

# **EXHIBIT 28**

# Volume I

## APPRAISAL OF:

339-355 Hicks Street - Fuller Pavilion - New Medical Site  
91-95 Pacific Street - Othermer Pavilion - New Non-Medical Site  
355-363 Hicks Street - Polak Pavilion - Interim Emergency Department - Future Development  
340 Henry Street - Interim Emergency Department - Optional Space for Interim Clinical Use - Future Development  
350 Henry Street - Polhemus  
349 Henry Street - Medical Office Building  
352 Hicks Street - Interim Parking Garage - Future Development

## FOR:

Downstate at LICH Holding Company, Inc.  
c/o Cozen O'Connor  
277 Park Avenue  
New York, New York 10172

## AS OF:

October 8, 2014

## BY:

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

March 23, 2015

Downstate at LICH Holding Company, Inc. (DLHC)  
c/o Kenneth K. Fisher, Esq.  
Cozen O'Connor  
277 Park Avenue  
New York, New York 10172  
(212) 883-4962

**Re: Downstate Medical Center Long Island College Hospital Campus  
Hospital Properties Located in Cobble Hill, Brooklyn, New York**

Dear Mr. Fisher:

In accordance with your request, Landauer prepared an appraisal report to determine the fair market value of the properties that are part of the Downstate Medical Center Long Island College Hospital Campus located in the Borough of Brooklyn, City and State of New York. The purpose of this appraisal is to estimate the fair market value of each property, as of October 8, 2014, based on its highest and best use. The purpose of this report is to assist DLHC in managing the assets.

The campus consists of a variety of hospital related buildings that are described in the next table. The campus is undergoing a transition in ownership and uses of components of the campus. The table indicates the proposed uses and ownership for each component.

<i>SUNY Downstate Medical Center/Long Island College Hospital</i>							
	<i>Address</i>	<i>Bldg. Name/ Former Use</i>	<i>Block/Lot</i>	<i>Approximate Land Area</i>	<i>Approximate Building Size</i>	<i>Proposed Use</i>	<i>Proposed Ownership</i>
1	339-355 Hicks Street 91-95 Pacific Street	Fuller/Othmer - Hospital	Part of 284/1	Part of 49,132	340,943	New Medical Site - Community Facility Use - Land Value	New Medical Site - Fortis Donates to NYUHC
2	339-355 Hicks Street 91-95 Pacific Street	Fuller/Othmer - Hospital	Part of 284/1	Part of 49,132	340,943	New-Non-Medical Site Community Facility (25,000 SF) & Residential (185,000 SF)	New Non-Medical Site - Fortis
3	355-363 Hicks Street	Polak - Hospital	Part of 290/13	30,360	149,516	Interim lease to Fortis and sublet to NYUHC - Future Residential Development	Interim DLHC - Fortis
4	340 Henry Street (97 Amity Street)	Henry - Hospital	Part of 290/13	34,705	145,500	Interim lease to Fortis and sublet to NYUHC - Future Residential Development	Interim DLHC - Fortis
5	350 Henry Street	Polhemus - Office	295/21	6,834	51,552	Residential Condo Conversion	Fortis
6	349 Henry Street	Medical Offices	291/1	11,533	48,015	Residential Condo Conversion	Fortis
7	352 Hicks Street	Garage	282/50	24,666	175,000	Interim Garage - Future Residential	Fortis
8	385-389 Hicks Street	Engr. Bldg.	295/3	7,650	7,650	Residential Development Site	Fortis
9	124-134 Atlantic Ave.	Condo	285/1001	NA	12,500	Community Facility Condominium	Fortis
10	88-94 Amity Street	Residences	295/14	15,000	40,600	Rental Apartment Building	Fortis
11	86 Amity Street	Residences	295/13	2,500	3,000	Single Family Townhouse	Fortis
12	82 Amity Street	Residences	295/11	1,481	3,840	Single Family Townhouse	Fortis
13	78 Amity Street	Offices	295/9	1,450	3,151	Single Family Townhouse	Fortis
14	76 Amity Street	Offices	295/8	1,406	3,430	Single Family Townhouse	Fortis
15	74 Amity Street	Residences	295/7	1,875	5,431	Single Family Townhouse	Fortis
16	113 Congress Street	Offices	295/38	2,500	5,800	Single Family Townhouse	Fortis
17	43 Columbia Place	Residences	259/8	2,100	6,810	Single Family Townhouse	Fortis
18	336 Flatbush Avenue	Vacant	1058/30	2,700	13,108	Renovated Mixed-Use Building	Fortis
19	184 Sterling Place	Medical Offices	1058/28	4,885	6,511	Renovated Retail/Office Use	Fortis
20	112 Pacific Street	Offices	291/8	9,142	10,000	Residential Development Site	Fortis

March 23, 2015  
Mr. Kenneth K. Fisher  
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This appraisal is presented in a 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 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 report is presented in three volumes which include Volume I with the core properties, Volume II with the non-core properties, and Volume III with the Comparable Sales Book.

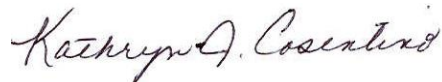
After careful research of all pertinent information pertaining to the subject properties, analysis of all the available data, and our experience in appraising similar properties in the New York City area, we are of the opinion that the aggregate current market value of all the hospital properties as of October 8, 2014, is \$268,650,000. A full account of the values is included in the table following this letter.

Landauer Valuation & Advisory previously prepared appraisal reports for the Long Island College Hospital properties in 2009 and 2013. Mi Rae Chung participated in the preparation of this report.

Respectfully submitted,



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



Kathryn Cosentino  
Director  
NYS Certification #46000033786

*File:N:15-2519-0002 Downstate Medical Center Long Island College*



**Summary of Values – Core Properties**

<i>Descriptions of the SUNY Downstate Medical Center/Long Island Hospital Properties</i>			<i>Value Indicated by the Use of</i>					<i>Reconciled Values Based on Highest &amp; Best Use</i>	
			<i>Residual DCF</i>	<i>Direct Capitalization</i>	<i>Discounted Cash Flow</i>	<i>Sales Comparison Approach</i>	<i>Sales Comparison Approach</i>	<i>Highest &amp; Best Use</i>	<i>Reconciled Value</i>
	<i>Address</i>	<i>Building Name</i>	<i>Residential Condo Conversion &amp; Sellout</i>	<i>Rental Apartment Building Conversion/Use</i>	<i>Future Residential Development Site</i>	<i>Development Site</i>	<i>Community Facility Building</i>		
1	339 Hicks Street & 91-95 Pacific Street	Fuller/Othmer Pavilions - Community Facility	NA	NA	NA	\$13,000,000	NA	105,000 SF & 25,000 SF of Community Facility Development (demolition costs accounted for in #2-residential use value)	\$13,000,000
2	339 Hicks St. & 91-95 Pacific St.	Fuller/Othmer Pavilions - Residential Use	NA	NA	NA	\$60,900,000	NA	185,000 SF of Residential Development less all Fuller & Othmer demolition costs	\$60,900,000
3	355-363 Hicks Street	Polak Pavilion	NA	NA	NA	\$54,300,000	NA	105,000 SF Community Facility & 149,062 SF Residential less demolition	\$54,300,000
4	340 Henry Street	Henry Street Building	\$32,900,000	NA	NA	NA	NA	Residential Condominium Conversion	\$32,900,000
5	350 Henry Street	Polhemus Building	\$17,400,000	\$6,800,000	NA	NA	\$11,600,000	Residential Condominium Conversion	\$17,400,000
6	349 Henry Street	Medical Offices	\$18,400,000	\$6,600,000	NA	NA	\$10,800,000	Residential Condominium Conversion	\$18,400,000
7	352 Hicks Street	Parking Garage	NA	NA	\$18,300,000	\$19,000,000*	NA	Future Residential Use	\$18,300,000

\*Does not consider parking obligation.

\$215,200,000



**Summary of Values – Non-Core Properties**

Descriptions of Downstate at LICH Holding Company, Inc. Properties		Value Indicated by the Use of						Reconciled Values Based on Highest & Best Use		
		Residual DCF	Direct Capitalization		Sales Comparison Approach					
Address	Building Name/ Current Use	Residential Condo Conversion	Rental Apartment Building	Community Facility Condo or Retail Building	Townhouse/ Apartment Building	Community Facility Condo or Retail Building	Development Site	Highest and Best Use	Reconciled Value	Indicated Value per SF of GBA
124-134 Atlantic Avenue	Commercial Condominium	NA	NA	\$2,500,000	NA	\$2,500,000	NA	Community Facility Condo	\$2,500,000	\$200.00
88-94 Amity Street	Apartment Building	\$11,300,000	\$12,600,000	NA	\$15,200,000	NA	NA	Rental Apartment Building	\$15,200,000	\$374.38
86 Amity Street	Apartment Building	NA	\$1,170,000	NA	\$1,680,000	NA	NA	Single Family Townhouse	\$1,680,000	\$560.00
82 Amity Street	Apartment Building	NA	\$1,740,000	NA	\$2,150,000	NA	NA	Single Family Townhouse	\$2,150,000	\$559.90
78 Amity Street	Administrative Offices	NA	\$2,500,000	NA	\$3,690,000	NA	NA	Single Family Townhouse	\$3,690,000	\$560.71
76 Amity Street	Administrative Offices	NA	Included Above	NA	Included Above	NA	NA	Single Family Townhouse	Included Above	Included Above
74 Amity Street	Apartment Building	NA	\$1,810,000	NA	\$2,770,000	NA	NA	Single Family Townhouse	\$2,770,000	\$510.03
113 Congress Street	Administrative Offices	NA	\$2,230,000	NA	\$2,960,000	NA	NA	Single Family Townhouse	\$2,960,000	\$510.34
43 Columbia Place	Apartment Building	NA	\$3,000,000	NA	\$3,100,000	NA	NA	Rental Apartment Building	\$3,100,000	\$455.21
336 Flatbush Avenue	Mixed-Use Building	NA	\$4,100,000	NA	\$4,900,000	NA	NA	Renovated Mixed-Use Bldg.	\$4,900,000	\$373.82
184 Sterling Avenue	Medical Offices	NA	NA	\$3,000,000	NA	\$3,000,000	NA	Retail/Office Building	\$3,000,000	\$460.76
112 Pacific Street	Administrative Offices	NA	NA	NA	NA	NA	\$6,400,000	Residential Development Site	\$6,400,000	NA
385-389 Hicks Street	Engineers Building	NA	NA	NA	NA	NA	\$5,100,000	Residential Development Site	\$5,100,000	NA
									\$53,450,000	
Aggregate Value									<b>\$268,650,000</b>	

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**EXECUTIVE SUMMARY**

Property Addresses:

<i>SUNY Downstate Medical Center/Long Island College Hospital</i>							
	<i>Address</i>	<i>Bldg. Name/ Former Use</i>	<i>Block/Lot</i>	<i>Approximate Land Area</i>	<i>Approximate Building Size</i>	<i>Proposed Use</i>	<i>Proposed Ownership</i>
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3	355-363 Hicks Street	Polak - Hospital	Part of 290/13	30,360	149,516	Interim lease to Fortis and sublet to NYUHC - Future Residential Development	Interim DLHC - Fortis
4	340 Henry Street (97 Amity Street)	Henry - Hospital	Part of 290/13	34,705	145,500	Interim lease to Fortis and sublet to NYUHC - Future Residential Development	Interim DLHC - Fortis
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6	349 Henry Street	Medical Offices	291/1	11,533	48,015	Residential Condo Conversion	Fortis
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8	385-389 Hicks Street	Engr. Bldg.	295/3	7,650	7,650	Residential Development Site	Fortis
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Neighborhood: Cobble Hill and Prospect Heights

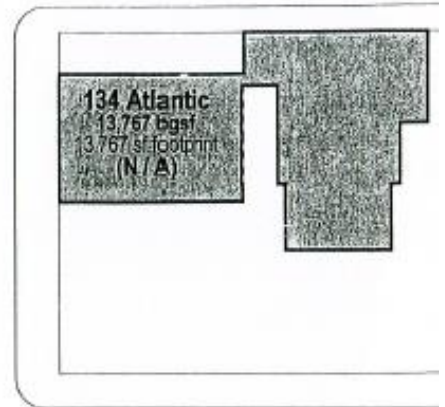
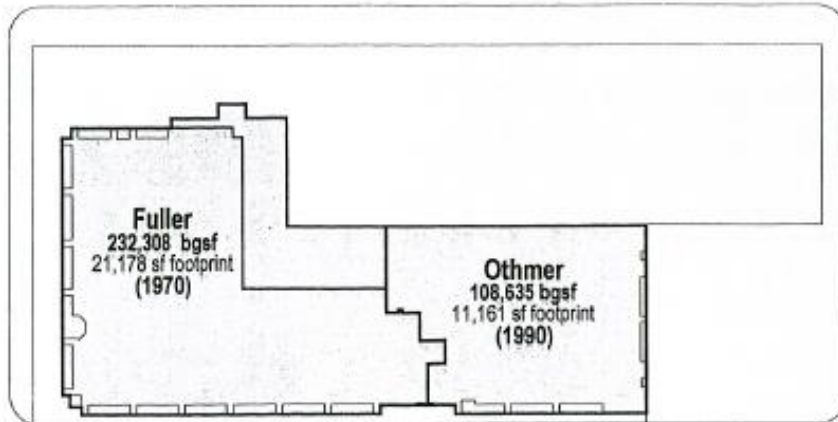
Inspection Date(s): September 26, 2013, October 1, 2013, and February 3, 2015

Date of Value: October 8, 2014

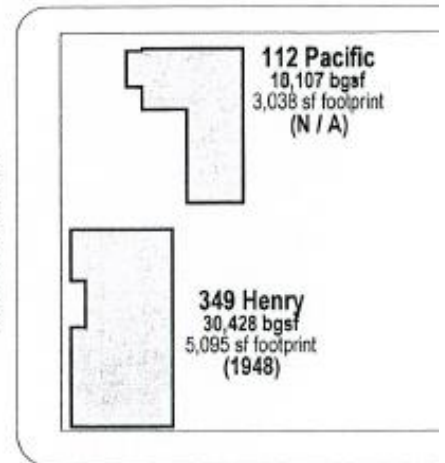
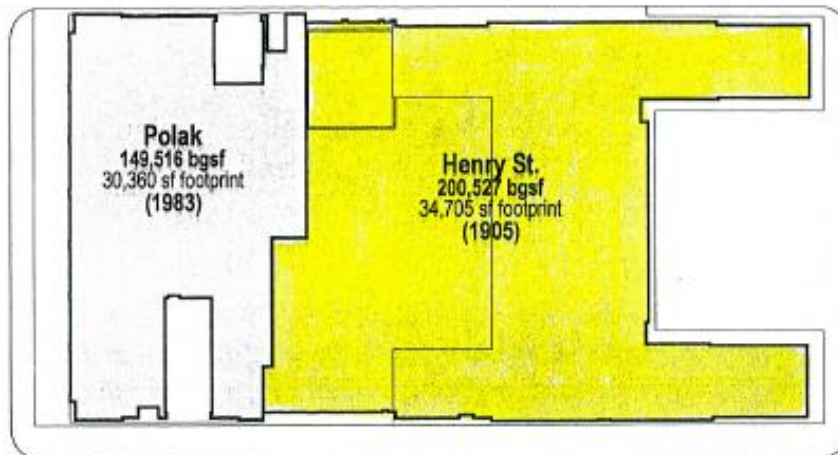
Aggregate Value: \$268,650,000



**Campus Footprints**

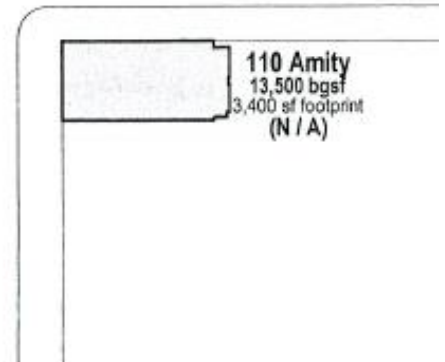
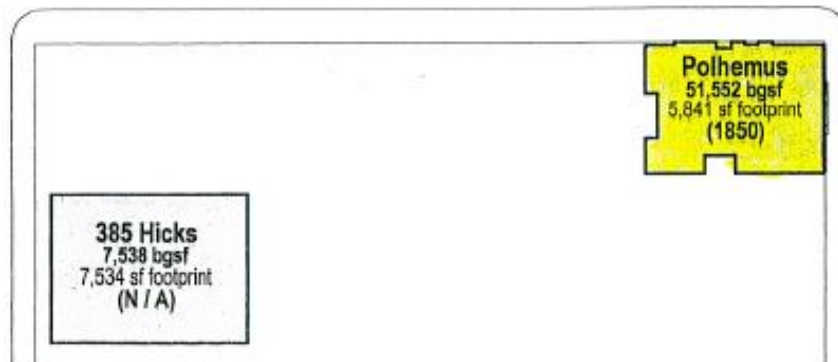


PACIFIC STREET



HENRY STREET

AMITY STREET



**PROPERTY IDENTIFICATION**

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

<i>SUNY Downstate Medical Center/Long Island College Hospital</i>							
	<i>Address</i>	<i>Bldg. Name/ Former Use</i>	<i>Block/Lot</i>	<i>Approximate Land Area</i>	<i>Approximate Building Size</i>	<i>Proposed Use</i>	<i>Proposed Ownership</i>
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**PURPOSE OF THE APPRAISAL**

The purpose of this appraisal is to estimate the fair market value of each property, as of October 8, 2014, based on their highest and best uses.

**INTENDED USE AND USER OF REPORT**

The client and intended user of this report is Downstate at LICH Holding Co., Inc. (DLHC). The report will be used to assist the client in managing the asset.

**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.”<sup>1</sup>

<sup>1</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition, 2008, Page 111.

## **EFFECTIVE DATE OF APPRAISAL**

At the request of the client, the effective date of value of the properties is October 8, 2014. This is the date upon which the Amended and Restated Purchase and Sale Agreement, the Amended and Restated Interim Lease, the Interim Sublease, and related documents were signed. Signers of the agreements included Downstate at LICH Holding Company, Inc. (DLHC), FPG Cobble Hill Acquisitions, LLC and Fortis Property Group, LLC (Fortis), and NYU Hospitals Center (NYUHC). Fortis also has the right under the interim lease to occupy an additional portion of the ground floor of the Henry Street building, or sublet such space, for use as a Federal Qualified Health Center. NYUHC has no right to sublet this space from Fortis.

## **OWNERSHIP AND OCCUPANCY**

The campus is in transition from hospital use to alternate ownership positions and uses. Most of the buildings are vacant with the exception of the Polak Pavilion, the Henry Street Building, and the parking garage. Portions of the first floors of the Polak and Henry buildings are subject to an interim lease to FPG Cobble Hill Acquisitions, LLC, (Fortis) who will sublet the same portions to NYUHC for use as a temporary 24/7 emergency department. NYUHC will use the interim space until construction of a new medical premises on the adjacent Fuller/Othmer site is complete. The parking garage will continue to operate to meet the parking requirements for the temporary medical facility and, if necessary, the new medical facility.

## **INSPECTION OF THE PROPERTY**

The subject properties were inspected by Robert H. Mayer and Kathryn Cosentino on September 26 and October 1, 2013. Additional inspections were made by Landauer on February 3, 2015.

## **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.<sup>2</sup>

## **THE APPRAISAL PROBLEM**

Although Fortis is free to develop most of the subject properties it is purchasing as it sees fit, for the purpose of this appraisal report, Landauer has made assumptions based on its estimation of the properties' highest and best use. Landauer is appraising the subject property subject to several proposed agreements, including the following:

- First Amended and Restated Purchase and Sale Agreement, Effective June 30, 2014
- Zoning Lot Development and Easement Agreement ("ZLDA")

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<sup>2</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition, 2008, Page 23

- First Amended and Restated Interim Lease
- Declaration of Covenants and Restrictions
- Declaration of Covenants and Restrictions (Parking Garage)

In summary, Downstate at LICH Holding Company, Inc., an entity of the State University of New York (SUNY) is selling the subject properties to FPG Cobble Hill Acquisitions, LLC, an entity of Fortis Property Group, LLC (Fortis). Fortis will donate the New Medical Site to NYU Hospitals Center (NYUHC). The requirements contained in the foregoing agreements affect primarily the existing Fuller and Othmer Pavilions, the Polak and Henry buildings, and the garage building.

We assume that the Fuller and Othmer sites will be divided into two sections. For purposes of this appraisal report, we assume the section that is primarily the Fuller site will be donated by Fortis to NYUHC, who will construct the “New Medical Premises” consisting of 105,000 square feet of development bulk. Although Fortis may build whatever it wants on the remaining portion of the Fuller and Othmer site, we are assuming, based on our interpretation of zoning requirements and our estimate of highest and best use, that it will construct 185,000 square feet of residential floor area and 25,000 square feet of community facility floor area. We relied on the area measurement described in the draft ZLDA. The area measurements in the final agreement may be different. These transactions are part of the initial closing.

During the period that the New Medical Premises are being built (which we estimate to be two to three years), Downstate at LICH will lease the interim medical facility, which consists of the ground floor of Polak and a small portion of Henry, to Fortis who will sublet the space to NYUHC. Fortis will pay a one-time rent of \$40,000 to Downstate at LICH and will be responsible for the building operating expenses. NYUHC will pay the costs of operating the interim medical facility and a prorata share of the building operating costs. NYUHC will operate the temporary medical facility at Polak until the New Medical Premises at the Fuller site are completed, at which time the temporary medical facility will be closed and moved to the New Medical Premises. When this occurs, the Polak/Henry site will be conveyed to Fortis, who will be permitted to develop the property. For purposes of this appraisal report, we made the assumption that Fortis will build a residential and community facility development on the Polak site and convert the Henry Building to residential condominiums.

Fortis is required to provide parking spaces at 80% of the market rate for the temporary medical facility and then for the New Medical Premises. We assume that the required parking will be provided at the existing parking garage until completion of the non-medical portion of the Fuller/Othmer site, where we assume a new underground parking facility will be available and will qualify under zoning requirements. The existing parking structure will be available for redevelopment when parking requirements are satisfied in the new parking facility. Our appraisal report assumes parking requirements established in the zoning regulations are satisfied for both the interim medical facility and the new medical facility.

As an accommodation to NYUHC, Fortis agreed to a restrictive covenant at the first closing wherein none of the LICH portfolio may be used for medical uses, with the exception of the new

medical site to be donated to NYUHC and the interim use of the Polak/Henry buildings. There are some limited exceptions to the restrictive covenant such as the following:

- operation of a pharmacy
- ancillary medical services performed at a senior or assisted living facility for its occupants and not for the general public
- ancillary medical services performed at a health club, exercise facility or similar facility for its members or users
- home health care provided to patients at their residences
- retail sales of vitamins and health foods
- diet programs
- massage
- retail sales of eyewear and optometry services related thereto
- the sale of medical devices
- acupuncture
- chiropractic services
- social services and consulting services
- administrative offices of pharmaceutical, insurance, and other businesses in or related to the healthcare business as long as health services are not dispensed to the public from such administrative offices

Operations of NYUHC or its affiliates at the Fortis properties are also excluded from the restrictive covenant. The restrictive covenant is effective when the new medical site is conveyed to NYUHC and is in effect as long as NYUHC, NYU, or an affiliate of either of them is the owner or lessee of the new medical site.

Based on the foregoing requirements, we assume that as of the date of value:

- All of the subject properties other than the Fuller/Othmer site, the Polak/Henry site and the parking garage, are vacant and available for their highest and best use with limited restrictions;
- The non-medical portion of Fuller/Othmer is vacant and available for residential/community facility redevelopment. The park facing Henry Street will remain a park and will not be redeveloped;
- The New Medical portion of Fuller/Othmer will be sold to Fortis, who will donate the site to NYUHC for the New Medical Premises. NYUHC will build the New Medical Premises;
- The Polak/Henry site will not be available for sale or redevelopment until the New Medical Premises are completed. During the construction, the Interim Medical Facility at Polak/Henry will be leased to Fortis, who will sub-let to NYUHC for the operation of the Temporary Medical Facility. The park on the Polak/Henry site facing Henry Street will remain a park and will not be redeveloped;

- For purposes of this appraisal, we are assuming the garage building will fulfill the parking requirement for the temporary medical facility. We understand that the garage building will not be available for redevelopment unless and until an alternate site is located that qualifies under zoning and otherwise to provide the requisite parking to the new medical site. We assume for this appraisal that the new non-medical site will meet the parking requirements for the new medical site.
- The non-medical portion of Fuller/Othmer, together with the Polak/Henry site (after the interim lease is no longer in effect) and the parking garage site may not be used for medical uses, other than limited, specified exceptions to the restrictions.
- Use restrictions are also in effect for non-core Fortis properties.
- The parties cannot close on the transfer of the New Medical site to NYUHC until the existing building is demolished and any environmental issues are remediated. Therefore, the anticipated closings are as follows:
  1. Conveyance of all non-core properties, the New Non-Medical site, the New Medical site (if the existing building has been demolished and environmental issues have been remediated), Polhemus Pavilion, 349 Henry Street, and the parking garage;
  2. Conveyance of the New Medical site (if the existing building was not demolished and environmental issues were not remediated at the time of the first closing); and
  3. Conveyance of the Polak Pavilion and the Henry Street Building when construction of the building on the New Medical site is complete.
- For purposes of this appraisal report, we are assuming that the construction of the New Medical facility will be completed in two and a half years.

The following development scenarios regarding the Fuller/Othmer, Polak/Henry, and Parking Garage sites are assumed:

<i>Fuller/Othmer, Polak/Henry, and Parking Garage Proposed Development</i>
<b>The Henry Building will be converted to Residential Condominiums</b> 145,500 square feet existing building to be converted to residential condominiums
<b>Total Square Footage Available for Development</b> 235,000 square feet community facility use with an FAR of 4.8 <u>394,000</u> square feet residential use with an FAR of 2.43 629,000 square feet total for Fuller/Othmer, Polak/Henry, and the Parking Garage
<b>Portion Allocated to the Redevelopment of Fuller/Othmer Site</b> 105,000 square feet for NYUHC new medical facility <u>210,000</u> square feet for Fortis residential (185,000 SF) and community facility (25,000 SF) use 315,000 square feet - Fuller/Othmer Site
<b>Remaining Square Footage for development of Polak and the parking garage*</b> 105,000 square feet community facility use <u>209,000</u> square feet residential use <u>314,000</u> square feet - Polak and the parking garage 629,000 square feet total

\*In the valuation of the remaining square footage, the parking garage was valued using the as-of-right residential development bulk of 59,938 square feet (24,666 square feet of land x 2.43 FAR)

= 59,938 square feet). That leaves 149,062 square feet for residential development and 105,000 square feet for community facility use, which was applied to the future redevelopment of the Polak site upon completion of the new medical facility.

### **SCOPE OF WORK<sup>3</sup>**

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:

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 an appraisal report, which is intended to comply with the reporting requirements set forth under the Code of Professional Ethics and Conduct of the Appraisal Institute, Standards Rule 2-2(a) of 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

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<sup>3</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition, 2008, Page 135

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. These include the December 2014 Economic Snapshot published by the New York City Economic Development Corporation, as well as other sources as indicated.*

### Overview

The fourth quarter of 2014 was very positive for New York City, extending the positive trends of 2013. City-wide private employment in New York City rose by 7,600 between October and November 2014. The unemployment rate fell to 7.5% from 7.7% between October and November 2014. The Manhattan Class A office vacancy rate was 9.2% in November 2014, while the average asking rent was \$74 per square foot. The Manhattan hotel occupancy rate in October 2014 was 93.5%, up from 92.3% in October 2013. Passengers in NYC area airports totaled 9.6 million in September 2014, up 4.7% from September 2013.

### Employment

Private sector jobs in New York City rose by 7,600 in November 2014 after a loss of 3,500 jobs in October 2014. Government jobs in the city rose slightly, resulting in a net overall increase of 7,800 total private and public sector jobs in November. Since November 2013, private sector employment has risen by 81,100 jobs or 2.3%. New York City's unemployment rate was 7.5% in November 2014, down from 7.7% the month prior. Between October and November 2014, the number of employed city residents increased by 7,300, while the number of unemployed city residents fell by 4,200.

