Value	\$4,020,000	

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 295 Lot 14 for tax year 2013/2014 based on the 2012/2013 Class 4 tax rate of 10.288% is \$180,295.

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 15,000 square feet of land area and a maximum residential development potential of 36,450 square feet of FAR. The subject apartment building has a building area of 40,600 square feet of gross building area. As constructed with 40,600 square feet of gross floor area, the building is overbuilt for residential use and has 31,400 square feet of FAR for community facility use.

HIGHEST AND BEST USE

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 15,000 square foot site is 36,450 square feet of floor area and 72,000 square feet for 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 currently improved with an seven-story elevator apartment 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. 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 building.

Financially Feasible

In the analysis of two alternative uses of the subject building as continued use as a rental apartment building or residential condominiums, we concluded to the financially feasible use that would produce the greatest return to an investor. All of the alternative uses produced a positive investment return, however, the continued use as a residential rental apartment building produced the greatest return to an investor.

<i>88-94 Amity Street - Elevator Apartment Building</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Conversion to Residential Condominiums	Residual DCF	\$8,800,000
Continued Rental Apartment Building Use	Direct Capitalization	\$9,700,000
Continued Rental Apartment Building Use	Sales Comparison Approach	\$13,200,000

Maximally Productive

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

VALUATION

Approaches to Value

While all three valuation methods were considered in the valuation of the subject elevator rental apartment 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. The use of the cost approach to value the subject apartment building was not considered due to the age of the building and the difficulty in estimating depreciation of the apartment buildings plus the fact that an investor in this type of real estate would not consider the cost approach in making an investment decision.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the rental apartment building 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 a rental apartment building. The sales comparison approach was used to support the highest and best

use as a rental apartment building. We concluded that the highest and best use of the property and the use that produced the greatest return on the investment was continued use as a rental apartment building.

Direct Capitalization – Continued Use as a Rental Apartment Building

With the direct capitalization technique, we estimated the value of the subject assuming continued use as a rental apartment building.

Applying an overall capitalization rate of 6.0% to the projected NOI of \$789,294 results in a value indication of \$13,154,900. It would require approximately two years to renovate and rent the apartments. We deducted the lost rent over the two-year period and the cost to renovate and rehabilitate the building into more modern rental apartments at the rate of \$50.00 per square foot. The indicated value of the subject apartment building is rounded to \$9,700,000.

<i>Rental Apartment Building</i>	40,600 sq. ft. GBA		
<i>88-94 Amity Street</i>	30,450 sq. ft. Rentable Area		
<i>Income</i>			
Income from Apartment Rent	@	\$48.00 per sq. ft.	\$1,461,600
Less Vacancy & Credit Loss	@	3.50%	-\$51,156
Effective Gross Income			\$1,410,444
<i>Expenses</i>			
Operating Expenses	@	per sq. ft. \$10.00	\$406,000
Miscellaneous	@	\$0.05	\$2,000
Resesrvs for Replacements	@	\$0.25	\$10,150
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$203,000</u>
Total Expenses		\$15.30	<u>\$621,150</u>
Net Operating Income			\$789,294
Capitalization Rate			6.00%
Indicated Market Value Before Leaseup & Upgrading Costs			\$13,154,900
Less: Rent Loss (Year 1: 33% Leased)		50%	-\$1,096,200
Less: Rent Loss (Year 2: 66% Leased)		100%	-\$365,400
Indicated Market Value			\$11,693,300
Less Upgrading Costs @ \$50.00 per square foot gba			<u>-\$2,030,000</u>
Indicated Value			\$9,663,300
Rounded			\$9,700,000
Indicated Value per Square Foot of GBA			\$238.92

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 apartments in our rent survey was 1,142 square feet and the median size was 1,006 square feet. The subject building in the current configuration has an average apartment size of 635 square feet. Our estimate for the rent for the apartments at the subject property is at the lower end of the range due to the smaller average size of the apartments. The estimate rent is \$48.00 per square foot.

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	\$22,331	\$0.07	\$78,002	\$1.65	\$18,364	\$0.38	\$39,329	\$0.65	\$77,523	\$1.06	\$188,519	\$1.04
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. 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	\$0.81	\$0.84	\$1.65	\$0.07
Expenses Before RE Tax	\$8.43	\$8.13	\$11.30	\$4.81
Real Estate Taxes	\$6.21	\$6.21	\$8.29	\$3.18
Total Expenses	\$14.63	\$14.76	\$18.78	\$10.93

Capitalization Rate Selection

We researched 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 Atreet	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.

Renovation Costs

The subject property was constructed in 1966 as a rental apartment building. As configured and in its present condition, the building is in need of renovations. Our estimate of the cost to renovate the apartments with new wall and floor coverings, some windows, and appliances is \$50.00 per square foot of gross building area.

Conclusion – Rental Apartment Building

Based on this analysis the indicated value of continued use of the rental apartment building as of October 1, 2013, is \$9,700,000 after deducting rent lost during the two-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.⁶ 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 four-year period at market rates.

⁶ The Appraisal of Real Estate, 13th Edition, Page 540

We prepared a discounted cash flow (DCF) analysis wherein the first year is estimated to be the time needed to convert the building into residential condominiums and the remaining three years of the DCF are the sellout period for the apartments. The building has a gross building area of 40,600 square feet of which approximately 25% is a loss factor resulting in a useable area of 30,450 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 building does not have a basement and the first floor is used for the laundry room, rental offices, shop, and there is an area for the boiler. As currently configured with 48 apartments with an average size of 635 square feet, the conversion will increase the average apartment size to 1,000 square feet for a two-bedroom 1 ½ bathroom unit with a current sale price of \$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

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 \$775.00 per square foot for the apartments to be sold at the converted apartment building. 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 \$775.00 per square foot reflects the conversion and the somewhat awkward layout of the apartments, no 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 50% 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.

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 rental building into condominium apartments. Our estimate of the cost to convert the subject to condo apartments is summarized on the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$109.61 per square foot. We applied a height multiplier for the 7-story 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 - 88-94 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		<u>\$28.28</u>
		Total	\$109.61
<u>Multipliers</u>			
41/8	Height Multiplier	1.0100	\$110.71
99/3	Current Cost: Eastern A	1.040	\$115.14
99/9	Locality: Brooklyn A	1.410	\$162.34
		Total	\$162.34
<u>Fees</u>			
	Architect/Engineer	6.0%	\$9.74
	Contingency	15.0%	<u>\$24.35</u>
		Total	\$196.43

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.⁷ 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.

⁷ The Appraisal of Real Estate, 13th Edition, 2008, Page 389

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the subject rental apartment building as converted to residential condominiums as of October 1, 2013 is \$8,800,000.

88-94 Amity Street Conversion to Residential Condominium Units						
Assumptions		# of Apartments	Total Residential	Average S.F.	Sales	Avg. Sale Price
Unit Data		5 on each floor	Useable Sq.Ft.	Per Apt. Unit	Price P.S.F.	Per Apt.
Total Area		30	30,450	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% City + 1.425% State)	
Operating Expenses During Sellout:				\$10.00		
Real Estate Taxes During Sellout				\$5.00		
Total Residential Floor Area			30,450	sq. ft. gross area less 25.0% for lobby, circulation, & corridors		
Square Footage for Operating Expenses:			40,600	sq. ft. gba		
Square footage for Tax Expenses:			40,600	sq. ft. gba		
Discount Rate for Condo				6.0%		
Entrepreneur Incentive				15.0%		
Legal Cost for Conversion			\$300,000			
Cost to Convert to Condo Apartments				\$200 per sq.ft.		
					Oct 13-Sep 14	Oct 14-Sep 15
General Inflation Growth Rate:					-	3.00%
Condominium Sales Price Growth Rate					-	3.00%
Average Sales Price per square foot					\$775	\$798
Operating Expenses					\$10.00	\$10.30
Real Estate Taxes					\$5.00	\$5.15
						Oct 15-Sep 16
						3.00%
						\$822
						\$10.61
						\$5.30
						Oct 16-Sep 17
						3.00%
						\$847
						\$10.93
						\$5.46
Income From Residential Condominium Component:					Oct 13-Sep 14	Oct 14-Sep 15
Proceeds From Sale of Residential Units					\$0	\$12,153,356
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)					\$0	(\$1,437,134)
Net Proceeds From Sale of Residential Units					\$0	\$10,716,222
						\$5,518,854
						\$5,684,420
Less Operating Expenses Carried					\$0	\$209,090
Less Real Estate Taxes Carried					\$203,000	\$104,545
<i>Total Expenses</i>					\$203,000	\$313,635
						\$323,044
						\$0
Prerenovation Cost Cash Flow From Sale of Residential Units					(\$203,000)	\$10,402,587
						\$5,195,810
						\$5,684,420
Less: Legal Cost for Conversion					\$300,000	\$0
Less: Apartment Upgrade Cost					\$8,120,000	\$0
Total Conversion Cost (\$200.00 per sq. ft.)					\$8,420,000	\$0
Less: Entrepreneur Incentive (15% of conversion costs)					\$1,263,000	\$0
					\$9,683,000	\$0
						\$0
Net Cash Flow From Sale of Residential Units					(\$9,886,000)	\$10,402,587
						\$5,195,810
						\$5,684,420
Net Present Value of Condo Sell-Out						\$8,796,946
Indicated Value						\$8,800,000 Rounded
\$/Square Foot						\$217

Sales Comparison Approach – Continued Rental Apartment Building 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 an elevator rental apartment building. We researched Brooklyn neighborhoods for sales of apartment buildings deemed comparable to the subject property. The sales are located throughout Brooklyn and the sale prices range from \$10,226,324 to \$16,000,000 for elevator rental apartment buildings that range in unit prices from \$302.12 to \$540.00 per square foot.

The comparable sales adjustment grid on the following page is followed by an explanation of the elements of comparison and description of each comparable sale. Full descriptions of the comparable elevator rental apartment building sales including a photograph and tax map are featured beginning on Page 23 of Volume III of this report beginning on Page 23. The comparable sales location map below shows the proximity of the subject property to the Brooklyn elevator rental apartment building sales.

Comparable Commercial Condominium Sales Location Map





88-94 Amity Street - Elevator Apartment Building Sales

	Subject	Apt. Bldg. - 1	Apt. Bldg. - 2	Apt. Bldg. - 3	Apt. Bldg. - 4	Apt. Bldg. - 5	Apt. Bldg. - 6
Address	88-94 Amity St.	54-66 Livingston St.	109 Gold St.	1378-84 Bedford Ave.	105 Grand Ave.	421 Union Ave.	224 Wythe Ave.
Neighborhood	Cobble Hill	Brooklyn Heights	Dumbo	Crown Heights	Fort Greene	Williamsburg	Williamsburg
Block/Lot	295/14	268/39,43,44	56/2	1217/45-48	1893/1-3	2372/5	2349/18
Site Information							
Land Area	15,000	11,138	9,008	10,001	7,405	14,514	6,299
Frontage	150	81.83'	75'	100'	75	103.67'	210' & 30'
Zoning	R6	R6	R6A	R6	R7A	M1-2/R6	M1-2/R6
Maximum FAR	2.43	2.43	2.00	2.43	4.00	3.00	3.00
Maximum Development Potential	36,450	27,065	18,016	24,302	29,621	43,542	18,897
Excess TDRs	None	None	None	None	None	9,694	None
Corner vs. Interior	Interior	Interior	Interior	Interior	Interior	Interior	Corner
Building Information							
Building Size	40,600	32,075	36,944	38,400	43,380	33,848	25,000
# of Stories	7	5	6	5	6	6	6
Year Built	1966	1920	2011	2006	2005	2008	2008
# of Apartments	48	49	33	40	36	29	20
Average Apartment Size (Sq. Ft.)	635	524	896	768	964	934	1,000
Valuation/Contract Date	10/1/2013	4/18/2013	2/1/2012	1/17/2013	11/15/2012	3/28/2011	7/18/2012
Transfer Date		8/14/2013	3/6/2012	7/3/2013	11/15/2012	6/6/2011	10/17/2012
Sale Price		\$13,250,000	\$14,458,000	\$13,900,000	\$16,000,000	\$10,226,324	\$13,500,000
Sale Price per Unit		\$270,408	\$438,121	\$347,500	\$444,444	\$352,632	\$675,000
Sale Price per Sq. Ft. of GBA		\$413.09	\$391.35	\$361.98	\$368.83	\$302.12	\$540.00
Adjustments							
# of Months	6.0% annually	5	20	8	11	30	14
Market Conditions		2.5%	10.0%	4.0%	5.5%	15.0%	7.0%
Adjusted Price per Sq. Ft.		\$423.42	\$430.48	\$376.46	\$389.12	\$347.44	\$577.80
Location		0.0%	0.0%	10.0%	0.0%	0.0%	0.0%
Building Age		0.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Building Size		-5.0%	0.0%	0.0%	0.0%	0.0%	-5.0%
Average Apartment Size		0.0%	-5.0%	0.0%	-5.0%	-5.0%	-5.0%
Corner Influence		<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>-5.0%</u>
Total Adjustments		-5.0%	-15.0%	0.0%	-15.0%	-15.0%	-25.0%
Adjusted Price per Sq. Ft.		\$402.25	\$365.91	\$376.46	\$330.75	\$295.33	\$433.35
Indicated Price per Sq. Ft.		\$375.00					
Indicated Value		\$15,225,000					
Less Upgrading Costs of \$50.00 per SF		<u>-\$2,030,000</u>					
		\$13,195,000					
Rounded		\$13,200,000					
Indicated Value per Square Foot		\$325.12					
Indicated Value per Apartment		\$275,000					

Elements of Comparison

The comparable rental apartment building sales are located in various Brooklyn neighborhoods of Brooklyn Heights, Dumbo, Crown Heights, Flatbush, and Williamsburg. The sales were contracted between March 2011 and April 2013 for unit prices that ranged from \$302.12 to \$540.00 per square foot of gross area.

Changes in Market Conditions over Time

The comparable sales were contracted between March 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. The comparable sales are located in Williamsburg, Fort Greene, Crown Heights, Dumbo, and Brooklyn Heights. The Crown Heights sale was adjusted upward for its inferior location.

Building Age

The subject property was constructed in 1966, and the comparables, with the exception of comparable #1, were constructed in the early 2000s. The newer buildings have modern appliances and mechanicals and were adjusted downward to reflect their superior condition due to newer building construction.

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 similar elevator rental apartment buildings that range in size from 25,000 to 43,380 square feet of gross building area. The subject has 40,600 gross square feet. The comparable sales were adjusted accordingly to reflect their sizes.

Average Apartment Size

The subject property has 48 apartments on 7 floors of the building. The average apartment size is approximately 635 rentable square feet in size. The newer buildings typically have larger apartments. We adjusted the building sales that had apartment size of approximately 900 to 1,000 square feet downward because larger apartments tend to command higher rents than the subject's smaller units can command.

Corner Influence

Apartment buildings that have corner locations generally have better views, more expansive natural lighting, and the configuration of the building is more flexible which creates more spacious apartments.

Description of the Comparable Sales and Adjustments

Comparable Elevator Apartment Building Sale #1 – is the sale of an elevator apartment building located at 54-66 Livingston Street in Brooklyn Heights, five blocks north of the subject property. The 11,138 square foot site with 81.83 feet of frontage is improved with a 49-unit apartment building that contains 32,075 square feet of gross building area. The five-story building was constructed in 1920. The sale price of \$13,250,000 contracted on April 18, 2013 has a unit price of \$413.09 per square foot and \$270,408 per apartment. After adjusting the sale for market conditions, the sale was adjusted downward for its smaller building size.

Comparable Elevator Apartment Building Sale #2 – is the sale of an apartment building located at 109 Gold Street in Dumbo, Brooklyn. The 9,008 square foot site has 75 feet of frontage along York Street and 26 feet along Gold Street. The site is improved with an apartment building that contains 36,944 square feet of gross building area and 33 residential apartments on six floors. The sale was contracted on February 1, 2012 for \$14,458,000 which equates to a unit price of \$391.35 per square foot and \$438,121 per apartment unit. After adjusting the sale for market conditions, the sale was adjusted downward for its newer building age and downward for its larger average apartment size.

Comparable Elevator Apartment Building Sale #3 – is the sale of an apartment building located at 1378-1384 Bedford Avenue, Crown heights, Brooklyn. The 10,001 square foot site is improved with a five-story, 40-unit apartment building that was constructed in 2006. The sale was contracted on January 17, 2013 for \$13,900,000 which equates to a unit price of \$361.98 per square foot and \$347,500 per apartment. After adjusting the sale for market conditions, the sale was adjusted upward for its location in Crown heights in a more remote part of Brooklyn. The sale was adjusted downward for its newer construction.

Comparable Elevator Apartment Building Sale #4 – is the sale of an apartment building located at 105 Grand Avenue, Fort Greene, Brooklyn. The 7,405 square foot site with 75 feet of frontage along Grand Avenue site is located between Myrtle and Park Avenues. The building contains 43,380 square feet of living area in a building that was constructed in 2005. The contract date was November 15, 2012 for a sale price of \$16,000,000 which equates to a unit price of \$368.83 per square foot and \$444,444 per apartment unit. After adjusting the comparable for market conditions, the sale was adjusted downward for its new construction and downward for its larger average apartment size of 964 square feet.

Comparable Elevator Apartment Building Sale #5 – is the sale of an apartment building located at 421 Union Street in Williamsburg, Brooklyn. The 14,514 square foot site has 103.67 feet of frontage along Union Avenue in an area of that is improved with many new apartment buildings. The contract date was March 28, 2011 for a sale price of \$10,226,324 which equates to a unit price of \$302.12 per

square foot and \$352,632 per apartment unit. After adjusting the comparable for market conditions, the sale was adjusted downward for its new construction and downward for its larger average apartment size of 934 square feet.

Comparable Elevator Apartment Building Sale #6 – is the sale of an apartment building located at 224 Wythe Avenue in Williamsburg, Brooklyn. The 6,299 square foot corner site has 210 feet of frontage along Wythe Avenue and 30 feet of frontage along North 4th Street in an area of that is improved with many new apartment buildings. The contract date was July 18, 2012 for a sale price of \$13,500,000 which equates to a unit price of \$540.00 per square foot and \$675,000 per apartment unit. After adjusting the comparable for market conditions, the sale was adjusted downward for its new construction and downward for its larger average apartment size of 1,000 square feet. The sale was also adjusted downward for its corner location and downward for its smaller building size.

Conclusion of Value

After making the adjustments to the comparable elevator apartment building sales, the range of unit prices are from \$295.33 to \$433.35 per square foot and average \$367.34. The median adjusted price is \$271.18 per square foot. The indicated value of the subject apartment building is \$375.00 per square foot and it is calculated as follows:

$$40,600 \text{ square feet} \times \$375.00 \text{ per square foot} = \$15,225,000$$

The subject building is in need of upgrades. We deducted the cost of upgrading the apartment at \$50.00 per square foot for a total of \$2,030,000. Based on this analysis, the value of the subject elevator rental apartment building as of October 1, 2013 is rounded to \$13,200,000.

EXECUTIVE SUMMARY – 74, 76-78, 82, & 86 Amity Street and 113 Congress Street

Addresses:

Address	Inspected	Block/Lot	Land Area	Zoning	Bldg. Size	Stories	Current Use
74 Amity Street	10/1/2013	295/7	1,875	R6	5,431	4	Townhouse - Apartments
76 Amity Street	10/1/2013	295/8	1,406	R6	3,430	3	Townhouse - Admin. Offices
78 Amity Street	10/1/2013	295/9	1,450	R6	3,151	3	Townhouse - Admin. Offices
82 Amity Street	10/1/2013	295/11	1,481	R6	3,840	3	Townhouse - Apartments
86 Amity Street	10/1/2013	295/13	2,500	R6	3,000	3	Townhouse - Apartments
113 Congress Street	10/1/2013	295/38	2,500	R6	5,800	3	Townhouse - Vacant
43 Columbia Place	10/1/2013	259/8	2,100	R6	6,810	4	Townhouse - Vacant

Neighborhood: Cobble Hill

Zoning: R6

Assessment & Real Estate
Taxes:

Address	Block/Lot	2013/2014 Actual Assessment			2013/2014 Transitional Assessment			Tax Class	2012/2013 Tax Rate	Estimated Real Estate Tax	100% Assessors Market Value
		Land	Improvements	Total	Land	Improvements	Total				
74 Amity St.	295/7	\$ 42,300	\$ 245,250	\$287,550	\$ 42,264	\$ 164,556	\$206,820	2	13.181%	\$ 27,260.94	\$639,000
76 Amity St.	295/8	\$ 45,000	\$ 166,950	\$211,950	\$ 25,200	\$ 153,810	\$179,010	4	10.288%	\$ 18,416.55	\$471,000
78 Amity St.	295/9	\$ 46,350	\$ 156,600	\$202,950	\$ 25,470	\$ 140,670	\$166,140	4	10.288%	\$ 17,092.48	\$451,000
82 Amity St.	295/11	\$ 30,453	\$ 25,387	\$ 55,840	\$ 30,453	\$ 25,387	\$ 55,840	2A	13.181%	\$ 7,360.27	\$1,080,000
86 Amity St.	295/13	\$ 96,750	\$ 52,650	\$149,400	\$ 97,650	\$ 47,250	\$144,900	4	10.288%	\$ 14,907.31	\$332,000
113 Congress St.	295/38	\$ 67,500	\$ 224,100	\$291,600	\$ 66,600	\$ 320,490	\$387,090	4	10.288%	\$ 29,999.81	\$648,000

Highest & Best Use: Residential: single-family use

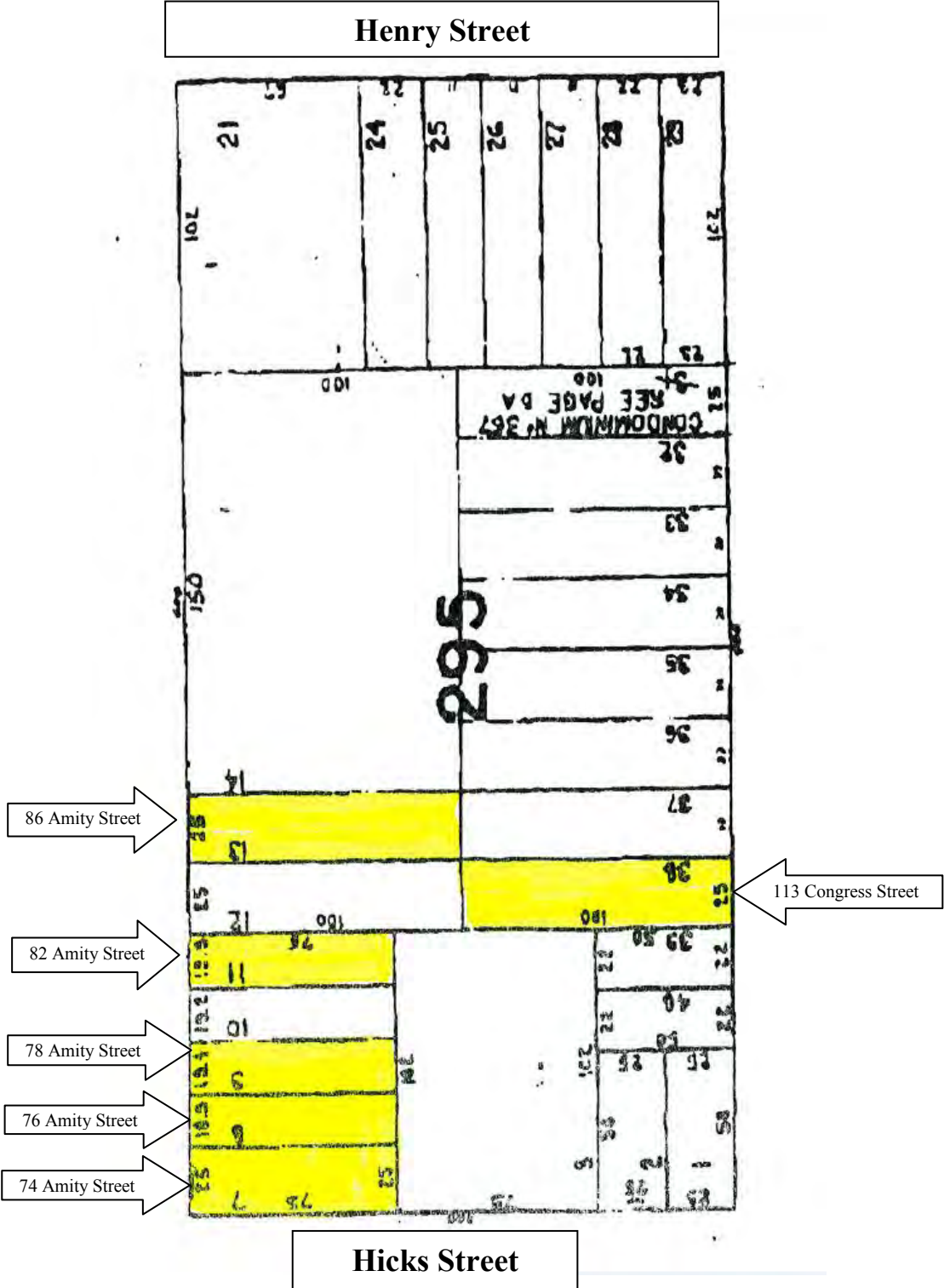
Inspection Date: October 1, 2013

Date of Value: October 1, 2013

Valuations:

Address	Block/Lot	Bldg. Size	Highest and Best Use	2013 Sales Approach Single-Family Use	2013 Income Approach Multi-Family Use	Net Operating Income	2013 CAP Rate	2013 Cost Approach	2013 Reconciled Value	
74 Amity Street	295/7	5,431	Residential Use	\$2,580,000	\$1,690,000	\$117,238	5.25%	N/A	\$2,580,000	
76 Amity Street	295/8	3,430	Residential Use	\$3,460,000	\$2,290,000	\$154,937	5.25%	N/A	\$3,460,000	
78 Amity Street	295/9	3,151	Residential Use	<i>Included in 76 Amity</i>						
82 Amity Street	295/11	3,840	Residential Use	\$2,020,000	\$1,590,000	\$103,737	5.25%	N/A	\$2,020,000	
86 Amity Street	295/13	3,000	Residential Use	\$1,580,000	\$1,070,000	\$72,002	5.25%	N/A	\$1,580,000	
113 Congress	295/38	5,800	Residential Use	\$2,760,000	\$2,040,000	\$137,647	5.25%	N/A	\$2,760,000	
Total Townhouses									\$12,400,000	

Tax Map – Amity Street and Congress Street Properties



Subject Photos



74 Amity Street



76 Amity Street



78 Amity Street



82 Amity Street



86 Amity Street



113 Congress Street

Property Descriptions – 74 Amity Street

Site

The subject site consists of a 1,875 square foot lot that has 25 feet of frontage on the north side of Amity Street and 75 feet of frontage on the east side of Hicks Street in the Cobble Hill section of Brooklyn. The site is level at grade, and all utilities and services are available and provided to the site. Site improvements include a small front courtyard and concrete curbs and sidewalk.

