

COMPARATIVE ECONOMIC FEASIBILITY STUDY

**City and Suburban Homes Company, First  
Avenue Estate**

**429 East 64th Street & 430 East 65th Street  
New York, New York County, NY 10065**

Latitude: 40.76054 Longitude: -73.977882

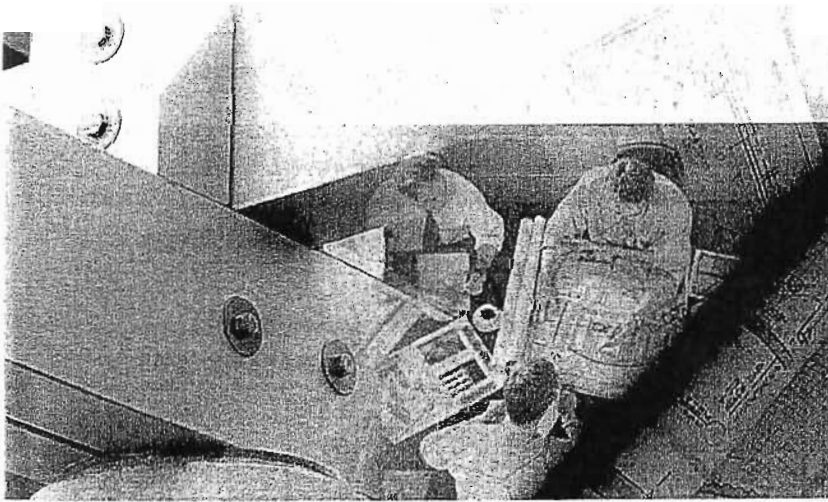
As of October 12, 2012

Prepared For:

**Kramer Levin Naftalis & Frankel LLP**

**1177 Avenue of the Americas**

**New York, NY 10036**



Photograph of Subject Property

Prepared By:

**Cushman & Wakefield, Inc.**

**Valuation & Advisory**

**1290 Avenue of the Americas, 9th Floor**

**New York, NY 10104-6178**

**C&W File ID: 12-120002-90XXXX**





CUSHMAN & WAKEFIELD, INC.  
1290 AVENUE OF THE AMERICAS, 9TH FLOOR  
NEW YORK, NY 10104-6178

October 12, 2012

Paul D. Selver, Esq.

Partner

**Kramer Levin Naftalis & Frankel LLP**

1177 Avenue of the Americas

New York, NY 10036

Re: Supplement to the February 2009 Comparative Economic Feasibility Study  
**City and Suburban Homes Company, First Avenue Estate**  
429 East 64th Street & 430 East 65th Street  
New York, New York County, NY 10065

C&W File ID: 12-120002-90XXXX

Dear Mr. Selver:

In fulfillment of our agreement as outlined in the Letter of Engagement, we are pleased to transmit our supplement to the comparative economic feasibility study of the above property dated February 2009.

The subject of this supplement is two walk-up buildings containing 190 units, which are landmarked by the New York City Landmark Preservation Commission. According to the New York City Administrative Code Section 25-309, reasonable return is defined as a net annual return of 6.0 percent of the valuation of an improvement parcel. Under the definition, the subject property does not generate a reasonable return.

Based on continued use with the in-unit renovation of 97 units and a program of building-wide capital improvement, the proforma develops a return of **1.158%** based on the valuation. Therefore, we have concluded that the imposition of the landmark's designation on November 21, 2006, has rendered the property incapable of generating a reasonable return on valuation as defined in the New York City Landmarks Law.

Respectfully submitted,

CUSHMAN & WAKEFIELD, INC.



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## GENERAL DESCRIPTION

The following is an executive summary of the information that we present in more detail in the report.

### BASIC INFORMATION

Common Property Name:	City and Suburban Homes Company, First Avenue Estate	Report Type:	Comparative Economic Feasibility Study
Address:	429 East 64th Street & 430 East 65th Street	Date of Inspection:	2/5/09
City:	New York	Date of Report:	10/12/12
State:	NY		
Zip Code:	10065		
County:	New York		
Property Ownership Entity:	Stahl York Ave. Co. LLC		
CW File Reference:	12-120002-90XXXX		

### SITE INFORMATION

Land Area Gross SF:	20,083	Site Utility:	Good
Land Area Acres:	0.46	Site Topography:	Gently sloping
Is there additional Excess Land?	No	Site Shape:	Rectangular
Excess Land Area SF:	0	Frontage:	Very Good
Excess Land Area Acres:	0.00	Access:	Good
Total Land Area SF:	20,083	Visibility:	Good
Total Land Area Acres:	0.46	Location Rating:	Average
Flood Zone:	X	Number of Parking Spaces:	0
Flood Map Number:	360497-0089F	Parking Ratio (per 1,000 sf):	0.00:1
Flood Map Date:	9/5/07	Parking Type:	None

### BUILDING INFORMATION

Type of Property:	Multi-Family	Actual Age:	96 Years
Number of Units:	190	Quality:	Poor
Number of Buildings:	2	Condition:	Fair to Poor
Gross Building Area:	84,826 SF	Year Built:	1916
Net Rentable Area:	70,406 SF	Year Renovated:	N/A
Number of Stories:	6	Land to Building Ratio:	0.24:1
		Building Class:	C

# TABLE OF CONTENTS

INTRODUCTION .....	1
REGIONAL MAP .....	3
LOCAL AREA MAP .....	4
SITE DESCRIPTION .....	5
COMPARATIVE ECONOMIC FEASIBILITY ANALYSIS - SUPPLEMENT .....	8
ADDITIONAL DISCUSSION .....	20
ASSUMPTIONS AND LIMITING CONDITIONS .....	24
CERTIFICATION OF APPRAISAL .....	26
ADDENDA CONTENTS .....	27

## INTRODUCTION

### SCOPE OF WORK

Cushman & Wakefield, Inc. has an internal Quality Control Oversight Program. This Program mandates a "second read" of all assignments. Assignments prepared and signed solely by designated members (MAIs) are read by another MAI who is not participating in the assignment. Assignments prepared, in whole or in part, by non-designated appraisers require MAI participation, Quality Control Oversight, and signature.