<b>Unemployment Rates</b>		
	<b>12 Months Ending</b>	
<b>Borough</b>	<b>Oct-14</b>	<b>Oct-13</b>
Bronx	10.6%	12.0%
Brooklyn	8.1%	9.6%
Manhattan	6.2%	7.4%
Queens	6.8%	7.9%
Staten Island	6.9%	8.0%
New York City	7.5%	8.8%

*Source: New York State Department of Labor (NYSDOL)*

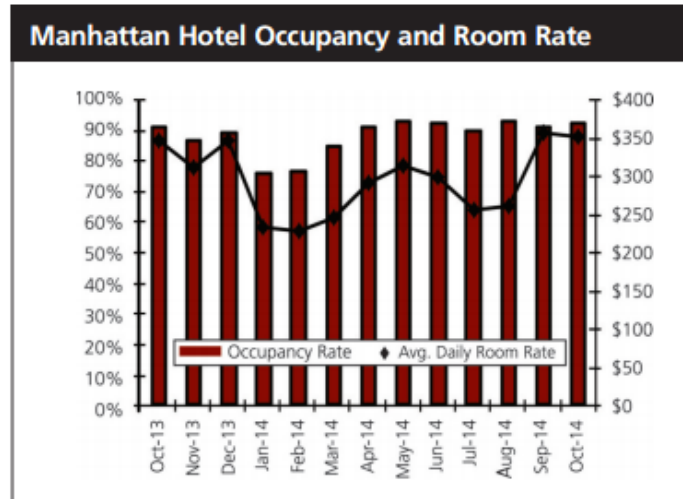
### Tourism, Travel and Transit

According to the Metropolitan Transportation Authority, ridership on MTA subways, trains and buses in October 2014 was 249.7 million, an increase of 1.3% from October 2013. Subway ridership in October 2014 was 160.1 million, which was a 2.3% increase from October 2013.

According to the Port Authority of New York and New Jersey, in September 2014, 9.6 million passengers flew into and out of the region's airports, an increase of 4.7% from September 2013. Domestic air carriers accounted for 6.1 million passengers, a 4.2% increase from September 2013. 3.6 million passengers traveled with international air carriers in September 2014, a 5.5%

increase from September 2013.

Finally, according to PKF Consulting, in October 2014, the average daily hotel room rate was \$357, a 1.8% increase from October 2013. Hotel occupancy was 93.5% in October 2014, up from 92.3% in October 2013. The average daily hotel room rate increased the most in hotels charging \$245 and under per night.



Source: PKF Consulting

New Construction

For the twelve months ending October 2014, projects (including new, additions, and alterations) that started construction in NYC rose by 19.9%, and infrastructure (non-building) project starts were down 8.3% from the twelve months ending October 2013. Planned space for building project starts rose by 14.3% from the same period in 2013. 3,177 residential building project starts began construction, a 25.2% increase from the twelve months ending in October 2013. These starts contained 25,448 units, an increase of 14.4% from last year.

Construction Starts, Twelve Months Ending				
Indicator	Building		Non-Building	
	Oct-14	Oct-13	Oct-14	Oct-13
Number of projects	6,760	5,636	431	470
Square feet (000s)	46,196	40,429	n.a.	n.a.
Value (\$000s)	21,324,458	15,516,594	4,261,146	4,007,069

Source: McGraw Hill Construction

Conclusion

Increased activity in hiring and construction starts indicates that the New York City economy is maintaining growth through the end of 2014 and the beginning of 2015. Consumer and investor sentiment appears to be high due to public projects such as Hudson Yards and the Cornell Tech

Campus. Tourism continues to perform exceedingly well throughout the city.

## **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 19<sup>th</sup> 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 19<sup>th</sup> and early 20<sup>th</sup> 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 home 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 2014 Elliman Report, listing inventory of all apartments available for sale increased from 4,826 in the third quarter of 2013 to 4,990 in the third quarter of 2014. At the same time the average price for apartments rose 4.5% from \$694,777 to \$726,100.

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 2014 report, the average sale price decreased 3.8% from \$942,547 in the third quarter of 2013 to \$907,138 in the third quarter of 2014. The average price per square foot decreased 1.0% and the median sales price increased 6.5% during that same time period. The decline in the number of sales coupled with the increase 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 2014</i>			
	3rd Qtr 2014	% Change	3rd Qtr 2013
Average Sales Price	\$907,138	-3.8%	\$942,547
Average Price per Square Foot	\$871	-1.0%	\$880
Median Sales Price	\$799,000	6.5%	\$750,000
Number of Sales	117	-40.6%	197
Days on Market	72	-30.8%	104
Listing Discount	-0.8%		1.7%

*Source: The Elliman Report - Brooklyn Sales 3rd Quarter 2014*

## Brooklyn Apartment Rents

We surveyed a number of apartment asking rents on January 15, 2015 to determine the average annual rent per square foot for Brooklyn apartments. The survey of 210 available apartments

ranged from studios to three-bedroom units and the apartments were located in Cobble Hill, Boerum Hill, Brooklyn Heights, Carroll Gardens, Clinton Hill, Downtown Brooklyn, Park Slope and Prospect Heights, 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 January 2015</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts
Three Bedrooms	\$39.84	\$38.50	\$61.90	\$21.73	30
Two Bedrooms	\$44.64	\$43.70	\$64.23	\$24.74	91
One Bedroom	\$47.69	\$48.66	\$66.51	\$31.04	69
Studio	\$53.05	\$54.73	\$67.53	\$34.92	20
Total Number of Apartments in the Survey					210

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

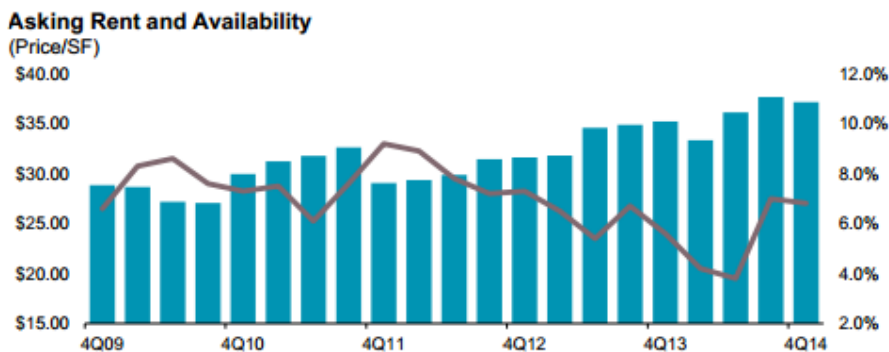
<i>Brooklyn Apartment Rents - As of January 2015</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts
Three Bedrooms	\$5,463	\$5,432	\$9,458	\$2,716	30
Two Bedrooms	\$3,758	\$3,686	\$7,275	\$2,304	91
One Bedroom	\$2,869	\$2,846	\$4,365	\$1,940	69
Studio	\$3,038	\$2,850	\$5,820	\$1,940	20
Total Number of Apartments in the Survey					210

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

## **BROOKLYN'S OFFICE MARKET**

According to the Newmark Grubb Knight Frank Office Market report for the fourth quarter of 2014, the Downtown Brooklyn office market vacancy rate declined to 6.8% in the fourth quarter of 2014 from 7.0% in the third quarter and was higher than 5.6% reported one year ago. Average asking rents climbed to \$37.15 per square foot, down from \$37.67 per square foot reported in the third quarter. Development levels reportedly remained high as of the fourth quarter 2014.

Downtown Brooklyn Office Market: 4<sup>th</sup> Quarter 2014



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>
4 Metrotech Center	Financial Services	2/1/2012	54,464	8	\$20.00	11 years
4 Metrotech Center	Insurance	2/1/2012	36,197	20	\$23.00	10 years
1 MetroTech Center	Consumer Products Manufacturers	5/1/2012	31,250	21	\$27.00	5 years
1 Pierrepont Plaza	Health Care	5/1/2012	37,500	17, 18	\$37.00	15 years
1 Pierrepont Plaza	Real Estate	2/1/2013	12,076	15	\$34.50	10 years
2 Metro Tech Center	Education	2/1/2013	53,472	8	\$27.00	16 years
1 Pierrepont Plaza	Education	11/1/2013	12,076	13	\$33.50	15 years
1 Pierrepont Plaza	Transportation Services	11/1/2013	44,207	6	\$36.00	10 years
1 Pierrepont Plaza	Education	11/1/2013	38,924	7	\$28.00	10 years
1 Pierrepont Plaza	Real Estate	5/1/2014	39,305	12	\$36.00	13 years
15 MetroTech Center	Health Care	11/1/2014	35,550	10	\$33.00	6 years

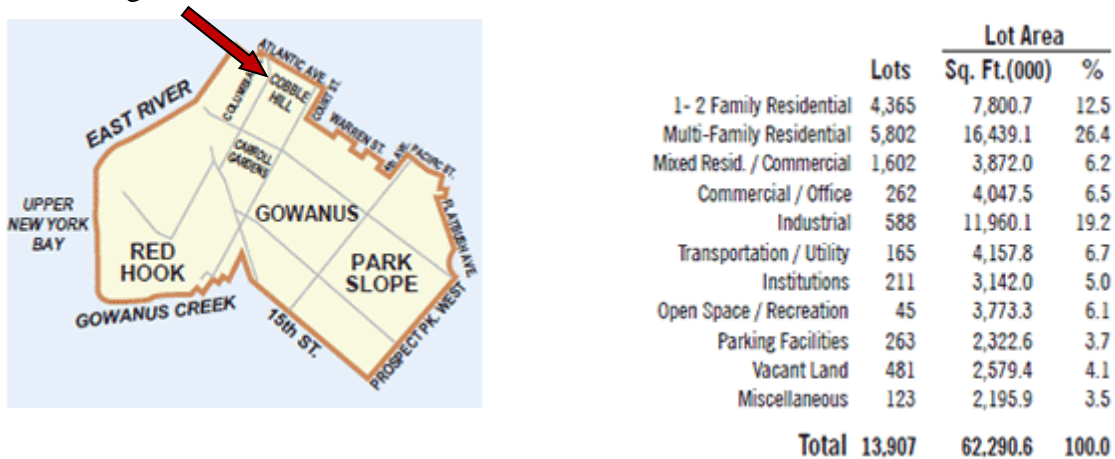
The unadjusted office rents range from \$20.00 to \$37.00 per square foot with an average of \$30.45 and median value of \$33.00 per square foot.

We researched medical office rents for Brooklyn and found the following Downtown, Gowanus and Greenpoint 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 \$44.12 to \$60.00 per square foot. After considering a negotiability factor of -3.0%, the rents range from \$42.80 to \$58.20 per square foot.

<i>Available as of January 2015</i>				
<i>Address</i>	<i>Office Use</i>	<i>Sq. Ft.</i>	<i>Rent/Mo.</i>	<i>Rent/SF</i>
One Hanson Place	Medical Office	1,301	\$5,963	\$55.00
One Hanson Place	Medical Office	3,157	\$14,470	\$55.00
One Hanson Place	Medical Office	1,310	\$5,458	\$50.00
142-144 Joralemon Street	Medical Office	680	\$2,500	\$44.12
142-144 Joralemon Street	Medical Office	808	\$4,000	\$59.41
143 15th Street	Medical Office	655	\$2,850	\$52.21
120 Nassau Ave	Medical Office	1,500	\$7,500	\$60.00
165 Nassau Ave	Medical Office	1,600	\$6,500	\$48.75

**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:



*Source: New York City Department of City Planning*

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



Avenue in the northwest section of Brooklyn Community District 6.

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

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

Subway Map



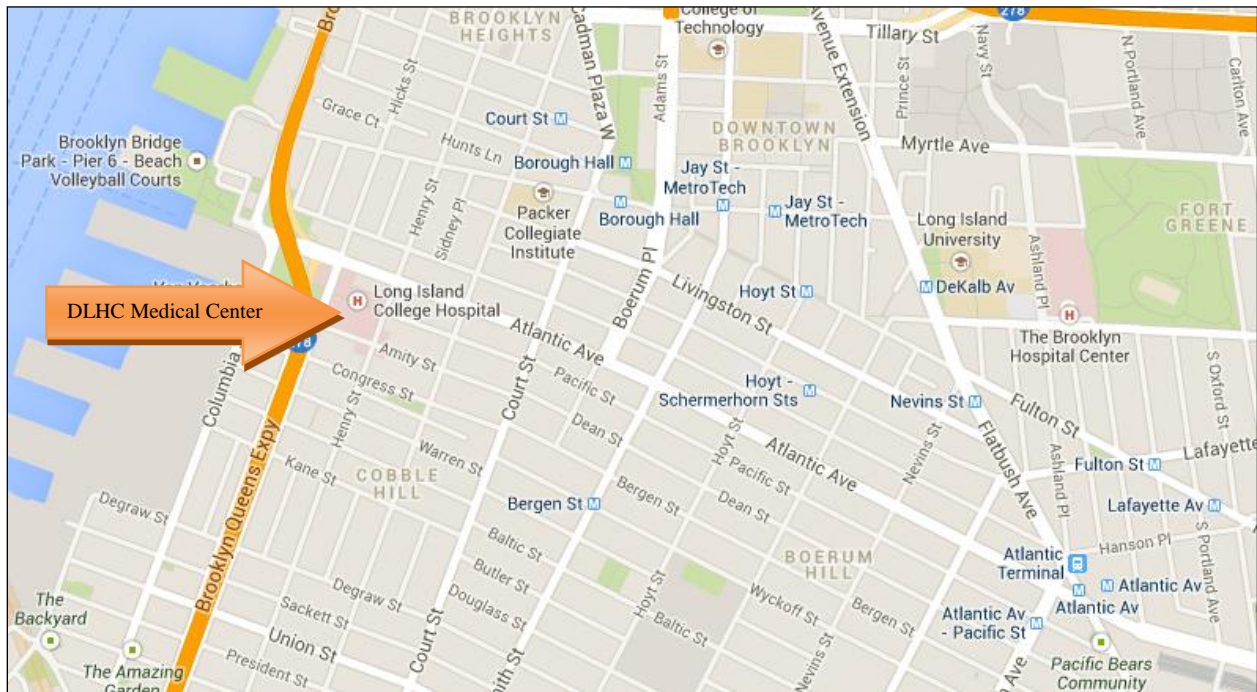
Bus Map



*Source: Metropolitan Transit Authority*



Area Map

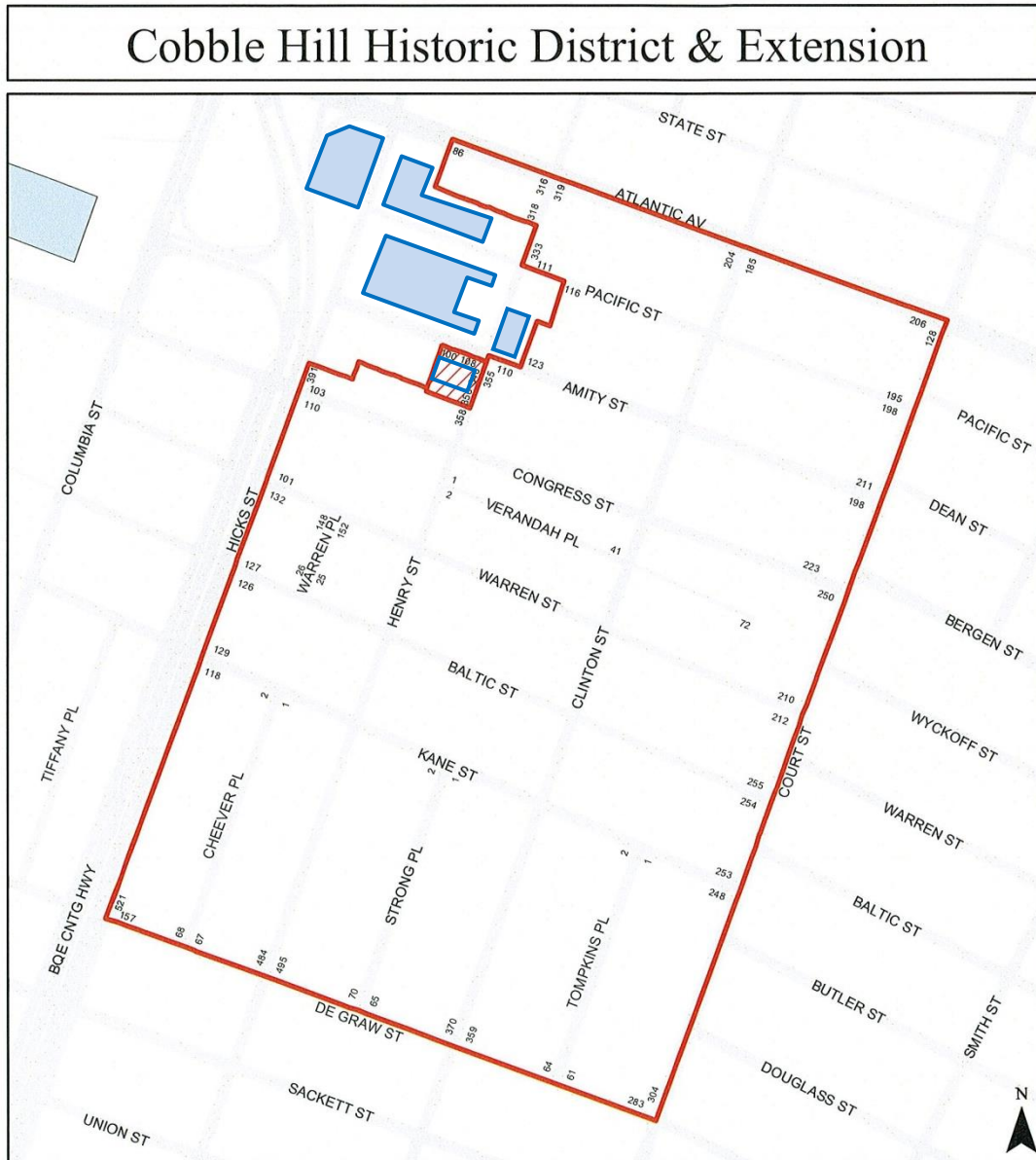


Source: Google Maps





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

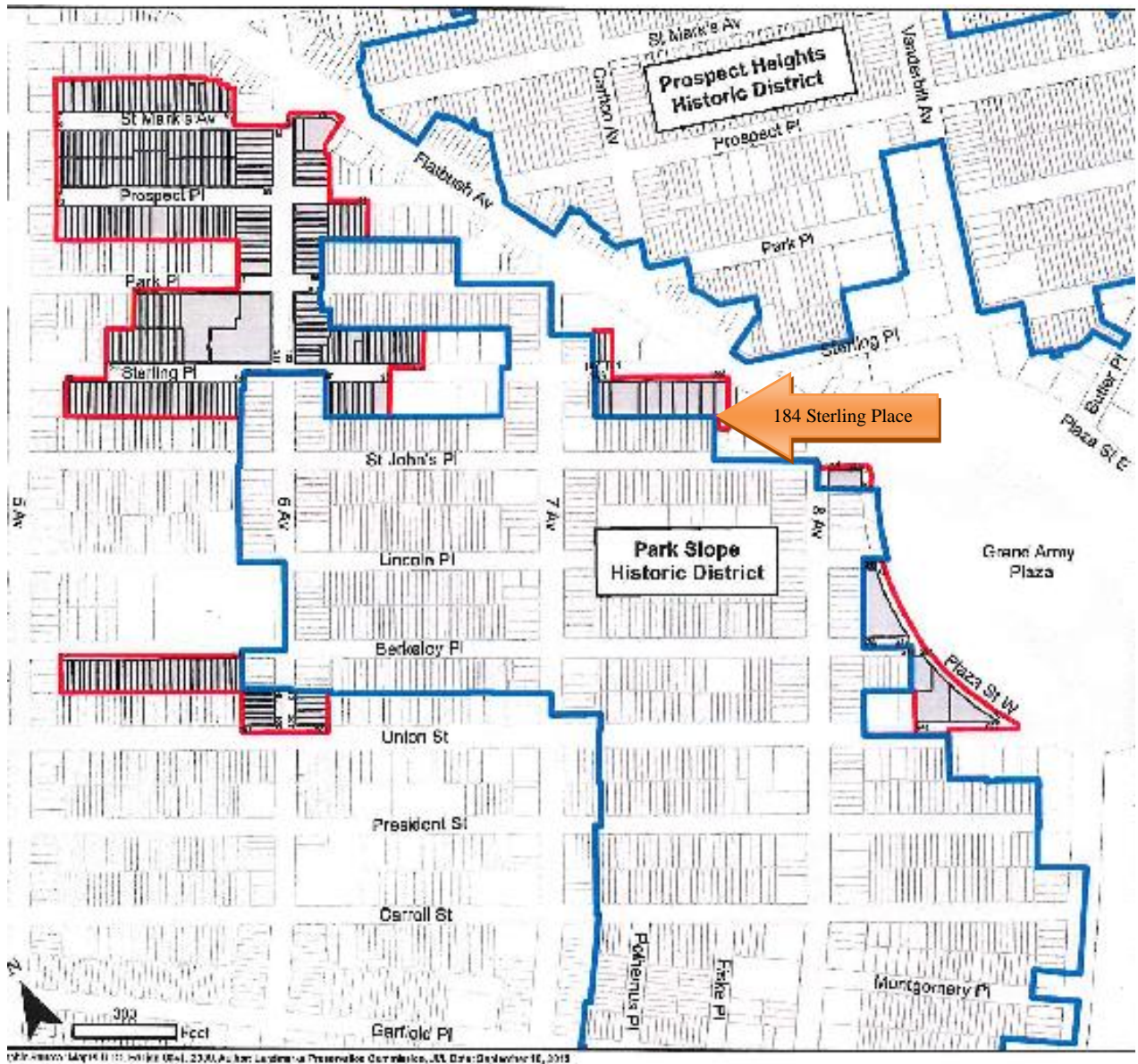


Source: The City of New York Landmarks Preservation Commission

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



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.

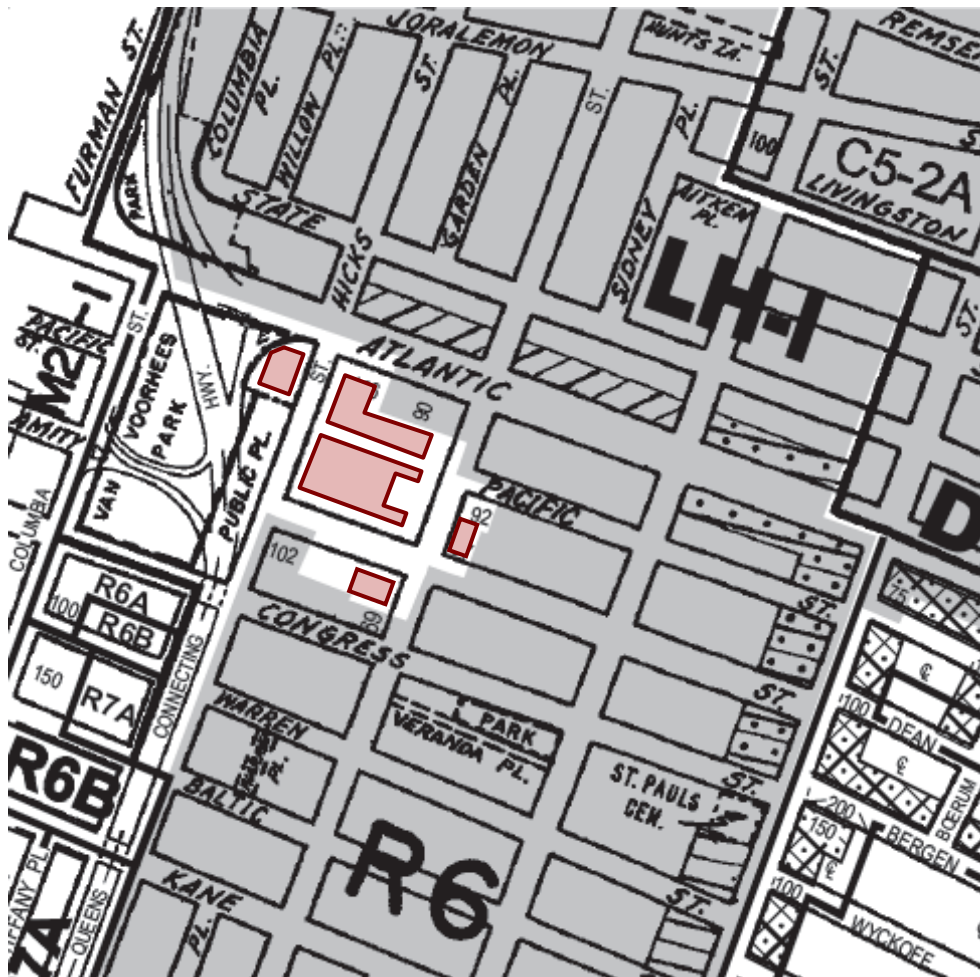




## ZONING ANALYSIS

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

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



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

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

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

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

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

The 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.



subject to the rights of the existing tenancies. The present value of the future benefits of property ownership is measured. There are two methods of income capitalization: direct capitalization and yield capitalization. In direct capitalization, the relationship between one year's income and value is reflected in either a capitalization rate or an income multiplier. In yield capitalization, the relationship between several years' stabilized income and a reversionary value at the end of a designated period is reflected in a yield rate. The most common application of yield capitalization is discounted cash flow analysis.

The Sales Comparison Approach is the process of deriving a value indication for a property by comparing similar properties that have recently sold with the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant when an adequate supply of comparable sales is available.

In the Cost Approach the reproduction or replacement cost new of the improvements is calculated and then the accrued depreciation is estimated and deducted. The land value is added and the resultant figure indicates the value of the entire property.

There are a variety of properties in this report, and they have different projected uses. The method used to value each property is discussed in the individual sections of this report.

**EXECUTIVE SUMMARY – Fuller Pavilion and Othmer Pavilion**

Addresses:	339 Hicks Street – Fuller Pavilion 91-95 Pacific Street – Othmer Pavilion
Neighborhood:	Cobble Hill
Tax Block/Lot:	Block 284 Lot 1
Zoning:	R6 with an FAR of 4.80 for community facility use and 2.43 for residential use.
Land Area:	49,132 square feet
Improvements:	<p>The Fuller Pavilion was part of an acute-care hospital and consisted of a 12-story with basement in-patient hospital. The mechanical space was primarily located in the basement and on the 12<sup>th</sup> floor. The Fuller Pavilion contained 232,308 square feet and was built in 1970.</p> <p>The Othmer Pavilion was adjoined to the Fuller Pavilion and was part of the acute-care hospital. The building consisted of eight stories with a basement and sub-basement. The 8<sup>th</sup> floor contained the majority of the mechanical space. The Othmer Pavilion contains 108,635 square feet and was built in 1990.</p> <p>According to the Department of Buildings, plans were filed on December 29, 2014 to demolish both the Fuller and Othmer Pavilion to make way for the new medical premises and the new non-medical premises to be developed by NYUHC and Fortis.</p>
Proposed Use:	The entire Fuller/Othmer site will be sold to Fortis who will donate a portion of the site to NYUHC, who will construct the new medical premises consisting of 105,000 square feet of community facility development bulk. We assume the remaining portion of the site will be developed by Fortis, who will construct the new non-medical site that will include 185,000 square feet of residential development and 25,000 square feet for community facility development. We relied on the area measurements described in the draft ZLDA. The area measurements in the final agreement may change. The playground facing Henry Street will remain a playground and will not be redeveloped.
Highest and Best Use:	The highest and best use of the site is for redevelopment by NYUHC of the new 24/7 emergency medical facility and by Fortis of the new residential and community facility tower.