Improvements

The site is improved with a four-story and garden level walk-up residential building that has two offices and a small apartment on the first floor and nine studio apartments on floors two through four. The building is built full on the lot. The building was constructed circa 1900, and it contains 5,431 square feet of gross building area above grade. There are currently two tenants occupying the property.

Façade: The façade of the building is glazed white brick facing Amity Street and red brick facing Hicks Street. The façade is in need of extensive repairs. The windows are wood framed, double hung single glazed in need of paint.

Mechanicals: The building is heated by a gas-fired boiler system.

Garden Level: There is a one-bedroom apartment located on the rear extension of the building along Hicks Street. There are also two former office spaces on the garden level which are currently not in use.

Second through Fourth Floors: The upper levels of the building are accessed by a stoop that leads to an entry vestibule. There are three apartments on the second floor and two apartments on floors two, three, and four. The apartments are alcove studios and they have older kitchens, appliances, and fixtures.

Comments: The building appears to be in need of restoration and the façade is not as attractive as most walk-up townhouses on the street. However, the best feature of this building is the skyline view of Manhattan from the upper floor apartments.

HIGHEST AND BEST USE

Highest and Best Use is “that reasonable and probable use that supports the highest present value, as defined, as of the effective date of appraisal” and, alternatively, “that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value (The Dictionary of Real Estate Appraisal, Fourth Edition).”

In determining the highest and best use, consideration was given to the following factors, among others: (a) the size and physical characteristics of the subject site and improvements, (b) applicable zoning regulations and property restrictions, (c) the subject’s location and neighborhood property uses, (d) the current trends of supply and demand in the market, and (e) rents and sale prices obtained in the market.

The following four tests of highest and best use were applied to each subject property:

1. Permissible Use – An investigation into existing zoning regulations, lease terms, and deed restrictions on the site to determine which uses are legally permitted;
2. Possible Use – An analysis to determine those uses of the subject which can be deemed physically possible;
3. Feasibility – An analysis to determine which of those uses deemed possible and legal can provide a net return to the owner of the site;
4. Maximally Productive – Among the feasible uses, the use which will provide the highest net return or highest present worth is considered maximally productive.

Highest and Best Use as though Vacant

Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.⁸ Our analysis of highest and best use “as vacant” is presented below.

Legally Permissible:

The R6 zoning district permits residential and community facility uses. A diverse mix of building types and heights are permitted within the R6 zoning district, depending on the zoning lot size and configuration. Generally, buildings within an R6 zoning district are required to provide parking for a certain percentage of the residential units. Commercial and industrial uses are not permitted as-of-right in the R6 zoning district.

Physically Possible:

Size, shape, and terrain affect the uses for which land may be developed. The subject’s land area of 1,875 square feet and maximum FAR of 2.43/4.8 is sufficiently large to support a variety of residential or community facility uses. There are no known obstructions at the site which would adversely affect its use. Furthermore, the site’s rectangular shape is favorable for construction.

⁸ The Dictionary of Real Estate, Fourth Edition, Page 135

Economically Feasible:

Those uses that are likely to produce an income that will satisfy operating expenses, financing costs, and an adequate return on and return of capital are considered here. All uses that are expected to produce a positive return are regarded as financially feasible. The subject's immediate neighborhood is primarily residential and well served by amenities that support residential uses. Furthermore, the premium rent and sale prices that have been recorded recently in the Cobble Hill neighborhood of Brooklyn are evidence of the strong demand for residential building product in the area.

Community facility uses are permitted at the subject site as-of-right. The subject is located across the street from the Long Island College Hospital, suggesting that a medical office or clinic use would be economically feasible at the subject site.

Maximally Productive:

The maximally productive use is that which will produce the highest net return or the highest present worth, among all feasible uses. Given the health of the residential market in the subject's immediate neighborhood, the maximally productive use of the subject site at 74 Amity Street is for residential development.

Conclusion

Upon our analysis of highest and best use "as vacant", we have concluded that the subject property is most suitable for residential development.

Highest and Best Use as Improved

The use that should be made of a property as it exists. An existing improvement should be renovated or retained as-is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.⁹ Our analysis of highest and best use "as improved" is presented below.

Legally Permissible

The subject property is currently improved with a four-story residential/medical office building that is built in excess of the maximum FAR permitted by Zoning Regulations. The subject property is located in an R6 zoning district which permits residential and community facility uses as-of-right.

Physically Possible

The subject is currently improved with a townhouse-style, walk-up structure. The improvements indicate that residential or community facility uses are possible at the subject, considering the physical limitations of the structure.

⁹ The Dictionary of Real Estate, Fourth Edition (2002), Page 135

Financially Feasible

The subject property is located across the street from the Long Island College Hospital in the highly sought after residential Brooklyn neighborhood of Cobble Hill. Demand for townhouses is strong in the area as evidenced by the statistics reported in the third quarter Prudential Douglas Elliman Report. The average sale price increased 23.3%, the median sale price increased 30.8%, and the average price per square foot increased 19.9% over the levels observed in the prior year quarter. The dwindling supply and increasing price indicators are evidence of a strong market for townhouses in Brooklyn.

<i>Townhouses - Brooklyn Third Quarter 2013</i>			
	3rd Qtr. 2013	% Change	3rd Qtr. 2012
Average Sales Price	\$1,933,488	23.3%	\$1,568,148
Average Price per Square Foot	\$710	19.9%	\$592
Median Sales Price	\$1,700,000	30.8%	\$1,300,000
Number of Sales	73	-27.0%	100

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

Maximally Productive

The maximally productive use is that which will produce the highest net return or the highest present worth, among all feasible uses. The maximally productive use of the subject property as improved is residential use.

Conclusion

Upon our analysis of highest and best use “as improved”, we have concluded that the subject property is most suitable for single-family residential use.

Conclusion: Highest and Best Use

According to recent reports, the scarcity of available townhouse properties in Cobble Hill combined with an increasing number of families electing to raise their children in Brooklyn instead of relocating to the suburbs has substantially increased the value of single-family townhouses. Cobble Hill is so highly sought after that even townhouses in need of extensive renovations have been trading at premium prices. Affluent buyers are willing to pay a premium for the prime location and will then invest large sums of money renovating the townhouse to suit their needs. In our analysis, the indicated values for the subject properties were much higher in the single-family use scenario (sales comparison approach) than they were in the multi-family use scenario (income approach). Therefore, it is our conclusion that the highest and best use of the subject townhouse properties is for conversion to single-family use.

The same methodology was used to determine the highest and best use for each of the subject townhouse properties. Considering that all of the properties are generally similar in terms of location, lot size, zoning district, and existing improvements, we have not presented a highest and best use analysis for each townhouse property in this report. Instead, we have only included the conclusion of the highest and best use analysis for each property following the property description.

Property Descriptions – 76 & 78 Amity Street

The subject site consists of two contiguous lots that are each improved with a walk-up townhouse style building. The buildings are used together to house administrative offices for the hospital. For hospital purposes, the interiors of the townhouses were joined on several levels, stairways were removed in some areas, and the interiors were reconfigured into offices. Therefore, we are appraising these properties together to their highest and best use which is for conversion to single-family use.

Site

The site consists of two contiguous tax lots that have frontages of 18.75 feet at 76 Amity Street and 19.33 feet at 78 Amity Street for a total street frontage of 38.1 feet. The site is level at grade and all public utilities are provided. The lots have rear courtyards that are overgrown with trees and debris. Site improvements include concrete sidewalk and curbs. The air conditioning compressors are in the rear courtyard.

Improvements

The site is improved with two three-story plus English basement and cellar townhouses that have a total of 6,581 square feet of above grade gross building area. The front façade of each building is brick with stone trim and each building has a stoop entrance with access to the lower level offices located underneath the stoop. The roofs are reportedly in fair condition and accessed by a shuttle ladder on the top floor. The rear façades of the buildings are covered with stucco and fire escapes. The windows are metal framed, double hung style, some with screens and some with window air conditioning units.

Basement: The basement to 78 Amity Street is accessed through a trapdoor in the rear courtyard. Access to the 76 Amity Street basement is through a narrow, steep interior wood stairway. The basement houses two boilers, one old and one newer, Weil McClain model that converts steam to hot water. There is an auxiliary gas-fired boiler.

Lower Level: The lower level offices are accessed beneath the front stoop. This level is divided into offices, some of which have open areas and some with movable partitions. The floors are a combination of carpeting and vinyl tile, and the walls are painted. There are lavatories, storage rooms, a utility room, and private offices located throughout this level. The two buildings are connected on this level.

First Floor: This level is similarly finished with private and open offices, storage rooms, and computer rooms. The two buildings are connected on this level also.

Second Floor: This level has the executive offices and is finished a little finer with private offices, some hardwood flooring, and painted walls. The ceilings have dropped tiles with recessed fluorescent lighting.

Third Floor: The third floor formerly housed the security staff. The offices are similarly designed with private and open office areas and are currently not in use.

Comments: The buildings were combined and renovated to accommodate administrative offices for the hospital. The new configuration was designed to accommodate the greatest square footage and optimal use of the buildings. The stairways were reconfigured, some removed to allow greater usable space and the kitchens were removed from each floor.

Highest and Best Use

The subject property is located in Cobble Hill across the street from the main campus of Long Island College Hospital. While the subject property is not part of the Cobble Hill Historic District, most of the townhouses located to the south and to the east are within the historic district. There are attractive, tree-lined streets that contain rows of attractive townhouses, many of which have been renovated. The basic structure of the subject townhouses appear to be in good condition and suitable for conversion to residential use. Therefore, the highest and best use of the subject properties is conversion to single-family use.

Property Descriptions – 82 Amity Street

Site

The subject site consists of a 1,481 square foot lot that has 19.75 feet of frontage on the north side of Amity Street and depth of 75 feet in the Cobble Hill section of Brooklyn. The site is level at grade and all utilities and services are available and provided to the site. Site improvements include a small front courtyard with a wrought iron fence, concrete curbs and sidewalk. The rear courtyard is overgrown with trees, vines, and vegetation.

Improvements

The site is improved with a three-story walk-up apartment building that was constructed circa 1900. The building contains 3,840 square feet of gross building area. The building has a vacant office on the English basement lower level and the first floor has been completely gutted. There are large one-bedroom apartments on the second and third floors, only one of which is occupied.

Façade: The building has a brick façade with stone trim and wood cornice. The windows are double-hung wood and metal framed. The window frames are in need of paint.

Mechanicals: The basement has a gas-fired boiler and hot water heater for the building. There is an air conditioning unit for the first floor office with a three-ton compressor in the rear yard and blower in the basement.

- Lower Level: The lower level contains an unoccupied office that has access to the basement.
- First Floor: The parlor level is accessed by a ten-step stoop that leads to an entry vestibule. The vestibule leads to the main hallway and stairs to the upper level apartments and to the office. This entire level has been completely gutted and is currently unoccupied
- Floors 2 & 3: Each floor has one large apartment which reportedly has a large living room, one bedroom, kitchen, and bathroom. The apartments have window air conditioners. There are skylights on the top floor.
- Comments: The condition of the building appears to be old with dated wall and floor coverings. The hallways were unkempt and dark.

Highest and Best Use

The subject property is located in Cobble Hill across the street from the main hospital building on the campus of Long Island College Hospital. There is strong demand for residences in this area of Brooklyn and the building appears to be structurally sound. The highest and best use of the subject property is the conversion to single-family use.

Property Descriptions – 86 Amity Street

Site

The subject site has frontage of 25 feet on the north side of Amity Street and depth of 100 feet for a total land area of 2,500 square feet. The building is located between Hicks and Henry Street in the Cobble Hill section of Brooklyn. The rectangular site is level at grade and all utilities and services are available and provided to the site. Site improvements include concrete curbs and sidewalk. The rear courtyard is overgrown with trees, vines, and vegetation.

Improvements

The site is improved with a three-story plus English basement walk-up apartment building that was constructed circa 1930. The building has 3,000 square feet of above grade gross building area.

- Façade: The front of the building is covered with red brick and stone. The entrance is two steps down from the sidewalk. The windows are wood framed, double-hung style.
- Basement: The basement is accessed from the first floor hallway. The basement houses an old boiler that runs on #2 oil and the building's electric panels.
- Lower Level: This level has an entry vestibule that leads to the main stairway and hallway. The front room, which was not inspected, was a locker room. There is a one-bedroom apartment in the rear that was not occupied. The

hallway has an old tile floor, painted walls, and poor lighting.

First through

Third Floors: There are two apartments on each floor and only two apartments are occupied because the apartments on floors two and three are in a state of disrepair. While the apartments were not inspected, they are generally in older condition and in need of renovations.

Comments: The building is in fair condition and in need of renovations and repairs. Floor and wall coverings are old and dated, appliances and fixtures need to be upgraded.

Highest and Best Use

The subject property is located in Cobble Hill across the street from the main hospital building on the campus of Long Island College Hospital. There is strong demand for single-family residences in this area of Brooklyn and the building appears to be structurally strong. The highest and best use of the subject property is for conversion to a single-family home.

Property Descriptions – 113 Congress Street

Site

The subject site consists of a 2,500 square foot lot that has 25 feet of frontage on the north side of Congress Street and depth of 100 feet. The site is located in the Cobble Hill section of Brooklyn between Hicks and Henry Street in the Cobble Hill Historic District. The rectangular site is level at grade and all public utilities are available and provided to the site. Site improvements include a small front courtyard with wrought iron fencing and concrete sidewalk and curbs. The rear courtyard is fenced and overgrown with trees and shrubbery.

Improvements

The site is improved with a three-story, English basement, and cellar walk-up townhouse. Formerly a four-family home, the hospital used the building for administrative offices. At the time of inspection, the building was no longer occupied by the hospital nor was it suitable for use as a residence in its present condition.

Façade: The building façade is brick with stone trim and the building is accessed by a ten-step stoop in the front with access to the lower level English basement beneath the stoop. The rear façade is in need of repair and is currently being reinforced by steel supports located behind the building.

Cellar: The cellar has a concrete floor, 8-foot ceilings, and a gas-fired boiler.

Lower Level: This level has offices with large windows facing Congress Street. The offices are neglected and overrun with boxes of old files. There are some rooms in the rear area of the floor that do not have windows

- First Floor: This level is accessed by the front stoop that leads to wood double doors and an entry vestibule. There is a wood stairway on the westerly side of the building and a hallway that accesses the front and rear offices. The interior office does not have windows. There is a lavatory on this level and windows overlooking the overgrown rear courtyard. Again the offices are in disarray and filled with debris.
- Second Floor: This level has four rooms, and it is in the same deteriorated condition.
- Third Floor: This level has four rooms, and it is in the same deteriorated condition.
- Comments: The townhouse was previously configured as a four-family townhouse and it could easily be converted to four apartments or to single family use. The parlor level has a tin ceiling, original crown molding, and decorative wood trim around the doorways. The hospital removed the kitchens and there is a powder room on each floor. The building is in need of some remedial structural work, especially along the rear façade. However, with 25 feet of frontage, an attractive façade, and historic designation, the townhouse is ideally suited for conversion to residential use.

Highest and Best Use

The subject property is located in Cobble Hill's Historic District on a tree-lined residential street. There is strong demand for single-family residences in this area of Brooklyn and the building features an attractive façade. The highest and best use of the subject property is for conversion to single-family use.

The Sales Comparison Approach

The sales comparison approach was used in this appraisal report to determine the fair market value of each townhouse. Primary consideration was given to sales of townhouses in the immediate Cobble Hill neighborhood or in neighborhoods with similar characteristics. There have been an adequate number of conveyances of comparable townhouses recently to fully support an opinion of value via the sales comparison approach.

Our survey includes sales of similarly zoned, comparable townhouses that underwent major renovations after they were purchased. The planned renovations were verified through parties to the sale and/or New York City Department of Buildings job filings. Six conveyances were found that are considered similar to the subject in most respects and were transferred within 18 months of the valuation date of October 1, 2013. Two of the comparables remained multi-family and four are assumed to have been converted to single family townhouses. These sales are presented in adjustment grids on the following pages.

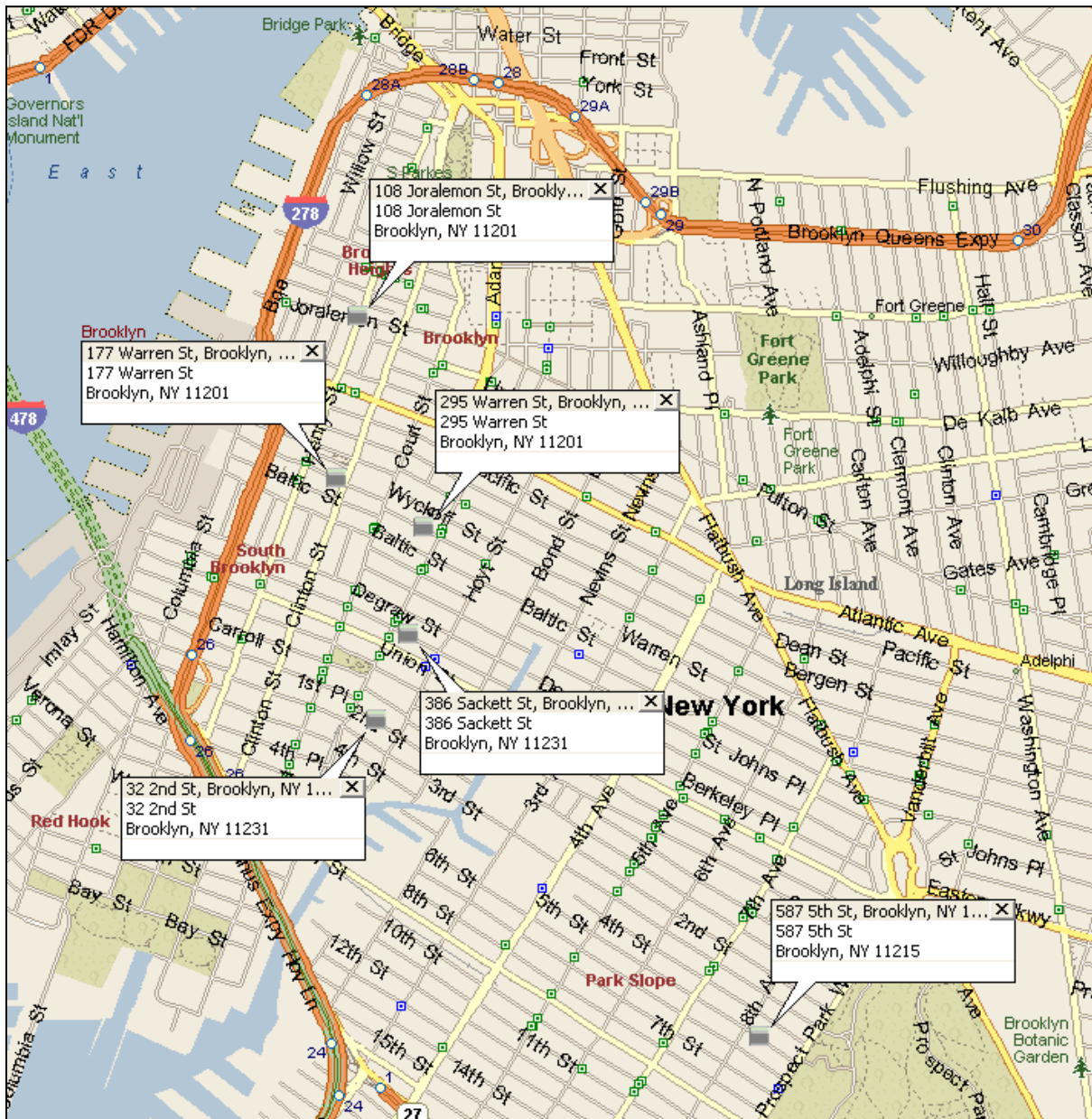
Renovation Costs

All of the subject townhouses are in need of substantial renovations. In many cases, a prospective buyer would likely gut-reno-vate the entire building prior to occupying it as a single-family home. We utilized the Marshall & Swift Valuation Service Segregated Cost Estimator to estimate the total costs to renovate each townhouse for single-family use. These costs were then deducted from the value conclusion for each of the subject properties in our sales comparison approach. An itemized estimate of construction costs to convert the subject townhouses to single-family residences is presented in the table below.

The cost to convert the townhouses to single-family residences totals \$114.41 per square foot. We then applied a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to account for architecture and engineering fees, the total cost estimate is rounded down to \$175.00 per square foot. We used Marshall’s “high cost” estimate for each of the elements listed in the table. This was done to reflect the substantial amounts of money that are invested when converting a townhouse in a condition similar to that of the subject properties to single-family use.

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
42/2	Floor Structure/Cover		\$29.60
42/2	Ceiling		\$2.48
42/3	Partitions		\$30.80
42/3	Plumbing		\$14.14
42/4	HVAC		\$17.15
42/3	Electrical		\$9.32
41/7	Roof Cover		\$3.49
42/7	Appliances		\$7.43
		Total	\$114.41
<u>Multipliers</u>			
99/3	Locality: Eastern A	1.04	\$118.98
99/9	Locality: Brooklyn A	1.41	\$167.77
		Total	\$167.77
<u>Fees</u>			
	Architect/Engineer	6%	\$10.07
		Total	\$177.83

Comparable Sales Location Map – Cobble Hill Comparable Sales



Explanation of Adjustments

We selected sales of residential townhouses for direct comparison to each subject property. These sales reflect multi-family townhouses, four of which were converted to single-family use. They are located in Cobble Hill, Carroll Gardens, Brooklyn Heights, and Park Slope which occurred between April 2012 and March 2013 with unadjusted sales prices that range from \$1,100,000 to \$3,210,000.

Market Conditions

The time trend considers the appreciation and/or depreciation cycles in the market from the date of the sale of the comparables to the valuation date. Building values have generally been increasing substantially since 2012. The improving economic conditions and shrinking housing supply have pushed prices up dramatically in a relatively short time. Our market conditions

adjustments are 1.25% per month beginning in the 2nd quarter of 2012.

Location

Considerations for location offset the superiority or inferiority of the comparables' locations as compared to the subject's. As part of the determination of the location adjustment, consideration is given to the overall character and quality of surrounding properties and streets, accessibility, convenience to transportation, as well as differences in asking and actual rents or townhouse values, when applicable.

The subject townhouses are all located in Cobble Hill, a popular gentrified residential area of townhouses that are located close to downtown, subway access, and the network of highways surrounding the boroughs. The comparable townhouse sales are located in the Cobble Hill, Carroll Gardens, Brooklyn Heights, and Park Slope neighborhoods of Brooklyn. These neighborhoods are close to the subject and have characteristics similar to Cobble Hill.

Building Size

Smaller buildings generally command a higher unit price per square foot than larger buildings due to a greater pool of competing potential buyers. The comparable sales have been adjusted accordingly to account for differences in size.

Frontage

Townhouses with greater street frontage that are located in gentrified areas of Brooklyn are generally considered more prestigious and often command a higher price than narrow buildings. The comparable sales have been adjusted accordingly.

Age and Condition

The majority of the subject properties are in need of substantial repairs and/or complete interior renovations. Only sales that were in need of a significant reconstruction or had filed permits for a major renovation shortly after the date of purchase were considered in the comparable sales selection process.

Corner Influence

Corner properties have better natural lighting, better air quality, and are considered superior to interior lots.



Comparable Sales Adjustment Grid – 74 Amity Street

<u>Property Information</u>	<u>SUBJECT</u>	<u>Townhouse #1</u>	<u>Townhouse #2</u>	<u>Townhouse #3</u>	<u>Townhouse #4</u>	<u>Townhouse #5</u>	<u>Townhouse #6</u>
Address	74 Amity	587 5th Street	32 2nd Street	177 Warren Street	386 Sackett	295 Warren	108 Joralemon
Neighborhood	Cobble Hill	Park Slope	Carroll Gardens	Cobble Hill	Carroll Gardens	Cobble Hill	Brooklyn Heights
Block/Lot	295/7	1083/58	460/15	301/33	429/18	390/56	262/34
Land Area	1,875	1,700	1,800	1,680	1,568	1,667	1,605
Zoning	R6	R7B	R6	R6	R6	R6	R6
Frontage	25.00	17.00	20.00	21.00	17.42	16.67	15.00
Corner Vs. Interior	Corner	Interior	Interior	Interior	Interior	Interior	Corner
Building Size	5,431	3,282	2,280	3,360	2,926	2,720	4,802
# of Stories	4	3	2	3	3	3	4
# of Apartments	12	2	2	3	3	4	5
Valuation/Contract Date	10/1/2013	4/18/2012	10/15/2012	10/16/2012	12/19/2012	2/4/2013	2/6/2013
Transfer Date		5/9/2012	11/7/2012	10/26/2012	2/1/2013	2/28/2013	3/18/2013
Sale Price		\$2,600,000	\$1,100,000	\$2,100,000	\$1,302,850	\$1,730,000	\$3,210,000
Sale Price Per Sq. Ft. of GBA		\$792.20	\$482.46	\$625.00	\$445.27	\$636.03	\$668.47
<u>Adjustments</u>							
# of Months		17	11	11	9	8	8
Market Conditions at 1.25% Per Month		21.3%	13.8%	13.8%	11.3%	10.0%	10.0%
Adjusted Price Per Sq. Ft.		\$960.54	\$548.79	\$710.94	\$495.36	\$699.63	\$735.32
Location		-10%	0%	0%	0%	5%	-5%
Building Size		-5%	-5%	-5%	-5%	-5%	0%
Frontage		5%	0%	0%	5%	5%	5%
Building Façade		-5%	-5%	-5%	-5%	-5%	-5%
Age and Condition		0%	0%	0%	0%	0%	0%
Corner Influence		<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>0%</u>
Total Adjustments		-10%	-5%	-5%	0%	5%	-5%
Adjusted Price Per Sq. Ft.		\$864.49	\$521.35	\$675.39	\$495.36	\$734.61	\$698.55
Indicated Price Per Sq. Ft.	\$650						
Indicated Value	\$3,530,150						
Less Cost to Renovate at \$175/SF	<u>-\$950,425</u>						
Indicated Value	\$2,579,725						
Rounded	\$2,580,000						

Description of the Comparable Townhouse Sales and Adjustments – 74 Amity Street

Comparable Townhouse Sale #1 is the sale of a three-story plus English basement townhouse that was converted from a two-family dwelling for single-family use. The comparable is located 2.5 miles southeast of the subject near Prospect Park in Park Slope, and it has a contract date of April 18, 2012. The sale price of \$2,600,000 reflects a unit price of \$792.20 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location and façade condition of the subject. The comparable sale was also adjusted downward due to the subject's larger size. The comparable sale was adjusted upward for its smaller frontage and its lack of corner influence.

Comparable Townhouse Sale #2 is the sale of a two-story plus basement and garden level townhouse that was used as a two-family dwelling at the time of the sale. The comparable was reported to be in need of a total renovation. The comparable is located in Carroll Gardens, and it has a contract date of October 15, 2012. The sale price of \$1,100,000 reflects a unit price of \$482.46 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition. The comparable sale was adjusted upward to adjust for the lack of corner influence.