The scope of this assignment required collecting primary and secondary data relevant to the subject property. We analyzed rental data, and considered the input of buyers, sellers, brokers, property developers and public officials. We relied upon a physical inspection of the subject property from 2009. We also investigated the general regional economy as well as the specifics of the subject property's local area.

The data have been thoroughly analyzed and confirmed with sources believed to be reliable, leading to the value conclusions in this report. The valuation process used generally accepted market-derived methods and procedures appropriate to the assignment.

The assignment employs elements of the Income Capitalization Approach for use in a comparative economic feasibility study.

**IDENTIFICATION OF PROPERTY**

Common Property Name: City and Suburban Homes Company, First Avenue Estate

Location: 429 East 64th Street & 430 East 65th Street  
New York, New York County, NY 10065

Assessor's Parcel  
Number: Block 1459, Lot 22

Legal Description: The legal description is presented in the Addenda of the report.

**PROPERTY OWNERSHIP AND RECENT HISTORY**

Current Ownership: Stahl York Ave. Co. LLC

Sale History: To the best of our knowledge, the property has not transferred within the past three years.

Current Disposition: To the best of our knowledge, the property is not under contract of sale nor is it being marketed for sale.

**DATES OF INSPECTION AND ANALYSIS**

Date of Analysis: February 5, 2009

Date of Inspection: February 5, 2009

Property inspection was  
performed by: M. Wendy Hwang and John T. Feeney, Jr.

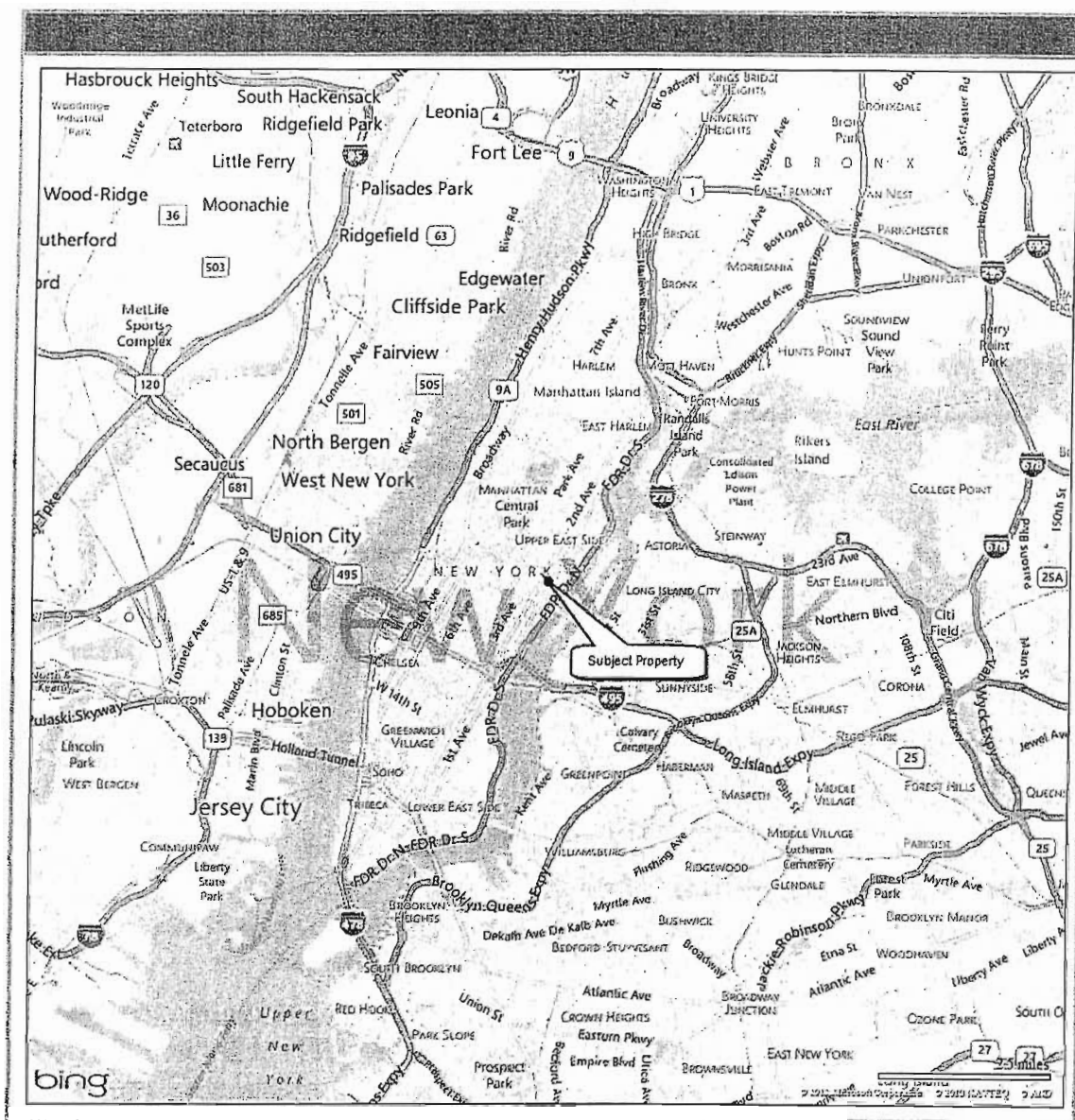
**INTENDED USE AND USERS OF THE REPORT**

Intended Use: For use by Kramer Levin Naftalis & Frankel LLP and for submission to the Landmarks Preservation Commission of the City of New York.

Intended User: This report is prepared for use by Kramer Levin Naftalis & Frankel LL in connection with an application, pursuant to Section 25-309 of the New York City Administrative Code, for a certificate of appropriateness on the ground that the subject property, as a designated New York City landmark, does not produce a reasonable return on its valuation. No other use is anticipated or permitted without the written permission of Cushman & Wakefield, Inc.