Inspection Date: September 26, 2013 and February 3, 2015

Date of Value: October 8, 2014

**Valuations:**

Income Approach:	NA
Cost Approach:	NA
Sales Comparison Approach	
Community Facility Land Value:	\$13,000,000
Residential Land Value:	<u>\$60,900,000</u>
Total Land Value:	\$73,900,000
Reconciled Value:	\$73,900,000

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



Othmer Building – 91-95 Pacific Street – Facing West from Henry Street

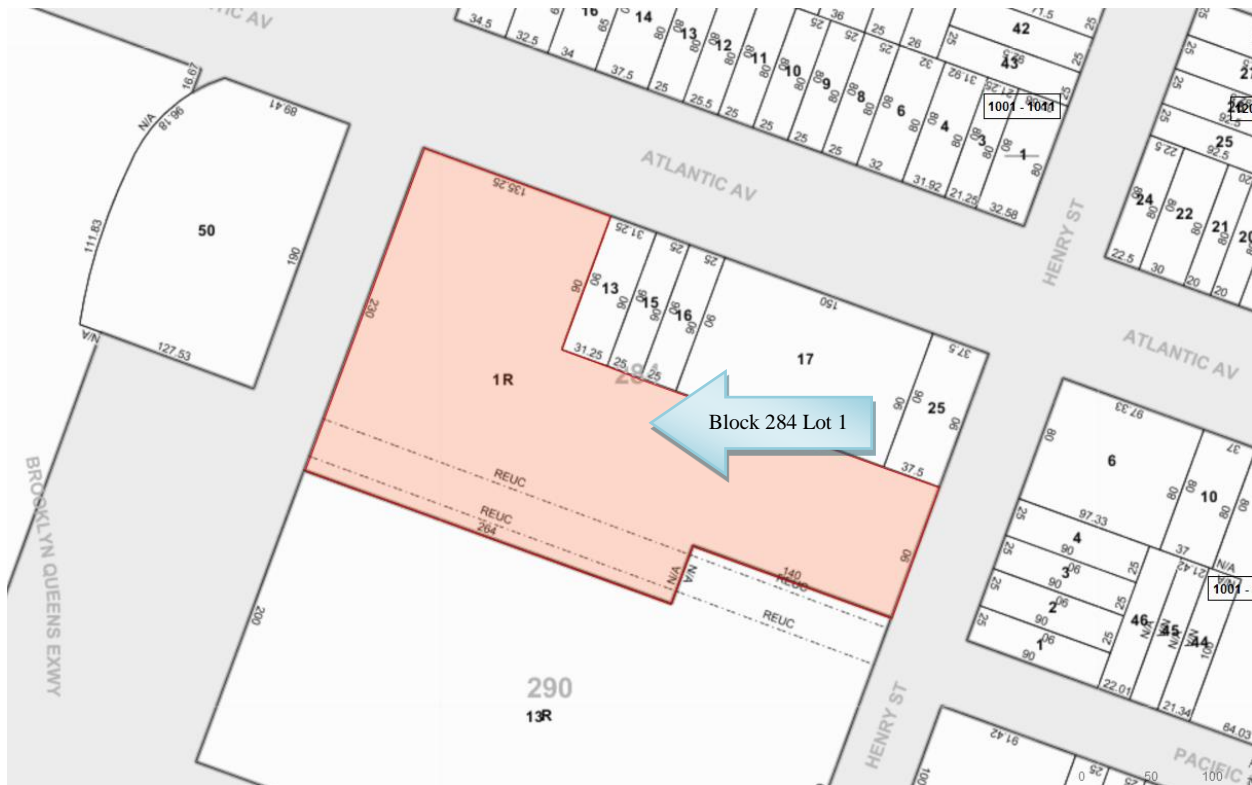


**Subject Photo – 339 Hicks Street – The Fuller Pavilion**



Fuller Pavilion – 339 Hicks Street – Facing Southeast from Atlantic Avenue

Tax Map



The Fuller Pavilion and Othmer Pavilion – Block 284 Lot 1

**PROPERTY DESCRIPTION – Block 284 Lot 1 – The Former Fuller and Othmer Pavilions**

Site

The subject site is located on the southeast corner of Atlantic Avenue and Hicks Street in the Cobble Hill section of Brooklyn, Community District 6. The full site contains both the Fuller and Othmer Hospital buildings plus a neighborhood park/playground on the Henry Street frontage of Block 284 Lot 1. The site has a total of 49,132 square feet of land with 90 feet of frontage on Henry Street, 230 feet of frontage along Hicks Street, and 135.25 feet of frontage along Atlantic Avenue. Site improvements include concrete sidewalk and curbs, decorative and security lighting, landscaped seating areas along Hicks and Atlantic Avenue, security gates, and wrought iron fences, gates, and railings. The playground along Henry Street is fenced, gated, and designed with play equipment and padded ground covering.

Improvements – Fuller Pavilion and Othmer Pavilion

The Fuller Pavilion was part of an acute-care hospital and consisted of a 12-story with basement in-patient hospital. The mechanical space was primarily located in the basement and on the 12<sup>th</sup> floor. The Fuller Pavilion contained 232,308 square feet and was built in 1970.

The Othmer Pavilion was adjoined to the Fuller Pavilion and was part of the acute-care hospital. The building consisted of eight stories with a basement and sub-basement. The 8<sup>th</sup> floor contained the majority of the mechanical space. The Othmer Pavilion contains 108,635 square feet and was built in 1990.

Plans were filed on December 29, 2014 with the Department of Buildings to demolish both the Fuller and Othmer Pavilions to make way for NYUHC’s construction of the new medical premises of 105,000 square feet of community facility use. We have made the assumption that Fortis will redevelop the non-medical portion of the site with 185,000 square feet of residential development and 25,000 square feet of community facility development.

**ASSESSMENT AND REAL ESTATE TAXES**

The actual and transitional assessed values for 2015/2016 are summarized in the table below. The assessment and real estate taxes are for the entire lot which includes the Fuller Pavilion and the Othmer Pavilion, Block 284 Lot 1. .

<b><u>339-355 Hicks Street Fuller &amp; 91- 95 Pacific Street - Othmer</u></b>	<b><u>Block 284</u></b>	<b><u>Lot 1</u></b>
2015/2016	Actual	Transitional
Land	\$1,890,000	\$1,890,000
Improvements	<u>\$38,731,950</u>	<u>\$38,973,690</u>
Total	\$40,621,950	\$40,863,690
Tax Class	4	
2014/2015 Tax Rate	10.684%	
Estimated Real Estate Taxes	\$4,340,049	
Assessor's 100% Market Value	\$90,271,000	

The tax assessor assigns two values to each property, the “transitional” and “target”, or “actual”, values. The transitional value represents an interim assessment. When a property’s target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessment is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption. The estimate of real estate taxes for the entire tax lot Block 284 Lot 1 for tax year 2015/2016 based on the 2014/2015 Class 4 tax rate of \$10.684% is \$4,340,049.

**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”.<sup>5</sup>

The four criteria that the highest and best use must meet are legal permissibility, physical

<sup>5</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition, 2008, Page 277

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.

As part of the plan to redevelop the LICH Hospital Campus, the former Fuller and Othmer Pavilions are slated for demolition. According to the draft Zoning Lot Development and Easement Agreement (ZLDA), Fortis will donate a portion of the site to NYU Hospitals Center (NYUHC) for construction of a 105,000 square foot medical facility with a 24/7 emergency department, an ambulatory surgical center, and various other clinical and medical office spaces. We have made the assumption that the remainder of the site will be developed by Fortis with an 185,000 square foot residential tower that will also contain 25,000 square feet of community facility use. The highest and best use for the site is as described above.

### **APPROACHES TO VALUE**

We considered the application of each of the three classic approaches to value, the cost, income capitalization, and sales comparison approaches. In analyzing their applicability, we considered the nature of the appraisal, the pertinent characteristics of the subject property, and the availability of data for use in connection with each approach.

The sales comparison approach is the primary method to estimate the value of vacant development land that is slated for residential and community facility use. The income approach and the cost approach are inappropriate when valuing development land.

The sales comparison approach was used to determine the current value of the subject property as a vacant development site with two projected uses. The first use is 105,000 square feet of community facility FAR for the new medical facility plus 25,000 square feet for a portion of the new non-medical site for a total community facility land area of 130,000 square feet of FAR. The second use is 185,000 square feet for construction of a residential tower on the new non-medical site portion of Block 284 Lot 1. The reason for valuing the two uses separately is that residential land has a much higher return to an investor than community facility land. Consequently, residential land is considerably more valuable and commands much higher prices. We relied on the area measurements described in the draft ZLDA, which may change in the final agreement.

We relied on recent sales of Brooklyn development land to estimate the value for each use. The first set of Brooklyn sales include development land sales for community facility use, and the second set of Brooklyn sales includes residential development land sales. The sales were adjusted to the subject property based on size and other factors of relative value. After making appropriate adjustments, we arrived at a value for each development scenario. The cost to demolish the Fuller and Othmer Pavilions was deducted from the aggregate land value to produce the present value of Block 284 Lot 1 as vacant and available for redevelopment.

### **THE SALES COMPARISON APPROACH**

The sales comparison approach was used to determine the current market value of the subject development land as if free and clear and available for the community facility and residential uses.

The sales comparison approach is a preferred method of value for development land because it directly reflects the actions of buyers and sellers in the marketplace based on the principle of substitution, which states that an informed purchaser will not pay more to acquire a property than the cost of acquiring a comparable substitute property.

The subject property is located in an R6 residential zone which permits the development of residential buildings with an FAR of 2.43 and community facility buildings with an FAR of 4.80. Typically, buildings that are sold for residential use have a higher return for an investor because demand for Brooklyn condominiums is strong, particularly apartments located in residential towers with sweeping city views. Community use facilities include such development as schools, libraries, museums, college dormitories, nursing homes and residential facilities for special needs. They also include houses of worship, community centers, hospitals, ambulatory health care facilities and non-profit facilities without sleeping accommodations. Land sale prices for community facility use are generally significantly lower in price than residential development land.

Landauer is valuing the site subject to the tentative agreements among Downstate at LICH Holding Company, Inc., FPG Cobble Hill Acquisitions, LLC, (Fortis), and NYU Hospitals Center (NYUHC). The Fuller/Othmer site will be divided into two sections. One section will be donated to NYUHC, who will construct the new medical premises consisting of 105,000 square feet of development bulk for community facility use. We have assumed that the remaining portion of the Fuller/Othmer site will be developed by Fortis, who will construct a residential tower consisting of 185,000 square feet of residential floor area and 25,000 square feet of community facility floor area. Because there is a restriction on use for a large portion of the site, Landauer prepared two comparable sales adjustment grids. The first adjustment grid contains sales of community facility development land for the proposed 130,000 square feet (105,000 square feet for NYUHC and 25,000 square feet for Fortis). The second adjustment grid contains sales of residential development land for the proposed 185,000 square feet of FAR. The cost to demolish the two hospital pavilions is deducted from the aggregate land value.

Sales of development land in Brooklyn neighborhoods were gathered and analyzed in order to estimate the value of the subject property. The sales were adjusted to the subject land based on size and other factors of relative value. After making appropriate adjustments and deducting the cost to demolish the Fuller and Othmer Pavilions, a value conclusion was determined for the proposed 130,000 square feet of community facility development bulk and 185,000 square feet of residential development bulk. There were an adequate number of residential development land sales and community facility land sales to render a value estimate for each portion of the site.

### **The Sales Comparison Approach – Community Facility Land Sales**

Landauer prepared a comparable sales adjustment grid that contains sales of community facility land located in various Brooklyn neighborhoods. Because sales of community facility sites are infrequent, it was necessary to use sales that are slightly older than typical sales used in a comparable sales adjustment grid. The first comparable sales adjustment grid is prepared to estimate the value of the community facility portion of Block 284 Lot 1 which includes the new medical site of 105,000 square feet to be developed by NYUHC and the new non-medical portion



of the site of 25,000 that we have assumed Fortis will develop with community facility use. The total development site has 130,000 square feet of FAR.

**Comparable Land Sales Location Map – Community Facility Development Land Sales**



The table on the next page contains our comparable community facilities land sales adjustment grid. The table is followed by an explanation of the elements of comparison and a narrative discussion of the comparable sales and their adjustments. For a complete description of each community facility land sale including tax maps and photographs, please refer to Page 42 of the Comparable Sales Book (Volume III).



**Community Facility Land Sales Adjustment Grid - Former Fuller/Othmer Site - Only Community Facility Use**

	Subject	Community Facility Land Sale #1	Community Facility Land Sale #2	Community Facility Land Sale #3	Community Facility Land Sale #4	Community Facility Land Sale #5
Address	91-95 Pacific Street & 339 Hicks St.	388 Marcy Avenue.	220 Hull Street	701 Caton Ave.	1621 61st St.	510 Coney Island Ave.
Cross Streets	Pacific St. Block Front	Middleton & Lorimer	Brdway & MG Blvd.	Kermit Pl & E. 8th St.	16th & 17th Avenues	SWC Turner Place
Neighborhood	Cobble Hill	Williamsburg	Bedford-Stuyvesant	Kensington	Borough Park	Kensington
Block/Lot	284/1	2240/40 & 41	1540/26	5321/64, 44, 73	5517/85	5342/10
Land Information						
Land Size	49,132	4,006	6,000	36,952	8,000	9,925
Frontage	135.25', 230', & 90'	50'	60'	234.08', 248.51', & 100.71'	80 feet	136.55' & 60.15'
Shape	Irregular	Rectangular	Rectangular	Irregular	Rectangular	L-shaped
Zoning	R6	R6	R6	R6A and R5B	M1-1	R6
Corner vs. Interior	Corner	Interior	Interior	3 Corners	Interior	Corner
FAR	2.43	4.80	2.42 *	2.24 *	2.29 *	4.80
Maximum Development Potential	315,000	19,229	14,514 *	87,629 *	18,330 *	47,640
Residential	185,000	0	0	0	0	0
Community Facility	130,000	19,229	14,514	87,629	18,330	47,640
Building Information						
Building Size	340,943	None	None	None	6,080	225
# of Stories	12	NA	NA	NA	1.0	1.0
Building Use	Hospital	NA	NA	NA	Industrial Bldg.	Parking Lot
Proposed Property Use	Community Facility	Religious Facility	5-sty non-profit	5-sty school	Religious Facility	5-sty school
Sale Information						
Valuation/Contract Date	10/8/2014	1/31/2013	3/2/2012	12/6/2011	9/21/2011	6/28/2011
Transfer Date		11/12/2013	5/18/2012	12/6/2011	4/23/2012	6/28/2011
Sale Price		\$1,000,000	\$530,000	\$11,050,000	\$1,700,000	\$2,500,000
Demolition Costs @ \$25.00 per SF		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$152,000</u>	<u>\$5,625</u>
Total Sale Price		\$1,000,000	\$530,000	\$11,050,000	\$1,852,000	\$2,505,625
Sale Price per Square Foot of Land		\$249.63	\$88.33	\$299.04	\$231.50	\$252.46
Sale Price per Square Foot of FAR		\$52.01	\$36.52	\$126.10	\$101.04	\$52.59
<b>Adjustments</b>						
# of Months from Sale Date to Valuation Date		20	31	34	36	39
Market Conditions @ 6.0% Annually		10.00%	15.50%	17.00%	18.00%	19.50%
Adjusted Sale Price per Sq. Ft. of FAR		\$57.21	\$42.18	\$147.54	\$119.22	\$62.85
Location		5.00%	20.00%	10.00%	10.00%	10.00%
Corner Influence		10.00%	10.00%	-10.00%	10.00%	0.00%
Land Size - Potential Development Size		20.00%	20.00%	10.00%	20.00%	10.00%
Configuration/Water Views		5.00%	5.00%	5.00%	5.00%	5.00%
Zoning		<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>5.00%</u>	<u>0.00%</u>
Total Adjustments		40.00%	55.00%	15.00%	50.00%	25.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$80.09	\$65.37	\$169.67	\$178.83	\$78.56
Indicated Value per Sq. Ft. of FAR		\$100.00				
Indicated Value		\$13,000,000				
* Based on Dept. of Bldgs. Application						

## Analysis of Community Facility Development Land Sales

The comparable sales include development sites that are located throughout Brooklyn in neighborhoods of Williamsburg, Bedford-Stuyvesant, Kensington, and Borough Park. Each sale was purchased for the development of a community facility use and is either under construction or on hold pending community facility development. The sales had contract dates ranging from June 2011 to January 2013 and sale prices that range from \$530,000 to \$11,050,000. The unadjusted unit prices range from \$36.52 to \$126.10 per square foot of FAR. The preceding sales adjustment grid shows the sales and various adjustments used in this analysis to relate the comparable sales to the subject property. The infrequency of land development sales used exclusively for community facility use required using sales that were older than typical comparable sales.

## Elements of Comparison

### Market Conditions

Brooklyn residential and commercial sales have been brisk and sale prices have been increasing as multiple developments are under way in many neighborhoods. The market conditions adjustment for the community facility land sales is 6.0% annually.

### Location

The comparable sales are located throughout Brooklyn in Williamsburg, Bedford-Stuyvesant, Kensington, and Borough Park. The LICH campus is ideally situated within close access to public transportation and with views of the East River and Manhattan skyline. The comparable sales were adjusted accordingly for their locations.

### Corner Influence

Corner sites and sites with frontage along more than one street have greater discretion in developing a building by offering greater exposure and better natural lighting from two or more elevations. Consequently, corner sites generally sell at a premium. The comparable sales were adjusted accordingly for this advantage.

### Land Size – Potential Development Potential

The potential development sizes of the comparable sales range from 14,514 to 87,629 square feet of FAR, all smaller than the subject's 130,000 square feet restricted to community development use. The potential developments include schools, non-profit accommodations, and religious facilities. The smaller sites were adjusted upward because the subject property has greater development potential.

### Configuration/Water Views

Sometimes the shape of the development site affects the ability to develop the site to its most useful

potential. Conversely, the configuration of the site may enhance the flexibility of the development. The subject properties have lovely East River and Manhattan skyline views. Residential developers generally pay a premium for extraordinary views in prime residential neighborhoods. The comparable sales were adjusted accordingly for configuration and water views.

### Zoning

Zoning adjustment considers use limitations, construction economies of scale that benefit higher FAR projects, and the inability of a developer to utilize FAR outside of a district for split zoned districts.

### **Discussion of the Sales and Adjustments for Community Facility Development**

**Development Land Sale #1** is the sale of a Williamsburg development site located at 388 Marcy Avenue between Middleton and Lorimer Avenues. The vacant, interior site has 4,006 square feet of land and 50 feet of frontage along Marcy Avenue. The sale was contracted on January 31, 2013 for a sale price of \$1,000,000 which equates to a unit price of \$52.01 per square foot of FAR. The buyer intends to construct a religious facility on the site, although the DOB does not yet have an application for construction as of the valuation date. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantage of a corner development site. The sale was also adjusted upward for its smaller development potential and because the subject site has views of Manhattan's skyline and the East River.

**Development Land Sale #2** is the sale of a Bedford-Stuyvesant development site located at 220 Hull Street between Broadway and Mother Gaston Boulevard. The vacant site has 6,000 square feet of land with 60 feet of frontage on Hull Street. The sale was contracted on March 2, 2012 for a sale price of \$530,000 which equates to \$36.52 per square foot of FAR. The buyer plans to construct a five-story and cellar non-profit institutional building with sleeping accommodations of 28 dwelling units. The DOB reports a community facility of 14,514 square feet will be constructed on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location, its interior location, and for its smaller development potential. The sale was adjusted upward because the subject site has views of Manhattan's skyline and the East River.

**Development Land Sale #3** is the sale of a school development site of 87,629 square feet of land located at 701 Caton Avenue in the Kensington section of Brooklyn. The vacant site has two corners and frontage along three streets with a total land area of 36,952 square feet. The site has a potential development size of 87,629 square feet of FAR according to the DOB application for construction of the five-story and cellar school. The buyer is the New York City School Construction Authority. The contract date was December 6, 2011, and the sale price was \$11,050,000 which equates to a unit price of \$126.10 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and for its smaller development potential. The sale was adjusted downward for its exposure at three corners and frontage along four streets. The sale was adjusted upward because the subject site has views of Manhattan's skyline and the East River.

**Development Land Sale #4** is the sale of a Borough Park community facility development site located at 1621 61<sup>st</sup> Street on the between 16<sup>th</sup> and 17<sup>th</sup> Streets. The rectangular site has 8,000 square feet of land and a development potential of 18,330 square feet. The site has 80 feet of frontage along 61<sup>st</sup> Street. The buyer proposed construction of a three-story, house of worship. The DOB application for construction indicated the community facility would have 18,330 square feet of building area. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location, for its interior location, and for its smaller development potential. Because the site is zoned M1-1, there are some limitation to the type of community facilities that can be developed on the site. An upward adjustment for zoning was warranted. The sale was adjusted upward because the subject site has views of Manhattan's skyline and the East River and the comparable has city views.

**Development Land Sale #5** is the sale of community facility development site located at 510 Coney Island Avenue in the Kensington section of Brooklyn. The L-shaped site is located on the southwest corner of Turner Place. The rectangular site has 60.15 feet of frontage along Coney Island Avenue and 136.55 feet of frontage along Turner Place for a total land area of 9,925 square feet. The as-of-right development potential is 47,640 square feet. The sale was contracted on June 28, 2011 for a sale price of \$2,500,000. At the time of sale, the site was used as a parking lot, and it contained a small garage structure. After adding demolition costs to the sale price, the unit price is \$52.59 per square foot of FAR. The buyer was the New York City School Construction Authority. Their website indicates the construction of a school is pending, although demolition of the garage was indicated in the DOB application as of October 23, 2013. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and for its smaller development potential. The sale was adjusted upward because the subject site has views of Manhattan's skyline and the East River.

### **Comparable Sales Adjustment Grid Conclusions for Community Facility Use**

After making all of the adjustments to the comparable community facility land sales, the adjusted prices ranged from \$65.37 to \$178.83 per square foot of FAR and averaged \$114.51 per square foot of FAR. The median adjusted price was \$80.09 per square foot of FAR. The indicated value of the subject property is \$100.00 per square foot of FAR which equates to a land value of \$13,000,000.

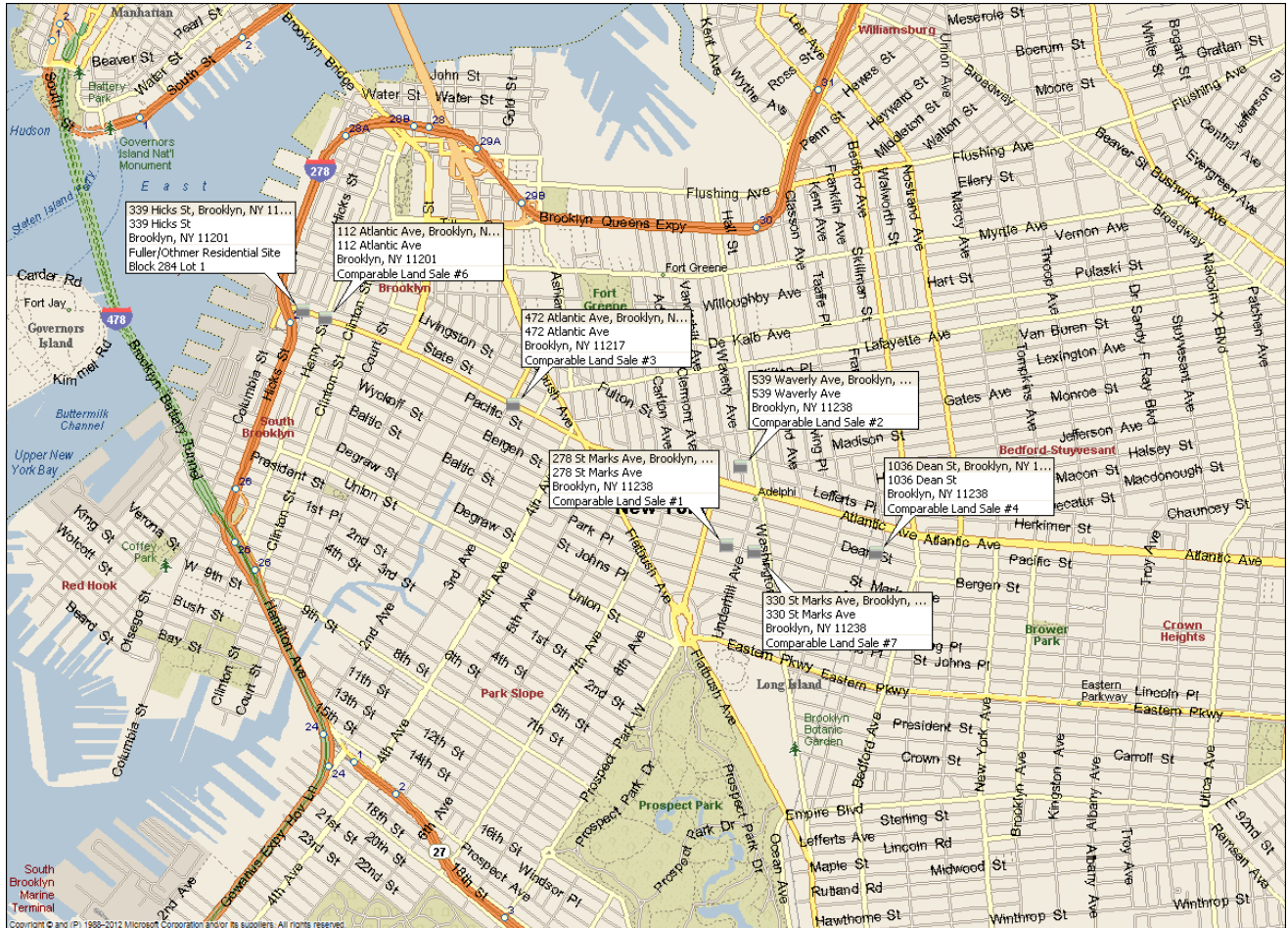
As previously indicated, the demolition costs for the Fuller and Othmer Pavilions will be deducted from the aggregate value of both the community facility and residential development portions of the new medical site and the new non-medical site (Block 284 Lot 1).

### **The Sales Comparison Approach – Residential Land Sales**

Landauer prepared a comparable sales adjustment grid that contains sales of residential development land located in various Brooklyn neighborhoods. The second comparable sales adjustment grid is prepared to estimate the value of the residential portion of Block 284 Lot 1 which includes the new non-medical portion of the site of 185,000 that we have assumed Fortis will develop with a residential tower.



**Comparable Land Sales Location Map – Residential Development Land Sales**



The table on the next page contains our comparable residential land sales adjustment grid. This is followed by a description of the elements of comparison and a narrative discussion of the comparable sales and their adjustments. For a complete description of each residential land sale, please refer to Page 29 of the Comparable Sale Book. (Volume III)



**Residential Land Sales Adjustment Grid - Fuller and Othmer - Block 284 Lot 1 - Residential Use**

	Subject	Land Sale 1	Land Sale 2	Land Sale 3	Land Sale 4	Land Sale 5	Land Sale 6
Address	91-95 Pacific Street & 339 Hicks St.	278-292 St. Marks Ave.	539-559 Waverly Ave.	472-484 Atlantic Ave.	1036-1040 Dean St.	112-118 Atlantic Ave.	330-334 St. Marks Ave.
Cross Streets	Pacific St. Block Front	Vanderbilt & Underhill	NEC Atlantic Ave.	SEC Nevins St.	SWC Franklin St.	SEC Henry St.	Washington & Underhill
Neighborhood	Cobble Hill	Prospect Heights	Clinton Hill	Boerum Hill	Crown Heights	Cobble Hill	Prospect Heights
Block/Lot	284/1	1152/35	2012/1,65,67,69,70,71	185/4	1142/44	285/6	1153/21
Land Information							
Land Size	49,132	23,000	31,912	16,100	21,877	7,785	5,000
Frontage	135.25', 230', & 90'	154.5'	144.5 & 173.7	40', 70', 150'	153.7' & 141.08'	97.3' & 80'	50'
Shape	Irregular	Irregular	Irregular	Irregular	Nearly Rectangular	Rectangular	Rectangular
Zoning	R6	R6B	R7A & R6B	R6A w/C2-4 OL	R6 w/C2-3 OL	R6	R6B
Corner vs. Interior	Corner	Interior	Corner	Corner & Thru Block	Corner	Corner	Interior
FAR	2.43	1.83	2.95	2.85	3.32	3.00	1.99
Maximum Development Potential	315,000	50,758	94,212	63,629	72,663	23,355	9,979
Residential	185,000	50,758	86,529	57,647	72,663	17,355	9,979
Commercial	130,000	0	7,683	5,982	0	6,000	0
Building Information							
Building Size	340,943	19,650	61,277	8,100	38,800	1,590	2,500
# of Stories	12	1.0	NA	1.0	5.0	1.0	1.0
Building Use	Hospital	Garage	Industrial & Mixed Use	Commercial	Industrial Bldg.	Garage	Garage
Proposed Property Use	Residential Development	5-sty residential bldg.	5-sty, 122-unit apt.	7-sty, 31-units	8-sty, 106-units	Resid./Comm. Fac.	4-sty Residential
Sale Information							
Valuation/Contract Date	10/8/2014	8/8/2014	5/2, 7/11, 9/12 2014 **	7/8/2014	4/4/2014	12/23/2013	6/13/2013
Transfer Date		11/3/2014	11/18/2014	7/8/2014	8/7/2014	4/30/2014	8/29/2013
Sale Price		\$16,628,428 *	\$31,875,000	\$18,025,000	\$17,500,000	\$7,750,000	\$2,200,000
Demolition Costs @ \$25.00 per SF		\$491,250	\$1,531,925	\$202,500	\$970,000	\$39,750	\$62,500
Total Sale Price		\$18,048,106	\$33,406,925	\$18,227,500	\$18,470,000	\$7,789,750	\$2,262,500
Sale Price per Square Foot of Land		\$784.70	\$1,046.85	\$1,132.14	\$844.27	\$1,000.61	\$452.50
Sale Price per Square Foot of FAR		\$355.57	\$354.59	\$286.47	\$254.19	\$333.54	\$226.73
<b>Adjustments</b>							
# of Months from Sale Date to Valuation Date		2	3	3	6	9	16
Market Conditions @ 6.0% Annually		1.00%	1.50%	1.50%	3.00%	4.50%	8.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$359.13	\$359.91	\$290.76	\$261.81	\$348.55	\$244.86
Location		5.00%	0.00%	0.00%	10.00%	0.00%	5.00%
Corner Influence		10.00%	0.00%	-5.00%	0.00%	0.00%	10.00%
Land Size - Potential Development Size		10.00%	5.00%	10.00%	5.00%	15.00%	15.00%
Configuration/Water Views		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Zoning		0.00%	0.00%	-5.00%	-5.00%	0.00%	0.00%
Total Adjustments		30.00%	10.00%	5.00%	15.00%	20.00%	35.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$466.87	\$395.90	\$305.30	\$301.08	\$418.26	\$330.57
Indicated Value per Sq. Ft. of FAR	\$375						
Indicated Value	\$69,375,000						
Demolition Costs of \$25.00 per SF - Fuller/Othmer	-\$8,523,575						
Total Value	\$60,851,425						
Rounded	\$60,900,000						

\*Includes \$15,700,000 sale price plus \$928,428 for TDRs  
\*\*Based on three sale dates

## Analysis of Subject Development Land Sales

The comparable sales include six residential development sites that are located in Cobble Hill and nearby Brooklyn neighborhoods. The sales had contract dates that range from June 2013 to August 2014 and sale prices that range from \$2,262,500 to \$33,406,925. The unadjusted unit prices range from \$226.73 to \$355.57 per square foot of FAR. The preceding sales adjustment grid shows the sales and various adjustments used in this analysis to relate the comparable sales to the subject property.