Comparable Townhouse Sale #3 is the sale of a three-story townhouse that has three apartments, one on each floor. Shortly after the date of sale, permits were filed to convert the comparable to a single-family dwelling. The comparable is located two blocks to the southeast of the subject in Cobble Hill, and it has a contract date of October 16, 2012. The sale price of \$2,100,000 reflects a unit price of \$625.00 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition. The comparable sale was adjusted upward to adjust for the lack of corner influence.

Comparable Townhouse Sale #4 is the sale of a three-story townhouse that has three apartments, one on each floor that was in need of a full renovation as of the date of sale. The comparable is located one mile southeast of the subject in Carroll Gardens, and it has a contract date of December 19, 2012. The sale price of \$1,302,850 reflects a unit price of \$445.27 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition. The comparable sale was adjusted upward for its smaller frontage and lack of corner exposure.

Comparable Townhouse Sale #5 is the sale of a three-story plus English basement townhouse that was used as a four-family dwelling. Permits were filed to convert the comparable to a two-family residence. The comparable is located in Cobble Hill, and it has a contract date of February 4, 2013. The sale price of \$1,730,000 reflects a unit price of \$636.03 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition. The comparable sale was adjusted upward for its inferior location, smaller frontage and lack of corner exposure.



Comparable Townhouse Sale #6 is the sale of a four-story townhouse that was used as a five-family dwelling. Permits were filed to convert the comparable to a single-family residence. The comparable is located in Brooklyn Heights, five blocks north of the subject, and it has a contract date of February 6, 2013. The sale price of \$3,210,000 reflects a unit price of \$668.47 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's inferior location and façade condition. The comparable sale was adjusted upward for its smaller frontage.

The comparable sales are similar in style to the subject and they are located in comparable neighborhoods in Brooklyn. The indicated range of adjusted sale prices is from \$495.36 to \$864.49 with an average value of \$664.96 and a median value of \$686.97. We have chosen a value of \$650.00 per square foot for the subject property which is calculated as follows:

$$\$650.00 \text{ per square foot} \times 5,431 \text{ square feet} = \$3,530,150$$

It was necessary to deduct the cost to renovate the subject property and convert it back to residential use at the rate of \$175.00 per square foot. After deducting \$950,425 for renovation costs, the indicated value of the subject property is rounded to \$2,580,000.



Comparable Sales Adjustment Grid – 76 & 78 Amity Street

Property Information	SUBJECT	Townhouse #1	Townhouse #2	Townhouse #3	Townhouse #4	Townhouse #5	Townhouse #6
Address	76 & 78 Amity	587 5th Street	32 2nd Street	177 Warren Street	386 Sackett	295 Warren	108 Joralemon
Neighborhood	Cobble Hill	Park Slope	Carroll Gardens	Cobble Hill	Carroll Gardens	Cobble Hill	Brooklyn Heights
Block/Lot	295/8 & 9	1083/58	460/15	301/33	429/18	390/56	262/34
Land Area	2,856	1,700	1,800	1,680	1,568	1,667	1,605
Zoning	R6	R7B	R6	R6	R6	R6	R6
Frontage	38.10	17.00	20.00	21.00	17.42	16.67	15.00
Corner Vs. Interior	Interior	Interior	Interior	Interior	Interior	Interior	Corner
Building Size	6,581	3,282	2,280	3,360	2,926	2,720	4,802
# of Stories	3	3	2	3	3	3	4
# of Apartments	5	2	2	3	3	4	5
Valuation/Contract Date	10/1/2013	4/18/2012	10/15/2012	10/16/2012	12/19/2012	2/4/2013	2/6/2013
Transfer Date		5/9/2012	11/7/2012	10/26/2012	2/1/2013	2/28/2013	3/18/2013
Sale Price		\$2,600,000	\$1,100,000	\$2,100,000	\$1,302,850	\$1,730,000	\$3,210,000
Sale Price Per Sq. Ft. of GBA		\$792.20	\$482.46	\$625.00	\$445.27	\$636.03	\$668.47
<u>Adjustments</u>							
# of Months		17	11	11	9	8	8
Market Conditions at 1.25% Per Month		21.3%	13.8%	13.8%	11.3%	10.0%	10.0%
Adjusted Price Per Sq. Ft.		\$960.54	\$548.79	\$710.94	\$495.36	\$699.63	\$735.32
Location		-10%	0%	0%	0%	5%	-5%
Building Size		-5%	-5%	-5%	-5%	-5%	-5%
Frontage		10%	10%	10%	10%	10%	10%
Building Façade		0%	0%	0%	0%	0%	0%
Age and Condition		0%	0%	0%	0%	0%	0%
Corner Influence		0%	0%	0%	0%	0%	-5%
Total Adjustments		-5%	5%	5%	5%	10%	-5%
Adjusted Price Per Sq. Ft.		\$912.52	\$576.23	\$746.48	\$520.13	\$769.60	\$698.55
Indicated Price Per Sq. Ft.	\$700						
Indicated Value	\$4,606,700						
Less Cost to Renovate at \$175/SF	<u>-\$1,151,675</u>						
Indicated Value	\$3,455,025						
Rounded	\$3,460,000						

Description of the Comparable Townhouse Sales and Adjustments – 76 & 78 Amity Street

Comparable Townhouse Sale #1 is the sale of a three-story plus English basement townhouse that was converted from a two-family dwelling for single-family use. The comparable is located 2.5 miles southeast of the subject near Prospect Park in Park Slope, and it has a contract date of April 18, 2012. The sale price of \$2,600,000 reflects a unit price of \$792.20 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location of the subject. The comparable sale was also adjusted downward due to the subject's larger size. The comparable received an upward adjustment due to its smaller frontage.

Comparable Townhouse Sale #2 is the sale of a two-story plus basement and garden level townhouse that was used as a two-family dwelling at the time of the sale. The comparable was reported to be in need of a total renovation. The comparable is located in Carroll Gardens, and it has a contract date of October 15, 2012. The sale price of \$1,100,000 reflects a unit price of \$482.46 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size. The comparable sale received an upward adjustment for its smaller frontage relative to the subject property.

Comparable Townhouse Sale #3 is the sale of a three-story townhouse that has three apartments, one on each floor. Shortly after the date of sale, permits were filed to convert the comparable to a single-family dwelling. The comparable is located two blocks to the southeast of the subject in Cobble Hill, and it has a contract date of October 16, 2012. The sale price of \$2,100,000 reflects a unit price of \$625.00 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size. The comparable sale was adjusted upward for its smaller frontage.

Comparable Townhouse Sale #4 is the sale of a three-story townhouse that has three apartments, one on each floor that was in need of a full renovation as of the date of sale. The comparable is located one mile southeast of the subject in Carroll Gardens, and it has a contract date of December 19, 2012. The sale price of \$1,302,850 reflects a unit price of \$445.27 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size. The comparable sale was adjusted upward for its smaller frontage.

Comparable Townhouse Sale #5 is the sale of a three-story plus English basement townhouse that was used as a four-family dwelling. Permits were filed to convert the comparable to a two-family residence. The comparable is located in Cobble Hill, and it has a contract date of February 4, 2013. The sale price of \$1,730,000 reflects a unit price of \$636.03 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size. The comparable sale was adjusted upward for its smaller frontage and inferior location.



Comparable Townhouse Sale #6 is the sale of a four-story townhouse that was used as a five-family dwelling. Permits were filed to convert the comparable to a single-family residence. The comparable is located in Brooklyn Heights, five blocks north of the subject, and it has a contract date of February 6, 2013. The sale price of \$3,210,000 reflects a unit price of \$668.47 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's inferior location, larger size and lack of corner influence. The comparable sale was adjusted upward for its smaller frontage.

The comparable sales are similar in style to the subject and they are located in comparable neighborhoods in Brooklyn. The indicated range of adjusted sale prices is from \$520.13 to \$912.52 with an average value of \$703.92 and a median value of \$722.52. We have chosen a value of \$700.00 per square foot for the subject property which is calculated as follows:

$$\text{\$700.00 per square foot} \times 5,800 \text{ square feet} = \text{\$4,606,700}$$

It was necessary to deduct the cost to renovate the subject property and convert it back to residential use at the rate of \$175.00 per square foot. After deducting \$1,151,675 for renovation costs, the indicated value of the subject property is rounded to \$3,460,000.



Comparable Sales Adjustment Grid – 82 Amity Street

<u>Property Information</u>	<u>SUBJECT</u>	<u>Townhouse #1</u>	<u>Townhouse #2</u>	<u>Townhouse #3</u>	<u>Townhouse #4</u>	<u>Townhouse #5</u>	<u>Townhouse #6</u>
Address	82 Amity	587 5th Street	32 2nd Street	177 Warren Street	386 Sackett	295 Warren	108 Joralemon
Neighborhood	Cobble Hill	Park Slope	Carroll Gardens	Cobble Hill	Carroll Gardens	Cobble Hill	Brooklyn Heights
Block/Lot	295/11	1083/58	460/15	301/33	429/18	390/56	262/34
Land Area	1,481	1,700	1,800	1,680	1,568	1,667	1,605
Zoning	R6	R7B	R6	R6	R6	R6	R6
Frontage	19.75	17.00	20.00	21.00	17.42	16.67	15.00
Corner Vs. Interior	Interior	Interior	Interior	Interior	Interior	Interior	Corner
Building Size	3,840	3,282	2,280	3,360	2,926	2,720	4,802
# of Stories	3	3	2	3	3	3	4
# of Apartments	4	2	2	3	3	4	5
Valuation/Contract Date	10/1/2013	4/18/2012	10/15/2012	10/16/2012	12/19/2012	2/4/2013	2/6/2013
Transfer Date		5/9/2012	11/7/2012	10/26/2012	2/1/2013	2/28/2013	3/18/2013
Sale Price		\$2,600,000	\$1,100,000	\$2,100,000	\$1,302,850	\$1,730,000	\$3,210,000
Sale Price Per Sq. Ft. of GBA		\$792.20	\$482.46	\$625.00	\$445.27	\$636.03	\$668.47
<u>Adjustments</u>							
# of Months		17	11	11	9	8	8
Market Conditions at 1.25% Per Month		21.3%	13.8%	13.8%	11.3%	10.0%	10.0%
Adjusted Price Per Sq. Ft.		\$960.54	\$548.79	\$710.94	\$495.36	\$699.63	\$735.32
Location		-10%	0%	0%	0%	5%	-5%
Building Size		0%	-5%	0%	-5%	-5%	0%
Frontage		0%	0%	0%	0%	5%	5%
Building Façade		0%	0%	0%	0%	0%	0%
Age and Condition		0%	0%	0%	0%	0%	0%
Corner Influence		0%	0%	0%	0%	0%	-5%
Total Adjustments		-10%	-5%	0%	-5%	5%	-5%
Adjusted Price Per Sq. Ft.		\$864.49	\$521.35	\$710.94	\$470.59	\$734.61	\$698.55
Indicated Price Per Sq. Ft.	\$700						
Indicated Value	\$2,688,000						
Less Cost to Renovate at \$175/SF	-\$672,000						
Indicated Value	\$2,016,000						
Rounded	\$2,020,000						

Description of the Comparable Townhouse Sales and Adjustments – 82 Amity Street

Comparable Townhouse Sale #1 is the sale of a three-story plus English basement townhouse that was converted from a two-family dwelling for single-family use. The comparable is located 2.5 miles southeast of the subject near Prospect Park in Park Slope, and it has a contract date of April 18, 2012. The sale price of \$2,600,000 reflects a unit price of \$792.20 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location of the subject.

Comparable Townhouse Sale #2 is the sale of a two-story plus basement and garden townhouse that was used as a two-family dwelling at the time of the sale. The comparable was reported to be in need of a total renovation. The comparable is located in Carroll Gardens, and it has a contract date of October 15, 2012. The sale price of \$1,100,000 reflects a unit price of \$482.46 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size.

Comparable Townhouse Sale #3 is the sale of a three-story townhouse that has three apartments, one on each floor. Shortly after the date of sale, permits were filed to convert the comparable to a single-family dwelling. The comparable is located two blocks to the southeast of the subject in Cobble Hill, and it has a contract date of October 16, 2012. The sale price of \$2,100,000 reflects a unit price of \$625.00 per square foot. After making the preliminary adjustment for market conditions, no additional adjustments were necessary.

Comparable Townhouse Sale #4 is the sale of a three-story townhouse that has three apartments, one on each floor that was in need of a full renovation as of the date of sale. The comparable is located one mile southeast of the subject in Carroll Gardens, and it has a contract date of December 19, 2012. The sale price of \$1,302,850 reflects a unit price of \$445.27 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size.

Comparable Townhouse Sale #5 is the sale of a three-story plus English basement townhouse that was used as a four-family dwelling. Permits were filed to convert the comparable to a two-family residence. The comparable is located in Cobble Hill, and it has a contract date of February 4, 2013. The sale price of \$1,730,000 reflects a unit price of \$636.03 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size. The comparable sale was adjusted upward for its smaller frontage and inferior location.

Comparable Townhouse Sale #6 is the sale of a four-story townhouse that was used as a five-family dwelling. Permits were filed to convert the comparable to a single-family residence. The comparable is located in Brooklyn Heights, five blocks north of the subject, and it has a contract date of February 6, 2013. The sale price of \$3,210,000 reflects a unit price of \$668.47 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's inferior location and lack of corner influence. The comparable sale was adjusted upward for its smaller frontage.

The comparable sales are similar in style to the subject and they are located in comparable neighborhoods in Brooklyn. The indicated range of adjusted sale prices is from \$470.59 to \$864.49 with an average value of \$666.76 and a median value of \$704.75. We have chosen a value of \$700.00 per square foot for the subject property which is calculated as follows:

$$\text{\$700 per square foot} \times 3,840 \text{ square feet} = \text{\$2,688,000}$$

It was necessary to deduct the cost to renovate the subject property and convert it back to residential use at the rate of \$175.00 per square foot. After deducting \$672,000 for renovation costs, the indicated value of the subject property is rounded to \$2,020,000.



Comparable Sales Adjustment Grid – 86 Amity Street

<u>Property Information</u>	<u>SUBJECT</u>	<u>Townhouse #1</u>	<u>Townhouse #2</u>	<u>Townhouse #3</u>	<u>Townhouse #4</u>	<u>Townhouse #5</u>	<u>Townhouse #6</u>
Address	86 Amity	587 5th Street	32 2nd Street	177 Warren Street	386 Sackett	295 Warren	108 Joralemon
Neighborhood	Cobble Hill	Park Slope	Carroll Gardens	Cobble Hill	Carroll Gardens	Cobble Hill	Brooklyn Heights
Block/Lot	295/13	1083/58	460/15	301/33	429/18	390/56	262/34
Land Area	2,500	1,700	1,800	1,680	1,568	1,667	1,605
Zoning	R6	R7B	R6	R6	R6	R6	R6
Frontage	25.00	17.00	20.00	21.00	17.42	16.67	15.00
Corner Vs. Interior	Interior	Interior	Interior	Interior	Interior	Interior	Corner
Building Size	3,000	3,282	2,280	3,360	2,926	2,720	4,802
# of Stories	3	3	2	3	3	3	4
# of Apartments	8	2	2	3	3	4	5
Valuation/Contract Date	10/1/2013	4/18/2012	10/15/2012	10/16/2012	12/19/2012	2/4/2013	2/6/2013
Transfer Date		5/9/2012	11/7/2012	10/26/2012	2/1/2013	2/28/2013	3/18/2013
Sale Price		\$2,600,000	\$1,100,000	\$2,100,000	\$1,302,850	\$1,730,000	\$3,210,000
Sale Price Per Sq. Ft. of GBA		\$792.20	\$482.46	\$625.00	\$445.27	\$636.03	\$668.47
<u>Adjustments</u>							
# of Months		17	11	11	9	8	8
Market Conditions at 1.25% Per Month		21.3%	13.8%	13.8%	11.3%	10.0%	10.0%
Adjusted Price Per Sq. Ft.		\$960.54	\$548.79	\$710.94	\$495.36	\$699.63	\$735.32
Location		-10%	0%	0%	0%	5%	-5%
Building Size		0%	-5%	0%	0%	0%	5%
Frontage		5%	0%	0%	5%	5%	5%
Building Façade		0%	0%	0%	0%	0%	0%
Age and Condition		0%	0%	0%	0%	0%	0%
Corner Influence		0%	0%	0%	0%	0%	-5%
Total Adjustments		-5%	-5%	0%	5%	10%	0%
Adjusted Price Per Sq. Ft.		\$912.52	\$521.35	\$710.94	\$520.13	\$769.60	\$735.32
Indicated Price Per Sq. Ft.	\$700						
Indicated Value	\$2,100,000						
Less Cost to Renovate at \$175/SF	-\$525,000						
Indicated Value	\$1,575,000						
Rounded	\$1,580,000						

Description of the Comparable Townhouse Sales and Adjustments – 86 Amity Street

Comparable Townhouse Sale #1 is the sale of a three-story plus English basement townhouse that was converted from a two-family dwelling for single-family use. The comparable is located 2.5 miles southeast of the subject near Prospect Park in Park Slope, and it has a contract date of April 18, 2012. The sale price of \$2,600,000 reflects a unit price of \$792.20 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location of the subject. The comparable received an upward adjustment for its smaller frontage.

Comparable Townhouse Sale #2 is the sale of a two-story plus basement and garden townhouse that was used as a two-family dwelling at the time of the sale. The comparable was reported to be in need of a total renovation. The comparable is located in Carroll Gardens, and it has a contract date of October 15, 2012. The sale price of \$1,100,000 reflects a unit price of \$482.46 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size.

Comparable Townhouse Sale #3 is the sale of a three-story townhouse that has three apartments, one on each floor. Shortly after the date of sale, permits were filed to convert the comparable to a single-family dwelling. The comparable is located two blocks to the southeast of the subject in Cobble Hill, and it has a contract date of October 16, 2012. The sale price of \$2,100,000 reflects a unit price of \$625.00 per square foot. After making the preliminary adjustment for market conditions, no additional adjustments were necessary.

Comparable Townhouse Sale #4 is the sale of a three-story townhouse that has three apartments, one on each floor that was in need of a full renovation as of the date of sale. The comparable is located one mile southeast of the subject in Carroll Gardens, and it has a contract date of December 19, 2012. The sale price of \$1,302,850 reflects a unit price of \$445.27 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for its smaller frontage.

Comparable Townhouse Sale #5 is the sale of a three-story plus English basement townhouse that was used as a four-family dwelling. Permits were filed to convert the comparable to a two-family residence. The comparable is located in Cobble Hill, and it has a contract date of February 4, 2013. The sale price of \$1,730,000 reflects a unit price of \$636.03 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for its smaller frontage and inferior location.

Comparable Townhouse Sale #6 is the sale of a four-story townhouse that was used as a five-family dwelling. Permits were filed to convert the comparable to a single-family residence. The comparable is located in Brooklyn Heights, five blocks north of the subject, and it has a contract date of February 6, 2013. The sale price of \$3,210,000 reflects a unit price of \$668.47 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's inferior location and lack of corner exposure. The comparable sale was adjusted upward for its smaller frontage and larger size.



The comparable sales are similar in style to the subject and they are located in comparable neighborhoods in Brooklyn. The indicated range of adjusted sale prices is from \$520.13 to \$912.52 with an average value of \$694.97 and a median value of \$723.13. We have chosen a value of \$700.00 per square foot for the subject property which is calculated as follows:

$$\text{\$700.00 per square foot} \times 3,000 \text{ square feet} = \text{\$2,100,000}$$

It was necessary to deduct the cost to renovate the subject property and convert it back to residential use at the rate of \$175.00 per square foot. After deducting \$525,000 for renovation costs, the indicated value of the subject property is rounded to \$1,580,000.



Comparable Sales Adjustment Grid – 113 Congress Street

<u>Property Information</u>	<u>SUBJECT</u>	<u>Townhouse #1</u>	<u>Townhouse #2</u>	<u>Townhouse #3</u>	<u>Townhouse #4</u>	<u>Townhouse #5</u>	<u>Townhouse #6</u>
Address	113 Congress St.	587 5th St.	32 2nd St.	177 Warren St.	386 Sackett St.	295 Warren St.	108 Joralemon St.
Neighborhood	Cobble Hill	Park Slope	Carroll Gardens	Cobble Hill	Carroll Gardens	Cobble Hill	Brooklyn Heights
Block/Lot	295/38	1083/58	460/15	301/33	429/18	390/56	262/34
Land Area	2,500	1,700	1,800	1,680	1,568	1,667	1,605
Zoning	R6	R7B	R6	R6	R6	R6	R6
Frontage	25.00	17.00	20.00	21.00	17.42	16.67	15.00
Corner Vs. Interior	Interior	Interior	Interior	Interior	Interior	Interior	Corner
Building Size	5,800	3,282	2,280	3,360	2,926	2,720	4,802
# of Stories	3	3	2	3	3	3	4
# of Apartments	4	2	2	3	3	4	5
Valuation/Contract Date	10/1/2013	4/18/2012	10/15/2012	10/16/2012	12/19/2012	2/4/2013	2/6/2013
Transfer Date		5/9/2012	11/7/2012	10/26/2012	2/1/2013	2/28/2013	3/18/2013
Sale Price		\$2,600,000	\$1,100,000	\$2,100,000	\$1,302,850	\$1,730,000	\$3,210,000
Sale Price Per Sq. Ft. of GBA		\$792.20	\$482.46	\$625.00	\$445.27	\$636.03	\$668.47
<u>Adjustments</u>							
# of Months		17	11	11	9	8	8
Market Conditions at 1.25% Per Month		21.3%	13.8%	13.8%	11.3%	10.0%	10.0%
Adjusted Price Per Sq. Ft.		\$960.54	\$548.79	\$710.94	\$495.36	\$699.63	\$735.32
Location		-10%	0%	0%	0%	5%	-5%
Building Size		-5%	-5%	-5%	-5%	-5%	0%
Frontage		5%	0%	0%	5%	5%	5%
Building Façade		-5%	-5%	-5%	-5%	-5%	-5%
Age and Condition		0%	0%	0%	0%	0%	0%
Corner Influence		0%	0%	0%	0%	0%	-5%
Total Adjustments		-15%	-10%	-10%	-5%	0%	-10%
Adjusted Price Per Sq. Ft.		\$816.46	\$493.91	\$639.84	\$470.59	\$699.63	\$661.79
Indicated Price Per Sq. Ft.	\$650						
Indicated Value	\$3,770,000						
Less Cost to Renovate at \$175/SF	<u>-\$1,015,000</u>						
Indicated Value	\$2,755,000						
Rounded	\$2,760,000						

Description of the Comparable Townhouse Sales and Adjustments – 113 Congress Street

Comparable Townhouse Sale #1 is the sale of a three-story plus English basement townhouse that was converted from a two-family dwelling for single-family use. The comparable is located 2.5 miles southeast of the subject near Prospect Park in Park Slope, and it has a contract date of April 18, 2012. The sale price of \$2,600,000 reflects a unit price of \$792.20 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location and façade condition of the subject. The comparable sale was also adjusted downward due to the subject's larger size. The comparable sale was adjusted upward for its smaller frontage.

Comparable Townhouse Sale #2 is the sale of a two-story plus basement and garden townhouse that was used as a two-family dwelling at the time of the sale. The comparable was reported to be in need of a total renovation. The comparable is located in Carroll Gardens, and it has a contract date of October 15, 2012. The sale price of \$1,100,000 reflects a unit price of \$482.46 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition.

Comparable Townhouse Sale #3 is the sale of a three-story townhouse that has three apartments, one on each floor. Shortly after the date of sale, permits were filed to convert the comparable to a single-family dwelling. The comparable is located two blocks to the southeast of the subject in Cobble Hill, and it has a contract date of October 16, 2012. The sale price of \$2,100,000 reflects a unit price of \$625.00 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition.

Comparable Townhouse Sale #4 is the sale of a three-story townhouse that has three apartments, one on each floor that was in need of a full renovation as of the date of sale. The comparable is located one mile southeast of the subject in Carroll Gardens, and it has a contract date of December 19, 2012. The sale price of \$1,302,850 reflects a unit price of \$445.27 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition. The comparable sale was adjusted upward for its smaller frontage.

Comparable Townhouse Sale #5 is the sale of a three-story plus English basement townhouse that was used as a four-family dwelling. Permits were filed to convert the comparable to a two-family residence. The comparable is located in Cobble Hill, and it has a contract date of February 4, 2013. The sale price of \$1,730,000 reflects a unit price of \$636.03 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject's larger size and inferior façade condition. The comparable sale was adjusted upward for its smaller frontage and inferior location.

Comparable Townhouse Sale #6 is the sale of a four-story townhouse that was used as a five-family dwelling. Permits were filed to convert the comparable to a single-family residence. The comparable is located in Brooklyn Heights, five blocks north of the subject, and it has a contract

date of February 6, 2013. The sale price of \$3,210,000 reflects a unit price of \$668.47 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the subject’s inferior location, façade condition, and lack of corner influence. The comparable sale was adjusted upward for its smaller frontage.

The comparable sales are similar in style to the subject and they are located in comparable neighborhoods in Brooklyn. The indicated range of adjusted sale prices is from \$470.59 to \$816.46 with an average value of \$630.37 and a median value of \$650.82. We have chosen a value of \$650.00 per square foot for the subject property which is calculated as follows:

$$\$650.00 \text{ per square foot} \times 5,800 \text{ square feet} = \$3,770,000$$

It was necessary to deduct the cost to renovate the subject property and convert it back to residential use at the rate of \$175.00 per square foot. After deducting \$1,015,000 for renovation costs, the indicated value of the subject property is rounded to \$2,760,000.

The Income Approach

In the income approach, a market value estimate of each subject property has been determined using the direct capitalization technique. Direct capitalization is the process of converting stabilized net operating income (NOI) into a capitalized value using an overall capitalization rate indicated by the market for similar properties. Less weight is placed on this method of valuation as a likely buyer would be an owner-user and the sales comparison approach is a better indication of value for this property type.

Potential Gross Income

We conducted a search for apartment rents in Brooklyn to determine potential gross income for the townhouse buildings. The table below lists a summary of the range of asking rents per square foot for studios, one, two, and three-bedroom apartments that are located in various Brooklyn neighborhoods. We adjusted the rents by -3.0% to account for a negotiability factor as the contract rent will likely be negotiated slightly lower than the asking prices. The table below summarizes the adjusted apartment rents for each apartment type. We have selected a market rent of \$50.00 per square foot per year for our analysis as it falls in the middle of the range of the values observed in our survey.

<i>Brooklyn Apartment Rents</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts.
Three Bedrooms	\$4,381	\$4,500	\$5,400	\$3,600	8
Two Bedrooms	\$4,628	\$4,500	\$6,850	\$3,000	46
One Bedroom	\$3,421	\$3,325	\$6,250	\$1,950	38
Studio	\$2,707	\$2,400	\$4,300	\$1,900	19
Total Number of Apartments in the Survey					111

<i>Brooklyn Apartment Rents Per Square Foot</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 and Douglas Elliman

The table below summarizes the average and median sizes of the apartment units in our rent survey. We anticipate that the majority of the converted apartments at the subject will be either one- or two-bedroom units. Given this assumption, we have selected an approximate unit size of 1,000 square feet for our direct capitalization analysis.