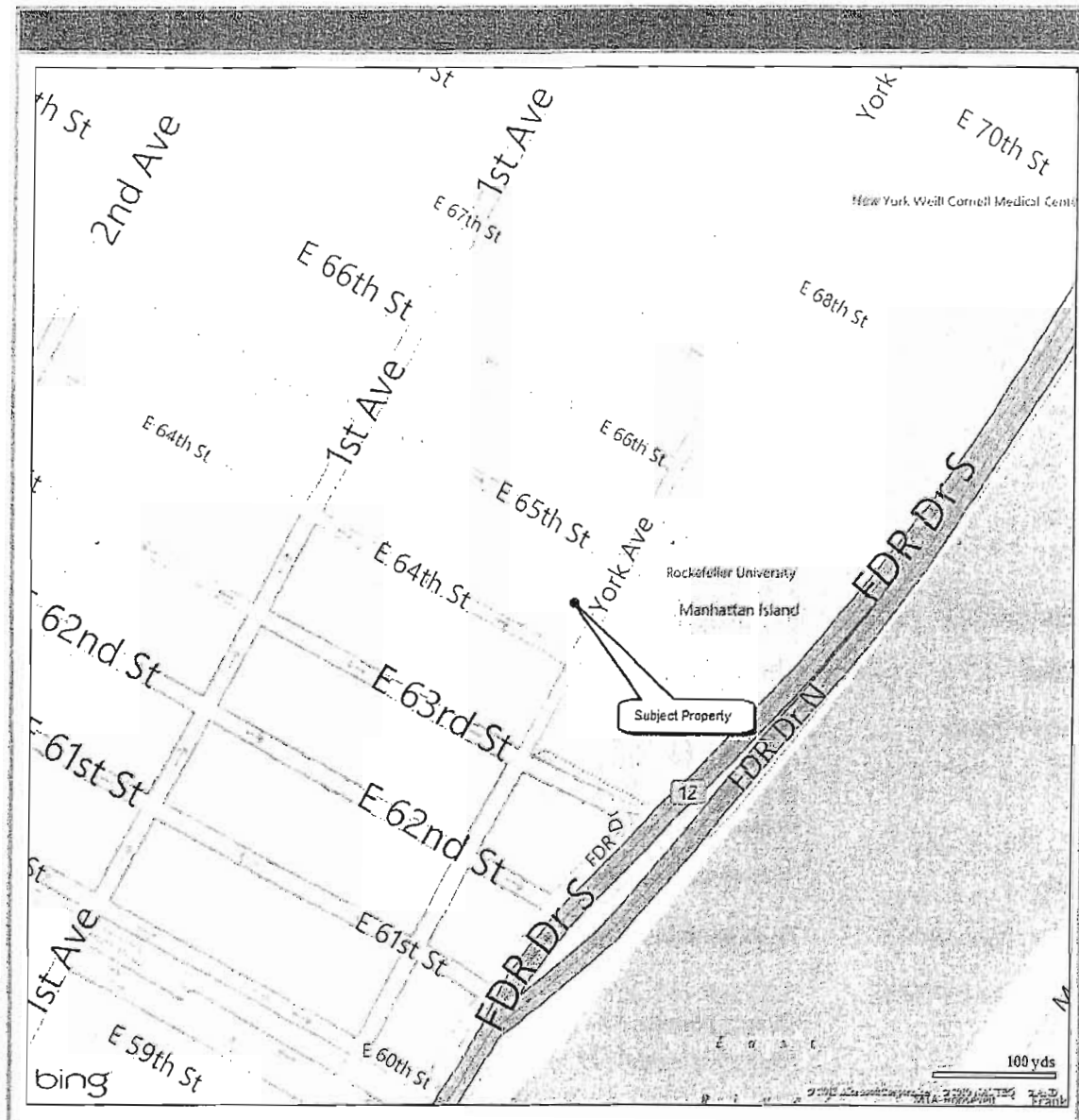
This report does not employ any extraordinary assumptions, hypothetical conditions, supplemental standards, or jurisdictional exceptions.