## Elements of Comparison

### Market Conditions

The Brooklyn housing market is an alternative to the high cost of living in Manhattan. As a result, development of apartment projects in the borough is robust. According to REBNY's November 2014 market report, the number of Brooklyn housing permits issued through October 2014 was 6,366 compared to 6,144 permits issued in all of 2013. The Elliman Report indicates there are fewer new development sales in the fourth quarter of 2014 (68) than the fourth quarter of 2013 (166). They also indicate the listing discount as of the fourth quarter of 2014 for new development properties is 0.0%. At the same time, average housing prices for new development units rose 8.3%, and the median sale prices rose 15.1%. These market indications point to high demand and a dwindling supply. To reflect this upward trend, we applied market condition adjustments of 6.0% per year in 2013 and 2014.

### Location

All of the sales are located within close proximity to the subject property in Cobble Hill, Prospect Heights, Clinton Hill, Boerum Hill, and Crown Heights. The LICH campus is ideally situated within close access to public transportation and with views of the East River and Manhattan skyline. The comparable sales were adjusted accordingly for their locations.

### Corner Influence – Thru Block Positions

Corner sites and sites with frontage along more than one street have greater discretion in developing a building by offering greater exposure and better natural lighting from two or more elevations. Consequently, corner and thru block sites generally sell at a premium. The comparable sales were adjusted accordingly for these advantages.

### Land Size – Potential Development Potential

The potential development sizes of the comparable sales range from 9,979 to 94,212 square feet of FAR. All of the sales are potential residential sites, some with commercial overlays. The comparable sales were adjusted accordingly. Smaller development sites generally sell at a lower unit price than larger parcels with greater development potential.

### Configuration/Water Views

Sometimes the shape of the development site affects the ability to develop the site to its most useful potential. Conversely, the configuration of the site may enhance the flexibility of the development. The configuration of the site before dividing into two tax lots is irregular. The ZLDA indicates the Fuller/Othmer tax lot will be split into two tax lots, one tax lot for Fortis and one tax lot for NYUHC. Landauer does not know the configuration for the two new tax lots. Therefore, no adjustments were made for configuration. However, the subject properties have lovely views of the East River and Manhattan's skyline which warrant upward adjustments to the land sales with city views.

### Zoning

Zoning adjustments consider use limitation, construction economies of scale that benefit higher FAR projects, and the inability of a developer to utilize FAR outside of a district for split zoned districts.

### Discussion of the Sales and Adjustments

**Development Land Sale #1** is the sale of a Prospect Heights development site located at 278-292 St. Marks Avenue between Vanderbilt and Underhill Avenues. The interior site has 23,000 square feet of land and 154.4 feet of frontage along St. Marks Avenue. The sale was contracted on August 8, 2014 for a sale price of \$15,700,000. Included in the sale price was \$928,428 for 5,792 square feet of air rights from adjacent Lots 52 and 163. After adding demolitions costs at \$25.00 per square foot, the total land cost was \$18,048,106 which equates to a unit price of \$355.57 per square foot of FAR. The buyer intends to construct a five-story residential building on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantage of a corner development site. The sale was also adjusted upward because it has a smaller residential development size and upward because the subject site has Manhattan skyline and East River views.

**Development Land Sale #2** is the sale of a large Clinton Hill development site located at 539-559 Waverly Avenue on the northeast corner of Atlantic Avenue. The site has 31,912 square feet of land with 144.5 feet of frontage on Atlantic and 173.7 feet on Waverly Avenue. The sale was contracted on three different 2014 dates for a total of \$33,406,925 which equates to \$354.59 per square foot of FAR. The buyer plans to construct a five-story apartment building with 122 units. The land area and the FAR are based on the land area reported by the NYC DOB. After adjusting the sale for market conditions, the sale was adjusted upward for its smaller development potential and upward because the subject site has Manhattan skyline and East River views.

**Development Land Sale #3** is the sale of a residential development site of 16,100 square feet of land located at 472-484 Atlantic Avenue in the Boerum Hill section of Brooklyn. The site is a corner and thru block location on the southeast corner of Nevins Street and Atlantic Avenue.

According to the DOB application for construction, the site has a potential development size of 63,629 square feet of FAR. The contract date was July 8, 2014, and the sale price was \$18,025,000. After adding demolition costs at \$25.00 per square foot the unit price is \$286.47 per square foot of FAR. After adjusting the sale for market conditions, the sale was adjusted downward because it has both a corner and thru-block configuration. The sale was adjusted upward for its smaller residential development potential. The sale was adjusted downward because it has a commercial overlay that would permit commercial as well as residential development along Atlantic Avenue. The sale was adjusted upward because the subject property has superior Manhattan skyline and East River views.

**Development Land Sale #4** is the sale of a Crown Heights residential site located at 1036-1040 Dean Street on the southwest corner of Franklin Street. The nearly rectangular site has 21,877 square feet and a development potential of 72,663 square feet of FAR. The site has 153.7 feet of frontage along Dean Street and 141.8 feet of frontage along Franklin Street. The buyer proposed construction of an eight-story, 106 unit apartment building. The sale was contracted on April 4, 2014 for a sale price of \$17,500,000. After adding demolition costs, the unit price is \$254.19 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its smaller development potential. The sale was adjusted downward for its zoning with a commercial overlay that permits commercial development. The sale was adjusted upward because the subject property has superior Manhattan skyline and East River views.

**Development Land Sale #5** is the sale of a Cobble Hill site located at 112-118 Atlantic Avenue. The site is located on the southeast corner of Henry Street, directly across the street from the Othmer/Fuller LICH site. The rectangular site has 97.3 feet of frontage along Atlantic Avenue and 80 feet of frontage along Henry Street for a total land area of 7,785 square feet. The development potential is 23,355 square feet. The new owner plans to construct a new residential building. The contract was dated December 23, 2013, and it had a sale price of \$7,750,000 plus demolition costs of \$25.00 per square foot for the small service station. The unit price was \$333.54 per square foot of FAR. After adjusting the sale for market conditions, the sale was adjusted upward for its smaller development potential. The sale was adjusted upward because the subject property has superior Manhattan skyline and East River views.

**Development Land Sale #6** is the sale of a Prospect Heights development site located at 330-334 St. Marks Avenue. The interior, rectangular site has 5,000 square feet and 50 feet of frontage along St. Marks Avenue. The development potential is 9,979 square feet of FAR. The contract was dated June 13, 2013 for a sale price of \$2,200,000 plus demolition costs equates to a unit price of \$226.73 per square foot of FAR. The new owner plans to construct a four-story residential building on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantages of a corner configuration. The sale was also adjusted upward for its smaller development potential. The sale was adjusted upward because the subject property has superior Manhattan skyline and East River views.

**Comparable Sales Adjustment Grid Conclusions**

After making all of the adjustments to the comparable sales, the adjusted prices ranged from \$301.08 to \$466.87 per square foot of FAR and averaged \$369.66 per square foot of FAR. The median adjusted price was \$363.23 per square foot of FAR. The average of the three adjusted Atlantic Avenue development sites (#2, #3, and #5) is \$373.15, and the median adjusted price is \$395.90 per square foot. These three sales are given greater weight in estimating the subject's value because there is a great deal of residential development under way along Atlantic Avenue. The indicated value of the subject property is \$375.00 per square foot of FAR which equates to \$69,375,000 for the 185,000 square feet of residential development bulk. After deducting the cost of demolishing both the Fuller and Othmer Pavilions at \$25.00 per square foot of gross building area, the value of the residential development potential is rounded to \$60,900,000.

The indicated market value of the residential portion of the development site is \$60,900,000, and the indicated value of the community facility portion of the development site is \$13,000,000 (\$100.00 per square foot of community facility FAR). The indicated current market value of the Fuller/Othmer site as a residential and community facility development site as of October 8, 2014, is \$73,900,000.

<i>Fuller Pavilion and Othmer Pavilion - Block 284 Lot 1</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Land Value for Community Facility	Sales Comparison	\$13,000,000
Land Value for Residential	Sales Comparison	\$60,900,000
Reconciled Value - Medical & Non-Medical		\$73,900,000
Rounded		\$73,900,000

**EXECUTIVE SUMMARY – Polak Pavilion and Henry Street Building**

Addresses: 335-363 Hicks Street – Polak Pavilion  
340 Henry Street/97 Amity Street – Henry Street Building

Neighborhood: Cobble Hill, Brooklyn, NY

Tax Block/Lot: Block 290 Lot 13

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

Land Area: 80,800 square feet

Improvements: The Polak Pavilion is located on the northeast corner of Hicks and Amity Streets and is connected to the Henry Street Building that is located on the northwest corner of Henry and Amity Streets.

The Polak Pavilion consists of six stories with a basement. The mechanical space is primarily located in the basement and in the penthouse on the 6<sup>th</sup> floor. The Polak building contains 149,516 square feet and was constructed in 1983.

The Henry Street building is a 5- and 6-story medical office building that was built in 1905. The building has approximately 145,500 square feet of gross building area plus basement and sub-basement of 37,700 square feet.

Proposed Use(s): Fortis will lease the first floor of the Polak Pavilion and a portion of the first floor of the Henry building from DLHC and sublet the space to NYUHC to use as a temporary 24/7 emergency department. DLHC will maintain ownership of the site until construction of the new medical site is complete and NYUHC has vacated their portions of the first floor of each building. We estimate that NYUHC will operate the freestanding, 24/7 emergency department for approximately two to three years while the new medical site is constructed on the former Fuller/Othmer site. According to the proposed ZLDA, the space to be leased includes portions of the first floor. The size of the space is 32,990 square feet. There is a provision for an expansion space in the Henry Street building. If Fortis elects to take the Henry expansion space, the FQHC (Federal Qualified Health Center) use will be run by a licensed and qualified

FQHC operator designated by Fortis. The remaining portions of the two buildings will be vacant or used by DLHC during the term of the interim lease. Upon completion of construction of the new medical site, DLHC will convey Block 290 Lot 13 to Fortis.

We assume that the Henry Building will be converted to residential use when construction of the new medical facility is complete. The Polak Pavilion will be demolished and replaced with a residential and community facility building. The playground along Henry Street will remain a playground and will not be part of the redevelopment of the site.

**Highest and Best Use:**

We estimate the following highest and best use of the Polak/Henry site. Portions of the first floor of the Polak Pavilion and the Henry Building have an interim use as a 24/7 emergency medical center and a future use as a residential and community facility development. The Henry Building site has an interim use as part of the emergency medical center and future conversion of the building to residential condominiums. The Polak Pavilion will be demolished and redeveloped as a residential tower with community facility uses.

Inspection Date: September 26, 2013

Date of Value: October 8, 2014

**Valuations:**

Cost Approach: NA

**Sales Comparison Approach:**

Community Facility Land Value:	\$ 9,100,000
Residential Land Value:	<u>\$45,200,000</u>
Polak as Development Site:	<u>\$54,300,000</u>

**Income Approach:**

Residual Discounted Cash Flow Henry Building as Residential Condominiums:	\$32,900,000
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Reconciled Value: \$87,200,000

**Subject Photo – Polak Building – 355-363 Hicks Street**



**Polak Building – 355-363 Hicks Street**

**Subject Photo – 340 Henry Street**



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

## Tax Map



The Polak Building – Part of Block 290 Lot 13

## Site Description – Block 290 Lot 13

The subject site is located on the full block front of Amity Street between Hicks and Henry Streets in the Cobble Hill section of Brooklyn. The full site contains both the Polak Pavilion and the Henry Street medical office building on Block 290 Lot 13. Amity Street is a two-way east-west bound street and Henry Street is a one-way south bound street. Pacific Street at the north side of the building is for pedestrian use only and there is wrought iron fencing blocking the Henry Street entrance. The site has 200 feet of frontage along Hicks Street, 404 feet of frontage along Amity Street, and 250 feet of frontage along Henry Street for a total land area of 80,800 square feet.

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

## Improvements – Polak Pavilion

The site is improved with a five-story plus mechanical penthouse (6<sup>th</sup> floor) hospital building that is connected to two adjacent hospital buildings at 339 Hicks Street (Fuller Pavilion) and 91-95

Pacific Street (Othmer Building). Until recently, the building was primarily a trauma center with emergency rooms, ICU, cardiac care, and labor and delivery rooms. The building was originally designed to accommodate 12 stories but because of public complaints it was reduced to only six stories. The building was renovated and rebuilt as a state of the art trauma center in 2003. Constructed in 1983, the building formerly housed 124 hospital beds, including maternity services with 30 beds, some adult acute care and all 23 of the campus' available adult ICU beds. Other major functions include all of surgery, CSPD, ED and pharmacy. The building contains 149,516 above grade gross building area.

Only the first floor of the Polak Pavilion will be used by NYUHC as a temporary 24/7 emergency medical facility until completion of the new medical facility on the adjacent Fuller/Othmer site. The upper floors of the Polak Pavilion will remain vacant during the interim lease of the building. We assume that upon completion of the new medical facility, NYUHC will move out and the building will be demolished to make way for a new residential (149,062 square feet of FAR) and community facility (105,000 square feet of FAR) building in approximately two to three years.

### **Improvements – The Henry Street Building**

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

The above-grade building area is 145,500 square feet and the basement and sub-basement contain 27,700 square feet. At the time of inspection, the building was partly occupied, and it is currently vacant with the exception of a portion of the first floor that is leased to Fortis and sublet to NYUHC on an interim basis. The remaining floors of the Henry Building are vacant and may be occupied by DLCH. A portion of the first floor of the Henry Building will be used on a temporary basis by NYUHC for part of the 24/7 emergency medical facility until the completion of construction of the new medical facility on the Fuller/Othmer site. We project that the building will be converted to residential condominiums upon completion of the new medical site, which will be in approximately two to three years.

### **ASSESSMENT AND REAL ESTATE TAXES**

The actual and transitional assessed values for 2015/2016 are summarized in the table below. The assessment and real estate taxes are for the entire lot which includes the Polak Pavilion and the Henry Street Building. Block 290 Lot 13.

<u>355-363 Hicks Street &amp; 340 Henry Street/97 Amity Street</u>	<u>Block 290</u>	<u>Lot 13</u>
2015/2016	Actual	Transitional
Land	\$3,510,000	\$3,510,000
Improvements	<u>\$37,656,450</u>	<u>\$38,418,032</u>
Total	\$41,166,450	\$41,928,032
Tax Class	4	
2014/2015 Tax Rate	10.684%	
Estimated Real Estate Taxes	\$4,398,224	
Assessor's 100% Market Value	\$91,481,000	

The tax assessor assigns two values to each property, the “transitional” and “target”, or “actual”, values. The transitional value represents an interim assessment. When a property’s target assessment is increased, state law requires that the assessment be phased in over a five-year period, or 20% per year, until the transitional and target assessments are equivalent. The lower of the actual or transitional assessment is used in computing taxes. The subject property is currently entirely exempt, but we assume that it will lose its exemption. The estimate of real estate taxes for the entire tax lot Block 290 Lot 13 for tax year 2013/2014 based on the 2015/2016 Class 4 tax rate of 10.684% is \$4,398,224.

## ZONING

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 80,800 square feet of land area, a portion of which is allocated to the Polak Pavilion, a portion allocated to the Henry Building, and a portion allocated to the park along Henry Street. The Henry Building with medical offices was constructed on Block 290 Lot 13 in 1905 with a total of 145,500 square feet of above-grade gross building area and 37,000 square feet in the basement and sub-basement.

Reference is made to a memorandum that was provided by Cozen O’Connor and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility of converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 4 of the Zoning Resolution, provides that “...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof.”

The Henry Building was constructed in 1905. According to the Zoning Resolution, buildings constructed before December 15, 1961 are permitted to convert the entire existing floor area of the building to residential use, subject to the provisions of Article I, Chapter 5 of the Zoning Resolution (Residential Conversion of Existing Non-Residential Buildings). Due to the advanced age of the Henry Building, a variance to convert the entire building to an alternate legal use is unnecessary.

## **HIGHEST AND BEST USE**

The 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.

As part of the plan to redevelop the LICH Hospital Campus, the Polak Pavilion and the Henry Street Building are slated for interim use. DLCH will lease portions of the first floor of the buildings to FPG Cobble Hill Acquisitions, LLC (Fortis). Fortis will sublet the first floor of the Polak Pavilion and a portion of the first floor of the Henry Street building to NYUHC for temporary use as a 24/7 emergency medical facility. The remaining portions of the buildings will remain vacant or will be used by DLCH until construction of the new medical facility on the former Fuller/Othmer site is complete. After NYUHC moves to the new medical facility, DLCH will transfer ownership to Fortis.

The highest and best use of the Polak Pavilion is for interim use as an emergency medical facility and future demolition of the building for residential and community facility use. The highest and best use of the Henry Street Building is interim use of a portion as a medical facility and future conversion of the entire building to residential condominiums.

## **VALUATION**

### **Approaches to Value**

While all three valuation methods were considered in the valuation of Block 290 Lot 13, the site was divided into the two section and valued based on their highest and best use.

For the Polak Pavilion, Landauer relied on the sales comparison approach to indicate the value of a development site under two projected uses. The first is the development of community facility space with 105,000 square feet of FAR. The second is the development of the remaining residential bulk of 149,062 square feet. The reason for valuing the two uses separately is that residential land has a much higher return to an investor than community facility land. Consequently, residential land is considerably more valuable and commands much higher prices.

Because the highest and best use of the Henry Building is for conversion to residential condominiums, the income approach was used in the form of a discounted cash flow analysis to estimate its value as converted to residential condominiums.

Because portions of both buildings are committed to an interim use as an emergency medical facility for approximately two to three years, the indicated values of both portions of the site were discounted at the rate of 6.0% for 2.5 years.



**The Polak Pavilion**

**The Sales Comparison Approach – Community Facility Land Sales**

Landauer prepared a comparable sales adjustment grid that contains sales of community facility land located in various Brooklyn neighborhoods. Because sales of community facility sites are infrequent, it was necessary to use sales that are slightly older than typical sales used in a comparable sales adjustment grid. The first comparable sales adjustment grid is prepared to estimate the value of the community facility portion of Block 290 Lot 13 which includes 105,000 square feet of FAR to be developed by Fortis. The demolition costs will be deducted from the aggregate value of both the new community facility and residential portions of the Polak site.

**Comparable Land Sales Location Map – Community Facility Development Land Sales**



The table on the next page contains our comparable community facilities land sales adjustment grid. The descriptions of each sale including a photograph, tax map, and elements of the sale are found in the Sales Comparison Book beginning on page 42. The elements of comparison are the same as previously discussed in the valuation of the Fuller/Othmer site. Following the adjustment grid is a narrative discussion of the sales and adjustments made to each sale and conclusion of value.



**Residential Land Sales Adjustment Grid - Former Polak Site - Community Facility Use**

	Community Facility Land Sale #1	Community Facility Land Sale #2	Community Facility Land Sale #3	Community Facility Land Sale #4	Community Facility Land Sale #5
Subject	355-363 Hicks St.	388 Marcy Avenue.	220 Hull Street	701 Caton Ave.	1621 61st St.
Address	355-363 Hicks St.	388 Marcy Avenue.	220 Hull Street	701 Caton Ave.	1621 61st St.
Cross Streets	NEC Amity St.	Middleton & Lorimer	Brdway & MG Blvd.	Kermit Pl & E. 8th St.	16th & 17th Avenues
Neighborhood	Cobble Hill	Williamsburg	Bedford-Stuyvesant	Kensington	Borough Park
Block/Lot	Part of 290/13	2240/40 & 41	1540/26	5321/64, 44, 73	5517/85
Land Information					
Land Size		4,006	6,000	36,952	8,000
Frontage		50'	60'	234.08', 248.51', & 100.71'	80 feet
Shape		Rectangular	Rectangular	Irregular	Rectangular
Zoning	R6	R6	R6	R6A and R5B	M1-1
Corner vs. Interior	Corner	Interior	Interior	3 Corners	Interior
FAR	4.80	4.80	2.42 *	2.24 *	2.29 *
Maximum Development Potential	105,000	19,229	14,514 *	87,629 *	18,330 *
Residential	0	0	0	0	0
Community Facility	105,000	19,229	14,514	87,629	18,330
Building Information					
Building Size	145,500	None	None	None	6,080
# of Stories	6	NA	NA	NA	1.0
Building Use	Hospital/MOB	NA	NA	NA	Industrial Bldg.
Proposed Property Use	Community Facility	Religious Facility	5-sty non-profit	5-sty school	Religious Facility
Sale Information					
Valuation/Contract Date	10/8/2014	1/31/2013	3/2/2012	12/6/2011	9/21/2011
Transfer Date		11/12/2013	5/18/2012	12/6/2011	4/23/2012
Sale Price		\$1,000,000	\$530,000	\$11,050,000	\$1,700,000
Demolition Costs @ \$25.00 per SF		\$0	\$0	\$0	\$152,000
Total Sale Price		\$1,000,000	\$530,000	\$11,050,000	\$1,852,000
Sale Price per Square Foot of Land		\$249.63	\$88.33	\$299.04	\$231.50
Sale Price per Square Foot of FAR		\$52.01	\$36.52	\$126.10	\$101.04
<b>Adjustments</b>					
# of Months from Sale Date to Valuation Date		20	31	34	36
Market Conditions @ 6.0% Annually		10.00%	15.50%	17.00%	18.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$57.21	\$42.18	\$147.54	\$119.22
Location		5.00%	20.00%	10.00%	10.00%
Corner Influence		10.00%	10.00%	-10.00%	10.00%
Land Size - Potential Development Size		20.00%	20.00%	10.00%	20.00%
Configuration/Water Views		5.00%	5.00%	5.00%	5.00%
Zoning		0.00%	0.00%	0.00%	5.00%
Total Adjustments		40.00%	55.00%	15.00%	50.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$80.09	\$65.37	\$169.67	\$178.83
Indicated Value per Sq. Ft. of FAR	\$100.00				
Indicated Value	\$10,500,000				
Discounted at 6.0% for 2.5 years	\$9,076,630				
Rounded to	\$9,100,000				
* Based on Dept. of Bldgs. Application					

## **Discussion of the Sales and Adjustments for Community Facility Development**

**Development Land Sale #1** is the sale of a Williamsburg development site located at 388 Marcy Avenue between Middleton and Lorimer Avenues. The vacant, interior site has 4,006 square feet of land and 50 feet of frontage along Marcy Avenue. The sale was contracted on January 31, 2013 for a sale price of \$1,000,000 which equates to a unit price of \$52.01 per square foot of FAR. The buyer intends to construct a religious facility on the site, although the DOB does not yet have an application for construction as of the valuation date. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantage of a corner development site. The sale was also adjusted upward for its smaller development potential and upward because the subject site has lovely Manhattan skyline and East River views rather than city views.

**Development Land Sale #2** is the sale of a Bedford-Stuyvesant development site located at 220 Hull Street between Broadway and Mother Gaston Boulevard. The vacant site has 6,000 square feet of land with 60 feet of frontage on Hull Street. The sale was contracted on March 2, 2012 for a sale price of \$530,000 which equates to \$36.52 per square foot of FAR. The buyer plans to construct a five-story and cellar non-profit institutional building with sleeping accommodations of 28 dwelling units. The DOB reports a community facility use of 14,514 square feet will be constructed on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location, its interior location, and for its smaller development potential. The sale was adjusted upward for its city views and absence of East River and Manhattan skyline views.

**Development Land Sale #3** is the sale of a school development site of 87,629 square feet of land located at 701 Caton Avenue in the Kensington section of Brooklyn. The vacant site has two corners and frontage along four streets with a total land area of 36,952 square feet. The site has a potential development size of 87,629 square feet of FAR according to the DOB application for construction of the five-story and cellar school. The buyer is the New York City School Construction Authority. The contract date was December 6, 2011, and the sale price was \$11,050,000 which equates to a unit price of \$126.10 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and for its smaller development potential. The sale was adjusted downward for its exposure at three corners and frontage along four streets. The sale was adjusted upward for its city views and absence of East River and Manhattan skyline views.

**Development Land Sale #4** is the sale of a Borough Park community facility development site located at 1621 61<sup>st</sup> Street on the between 16<sup>th</sup> and 17<sup>th</sup> Streets. The rectangular site has 8,000 square feet of land and a development potential of 18,330 square feet. The site has 80 feet of frontage along 61<sup>st</sup> Street. The buyer proposed construction of a three-story, house of worship. The DOB application for construction indicated the community facility would have 18,330 square feet of building area. After adjusting the sale for market conditions, the sale was adjusted

upward for its inferior location, for its interior location, and for its smaller development potential. Because the site is zoned M1-1, there are some limitation to the type of community facilities that can be developed on the site. An upward adjustment for zoning was warranted. The sale was adjusted upward for its city views and absence of East River and Manhattan skyline views.

**Development Land Sale #5** is the sale of community facility development site located at 510 Coney Island Avenue in the Kensington section of Brooklyn. The L-shaped site is located on the southwest corner of Turner Place. The rectangular site has 60.15 feet of frontage along Coney Island Avenue and 136.55 feet of frontage along Turner Place for a total land area of 9,925 square feet. The as-of-right development potential is 47,640 square feet. The sale was contracted on June 28, 2011 for a sale price of \$2,500,000. At the time of sale, the site was used as a parking lot, and it contained a small garage structure. After adding demolition costs to the sale price, the unit price is \$52.59 per square foot of FAR. The buyer was the New York City School Construction Authority. Their website indicates the construction of a school is pending, although demolition of the garage was indicated in the DOB application as of October 23, 2013. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and for its smaller development potential. The sale was adjusted upward for its city views and absence of East River and Manhattan skyline views.

### **Comparable Sales Adjustment Grid Conclusions for Community Facility Use**

After making all of the adjustments to the comparable community facility land sales, the adjusted prices ranged from \$65.37 to \$178.83 per square foot of FAR and averaged \$114.51 per square foot of FAR. The median adjusted price was \$80.09 per square foot of FAR. The indicated value of the subject property is \$100.00 per square foot of FAR which equates to a land value of \$10,500,000. Because the Polak Pavilion is committed to NYUHC for approximately two to three years for use as an interim medical center, the value was discounted at the rate of 6.0% for 2.5 years. The final present value of the community facility development potential of the Polak site as of October 8, 2014, is \$9,100,000.