<i>Unit Type</i>	<i>Average SF</i>	<i>Median SF</i>
Studio	648	558
One Bedroom	791	728
Two Bedroom	1,142	1,006
Three Bedroom	1,146	1,090

Rentable area for each of the subject properties, excluding 74 Amity Street, was calculated by applying a loss factor of 20% to the gross building area. The loss factor accounts for circulation and other shared areas of the building that are not considered leasable space.

In the case of 74 Amity Street, we observed greater inefficiencies in the overall design and layout of the building, and concluded that a 25% loss factor was appropriate in the calculation of rentable area.

Vacancy and Credit Loss

A typical landlord anticipates some vacancy and credit loss for turnover time and loss of rent while searching for new tenants. We applied a 3.5% vacancy and credit loss for the gross rent due to the low vacancy rate for Brooklyn apartments.

Operating Expenses

In the absence of operating expenses for the subject properties as residential apartment buildings, 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 small walk-up apartment buildings reported the following expenses for 2011. The table is followed by a table summarizing the average and median expenses per square foot for each category.

Small Walk-up Apartment Buildings - No Stores

Address	1) 107 Joralemon Street		2) 246 Henry Street		3) 42 Sidney Place		4) 88 State Street		5) 155 Amity Street		6) 329 Union Street	
Property Description	4-story walkup		3-story walkup		4-story walk-up		4-story walkup		4-story walkup		4-story walkup	
SF of GBA	5,510		4,100		8,500		9,504		8,000		18,773	
	<i>Total</i>	<i>Per Sq. Ft.</i>	<i>Total</i>	<i>Per Sq. Ft.</i>	<i>Total</i>	<i>Per Sq. Ft.</i>	<i>Total</i>	<i>Per Sq. Ft.</i>	<i>Total</i>	<i>Per Sq. Ft.</i>	<i>Total</i>	<i>Per Sq. Ft.</i>
Fuel	\$15,134	\$2.75	\$5,002	\$1.22	\$24,204	\$2.85	\$10,189	\$1.07	\$10,215	\$1.28	\$29,798	\$1.59
Light & Power	\$1,110	\$0.20	\$567	\$0.14	\$2,838	\$0.33	\$1,578	\$0.17	\$3,019	\$0.38	\$4,004	\$0.21
Cleaning Contracts	\$0	\$0.00	\$3,300	\$0.80	\$4,219	\$0.50	\$4,170	\$0.44	\$9,600	\$1.20	\$8,492	\$0.45
Wages & Payroll	\$12,000	\$2.18	\$0	\$0.00	\$0	\$0.00	\$4,225	\$0.44	\$0	\$0.00	\$0	\$0.00
Repairs & Maintenance	\$46,750	\$8.48	\$47,866	\$11.67	\$13,512	\$1.59	\$37,955	\$3.99	\$5,306	\$0.66	\$56,889	\$3.03
Management & Admin.	\$49,000	\$8.89	\$4,446	\$1.08	\$6,202	\$0.73	\$19,137	\$2.01	\$12,109	\$1.51	\$6,202	\$0.33
Insurance	\$4,579	\$0.83	\$4,124	\$1.01	\$8,955	\$1.05	\$8,455	\$0.89	\$9,285	\$1.16	\$8,183	\$0.44
Water & Sewer	\$7,626	\$1.38	\$448	\$0.11	\$2,970	\$0.35	\$5,618	\$0.59	\$4,615	\$0.58	\$8,509	\$0.45
Advertising	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Int. Paint & Decorating	\$0	\$0.00	\$6,511	\$1.59	\$4,000	\$0.47	\$10,493	\$1.10	\$4,310	\$0.54	\$5,600	\$0.30
Leasing Commissions	\$0	\$0.00	\$802	\$0.20	\$2,018	\$0.24	\$26,485	\$2.79	\$0	\$0.00	\$1,574	\$0.08
Miscellaneous	\$3,600	\$0.65	\$0	\$0.00	\$2,029	\$0.24	\$3,492	\$0.37	\$3,858	\$0.48	\$25,581	\$1.36
Expenses Before RE Tax	\$139,799	\$25.37	\$73,066	\$17.82	\$70,947	\$8.35	\$131,797	\$13.87	\$62,317	\$7.79	\$154,832	\$8.25
Real Estate Taxes	\$35,013	\$6.35	\$32,419	\$7.91	\$69,891	\$8.22	\$69,144	\$7.28	\$50,788	\$6.35	\$48,480	\$2.58
Total Expenses	\$174,812	\$31.73	\$105,485	\$25.73	\$140,838	\$16.57	\$200,941	\$21.14	\$113,105	\$14.14	\$203,312	\$10.83

<i>Comparable Small Walk-up Apartment Buildings - No Stores</i>				
Price Per Sq. Ft.	Average	Median	Maximum	Minimum
Fuel	\$1.79	\$1.43	\$2.85	\$1.07
Light & Power	\$0.24	\$0.21	\$0.38	\$0.14
Cleaning Contracts	\$0.57	\$0.47	\$1.20	\$0.00
Wages & Payroll	\$0.44	\$0.00	\$2.18	\$0.00
Repairs & Maintenance	\$4.91	\$3.51	\$11.67	\$0.66
Management & Admin.	\$2.43	\$1.30	\$8.89	\$0.33
Insurance	\$0.90	\$0.95	\$1.16	\$0.44
Water & Sewer	\$0.58	\$0.52	\$1.38	\$0.11
Advertising	\$0.00	\$0.00	\$0.00	\$0.00
Int. Paint & Decorating	\$0.67	\$0.50	\$1.59	\$0.00
Leasing Commissions	\$0.55	\$0.14	\$2.79	\$0.00
Miscellaneous	\$0.52	\$0.42	\$1.36	\$0.00
Expenses Before RE Tax	\$13.57	\$11.11	\$25.37	\$7.79
Real Estate Taxes	\$6.45	\$6.81	\$8.22	\$2.58
Total Expenses	\$20.02	\$18.86	\$31.73	\$10.83

Considering that our comparable expense survey returned a wide range of values, emphasis was placed on average and median results when selecting stabilized values for each expense item. A detailed discussion of our conclusion of operating expenses for the subject townhouses is presented below.

Fuel

Fuel expenses for the comparable residential properties ranged from \$1.07 to \$2.85 per square foot, with an average of \$1.79 per square foot and a median of \$1.43 per square foot. We have selected a value of \$1.75 per square foot for our fuel expense in this analysis.

Light & Power

The electric expenses for the comparable properties ranged from \$0.14 to \$0.38 per square foot. The average observed expense was \$0.24 per square foot and the median was \$0.21. We have selected a value of \$0.25 for the electric expense in our analysis.

Wages & Payroll

For wages and payroll, the subject properties require an allowance for a traveling superintendent to pick up trash, shovel snow, and perform minor tasks at the building. Only two of the comparables reported separate expenses for wages and payroll at \$0.44 per square foot and \$2.18 per square foot. The stabilized wages and payroll expense for this analysis is \$0.50 per square foot.

Repairs & Maintenance

The cost of repairs and maintenance for the comparable buildings ranges from \$0.66 to \$11.67 per square foot. The observed average was \$4.91 per square foot and the median was \$3.51 per square foot. For our analysis, we have concluded to \$3.50 per square foot for repairs and maintenance.

Management & Administrative

Management expenses for properties such as the subject townhouses are minimal. The range of management expenses is from \$0.33 to \$8.89 per square foot. Management expenses are generally 3.0% to 5.0% of effective gross income. We have chosen an allowance of 3.0% of the effective gross income for each subject property for management and administrative expenses.

Insurance

The insurance expenses for comparable buildings range from \$0.44 to \$1.16 per square foot with an observed average of \$0.90 per square foot and a median of \$0.95 per square foot. Our estimated insurance expenses reflect these costs. Our insurance expense is \$1.00 per square foot.

Water & Sewer

The water & sewer expenses for the surveyed comparables range from \$0.11 to \$1.38 per square foot. The average surveyed expense was \$0.58 per square foot and the median was \$0.52 per square foot. Our estimate for water and sewer expenses for the subject townhouses is \$0.50 per square foot.

Painting and Decorating

Generally painting and decorating is approximately \$1,000 per apartment every three years. The comparable expenses reported for painting and decorating range from \$0.30 to \$1.59 per square foot with average and median values of \$0.80 and \$0.54 per square foot, respectively. For our direct capitalization analysis, we have assumed a painting and decorating expense of \$1,000 per apartment every three years.

Reserves and Miscellaneous Expenses

To account for other expenses, we have deducted a miscellaneous expense of \$0.50 per square foot from the effective gross income. The results of the expense survey support this deduction.

Additionally, we have applied a \$0.25 per square foot reserve for the replacement of capital items.

Real Estate Taxes

In our analysis of individual properties, we used the actual real estate taxes reflected as of the date of our appraisal. Each subject property's real estate tax expense is based on the 2013/2014 assessment and the appropriate tax rate for each building's class.

Derivation of Overall Capitalization Rates

In the Direct Capitalization Method of the Income Capitalization Approach, the net operating income derived from the property is converted into an estimate of value through the use of an Overall Capitalization Rate (OAR). Capitalization rates express the relation between net income and total value. The rate utilized must be consistent with and reflective of those rates currently used by investors active in the market place.

In this section, we will estimate a market-supported range of OARs for residential property types. We will then discuss the factors that influence the OAR of an individual property. In the individual property section, we will apply the influencing factors to conclude with an OAR for the particular property.

The two widely accepted techniques used to estimate an OAR are the market extraction technique and the survey technique. The former is the preferred method when sufficient data are available since the information is derived from actual transactions within the local market.

The market extraction technique is based on data from the sale of comparable properties in the local market. The OAR is derived by dividing the Net Operating Income by the purchase price of each comparable sale. Massey Knakal compiles statistics for commercial and apartment buildings. The following table indicates capitalization rates for apartment buildings. The capitalization rates range from 4.00% to 6.94% with a median value of 5.21% and an average value of 5.51%.

<i>Brooklyn Apartment Building Capitalization Rates</i>							
Address	Block/Lot	Bldg. Size	Contract Date	Sale Price	\$/SF	Cap Rate	Comments
1 442 Lorimer Street	2792/2	48,000	6/5/2013	\$10,500,000	\$218.75	4.43%	6-Story, 58 Units
2 114 North 8th Street	2318/14	6,200	5/1/2013	\$1,500,000	\$241.94	5.33%	4-Story, 8 Units
3 1373-75, 1389 Sterling Place	1372/72,76	65,197	4/29/2013	\$6,703,000	\$102.81	4.97%	5-Story, 73 Units
4 219 Franklin Street	2503/24	6,200	4/12/2013	\$2,250,000	\$362.90	4.73%	4-Story, 8 Units
5 363 South 4th Street	2437/26	6,000	4/8/2013	\$1,225,000	\$204.17	6.94%	4-Story, 8 Units
6 1243 Dean Street	1207/49	4,548	3/31/2013	\$1,125,000	\$247.36	6.13%	4-Story, 8 Units
7 234 Eckford Street	2622/51	4,875	3/22/2013	\$950,000	\$194.87	6.32%	3-Story, 6 Units
8 181 12th Street	1021/68	5,880	3/21/2013	\$1,965,000	\$334.18	5.70%	4-Story, 8 Units
9 1076 Dean Street	1211/22	3,360	3/20/2013	\$825,000	\$245.54	6.66%	3-Story, 8 Units
10 102 Pierrepont Street	243/334	6,665	12/19/2012	\$3,000,000	\$450.11	5.00%	4-Story, 6 Units
11 372 Baltic Street	403/30	7,080	11/20/2012	\$1,460,000	\$206.21	5.00%	4-Story, 8 Units
12 164 Havemeyer Street	2420/28	23,650	10/16/2012	\$6,000,000	\$253.70	4.00%	5-Story, 27 Units
13 242 South 3rd Street	2434/6	20,280	10/1/2012	\$7,100,000	\$350.10	5.08%	6-Story, 31 Units
14 40 Cumberland Street	2029/40	8,286	9/18/2012	\$2,200,000	\$265.51	6.81%	4-Story, 12 Units
Average						5.51%	
Median						5.21%	

The capitalization rate was selected based on the following indications of surveyed rates, market data, and the following subject property’s attributes and risks: 1) the popular location in Cobble Hill in Brooklyn in a densely developed residential and commercial neighborhood, 2) strong demand for similar property types, and 3) limited inventory of similar property types available for sale in the marketplace. Primary consideration is given to the actual Brooklyn capitalization rates provided by Massey Knakal. Based on this analysis, we have chosen a capitalization rate of 5.25% for each subject townhouse property.

Renovation Costs

All of the subject townhouses are in need of substantial renovations. In many cases, a prospective buyer would likely renovate the entire building prior to leasing it to tenants. We utilized the Marshall & Swift Valuation Service Segregated Cost Estimator to estimate the total costs to renovate each townhouse for multi-family apartment use. These costs were then deducted from the value indicated by the income approach for each of the subject properties. An itemized list of renovation costs is listed in the table below.

The cost to renovate the subject properties for multi-family use totals \$73.21 per square foot. We then applied a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to account for architecture and engineering fees, the total cost estimate is rounded down to \$100.00 per square foot. We used Marshall’s “average” costs to estimate renovation costs. This was done to reflect the fact that a prospective landlord would not invest in luxury finishes for a rental townhouse apartment and would most likely budget construction costs toward the low end of the “average” cost range. Additionally, we assume that some of the existing partitions and plumbing elements in the townhouses would be able to be reused in the renovation process, further lowering the overall renovation costs.

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Structure/Cover		\$18.74
41/2	Ceiling		\$2.12
41/2	Partitions		\$20.75
41/3	Plumbing		\$6.34
41/4	HVAC		\$12.61
41/4	Electrical		\$9.44
41/7	Roof Cover		\$2.17
42/7	Appliances		\$1.04
		Total	\$73.21
<u>Multipliers</u>			
99/3	Locality: Eastern A	1.04	\$76.13
99/9	Locality: Brooklyn A	1.41	\$107.35
		Total	\$107.35
<u>Fees</u>			
	Architect/Engineer	6%	\$6.44
		Total	\$113.79

74 Amity Street

Applying an overall capitalization rate of 5.25% to the projected NOI of \$117,238 results in a value indication of \$2,233,110. After deducting the cost to renovate the house, the indicated value of the subject property via the direct capitalization method of the income approach is rounded to \$1,690,000.

Stabilized Income and Expenses – 74 Amity Street

<u>74 Amity Street</u>			
	5,431 sq. ft. GBA		
	4,073 sq. ft. rentable - apartments		
	4 Apartments		
<u>Potential Gross Income</u>			
Apartments @	\$50.00 per sq. ft.		\$ 203,663
Less Vacancy & Credit Loss @	3.5% of PGI		<u>-\$ 7,128</u>
Effective Gross Income			\$ 196,534
<u>Expenses</u>			
		<u>per sq. ft.</u>	
Fuel		\$ 1.75	\$ 9,504
Electric		\$ 0.25	\$ 1,358
Wages & Payroll		\$ 0.50	\$ 2,716
Repairs & Maintenance		\$ 3.50	\$ 19,009
Management @ % of EGI	3.0%	\$ 1.09	\$ 5,896
Insurance		\$ 1.00	\$ 5,431
Water & Sewer		\$ 0.50	\$ 2,716
Paint & Decorating (\$1,000 every 3 years)		\$ 0.25	\$ 1,333
Reserves @ \$0.25 per sq. ft.		\$ 0.25	\$ 1,358
Miscellaneous		<u>\$ 0.50</u>	<u>\$ 2,716</u>
Expenses before real estate taxes		\$ 9.58	\$ 52,035
Real Estate Taxes		<u>\$ 5.02</u>	<u>\$ 27,261</u>
Total Expenses		\$ 14.60	\$ 79,296
Net Operating Income			\$ 117,238
Capitalization Rate			5.25%
Indicated Value			\$ 2,233,110
Less Cost to Renovate	\$100.00		<u>-\$ 543,100</u>
Indicated Value			\$ 1,690,010
Rounded			\$ 1,690,000

76 & 78 Amity Street

Applying an overall capitalization rate of 5.25% to the projected NOI of \$154,937 results in a value indication of \$2,951,178. The highest and best use of the subject property is for conversion to multifamily or single family use. After deducting renovation costs at \$100 per square foot, the indicated value of the subject property via the direct capitalization method of the income approach is rounded to \$2,290,000.

<u>76 & 78 Amity Street</u>		
	6,581 sq. ft. GBA	
	5,265 sq. ft. rentable - apartments	
	5 Apartments	
<u>Potential Gross Income</u>		
Apartments @	\$50.00 per sq. ft.	\$ 263,240
Less Vacancy & Credit Loss @	3.5% of PGI	<u>-\$ 9,213</u>
Effective Gross Income		\$ 254,027
<u>Expenses</u>		
		<u>per sq. ft.</u>
Fuel	\$ 11,517	\$ 1.75
Electric	\$ 1,645	\$ 0.25
Wages & Payroll	\$ 3,291	\$ 0.50
Repairs & Maintenance	\$ 23,034	\$ 3.50
Management @ % of EGI	3.0%	\$ 7,621 \$ 1.16
Insurance	\$ 6,581	\$ 1.00
Water & Sewer	\$ 3,291	\$ 0.50
Paint & Decorating (\$1,000 every 3 years)	\$ 1,667	\$ 0.25
Reserves @ \$0.25 per sq. ft.	\$ 1,645	\$ 0.25
Miscellaneous	<u>\$ 3,291</u>	<u>\$ 0.50</u>
Expenses before real estate taxes	\$ 63,581	\$ 9.66
Real Estate Taxes	<u>\$ 35,509</u>	<u>\$ 5.40</u>
Total Expenses		\$ 15.06 \$ 99,090
Net Operating Income		\$ 154,937
Capitalization Rate		5.25%
Indicated Value		\$ 2,951,178
Less Cost to Renovate	\$100.00	<u>-\$ 658,100</u>
Indicated Value		\$ 2,293,078
Rounded		\$ 2,290,000

82 Amity Street

Applying an overall capitalization rate of 5.25% to the projected NOI of \$103,737 results in a value indication of \$1,975,943. After deducting the cost to renovate the house, the indicated value of the subject property via the direct capitalization method of the income approach is rounded to \$1,590,000.

Stabilized Income and Expenses – 82 Amity Street

<u>82 Amity Street</u>			
	3,840 sq. ft. GBA		
	3,072 sq. ft. rentable - apartments		
	3 Apartments		
<u>Potential Gross Income</u>			
Apartments @	\$50.00 per sq. ft.		\$ 153,600
Less Vacancy & Credit Loss @	3.5% of PGI		-\$ 5,376
Effective Gross Income			\$ 148,224
<u>Expenses</u>			
		per sq. ft.	
Fuel		\$ 6,720	\$ 1.75
Electric		\$ 960	\$ 0.25
Wages & Payroll		\$ 1,920	\$ 0.50
Repairs & Maintenance		\$ 13,440	\$ 3.50
Management @ % of EGI	3.0%	\$ 4,447	\$ 1.16
Insurance		\$ 3,840	\$ 1.00
Water & Sewer		\$ 1,920	\$ 0.50
Paint & Decorating (\$1,000 every 3 years)		\$ 1,000	\$ 0.26
Reserves @ \$0.25 per sq. ft.		\$ 960	\$ 0.25
Miscellaneous		\$ 1,920	\$ 0.50
Expenses before real estate taxes		\$ 37,127	\$ 9.67
Real Estate Taxes		\$ 7,360	\$ 1.92
Total Expenses		\$ 11.59	\$ 44,487
Net Operating Income			\$ 103,737
Capitalization Rate			5.25%
Indicated Value			\$ 1,975,943
Less Cost to Renovate	\$100.00		-\$ 384,000
Indicated Value			\$ 1,591,943
Rounded			\$ 1,590,000

86 Amity Street

Applying an overall capitalization rate of 5.25% to the projected NOI of \$72,002 results in a value indication of \$1,371,467. After deducting the cost to renovate the house, the indicated value of the subject property via the direct capitalization method of the income approach is rounded to 1,070,000.

Stabilized Income and Expenses – 86 Amity Street

<u>86 Amity Street</u>			
	3,000 sq. ft. GBA		
	2,400 sq. ft. rentable - apartments		
	2 Apartments		
<u>Potential Gross Income</u>			
Apartments @	\$50.00 per sq. ft.		\$ 120,000
Less Vacancy & Credit Loss @	3.5% of PGI		<u>-\$ 4,200</u>
Effective Gross Income			\$ 115,800
<u>Expenses</u>			
		per sq. ft.	
Fuel		\$ 5,250	\$ 1.75
Electric		\$ 750	\$ 0.25
Wages & Payroll		\$ 1,500	\$ 0.50
Repairs & Maintenance		\$ 10,500	\$ 3.50
Management @ % of EGI	3.0%	\$ 3,474	\$ 1.16
Insurance		\$ 3,000	\$ 1.00
Water & Sewer		\$ 1,500	\$ 0.50
Paint & Decorating (\$1,000 every 3 years)		\$ 667	\$ 0.22
Reserves @ \$0.25 per sq. ft.		\$ 750	\$ 0.25
Miscellaneous		<u>\$ 1,500</u>	<u>\$ 0.50</u>
Expenses before real estate taxes		\$ 28,891	\$ 9.63
Real Estate Taxes		<u>\$ 14,907</u>	<u>\$ 4.97</u>
Total Expenses		\$ 14.60	\$ 43,798
Net Operating Income			\$ 72,002
Capitalization Rate			5.25%
Indicated Value			\$ 1,371,467
Less Cost to Renovate	\$100.00		<u>-\$ 300,000</u>
Indicated Value			\$ 1,071,467
Rounded			\$ 1,070,000

113 Congress Street

Applying an overall capitalization rate of 5.25% to the projected NOI of \$137,647 results in a value indication of \$2,621,850. After deducting the cost to renovate the house, the indicated value of the subject property via the direct capitalization method of the income approach is rounded to \$2,040,000.

Stabilized Income and Expenses – 113 Congress Street

<u>113 Congress Street</u>			
	5,800 sq. ft. GBA		
	4,640 sq. ft. rentable - apartments		
	5 Apartments		
<u>Potential Gross Income</u>			
Apartments @	\$50.00 per sq. ft.		\$ 232,000
Less Vacancy & Credit Loss @	3.5% of PGI		<u>-\$ 8,120</u>
Effective Gross Income			\$ 223,880
<u>Expenses</u>			
		per sq. ft.	
Fuel		\$ 10,150	\$ 1.75
Electric		\$ 1,450	\$ 0.25
Wages & Payroll		\$ 2,900	\$ 0.50
Repairs & Maintenance		\$ 20,300	\$ 3.50
Management @ % of EGI	3.0%	\$ 6,716	\$ 1.16
Insurance		\$ 5,800	\$ 1.00
Water & Sewer		\$ 2,900	\$ 0.50
Paint & Decorating (\$1,000 every 3 years)		\$ 1,667	\$ 0.29
Reserves @ \$0.25 per sq. ft.		\$ 1,450	\$ 0.25
Miscellaneous		<u>\$ 2,900</u>	<u>\$ 0.50</u>
Expenses before real estate taxes		\$ 56,233	\$ 9.70
Real Estate Taxes		<u>\$ 30,000</u>	<u>\$ 5.17</u>
Total Expenses		\$ 14.87	\$ 86,233
Net Operating Income			\$ 137,647
Capitalization Rate			5.25%
Indicated Value			\$ 2,621,850
Less Cost to Renovate	\$100.00		<u>-\$ 580,000</u>
Indicated Value			\$ 2,041,850
Rounded			\$ 2,040,000

EXECUTIVE SUMMARY – 43 Columbia Street – Walk-Up Apartment Building

Address: 43-45 Columbia Place, Brooklyn, NY
 Neighborhood: Brooklyn Heights
 Tax Block/Lot: Block 259 Lot 8
 Zoning: R6 with a 2.43 FAR and maximum building potential of 5,103 square feet.
 Land Size: 2,100 square feet
 Building Size: 6,810 square feet
 Current Use: Vacant, 4-story, 11-unit, walk-up apartment building

Assessment & Real Estate Taxes:

<u>43 Columbia Place</u>	<u>Block 259</u>	<u>Lot 8</u>
2013/2014	Actual	Transitional
Land	\$162,450	\$165,060
Improvements	<u>\$202,500</u>	<u>\$188,460</u>
Total	\$364,950	\$353,520
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$36,370	
Assessor's 100% Market Value	\$811,000	

Highest & Best Use: Continued use as a walk-up apartment building
 Inspection Date: October 1, 2013
 Date of Value: October 1, 2013
 Valuations:
 Sales Comparison Approach: \$2,900,000
 Income Approach: \$2,900,000
 Cost Approach: NA
 Reconciled Value: \$2,900,000



Subject Photo



Tax Map



Property Description – 43-45 Columbia Street

Site

The subject site has frontage of 30 feet on the east side of Columbia Place and depth of 70 feet for a total land area of 2,100 square feet. The building is located between Joralemon and State Streets in the Brooklyn Heights section of Brooklyn. The rectangular site is level at grade, and all utilities and services are available and provided to the site. Site improvements include concrete curbs and sidewalk. The site is located in the Brooklyn Heights Historic District.

Improvements

The site is improved with a four-story plus basement walk-up apartment building that has 11 apartments and 6,810 square feet of gross building area. The building was constructed circa 1900. The subject property is currently vacant.

Façade: The façade of the building is painted red brick, and the windows are a combination of metal- and wood-framed double hung style. The roof is flat built-up rubberized cap sheet. Some leaks were noticed on the ceilings of the top floor apartments.

First Floor: The first floor has an entry hallway with double vestibule from Columbia Place that accesses two studios and a one-bedroom apartment. The entry vestibule has the mailboxes and buzzer to the apartments. Apartment #1 is a studio unit with vinyl tile flooring, painted walls, 9 foot ceiling height, and a small closet. The small interior kitchen has a four-burner gas range, stainless steel sink, old style cabinets and ½ refrigerator under the counter. The bathroom is equipped with a set-in bathtub, wall-mounted sink, and toilet. The one-bedroom unit on this level, formerly two studios, has two bathrooms.

Second Floor: The second floor has four studio apartments. Apartment numbers 6 and 7 were inspected. They are studio apartments and are similarly finished as the first floor studio units.

Third & Fourth Floors: There are four duplex apartments on these levels. Each apartment has a living room and kitchen on the first level and spiral staircase to a bedroom and bathroom above. The flooring in the apartment is vinyl tiles and the walls are painted. The kitchen has a four-burner gas range, ceramic sink, and refrigerator. The bathroom is similarly finished with set-in bathtub, wall-mounted sink, and toilet.

Basement: The basement, accessed from the street, is unfinished, has a 7 foot ceiling height, and contains the heating system. There is a 75 gallon water heater in the basement.