## REGIONAL MAP





## LOCAL AREA MAP

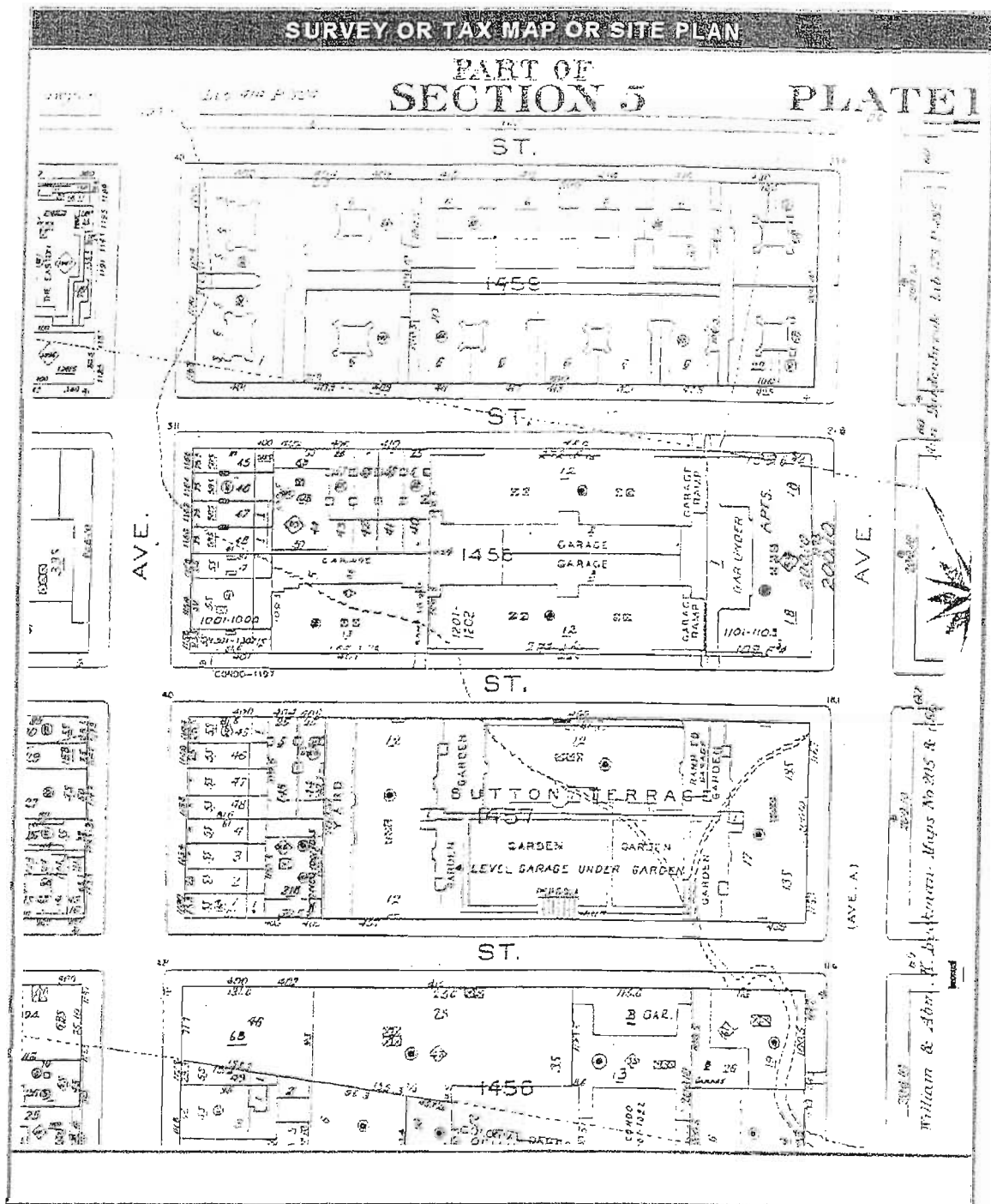


## SITE DESCRIPTION

Location:	429 East 64th Street & 430 East 65th Street New York, New York County, NY 10065 The subject property is located on the westerly blockfront of York Avenue between East 64th and East 65th Streets.		
Shape:	Rectangular		
Topography:	Gently sloping		
Land Area:	0.46 acres / 20,083 square feet		
Frontage:	The subject property has very good frontage. The frontage dimensions are listed below:		
	East 64th Street	101 feet	
	East 65th Street	101 feet	
	York Avenue	201 feet	
Access:	The subject property has good access.		
Visibility:	The subject property has good visibility.		
Soil Conditions:	We were not given a soil report to review. However, we assume that the soil's load-bearing capacity is sufficient to support existing or proposed structures. We did not observe any evidence to the contrary during our physical inspection of the property. Drainage appears to be adequate.		
Utilities:	All municipal/public utilities are provided and available to the site.		
Site Improvements:	The site improvements include asphalt curbing, courtyard, yard lighting and drainage.		
Land Use Restrictions:	We were not given a title report to review. We do not know of any easements, encroachments, or restrictions that would adversely affect the site's use. However, we recommend a title search to determine whether any adverse conditions exist.		
Flood Zone:	The subject property is located in flood zone X.		
FEMA Map & Date:	360497-0089F, dated September 5, 2007		
Flood Zone Description:	Areas determined to be outside the 500 year flood plain		
Wetlands:	We were not given a Wetlands survey to review. If subsequent engineering data reveal the presence of regulated wetlands, it could materially affect property value. We recommend a wetlands survey by a professional engineer with expertise in this field.		
Hazardous Substances:	We are not trained to perform technical environmental inspections and recommend the hiring of a professional engineer with expertise in this field.		

Overall Site Utility: The subject site is functional for its current use.

Location Rating: Average



## COMPARATIVE ECONOMIC FEASIBILITY ANALYSIS - SUPPLEMENT

### OVERVIEW

This Supplement to the Comparative Economic Feasibility Analysis issued on February 2009 has been prepared by C&W:

- To reconsider, using construction cost estimates prepared by Gleeds and contained within its report dated August 27, 2012, the renovation scenario that was studied in its 2009 report and involved upgrades both to all of the then vacant units and to the common elements and systems of the Subject Buildings; and
- To consider, using construction cost estimates prepared by Gleeds and contained in its report dated August 27, 2012, a gut rehabilitation of the Subject Buildings that included both the installation of elevators and the reconfiguration of apartments.

Gleeds' estimate of the 2009 in-unit renovation costs is \$5,771,862, or an average of \$52,472 per unit, for the 110 apartments units that were vacant in the summer of 2012. To determine the renovation cost for the 97 units that were vacant in the 2009 test year, we applied the average unit renovation cost to the number of vacant units (\$52,472 X 97). The allocated in-unit renovation cost for 97 vacant units calculates to \$5,089,750. In addition to the in-unit renovation cost, Gleeds also projected a 2009 building-wide renovation cost of \$11,607,582 for work encompassing but not limited to the repair or replacement of electrical, plumbing risers, and windows. Including the in-unit renovation cost, the total capital expenditure equates to \$16,697,332. Soft costs, such as architectural, engineering, insurance, real estate tax carry and permits, were not addressed in the Gleeds estimate even though they represent a necessary and substantial portion of the project cost.

### MARKET RENTAL RATES

The analysis presents the comparables included in The C&W reported dated February 2009 report and, in response to comments by the Landmarks Preservation Commission, adjusts the rents at the four comparable properties on a grid that evaluates each of the factors affecting rent levels individually. This analysis results in projected rents of \$39.60 per square foot, consistent with the \$40/square foot projection for rents in the Subject Buildings used in our February 2009 report. On the following page is the comparable rent chart and adjustment grid used to compare to the subject properties.

COMPETITIVE RENTAL SURVEY				Studio	1 Bedrm	2 Bedrm
1. 359 E 62nd St	55 units	Current Rent:		\$2,337	\$3,102	\$5,734
359 E 62nd St	10 floors	Average Unit Size:		520	770	1,750
New York	Built in 1979	Annual Rent PSF:		\$53.93	\$48.34	\$39.32
2. Stonehenge 63	90 units	Current Rent:		\$2,295	\$2,700	\$4,200
300 E 63rd St	7 floors	Average Unit Size:		550	870	1,000
New York	Built in 1949	Annual Rent PSF:		\$50.07	\$37.24	\$50.40
3. Renoir House	152 units	Current Rent:		\$2,500	\$3,250	\$5,000
221 E 63rd St	15 floors	Average Unit Size:		550	850	1,750
New York	Built in 1964	Annual Rent PSF:		\$54.55	\$45.88	\$34.29
4. 400 E 57th St	264 units	Current Rent:		\$1,989	\$3,138	\$4,514
400 E 57th St	20 floors	Average Unit Size:		504	735	1,574
New York	Built in 1931	Annual Rent PSF:		\$47.36	\$51.23	\$34.41
Minimum				\$1,989	\$2,700	\$4,200
Maximum				\$2,500	\$3,250	\$5,734
Average				\$2,280	\$3,048	\$4,862
Minimum				\$47.36	\$37.24	\$34.29
Maximum				\$54.55	\$51.23	\$50.40
Average				\$51.48	\$45.67	\$39.60