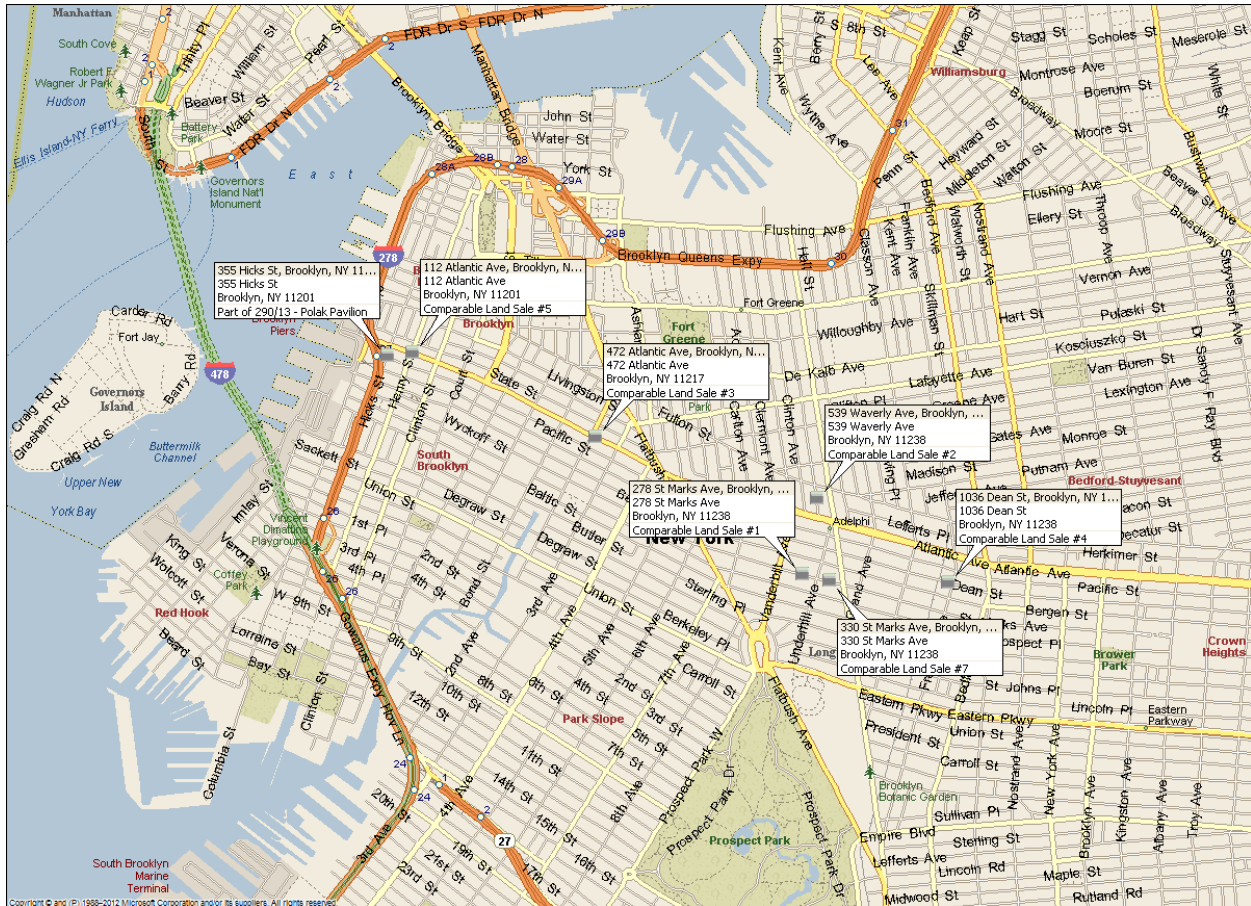
As previously indicated, the demolition costs of the Polak Pavilion will be deducted from the aggregate value of both the community facility and residential development portions of the Polak site (part of Block 290 Lot 13).

### **The Sales Comparison Approach – Residential Land Sales**

Landauer prepared a comparable sales adjustment grid that contains sales of residential development land located in various Brooklyn neighborhoods. The second comparable sales adjustment grid is prepared to estimate the value of the 149,062 square foot portion of the Polak site that we project Fortis will develop with a residential building upon completion of the new medical facility on the Fuller/Othmer site.



**Comparable Sales Location Map – Residential Land Sales**



The table on the next page contains our comparable residential land sales adjustment grid. The descriptions of each sale including a photograph, tax map, and elements of the sale are found in the Sales Comparison Book (Volume III) beginning on page 29. The elements of comparison are the same as previously discussed in the valuation of the Fuller/Othmer site. Following the adjustment grid is a narrative discussion of the sales and adjustments made to each residential sale and conclusion of value.



**Residential Land Sales Adjustment Grid - Polak Site - Part of Block 290 Lot 13 - 149,062 SF Residential FAR**

	Subject	Land Sale 1	Land Sale 2	Land Sale 3	Land Sale 4	Land Sale 5	Land Sale 6
Address	355-363 Hicks St.	278-292 St. Marks Ave.	539-559 Waverly Ave.	472-484 Atlantic Ave.	1036-1040 Dean St.	112-118 Atlantic Ave.	330-334 St. Marks Ave.
Cross Streets	NEC Amity St.	Vanderbilt & Underhill	NEC Atlantic Ave.	SEC Nevins St.	SWC Franklin St.	SEC Henry St.	Washington & Underhill
Neighborhood	Cobble Hill	Prospect Heights	Clinton Hill	Boerum Hill	Crown Heights	Cobble Hill	Prospect Heights
Block/Lot	Part of 290/13	1152/35	2012/1,65,67,69,70,71	185/4	1142/44	285/6	1153/21
Land Information							
Land Size	NA	23,000	31,912	16,100	21,877	7,785	5,000
Frontage	NA	154.5'	144.5 & 173.7	40', 70', 150'	153.7' & 141.08'	97.3' & 80'	50'
Shape	NA	Irregular	Irregular	Irregular	Nearly Rectangular	Rectangular	Rectangular
Zoning	R6	R6B	R7A & R6B	R6A w/C2-4 OL	R7A w/C2-4 OL	R6	R6B
Corner vs. Interior	Corner	Interior	Corner	Corner & Thru Block	Corner	Corner	Interior
FAR	2.43	1.83	2.95	2.85	3.32	3.00	1.99
Maximum Development Potential	254,062	50,758	94,212	63,629	72,663	23,355	9,979
Residential	149,062	51,792	94,212	63,629	72,663	17,355	9,979
Commercial	105,000	0	0	0	0	6,000	0
Building Information							
Building Size - Polak Pavilion	145,500	19,650	61,277	8,100	38,800	1,590	2,500
# of Stories	6	1.0	1.0	1.0	5.0	1.0	1.0
Building Use	Hospital	Garage	Industrial & Mixed Use	Commercial	Industrial Bldg.	Garage	Garage
Proposed Property Use	Residential Development	5-sty residential bldg.	5-sty, 122-unit apt.	7-sty, 31-units	8-sty, 106-units	Resid./Comm. Fac.	4-sty Residential
Sale Information							
Valuation/Contract Date	10/8/2014	8/8/2014	5/2, 7/11, 9/12 2014 **	7/8/2014	4/4/2014	12/23/2013	6/13/2013
Transfer Date		11/3/2014	11/18/2014	7/8/2014	8/7/2014	4/30/2014	8/29/2013
Sale Price		\$16,628,428 *	\$31,875,000	\$18,025,000	\$17,500,000	\$7,750,000	\$2,200,000
Demolition Costs @ \$25.00 per SF		<u>\$491,250</u>	<u>\$1,531,925</u>	<u>\$202,500</u>	<u>\$970,000</u>	<u>\$39,750</u>	<u>\$62,500</u>
Total Sale Price		\$18,048,106	\$33,406,925	\$18,227,500	\$18,470,000	\$7,789,750	\$2,262,500
Sale Price per Square Foot of Land		\$784.70	\$1,046.85	\$1,132.14	\$844.27	\$1,000.61	\$452.50
Sale Price per Square Foot of FAR		\$355.57	\$354.59	\$286.47	\$254.19	\$333.54	\$226.73
<b>Adjustments</b>							
# of Months from Sale Date to Valuation Date		2	3	3	6	9	16
Market Conditions @ 6.0% Annually		1.00%	1.50%	1.50%	3.00%	4.50%	8.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$359.13	\$359.91	\$290.76	\$261.81	\$348.55	\$244.86
Location		5.00%	0.00%	0.00%	10.00%	0.00%	5.00%
Corner Influence		10.00%	0.00%	-5.00%	0.00%	0.00%	10.00%
Land Size - Potential Development Size		10.00%	5.00%	10.00%	5.00%	15.00%	15.00%
Configuration/Water Views		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Zoning		<u>0.00%</u>	<u>0.00%</u>	<u>-5.00%</u>	<u>-5.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Adjustments		30.00%	10.00%	5.00%	15.00%	20.00%	35.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$466.87	\$395.90	\$305.30	\$301.08	\$418.26	\$330.57
Indicated Value per Sq. Ft. of FAR	\$375						
Indicated Value	\$55,898,250						
Less Demolition @ \$25.00 per SF	<u>-3,637,500</u>						
Total Value	\$52,260,750						
Discounted @ 6.0% for 2.5 years	\$45,176,333						
Rounded	\$45,200,000						

\*Includes \$15,700,000 sale price plus \$928,428 for TDRs

\*\*Based on three sale dates

## **Discussion of the Sales and Adjustments**

**Development Land Sale #1** is the sale of a Prospect Heights development site located at 278-292 St. Marks Avenue between Vanderbilt and Underhill Avenues. The interior site has 23,000 square feet of land and 154.4 feet of frontage along St. Marks Avenue. The sale was contracted on August 8, 2014 for a sale price of \$15,700,000. Included in the sale price was \$928,428 for 5,792 square feet of air rights from adjacent Lots 52 and 163. After adding demolitions costs at \$25.00 per square foot, the total land cost was \$18,048,106 which equates to a unit price of \$355.57 per square foot of FAR. The buyer intends to construct a five-story residential building on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantage of a corner development site. The sale was also adjusted upward because it has a smaller residential development potential and upward because the subject site has East River and Manhattan skyline views.

**Development Land Sale #2** is the sale of a large Clinton Hill development site located at 539-559 Waverly Avenue on the northeast corner of Atlantic Avenue. The site has 31,912 square feet of land with 144.5 feet of frontage on Atlantic and 173.7 feet on Waverly Avenue. The sale was contracted on three different 2014 dates for a total of \$33,406,925 which equates to \$354.59 per square foot of FAR. The buyer plans to construct a five-story apartment building with 122 units. The land area and the FAR are based on the land area reported by the NYC DOB. After adjusting the sale for market conditions, the sale was adjusted upward for its smaller development potential and upward because the subject site has East River and Manhattan skyline views.

**Development Land Sale #3** is the sale of a residential development site of 16,100 square feet of land located at 472-484 Atlantic Avenue in the Boerum Hill section of Brooklyn. The site is a corner and thru block location on the southeast corner of Nevins Street and Atlantic Avenue. According to the DOB application, the site has a potential development size of 63,629 square feet of FAR. The contract date was July 8, 2014, and the sale price was \$18,025,000. After adding demolition costs at \$25.00 per square foot the unit price is \$286.47 per square foot of FAR. After adjusting the sale for market conditions, the sale was adjusted downward because it has both a corner and thru-block configuration. The sale was adjusted upward for its smaller residential development potential. The sale was adjusted downward because it has a commercial overlay that would permit commercial as well as residential development along Atlantic Avenue. The sale was adjusted upward because the subject site has lovely East River and Manhattan skyline views.

**Development Land Sale #4** is the sale of a Crown Heights residential site located at 1036-1040 Dean Street on the southwest corner of Franklin Street. The nearly rectangular site has 21,877 square feet and a development potential of 72,663 square feet of FAR. The site has 153.7 feet of frontage along Dean Street and 141.8 feet of frontage along Franklin Street. The buyer proposed construction of an eight-story, 106 unit apartment building. The sale was contracted on April 4, 2014 for a sale price of \$17,500,000. After adding demolition costs, the unit price is \$254.19 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its

inferior location and upward for its smaller development potential. The sale was adjusted downward for its zoning with a commercial overlay that permits commercial development. The sale was adjusted upward because the subject site has lovely East River and Manhattan skyline views.

**Development Land Sale #5** is the sale of a Cobble Hill site located at 112-118 Atlantic Avenue. The site is located on the southeast corner of Henry Street, directly across the street from the Othmer/Fuller LICH site. The rectangular site has 97.3 feet of frontage along Atlantic Avenue and 80 feet of frontage along Henry Street for a total land area of 7,785 square feet. The development potential is 23,355 square feet. The new owner plans to construct a new residential building. The contract was dated December 23, 2013, and it had a sale price of \$7,750,000 plus demolition costs of \$25.00 per square foot for the small service station. The unit price was \$333.54 per square foot of FAR. After adjusting the sale for market conditions, the sale was adjusted upward for its smaller development potential. The sale was adjusted upward because the subject site has lovely East River and Manhattan skyline views.

**Development Land Sale #6** is the sale of a Prospect Heights development site located at 330-334 St. Marks Avenue. The interior, rectangular site has 5,000 square feet and 50 feet of frontage along St. Marks Avenue. The development potential is 9,979 square feet of FAR. The contract was dated June 13, 2013 for a sale price of \$2,200,000 plus demolition costs equates to a unit price of \$226.73 per square foot of FAR. The new owner plans to construct a four-story residential building on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantages of a corner configuration. The sale was also adjusted upward for its smaller development potential. The sale was adjusted upward because the subject site has lovely East River and Manhattan skyline views.

### **Comparable Sales Adjustment Grid Conclusions**

After making all of the adjustments to the comparable residential land sales, the adjusted prices ranged from \$301.08 to \$466.87 per square foot of FAR and averaged \$369.66 per square foot of FAR. The median adjusted price was \$363.23 per square foot of FAR. The average of the three adjusted Atlantic Avenue development sites (#2, #3, and #5) is \$373.15, and the median adjusted price is \$395.90. These three sales are given greater weight in estimating the subject's value because there is a great deal of residential development under way along Atlantic Avenue. The indicated value of the subject property is \$375.00 per square foot of FAR from which demolition costs were deducted to arrive at \$52,260,750 for the 149,062 square feet of residential development bulk.

The residential portion of the Polak site cannot be developed until the NYUHC vacates the Polak Pavilion in approximately two to three years. Therefore, the indicated residential land value is discounted at the rate of 6.0% for 2.5 years to arrive at a present value rounded to \$45,200,000. The total indicated value of the community facility and residential portions of the Polak site as of October 8, 2014, is \$54,300,000.

\$ 9,100,000 Community Facility  
\$45,200,000 Residential  
\$54,300,000 Total Polak Development

**The Henry Street Building**

**Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums**

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the Henry Building and sell the apartments over a seven-year period at market prices.

We prepared a discounted cash flow (DCF) analysis wherein the first two years are estimated to be the time needed to convert the Henry Building into residential condominiums and the remaining five years of the DCF are the sellout period for the apartments. The Henry Building has a gross building area of 145,500 square feet of which approximately 25% is a loss factor resulting in a useable area of 109,125 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property its space will be utilized less efficiently than a newly built property. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom, 1 ½ bathroom unit and the current sale price is \$900,000 per apartment, \$900.00 per square foot.

**DCF Assumptions:**

Construction Period:	24 months
Sellout Period:	60 months
Real Estate Taxes:	\$6.00 per square foot
Operating Expenses:	\$12.00 per square foot
Annual Increases	
Real Estate Taxes	3.00%
Operating Expenses	3.00%
Cost to Convert to Apartments:	\$210.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	
Commission & Marketing	10.00% of sales
City Transfer Tax	0.40% of sales
State Transfer Tax	1.425% of sales
Discount Rate for Condo:	6.00%

**Potential Gross Income from Sale of Condominiums**

The estimate of an average sale price per square foot for the apartments to be sold at the converted Henry Street Building is based on a search for comparable condominium sales and on

surveyed Brooklyn statistics.

Landauer compiled a list of 85 recent sales of condominium apartments located in Cobble Hill and nearby neighbors of Boerum Hill, Brooklyn Heights, Clinton Hill, Downtown, Dumbo, Fort Greene, Greenpoint, Park Slope, Prospect Heights, and Williamsburg. The average sale price was \$1,089,754, and the average unit price was \$1,049 per square foot.

The Elliman Report compiled sales statistics for Brooklyn condominium new development sales as of the fourth quarter of 2014. The average sale price increased 8.3% from \$856,331 in the fourth quarter of 2013 to \$927,209 in the fourth quarter of 2014. The median sale price increased 15.1% during the same time period, and the price per square foot increased 11.8%. The number of sales and the number of days on market declined significantly, and the most recent listing discount was at 0.0%. All these statistics point to a strong market for condominium sales.

<b><i>New Development Condominiums - Brooklyn Fourth Quarter 2014</i></b>			
	4th Qtr 2014	% Change	4th Qtr 2013
Average Sales Price	\$927,209	8.3%	\$856,331
Average Price per Square Foot	\$928	11.8%	\$830
Median Sales Price	\$871,500	15.1%	\$757,000
Number of Sales	68	-59.0%	166
Days on Market	30	-52.4%	63
Listing Discount	0.0%		0.8%

*Source: The Elliman Report - Brooklyn Sales 4th Quarter 2014*

The Corcoran report also lists sales statistics from specific Brooklyn neighborhoods as of the fourth quarter of 2014. Their breakdown of Cobble Hill condominium sales, which include Brooklyn Heights, Dumbo, and downtown sales, indicates a 37.4% average price increase from \$906,000 to \$1,245,000 as of the end of 2014. The median sale price increased 27.3%, and the average price per square foot increased 23%. Nearby neighborhoods to the immediate south of Cobble Hill include Carroll Gardens, Boerum Hill, and Red Hook. The increases in sale prices reported in the Corcoran Report were equally dramatic with a 37.1% increase in the average sale price, a 54.1% increase in the median sale price, and a 12.4% increases in the average price per square foot.

<b><i>Brooklyn Heights - Cobble Hill - Dumbo - Downtown</i></b>			
Condominium Sale Prices	Average Sale Price	Median Sale Price	Average Price/SF
4th Qtr 2014	\$1,245,000	\$1,063,000	\$1,118
% Change	37.4%	27.3%	23.0%
4th Qtr 2013	\$906,000	\$835,000	\$909

*Source: The Corcoran Brooklyn Report - Fourth Quarter 2014*

<i>Carroll Gardens - Boerum Hill - Red Hook</i>			
Condominium Sale Prices	Average Sale Price	Median Sale Price	Average Price/SF
4th Qtr 2014	\$1,222,000	\$1,210,000	\$962
% Change	37.1%	54.1%	12.4%
4th Qtr 2013	\$891,000	\$785,000	\$856

*Source: The Corcoran Brooklyn Report - Fourth Quarter 2014*

The Brooklyn market statistics support our estimate of the average sale price of \$900,000 (\$900.00 per square foot) for a 1,000 square foot apartment. Based on the robust market conditions in the immediate neighborhood, the estimated apartment prices are anticipated to increase at the rate of 3.0% annually. The apartment sale price estimate for the Henry Building is based on the building having only six floors, and views from the Henry Building are limited.

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

#### Operating Expenses and Real Estate Taxes

Expenses were estimated for the residential condominiums at \$12.00 per square foot for operating expenses and \$6.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

#### Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Henry Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$114.28 per square foot. We applied a height multiplier for the six-story Henry Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$210.00 per square foot.

We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000. The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

**COST ESTIMATION - 340 Henry Street/97 Amity Street**

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$18.33
41/2	Ceiling		\$2.47
41/2	Partitions		\$25.80
41/3	Plumbing		\$9.89
41/3	Sprinkler		\$2.75
41/4	HVAC		\$11.23
41/4	Electrical		\$12.31
41/7	Roof Cover		\$2.84
42/7	Appliances		\$28.67
		<b>Total</b>	<b>\$114.28</b>
<b><u>Multipliers</u></b>			
41/8	Height Multiplier	1.00750	\$115.14
99/3	Current Cost: Eastern A	1.05	\$120.90
99/9	Locality: Brooklyn A	1.42	\$171.67
		<b>Total</b>	<b>\$171.67</b>
<b><u>Fees</u></b>			
	Architect/Engineer	6%	\$10.30
	Contingency	15%	\$25.75
		<b>Total</b>	<b>\$207.72</b>

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 5.50% to 10.00% and an average of 7.34%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings ranges from 5.8% to 9.0% and averages 7.20%. 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.

The final step in this analysis is consideration of the delay of approximately two to three years before conversion can be commenced due to the interim lease wherein NYUHC operates the temporary 24/7 emergency medical facility on the first floor of the Polak and Henry Street buildings. The value indicated in the discounted cash flow is discounted at the rate of 6.0% for 2 ½ years to indicate a present value of the site as conversion to residential condominiums.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Henry Building as converted to residential condominiums as of October 8, 2014 is \$32,900,000.

**Reconciliation and Final Value Conclusion**

<i>Polak Pavilion and Henry Street Building - Block 290 Lot 13</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Current Community Facility Land Value of Polak Site	Sales Comparison	\$9,100,000
Current Residential Land Value of Polak Site	Sales Comparison	\$45,200,000
Residual Condo Conversion of Henry Building	Discounted Cash Flow	<u>\$32,900,000</u>
Reconciled Value - Future Residential		\$87,200,000



<b>The Henry Street Building Conversion to Residential Condominium Units</b>							
<b>Assumptions</b>	# of Apartments	Total Residential	Average S.F.	Sales	Avg. Sale Price		
Unit Data	18 on each floor	Useable Sq.Ft.	Per Apt. Unit	Price P.S.F.	Per Apt.		
Total Area	109	109,125	1,000	\$900	\$900,000		
Construction & Sellout Period For Units:	84 months						
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales						
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% City + 1.425% State)						
Operating Expenses During Sellout:	\$12.00						
Real Estate Taxes During Sellout	\$6.00						
Total Residential Floor Area	109,125 sq. ft. gross area less 25.0% for lobby, circulation, & corridors						
Square Footage for Operating Expenses:	145,500 sq. ft. gba						
Square footage for Tax Expenses:	145,500 sq. ft. gba						
Discount Rate for Condo	6.0%						
Entrepreneur Incentive	15.0%						
Legal Cost for Conversion	\$300,000						
Cost to Convert to Apartments	\$210 per sq.ft.						
	Nov 14-Oct 15	Nov 15-Oct 16	Nov 16-Oct 17	Nov 17-Oct 18	Nov 18-Oct 19	Nov 19-Oct 20	Nov 20-Oct 21
General Inflation Growth Rate:	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate	-	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Sales Price per square foot	\$900	\$927	\$955	\$983	\$1,013	\$1,043	\$1,075
Operating Expenses	\$12.00	\$12.36	\$12.73	\$13.11	\$13.51	\$13.91	\$14.33
Real Estate Taxes	\$6.00	\$6.18	\$6.37	\$6.56	\$6.75	\$6.96	\$7.16
<b>Income From Residential Condominium Component:</b>	Nov 14-Oct 15	Nov 15-Oct 16	Nov 16-Oct 17	Nov 17-Oct 18	Nov 18-Oct 19	Nov 19-Oct 20	Nov 20-Oct 21
Proceeds From Sale of Residential Units	\$0	\$0	\$45,845,202	\$16,468,611	\$16,962,669	\$17,471,549	\$17,995,696
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)	\$0	\$0	(\$5,421,195)	(\$1,947,413)	(\$2,005,836)	(\$2,066,011)	(\$2,127,991)
Net Proceeds From Sale of Residential Units	\$0	\$0	\$40,424,007	\$14,521,198	\$14,956,834	\$15,405,539	\$15,867,705
Less Operating Expenses Carried	\$0	\$0	\$1,497,142	\$1,156,542	\$794,159	\$408,992	\$0
Less Real Estate Taxes Carried	\$1,260,000	\$1,297,800	\$748,571	\$578,271	\$397,080	\$204,496	\$0
<b>Total Expenses</b>	\$1,260,000	\$1,297,800	\$2,245,713	\$1,734,813	\$1,191,239	\$613,488	\$0
Prerenovation Cost Cash Flow From Sale of Residential Units	(\$1,260,000)	(\$1,297,800)	\$38,178,294	\$12,786,384	\$13,765,595	\$14,792,051	\$15,867,705
Less: Legal Cost for Conversion	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0
Less: Apartment Upgrade Cost	\$15,277,500	\$15,735,825	\$0	\$0	\$0	\$0	\$0
Total Conversion Cost	\$15,577,500	\$15,735,825	\$0	\$0	\$0	\$0	\$0
Less: Entrepreneur Incentive	\$2,336,625	\$2,360,374	\$0	\$0	\$0	\$0	\$0
	\$17,914,125	\$18,096,199	\$0	\$0	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units	(\$19,174,125)	(\$19,393,999)	\$38,178,294	\$12,786,384	\$13,765,595	\$14,792,051	\$15,867,705
Net Present Value of Condo Sell-Out	\$38,101,054						
Discounted at 6.0% for 2.5 years	\$32,936,112						
Indicated Value	<b>\$32,900,000 Rounded</b>						
\$/Square Foot of GBA	\$226						

**EXECUTIVE SUMMARY – Polhemus Building – 350 Henry Street**

The property at 350 Henry Street consists of a medical office building located on the main campus of SUNY Downstate Medical Center formerly Long Island College Hospital in the Cobble Hill neighborhood in the Borough of Brooklyn, City and State of New York. The building is identified on the New York City Tax Rolls as Block 295 Lot 21.

Effective Date of Value:	October 8, 2014
Date of Inspection:	September 26, 2013
Purpose of Appraisal:	The purpose of this report is to provide an opinion of the fair market value of the subject property in accordance with its highest and best use.
Zoning:	R6 Residential District in the Cobble Hill Historic District
Site Description – 350 Henry Street:	The site is a 6,834 square foot site located on the southwest corner of Amity and Henry Streets in the Cobble Hill section of the borough of Brooklyn. The site has 67 feet of frontage on Henry Street and 102 feet of frontage on Amity Street.
Building Description – 350 Henry Street:	The site is improved with an eight-story plus basement historic landmark structure that contains 51,600 square feet of above-grade gross building area. The building was used for hospital administrative offices, doctor’s offices, and nurses training. The building is currently vacant.
Highest and Best Use:	Conversion to residential condominiums.