Mechanicals: The building is heated by a gas-fired Weil McClain boiler that is in good condition, but has not been operated for several years. It is a low pressure steam boiler system.

Highest and Best Use

The subject property is located in Brooklyn Heights in an area designated a Historic Landmark District. The area is an attractive tree-lined residential neighborhood with lovely older townhouses and multifamily dwellings, many of which are renovated. There is strong demand for residences in this area of Brooklyn, and the building appears to be structurally strong. The highest and best use of the subject property is for continued multifamily use.

The Sales Comparison Approach

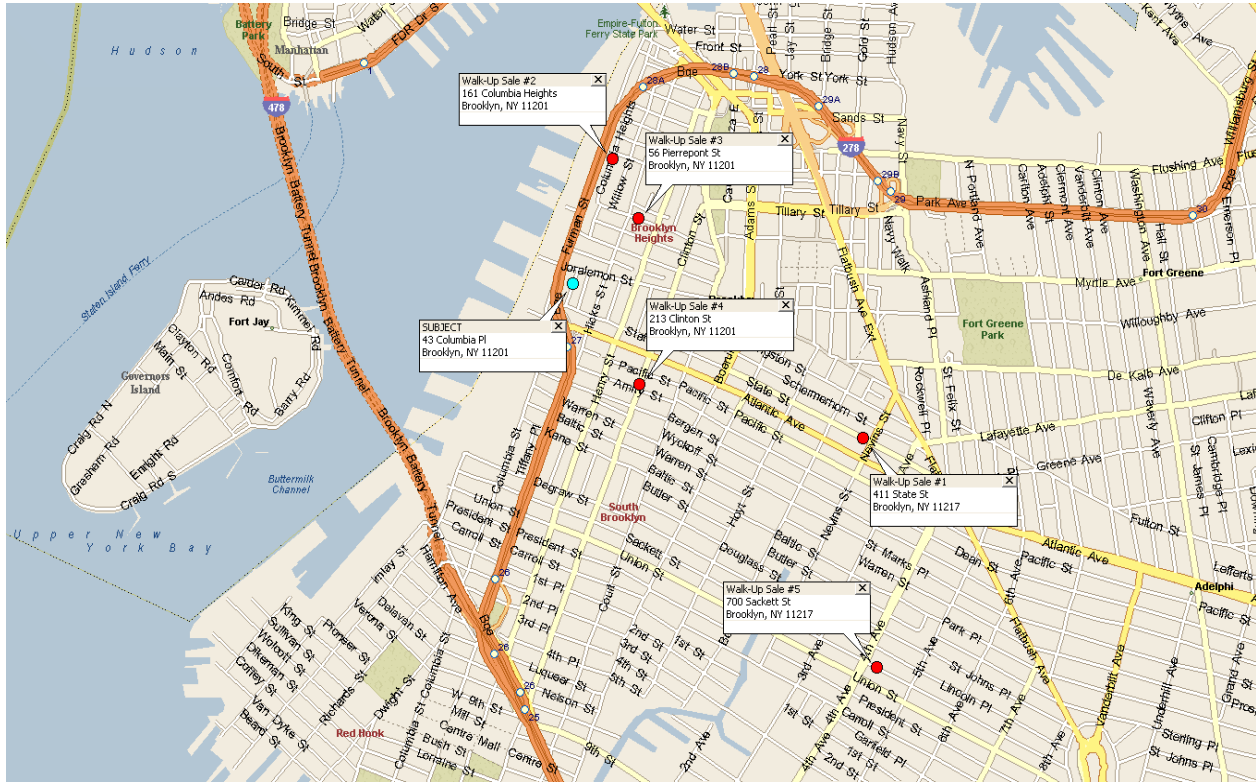
The sales comparison approach was used to determine the fair market value of this property. Primary consideration was given to sales of walk-up apartment buildings in Brooklyn Heights and surrounding neighborhoods. The walk-up comparable sales all contain four stories with frontages ranging from 25 to 33.5 feet. The comparable sales are sufficient in number and quality to fully support an opinion of value by the sales comparison approach.

Comparable Sales Adjustment Grid – 43 Columbia Place

<u>Property Information</u>	<u>SUBJECT</u>	<u>Walk-Up #1</u>	<u>Walk-Up #2</u>	<u>Walk-Up #3</u>	<u>Walk-Up #4</u>	<u>Walk-Up #5</u>
Address	43 Columbia Place	411 State Street	161 Columbia Hts	56 Pierrepont St	213 Clinton Street	700 Sackett St
Neighborhood	Brooklyn Heights	Downtown Bklyn	Brooklyn Heights	Brooklyn Heights	Cobble Hill	Boerum Hill
Block/Lot	259/8	172/47	234/29	242/24	292/1	952/19
Land Area	2,100	2,570	2,614	2,614	3,485	2,374
Zoning	R6	C6-1	R6/LH-1	R7-1	R6/LH-1	R6B
Frontage	25.00	25.50	26.00	25.00	33.5+104	25.00
Corner Vs. Interior	Interior	Interior	Interior	Interior	Corner	Interior
Building Size	6,810	7,020	5,694	8,086	13,200	5,000
# of Stories	4	4	4	4	4	4
# of Apartments	11	8	10	12	8	8
Valuation/Contract Date	10/1/2013	6/16/2013	3/4/2013	6/1/2012	4/13/2012	3/19/2012
Transfer Date		8/26/2013	6/10/2013	12/14/2012	8/13/2012	8/23/2012
Sale Price		\$2,600,000	\$3,950,000	\$3,170,000	\$4,525,000	\$2,150,000
Sale Price Per Sq. Ft. of GBA		\$370.37	\$693.71	\$392.04	\$342.80	\$430.00
<u>Adjustments</u>						
# of Months		3	7	16	17	18
Market Conditions at 1.0% Per Month		3.0%	7.0%	16.0%	17.0%	18.0%
Adjusted Price Per Sq. Ft.		\$381.48	\$742.27	\$454.76	\$401.08	\$507.40
Location		10%	-5%	-5%	5%	10%
Building Size		0%	0%	5%	10%	-5%
Frontage		0%	0%	0%	-5%	0%
Age and Condition		0%	0%	0%	0%	0%
Corner Influence / Views		0%	0%	0%	-5%	0%
Total Adjustments		10%	-5%	0%	5%	5%
Adjusted Price Per Sq. Ft.		\$419.63	\$705.16	\$454.76	\$421.13	\$532.77
Indicated Price Per Sq. Ft.	\$500					
Indicated Value	\$3,405,000					
Less Cost to Renovate at \$75/SF	-\$510,750					
Indicated Value	\$2,894,250					
Rounded	\$2,900,000					

The comparable sales location map and an explanation of adjustments follows. Detailed information about the comparable sale transactions and photographs are presented in the third volume of this report.

Comparable Sales Location Map – Brooklyn Heights Comparable Sales – Used for the Appraisal of 43 Columbia Place



Explanation of Adjustments

We selected sales of residential multifamily dwellings that do not have an elevator for direct comparison to the subject property. The sales were contracted between March 2012 and June 2013 with sales prices that range from \$2,150,000 to \$4,525,000.

Market Conditions

The time trend considers the appreciation and/or depreciation cycles in the market from the date of the sale of the comparables to the valuation date. Building values have generally been increasing substantially since 2012. The improving economic conditions and shrinking housing supply have pushed prices up dramatically in a relatively short time. Our market conditions adjustments are 1.00% per month beginning in the 2nd quarter of 2012.

Location

Considerations for location offset the superiority or inferiority of the comparables' locations as compared to the subject's. As part of the determination of the location adjustment, consideration is given to the overall character and quality of surrounding properties and streets, accessibility, convenience to transportation, as well as differences in asking and actual rents (office and retail) or

condominium apartment values, when applicable.

The subject is located in Brooklyn Heights, a popular gentrified residential area of townhouses and small apartment buildings that are located close to downtown, subway access, and the network of highways surrounding the boroughs. The comparable walk-up apartment building sales are located in the Downtown, Cobble Hill, and Boerum Hill neighborhoods of Brooklyn as well as in Brooklyn Heights. These neighborhoods are close to the subject and have characteristics similar to Brooklyn Heights.

Building Size

Smaller buildings generally command a higher unit price per square foot than larger buildings due to a greater pool of competing potential buyers. The adjustments are made to the buildings to account for difference in size.

Frontage

Apartment buildings with greater street frontage are generally considered more valuable because of the greater exposure to daylight that it provides to the apartments. The sale price of Sale #4 was adjusted downward to account for its greater street frontage.

Age and Condition

Even though the subject property is in poor condition, for the purpose of this analysis, we compared the comparable properties to the subject property as if it were in average condition. The cost of renovating the subject is deducted from the value indicated by the comparable sales for a building that is in average condition. Without access to the interiors of the comparable properties, we based our assessment of their average condition on their exterior appearance and on the fact that no building permit applications have been submitted for building-wide renovations. Therefore, we did not apply any adjustments for building condition.

Corner Influence/Views

A corner location provides greater light and air to a greater number of apartments in a building. Sale #4, therefore, warrants a downward adjustment to account for its corner location.

Description of the Comparable Walk-Up Apartment Building Sales and Adjustments

Comparable Walk-Up Sale #1 is the sale of a four-story, 8-unit walk-up apartment building. The comparable is located in Downtown Brooklyn, near the new Barclay's Arena and the Brooklyn Academy of Music, and it has a contract date of June 16, 2013. The sale price of \$2,600,000 reflects a unit price of \$370.37 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for the superior location of the subject.

Comparable Walk-Up Sale #2 is the sale of a four-story, 10-unit walk-up apartment building. The comparable is located in Brooklyn Heights, and it has a contract date of March 4, 2013. The sale price of \$3,950,000 reflects a unit price of \$693.71 per square foot. The property previously sold in

March 2012 for \$2,950,000, reflecting a 34.9% price increase in approximately one year. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location of the subject at the southern end of Brooklyn Heights.

Comparable Walk-Up Sale #3 is the sale of a four-story, 12-unit walk-up apartment building. The comparable is located in Brooklyn Heights, and it has a contract date of June 1, 2012. The sale price of \$3,170,000 reflects a unit price of \$392.04 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for the inferior location of the subject at the southern end of Brooklyn Heights. The larger size of the comparable property warranted an upward adjustment.

Comparable Walk-Up Sale #4 is the sale of a four-story, 8-unit walk-up apartment building. The comparable is located in Cobble Hill, and it has a contract date of April 13, 2012. The sale price of \$4,525,000 reflects a unit price of \$342.80 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for the superior location of the subject at the in Brooklyn Heights. The larger size of the comparable property warrants an upward adjustment. This property's larger frontage warrants a downward adjustment, and its corner exposure warrants an additional downward adjustment.

Comparable Walk-Up Sale #5 is the sale of a four-story, 8-unit walk-up apartment building. The comparable is located in Boerum Hill, and it has a contract date of March 19, 2012. The sale price of \$2,150,000 reflects a unit price of \$430.00 per square foot. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for the superior location of the subject at the in Brooklyn Heights. The smaller size of the comparable property warrants a downward adjustment.

The indicated range of adjusted sale prices is from \$419.63 to \$705.16 with an average value of \$506.69 and a median value of \$454.76. With none of the sales standing out as being more similar to the subject property than the others, we relied on the central tendencies of the range of values and chose a value of \$500.00 per square foot for the subject property which is calculated as follows:

$$\text{\$500.00 per square foot} \times 6,810 \text{ square feet} = \text{\$3,405,000}$$

It was necessary to deduct the cost to renovate the subject property and bring it back to habitable condition at the rate of \$75.00 per square foot. After deducting \$510,750 for renovation costs, the indicated value of the subject property by the sales comparison approach is rounded to \$2,900,000.

The Income Capitalization Approach

In the income capitalization approach, a market value estimate of each subject property is determined using the direct capitalization technique. Direct capitalization is the process of converting a single year of stabilized net operating income (NOI) into a capitalized value using an overall capitalization rate indicated by the market for similar properties.

43-45 Columbia Place

The highest and best use of the subject property is continued use as a multifamily walk-up apartment building after renovation. Applying an overall capitalization rate of 5.25% to the projected NOI of \$178,591 results in a value indication of \$3,401,735. After deducting renovation costs at \$75 per square foot, the indicated value of the subject property by the direct capitalization method of the income approach is rounded to \$2,900,000, which equates to \$425.84 per square foot of gross building area.

43 Columbia Place

6,810 sq. ft. GBA
5,789 sq. ft. rentable - apartments
11 Apartments

Potential Gross Income

Apartments @	\$50.00	\$ 289,425
Less Vacancy & Credit Loss @	3.5% of PGI	<u>-\$ 10,130</u>
Effective Gross Income		\$ 279,295

Expenses

			<u>per sq. ft.</u>
Fuel		\$ 15,000	\$ 2.20
Electric		\$ 5,000	\$ 0.73
Wages & Payroll		\$ 6,500	\$ 0.95
Repairs & Maintenance		\$ 8,500	\$ 1.25
Management @ % of EGI	5.0%	\$ 13,965	\$ 2.05
Insurance		\$ 3,500	\$ 0.51
Water & Sewer		\$ 5,000	\$ 0.73
Paint & Decorating (\$1,000 every 3 years)		\$ 3,667	\$ 0.54
Reserves @ \$0.25 per sq. ft.		\$ 1,703	\$ 0.25
Miscellaneous		<u>\$ 1,500</u>	<u>\$ 0.22</u>
Expenses before real estate taxes		\$ 64,334	\$ 9.45
Real Estate Taxes		<u>\$ 36,370</u>	<u>\$ 5.34</u>
Total Expenses			\$ 14.79 \$ 100,704
Net Operating Income			\$ 178,591
Capitalization Rate			5.25%
Indicated Value		\$ 3,401,735	
Less Cost to Renovate	\$75.00	<u>-\$ 510,750</u>	
Indicated Value		\$ 2,890,985	
Rounded		\$ 2,900,000	

Potential Gross Income

We researched apartment rents in Brooklyn to determine potential gross income of the subject walk-up apartment building. The table below lists a summary of the asking rents per square foot for studios, one, two, and three-bedroom apartments that are located in various Brooklyn neighborhoods. We adjusted the rents by -3.0% to account for a negotiability factor as the contract rent will likely be negotiated slightly lower than the asking prices. The table below summarizes the adjusted apartment rents for each apartment size. In the Brooklyn Residential Market section of this report, there is an extensive discussion of Brooklyn apartment rents. The indicated rent is \$50.00 per square foot for eleven apartments in the building. This equates to rent of approximately \$2,200 per month.

<i>Brooklyn Apartment Rents</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts.
Three Bedrooms	\$4,381	\$4,500	\$5,400	\$3,600	8
Two Bedrooms	\$4,628	\$4,500	\$6,850	\$3,000	46
One Bedroom	\$3,421	\$3,325	\$6,250	\$1,950	38
Studio	\$2,707	\$2,400	\$4,300	\$1,900	19
Total Number of Apartments in the Survey					111

Source: Compiled by Landauer from various rental listings from Corcoran and Douglas Elliman

<i>Brooklyn Apartment Rents Per Square Foot</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 and Douglas Elliman

Vacancy and Credit Loss

A typical landlord anticipates some vacancy and credit loss for turnover time and loss of rent while searching for new tenants. We applied a 3.5% vacancy and credit loss for the gross rent due to the low vacancy rate for Brooklyn apartments.

Operating Expenses

We made an extensive search for expense comparables for Brooklyn apartment properties. In our search, we used actual financial information filed with the Department of Finance from the owners or operators of comparable buildings. Owners of commercial buildings in New York City, when protesting their real estate taxes, are required by law to file a statement of their annual income and expenses to the Department of Finance. The expenses as filed reflect 100% of the building expenses. We used these filings to aid us in computing the most likely operating expenses for the walk-up apartment buildings. The expenses vary from building to building. Typical expenses paid by the landlord of an apartment building in this location include real estate taxes, heating, electric costs, water and sewer charges, management, insurance, and repairs and maintenance.

The subject hospital properties are exempt from real estate taxes. Expenses such as fuel, insurance, management, and administrative costs are shared by multiple hospital buildings. Our appraisal report considers each property individually, not as a bulk sale of multiple buildings. In the absence of recent actual expenses at the subject property because it has not been occupied for several years, we used the comparables to establish market indicated expenses. The table below summarizes six properties and the range of values of their expenses.

<i>Comparable Small Walk-up Apartment Buildings - No Stores</i>				
Price Per Sq. Ft.	Average	Median	Maximum	Minimum
Fuel	\$1.79	\$1.43	\$2.85	\$0.50
Light & Power	\$0.24	\$0.21	\$0.38	\$0.14
Cleaning Contracts	\$0.57	\$0.47	\$1.20	\$0.36
Wages & Payroll	\$0.44	\$0.00	\$2.18	\$0.17
Repairs & Maintenance	\$4.91	\$3.51	\$11.67	\$0.66
Management & Admin.	\$2.43	\$1.30	\$8.89	\$0.26
Insurance	\$0.90	\$0.95	\$1.16	\$0.44
Water & Sewer	\$0.58	\$0.52	\$1.38	\$0.39
Advertising	\$0.00	\$0.00	\$0.00	\$0.26
Int. Paint & Decorating	\$0.67	\$0.50	\$1.59	\$0.00
Leasing Commissions	\$0.55	\$0.14	\$2.79	\$0.00
Miscellaneous	<u>\$0.52</u>	<u>\$0.42</u>	<u>\$1.36</u>	<u>\$0.00</u>
Expenses Before RE Tax	\$13.57	\$11.11	\$25.37	\$7.79
Real Estate Taxes	<u>\$6.45</u>	<u>\$6.81</u>	<u>\$8.22</u>	<u>\$2.58</u>
Total Expenses	\$20.02	\$18.86	\$31.73	\$10.83

Derivation of Overall Capitalization Rates

In the Direct Capitalization Method of the Income Capitalization Approach, the net operating income derived from the property is converted into an estimate of value through the use of an Overall Capitalization Rate (OAR). Capitalization rates express the relation between net income and total value. The rate utilized must be consistent with and reflective of those rates currently used by investors active in the market place.

The two widely accepted techniques used to estimate an OAR are the market extraction technique and the survey technique. The former is the preferred method when sufficient data are available since the information is derived from actual transactions within the local market.

The market extraction technique is based on data from the sale of comparable properties in the local market. The OAR is derived by dividing the Net Operating Income by the purchase price of each comparable sale. Massey Knakal compiles statistics for commercial and apartment buildings. The following table indicates capitalization rates for apartment buildings. The capitalization rates range from 4.00% to 6.94% and average 5.51%.

<i>Brooklyn Apartment Building Capitalization Rates</i>							
Address	Block/Lot	Bldg. Size	Contract Date	Sale Price	\$/SF	Cap Rate	Comments
1 442 Lorimer Street	2792/2	48,000	6/5/2013	\$10,500,000	\$218.75	4.43%	6-Story, 58 Units
2 114 North 8th Street	2318/14	6,200	5/1/2013	\$1,500,000	\$241.94	5.33%	4-Story, 8 Units
3 1373-75, 1389 Sterling Place	1372/72,76	65,197	4/29/2013	\$6,703,000	\$102.81	4.97%	5-Story, 73 Units
4 219 Franklin Street	2503/24	6,200	4/12/2013	\$2,250,000	\$362.90	4.73%	4-Story, 8 Units
5 363 South 4th Street	2437/26	6,000	4/8/2013	\$1,225,000	\$204.17	6.94%	4-Story, 8 Units
6 1243 Dean Street	1207/49	4,548	3/31/2013	\$1,125,000	\$247.36	6.13%	4-Story, 8 Units
7 234 Eckford Street	2622/51	4,875	3/22/2013	\$950,000	\$194.87	6.32%	3-Story, 6 Units
8 181 12th Street	1021/68	5,880	3/21/2013	\$1,965,000	\$334.18	5.70%	4-Story, 8 Units
9 1076 Dean Street	1211/22	3,360	3/20/2013	\$825,000	\$245.54	6.66%	3-Story, 8 Units
10 102 Pierrepont Street	243/334	6,665	12/19/2012	\$3,000,000	\$450.11	5.00%	4-Story, 6 Units
11 372 Baltic Street	403/30	7,080	11/20/2012	\$1,460,000	\$206.21	5.00%	4-Story, 8 Units
12 164 Havemeyer Street	2420/28	23,650	10/16/2012	\$6,000,000	\$253.70	4.00%	5-Story, 27 Units
13 242 South 3rd Street	2434/6	20,280	10/1/2012	\$7,100,000	\$350.10	5.08%	6-Story, 31 Units
14 40 Cumberland Street	2029/40	8,286	9/18/2012	\$2,200,000	\$265.51	6.81%	4-Story, 12 Units
Average						5.51%	
Median						5.21%	

The capitalization rate was selected based on the following indications of surveyed rates, market data, and the following attributes and risks of the subject property: 1) the popular location in the Brooklyn Heights section of Brooklyn, in a densely developed residential and commercial neighborhood, 2) strong demand for similar property types, and 3) limited inventory of similar property types available for sale in the marketplace. Primary consideration is given to the actual Brooklyn capitalization rates provided by Massey Knakal. Based on this analysis, we have chosen a capitalization rate of 5.25% for the subject walk-up apartment building.

Reconciliation and Conclusion

The value conclusions of both the sales comparison approach and the income capitalization approach are \$2,900,000. Accordingly, we estimate that the market value of the fee simple estate in 43 Columbia Place, as is, as of October 1, 2013, based on its highest and best use, is \$2,900,000.

EXECUTIVE SUMMARY – 336 Flatbush Avenue and 184 Sterling Place, Brooklyn, NY

The subject properties consist of two adjoining buildings located on the border of Park Slope and Prospect Heights Districts at 336 Flatbush Avenue and 184 Sterling Place in the Borough of Brooklyn, City and State of New York. The properties are identified on the New York City Tax Rolls as Block 1058 Lots 28 & 30.

Effective Date of Value: October 1, 2013

Date of Inspection: October 1, 2013

Purpose of Appraisal: The purpose of this report is to provide an opinion of the fair market value of each subject property in accordance with its highest and best use.

Zoning: R7A with a C2-4 Overlay – 4.0 Residential FAR and 2.0 Commercial FAR

<i>Address</i>	<i>Block/Lot</i>	<i>Land Size</i>	<i>Frontage</i>	<i>Zoning</i>	<i>Maximum FAR</i>	<i>Max Dev Pot</i>	<i>Building Size</i>	<i>Building Use</i>	<i>Excess TDRs</i>
336 Flatbush Avenue	1058/30	2,700	28.92'	R7A/C2-4	4.00	10,800	13,108	Office/Apartments	None
184 Sterling Place	1058/28	4,885	38.92'	R7A/C2-4	4.00	19,540	6,511	Medical Office	13,029

Building Description – 336 Flatbush Ave.: The five-story mixed-use building has eight apartments on floors two through five that are currently uninhabitable. The first floor is used with the adjacent building at 184 Sterling Avenue as the reception and waiting room for the kidney dialysis center.

Highest and Best Use: Rehabilitation and continued use as a mixed-use retail and residential building.

Valuations – 336 Flatbush Avenue

Cost Approach: NA

Sales Comparison Approach:
For Mixed-Use Use: \$4,600,000

Income Approach:
Direct Capitalization
For Rental Apartment Use: \$4,200,000

Reconciled Value: \$4,600,000
\$350.93 per square foot of GBA

Building Description – 184 Sterling Place: Two-story medical office building that houses the Brooklyn Kidney Dialysis Center.

Historic District: Slated to become part of the Park Slope Historic District Extension II

Highest and Best Use: Continued Medical Office Use

Valuations – 184 Sterling Place

Cost Approach: NA

Sales Comparison Approach:
For Medical Office Use: \$2,600,000

Income Approach:
Direct Capitalization
For Medical Office Use: \$2,500,000

Reconciled Value: \$2,600,000
\$399.32 per square foot of GBA

Subject Photo – 336 Flatbush Avenue, Brooklyn, NY



336 Flatbush Avenue

Subject Photo – 184 Sterling Place, Brooklyn, NY



184 Sterling Place



336 Flatbush Avenue and 184 Sterling Place



Tax Map:



Property Description – 336 Flatbush Avenue

Site

The subject site is located on the west side of Flatbush Avenue (where it meets Sterling Place) in the easterly part of the Park Slope and westerly part of Prospect Heights sections of Brooklyn. The irregular site has 28.92 feet of frontage, depth of approximately 82 feet, and a land area of 2,700 square feet. Site improvements include concrete curbs and sidewalk and there is a small courtyard in the rear.

Improvements

The site is improved with a five-story plus basement walk-up apartment building that has an office on the first floor and eight apartments (two per floor) on the upper levels. Floors two through five are vacant and the windows are bricked. The apartments are uninhabitable in their present condition. The exterior of the building is brick and the basement houses a boiler for domestic hot water. Heat and air condition are provided to the first floor from a roof top unit on 184 Sterling Place.

The first floor office is connected to the adjacent building at 184 Sterling Place and used together as the Brooklyn Kidney Center, a kidney dialysis medical facility. The first floor consists of a receptionist desk and area, waiting room, storage rooms, and private offices. The floors are covered with vinyl tiles and there are a drop ceiling tiles with recessed fluorescent lighting.

Assessment and Estimated Real Estate Taxes

The actual and transitional assessed values for 2013/2014 are summarized in the table below.

<u>336 Flatbush Avenue</u>	<u>Block 1058</u>	<u>Lot 30</u>
2013/2014	Actual	Transitional
Land	\$8,912	\$8,912
Improvements	<u>\$327,305</u>	<u>\$327,305</u>
Total	\$336,217	\$336,217
Tax Class	2B	
2012/2013 Tax Rate	13.181%	
Estimated Real Estate Taxes	\$44,317	
Assessor's 100% Market Value	\$3,697,000	

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 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 tax lot Block 1058 Lot 30 for tax year 2013/2014 based on the 2012/2013 Class 2 tax rate of

13.181% is \$44,317.

Zoning

The subject property is located in an R7A zone with a C2-3 commercial overlay. The residential FAR is 4.0 for a total potential development of 10,800 square feet. The commercial FAR is 2.0 and the community facility use is 4.0. As improved with a 13,108 square foot building, the site is over built.

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”.

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 R7A residential zone with a C2-4 commercial overlay which permits residential and community facility uses with an FAR of 4.0. The commercial FAR is 2.0. The as-of-right maximum residential use for the 2,700 square foot site is 10,800 square feet of floor area. 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 R7A zone.

Physically Possible

If the land were vacant, the as-of-right zoning FAR for residential community use is 4.0 and for community facility use are 4.0. Residential, community facility and retail uses are physically possible on the site.

Financially Feasible

Residential, office, or retail uses 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 if the site is vacant is residential use with retail along the grade level.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a five-story commercial and residential building that is built in excess of the FAR permitted by residential zoning regulations. The subject property is located in an R7A residential zone which permits residential and community facility uses. As-of-right, only 4.0 FAR of the existing floor area could legally be converted to residential use or 10,800 square feet.

Physically Possible

The existence of the improvements attests to the physical possibility of using the building. The existing building at 13,108 square feet is overbuilt, and it is a non-complying legal use.