## RENT ADJUSTMENT GRID

No.	Rent/SF	Location	Size	Layout	Age, Quality & Condition	Utility *	Ceiling Height/ Light & Air	Other	Adj. \$/Sqft
1	\$53.93	Similar 0.0%	Larger 5.0%	Smaller -2.5%	Superior -10.0%	Superior -10.0%	Superior -5.0%	Similar 0.0%	\$41.80 -22.5%
	\$48.34	Similar 0.0%	Larger 10.0%	Smaller -2.5%	Superior -10.0%	Superior -10.0%	Superior -5.0%	Similar 0.0%	\$39.88 -17.5%
	\$39.32	Similar 0.0%	Larger 40.0%	Smaller -2.5%	Superior -10.0%	Superior -10.0%	Superior -5.0%	Similar 0.0%	\$44.24 12.5%
2	\$50.07	Similar 0.0%	Larger 5.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Similar 0.0%	Similar 0.0%	\$36.30 -27.5%
	\$37.24	Similar 0.0%	Larger 15.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Similar 0.0%	Similar 0.0%	\$30.72 -17.5%
	\$50.40	Similar 0.0%	Larger 15.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Similar 0.0%	Similar 0.0%	\$41.58 -17.5%
3	\$54.55	Superior -5.0%	Larger 5.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Superior -7.5%	Similar 0.0%	\$32.73 -40.0%
	\$45.88	Superior -5.0%	Larger 15.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Superior -7.5%	Similar 0.0%	\$32.12 -30.0%
	\$34.29	Superior -5.0%	Larger 40.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Superior -7.5%	Similar 0.0%	\$32.58 -5.0%
4	\$47.36	Similar 0.0%	Larger 5.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Superior -10.0%	Similar 0.0%	\$29.60 -37.5%
	\$51.23	Similar 0.0%	Larger 10.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Superior -10.0%	Similar 0.0%	\$34.58 -32.5%
	\$34.41	Similar 0.0%	Larger 35.0%	Smaller -2.5%	Superior -15.0%	Superior -15.0%	Superior -10.0%	Similar 0.0%	\$31.83 -7.5%

## STATISTICS

\$34.29	Low -	\$29.60
\$54.55	High -	\$44.24
\$45.59	Average -	\$35.66

\* includes physical & service amenities and elevator vs. walk-up

Applying adjustments to the initial comparable set results in a range of applicable unit rents from \$30.00 to \$44.00 per square foot, rounded. We concluded to \$40.00 per square foot for the subject units which is reasonable and supportable.

In addition to the comparable set of rents included in our February 2009 report, we have compiled three sets of data to use as additional comparable properties in projecting rents. The first set (which was distilled from a compilation 417 apartments which had completed lease transactions in 2009) is a list of 14 apartments in walk-up, non-doorman buildings between East 60<sup>th</sup> and East 84<sup>th</sup> Streets for which we confirmed both actual rental and square footage information. This analysis indicated rents as follows.

#### SET NO. 1

2009 SUMMARY OF RENTS			
2-5 TO 4 ROOM APARTMENTS – WALK-UP			
	STUDIO	1.0 BEDROOM	2.0 BEDROOM
Total Square Footage	1,100	6,500	2,100
Total Number of Units	3	9	2
Average Apartment Size (SF)	367	722	1,050
Overall Avg. Annual Rent/SF	\$ 45.76	\$ 33.14	\$ 36.57
Overall Avg. Annual Rent/Unit	\$ 16,780	\$ 23,933	\$ 38,400
Overall Avg. Monthly Rent/Unit	\$ 1,398	\$ 1,994	\$ 3,200

#### WALKUP, NON-DOORMAN BUILDING COMPARABLES

ADDRESS	ROOMS	BATHS	BEDROOMS	SIZE	PRICE	CONDITION	DOORMAN	BROKERAGE FIRM/COMPANY	LEASE DATE	\$/SF
245 East 60th Street	3.0	1.0	2.0	1,200 SF	\$3,600.00	Excellent	N	Royallon Realty	2/2009	\$36.00
344 East 65th Street	3.0	1.0	1.0	700 SF	\$2,000.00		N	Adina Equities	1/2010	\$34.29
336 East 69th Street	3.0	1.0	1.0	600 SF	\$2,500.00	Mint	N	Halstead Property	12/2009	\$50.00
300 East 72nd Street	3.5	1.0	1.0	700 SF	\$1,900.00		N	Adina Equities	12/2009	\$32.57
311 East 73rd Street	2.0	1.0	0.0	300 SF	\$1,650.00	Mint	N	DJK Residential	12/2009	\$66.00
234 East 74th Street	3.0	1.0	1.0	1,100 SF	\$2,700.00		N	Citi Habitats, Inc.	12/2009	\$29.45
340 East 77th Street	3.0	1.0	1.0	650 SF	\$2,450.00	Excellent	N	The Corcoran Group	5/2009	\$45.23
340 East 77th Street	4.0	1.0	2.0	900 SF	\$2,800.00	Good	N	The Corcoran Group	6/2009	\$37.33
436 East 77th Street	3.0	1.0	1.0	600 SF	\$1,600.00	Excellent	N	Akam Sales and Brokerage	1/2010	\$32.00
436 East 77th Street	3.0	1.0	1.0	650 SF	\$1,600.00	Excellent	N	Akam Sales and Brokerage	12/2009	\$29.54
436 East 77th Street	3.0	1.0	1.0	650 SF	\$1,600.00	Excellent	N	Akam Sales and Brokerage	1/2010	\$29.54
223 East 78th Street	2.0	1.0	0.0	400 SF	\$1,350.00	Excellent	N	Manhattan Modern Mgmt	12/2009	\$40.50
421 East 78th Street	2.0	1.0	0.0	400 SF	\$1,195.00		N	Citi Habitats, Inc.	6/2009	\$35.85
505 East 83rd Street	3.0	1.0	1.0	850 SF	\$1,600.00		N	Citi Habitats, Inc.	7/2009	\$22.59

We looked next at the rent per square foot in the 9 apartments leased in elevator, non-doorman buildings. This analysis indicated rents as follows.