**Valuations – 350 Henry Street**

Cost Approach:	NA
Sales Comparison Approach:	
For Community Facility Use:	\$11,600,000
Income Approach:	
Direct Capitalization	
For Rental Apartment Use:	\$6,800,000
Residual Discounted Cash Flow	
For Residential Condominiums:	\$17,400,000
Reconciled Value:	\$17,400,000
	\$337.21 per square foot of GBA



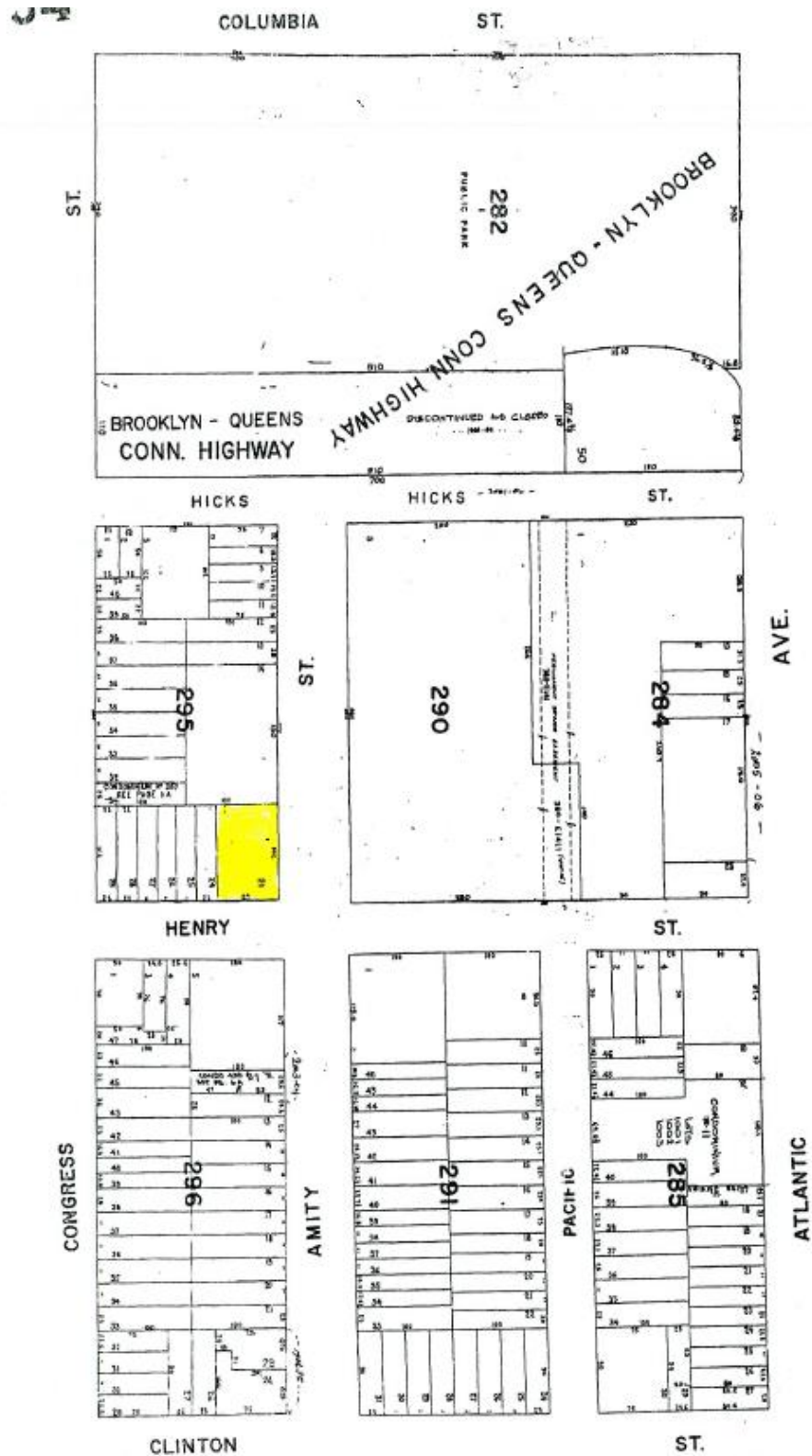
**Subject Photo** – 350 Henry Street



350 Henry Street – Polhemus Building

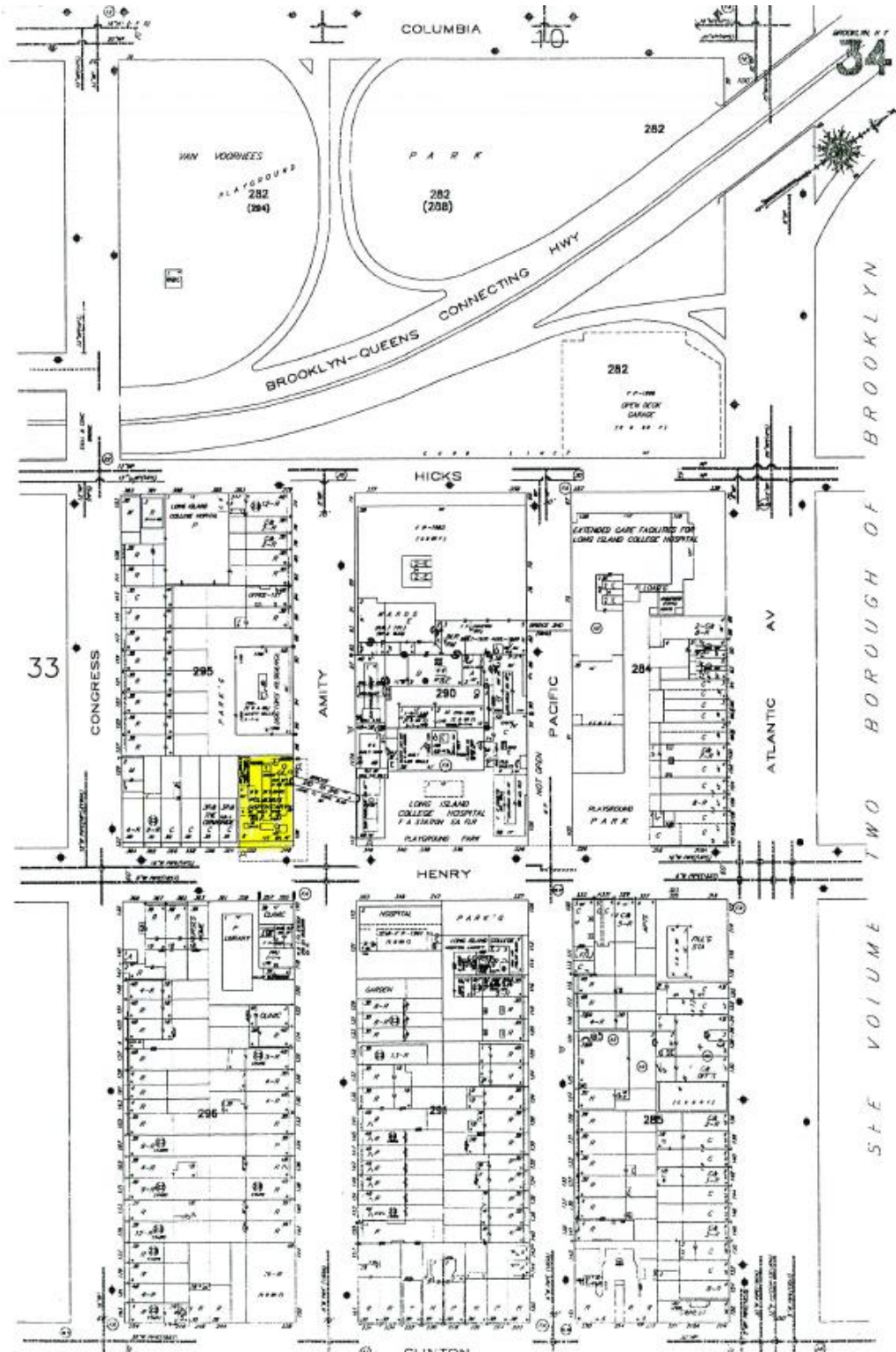


Tax Map – 350 Henry Street





**Overlay Tax Map**



## **PROPERTY DESCRIPTION**

### **Site Description – 350 Henry Street, Polhemus Building**

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

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

### **Building Description – 350 Henry Street, Polhemus Building**

The Polhemus Building was constructed in 1850 and formerly housed the Departments of Surgery and Anesthesia faculty practices and offices, the Allergy and Asthma Clinic and some support offices. The structure is reportedly currently vacant. There are two amphitheatres in the building that have not been used for many years, and the building is landmarked as well as located in the Cobble Hill Historic District Extension.

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

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

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

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

- Roof:** The roof is newer and there are excellent views of Manhattan, downtown Brooklyn, and the East River from the roof. The roof is a slanted, built up rubber membrane with tile coping, brick parapet and many skylights. It is accessed by a very narrow spiral staircase from the eighth floor.
- Windows:** Most of the windows are newer double-hung, double pane units and there are some older wood-framed windows. Some windows have air condition units.
- Mechanicals:** The heating system includes circulating steam from the main power plant. The electric system has 1600 amp and 450 volts. The building has a Class C fire alarm system that was installed in the late 1990s. Since the steam comes from the main hospital campus power plant in the Polak building, alternate heating methods are necessary because the Polak building will likely be replaced with a modern residential tower.
- Comments:** Many features of the building are interesting because of the high quality of the construction in 1850. Doors to the offices are solid oak paneled doors, some with windows, and the staircases have elaborate railings with wide steel risers. Some walls are marble wainscoting and some woodwork in the offices, particularly on the third floor, are beautifully restored. However the building is generally in very old condition with old mechanicals and many walls and floor coverings are dated, worn, and appear very old. The two amphitheatres are unused and in a state of disrepair. There are many old very ornate light fixtures throughout the building and many of the wood walls and doors are in a poor state of repair. The stairways have many large open pipes that are used for heat or sprinkler systems to the building.

**ASSESSED VALUE AND REAL ESTATE TAXES**

The Polhemus Building is listed on the New York City tax rolls as Block 295 Lot 21. The property is classified as Class 4 and is completely exempt from property taxes. The 2015/2016 assessed valuation and estimate of taxes are as follows:

<u>350 Henry Street</u>	<u>Block 295</u>	<u>Lot 21</u>
2015/2016	Actual	Transitional
Land	\$288,450	\$288,450
Improvements	<u>\$3,036,600</u>	<u>\$2,975,850</u>
Total	\$3,325,050	\$3,264,300
Tax Class	4	
2014/2015 Tax Rate	10.684%	
Estimated Real Estate Taxes	\$348,758	
Assessor's 100% Market Value	\$7,389,000	

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

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

## **ZONING**

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

Reference is made to a memorandum that was provided by Cozen O'Connor and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility of converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 4 of the Zoning Resolution, provides that "...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof."

The Polhemus Building was constructed in 1850. According to the Zoning Resolution, buildings constructed before December 15, 1961 are permitted to convert the entire existing floor area of the building to residential use, subject to the provisions of Article I, Chapter 5 of the Zoning Resolution (Residential Conversion of Existing Non-Residential Buildings). Due to the advanced age of the Henry Building, a variance to convert the entire building to an alternate legal use is unnecessary. The building is located in the extended Cobble Hill Historic District and as such must comply with the regulations of the Landmark Preservation Commission (LPC) when making alterations to the building.

## **HIGHEST AND BEST USE**

The highest and best use of the Polhemus building is for conversion to a residential condominium building and sellout of the units over a holding period.

## **VALUATION**

### **Approaches to Value**

While all three valuation methods were considered in the valuation of the Polhemus Building, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. The age of the building and the difficulty in estimating depreciation of the hospital buildings in the cost approach made the resulting value derived from the cost approach irrelevant. The sales comparison approach was used by the use

of community facility building sales located throughout Brooklyn. The use restriction due to the covenant does not permit medical office use for the Polhemus Building, and the R6 zoning district only permits residential or community facility uses. Sales of community facility buildings which included primarily schools and religious facilities were gathered and adjusted to the subject property.

The income approach was used in the form of a discounted cash flow analysis to estimate the value of the Polhemus Building as converted to residential condominiums. We used direct capitalization to indicate the value of the building as converted to a rental apartment building. We concluded the highest and best use of the Polhemus Building and the use that produces the greatest return on investment is to convert the building to residential condominiums.

The Polhemus Building has a gross building area of 51,600 square feet. In the conversion of the building to residential condominiums or as a rental apartment building, we deducted a loss factor of 25.0% of the gross area to arrive at a useable area of 38,700 square feet. Typical loss factors when converting buildings to alternate uses are 15.0% to 17.0%, however, the subject building with an unusual layout and the difficulty in converting to alternative uses required the use of a 25.0% loss factor.

### **Direct Capitalization – Conversion to a Rental Apartment Building**

Using direct capitalization, we estimated the value of the Polhemus Building as converted to a rental apartment building.

Applying an overall capitalization rate of 5.0% to the projected NOI of \$1,026,775 results in a value indication of \$20,535,500. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the office building into rental apartments at the rate of \$210.00 per square foot. The indicated value of the Polhemus Building as converted to medical offices was rounded to \$6,800,000.

***Rental Apartment Building Conversion***

***350 Henry Street - Polhemus***

51,600 sq. ft. gba                      38,700 sq. ft. rentable

***Income***

Income from Apartment Rent	@	\$50.00 per sq. ft.	\$1,935,000
Less Vacancy & Credit Loss	@	3.50%	<u>-\$67,725</u>
Effective Gross Income			\$1,867,275

***Expenses***

Operating Expenses	@	per sq. ft. \$10.00	\$516,000
Miscellaneous	@	\$0.04	\$2,000
Reserves for Replacements	@	\$0.25	\$12,900
Real Estate Taxes	@	<u>\$6.00</u>	<u>\$309,600</u>
Total Expenses		\$16.29	<u>\$840,500</u>

Net Operating Income \$1,026,775

Capitalization Rate 5.00%

Indicated Market Value Before Leaseup & Construction Costs		\$20,535,500
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$1,615,725
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$977,175
Less: Rent Loss (Year 2: 100% Leased)	100%	<u>-\$328,950</u>
Indicated Market Value		\$17,613,650
Less Conversion Costs @ \$210.00 per square foot gba		<u>-\$10,836,000</u>
Indicated Value		\$6,777,650
Rounded		\$6,800,000

**Potential Gross Income**

In the absence of contract rents for Brooklyn apartments, we researched asking rents in the surrounding neighborhood. The table below summarizes asking rents that are located in Cobble Hill, Downtown, Carroll Gardens, Brooklyn Heights, and Boerum Hill neighborhoods. The asking rents include 208 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.

<b><i>Brooklyn Apartment Rents - As of January 2015</i></b>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts
Three Bedrooms	\$5,463	\$5,432	\$9,458	\$2,716	30
Two Bedrooms	\$3,765	\$3,686	\$7,275	\$2,304	91
One Bedroom	\$2,869	\$2,846	\$4,365	\$1,940	69
Studio	\$2,864	\$2,714	\$4,365	\$1,940	18
Total Number of Apartments in the Survey					208

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

<i>Brooklyn Apartment Rents per Square Foot - As of January 2015</i>					
Summary of Rents	Average Rent	Median Rent	Max Rent	Min Rent	# of Apts
Three Bedrooms	\$39.84	\$38.50	\$61.90	\$21.73	30
Two Bedrooms	\$44.85	\$43.75	\$64.23	\$24.74	91
One Bedroom	\$47.69	\$48.66	\$66.51	\$31.04	69
Studio	\$54.62	\$58.50	\$67.53	\$34.92	18
Total Number of Apartments in the Survey					208

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

The average size of the two-bedroom units in our rent survey was 1,034 square feet, and the median size was 960 square feet. We anticipate the average size of the subject's converted apartments will contain two bedrooms and 1 ½ to two bathrooms with a potential gross income averaging \$50.00 per square foot.

### 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 2013. The table is followed by a table summarizing the average and median expense per square foot for each category.

#### Elevator Apartment Buildings

Address	1) 182 Montague St.		2) 165 Joralemon St.		3) 59 Livingston St.		4) 337 State St.		5) 404 State St.		6) 845 43 St.	
Property Description	34-story/186 apartments		6-story/40 apartments		6-story/43 apartments		6-story/60 apartments		6-story/60 apartments		6-story/58 apts.	
SF of GBA	182,000		51,276		63,224		39,770		29,214		52,836	
	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	\$58,210	\$0.32	\$30,679	\$0.60	\$46,702	\$0.74	\$31,407	\$0.79	\$31,598	\$1.08	\$29,519	\$0.56
Light & Power	\$100,991	\$0.55	\$17,439	\$0.34	\$19,947	\$0.32	\$6,685	\$0.17	\$6,304	\$0.22	\$13,006	\$0.25
Cleaning Contracts	\$9,221	\$0.05	\$0	\$0.00	\$0	\$0.00	\$1,195	\$0.03	\$1,083	\$0.04	\$600	\$0.01
Wages & Payroll	\$496,158	\$2.73	\$21,129	\$0.41	\$341,680	\$5.40	\$38,731	\$0.97	\$34,046	\$1.17	\$129,562	\$2.45
Repairs & Maintenance	\$176,209	\$0.97	\$145,258	\$2.83	\$237,087	\$3.75	\$125,209	\$3.15	\$79,487	\$2.72	\$116,435	\$2.20
Management & Admin.	\$216,906	\$1.19	\$70,820	\$1.38	\$113,052	\$1.79	\$105,452	\$2.65	\$78,453	\$2.69	\$61,834	\$1.17
Insurance	\$52,512	\$0.29	\$20,137	\$0.39	\$88,266	\$1.40	\$17,354	\$0.44	\$17,778	\$0.61	\$26,236	\$0.50
Water & Sewer	\$76,783	\$0.42	\$0	\$0.00	\$0	\$0.00	\$10,507	\$0.26	\$18,086	\$0.62	\$23,074	\$0.44
Advertising	\$43,750	\$0.24	\$2,000	\$0.04	\$14,008	\$0.22	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Int. Paint & Decorating	\$2,488	\$0.01	\$5,154	\$0.10	\$15,802	\$0.25	\$0	\$0.00	\$0	\$0.00	\$26,662	\$0.50
Leasing Commissions	\$0	\$0.00	\$0	\$0.00	\$37,684	\$0.60	\$0	\$0.00	\$0	\$0.00	\$20,051	\$0.38
Miscellaneous	\$18,427	\$0.10	\$31,220	\$0.61	\$51,057	\$0.81	\$2,324	\$0.06	\$1,693	\$0.06	\$69,585	\$1.32
Expenses Before RE Tax	\$1,251,655	\$6.88	\$343,836	\$6.71	\$965,285	\$15.27	\$338,864	\$8.52	\$268,528	\$9.19	\$516,564	\$9.78
Real Estate Taxes	\$656,286	\$3.61	\$679,557	\$13.25	\$258,469	\$4.09	\$228,195	\$5.74	\$237,476	\$8.13	\$135,101	\$2.56
Total Expenses	\$1,907,941	\$10.48	\$1,023,393	\$19.96	\$1,223,754	\$19.36	\$567,059	\$14.26	\$506,004	\$17.32	\$651,665	\$12.33

The selected elevator apartment building operating expenses range from \$6.71 to \$15.27 per square foot before real estate taxes, and the real estate taxes range from \$2.56 to \$13.25 per square foot. The comparable expenses support our estimate for the subject expenses at \$10.00

per square foot for operating expenses and \$6.00 per square foot for real estate taxes for a rental apartment building. We also applied a minor miscellaneous expense and a reserve for the replacement of capital items.

<b><i>Elevator Apartment Building Expenses</i></b>				
2013 Expenses	Average	Median	Maximum	Minimum
Fuel	\$0.68	\$0.67	\$1.08	\$0.32
Light & Power	\$0.31	\$0.28	\$0.55	\$0.17
Cleaning Contracts	\$0.02	\$0.02	\$0.05	\$0.00
Wages & Payroll	\$2.19	\$1.81	\$5.40	\$0.41
Repairs & Maintenance	\$2.60	\$2.78	\$3.75	\$0.97
Management & Admin.	\$1.81	\$1.58	\$2.69	\$1.17
Insurance	\$0.60	\$0.47	\$1.40	\$0.29
Water & Sewer	\$0.29	\$0.34	\$0.62	\$0.00
Advertising	\$0.08	\$0.02	\$0.24	\$0.00
Int. Paint & Decorating	\$0.14	\$0.06	\$0.50	\$0.00
Leasing Commissions	\$0.16	\$0.00	\$0.60	\$0.00
Miscellaneous	<u>\$0.49</u>	<u>\$0.36</u>	<u>\$1.32</u>	<u>\$0.06</u>
Expenses Before RE Tax	\$9.39	\$8.86	\$15.27	\$6.71
Real Estate Taxes	<u>\$6.23</u>	<u>\$4.91</u>	<u>\$13.25</u>	<u>\$2.56</u>
Total Expenses	\$15.62	\$15.79	\$19.96	\$10.48

Source: Department of Finance

### Capitalization Rate Selection

We research capitalization rates that were indicated by sales of Brooklyn elevator apartment buildings. The capitalization rates for residential buildings sales range from 4.5% to 5.25%. The average capitalization rate is 4.83%, and the median rate is 4.78%.

<b><i>Capitalization Rates for Brooklyn Elevator Apartment Building Sales</i></b>										
Address	Neighborhood	Block/Lot	# of Apts.	Building Sq. Ft.	Contract Date	Transfer Date	Sale Price	Price per SF	Price per Apartment	Cap Rate
316 Bergen St.	Carroll Gardens	389/5	84	56,000	10/31/2014	12/12/2014	\$52,200,000	\$932.14	\$621,429	4.75%
424 Bedford Ave.	Williamsburg	2137/14	66	49,220	10/25/2013	1/31/2014	\$39,750,000	\$807.60	\$602,273	4.80%
351 Franklin Ave.	Williamsburg	1968/5	10	13,358	10/15/2013	1/7/2014	\$7,000,000	\$524.03	\$700,000	5.25%
84 Lafayette Ave.	Fort Green	2117/9	16	10,800	7/23/2014	9/11/2014	\$5,900,000	\$546.30	\$368,750	4.50%

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 8.00% and an average of 5.36%. The average going-in capitalization rate indicated in the RERC report for national apartment buildings is 5.10%. Their range is from 4.0% to 6.0%.

<b><i>Overall Capitalization Rates</i></b>		
National Apartment Market		
From	To	Average
3.50%	8.00%	5.36%

Source: 4th Quarter 2014 Korpacz Report

Based on this analysis of contracted capitalization rates and statistics, we chose a capitalization rate of 5.0% for the rental apartment building.

### Conversion Costs

Marshall & Swift Segregated Cost Estimates were used to indicate the cost to convert the existing building into residential condominiums at \$210.00 per square foot.

### Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the Polhemus Pavilion as converted to a residential rental apartment building as of October 8, 2014, is \$6,800,000 after deducting rent lost during the three-year reconstruction and lease-up period.

### **Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums**

We used the discounted cash flow technique to indicate the present value of the sellout of residential condominium apartments based on our estimate of the costs to convert the Polhemus Building and sell the apartments over a four-year period at market rates.

We prepared a discounted cash flow (DCF) analysis wherein the first year is estimated to be the time needed to convert the Polhemus Building into residential condominiums and the remaining three years of the DCF are the sellout period for the apartments. The Polhemus Building has a gross building area of 51,600 square feet of which approximately 25% is a loss factor resulting in a useable area of 38,700 square feet. A loss factor of 15% is typical for a newly built apartment building to account for hallways and common areas. We estimated a larger loss factor for the subject property because as a converted property, its space will be utilized less efficiently than a newly built property. The average apartment size of the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current average sale price is \$950,000 per apartment, \$950.00 per square foot.

### DCF Assumptions:

Construction Period:	12 months
Sellout Period:	36 months
Real Estate Taxes:	\$6.00 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:	\$212.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs
Cost of Sales	

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

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted Polhemus Building is based on a search for comparable condominium sales and on surveyed Brooklyn statistics.

Landauer compiled a list of 85 recent sales of condominium apartments located in Cobble Hill and nearby neighbors of Boerum Hill, Brooklyn Heights, Clinton Hill, Downtown, Dumbo, Fort Greene, Greenpoint, Park Slope, Prospect Heights, and Williamsburg. The average sale price was \$1,089,754 and the average unit price was \$1,049 per square foot.

The Elliman Report compiled sales statistics for Brooklyn condominium new development sales as of the fourth quarter of 2014. The average sale price increased 8.3% from \$856,331 in the fourth quarter of 2013 to \$927,209 in the fourth quarter of 2014. The median sale price increased 15.1% during the same time period, and the price per square foot increased 11.8%. The number of sales and the number of days on market declined significantly, and the most recent listing discount was at 0.0%. All these statistics point to a strong market for condominium sales.

<i><b>New Development Condominiums - Brooklyn Fourth Quarter 2014</b></i>			
	4th Qtr 2014	% Change	4th Qtr 2013
Average Sales Price	\$927,209	8.3%	\$856,331
Average Price per Square Foot	\$928	11.8%	\$830
Median Sales Price	\$871,500	15.1%	\$757,000
Number of Sales	68	-59.0%	166
Days on Market	30	-52.4%	63
Listing Discount	0.0%		0.8%

*Source: The Elliman Report - Brooklyn Sales 4th Quarter 2014*

The Corcoran report also lists sales statistics from specific Brooklyn neighborhoods as of the fourth quarter of 2014. Their breakdown of Cobble Hill condominium sales, which include Brooklyn Heights, Dumbo, and downtown sales, indicates a 37.4% average price increase from \$906,000 to \$1,245,000 as of the end of 2014. The median sale price increased 27.3%, and the average price per square foot increased 23%. Nearby neighborhood to the immediate south of Cobble Hill include Carroll Gardens, Boerum Hill, and Red Hook. The increases in sale prices reported in the Corcoran Report were equally dramatic with a 37.1% increase in the average sale price, a 54.1% increase in the median sale price, and a 12.4% increases in the average price per square foot.

<b>Brooklyn Heights - Cobble Hill - Dumbo - Downtown</b>			
Condominium Sale Prices	Average Sale Price	Median Sale Price	Average Price/SF
4th Qtr 2014	\$1,245,000	\$1,063,000	\$1,118
% Change	37.4%	27.3%	23.0%
4th Qtr 2013	\$906,000	\$835,000	\$909

Source: The Corcoran Brooklyn Report - Fourth Quarter 2014

<b>Carroll Gardens - Boerum Hill - Red Hook</b>			
Condominium Sale Prices	Average Sale Price	Median Sale Price	Average Price/SF
4th Qtr 2014	\$1,222,000	\$1,210,000	\$962
% Change	37.1%	54.1%	12.4%
4th Qtr 2013	\$891,000	\$785,000	\$856

Source: The Corcoran Brooklyn Report - Fourth Quarter 2014

The Brooklyn market statistics support our estimate of the average sale price of \$950,000 (\$950 per square foot) for a 1,000 square foot apartment. Based on the robust market conditions in the immediate neighborhood, the estimated apartment prices are anticipated to increase at the rate of 6.0% annually in the first and second sellout years and 3.0% in the third sellout year. We anticipate that 50.0% of the apartments will have been presold by the beginning of the second year, with the remaining units sold over two years at the rate of 25.0% of the units per year.

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

#### Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$6.00 per square foot for real estate taxes. While the operating expenses and real estate taxes increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

#### Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Polhemus Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$114.54 per square foot. We applied a height multiplier for the eight-story Polhemus Building, a current cost multiplier and a Brooklyn local cost premium. After adding 6.0% to the costs for architects and engineers fees and 15.0% for contingencies, the total cost estimate is rounded to \$210.00 per square foot.

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

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

**COST ESTIMATION - Polhemus Building - 350 Henry Street**

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$18.33
41/2	Ceiling		\$2.47
41/2	Partitions		\$25.80
41/3	Plumbing		\$9.89
41/3	Sprinkler		\$2.75
41/4	HVAC		\$11.23
41/4	Electrical		\$12.31
41/7	Roof Cover		\$2.84
42/7	Appliances		\$28.92
		<b>Total</b>	<b>\$114.54</b>
<b><u>Multipliers</u></b>			
41/8	Height Multiplier	1.01250	\$115.97
99/3	Current Cost: Eastern A	1.05	\$121.77
99/9	Locality: Brooklyn A	1.42	\$172.91
		<b>Total</b>	<b>\$172.91</b>
<b><u>Fees</u></b>			
	Architect/Engineer	6%	\$10.37
	Contingency	15%	\$25.94
		<b>Total</b>	<b>\$209.22</b>

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 5.50% to 10.00% and an average of 7.34%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings ranges from 5.8% to 9.0% and averages 7.20%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the Polhemus

Building as converted to residential condominiums as of October 8, 2014, is \$17,400,000.

Polhemus Building, 350 Henry Street Conversion to Residential Condominium Units					
<b>Assumptions</b>		Total Residential	Avg. Sq.Ft.	Sales	Average
Unit Data	# of Apts.	Sq.Ft.	Per Apt.	Price P.S.F.	Sales Price
Total Area	39	38,700	1,000	\$950	\$950,000
Avg. Sellout Period For Units:	36 months				
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales				
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% State + 1.425% City)				
Operating Expenses During Sellout:	\$10.00				
Real Estate Taxes During Sellout	\$6.00				
Total Residential Gross Floor Area	38,700 sq. ft. gross area less 25.0% for lobby, circulation, & corridors				
Square Footage for Operating Expenses:	51,600 sq. ft. gba				
Square footage for Tax Expenses:	51,600 sq. ft. gba				
Discount Rate for Condo	6.0%				
Entrepreneur Incentive	15.0%				
Legal Cost for Conversion	\$300,000				
Cost to Convert to Apartments	\$210.00 per sq.ft.				
		Nov 14-Oct 15	Nov 15-Oct 16	Nov 16-Oct 17	Nov 17-Oct 18
General Inflation Growth Rate:		-	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate		-	6.00%	6.00%	3.00%
Average Sales Price		\$950	\$1,007	\$1,067	\$1,099
Operating Expenses		\$10.00	\$10.30	\$10.61	\$10.93
Real Estate Taxes		\$6.00	\$6.18	\$6.37	\$6.56
<b>Income From Residential Condominium Component:</b>		Nov 14-Oct 15	Nov 15-Oct 16	Nov 16-Oct 17	Nov 17-Oct 18
Proceeds From Sale of Residential Units		\$0	\$19,485,450	\$10,327,289	\$10,637,107
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)		<u>\$0</u>	<u>(\$2,304,154)</u>	<u>(\$1,221,202)</u>	<u>(\$1,257,838)</u>
Net Proceeds From Sale of Residential Units		\$0	\$17,181,296	\$9,106,087	\$9,379,269
Less Operating Expenses Carried		\$0	\$265,740	\$136,856	\$0
Less Real Estate Taxes Carried		<u>\$309,600</u>	<u>\$159,444</u>	<u>\$82,114</u>	<u>\$0</u>
<i>Total Expenses</i>		\$309,600	\$425,184	\$218,970	\$0
Prerenovation Cost Cash Flow From Sale of Residential Units		(\$309,600)	\$16,756,112	\$8,887,117	\$9,379,269
Less: Legal Cost for Conversion		\$300,000	\$0	\$0	\$0
Less: Apartment Upgrade Cost		<u>\$10,836,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Conversion Cost		\$11,136,000	\$0	\$0	\$0
Less: Entrepreneur Incentive		<u>\$1,670,400</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
		\$12,806,400	\$0	\$0	\$0
Net Cash Flow From Sale of Residential Units		(\$13,116,000)	\$16,756,112	\$8,887,117	\$9,379,269
Net Present Value of Condo Sell-Out		\$17,430,349			
Indicated Value		<b>\$17,400,000</b>	<b>Rounded</b>		
\$/Square Foot of GBA		\$337			



**The Sales Comparison Approach**

The Sales Comparison Approach was used to determine the current market value of the subject property as a community facility building. Community facility building sales were chosen rather than sales of medical office buildings because of the restrictive covenant NYUHC placed on the Fortis properties in which most medical facility uses are prohibited and because the R6 zoning district does not permit commercial uses. The sales comparison approach directly reflects the actions of buyers and sellers in the marketplace based on the principle of substitution, which states that an informed purchaser will not pay more to acquire a property than the cost of acquiring a comparable substitute property. Sales of schools and religious facilities located in nearby Brooklyn neighborhoods were gathered and analyzed in order to estimate the value of the subject property. The sales were adjusted to the subject based on size and other factors of relative value.