Financially Feasible

In the analysis of the building as continued mixed-use retail and residential, the two valuation methods produced positive investment returns indicating use as continued medical offices or community facility are financially feasible.

<i>336 Flatbush Avenue - Mixed-Use Building</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Walk-Up Mixed-Use Building	Direct Capitalization	\$4,200,000
Walk-Up Mixed-Use Building	Sales Comparison Approach	\$4,600,000

Maximally Productive

The maximally productive use, the use that produces the greatest return to an investor, is rehabilitation and use as a mixed-use building.

VALUATION

Approaches to Value – 336 Flatbush Avenue

While all three valuation methods were considered in the valuation of the mixed-use building, direct capitalization in the income approach was used to indicate its value to its highest and best use. The sales comparison approach was also used to indicate the value as a mixed-use retail and residential building. The cost approach was not used to value the subject because the advanced age of the building and the difficulty in estimating depreciation of commercial buildings in the cost approach.

The income approach was used in the form of direct capitalization to estimate the value of the building as a rehabilitated mixed-use residential and retail building. We concluded the highest and best use of the building and the use that produces the greatest return on the investment is renewed use of the building.

Direct Capitalization – Rehabilitation of 336 Flatbush Avenue

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. We used direct capitalization to estimate the value of the commercial condominium in its current configuration.

Applying an overall capitalization rate of 6.5% to the projected NOI of \$450,929 results in a value of \$6,937,369. It would require approximately two years to renovate and lease the apartments and prepare the ground floor for retail use. We deducted the lost rent over the two-year period, free rent for the store, and leasing commissions of 32.0% of the first year’s rent. The cost to renovate the building is estimated at \$150.00 per square foot. The indicated value was rounded to \$4,200,000.

336 Flatbush Avenue - Mixed-Use Building

13,108 Sq. Ft. Gross Building Area
1,875 Sq. Ft. Retail
9,548 Sq. Ft. Rentable Apartments

Income

Income from Retail	@	\$85.00 per sq. ft.	\$159,375
Income from Apartments	@	\$55.00 per sq. ft.	<u>\$525,143</u>
			\$684,518
Less Vacancy & Credit Loss - Residential	@	3.00%	-\$15,754
Less Vacancy & Credit Loss - Store	@	10.00%	<u>-\$15,938</u>
Effective Gross Income			\$652,826

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$131,080
Miscellaneous	@	\$0.15	\$2,000
Reserves for Replacements	@	\$0.25	\$3,277
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$65,540</u>
Total Expenses		\$15.40	<u>\$201,897</u>

Net Operating Income \$450,929

Capitalization Rate 6.50%

"As Stabilized" Market Value		\$6,937,369
Less: Rent Loss (Year 1: 50% Leased)	50%	-\$513,388
Less: Rent Loss (Year 2: 100% Leased)	100%	-\$171,129
Less: 3 Months of Free Rent (Retail)		-\$39,844
Less: Leasing Commissions (32% of 1st Year Rent) (Retail)		-\$51,000
Less Cost to Renovate the Building @ \$150.00 per square foot		<u>-\$1,966,200</u>
Market Value		\$4,195,807
Rounded		\$4,200,000
Per Square Foot of GBA		\$320.42

Potential Gross Income

The subject property is owned by the Medical Center and occupied by a kidney dialysis center on the first floor and the eight apartments on the upper levels are vacant and uninhabitable. We made a search for comparable Brooklyn retail leases which we display on the following tables. Following the table of comparable rents is an adjustment grid that compares the rents to the subject property so that we can determine the market rent for the Flatbush Avenue retail portion on the ground floor.

<i>Comparable Brooklyn Retail Rents</i>								
<i>Address</i>	<i>Tenant</i>		<i>Sq. Ft.</i>	<i>Term (months)</i>	<i>Lease Date</i>	<i>Annual Rent</i>	<i>Rent per SF</i>	<i>Escalations</i>
357 Atlantic Ave.	Atelier Cologne	Cobble Hill	800	60	Aug-13	\$78,000	\$97.50	3.75% annual increases
1 Flatbush Ave.	Five Guys Burgers	Downtown	2,800	180	May-11	\$300,000	\$107.14	3.0% annual increases
345 Adams Street	Potbelly Sandwich	Downtown	2,181	120	Jun-12	\$189,471	\$86.87	15% increase in 5th year
140 Court Street	Chipotle	Downtown	1,800	180	6/8/2012	\$200,000	\$111.11	15% increase in 5th year
944 Flatbush Avenue	Sarku Japan	Flatbush	2,000	120	2/1/2012	\$120,000	\$60.00	7.5% increase every 3 years
345 Adams Street	Sugar & Plumm	Downtown	12,000	252	10/14/2011	\$715,000	\$59.58	9.0% increase every 3 years

The unadjusted retail rents range from \$50 to \$111 per square foot for spaces that range in size from 800 to 12,000 square feet.

<i>Comparable Brooklyn Retail Rents</i>						<i>Adjustments to Brooklyn Retail Rents</i>						
<i>Address</i>	<i>Sq. Ft.</i>	<i>Term (months)</i>	<i>Lease Date</i>	<i>Annual Rent</i>	<i>Rent per SF</i>	<i># of Months</i>	<i>Market Conditions</i>	<i>Adjusted Rent/SF</i>	<i>Location</i>	<i>Size</i>	<i>Total Adjmts</i>	<i>Adjusted Rent/SF</i>
357 Atlantic Ave.	800	60	8/20/2013	\$78,000	\$97.50	1	0.00%	\$97.50	-5.00%	-5.00%	-10.00%	\$87.75
1 Flatbush Ave.	2,800	180	5/4/2011	\$300,000	\$107.14	29	7.25%	\$114.91	-10.00%	5.00%	-5.00%	\$109.17
345 Adams Street	2,181	120	6/26/2012	\$189,471	\$86.87	15	3.75%	\$90.13	-10.00%	0.00%	-10.00%	\$81.12
140 Court Street	1,800	180	6/8/2012	\$200,000	\$111.11	16	4.00%	\$115.56	-10.00%	0.00%	-10.00%	\$104.00
944 Flatbush Avenue	2,000	120	2/1/2012	\$120,000	\$60.00	20	5.00%	\$63.00	0.00%	0.00%	0.00%	\$63.00
345 Adams Street	12,000	252	10/14/2011	\$715,000	\$59.58	23	5.75%	\$63.01	-10.00%	15.00%	5.00%	\$66.16

We first adjusted the comparable rents for market conditions at the rate of 3.0% annually. The comparable retail rents were contracted from May 2011 to August 2013. Location adjustments were made to the comparables. The downtown locations are considered superior to the subject's location and were adjusted downward. Size adjustments were made because smaller stores generally lease at a higher unit than larger stores with the same utility. The subject property has approximately 1,875 square feet of retail space. The smaller stores were adjusted downward and the larger stores were adjusted upward.

After all of the adjustments were made to the comparable rents, the indicated rents range from \$63.00 to \$109.17 per square foot and average \$85.20 per square foot. The median adjusted rent is \$84.43 per square foot. We chose \$85.00 per square foot for the rent on the grade level of the subject building.

We also made a search for apartment rents in Brooklyn to determine potential gross income for the eight apartments. The table below lists a summary of the asking rents per square foot for studios, one-, two-, and three-bedroom apartments that are located in various Brooklyn neighborhoods. We adjusted the rents by -3.0% for negotiability factor as the contract rent will likely be negotiated slightly lower than the asking prices. Generally larger apartments rent for a slightly higher unit price however the analyzed rents are nearly the same for each apartment

style.

<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

<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

Based on an analysis of these Brooklyn apartment rents and our judgment of the neighborhood for residential use, the indicated apartment rent for the subject property in our projection of rents in direct capitalization is \$55.00 per square foot of rentable area.

Vacancy and Credit Loss

A typical landlord anticipates some vacancy and credit loss for turnover time and loss of rent while searching for new tenants. We applied 10.0% vacancy and credit loss for the gross rent from the store and 3.0% vacancy and credit loss for the residential rent.

Operating Expenses

We made an extensive search for expense comparables for Brooklyn mixed-use properties. In our search, we used actual financial information filed with the Department of Finance from the owners or operators of comparable buildings. Owners of commercial buildings in New York City, when protesting their real estate taxes, are required by law to file a statement of their annual income and expenses to the Department of Finance. The expenses as filed reflect 100% of the building expenses. We used these filings to aid us in computing the most likely operating expenses for the office buildings. The expenses vary from building to building. Typical expenses paid by the landlord of an apartment building in this location include real estate taxes, heating, electric costs, water and sewer charges, management, insurance, and repairs and maintenance.

The subject hospital properties are exempt from real estate taxes and expenses such as fuel, insurance, management, and administrative costs are shared by multiple hospital buildings. In



the absence of actual expenses for the subject building, we used the comparables to establish market indicated expenses. The table below summarizes six walk-up mixed-use retail and residential properties and their expenses:

Walk-Up Mixed-Use Buildings

Address	1) 158 Hicks Street		2) 154 Hicks Street		3) 262 Henry Street		4) 111 Court Street		5) 222 Pacific Street		6) 155 Amity Street	
Property Description	4-story/12 apartments		4-story/4 apartments		4-story/6 apartments		4-story/7 apartments		5-story/10 apartments		4-story/16 apartments	
SF of GBA	6,345		4,015		5,250		18,500		8,420		8,000	
	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	\$8,004	\$1.26	\$11,526	\$2.87	\$4,500	\$0.86	\$53,880	\$2.91	\$17,277	\$2.05	\$10,215	\$1.28
Light & Power	\$7,349	\$1.16	\$7,456	\$1.86	\$500	\$0.10	\$2,284	\$0.12	\$2,252	\$0.27	\$3,019	\$0.38
Cleaning Contracts	\$2,750	\$0.43	\$3,772	\$0.94	\$3,587	\$0.68	\$0	\$0.00	\$0	\$0.00	\$9,600	\$1.20
Wages & Payroll	\$0	\$0.00	\$2,400	\$0.60	\$0	\$0.00	\$3,600	\$0.19	\$0	\$0.00	\$0	\$0.00
Repairs & Maintenance	\$19,433	\$3.06	\$2,986	\$0.74	\$1,013	\$0.19	\$71,800	\$3.88	\$28,546	\$3.39	\$5,306	\$0.66
Management & Admin.	\$17,047	\$2.69	\$2,000	\$0.50	\$0	\$0.00	\$30,000	\$1.62	\$9,780	\$1.16	\$12,109	\$1.51
Insurance	\$3,530	\$0.56	\$6,240	\$1.55	\$5,027	\$0.96	\$12,695	\$0.69	\$6,964	\$0.83	\$9,285	\$1.16
Water & Sewer	\$8,697	\$1.37	\$1,795	\$0.45	\$1,423	\$0.27	\$10,000	\$0.54	\$8,622	\$1.02	\$4,615	\$0.58
Advertising	\$0	\$0.00	\$2,458	\$0.61	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Int. Paint & Decorating	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$4,130	\$0.52
Leasing Commissions	\$0	\$0.00	\$0	\$0.00	\$4,100	\$0.78	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Miscellaneous	\$3,386	\$0.53	\$5,064	\$1.26	\$7,500	\$1.43	\$5,593	\$0.30	\$2,632	\$0.31	\$3,858	\$0.48
Expenses Before RE Tax	\$70,196	\$11.06	\$45,697	\$11.38	\$27,650	\$5.27	\$189,852	\$10.26	\$76,073	\$9.03	\$62,137	\$7.77
Real Estate Taxes	\$52,665	\$8.30	\$35,888	\$8.94	\$36,103	\$6.88	\$148,357	\$8.02	\$26,735	\$3.18	\$59,481	\$7.44
Total Expenses	\$122,861	\$19.36	\$81,585	\$20.32	\$63,753	\$12.14	\$338,209	\$18.28	\$102,808	\$12.21	\$121,618	\$15.20

WalkUp Mixed-Use Buildings

2011 Expenses	Average	Median	Maximum	Minimum
Fuel	\$1.87	\$1.66	\$2.91	\$0.50
Light & Power	\$0.65	\$0.32	\$1.86	\$0.10
Cleaning Contracts	\$0.54	\$0.56	\$1.20	\$0.36
Wages & Payroll	\$0.13	\$0.00	\$0.60	\$0.17
Repairs & Maintenance	\$1.99	\$1.90	\$3.88	\$0.19
Management & Admin.	\$1.25	\$1.34	\$2.69	\$0.26
Insurance	\$0.96	\$0.89	\$1.55	\$0.56
Water & Sewer	\$0.71	\$0.56	\$1.37	\$0.39
Advertising	\$0.10	\$0.00	\$0.61	\$0.26
Int. Paint & Decorating	\$0.09	\$0.00	\$0.52	\$0.00
Leasing Commissions	\$0.13	\$0.00	\$0.78	\$0.00
Miscellaneous	\$0.72	\$0.51	\$1.43	\$0.30
Expenses Before RE Tax	\$9.13	\$9.65	\$11.38	\$5.27
Real Estate Taxes	\$7.12	\$7.73	\$8.94	\$3.18
Total Expenses	\$16.25	\$16.74	\$20.32	\$12.14

Expenses Summary

The operating expenses for the selected comparable mixed-use properties ranged from \$5.27 to \$11.38 per square foot. Our estimate of operating expenses for the subject property is \$10.40 per square foot. The real estate taxes were based on the projected assessed value times the tax rate for a class 2 property which reflect \$5.00 per square foot. The comparable real estate taxes from the selected comparables ranged from \$3.18 to \$8.94 per square foot.

Derivation of Overall Capitalization Rates

In the Direct Capitalization Method of the Income Capitalization Approach, the net operating income derived from the property is converted into an estimate of value through the use of an Overall Capitalization Rate (OAR). Capitalization rates express the relation between net income and total value. The rate utilized must be consistent with and reflective of those rates currently used by investors active in the market place.

The two widely accepted techniques used to estimate an OAR are the market extraction technique and the survey technique. The former is the preferred method when sufficient data are available since the information is derived from actual transactions within the local market.

The market extraction technique is based on data from the sale of comparable properties in the local market. The OAR is derived by dividing the Net Operating Income by the purchase price of each comparable sale. Massey Knakal compiles statistics for apartment buildings. According to the statistics, the most recent average capitalization rate for walk-up buildings as of the first half of 2013 was 6.46% which was down 1.4% from the second half of 2012 at 6.55%.

The next table has sales of retail/residential buildings that sold in Brooklyn within the last two years. The capitalization rates range from 3.86% to 6.37% and average 4.96%.

<i>Capitalization Rates for Brooklyn Walk-Up Mixed-Use 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>
76-82 St. Marks Ave.	936/8	Retail/Residential	11,761	23,900	4/8/2013	7/3/2013	\$14,727,257	\$616.20	3.86%
146 Montague St.	249/34	Retail/Residential	2,614	5,828	2/13/2012	6/5/2012	\$4,795,000	\$822.75	6.37%
1279-81 Fulton St.	1848/14	Storefront	9,148	21,000	12/31/2012	12/31/2012	\$7,500,000	\$357.14	5.04%
1501 Kings Highway	6778/57	Retail/Residential	4,356	7,804	6/12/2012	7/18/2012	\$5,840,000	\$748.33	4.96%
125-127 5th Ave.	944/6	Retail/Residential	3,920	7,600	6/7/2012	7/25/2012	\$4,000,000	\$526.32	4.00%
706-708 4th Ave.	642/41	Retail/Residential	5,227	7,100	6/13/2013	10/4/2013	\$2,500,000	\$352.11	4.40%
149 4th Ave.	943/1	Retail/Residential	1,742	5,940	6/4/2012	8/3/2012	\$2,120,000	\$356.90	6.10%

The capitalization rate was selected based on the indications of surveyed rates, market data, and the following subject property's attributes and risks: 1) the popular location on the border of Park Slope and Prospect Heights in Brooklyn in a densely developed residential and commercial neighborhood, 2) demand for similar property types, 3) limited inventory of similar property types available for sale in the marketplace, and 4) high risk associated with redeveloping a property of this type. Primary consideration is given to the actual Brooklyn capitalization rates provided by Massey Knakal. Based on this analysis, we have chosen a capitalization rate of 6.5% for the subject property which is the higher end of the range of capitalization rates because of the risk involved in redeveloping the property.

Sales Comparison Approach – 336 Flatbush Avenue

The sales comparison approach is used in this appraisal report to determine an opinion of the value for the subject property. Primary consideration was given to sales of mixed-use buildings that occurred in the immediate neighborhood or in neighborhoods with similar characteristics. The following grid of comparable mixed-use building sales was used to determine the market value of the building located at 336 Flatbush Avenue. Refer to Volume III, Page 49, for detailed descriptions, photographs, and tax maps for the mixed-used building sales.

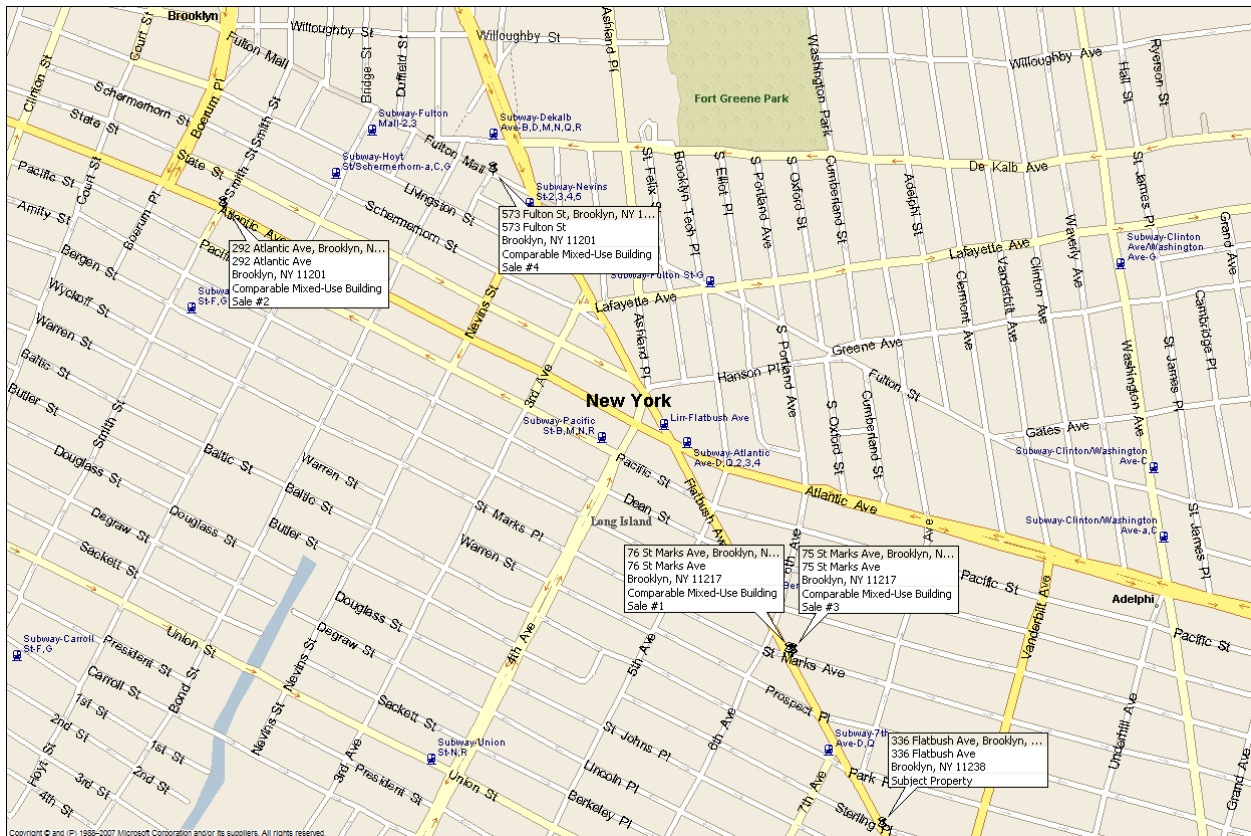
Comparable Sales Adjustment Grid

Mixed-Use Building Comparable Sales Adjustment Grid - 336 Flatbush Avenue

	Subject	Mixed Use 1	Mixed Use 2	Mixed Use 3	Mixed Use 4
Address	336 Flatbush Ave.	76-82 St. Marks Ave.	292-294 Atlantic Ave.	75 Saint Marks Ave.	573 Fulton St.
Neighborhood	Prospect Heights	Prospect Heights	Boreum Hill	Prospect Heights	Downtown
Block/Lot	1058/30	936/8	182/1	1143/91	149/22
Land Size	2,700	11,761	3,202	1,647	2,500
Frontage	28.92'	96'	40' & 80'	20'	20'
Zoning	R7A/C2-4	R6B	R6A	R7A	C6-4.5
Corner vs. Interior	Interior	Corner	Corner	Interior	Interior
Building Size	13,108	23,900	7,500	3,600	9,000
Occupancy at time of sale	As Vacant	100%	67%	100%	100%
Building Age	1920	1885	1900	1930	1915
# of Stories	5	5	4	3	5
Typical Floor Plate Size	2,622	4,780	1,875	1,200	1,800
Property Use	Mixed Use	Mixed Use	Mixed Use	Mixed Use	Mixed Use
Valuation/Contract Date	10/1/2013	4/8/2013	12/7/2011	11/19/2012	3/22/2013
Transfer Date		7/3/2013	12/7/2011	1/14/2013	5/14/2013
Sale Price		\$14,727,257	\$5,151,250	\$1,637,000	\$5,500,000
Sale Price per Sq. Ft. of GBA		\$616.20	\$686.83	\$454.72	\$611.11
Adjustments					
# of Months		6	22	10	6
Market Conditions	6.0% Annually	3.0%	11.0%	5.0%	3.0%
Adjusted Price per Sq. Ft.		\$634.69	\$762.39	\$477.46	\$629.44
Location		-5.0%	-5.0%	-5.0%	0.0%
Building Size		5.0%	-5.0%	-10.0%	-5.0%
Avenue vs Side Street		5.0%	0.0%	5.0%	0.0%
Occupancy		-20.0%	-20.0%	-20.0%	0.0%
Corner Influence		<u>-5.0%</u>	<u>-5.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total Adjustments		-20.0%	-35.0%	-30.0%	-5.0%
Adjusted Price per Sq. Ft.		\$507.75	\$495.55	\$334.22	\$597.97
Indicated Price per Sq. Ft.	\$500.00				
Indicated Value	\$6,554,000				
Cost to Renovate Building @ \$150.00 per SF	<u>-\$1,966,200</u>				
Indicated Value	\$4,587,800				
Rounded	\$4,600,000				
Indicated Value per Square Foot of GBA	\$350.93				



Comparable Sales Location Map



Explanation of Adjustments

We selected similar mixed-use building sales for direct comparison to the subject property. These sales are of mixed use buildings located Downtown Brooklyn, Boerum Hill, and Prospect Heights and they were contracted to sell between December 2011 and April 2013 with sales prices that range from \$1,637,000 to \$14,727,257 for unit prices that range from \$454.72 to \$686.83 per square foot.

Market Conditions

The time trend considers the appreciation and/or depreciation cycles in the market from the date of the sale of the comparables to the valuation date. Our estimate of the market conditions adjustment is 6.0% annually.

Location

Considerations for location offset the superiority or inferiority of the comparables' locations as compared to the subject's. As part of the determination of the location adjustment, consideration is given to the overall character and quality of surrounding properties and streets, accessibility, convenience to transportation, as well as differences in asking and actual rents (office and retail)

or condominium apartment values, when applicable.

The subject property is located on the border of Park Slope and Prospect Heights, a popular gentrified residential area of townhouses that is located close to downtown, subway access, and the network of highways surrounding the boroughs. The comparable sales are located in Downtown Brooklyn, Prospect Heights and Boerum Hill.

Building Size

Smaller buildings generally command a higher unit price per square foot than larger buildings due to a greater pool of competing potential buyers. The adjustments are made to the buildings to account for their size.

Avenue versus Side Street

Avenue locations such as the subject's Flatbush location have the advantage of heavy traffic and visibility and wide street with greater natural lighting.

Occupancy

The building is vacant and in need of extensive renovations. It will require some downtime in order to rehabilitate the building and find adequate retail and residential tenants.

Corner Influence

Corner locations have the advantages of greater exposure to pedestrian and vehicle traffic, better natural lighting, and greater air circulation for the upper level apartments.

Description of the Comparable Sales and Adjustments

Comparable Mixed-Use Building Sale #1 is the sale of a 11,761 square foot site with 96 feet of frontage at 76-82 St. Marks Avenue in Prospect Heights. The site is improved with a five-story, 23,900 square foot mixed use building that has retail uses on the first floor and apartments above. The sale was contracted on April 8, 2013 for \$14,727,257 which equates to a unit price of \$616.20 per square foot. At the time of sale the property was reportedly 100% occupied. After making the initial adjustments for market conditions, the sale was adjusted downward for its superior location along a busy stretch of retail activity. The sale was adjusted upward for its larger size and downward for its more-traveled street frontage and its corner location. The sale was adjusted downward to account for the subject's vacant condition and the time necessary to rehabilitate the building and find new tenants.

Comparable Mixed-Use Building Sale #2 is the sale of a four-story retail building with apartments over a store on the first floor located at 292-294 Atlantic Avenue. The 3,202 square foot site is improved with a 7,500 square foot building. The sale price of \$5,151,250 reflects a unit price of \$686.83 per square foot. After making the initial adjustment for market conditions,

the sale was adjusted downward for its superior location and downward for its smaller building size. The sale was also adjusted downward for its corner location. The sale was adjusted downward to account for the subject's vacant condition and the time necessary to rehabilitate the building and find new tenants.

Comparable Mixed-Use Building Sale #3 is the sale of a three-story building that is used as retail on the ground floor and apartments above. The comparable is located at 75 Saint Marks Avenue in prospect Heights and the sale price of \$1,637,000 indicates a unit price of \$454.72 per square foot. The contract date was November 19, 2012. After adjusting the comparable sale for market conditions, the sale was adjusted downward for its superior location along an active stretch of retail activity. The sale was adjusted downward for its smaller size and upward for its less traveled street. The sale was adjusted downward to account for the subject's vacant condition and the time necessary to rehabilitate the building and find new tenants.

Comparable Mixed-Use Building Sale #4 is the sale of a five-story mixed-use building that is located in the Downtown area at 573 Fulton Street. The building has retail use on the first floor and apartments above. The contract of March 22, 2013 indicated a sale price of \$5,500,000. The unit price is \$611.11 per square foot. After the initial market conditions adjustment, the sale was adjusted downward for its smaller size. The occupancy adjustment was not warranted because the sale building is bricked up and unoccupied.

After making all of the adjustments to the comparable sales, the range of adjusted prices was from \$334.22 to \$597.97 per square foot. The indicated value of the subject property is \$500 per square foot and it is calculated as follows:

$$\text{\$500.00 per square foot} \times 13,108 \text{ square feet} = \text{\$6,554,000}$$

Because the building is uninhabitable in its present condition, we deducted the cost to rehabilitate the building at an estimate of \$150.00 per square foot. Based on this analysis and our conclusions, the indicated market value of the subject property via the sales comparison approach as of October 1, 2013, is rounded to \$4,600,000.