## SET NO. 2

<b>2009 SUMMARY OF RENTS</b>		
<b>2.5 TO 4 ROOM APARTMENTS – ELEVATORED</b>		
	<b>STUDIO</b>	<b>1.0 BEDROOM</b>
Total Square Footage	450	5,739
Total Number of Units	1	8
Average Apartment Size (SF)	450	717
Overall Avg. Annual Rent/SF	\$ 42.00	\$ 41.90
Overall Avg. Annual Rent/Unit	\$ 18,900	\$ 30,060
Overall Avg. Monthly Rent/Unit	\$ 1,575	\$ 2,505

## ELEVATORED, NON-DOORMAN BUILDING COMPARABLES

ADDRESS	ROOMS	BATHS	BEDROOMS	SIZE	PRICE	CONDITION	DOORMAN	BROKERAGE FIRM/COMPANY	LEASE DATE	S/SF
340 East 63rd Street	3.0	1.0	1.0	800 SF	\$1,995.00	Excellent	N	City Connections	5/2009	\$29.93
325 East 64th Street	3.5	1.0	1.0	850 SF	\$2,800.00		N	City Connections	12/2009	\$39.53
325 East 64th Street	3.0	1.0	1.0	700 SF	\$2,400.00		N	City Connections	5/2009	\$41.14
325 East 64th Street	3.5	1.0	1.0	850 SF	\$2,895.00	Excellent	N	City Connections	12/2009	\$40.87
345 East 64th Street	3.0	1.0	1.0	639 SF	\$2,600.00		N	Siderow Org.	2/2009	\$48.83
212 East 70th Street	2.0	1.0	1.0	600 SF	\$2,700.00	Excellent	N	Evans Real Estate	3/2009	\$54.00
242 East 72nd Street	3.5	1.0	1.0	750 SF	\$2,900.00	Excellent	N	Charles Rutenberg	10/2009	\$46.40
311 East 75th Street	2.0	1.0	0.0	450 SF	\$1,575.00	Good	N	City Connections	1/2010	\$42.00
237 East 79th Street	3.0	1.0	1.0	550 SF	\$1,750.00	Renovated	N	Citi Habitats, Inc.	9/2009	\$38.18

This comparable set exhibits a wide range of unadjusted rent levels but a narrower range of unit rents – that is, annual rent/square foot. They also validate the use of \$40.00 per square foot as the market rent for apartments in the subject buildings. Based on the CitiHabitat's YearEnd 2009 Black and White report, we have adjusted these rents to reflect the 15.0 percent premium in rents for elevatoreD, non-doorman buildings over rents for walk-up buildings like the subject.

	<b>STUDIO</b>	<b>1.0 BEDROOM</b>
Adjusted Avg. Annual Rent/SF	\$ 36.52	\$ 36.43
Adjusted Avg. Monthly Rent/Unit	\$ 1,370	\$ 2,178

Finally, we considered the rent per square foot in elevatoreD, doorman buildings. This analysis indicated rents as follows.

## SET NO. 3

<b>2009 SUMMARY OF RENTS</b>			
<b>2.5 TO 4 ROOM APARTMENTS – DOORMAN/ELEVATOR</b>			
	<b>STUDIO</b>	<b>1.0 BEDROOM</b>	<b>2.0 BEDROOM</b>
Total Square Footage	9,854	57,001	28,350
Total Number of Units	18	74	23
Average Apartment Size (SF)	547	770	1,232
Overall Avg. Annual Rent/SF	\$ 48.74	\$ 46.54	\$ 47.75



Overall Avg. Annual Rent/Unit	\$ 26,681	\$ 35,851	\$ 58,852
Overall Avg. Monthly Rent/Unit	\$ 2,223	\$ 2,988	\$ 4,904