The table on the next page contains our comparable community facility building adjustment grid. It is followed by a discussion of the elements of comparison and description of each sale and the adjustments that were made. The Comparable Sales Book contains full descriptions including photographs, tax maps, and discussion of the sales beginning on Page 90.

**Comparable Community Facility Building Sales Location Map**





**Community Facility Comparable Sales Adjustment Grid - 350 Henry Street - Polhemus Building**

	Subject	Community Facility #1	Community Facility #2	Community Facility #3	Community Facility #4
Address	350 Henry Street	656 Willoughby Ave.	112 Suydam St.	350-360 Coney Island	8101 Ridge Blvd.
Neighborhood	Cobble Hill	Bedford Stuyvesant	Bushwick	Kensington	Bay Ridge
Block/Lot	295/21	1769/7	3217/10,13-14,51-53	5322/69	5996/6
Land Size	6,834	5,000	18,822	18,416	10,934
Frontage	67' & 102'	50' x 100'	125' and 72'	84.8'	109.3' x 100'
Zoning	R6	R6A	R6/C2-3	C8-2	R4A
Corner vs. Interior	Corner	Corner	Interior	Interior	Corner
Building Size	51,552	14,250	12,690	84,780	28,000
Building Age	1850	1927	1931	1927	1931
Elevator	Yes	Yes	No	Yes	No
# of Stories	7	3	2	5	2
Property Use	Class C Medical	School	Church & Land	Brooklyn College	School
Proposed Use	Community Facility	NA	NA	School	School
Valuation/Contract Date	10/8/2014	12/30/2013	11/23/2013	2/28/2012	8/1/2012
Transfer Date		1/30/2014	10/2/2014	3/27/2012	12/19/2012
Sale Price		\$3,600,000	\$2,890,000	\$16,770,000	\$4,000,000
Sale Price per Sq. Ft. of GBA		\$252.63	\$227.74	\$197.81	\$142.86
<b>Adjustments</b>					
# of Months		9	11	31	26
Market Conditions	6.0% Annually	4.5%	5.5%	15.5%	13.0%
Adjusted Price per Sq. Ft.		\$264.00	\$240.26	\$228.47	\$161.43
Location		10.0%	10.0%	5.0%	5.0%
Building Size		-10.0%	-10.0%	10.0%	-5.0%
Quality & Condition		-10.0%	-10.0%	-10.0%	-10.0%
Elevator		0.0%	10.0%	0.0%	10.0%
Occupancy		-10.0%	0.0%	-10.0%	0.0%
Corner Influence		<u>0.0%</u>	<u>10.0%</u>	<u>10.0%</u>	<u>0.0%</u>
Total Adjustments		-20.0%	10.0%	5.0%	0.0%
Adjusted Price per Sq. Ft.		\$211.20	\$264.29	\$239.89	\$161.43
Indicated Price per Sq. Ft.	\$225.00				
Indicated Value	\$11,599,200				
Rounded	\$11,600,000				

### Elements of Comparison

The comparable community facility building sales are located in various Brooklyn neighborhoods of Bedford Stuyvesant, Bushwick, Kensington, and Bay Ridge. The sales were contracted between August 2012 and December 2013 for unadjusted unit prices that ranged from \$142.86 to \$252.63 per square foot of gross building area.

### Changes in Market Conditions over Time

The comparable sales were contracted between August 2012 and December 2013. Market conditions reflect changes that have occurred in the marketplace from the contract date of the comparable sales 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 all located in less desirable neighborhoods. Upward adjustments were given to the inferior Brooklyn locations.

### 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 community facility buildings that range in size from 12,690 to 84,780 square feet of gross building area. The subject has 51,552 gross square feet. Smaller comparable sales were adjusted downward to reflect their smaller sizes and the larger building sale was adjusted upward.

### Quality and Condition

While the interiors of the comparable sales were not available, the subject building has structural components that make it difficult to use the full building such as two vacant amphitheaters and the extra-wide staircase that may cause a fire hazard. Additionally, the newer buildings have more modern features. The comparable sales were adjusted downward for the subject's inferior condition and unusable space.

### Elevator

Having an elevator is an important amenity for any type of building. The subject property and some of the comparable sales have elevators where no adjustments are necessary. The buildings without elevators were adjusted upward for absence of the amenity.

### Occupancy

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

### Corner Influence

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

### **Description of the Comparable Sales and Adjustments**

Comparable Community Facility Building Sale #1 – is the sale of a three-story school building that is located in the Bedford Stuyvesant section of Brooklyn at 656 Willoughby Avenue. The corner site has approximately 5,000 square feet of land and frontage of 50 feet and 100 feet. The building was constructed in 1927, and it has an elevator. The contract date of December 30, 2013, had a purchase price of \$3,600,000 which equates to \$252.63 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and downward for its smaller building size. The sale was also adjusted downward for its superior quality and its occupancy at the time of sale. The building will continue to be used as a school.

Comparable Community Facility Sale #2 – is the sale of a two-story religious facility that is located at 112 Suydam Street in the Bushwick section of Brooklyn. The building was constructed in 1931, and it has a building area of 12,690 square feet of gross building area. In addition to the church, there are vacant land sites included in the sale. The contract was dated November 23, 2013, and it had a sale price of \$2,890,000 which equates to \$227.74 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and downward for its smaller building size. The sale was adjusted downward for its better quality and upward for its absence of an elevator. Because it is an interior location, the sale was adjusted upward for absence of corner advantages.

Comparable Community Facility Building Sale #3 – is the sale of a five-story school building that is located at 350-360 Coney Island Avenue in the Kensington section of Brooklyn. The building has 84,780 square feet of gross building area and an elevator. The sale price of \$16,770,000 reflects a unit price of \$197.81 per square foot. After making an adjustment for market conditions, the comparable sale was adjusted upward for its inferior location and upward for its larger size. The quality was superior as well as the condition when compared to the subject building. A downward adjustment was made for quality and condition as well as for occupancy which will continue as Brooklyn College Academy. Its interior location warranted an upward adjustment.

Comparable Community Facility Building Sale #4 – is the sale of a two-story school building that is located at 8101 Ridge Boulevard in the Bay Ridge neighborhood of Brooklyn. The

building was used as a school and will continue to be used as the lower school for Bay Ridge Prep. The contract date of August 1, 2012 indicated a sale price of \$4,000,000 which equates to a unit price of \$142.86 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for absence of an elevator and for its inferior location. The sale was adjusted downward for its smaller building size and for its better condition.

After making the adjustments to the comparable community facility building sales, the range of unit prices are from \$161.43 to \$264.29 per square foot and average \$219.20. The median adjusted price is \$225.54 per square foot. The indicated value of the subject property is \$225.00 per square foot, which equates to a value of \$12,599,200, rounded to \$11,600,000.

Reconciliation and Value Conclusion

The highest and best use and the use that provides the highest value of the Polhemus Building located at 350 Henry Street is for conversion and sellout of residential condominiums over a four year term. The indicated value of the Polhemus Building as of October 8, 2014, is \$17,400,000.

<i>350 Henry Street - Polhemus Building</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Community Facility Conversion	Sales Comparison	\$11,600,000
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$17,400,000
Rental Apartment Building Conversion	Direct Capitalization	\$6,800,000
Reconciled Value - Highest & Best Use as a Residential Condominium		\$17,400,000

**EXECUTIVE SUMMARY – 349 Henry Street**

Addresses: 349 Henry Street, Brooklyn, NY

Neighborhood: Cobble Hill

Tax Block/Lot: Block 291 Lot 1

Zoning: R6

Improvements: The 11,533 square foot corner site is improved with a five-story, 48,015 square foot medical office building that is used for out-patient clinics. The building was renovated in 2002.

Highest & Best Use: Conversion to residential condominiums

Inspection Date: September 26, 2013

Date of Value: October 8, 2014

**Valuations:**

Cost Approach: NA

Sales Comparison Approach:

For Community Facility Use: \$10,800,000

Income Approach:

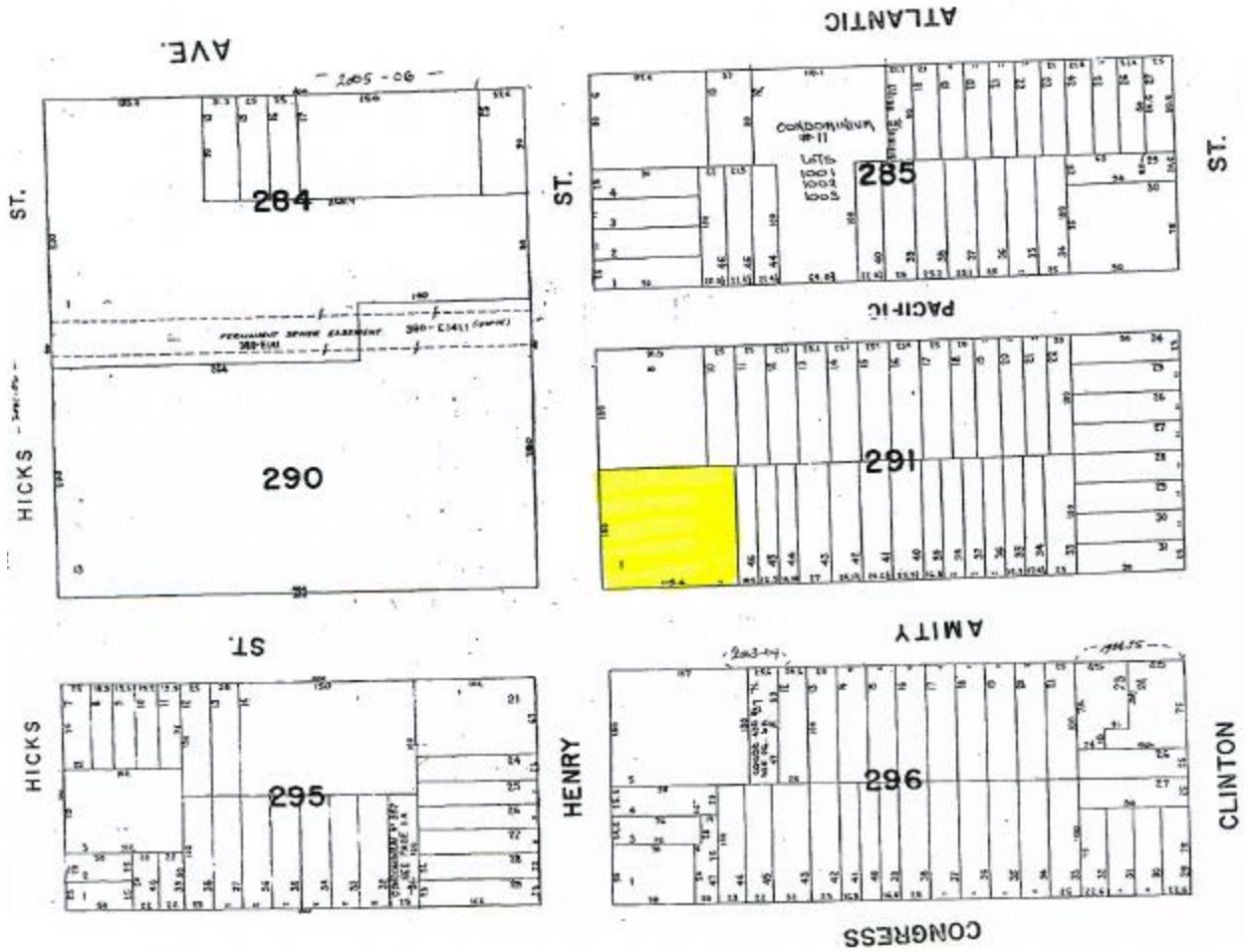
Direct Capitalization  
For Rental Apartment Use: \$ 6,600,000

Residual Discounted Cash Flow  
For Residential Condominiums: \$18,400,000

Reconciled Value: \$18,400,000  
\$383.21 per square foot of GBA



Tax Map – 349 Henry Street



349 Henry Street – Block 291 Lot 1

**Subject Photo – 249 Henry Street**



349 Henry Street – Front View Property Description

**Site**

The subject site is located on the northeast Corner of Henry and Amity Streets in the Cobble Hill section of Brooklyn. The building is located across the street from the hospital main campus. The rectangular site has 100.0 feet of frontage on the east side of Henry Street and 115.3 feet of frontage on the north side of Amity Street for a total land area of 11,533 square feet. Site improvements include concrete sidewalk and curbs, decorative wrought iron fencing, and some chain link fencing.

**Improvements**

The site is improved with a five-story medical office building that contains 48,015 square feet of gross building area. The building was completely gut renovated in 2002, and it was formerly used as an out-patient care clinic and offices. The building is reportedly vacant with the exception of the pharmacy on the first floor.

Façade and Roof:	The façade of the building is a combination of brick and metal with metal-framed double paned windows.
Mechanicals:	The building is heated by the boilers located in the adjacent building at 112 Pacific Street which are fueled by the hospitals steam plant. The building has two elevators that service the basement to fifth floor. One elevator has 2,000 lb. capacity and the other elevator has 4,000 lb. capacity.
First Floor:	The first floor has a reception area and pharmacy plus endocrinology offices.
Floors Two – Five:	These floors are essentially designed the same with an elevator bank that leads to the receptionist and waiting rooms on the northerly end of the building. A center hallway runs along the length of the building and there are offices, examination rooms, lavatories, and various storage and file rooms along each side of the hallway. The offices are modern and bright with natural lighting from the large windows. The ceiling has drop ceiling tiles with recessed fluorescent lighting and there are commercial coverings on the floors.
Basement:	The basement has open offices and administrative offices, employee lounge and employee health services. The basement is sprinkled.
Comments:	The building was completely renovated in 2002 which included two new elevators, new windows, plumbing, central air conditioning, and new office floor and wall coverings. The building reportedly has zoned control heating and cooling system. It is wired for efficient communications.

### **ASSESSED VALUE AND REAL ESTATE TAXES**

The subject property at 349 Henry Street is listed on the New York City tax rolls as Block 291 Lot 1. The property is classified as Class 4 and is completely exempt from property taxes. The 2015/2016 assessed valuation and estimate of taxes are as follows:

<u>349 Henry Street</u>	<u>Block 291</u>	<u>Lot 1</u>
2015/2016	Actual	Transitional
Land	\$1,890,000	\$1,890,000
Improvements	<u>\$39,788,121</u>	<u>\$38,791,714</u>
Total	\$41,678,121	\$40,681,714
Tax Class	4	
2014/2015 Tax Rate	10.684%	
Estimated Real Estate Taxes	\$4,346,434	
Assessor's 100% Market Value	\$92,618,046	

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

## **ZONING**

The subject property is located in an R6 residential zoning district. The district permits community facility and residential use up to a base floor area of 4.8 and 2.43 (or 3.0 for quality housing buildings on wide streets), respectively. The site has a total of 11,533 square feet of land area. The building with medical offices was constructed on Block 291 Lot 1 in the 1948 with a total of 48,015 square feet of gross building area or approximately 4.16 FAR. As constructed with a total of 48,015 square feet of gross floor area, the building is overbuilt for residential use but complying for community facility use.<sup>6</sup>

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

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

## **HIGHEST AND BEST USE**

The four criteria that the highest and best use must meet are legal permissibility, physical

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<sup>6</sup> The New York City Department of Finance records indicate that the gross building area is 48,015 square feet.

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.

The highest and best use of the subject property is for conversion to a residential condominium building and sellout of the units over a holding period.

## **VALUATION**

### **Approaches to Value**

While all three valuation methods were considered in the valuation of the medical office building located at 349 Henry Street, two forms of the income approach (discounted cash flow analysis and direct capitalization) were used to indicate its value to its highest and best use. The age of the building and the difficulty in estimating depreciation of the buildings in the cost approach made the resulting value derived from the cost approach irrelevant. The sales comparison approach was used to indicate the value of the subject property as a community facility. The restriction covenant does not permit continued use as a medical office building.

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

The subject building has a gross building area of 48,015 square feet. In the conversion of the building to residential condominiums or as a rental apartment building, we deducted a loss factor of 15.0% of the gross area to arrive at a useable area of 40,813 square feet.

### **Direct Capitalization – Conversion to a Rental Apartment Building**

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

Applying an overall capitalization rate of 6.0% to the projected NOI of \$1,186,971 results in a value indication of \$19,782,857. It would require approximately three years to renovate and rent the apartments. We deducted the lost rent over the three-year period and the cost to renovate and convert the medical office building into rental apartments at the rate of \$210.00 per square foot. The indicated value of the subject building as converted to rental apartments was rounded to \$6,600,000.

***Rental Apartment Building Conversion***  
***349 Henry Street - Medical Clinic***

48,015 sq. ft. GBA      40,813 sq. ft. rentable area

***Income***

Income from Apartments	@	\$50.00 per sq. ft.	\$2,040,638
Less Vacancy & Credit Loss	@	3.50%	<u>-\$71,422</u>
Effective Gross Income			\$1,969,215

***Expenses***

		per sq. ft.	
Operating Expenses	@	\$10.00	\$480,150
Miscellaneous		\$0.04	\$2,000
Reserves for Replacements	@	\$0.25	\$12,004
Real Estate Taxes	@	<u>\$6.00</u>	<u>\$288,090</u>
Total Expenses		\$16.29	<u>\$782,244</u>

Net Operating Income      \$1,186,971

Capitalization Rate      6.00%

Indicated Market Value Before Leaseup & Construction Costs		\$19,782,857
Less: Rent Loss (Year 1: 33% Leased)	33%	-\$1,703,932
Less: Rent Loss (Year 2: 66% Leased)	66%	-\$1,030,522
Less: Rent Loss (Year 3: 100% Leased)	100%	<u>-\$346,908</u>
Indicated Market Value		\$16,701,495
Less Conversion Costs @ \$210.00 per square foot gba		<u>-\$10,083,150</u>
Indicated Value		\$6,618,345
Rounded		\$6,600,000

**Potential Gross Income and Expenses**

The same comparable rents for neighborhood apartments were used to estimate the rent of the apartments at the Polhemus Building. Our estimate for the subject building apartment rent is \$50.00 per square foot of rentable area.

**Vacancy and Credit Loss**

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

**Operating Expenses and Real Estate Taxes**

The same comparable expenses for apartment buildings were used to estimate the expenses and real estate taxes for the subject building as were used for the Polhemus Building. The reconciled operating expenses total \$10.29 per square foot and the real estate taxes are \$6.00 per square foot.

### Capitalization Rate Selection

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

### Conversion Costs

Conversion costs for the subject building as a rental apartment building were estimated at \$210.00 per square foot. The costs are based on Marshall & Swift Cost Estimates for apartment buildings.

### Conclusion – Rental Apartment Building Conversion

Based on this analysis the indicated value of the subject building located at 349 Henry Street as converted to a rental apartment building as of October 8, 2014, is rounded to \$10,600,000 after deducting rent loss during the conversion period and construction conversion costs.

### **Residual Discounted Cash Flow – Conversion and Sellout of Residential Condominiums**

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

We prepared a discounted cash flow (DCF) analysis wherein the first year is estimated to be the time needed to convert the subject building into residential condominiums and the remaining three years of the DCF are the sellout period for the apartments. The subject building has a gross building area of 48,015 square feet of which approximately 15% is a loss factor resulting in a useable area of 40,813 square feet. The average apartment size for the converted building is estimated at 1,000 square feet for a two-bedroom 1 ½ bathroom unit and the current sale price is \$950,000 per apartment, \$950.00 per square foot.

### DCF Assumptions:

Construction Period:	12 months
Sellout Period:	36 months
Real Estate Taxes:	\$6.00 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:	\$210.00 per square foot
Legal Cost of Conversion:	\$300,000
Entrepreneurial Incentive:	15.0% of conversion costs

Cost of Sales

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

Potential Gross Income from Sale of Condominiums

The estimate of an average sale price per square foot for the apartments to be sold at the converted medical office building located at 349 Henry Street is based on the previous analysis in the Henry Street and Polhemus Buildings sections of this report. We chose an average sale price of \$950.00 per square foot for the new apartments. The apartment sale price estimate for the subject building is slightly lower than the other converted hospital apartments because the building has five floors and views from the building and configuration of the apartments are considered less desirable.

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

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

Operating Expenses and Real Estate Taxes

The same operating expenses and real estate taxes were estimated for the residential condominiums as for the residential rental building at \$10.00 per square foot for operating expenses and \$6.00 per square foot for real estate taxes. While the expenses increase at the rate of 3.0% annually, they are phased out as the condominium units are sold off.

Renovation Costs

We used Marshall & Swift Valuation Service to determine the cost to convert the hospital building into apartments. Our estimate of the cost to convert the Henry Building to apartments is summarized in the next table. We used Marshall's "above average" costs for the elements listed in the table. They total \$115.90 per square foot. We applied a height multiplier for the five-story Henry Street 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 \$210.00 per square foot. We estimated the legal costs to prepare the declaration and papers associated with creating the condominium are \$300,000. The entrepreneurial incentive is estimated based on 15.0% of the total construction and legal costs.

**COST ESTIMATION - 349 Henry Street**

<i>(Marshall's Valuation Service - Segregated Cost Method)</i>			
<u>Section/Page</u>	<u>Element</u>		<u>PSF</u>
41/2	Floor Cover		\$18.33
41/2	Ceiling		\$2.47
41/2	Partitions		\$25.80
41/3	Plumbing		\$9.89
41/3	Sprinkler		\$2.75
41/4	HVAC		\$11.23
41/4	Electrical		\$12.31
41/7	Roof Cover		\$2.84
42/7	Appliances		<u>\$30.28</u>
		<b>Total</b>	<b>\$115.90</b>
<b><u>Multipliers</u></b>			
41/8	Height Multiplier	1.0050	\$116.48
99/3	Current Cost: Eastern A	1.050	\$122.30
99/9	Locality: Brooklyn A	1.420	\$173.67
		<b>Total</b>	<b>\$173.67</b>
<b><u>Fees</u></b>			
	Architect/Engineer	6.0%	\$10.42
	Contingency	15.0%	<u>\$26.05</u>
		<b>Total</b>	<b>\$210.14</b>

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 5.50% to 10.00% and an average of 7.34%. The pre-tax yield rate indicated in the New York City RERC report for apartment buildings ranges from 5.8% to 9.0% and averages 7.20%. We chose a discount rate of 6.0% at the lower end of the range due to the high demand for Brooklyn condominiums and the dwindling supply of available units.

Conclusion – Residential Condominium Conversion and Sellout

The discounted cash flow analysis on the next page indicates that the value of the subject property located at 349 Henry Street as converted to residential condominiums as of October 8, 2014 is \$18,400,000.

349 Henry Street Conversion to Residential Condominium Units						
<b>Assumptions</b>		Total Residential	Avg. Sq.Ft.	Sales	Average	
Unit Data	# of Apts.	Sq.Ft.	Per Apt.	Price P.S.F.	Sales Price	
Total Area	41	40,813	1,000	\$950	\$950,000	
Avg. Sellout Period For Units:	36 months					
Comms. & Mktg. Exp. For Residential Units:	10.00% of sales					
NYS Transfer Tax For Residential Units:	1.825% of sales (0.4% State + 1.425% City)					
Operating Expenses During Sellout:	\$10.00					
Real Estate Taxes During Sellout	\$6.00					
Total Residential Gross Floor Area	40,813 sq. ft. gross area less 15.0% for lobby, circulation, & corridors					
Square Footage for Operating Expenses:	48,015 sq. ft. gba					
Square footage for Tax Expenses:	48,015 sq. ft. gba					
Discount Rate for Condo	6.0%					
Entrepreneur Incentive	15.0%					
Legal Cost for Conversion	\$300,000					
Cost to Convert to Apartments	\$210 per sq.ft.					
			Nov 14-Oct 15	Nov 15-Oct 16	Nov 16-Oct 17	Nov 17-Oct 18
General Inflation Growth Rate:			-	3.00%	3.00%	3.00%
Condominium Sales Price Growth Rate			-	3.00%	3.00%	3.00%
Average Sales Price		\$950	\$979	\$1,008	\$1,038	
Operating Expenses		\$10.00	\$10.30	\$10.61	\$10.93	
Real Estate Taxes		\$6.00	\$6.18	\$6.37	\$6.56	
<b>Income From Residential Condominium Component:</b>			Nov 14-Oct 15	Nov 15-Oct 16	Nov 16-Oct 17	Nov 17-Oct 18
Proceeds From Sale of Residential Units		\$0	\$19,967,638	\$10,283,334	\$10,591,834	
Less Sales Commissions/Marketing & Transfer Taxes (11.825%)		<u>\$0</u>	<u>(\$2,361,173)</u>	<u>(\$1,216,004)</u>	<u>(\$1,252,484)</u>	
Net Proceeds From Sale of Residential Units		\$0	\$17,606,465	\$9,067,329	\$9,339,349	
Less Operating Expenses Carried		\$0	\$247,277	\$254,696	\$0	
Less Real Estate Taxes Carried		<u>\$288,090</u>	<u>\$148,366</u>	<u>\$152,817</u>	<u>\$0</u>	
<i>Total Expenses</i>		\$288,090	\$395,644	\$407,513	\$0	
Prerenovation Cost Cash Flow From Sale of Residential Units		(\$288,090)	\$17,210,821	\$8,659,816	\$9,339,349	
Less: Legal Cost for Conversion		\$300,000	\$0	\$0	\$0	
Less: Apartment Upgrade Cost		<u>\$10,083,150</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
Total Conversion Cost		\$10,383,150	\$0	\$0	\$0	
Less: Entrepreneur Incentive		<u>\$1,557,473</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
		\$11,940,623	\$0	\$0	\$0	
Net Cash Flow From Sale of Residential Units		(\$12,228,713)	\$17,210,821	\$8,659,816	\$9,339,349	
Net Present Value of Condo Sell-Out		\$18,449,637				
Indicated Value		<b>\$18,400,000</b>	<b>Rounded</b>			
\$/Square Foot		\$383				

### **Sales Comparison Approach – Community Facility Use**

The sales comparison approach used in this section is the same as the previous analysis beginning on Page 81 in the Polhemus Building section of this report. The comparable community facility sales, the elements of comparison, and the location map are the same for both the Polhemus building and the medical office building at 349 Henry Street. Community facility building sales were chosen rather than sales of medical office buildings because of the restrictive covenant NYUHC placed on the Fortis properties in which most medical facility uses are prohibited and because the R6 zoning district does not permit commercial uses.

The comparable sales adjustment grid and the discussion of the adjustments to each sale as compared to the building at 349 Henry Street are slightly different and included after the sales adjustment grid.