Property Description – 184 Sterling Place

Site

The subject site is located on the west side of Sterling Place where it meets Flatbush Avenue on the easterly edge of the Park Slope section of Brooklyn. The street is a cross street that generally has walk-up townhouse buildings and it is located two blocks north of the Grand Army Plaza. The irregular site has frontage of 38.92 feet and depth of 135.42 feet for a total land area of 4,885 square feet. Site improvements include concrete sidewalks and curbs.

The subject site is zoned R7A with a C2-4 overlay with a residential FAR of 4.0. The maximum potential development of the site is 19,540 square feet. As improved with a 6,511 square foot building, the site is under improved. The excess TDRs may be sold to and used by an adjacent property owner.

Building Improvements

The site is improved with a two story and basement medical office building that was originally constructed circa 1930 and has 6,511 square feet of building. The first floor interior is connected to an adjacent building at 336 Flatbush Avenue and used together as a medical office facility for kidney dialysis. The main entrance to 184 Sterling Place is via 336 Flatbush Avenue, the subject building's main entrance on Sterling Place having been closed. The first floor covers the entire lot and the second floor is on approximately 1/3 of the front of the lot.

Façade: The building's front façade is a very attractive decorative stone with metal framed reflective windows. The rear façade is brick and the office windows are metal framed double hung style. The flat roof is reportedly in good condition.

First Floor: The first floor is divided into two large rooms. Both parts have dialysis chairs lining the perimeter of the rooms and a receptionist area at the center. The rooms have storage areas, public lavatories, vinyl tiled floors, and drop ceiling tiles with recessed fluorescent lighting fixtures.

Second Floor: The second level is accessed by an interior stairway and an elevator. The second floor is approximately 1/3 of the size of the first floor and it is exclusively used for administrative and doctor's offices, file rooms, a staff lounge, and lavatories. The offices have stationary partitions, carpeted and vinyl flooring, and painted walls. The ceilings have drop tiles with recessed fluorescent lighting.

Basement: The basement stores kidney dialysis equipment that includes water softeners, three hot water storage tanks, and various storage areas that are protected by chain link fencing.

Mechanicals: The building is serviced by a 2,100 lb. capacity hydraulic elevator that has a metal cab. The elevator was not working as of the inspection date. The building is sprinklered in the basement and on the first floor. The HVAC system provides for heat and air conditioning in the adjacent building's first floor at 336 Flatbush Avenue. It is a gas-fired boiler in the basement with air conditioning units on the roof.

Assessment and Estimated Real Estate Taxes

The actual and transitional assessed values for 2013/2014 are summarized in the table below.

<u>184 Sterling Place</u>	<u>Block 1058</u>	<u>Lot 28</u>
2013/2014	Actual	Transitional
Land	\$207,450	\$205,470
Improvements	<u>\$345,150</u>	<u>\$333,990</u>
Total	\$552,600	\$539,460
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$55,500	
Assessor's 100% Market Value	\$1,228,000	

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 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 tax lot Block 1058 Lot 28 for tax year 2013/2014 based on the 2012/2013 Class 2 tax rate of 13.181% is \$55,500 which equates to \$8.52 per square foot.

Zoning

The subject property is located in an R7A zone with a C2-3 commercial overlay. The residential FAR is 4.0 for a total potential development of 19,540 square feet. The commercial FAR is 2.0 and the community facility use is 4.0.

The building is slated to be included in the Park Slope Historic District Extension II. The designation by the Landmarks Preservation Commission will restrict the possible uses of the building and there will be restrictions on altering the building and making full use of the excess TDRs. The TDRs may be sold to and used by an adjacent property owner.

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”.

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 R7A residential zone with a C2-4 commercial overlay which permits residential and community facility uses with an FAR of 4.0. The commercial FAR is 2.0. The as-of-right maximum residential and community facility permitted use for the 4,885 square foot site is 19,540 square feet of floor area. 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 R7A zone. The pending designation as an extension of the Park Slope Historic District will restrict potential uses of the site. Demolition of the building and building additions that are visible from the street will probably be denied.

Physically Possible

The configuration of the site is such that a variety of development types, including residential, community facility, and retail, are physically possible.

Financially Feasible

Residential, office, or retail uses 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 if the site is vacant is residential use with retail along the grade level.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a two-story medical office building, and the site is slated to be included in the Park Slope Historic District. As a designated landmark, the Landmarks Preservation Commission (LPC) will restrict alterations or additions made to the building. The subject property is located in an R7A residential zone which permits residential and community facility uses. As-of-right 4.0 FAR or 19,540 square feet is the maximum development potential for residential use. However, it is unlikely the LPC would permit use of the entire FAR. The excess TDRs may be sold to and used by an adjacent property owner.

Physically Possible

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

existing building at 6,511 square feet is under built.

Financially Feasible

Residential use would not be financially feasible because it would require expanding the building to the maximum permitted FAR. Such expansion would not likely be permitted by the property’s pending landmark status.

In the analysis of building as medical offices or community facility the two valuation methods produced positive investment returns indicating use as continued medical offices or community facility are financially feasible.

<i>184 Sterling Place - Medical Office Building</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Medical Office Building	Direct Capitalization	\$2,500,000
Medical Office Building	Sales Comparison Approach	\$2,600,000

Maximally Productive

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

Approaches to Value – 184 Sterling Place

While all three valuation methods were considered in the valuation of the medical office building, direct capitalization in the income approach was used to indicate its value to its highest and best use. The sales comparison approach was also used to indicate the value as a medical office building. The cost approach was not used to value the subject because the advanced age of the building and the difficulty in estimating depreciation of commercial buildings in the cost approach. We concluded the highest and best use of the building and the use that produced the greatest return on the investment was continued use as a medical office building.

Direct Capitalization – 184 Sterling Place

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. We used direct capitalization to estimate the value of the commercial condominium in its current configuration.

Applying an overall capitalization rate of 5.5% to the projected NOI of \$162,403 results in a value of \$2,952,777. Because it would take at least six months to find a tenant, upgrade the building, and lease the space, we deducted the lost rent over the period, free rent for three months for the offices, and leasing commissions of 32.0% of the first year’s rent. We also deducted a work letter for \$25.00 per square foot. The indicated value was rounded to \$2,500,000.

184 Sterling Place - Medical Offices

6,511 sq. ft. GBA

Income

Income from Office	@	\$45.00 per sq. ft.	\$292,995
Less Vacancy & Credit Loss	@	10.00%	<u>-\$29,300</u>
Effective Gross Income			\$263,696

Expenses

		per sq. ft.	
Operating Expenses	@	\$10.00	\$65,110
Miscellaneous	@	\$0.31	\$2,000
Resesrves for Replacements	@	\$0.25	\$1,628
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$32,555</u>
Total Expenses		\$15.56	\$101,293

Net Operating Income \$162,403

Capitalization Rate 5.50%

"As Stabilized" Market Value	\$2,952,777
Less: Rent Loss (Year 1: 50% Leased)	-\$146,498
Less: Work Letters (\$25 Per Sq.Ft.)	-\$162,775
Less: 3 Months of Free Rent	-\$73,249
Less: Leasing Commissions (32% of 1st Year Rent)	<u>-\$93,758</u>
"As Is" Market Value	\$2,476,498
Rounded	\$2,500,000
Indicated Value Per Square Foot of GBA	\$383.97

Potential Gross Income

The subject property is owner-occupied and used as a kidney dialysis center. We made a search for comparable Brooklyn medical office asking rents which are displayed on the following tables so that we can determine the market rent for the offices at 184 Sterling Place. The rents were adjusted downward at the rate of -3.0% for a negotiability factor. The contract rent would likely be negotiated downward in the process of securing a tenant. The adjusted rents range from \$33.96 to \$46.56 per square foot and average \$39.54 per square foot. Our estimate for the medical office rent is \$45.00 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

Vacancy and Credit Loss

A typical landlord anticipates some vacancy and credit loss for turnover time and loss of rent while searching for new tenants. We applied 10.0% vacancy and credit loss for the gross rent from the office.

Operating Expenses

We made an extensive search for expense comparables for Brooklyn office properties. In our search, we used actual financial information filed with the Department of Finance from the owners or operators of comparable buildings. Owners of commercial buildings in New York City, when protesting their real estate taxes, are required by law to file a statement of their annual income and expenses to the Department of Finance. The expenses as filed reflect 100% of the building expenses. We used these filings to aid us in computing the most likely operating expenses for the office buildings. The expenses vary from building to building. Typical expenses paid by the landlord of an apartment building in this location include real estate taxes, heating, electric costs, water and sewer charges, management, insurance, and repairs and maintenance.

The subject hospital-owned properties are exempt from real estate taxes and expenses such as fuel, insurance, management, and administrative costs are shared by multiple hospital buildings. In the absence of actual expenses for the subject building, we used the comparables to establish market indicated expenses. The table below summarizes six office properties and their expenses:



Small Office Buildings

Address	1) 340 Livingston Street		2) 100 Livingston Street		3) 150 Atlantic Avenue		4) 35 4th Avenue		5) 1024 Manhattan Ave		6) 378-80 Grove Street	
Property Description	4-story office		4-story office		2-story office		2-story office		1-story office		1-story office	
SF of GBA	16,570		12,681		12,650		24,960		1,875		6,758	
	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	\$7,436	\$0.45	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$19,416	\$2.87
Light & Power	\$15,739	\$0.95	\$4,110	\$0.32	\$23,020	\$1.82	\$0	\$0.00	\$605	\$0.32	\$599	\$0.09
Cleaning Contracts	\$19,415	\$1.17	\$0	\$0.00	\$1,426	\$0.11	\$0	\$0.00	\$787	\$0.42	\$0	\$0.00
Wages & Payroll	\$0	\$0.00	\$47,213	\$3.72	\$19,970	\$1.58	\$130,800	\$5.24	\$0	\$0.00	\$0	\$0.00
Repairs & Maintenance	\$55,702	\$3.36	\$4,243	\$0.33	\$11,487	\$0.91	\$105,761	\$4.24	\$3,771	\$2.01	\$22,189	\$3.28
Management & Admin.	\$18,567	\$1.12	\$34,498	\$2.72	\$28,602	\$2.26	\$0	\$0.00	\$5,254	\$2.80	\$0	\$0.00
Insurance	\$12,019	\$0.73	\$5,105	\$0.40	\$11,404	\$0.90	\$55,695	\$2.23	\$2,648	\$1.41	\$5,761	\$0.85
Water & Sewer	\$2,489	\$0.15	\$5,027	\$0.40	\$15,252	\$1.21	\$0	\$0.00	\$155	\$0.08	\$0	\$0.00
Advertising	\$1,462	\$0.09	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$433	\$0.23	\$0	\$0.00
Int. Paint & Decorating	\$0	\$0.00	\$0	\$0.00	\$26,701	\$2.11	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Leasing Commissions	\$0	\$0.00	\$13,782	\$1.09	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Miscellaneous	\$3,579	\$0.22	\$17,050	\$1.34	\$18,859	\$1.49	\$1,784	\$0.07	\$1,560	\$0.83	\$10,855	\$1.61
Expenses Before RE Tax	\$136,408	\$8.23	\$131,028	\$10.33	\$156,721	\$12.39	\$294,040	\$11.78	\$15,213	\$8.11	\$58,820	\$8.70
Real Estate Taxes	\$125,063	\$7.55	\$127,157	\$10.03	\$98,860	\$7.82	\$239,360	\$9.59	\$10,630	\$5.67	\$46,426	\$6.87
Total Expenses	\$261,471	\$15.78	\$258,185	\$20.36	\$255,581	\$20.20	\$533,400	\$21.37	\$25,843	\$13.78	\$105,246	\$15.57

Expenses Summary

The operating expenses for the selected comparable professional office properties ranged from \$8.11 to \$12.39 per square foot. Our estimate of operating expenses for the subject property is \$10.56 per square foot. The real estate taxes were based on the projected assessed value times the tax rate for a class 2 property which reflect \$5.00 per square foot. The comparable real estate taxes from the selected comparables ranged from \$5.67 to \$10.03 per square foot.

Small Office Buildings

2011 Expenses	Average	Median	Maximum	Minimum
Fuel	\$0.55	\$0.00	\$2.87	\$0.50
Light & Power	\$0.58	\$0.32	\$1.82	\$0.00
Cleaning Contracts	\$0.28	\$0.06	\$1.17	\$0.36
Wages & Payroll	\$1.76	\$0.79	\$5.24	\$0.17
Repairs & Maintenance	\$2.36	\$2.65	\$4.24	\$0.33
Management & Admin.	\$1.48	\$1.69	\$2.80	\$0.26
Insurance	\$1.09	\$0.88	\$2.23	\$0.40
Water & Sewer	\$0.31	\$0.12	\$1.21	\$0.39
Advertising	\$0.05	\$0.00	\$0.23	\$0.26
Int. Paint & Decorating	\$0.35	\$0.00	\$2.11	\$0.00
Leasing Commissions	\$0.18	\$0.00	\$1.09	\$0.00
Miscellaneous	\$0.93	\$1.09	\$1.61	\$0.07
Expenses Before RE Tax	\$9.93	\$9.52	\$12.39	\$8.11
Real Estate Taxes	\$7.92	\$7.68	\$10.03	\$5.67
Total Expenses	\$17.85	\$17.99	\$21.37	\$13.78

Derivation of Overall Capitalization Rates

In the Direct Capitalization Method of the Income Capitalization Approach, the net operating income derived from the property is converted into an estimate of value through the use of an Overall Capitalization Rate (OAR). Capitalization rates express the relation between net income

and total value. The rate utilized must be consistent with and reflective of those rates currently used by investors active in the market place.

The two widely accepted techniques used to estimate an OAR are the market extraction technique and the survey technique. The former is the preferred method when sufficient data are available since the information is derived from actual transactions within the local market.

The market extraction technique is based on data from the sale of comparable properties in the local market. The OAR is derived by dividing the Net Operating Income by the purchase price of each comparable sale.

Massey Knakal compiled statistics for office buildings that sold in Brooklyn within the last two years. The capitalization rates range from 6.40% to 7.09% and average 7.04%.

<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%

The capitalization rate was selected based on the indications of surveyed rates, market data, and the following subject property's attributes and risks: 1) the popular location on the border of Park Slope and Prospect Heights in Brooklyn in a densely developed residential and commercial neighborhood, 2) demand for similar property types, 3) limited inventory of similar property types available for sale in the marketplace, and 4) the potential to sell the excess TDRs to an adjacent property owner. Based on this analysis, we have chosen a capitalization rate of 5.5% for the subject property which is below the range of capitalization rates because of the potential to sell the excess TDRs to an adjacent property owner.

Sales Comparison Approach – 184 Sterling Place

The sales comparison approach is used in this appraisal report to determine an opinion of the value for the subject property. Primary consideration was given to sales medical office buildings that occurred in the immediate neighborhood or in neighborhoods with similar characteristics. The following comparable sales adjustment grid of comparable medical office building sales was used to determine the market value of the building located at 184 Sterling Place. Volume III, Page 12, contains complete descriptions, photographs, and tax maps for the comparable medical building sales used in the grid below.

Comparable Sales Adjustment Grid

Office Building Comparable Sales Adjustment Grid - 184 Sterling Place

	Subject	Office - 1	Office - 2	Office - 3	Office - 4	Office - 5
Address	184 Sterling Place	1302 Kings Hwy	2095 Flatbush Ave.	1517 Voorhies St.	104 Gold Street	1413-21 Fulton St.
Neighborhood	Flatbush	Gravesend	Flatlands	Sheepshead Bay	Dumbo	Bedford Stuyvesant
Block/Lot	1058/28	6796/1	7869/1	7459/59	55/34	1854/52
Land Size	4,885	12,933	27,878	3,202	7,096	10,245
Frontage	38.92'	21.25' & 79'	155.08' & 180'	32'	55.5' & 127.83'	107.67'
Zoning	R7A	C4-4A	R3-2	C4-2	R6A	R7D/C2-4
Corner vs. Interior	Interior	Corner	2 Corners	Interior	Corner	Interior
Building Size	6,511	16,600	7,500	7,781	16,173	10,245
Occupancy at time of sale	As Vacant	80%	100%	100%	100%	100%
Building Age	1931	1925	1986	2001	1972	1931
# of Stories	2	6	1	4	3	1
Typical Floor Plate Size	3,256	3,300	7,500	3,135	6,126	10,247
Property Use - Medical Office	Class C Medical	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		\$602.41	\$826.67	\$555.84	\$272.06	\$322.11
Adjustments						
# 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.		\$647.59	\$880.40	\$539.17	\$263.90	\$355.93
Location		0.0%	0.0%	5.0%	0.0%	5.0%
Building Size		5.0%	0.0%	0.0%	5.0%	0.0%
Quality & Condition		-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
Avenue vs Side Street		-5.0%	-5.0%	0.0%	0.0%	0.0%
Corner Influence		<u>-5.0%</u>	<u>-10.0%</u>	<u>0.0%</u>	<u>-5.0%</u>	<u>0.0%</u>
Total Adjustments		-25.0%	-35.0%	-15.0%	-20.0%	-15.0%
Adjusted Price per Sq. Ft.		\$485.69	\$572.26	\$458.29	\$211.12	\$302.54
Indicated Price per Sq. Ft.	\$400.00					
Indicated Value	\$2,604,400					
Rounded	\$2,600,000					
Indicated Value per Sq. Ft.	\$399.32					



Comparable Sales Location Map



Explanation of Adjustments

We selected medical office building sales for direct comparison to the subject property. These sales are of medical office buildings located in the Gravesend, Flatlands, Sheepshead Bay, Dumbo, and Bedford Stuyvesant districts of Brooklyn, and they were contracted to sell between December 2011 and April 2013 with sales prices that range from \$3,300,000 to \$10,000,000 for unit prices that range from \$272 to \$827 per square foot.

Market Conditions

The time trend considers the appreciation and/or depreciation cycles in the market from the date of the sale of the comparables to the valuation date. Our estimate of the market conditions adjustment is 6.0% annually.

Location

Considerations for location offset the superiority or inferiority of the comparables' locations as compared to the subject's. As part of the determination of the location adjustment, consideration is given to the overall character and quality of surrounding properties and streets, accessibility, convenience to transportation, as well as differences in asking and actual rents (office and retail)

or condominium apartment values, when applicable.

The subject property is located on the border of Park Slope and Prospect Heights, a popular gentrified residential area of townhouses that is located close to downtown, subway access, and the network of highways surrounding the boroughs. The comparable sales are located throughout various neighborhoods in Brooklyn. The more remote locations in Brooklyn were adjusted upward.

Building Size

Smaller buildings generally command a higher unit price per square foot than larger buildings due to a greater pool of competing potential buyers. The adjustments are made to the buildings to account for their size.

Avenue versus Side Street

Avenue locations such as the subject's Flatbush location have the advantage of heavy traffic and visibility and wide street with greater natural lighting.

Quality & Condition

The building is in need of modest renovations and upgrades. The comparables were adjusted downward to account for the subject's inferior condition.

Corner Influence

Corner locations have the advantages of greater exposure to pedestrian and vehicle traffic, better natural lighting, and greater air circulation for the upper level apartments.

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 upward for its larger building size and downward for the subject's inferior condition. The sale was adjusted downward for its prominent thoroughfare location with heavy traffic and downward for its corner location.

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 gross building area of 7,500 square feet. 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 downward for its prominent street location and downward for its corner advantage. The sale was also adjusted downward

due to the subject's inferior condition.

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 inferior location. The sale was adjusted downward for the subject's inferior condition.

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 16,173 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 upward for its larger building size and downward for its corner location. The sale was adjusted downward to reflect the subject's inferior condition.

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 the subject's inferior condition.

After making the adjustments to the comparable medical office building sales, the range of unit prices are from \$211 to \$572 per square foot and averages \$405.98 per square foot. The median adjusted price is \$458.29 per square foot. The indicated value of the subject property is \$400.00 per square foot and it is calculated as follows:

$$6,511 \text{ square feet} \times \$400.00 \text{ per square foot} = \$2,600,000 \text{ rounded}$$

The indicated fair market value of the subject property via the sales comparison approach as of October 1, 2013, is \$2,600,000

PROPERTY DESCRIPTIONS, TAXES, ZONING AND HIGHEST AND BEST USE

112 PACIFIC STREET

Subject Photograph



112 Pacific Street as viewed from Pacific Street

offices are older styled and have modest finishes.

Second Floor: This level has classrooms and small offices. The rooms have the same modest finishes.

Third Floor: This floor was partially remodeled and it has newer offices.

Floors Four & Five: These floors are vacant and have been neglected for a long time. Some of the windows are broken and the roof obviously needs to be replaced. The former animal research lab is deteriorated and uninhabitable in its present condition.

Mechanicals: The building has one 1,800 lb. capacity elevator that serves all five floors. The building is heated by three boilers located in the basement which also heats the adjacent medical office building at 349 Henry Street. There is an 1,100 gallon heating oil tank. The building is cooled by window air conditioning units, and there are package units for the third floor.

Façade and Roof: The building has a brick façade and an exterior stairway on the westerly side of the building. The roof is in deteriorated condition and in need of replacement. The windows are single pane windows.

Assessment and Real Estate Taxes:

<u>112 Pacific Street</u>	<u>Block 291</u>	<u>Lot 8</u>
2013/2014	Actual	Transitional
Land	\$323,550	\$330,570
Improvements	<u>\$541,800</u>	<u>\$507,060</u>
Total	\$865,350	\$837,630
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$86,175	
Assessor's 100% Market Value	\$1,923,000	

Comments: The hospital started to rehabilitate the building and installed a new elevator that serves all five floors a few years ago. The third floor in particular has been restored. The fourth and fifth floors are in very poor condition and are not currently habitable.

Zoning – 112 Pacific Street

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 ratio (FAR) of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a land area of 9,142 square feet. The property’s gross building area of 10,000 square feet is equivalent to an FAR of 1.09. The property is, therefore, under built.

Only residential and community facility uses are permitted in an R6 zone.

Highest and Best Use – 112 Pacific Street

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”.¹⁰

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 if Vacant

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 development permitted for the 9,142 square foot site is 22,215 square feet for residential use and 43,882 square feet for 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 residential development to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a 5-story administrative offices building that is built below 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, the existing structure could be used as a community facility or converted to residential use. If the existing improvements were demolished, the site could be redeveloped as a residential property that is more than two times the size of the existing structure or as a community facility property that is more than four times the size of the existing structure.

¹⁰ The Appraisal of Real Estate, 13th Edition, 2008, Page 277

Physically Possible

The existence of the improvements attests to the physical possibility of using the existing building or redeveloping the site. The expenses required to remediate the poor condition of the fourth and fifth floors as well as the roof need to be taken into account if considering the continued use of the existing improvements.

Financially Feasible

In the valuation section, we estimated the value of the subject property for office use or as a residential development site. Both uses produced a positive investment return and are, therefore financially feasible.

<i>112 Pacific Street</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Office Building	Direct Capitalization	\$1,700,000
Residential Development Site	Sales Comparison	\$5,000,000
Reconciled Value - Highest & Best Use		\$5,000,000

Maximally Productive

Demand for residential condominiums in Brooklyn is strong and supported by statistics presented earlier in this report. The values shown above reflect the large renovation costs that would be required to continue using the existing building and the higher value of the property as a development site because it would take full advantage of the maximum FAR permitted by zoning. As currently improved with a 10,000 square foot building and with the park easement giving the city full use of the frontage along Henry Street, the maximum potential development site is 22,215 square feet for residential use. While the park cannot be used in the residential development, the TDRs above the park are included in the development potential.

The maximally productive use, the use that produces the greatest return to an investor, is, therefore, to demolish the existing structure and redevelop the site for residential use.

385-389 HICKS STREET

Subject Photograph and Tax Map – 385-389 Hicks Street



385-389 Hicks Street as viewed from Hicks Street



Block 295 Lot 3



Property Description – 385-389 Hicks Street

Site

The subject is rectangular site located on the east side of Hicks Street between Congress and Amity Streets in the Cobble Hill section of Brooklyn. The street is a major northbound thoroughfare that runs parallel to Route 278 Brooklyn-Queens Expressway with access to the expressway at Atlantic Avenue, two blocks to the north. The subject site has frontage of 75 feet and depth of 102 feet for a total land area of 7,650 square feet. Site improvements include concrete sidewalks and curbs and are minimal because the building covers the entire lot.

Building Improvements

The site is improved with a one-story office building that is used to house some of the engineering or construction shops for the hospital. The overall condition of the improvements is fair with deteriorated interior finishes and fixtures, dated mechanicals, and an overall dated appearance.

Basement: While there is not a full basement, there was reportedly a small lower level area (12' x 12') that is accessed from the street.

First Floor: The building contains 7,650 square feet of gross building area. It has a brick façade and metal framed windows. The building uses include a carpenter's shop, plumbing shop, electrical supplies room, a lock smith room, and biomed offices. There are some lavatories, locker rooms, and individual offices throughout the building. The ceilings have acoustical tile and fluorescent tube lighting. The condition of the building is very old with floor and wall coverings appearing dated and worn. Some of the rooms have movable partitions for offices, and there are a variety of different sized of rooms.

Mechanicals: The building HVAC consists of two rooftop, gas-fired heating and cooling units. The building has a flat roof. Water stains, presumably from roof leaks, were noted on the acoustical ceiling tiles during our inspection. Access to the building is on Hicks Street and there is a side door that provides access to the rear yards of the Amity Street hospital properties.

Assessment and Real Estate Taxes:

<u>385-389 Hicks Street</u>	<u>Block 295</u>	<u>Lot 3</u>
2013/2014	Actual	Transitional
Land	\$242,100	\$244,080
Improvements	<u>\$134,100</u>	<u>\$120,330</u>
Total	\$376,200	\$364,410
Tax Class	4	
2012/2013 Tax Rate	10.288%	
Estimated Real Estate Taxes	\$37,491	
Assessor's 100% Market Value	\$836,000	

Zoning – 385-389 Hicks Street

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 ratio (FAR) of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a land area of 7,650 square feet. The property's gross building area of 7,650 square feet is equivalent to an FAR of 1.0. The property is, therefore, under built.

Only residential and community facility uses are permitted in an R6 zone.

Highest and Best Use – 385-389 Hicks Street

The following is an analysis of the subject property's highest and best as if vacant and as improved.

Highest and Best Use as if Vacant

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 development permitted for the 7,650 square foot site is 18,590 square feet for residential use and 36,720 square feet for community facility use.

Physically Possible

The rectangular shape of the subject site would provide an efficient layout for 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 residential development to the maximum bulk permitted by Zoning Regulations.

Highest and Best Use as Improved

Legally Permissible

The subject property is currently improved with a 1-story building maintenance support building that is built below 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, the existing structure could be used as a community facility or converted to residential use. If the existing improvements were demolished, the site could be redeveloped as a residential property

that is more than two times the size of the existing structure or as a community facility property that is more than four times the size of the existing structure.