**ELEVATORED, DOORMAN BUILDING COMPARABLES**

ADDRESS	ROOMS	BATHS	BEDROOMS	SIZE	PRICE	CONDITION	DOORMAN	BROKERAGE/FIRM/COMPANY	LEASE DATE	\$/SF
220 East 60th Street	2.5	1.0	0.0	465 SF	\$1,900.00	Good	Y	Prudential Douglas Bliman		\$49.03
401 East 60th Street	4.0	2.0	2.0	1,300 SF	\$7,500.00	Excellent	Y	Urban Sanctuary		\$69.23
401 East 60th Street	4.0	2.0	2.0	1,253 SF	\$4,900.00	Mnt	Y	Warburg Realty Partnership		\$46.93
401 East 60th Street	4.0	2.0	2.0	1,215 SF	\$4,910.00		Y	Brodsky		\$48.49
401 East 60th Street	4.5	2.5	2.0	1,562 SF	\$5,950.00	Mnt	Y	Stribling & Associates		\$45.71
200 East 61st Street	3.0	1.0	1.0	833 SF	\$3,500.00		Y	Halstead Property, LLC		\$50.42
200 East 61st Street	3.0	1.0	1.0	833 SF	\$3,000.00		Y	Halstead Property Company		\$43.22
200 East 61st Street	5.5	2.5	2.0	1,150 SF	\$6,900.00	Excellent	Y	Quinton Properties		\$72.00
200 East 61st Street	4.5	2.0	2.0	1,395 SF	\$6,700.00		Y	Halstead Property, LLC		\$57.63
200 East 62nd Street	5.0	2.5	2.0	1,800 SF	\$6,850.00		Y	Prudential Douglas Bliman		\$45.67
300 East 62nd Street	2.0	1.0	0.0	400 SF	\$1,800.00	Excellent	Y	Charles Rutenberg		\$54.00
403 East 62nd Street	3.0	1.0	1.0	600 SF	\$2,395.00		Y	Bellmarc Realty		\$47.90
403 East 62nd Street	3.0	1.0	1.0	600 SF	\$2,395.00	Excellent	Y	Bellmarc Realty		\$47.90
210 East 63rd Street	2.5	1.0	0.0	500 SF	\$1,695.00	Very Good	Y	Gumley Haft Kleier		\$40.68
225 East 63rd Street	2.5	1.0	0.0	500 SF	\$2,200.00		Y	Prudential Douglas Bliman		\$52.80
245 East 63rd Street	3.0	1.0	1.0	800 SF	\$3,000.00	Excellent	Y	Next Stop NY		\$45.00
250 East 63rd Street	4.0	1.0	2.0	1,200 SF	\$4,000.00		Y	Bellmarc Realty		\$40.00
250 East 63rd Street	4.0	1.0	1.0	950 SF	\$3,100.00		Y	Bellmarc Realty		\$39.16
250 East 63rd Street	3.0	1.0	1.0	800 SF	\$2,650.00		Y	Bellmarc Realty		\$39.75
250 East 63rd Street	3.0	1.0	1.0	900 SF	\$3,200.00	Renovated	Y	Bellmarc Realty		\$42.67
300 East 64th Street	3.5	1.0	1.0	801 SF	\$4,000.00		Y	Classic Marketing		\$59.93
300 East 64th Street	3.0	1.0	1.0	800 SF	\$4,450.00		Y	Classic Marketing		\$66.75
420 East 64th Street	3.5	1.0	1.0	850 SF	\$2,650.00	Very Good	Y	Citi-Spaces R.E. Services		\$37.41
210 East 65th Street	4.0	2.0	2.0	935 SF	\$4,750.00	Excellent	Y	Prudential Douglas Bliman		\$60.96
220 East 65th Street	3.0	1.0	1.0	700 SF	\$3,000.00		Y	Prudential Douglas Bliman		\$51.43
220 East 65th Street	3.5	1.0	1.0	750 SF	\$3,500.00	Excellent	Y	Brown Harris Stevens		\$56.00
220 East 65th Street	3.0	1.0	1.0	650 SF	\$2,800.00	Good	Y	Prudential Douglas Bliman		\$51.69
304 East 65th Street	4.5	1.5	1.0	885 SF	\$3,500.00		Y	Royalton Realty		\$47.46
304 East 65th Street	3.5	1.5	1.0	850 SF	\$4,000.00	Good	Y	Prudential Douglas Bliman		\$56.47
360 East 65th Street	2.0	1.0	1.0	628 SF	\$2,895.00	Very Good	Y	NY Living Solutions		\$55.32
360 East 65th Street	3.5	1.5	1.0	884 SF	\$3,325.00		Y	NY Living Solutions		\$45.14
200 East 66th Street	3.0	1.0	1.0	800 SF	\$3,500.00		Y	Adina Equities		\$52.50
200 East 66th Street	3.0	1.0	1.0	919 SF	\$4,300.00	New	Y	The Corcoran Group		\$56.15
301 East 66th Street	3.0	1.0	1.0	692 SF	\$2,600.00		Y	Ossa Properties		\$45.09
210 East 68th Street	3.0	1.0	1.0	860 SF	\$3,450.00		Y	Citi Habitats, Inc.		\$48.14
210 East 68th Street	3.5	1.0	1.0	881 SF	\$3,650.00		Y	Citi Habitats, Inc.		\$49.72
210 East 68th Street	3.0	1.0	1.0	719 SF	\$3,050.00	Renovated	Y	BLDG		\$50.90
210 East 68th Street	3.5	1.0	1.0	904 SF	\$3,650.00		Y	BLDG		\$48.45
210 East 68th Street	3.0	1.0	1.0	957 SF	\$4,300.00		Y	BLDG		\$53.92
210 East 68th Street	3.0	1.0	1.0	957 SF	\$3,600.00		Y	Citi Habitats, Inc.		\$45.14
215 East 68th Street	3.5	1.0	1.0	1,063 SF	\$3,650.00	Renovated	Y	Rudin		\$41.20
359 East 68th Street	3.5	2.0	1.0	850 SF	\$3,250.00	Excellent	Y	Think Properties		\$45.88
200 East 69th Street	2.0	1.0	0.0	395 SF	\$2,400.00		Y	Trump Residential		\$72.91
200 East 69th Street	3.5	1.5	1.0	775 SF	\$3,000.00	Excellent	Y	Brown Harris Stevens		\$46.45
201 East 69th Street	2.5	1.0	0.0	590 SF	\$2,562.00		Y	Metropolitan Living LTD		\$52.11
201 East 69th Street	2.0	1.0	0.0	608 SF	\$2,640.00		Y	Rockrose		\$52.11
201 East 69th Street	2.5	1.0	0.0	650 SF	\$2,910.00		Y	Rockrose		\$53.72
201 East 69th Street	2.0	1.0	0.0	596 SF	\$2,600.00		Y	Rockrose		\$52.35