**Community Facility Comparable Sales Adjustment Grid - 349 Henry Street - Community Facility Building**

	Subject	Community Facility #1	Community Facility #2	Community Facility #3	Community Facility #4
Address	349 Henry Street	656 Willoughby Ave.	112 Suydam St.	350-360 Coney Island	8101 Ridge Blvd.
Neighborhood	Cobble Hill	Bedford Stuyvesant	Bushwick	Kensington	Bay Ridge
Block/Lot	291/1	1769/7	3217/10,13-14,51-53	5322/69	5996/6
Land Size	11,533	5,000	18,822	18,416	10,934
Frontage		50' x 100'	125' and 72'	84.8'	109.3' x 100'
Zoning	R6	R6A	R6/C2-3	C8-2	R4A
Corner vs. Interior	Corner	Corner	Interior	Interior	Corner
Building Size	48,015	14,250	12,690	84,780	28,000
Elevator	Yes	Yes	No	Yes	No
Building Age	1948/2002	1927	1931	1927	1931
# of Stories	5	3	2	5	2
Property Use	Class B Medical	School	Church & Land	Brooklyn College	School
Proposed Use	Community Facility	NA	NA	School	School
Valuation/Contract Date	10/8/2014	12/30/2013	11/23/2013	2/28/2012	8/1/2012
Transfer Date		1/30/2014	10/2/2014	3/27/2012	12/19/2012
Sale Price		\$3,600,000	\$2,890,000	\$16,770,000	\$4,000,000
Sale Price per Sq. Ft. of GBA		\$252.63	\$227.74	\$197.81	\$142.86
<b><i>Adjustments</i></b>					
# of Months		9	11	31	26
Market Conditions	6.0% Annually	4.5%	5.5%	15.5%	13.0%
Adjusted Price per Sq. Ft.		\$264.00	\$240.26	\$228.47	\$161.43
Location		10.0%	10.0%	5.0%	5.0%
Building Size		-10.0%	-10.0%	10.0%	-5.0%
Quality & Condition		-10.0%	-10.0%	-10.0%	-10.0%
Elevator		0.0%	10.0%	0.0%	10.0%
Occupancy		-10.0%	0.0%	-10.0%	0.0%
Corner Influence		<u>0.0%</u>	<u>10.0%</u>	<u>10.0%</u>	<u>0.0%</u>
Total Adjustments		-20.0%	10.0%	5.0%	0.0%
Adjusted Price per Sq. Ft.		\$211.20	\$264.29	\$239.89	\$161.43
Indicated Price per Sq. Ft.	\$225.00				
Indicated Value	\$10,803,375				
Rounded	\$10,800,000				

## **Description of the Comparable Sales and Adjustments**

Comparable Community Facility Building Sale #1 – is the sale of a three-story school building that is located in the Bedford Stuyvesant section of Brooklyn at 656 Willoughby Avenue. The corner site has approximately 5,000 square feet of land and frontage of 50 feet and 100 feet. The building was constructed in 1927, and it has an elevator. The contract date of December 30, 2013, had a purchase price of \$3,600,000 which equates to \$252.63 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and downward for its smaller building size. The sale was also adjusted downward for its superior quality and its occupancy at the time of sale. The building will continue to be used as a school.

Comparable Community Facility Sale #2 – is the sale of a two-story religious facility that is located at 112 Suydam Street in the Bushwick section of Brooklyn. The building was constructed in 1931, and it has a building area of 12,690 square feet of gross building area. In addition to the church, there are vacant land sites included in the sale. The contract was dated November 23, 2013, and it had a sale price of \$2,890,000 which equates to \$227.74 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and downward for its smaller building size. The sale was adjusted downward for its better quality and upward for its absence of an elevator. Because it is an interior location, the sale was adjusted upward for absence of corner advantages.

Comparable Community Facility Building Sale #3 – is the sale of a five-story school building that is located at 350-360 Coney Island Avenue in the Kensington section of Brooklyn. The building has 84,780 square feet of gross building area and an elevator. The sale price of \$16,770,000 reflects a unit price of \$197.81 per square foot. After making an adjustment for market conditions, the comparable sale was adjusted upward for its inferior location and upward for its larger size. The quality was superior as well as the condition when compared to the subject building. A downward adjustment was made for quality and condition as well as for occupancy which will continue as Brooklyn College Academy. Its interior location warranted an upward adjustment.

Comparable Community Facility Building Sale #4 – is the sale of a two-story school building that is located at 8101 Ridge Boulevard in the Bay Ridge neighborhood of Brooklyn. The building was used as a school and will continue to be used as the lower school for Bay Ridge Prep. The contract date of August 1, 2012 indicated a sale price of \$4,000,000 which equates to a unit price of \$142.86 per square foot. After adjusting the sale for market conditions, the sale was adjusted upward for absence of an elevator and for its inferior location. The sale was adjusted downward for its smaller building size and for its better condition.

After making the adjustments to the comparable medical office building sales, the range of adjusted unit prices are from \$161.43 to \$264.29 per square foot and average \$219.20. The median adjusted price is \$225.54 per square foot. The indicated value of the subject property is \$225.00 per square foot, which equates to a value of \$10,803,375, rounded to \$10,800,000.

## **Reconciliation and Value Conclusion**

The highest and best use and the use that provides the highest value of the medical office building located at 349 Henry Street is for conversion to residential condominiums. The

indicated value of 349 Henry Street as of October 8, 2014, is \$18,400,000.

**Reconciliation and Final Value Conclusion**

<i>349 Henry Street - Residential Condominium Conversion</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Residential Condominium Conversion & Sellout	Discounted Cash Flow	\$18,400,000
Rental Apartment Building Conversion	Direct Capitalization	\$6,600,000
Community Facility Conversion	Sales Comparison	\$10,800,000
Reconciled Value - Highest & Best Use Condominium Conversion		\$18,400,000

**EXECUTIVE SUMMARY – Parking Garage – 350-352 Hicks Street**

Addresses: 350-352 Hicks Street, Brooklyn, NY

Neighborhood: Cobble Hill

Tax Block/Lot: Block 282 Lot 50

Zoning: R6 with a 2.43 FAR and maximum “as-of-right” building potential of 59,936 square feet.

Land Size: 24,666 square feet

Improvements: Seven-story parking garage building with a legal capacity of 430 vehicles and 175,000 square feet of building.

Highest & Best Use: Interim parking garage use and future residential development

Inspection Date: September 26, 2013

Date of Value: October 8, 2014

**Valuations:**

Sales Comparison Approach: \$19,000,000 – Current land value (does not consider parking obligation)

Income Approach:  
Discounted Cash Flow: \$18,300,000 – Present Value of Parking Garage Site

Cost Approach: NA

Reconciled Value: \$18,300,000



**Subject Photographs**



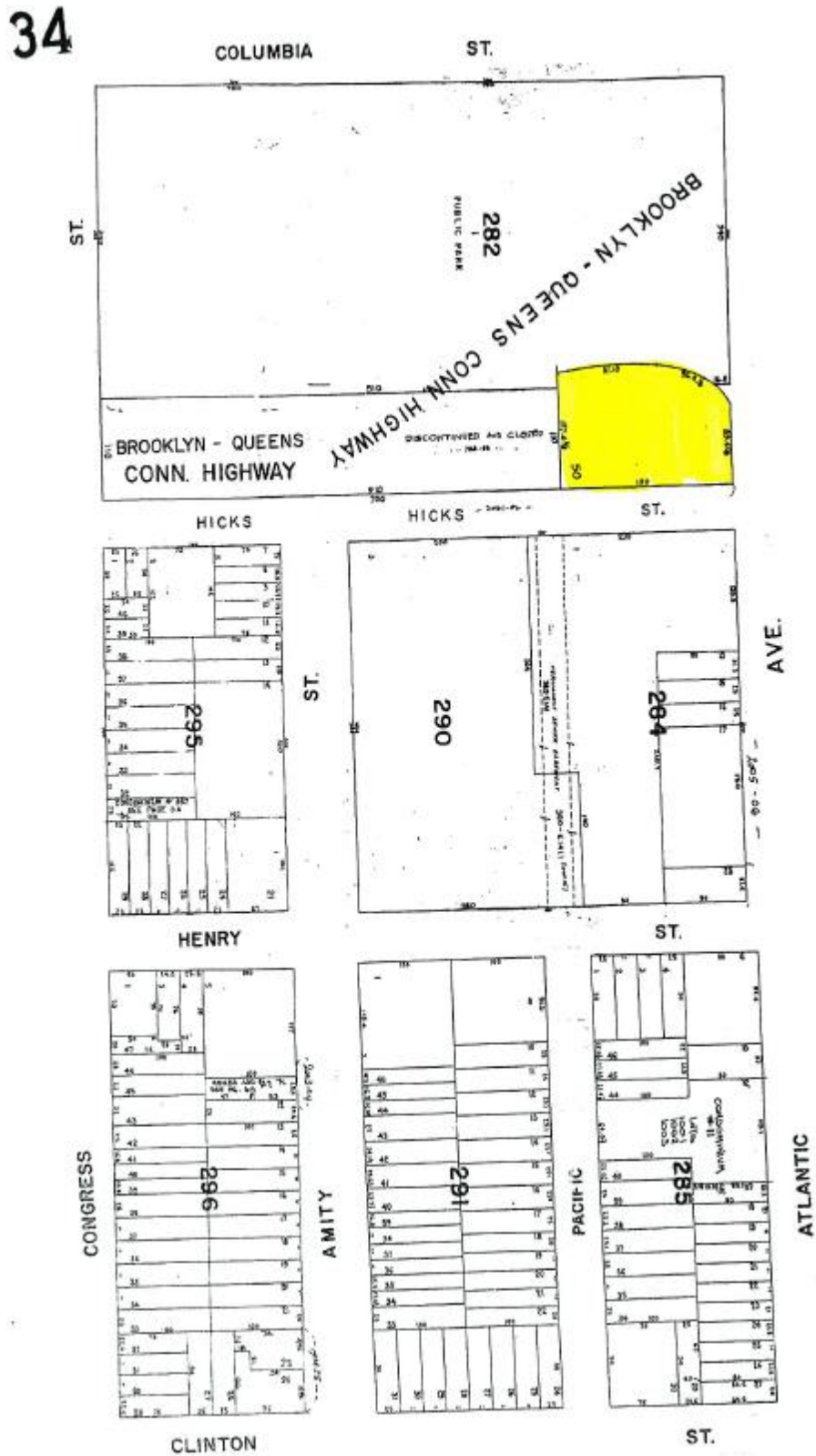
Parking Garage Facing South from Atlantic Avenue



Facing North from Hicks Street



Tax Map



## Property Description

### Site

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

### Improvements

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

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

It is Landauer's understanding that Fortis will be required to provide parking spaces at 80% of the market rate for the temporary medical facility and then for the new medical premises. We assume that the required parking will be provided at the existing parking garage until completion of the non-medical portion of the Fuller/Othmer site, where a new underground parking facility will be available. We assume both the existing parking garage for the interim period and the new parking facility on the non-residential Fuller/Othmer site satisfy the parking and zoning requirements in the ZLDA. The existing parking structure will then be available for redevelopment as a residential building.

## ASSESSED VALUE AND REAL ESTATE TAXES

The subject property at 350-352 Hicks Street is listed on the New York City tax rolls as Block 282 Lot 50. The property is classified as Class 4 and is completely exempt from property taxes. The 2015/2016 assessed valuation and estimate of taxes are as follows:

<u>352 Hicks Street</u>	<u>Block 282</u>	<u>Lot 50</u>
2015/2016	Actual	Transitional
Land	\$666,000	\$666,000
Improvements	<u>\$5,673,600</u>	<u>\$5,620,950</u>
Total	\$6,339,600	\$6,286,950
Tax Class	4	
2014/2015 Tax Rate	10.684%	
Estimated Real Estate Taxes	\$671,698	
Assessor's 100% Market Value	\$14,088,000	

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

## ZONING

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

Reference is made to a memorandum that was provided by our client and is included in the addenda of this report that addresses the New York City Zoning Resolution and the possibility to converting the subject buildings to residential use. According to the memorandum, Article V, Chapter 4 of the Zoning Resolution, provides that “...a non-complying building or other structure may be enlarged or converted, provided that no enlargement or conversion may be made which would either create a new non-compliance or increase the degree of non-compliance of a building or other structure or any portion thereof.”

## HIGHEST AND BEST USE

The existing parking garage with a 430-vehicle legal capacity met the needs of the former LICH hospital complex. However, in the absence of the hospital and accessory buildings, the need for excessive parking is diminished. The parking garage site has prime views of the East River and Manhattan’s skyline and is an ideal site for construction of a residential tower.

Therefore, the highest and best use of the parking garage is as a future residential development site upon completion of the new non-medical portion of the Fuller/Othmer site.

## **VALUATION**

### **Approaches to Value**

A discounted cash flow (DCF) analysis was used to indicate the value of the parking garage to its highest and best use, which is future residential development and interim use as a parking facility for the temporary emergency center operated by NYUHC. The sales comparison approach was used to estimate the current value of the land as vacant and available for residential development. The land value was increased over the three-year holding period at the rate of 3.0% annually. The discounted cash flow analysis was prepared to account for the construction time necessary to construct the new non-medical site that will provide parking for the new medical site in compliance with the agreement between NYUHC and Fortis. The DCF accounts for the income from a month-to-month lease with a parking garage operator and nominal expenses until the building can be demolished and replaced with a residential tower.

### **Sales Comparison Approach – Land Sale – Future Residential Development**

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 of the site as a vacant development site. We researched Brooklyn neighborhoods for sales of development land deemed comparable to the subject property. The sales are located throughout Brooklyn and the sale prices range from \$2,262,500 to \$33,406,925 for development sites that range in unit prices from \$226.25 to \$355.57 per square foot of FAR. The contract dates range from June 2013 to August 2014.



**Comparable Land Sales Location Map – Land Sales**



The table on the next page contains our comparable residential land sales adjustment grid. The descriptions of each residential land sale including a photograph and tax map are found in the Sales Comparison Book beginning on Page 29. The elements of comparison are the same as discussed in the Fuller/Othmer portion of this report.



**Residential Land Sales Adjustment Grid - Parking Garage - 350-352 Hicks Street - "As-of-Right" Residential FAR of 59,938 SF**

	Subject	Land Sale 1	Land Sale 2	Land Sale 3	Land Sale 4	Land Sale 5	Land Sale 6
Address	350-352 Hicks Street	278-292 St. Marks Ave.	539-559 Waverly Ave.	472-484 Atlantic Ave.	1036-1040 Dean St.	112-118 Atlantic Ave.	330-334 St. Marks Ave.
Cross Streets	SWC Atlantic Ave.	Vanderbilt & Underhill	NEC Atlantic Ave.	SEC Nevins St.	SWC Franklin St.	SEC Henry St.	Washington & Underhill
Neighborhood	Cobble Hill	Prospect Heights	Clinton Hill	Boerum Hill	Crown Heights	Cobble Hill	Prospect Heights
Block/Lot	282/50	1152/35	2012/1,65,67,69,70,71	185/4	1142/44	285/6	1153/21
Land Information							
Land Size	24,666	23,000	31,912	16,100	21,877	7,785	5,000
Frontage	90' & 89.25'	154.5'	144.5 & 173.7	40', 70', 150'	153.7' & 141.08'	97.3' & 80'	50'
Shape	Irregular	Irregular	Irregular	Irregular	Nearly Rectangular	Rectangular	Rectangular
Zoning	R6	R6B	R7A & R6B	R6A w/C2-4 OL	R6 w/C2-3 OL	R6	R6B
Corner vs. Interior	Corner	Interior	Corner	Corner & Thru Block	Corner	Corner	Interior
FAR	2.43	1.83	2.95	2.85	3.32	3.00	1.99
Maximum Development Potential	59,938	50,758	94,212	63,629	72,663	23,355	9,979
Building Information							
Building Size	175,000	19,650	61,277	8,100	38,800	1,590	2,500
# of Stories	7	1.0	1.0	1.0	5.0	1.0	1.0
Building Use	Parking Garage	Garage	Industrial & Mixed Use	Commercial	Industrial Bldg.	Garage	Garage
Proposed Property Use	Residential Development	5-sty residential bldg.	5-sty, 122-unit apt.	7-sty, 31-units	8-sty, 106-units	Resid./Comm. Fac.	4-sty Residential
Sale Information							
Valuation/Contract Date	10/8/2014	8/8/2014	5/2, 7/11, 9/12 2014 **	7/8/2014	4/4/2014	12/23/2013	6/13/2013
Transfer Date		11/3/2014		7/8/2014	8/7/2014	4/30/2014	8/29/2013
Sale Price		\$16,628,428 *	\$31,875,000	\$18,025,000	\$17,500,000	\$7,750,000	\$2,200,000
Demolition Costs @ \$25.00 per SF		\$491,250	\$1,531,925	\$202,500	\$970,000	\$39,750	\$62,500
Total Sale Price		\$18,048,106	\$33,406,925	\$18,227,500	\$18,470,000	\$7,789,750	\$2,262,500
Sale Price per Square Foot of Land		\$784.70	\$1,046.85	\$1,132.14	\$844.27	\$1,000.61	\$452.50
Sale Price per Square Foot of FAR		\$355.57	\$354.59	\$286.47	\$254.19	\$333.54	\$226.73

**Adjustments**

# of Months from Sale Date to Valuation Date		2	3	3	6	9	16
Market Conditions @ 6.0% Annually		1.00%	1.50%	1.50%	3.00%	4.50%	8.00%
Adjusted Sale Price per Sq. Ft. of FAR		\$359.13	\$359.91	\$290.76	\$261.81	\$348.55	\$244.86
Location		5.00%	0.00%	0.00%	10.00%	0.00%	5.00%
Corner Influence		10.00%	0.00%	-5.00%	0.00%	0.00%	10.00%
Land Size - Potential Development Size		0.00%	-5.00%	0.00%	0.00%	10.00%	10.00%
Configuration/Water Views		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Zoning		<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Adjustments		20.00%	0.00%	0.00%	15.00%	15.00%	30.00%

Adjusted Sale Price per Sq. Ft. of FAR		\$430.95	\$359.91	\$290.76	\$301.08	\$400.83	\$318.32
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Indicated Value per Sq. Ft. of FAR \$360

Indicated Value	\$21,577,817
Less Demolition of 108,635 SF @ \$15.00/SF	<u>-\$2,625,000</u>
Final Value	\$18,952,817
Rounded	\$19,000,000

\*Includes \$15,700,000 sale price plus \$928,428 for TDRs

\*\*Based on three sale dates

### **Analysis of Subject Development Land Sales**

The comparable sales include six development sites that are located in Cobble Hill and nearby Brooklyn neighborhoods. The sales had contract dates that range from June 2013 to August 2014 and sale prices that range from \$2,262,500 to \$33,406,925. The unadjusted unit prices range from \$26.73 to \$354.59 per square foot of FAR. The preceding sales adjustment grid shows the sales and various adjustments used in this analysis to relate the comparable sales to the subject property.

### **Discussion of the Sales and Adjustments**

**Development Land Sale #1** is the sale of a Prospect Heights development site located at 278-292 St. Marks Avenue between Vanderbilt and Underhill Avenues. The interior site has 23,000 square feet of land and 154.4 feet of frontage along St. Marks Avenue. The sale was contracted on August 8, 2014 for a sale price of \$15,700,000. Included in the sale price was \$928,428 for 5,792 square feet of air rights from adjacent Lots 52 and 163. After adding demolitions costs at \$25.00 per square foot, the total land cost was \$18,048,106 which equates to a unit price of \$355.57 per square foot of FAR. The buyer intends to construct a five-story residential building on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantage of a corner development site. The sale was also adjusted upward because the subject property have lovely water and Manhattan skyline views.

**Development Land Sale #2** is the sale of a large Clinton Hill development site located at 539-559 Waverly Avenue on the northeast corner of Atlantic Avenue. The site has 31,912 square feet of land with 144.5 feet of frontage on Atlantic and 173.7 feet on Waverly Avenue. The sale was contracted on three different 2014 dates for a total of \$33,406,925 which equates to \$354.59 per square foot of FAR. The buyer plans to construct a five-story apartment building with 122 units. The land area is based on the land area reported by the NYC DOB construction application. After adjusting the sale for market conditions, the sale was adjusted downward for its larger development potential. The sale was also adjusted upward because the subject property have lovely water and Manhattan skyline views.

**Development Land Sale #3** is the sale of a residential development site of 16,100 square feet of land located at 472-484 Atlantic Avenue in the Boerum Hill section of Brooklyn. The site is a corner and thru block location on the southeast corner of Nevins Street and Atlantic Avenue. The site has a potential development size of 63,629 square feet of FAR. The contract date was July 8, 2014, and the sale price was \$18,025,000. After adding demolition costs at \$25.00 per square foot the unit price is \$286.47 per square foot of FAR. After adjusting the sale for market conditions, the sale was adjusted downward because it has both a corner and thru-block configuration, which permits flexibility in developing the site with maximum natural lighting and the number of apartment units. The sale was also adjusted upward because the subject property have lovely water and Manhattan skyline views.

**Development Land Sale #4** is the sale of a Crown Heights residential site located at 1036-1040 Dean Street on the southwest corner of Franklin Street. The nearly rectangular site has 21,877 square feet and a development potential of 72,663 square feet according to the DOB development application.

The site has 153.7 feet of frontage along Dean Street and 141.8 feet of frontage along Franklin Street. The contract was dated April 4, 2014, and it had a sale price of \$17,500,000. After adding demolition costs to the sale price, the indicated unit price is \$254.19 per square foot. The buyer proposed construction of an eight-story, 106 unit apartment building. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward because the subject property has lovely water and Manhattan skyline views..

**Development Land Sale #5** is the sale of a Cobble Hill site located at 112-118 Atlantic Avenue. The site is located on the southeast corner of Henry Street, directly across the street from the Othmer/Fuller site. The rectangular site has 97.3 feet of frontage along Atlantic Avenue and 80 feet of frontage along Henry Street for a total land area of 7,785 square feet. The development potential is 23,355 square feet according to the DOB application for development. The new owner plans to construct a new residential building. The contract was dated December 23, 2013, and it had a sale price of \$7,750,000 plus demolition costs of \$25.00 per square foot for the small service station. The unit price was \$333.54 per square foot of FAR. After adjusting the sale for market conditions, the sale was adjusted upward for its smaller development potential and upward because the subject property has lovely river and Manhattan skyline views.

**Development Land Sale #6** is the sale of a Prospect Heights development site located at 330-334 St. Marks Avenue. The interior, rectangular site has 5,000 square feet and 50 feet of frontage along St. Marks Avenue. The development potential is 9,979 square feet of FAR. The contract was dated June 13, 2013 for a sale price of \$2,200,000 plus demolition costs equates to a unit price of \$226.73 per square foot of FAR. The new owner plans to construct a four-story residential building on the site. After adjusting the sale for market conditions, the sale was adjusted upward for its inferior location and upward for its interior location without the advantages of a corner configuration. The sale was also adjusted upward for its smaller development potential and upward because the subject property has lovely river and Manhattan skyline views.

### **Comparable Sales Adjustment Grid Conclusions**

After making all of the adjustments to the comparable sales, the adjusted prices ranged from \$290.76 to \$430.95 per square foot of FAR and averaged \$350.31 per square foot of FAR. The median adjusted price was \$318.32 per square foot of FAR. The average of the three adjusted Atlantic Avenue development sites (#2, #3, and #5) is \$350.50, and the median adjusted price is \$359.91 per square foot of FAR. The Atlantic Avenue sales are given greater weight in estimating the subject's value. Atlantic Avenue is a prime target for residential development with many new buildings under construction. The indicated value of the subject property is \$360.00 per square foot of FAR which equates to \$21,577,817. Demolitions costs of \$15.00 per square foot for removing the garage were deducted from the indicated value. The current value of the garage site as of October 8, 2014, is rounded to \$19,000,000.

The subject garage is encumbered by the agreement between NYUHC and Fortis in which Fortis must provide parking for the interim 24/7 emergency medical facility located in the Polak building. The current value of the land is used in the income approach to determine a present value of the land as a development site at the end of the parking obligation (when the garage is replaced by a parking

facility at the non-medical site) plus the income stream from operating the garage for an estimated three years for the construction of the non-medical residential tower located on the Fuller/Othmer site.

**The Income Approach**

The income approach in the form of a discounted cash flow analysis was made to indicate the value of the residential development site after satisfying the agreement made between NYUHC and Fortis in which Fortis needs to provide parking spaces for the temporary medical center.

The income approach is generally utilized to indicate the value of a property subject to the rights of the existing tenancies and the terminal value at the end of the holding period. One of the methods employed is a discounted cash flow analysis to indicate the present value of the month-to-month rent the operator pays the owner plus the terminal value at the end of the holding period, less selling expenses. Under the development agreements, Fortis is obligated to provide parking for the interim emergency medical facility located in the Polak Pavilion and at the new medical site upon completion of construction. DLHC will pay Fortis parking fees for any parking spaces that Fortis provides to DLHC on the parking site in an amount equal to 80% of the fair rental value for such parking spaces for the leased period.

We prepared a discounted cash flow (DCF) analysis for a three-year holding period in which Pro Park, the current parking garage operator, continues to lease and operate the garage at a 20% discount to pass on the savings to the NYUHC parking patrons. The three-year term is the estimated length of time to construct the new non-medical residential tower that will have underground parking. The Fortis obligation to provide parking will revert to the new underground parking facility to free the parking garage for residential development.

<i>Discounted Cash Flow Assumptions</i>	
24,666 Square Feet of Land	
2.43 FAR	
59,938 Potential Residential Development	
175,000 Sq. Ft. Garage Gross Building Area	
3 Years Holding Period	
\$3,000 Parking Garage Income per Space	
\$2,400 Garage Income per Space @ 80.0%	
3.00% Annual Increases in Rent	
3.00% Annual Increases in Expenses	
5.00% Vacancy & Collection Loss	
3.00% Annual Increases in Land Value	
6.25% Selling Costs	

Based on our knowledge of the New York City parking market and experience appraising similar properties in the past, we have noted that garage leases in the subject property’s area typically range from approximately \$2,000 to \$3,000 per year per parking space. Our estimate for the typical Brooklyn parking garage income from an operator is \$3,000 per vehicle. In order to satisfy the

parking obligation, the operator will pay 80% of the typical rent or \$2,400 per vehicle for total annual rent of \$1,032,000 for the 430 legal parking spaces at the LICH parking garage. The garage rent will increase at the rate of 3.0% annually. A 5.0% deduction was made to the potential gross income for vacancy and collection loss.

Expenses for the garage owner is minimal and include override insurance at the rate of \$0.25 per square foot, management at 1.0% of effective gross income, reserves for replacements at \$0.25 per square foot, and miscellaneous expenses at 1.0% of effective gross income.

Previously in this report, the land value for the garage site was estimated at \$19,000,000 after deducting the cost to remove the building. The land value is anticipated to appreciate at the rate of 3.0% annually. The estimated value of the land was added to the fourth year of the cash flow. Selling costs estimated at 6.25% were deducted from the sale price. The cash flow from operating the parking garage for four years and the sale of the property at the end of the term for conversion to a residential development was discounted to a present value. Korpacz reports discount rates in their fourth quarter 2014 survey for the national strip shopping center market range from 6.0% to 11.0% and average 8.11%. The discount rate of 6.0% was used in the DCF.

<i>Discounted Cash Flow - Parking Garage</i>				
		Year 1	Year 2	Year 3
	From	11/1/2014	11/1/2015	11/1/2016
	To	10/31/2015	10/31/2015	10/31/2015
Land Value		\$19,000,000	\$19,570,000	\$20,157,100
Parking Garage Income		\$1,032,000	\$1,062,960	\$1,094,849
Vacancy & Credit Loss @ 5.0% of PGI		<u>-\$51,600</u>	<u>-\$53,148</u>	<u>-\$54,742</u>
Effective Gross Income		\$980,400	\$1,009,812	\$1,040,106
Expenses				
Override Insurance @ \$0.25 per SF		\$43,750	\$45,063	\$46,414
Management @ 1.0% of EGI		\$9,804	\$10,098	\$10,401
Reserves for Replacements @ \$0.25 per SF		\$43,750	\$45,063	\$46,414
Miscellaneous @ 1.0% of EGI		<u>\$9,804</u>	<u>\$10,098</u>	<u>\$10,401</u>
Total Expenses		\$107,108	\$110,321	\$113,631
Net Operating Income		\$873,292	\$899,491	\$926,475
Terminal Value				\$20,157,100
Less Selling Costs @ 6.25%				<u>-\$1,259,819</u>
Cash Flow		\$873,292	\$899,491	\$19,823,757
Discount Rate @ 6.0%		6.00%		
Net Present Value		\$18,268,812		
Rounded		\$18,300,000		
Indicated Value per Sq. Ft. of Land		\$741.91		
Indicated Value per Sq. Ft. of FAR		\$305.31		

**Reconciliation and Final Value Conclusion**

<i>352 Hicks Street - Parking Garage</i>		
<i>Intended Use</i>	<i>Valuation Method</i>	<i>Indicated Value</i>
Current Land Value (not considering parking obligation)	Sales Comparison	\$19,000,000
Reconciled Value - Highest & Best Use	Discounted Cash Flow	\$18,300,000
Reconciled Value as a Future Residential Bldg.	Future Development	\$18,300,000

**ADDENDA**

**ADDENDA MATERIAL IS LOCATED AT THE END OF VOLUME II**