Physically Possible

The existence of the improvements attests to the physical possibility of using the existing building or redeveloping the site. The expenses required to renovate the existing improvements need to be taken into account if considering their continued use.

Financially Feasible

After considering the need for major repairs to the existing improvements and the fact that a residential building of more than double the size of the existing improvements can legally be built on the site, the replacement of the existing improvements with a multi-family development is the only use that is financially feasible.

Maximally Productive

Demand for residential condominiums in Brooklyn is strong and supported by statistics presented earlier in this report. The maximally productive use, the use that produces the greatest return to an investor, is, therefore, to demolish the existing structure and redevelop the site for residential use.

VALUATION

112 PACIFIC STREET

We employed the income capitalization approach to test the value of the subject property in its current use as an office building in order to determine its highest and best use. We concluded that the highest and best use of the subject property is as a residential development site because it produces a higher value than its use as an office building. The concluded value of the subject property as a residential development site was determined by the sales comparison approach and its analysis of comparable residential land sales.

The Income Approach

In the income approach, a market value estimate of the subject property was determined using the direct capitalization technique. Direct capitalization is the process of converting stabilized net operating income (NOI) into a capitalized value using an overall capitalization rate indicated by the market for similar residential properties.

Direct Capitalization – Continued Use as Office Building

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.¹¹ We used direct capitalization to estimate the value of 112 Pacific Street as if converted to a multi-tenant office building.

Applying an overall capitalization rate of 6.00% to the projected NOI of \$205,500 results in a value of \$3,425,000. It would require approximately two years to renovate and lease the offices. 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. We also deducted the cost to renovate and convert the administration building into a multi-tenant office building at the rate of \$125.00 per square foot. The indicated value was rounded to \$1,300,000.

<u>112 Pacific Street - Offices</u>	10,000	sq. ft. GBA		
Income				
Income from Office	@	\$40.00 per sq. ft.		\$400,000
Less Vacancy & Credit Loss	@	10.00%		<u>-\$40,000</u>
Effective Gross Income				\$360,000
Expenses				
Operating Expenses	@	\$10.00	\$100,000	
Miscellaneous		\$0.20	\$2,000	
Reserves for Replacements	@	\$0.25	\$2,500	
Real Estate Taxes	@	<u>\$5.00</u>	<u>\$50,000</u>	
Total Expenses		\$15.45		\$154,500
Net Operating Income				\$205,500
Capitalization Rate				6.00%
"As Stabilized" Market Value				\$3,425,000
Less: Rent Loss (Year 1: 50% Leased)		50%		-\$300,000
Less: Rent Loss (Year 2: 100% Leased)		100%		-\$100,000
Less: Work Letters (\$25 Per Sq.Ft.)				-\$250,000
Less: 3 Months of Free Rent				-\$100,000
Less: Leasing Commissions (32% of 1st Year Rent)				-\$128,000
Less Cost to Renovate the Building @ \$125.00 per square foot				<u>-\$1,250,000</u>
"As Is" Market Value				\$1,297,000
Rounded				\$1,300,000

Potential Gross Income

To arrive at an indication of market rent for the subject property, 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. 112 Pacific Street has a rentable area of 10,000 square feet on five floors. Contract rents for offices were adjusted to indicate a rent for the subject's conversion to a multi-tenant office building.

¹¹ The Appraisal of Real Estate, 13 Edition, 2008, Page 499

<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. After adjusting the rents for market conditions, the rents were adjusted for condition and office size. 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. Therefore, location adjustments are not warranted for any of the office rents surveyed.

<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>Condition</i>	<i>Size</i>	<i>Total Adjustments</i>	<i>Adjusted Rent/SF</i>
32 Court Street	32	8.0%	\$28.08	10.0%	-5.0%	5.0%	\$29.49
15 MetroTech Center	28	7.0%	\$23.54	10.0%	5.0%	15.0%	\$27.07
2 MetroTech Center	28	7.0%	\$31.03	10.0%	5.0%	15.0%	\$35.68
16 Court Street	26	6.5%	\$34.07	10.0%	-5.0%	5.0%	\$35.78
16 Court Street	26	6.5%	\$34.07	10.0%	-5.0%	5.0%	\$35.78
4 MetroTech Center	24	6.0%	\$24.38	10.0%	5.0%	15.0%	\$28.04
4 MetroTech Center	24	6.0%	\$21.20	10.0%	5.0%	15.0%	\$24.38
55 Washington Street	20	5.0%	\$24.67	10.0%	0.0%	10.0%	\$27.13
16 Court Street	10	2.5%	\$36.91	10.0%	0.0%	10.0%	\$40.60
175 Remsen Street	10	2.5%	\$28.19	10.0%	0.0%	10.0%	\$31.01
20 Jay Street	6	1.5%	\$32.77	10.0%	-5.0%	5.0%	\$34.40
25 Chapel Street	6	1.5%	\$23.85	10.0%	-5.0%	5.0%	\$25.05
16 Court Street	6	1.5%	\$34.26	10.0%	-5.0%	5.0%	\$35.97
16 Court Street	3	0.8%	\$35.29	10.0%	-5.0%	5.0%	\$37.06

After making all of the adjustments to the contract rents, the adjusted rents ranged from \$24.38 to \$40.60 per square foot and averaged \$31.96 per square foot. The median rent was \$32.71 per square foot.

Based on this analysis of contract office rents, we selected \$40.00 per square foot for the office rent at 112 Pacific Street. We have concluded to a value at the high end of the range of adjusted values because our valuation assumes that the subject property would be newly renovated and capable of commanding high rental rates.

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.

<u>Office Buildings</u>												
Address	1) 146 Concord Street		2) 57-63 Willoughby St.		3) 81 Willoughby Street		4) 240 Livingston Street		5) 32 Court Street		6) 175 Remsen 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	\$282,585	\$0.91	\$1,141	\$0.01	\$0	\$0.00	\$107,919	\$0.35	\$0	\$0.00	\$0	\$0.00
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	\$4.78	\$112,467	\$1.16	\$210,804	\$2.85	\$1,029,088	\$3.35	\$668,224	\$6.07	\$675,587	\$5.22
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 \$10.00 per square foot for operating expenses and \$5.00 per square foot for real estate taxes for the subject property. Additionally, we have included an expense allowance of \$0.25 per square foot for reserves and \$0.20 per square foot for miscellaneous expenses.

<i>Brooklyn Office Buildings Expenses Per Sq. Ft.</i>				
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. We have selected a capitalization rate of 6.0% in our analysis which is toward the lower end of the range of observed rates. This is to reflect the fact that the subject building is already partially used as administrative offices and would not require extensive reconfiguration to become a competitive office property in the Cobble Hill market.

Renovation Costs

Earlier in this report, Marshall & Swift Segregated Cost Estimates were used to indicate that the cost to convert the existing hospital buildings into medical offices would be \$150.00 per square foot. We anticipate that renovating the subject property for office use would be less costly because the building and its mechanical systems are already configured for office use. Additionally, medical office building construction is inherently more expensive due to the extra plumbing and specialty finishes that are required for that specific use. Therefore, our estimate to renovate the subject for office use is estimated at \$125.00 per square foot.

Conclusion: Income Approach – 112 Pacific Street

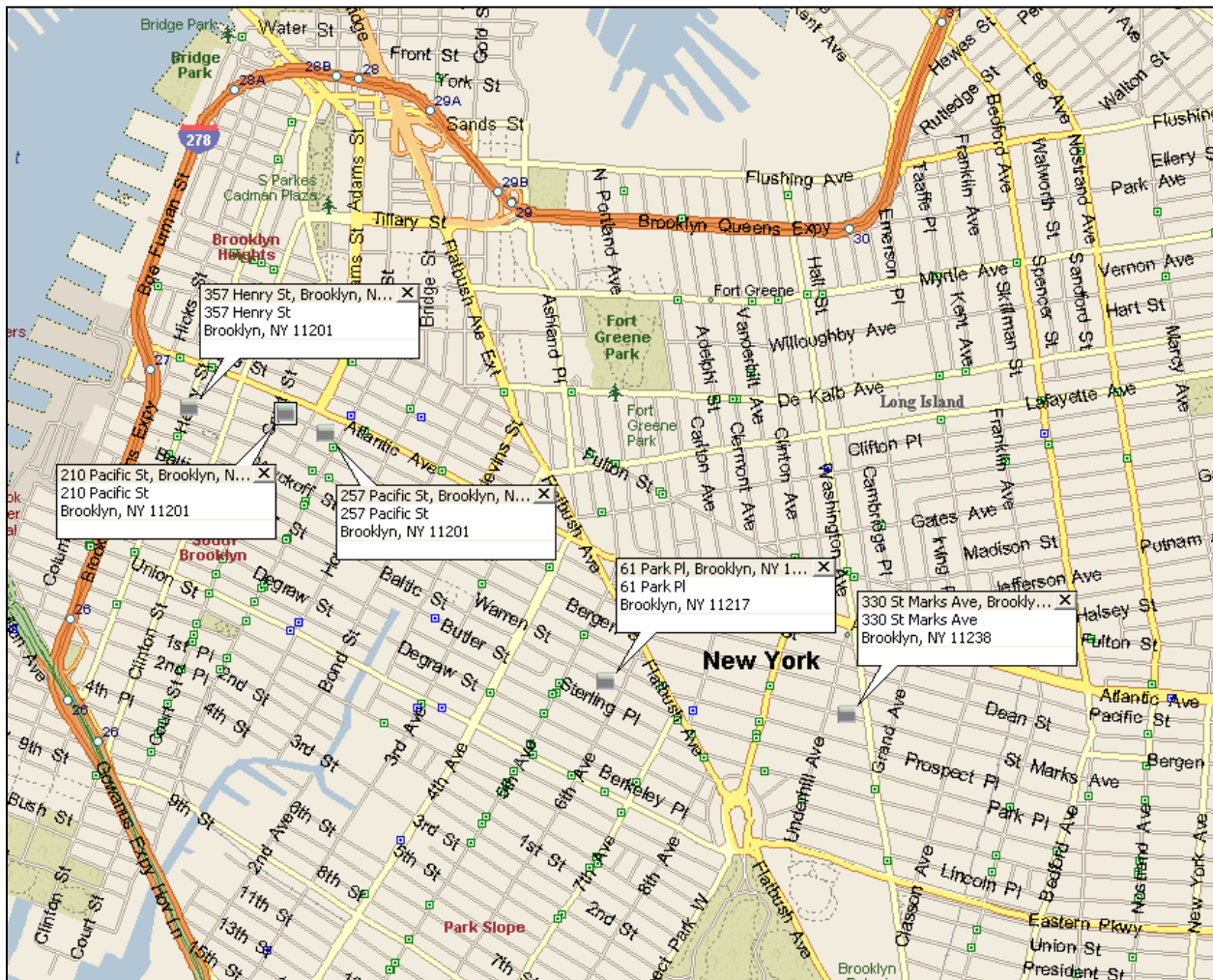
Based on this analysis, the indicated value of 112 Pacific Street as renovated for office use as of October 1, 2013, is \$1,300,000 after deducting lease-up costs, rent loss during the conversion period and renovation costs.

The Sales Comparison Approach

The sales comparison approach was used in this appraisal report to determine the fair market value of the subject properties at 112 Pacific Street and 385-389 Hicks Street as residential development sites. Primary consideration was given to sales of residential development sites in the immediate Cobble Hill neighborhood, or in Brooklyn neighborhoods with similar characteristics. There have been an adequate number of conveyances of land for residential development recently to fully support an opinion of value via the sales comparison approach.

Our survey includes sales of similarly zoned, comparable land sites that were purchased for residential development. The intended use of each site was verified through parties to the sale and/or New York City Department of Buildings job filings. Five conveyances were found that are considered similar to the subject properties in most respects and were transferred within 20 months of the valuation date of October 1, 2013. These sales are presented in adjustment grids on the following pages.

Comparable Sales Location Map



Explanation of Adjustments

We selected sales of residential development sites for direct comparison to the subject properties. These sales reflect sites located in Cobble Hill, Boerum Hill, Park Slope, and Prospect Heights which occurred between March 2011 and June 2012 with unadjusted sales prices that range from \$2,325,000 to \$11,222,585, inclusive of estimated demolition costs.

Market Conditions

The comparable sales were contracted between March 2011 and June 2012. 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 residential development sites in Brooklyn has been strong over the last two years. Our adjustment for market conditions was 6.0% annually.

Location

Considerations for location offset the superiority or inferiority of the comparables' locations as compared to the subject's. As part of the determination of the location adjustment, consideration is given to the overall character and quality of surrounding properties and streets, accessibility, convenience to transportation, as well as differences in asking and actual rents (office and retail) or condominium apartment values, when applicable.

The subject property is located in the Cobble Hill neighborhood of Brooklyn within close proximity to transportation hubs and access to Manhattan and Downtown Brooklyn commercial districts. The comparable sales have been adjusted to account for differences in location.

Corner Influence

Corner exposure offers a development project more recognition, greater frontage, better access, and increased natural light for the interior of the proposed building. As a result, corner configurations are more valuable than midblock lots. The comparable sales have been adjusted accordingly.

Land Size

Larger development sites accommodate more building options and amenities than smaller sites and as a result tend to trade at higher prices. The land sales that are significantly larger than the subject properties have been adjusted downward while smaller sites have been adjusted upward.

Configuration

The most valuable development sites have footprints that allow for flexibility in building design and greater ease in moving construction machinery and materials around the site. All of the sales are similar to the subject property in terms of configuration; therefore no adjustments for configuration were necessary.

Zoning

The zoning district dictates the size, appearance, and use of any potential development on the subject site. All of the comparable sales are situated in similar zoning districts to the subject

properties and therefore no adjustments for zoning were necessary.

Comparable Sales Adjustment Grid – 112 Pacific Street

<i>Residential Land Sales Adjustment Grid - 112 Pacific Street</i>						
	Subject	Land Sale 1	Land Sale 2	Land Sale 3	Land Sale 4	Land Sale 5
Address	112 Pacific Street	210 Pacific Street	357-363 Henry St.	257-67 Pacific St & 276 Atlantic Ave.	330-334 St. Marks Ave.	61 Park Place
	SEC Henry St.	Boerum & Court	Congress & Amity	Boerum & Smith	Washington & Underhill	5th & 6th Ave
Neighborhood	Cobble Hill	Boerum Hill	Cobble Hill	Boerum Hill	Prospect Heights	Park Slope
Block/Lot	291/8	279/24	296/6-8	181/11,31,32,36	1153/21	938/53
Land Information						
Land Size	9,142	5,227	5,229	22,261	5,000	8,042
Frontage	61.42' & 100'	53'	51.92'	125.25' & 150.75'	50'	80.42'
Shape	Rectangular	Rectangular	Rectangular	Irregular	Rectangular	Rectangular
Zoning	R6	R6A/C2-4	R6	R6	R6B	R6B
Corner vs. Interior	Corner	Interior	Interior	Interior - 2 frontages	Interior	Interior
FAR	2.43	3.00	2.43	2.43	2.00	2.00
Maximum Development Potential	22,215	15,681	12,706	54,094	10,000	16,084
Building Information						
Building Size	10,000	None	None	19,952	5,000	5,000
# of Stories	5	NA	NA	2.0	1.0	2.0
Building Use	Admin Offices	NA	NA	Industrial	Industrial	Religious
Proposed Property Use	Residential	Residential	Residential	Residential	Residential	Residential
Sale Information						
Valuation/Contract Date	10/1/2013	2/3/2012	3/9/2011	9/8/11 & 12/22/11	6/13/2013	6/14/2012
Transfer Date		3/19/2012	5/25/2011	10/14/11 & 12/22/11	8/29/2013	6/19/2012
Sale Price		\$2,800,000	\$2,650,000	\$10,723,685	\$2,200,000	\$5,750,000
Demolition Costs @ \$25.00 per SF		\$0	\$0	\$498,800	\$125,000	\$125,000
Total Sale Price		\$2,800,000	\$2,650,000	\$11,222,485	\$2,325,000	\$5,875,000
Sale Price per Square Foot of Land		\$535.68	\$506.79	\$504.13	\$465.00	\$730.54
Sale Price per Square Foot of FAR		\$178.56	\$208.56	\$207.46	\$232.50	\$365.27
Adjustments						
# of Months from Sale Date to Valuation Date		20	30	24	4	15
Market Conditions @ 6.0% Annually		10.00%	15.00%	12.00%	2.00%	7.50%
Adjusted Sale Price per Sq. Ft. of FAR		\$196.42	\$239.84	\$232.36	\$237.15	\$392.67
Location		0.00%	0.00%	0.00%	5.00%	-25.00%
Corner Influence		5.00%	5.00%	-5.00%	5.00%	5.00%
Land Size - Potential Development Size		5.00%	5.00%	-5.00%	5.00%	0.00%
Configuration		0.00%	0.00%	0.00%	0.00%	0.00%
Zoning (a)		0.00%	0.00%	0.00%	0.00%	0.00%
Total Adjustments		10.00%	10.00%	-10.00%	15.00%	-20.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$216.06	\$263.82	\$209.12	\$272.72	\$314.13
Indicated Value per Sq. Ft. of FAR	\$235					
Indicated Value	\$5,220,539					
Less Cost of Demolition at \$25.00 per SF	-\$250,000					
Indicated Value	\$4,970,539					
Rounded of Vacant Land	\$5,000,000					

Description of the Comparable Sales and Adjustments – 112 Pacific Street

Comparable Land Sale #1 is the sale of a 5,227 square foot midblock development site in an R6A/C2-4 zoning district with an FAR of 3.0. The comparable is located two blocks east of the subject property in Boerum Hill, and it has a contract date of February 3, 2012. The sale price of \$2,800,000 indicates a unit price of \$178.56 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for a lack of corner exposure and a smaller land size relative to the subject property.

Comparable Land Sale #2 is the sale of a 5,229 square foot midblock development site in an R6 zoning district with an FAR of 2.43. The comparable is located one block south of the subject property in Cobble Hill, and it has a contract date of March 9, 2011. The sale price of \$2,650,000 indicates a unit price of \$208.56 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for a lack of corner exposure and a smaller size relative to the subject property.

Comparable Land Sale #3 is the sale of a 22,261 development site with frontage along Atlantic Avenue and Pacific Street in an R6 zoning district with an FAR of 2.43. The comparable is located three blocks east of the subject in Boerum Hill, and it has a contract date of September 8, 2011 and December 22, 2011. The sale price of \$11,222,485 reflects \$498,800 of demolition costs and indicates a unit price of \$207.46 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for its larger size relative to the subject site. A downward adjustment was also applied to the sale because of its dual frontage along Pacific Street and Atlantic Avenue.

Comparable Land Sale #4 is the sale of a 5,000 square foot midblock development site in an R6B zoning district with an FAR of 2.0. The comparable is located 2.0 miles southeast of the subject in Prospect Heights, and it has a contract date of June 13, 2013. The sale price of \$2,325,000 reflects \$125,000 of demolition costs and indicates a unit price of \$232.50 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for its inferior location relative to that of the subject property. The comparable sale was also adjusted upward for its lack of corner influence and smaller development potential.

Comparable Land Sale #5 is the sale of an 8,042 square foot development site in an R6B zoning district with an FAR of 2.0. The comparable is located 1.5 miles southeast of the subject site in Park Slope, and it has a contract date of June 14, 2013. The sale price of \$5,875,000 reflects \$125,000 of demolition costs and indicates a unit price of \$365.27 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for its inferior location relative to that of the subject site. The comparable sale was adjusted upward for its lack of corner influence.

Conclusion: Sales Comparison Approach – 112 Pacific Street

Each comparable sale was evaluated on the basis of sale price per developable square foot. The indicated range of adjusted sale prices is from \$209.12 to \$314.13 with an average value of \$255.17 and a median value of \$263.82. Extra weight was given to comparable sales #1, #2, and #3 based on their proximity to the subject property. Therefore, we have chosen a value of \$235.00 per square foot of developable area for the subject property which is calculated as follows:

$$\text{\$235.00 per square foot} \times 22,215 \text{ developable square feet} = \text{\$5,220,539}$$

It was necessary to deduct the cost to demolish the existing improvements at the subject site to prepare it for residential development at the rate of \$25.00 per square foot. After deducting \$250,000 for demolition costs, the indicated value of the subject property is rounded to \$5,000,000 which indicates a value of \$225.07 per square foot of FAR.

Comparable Sales Adjustment Grid – 385-389 Hicks Street

<i>Residential Land Sales Adjustment Grid - 385-389 Hicks Street</i>						
	Subject	Land Sale 1	Land Sale 2	Land Sale 3	Land Sale 4	Land Sale 5
Address	385-389 Hicks Street	210 Pacific Street	357-363 Henry St.	257-67 Pacific St & 276 Atlantic Ave.	330-334 St. Marks Avenue	61 Park Place 5th & 6th Ave
Neighborhood	Congree & Amity Cobble Hill	Boerum & Court Boerum Hill	Congress & Amity Cobble Hill	Boerum & Smith Boerum Hill	Washington & Underhill Prospect Heights	Park Slope
Block/Lot	295/3	279/24	296/6-8	181/11,31,32,36	1153/21	938/53
Land Information						
Land Size	7,650	5,227	5,229	22,261	5,000	8,042
Frontage	50'	53'	51.92'	125.25' & 150.75'	50'	80.42'
Shape	Rectangular	Rectangular	Rectangular	Irregular	Rectangular	Rectangular
Zoning	R6	R6A/C2-4	R6	R6	R6B	R6B
Corner vs. Interior	Interior	Interior	Interior	Interior - 2 frontages	Interior	Interior
FAR	2.43	3.00	2.43	2.43	2.00	2.00
Maximum Development Potential	18,590	15,681	12,706	54,094	10,000	16,084
Building Information						
Building Size	7,650	None	None	19,952	5,000	5,000
# of Stories	1	NA	NA	2.0	1.0	2.0
Building Use	Engineers Bldg.	NA	NA	Industrial	Industrial	Religious
Proposed Property Use	Residential	Residential	Residential	Residential	Residential	Residential
Sale Information						
Valuation/Contract Date	10/1/2013	2/3/2012	3/9/2011	9/8/11 & 12/22/11	6/13/2013	6/14/2012
Transfer Date		3/19/2012	5/25/2011	10/14/11 & 12/22/11	8/29/2013	6/19/2012
Sale Price		\$2,800,000	\$2,650,000	\$10,723,685	\$2,200,000	\$5,750,000
Demolition Costs @ \$25.00 per SF		\$0	\$0	\$498,800	\$125,000	\$125,000
Total Sale Price		\$2,800,000	\$2,650,000	\$11,222,485	\$2,325,000	\$5,875,000
Sale Price per Square Foot of Land		\$535.68	\$506.79	\$504.13	\$465.00	\$730.54
Sale Price per Square Foot of FAR		\$178.56	\$208.56	\$207.46	\$232.50	\$365.27
Adjustments						
# of Months from Sale Date to Valuation Date		20	30	24	4	15
Market Conditions @ 6.0% Annually		10.00%	15.00%	12.00%	2.00%	7.50%
Adjusted Sale Price per Sq. Ft. of FAR		\$196.42	\$239.84	\$232.36	\$237.15	\$392.67
Location		0.00%	0.00%	0.00%	5.00%	-25.00%
Corner Influence		0.00%	0.00%	-5.00%	0.00%	0.00%
Land Size - Potential Development Size		0.00%	5.00%	-5.00%	5.00%	0.00%
Configuraiton		0.00%	0.00%	0.00%	0.00%	0.00%
Zoning (a)		0.00%	0.00%	0.00%	0.00%	0.00%
Total Adjustments		0.00%	5.00%	-10.00%	10.00%	-25.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$196.42	\$251.83	\$209.12	\$260.87	\$294.50
Indicated Value per Sq. Ft. of FAR	\$225					
Indicated Value	\$4,182,638					
Less Cost of Demolition at \$25.00 per SF	-\$191,250					
Indicated Value	\$3,991,388					
Rounded of Vacant Land	\$4,000,000					

Description of the Comparable Sales and Adjustments – 385 - 389 Hicks Street

Comparable Land Sale #1 is the sale of a 5,227 square foot midblock development site in an R6A/C2-4 zoning district with an FAR of 3.0. The comparable is located three blocks east of the subject property in Boerum Hill, and it has a contract date of February 3, 2012. The sale price of \$2,800,000 indicates a unit price of \$178.56 per square foot of FAR. After making the preliminary adjustment for market conditions, no additional adjustments were necessary.

Comparable Land Sale #2 is the sale of a 5,229 square foot midblock development site in an R6 zoning district with an FAR of 2.43. The comparable is located one block east of the subject property in Cobble Hill, and it has a contract date of March 9, 2011. The sale price of \$2,650,000 indicates a unit price of \$208.56 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for its smaller developable area relative to that of the subject property.

Comparable Land Sale #3 is the sale of a 22,261 development site with frontage along Atlantic Avenue and Pacific Street in an R6 zoning district with an FAR of 2.43. The comparable is located six blocks northeast of the subject in Boerum Hill, and it has a contract date of September 8, 2011 and December 22, 2011. The sale price of \$11,222,485 reflects \$498,800 of demolition costs and indicates a unit price of \$207.46 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for its larger developable area relative to the subject site. A downward adjustment was also applied to the sale because of its dual frontage along Pacific Street and Atlantic Avenue.

Comparable Land Sale #4 is the sale of a 5,000 square foot midblock development site in an R6B zoning district with an FAR of 2.0. The comparable is located 2.0 miles southeast of the subject in Prospect Heights, and it has a contract date of June 13, 2013. The sale price of \$2,325,000 reflects \$125,000 of demolition costs and indicates a unit price of \$232.50 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted upward to account for its inferior location relative to that of the subject property. The comparable sale was also adjusted upward for its smaller development potential.

Comparable Land Sale #5 is the sale of an 8,042 square foot development site in an R6B zoning district with an FAR of 2.0. The comparable is located 1.5 miles southeast of the subject site in Park Slope, and it has a contract date of June 14, 2013. The sale price of \$5,875,000 reflects \$125,000 of demolition costs and indicates a unit price of \$365.27 per square foot of FAR. After making the preliminary adjustment for market conditions, the comparable sale was adjusted downward to account for its inferior location relative to that of the subject site.

Conclusion: Sales Comparison Approach – 385–389 Hicks Street

Each comparable sale was evaluated on the basis of sale price per developable square foot. The indicated range of adjusted sale prices is from \$196.42 to \$294.50 with an average value of \$242.55 and a median value of \$251.83. Extra weight was given to comparable sales #1, #2, and #3 based on their proximity to the subject property. Therefore, we have chosen a value of \$225.00 per square foot of developable area for the subject property which is calculated as follows:

$$\text{\$225.00 per square foot} \times 18,590 \text{ developable square feet} = \text{\$4,182,638}$$

It was necessary to deduct the cost to demolish the existing improvements at the subject site to prepare it for residential development at the rate of \$25.00 per square foot. After deducting \$191,250 for demolition costs, the indicated value of the subject property is rounded to \$4,000,000 which indicates a value of \$215.18 per square foot of FAR.



ADDENDA

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; Debevois & 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