ADDRESS	ROOMS	BATHS	BEDROOMS	SIZE	PRICE	CONDITION	DOOR/IAN	BROKERAGE/FIRM/COMPANY	LEASE DATE	S/SF
201 East 69th Street	3.0	1.0	1.0	802 SF	\$3,750.00		Y	Rockrose		\$56.11
201 East 69th Street	3.0	1.0	0.0	750 SF	\$2,845.00		Y	Metropolitan Living LTD		\$45.52
310 East 70th Street	2.5	1.0	0.0	515 SF	\$2,095.00	Very Good	Y	Fenwick Keats Goodstein		\$48.82
400 East 70th Street	3.0	1.0	1.0	650 SF	\$2,100.00	Excellent	Y	Metropolitan Properties		\$38.77
400 East 70th Street	2.5	1.0	0.0	675 SF	\$2,495.00		Y	Citi Habitats, Inc.		\$44.36
400 East 70th Street	2.5	1.0	0.0	650 SF	\$2,495.00	Excellent	Y	Citi Habitats, Inc.		\$46.06
400 East 70th Street	3.0	1.0	1.0	600 SF	\$2,300.00	Very Good	Y	Citi Habitats, Inc.		\$46.00
400 East 71st Street	4.0	2.0	2.0	1,300 SF	\$4,100.00		Y	Manocherian		\$37.85
315 East 72nd Street	4.0	1.0	2.0	1,000 SF	\$3,200.00		Y	The Corcoran Group		\$38.40
422 East 72nd Street	3.0	1.0	1.0	750 SF	\$2,450.00	Good	Y	The Corcoran Group		\$39.20
422 East 72nd Street	3.0	1.0	1.0	768 SF	\$2,800.00		Y	Furumoto Realty		\$43.75
422 East 72nd Street	3.0	1.0	1.0	768 SF	\$2,800.00		Y	Furumoto Realty		\$43.75
422 East 72nd Street	4.0	2.0	2.0	1,400 SF	\$5,750.00		Y	Citi Habitats, Inc.		\$49.29
422 East 72nd Street	3.0	1.0	1.0	764 SF	\$2,900.00		Y	Brown Harris Stevens		\$45.55
345 East 73rd Street	4.0	2.0	2.0	1,200 SF	\$4,500.00		Y	Citi Habitats, Inc.		\$45.00
225 East 74th Street	4.0	2.0	2.0	1,200 SF	\$6,000.00	Excellent	Y	Halstead Property, LLC		\$60.00
330 East 75th Street	3.0	1.0	1.0	700 SF	\$2,285.00	Excellent	Y	Sherwood Residential		\$39.17
330 East 75th Street	4.0	2.0	2.0	950 SF	\$3,890.00	Good	Y	The Corcoran Group		\$49.14
330 East 75th Street	3.0	1.0	1.0	700 SF	\$2,285.00	Excellent	Y	Sherwood Residential		\$39.17
330 East 75th Street	3.0	1.0	1.0	600 SF	\$2,350.00	Excellent	Y	The Corcoran Group		\$47.00
221 East 76th Street	2.0	1.0	1.0	550 SF	\$1,695.00		Y	N/A		\$36.98
240 East 76th Street	3.0	1.0	1.0	700 SF	\$2,600.00		Y	Bellmarc Realty		\$44.57
240 East 76th Street	3.0	1.0	1.0	700 SF	\$2,600.00		Y	Bellmarc Realty		\$44.57
404 East 76th Street	3.0	1.0	1.0	707 SF	\$3,500.00		Y	Prudential Douglas Eliman		\$59.41
404 East 76th Street	3.0	1.0	1.0	590 SF	\$2,500.00	Mint	Y	Citi Habitats, Inc.		\$50.85
530 East 76th Street	3.0	1.0	1.0	700 SF	\$3,500.00	Excellent	Y	The Corcoran Group		\$60.00
205 East 77th Street	3.0	1.0	1.0	750 SF	\$2,395.00	Good	Y	Metropolitan Res. Partners		\$38.32
301 East 79th Street	3.5	1.0	1.0	700 SF	\$2,900.00	Excellent	Y	Barak Realty		\$49.71
301 East 79th Street	3.5	1.0	1.0	700 SF	\$2,900.00	Excellent	Y	Barak Realty		\$49.71
404 East 79th Street	4.0	2.0	2.0	1,000 SF	\$4,500.00	Good	Y	Nest Seekers		\$54.00
301 East 79th Street	3.0	1.0	1.0	625 SF	\$2,300.00	Good	Y	The Corcoran Group		\$44.16
301 East 79th Street	3.0	1.0	1.0	650 SF	\$3,000.00	Mint	Y	The Corcoran Group		\$55.38
301 East 79th Street	3.0	1.0	1.0	570 SF	\$2,300.00		Y	Halstead Property		\$48.42
301 East 79th Street	3.5	1.0	1.0	650 SF	\$3,200.00	Good	Y	A.C. Lawrence		\$59.08
301 East 79th Street	3.0	1.0	1.0	700 SF	\$2,695.00	Mint	Y	Furumoto Realty		\$46.20
301 East 79th Street	3.0	1.0	1.0	630 SF	\$2,500.00	Mint	Y	N/A		\$47.62
435 East 79th Street	4.5	1.5	2.0	1,266 SF	\$4,200.00		Y	BLDG		\$39.81
435 East 79th Street	3.0	1.0	1.0	728 SF	\$2,650.00		Y	BLDG		\$43.68
201 East 80th Street	3.0	1.5	1.0	897 SF	\$3,500.00	Mint	Y	The Corcoran Group		\$46.82
215 East 80th Street	3.5	1.0	2.0	867 SF	\$2,800.00	Excellent	Y	Bellmarc Realty		\$38.75
215 East 80th Street	3.5	1.0	1.0	980 SF	\$3,000.00		Y	The Corcoran Group		\$36.73
345 East 80th Street	3.0	1.0	1.0	705 SF	\$2,700.00	Mint	Y	Prudential Douglas Eliman		\$45.96
345 East 80th Street	3.5	1.0	1.0	900 SF	\$2,700.00	Excellent	Y	Homestead New York		\$36.00
345 East 80th Street	3.0	1.0	1.0	590 SF	\$2,375.00	Good	Y	Prudential Douglas Eliman		\$48.31
401 East 80th Street	3.5	1.5	1.0	900 SF	\$3,900.00		Y	N/A		\$52.00
401 East 80th Street	3.5	1.5	1.0	900 SF	\$3,600.00		Y	Gracie Mews		\$48.00
420 East 80th Street	3.0	1.0	1.0	750 SF	\$3,550.00		Y	Century 21 NY Metro		\$56.80
445 East 80th Street	3.5	1.0	1.0	907 SF	\$3,100.00		Y	Halstead Property, LLC		\$41.01
445 East 80th Street	3.5	1.0	1.0	893 SF	\$3,000.00		Y	Halstead Property Company		\$40.31

ADDRESS	ROOMS	BATHS	BEDROOMS	SIZE	PRICE	CONDITION	DOORMAN	BROKERAGE FIRM/COMPANY	LEASE DATE	US
445 East 80th Street	2.0	1.0	0.0	545 SF	\$2,200.00	Renovated	Y	Halstead Property Company		\$48.44
445 East 80th Street	4.5	2.0	2.0	1,273 SF	\$4,300.00	Excellent	Y	Halstead		\$40.53
445 East 80th Street	3.0	1.0	1.0	781 SF	\$2,700.00	Renovated	Y	Halstead Property Company		\$41.49
445 East 80th Street	3.5	1.0	1.0	891 SF	\$3,000.00	Excellent	Y	Halstead Property, LLC		\$40.40
445 East 80th Street	4.5	2.0	2.0	1,277 SF	\$4,100.00	Very Good	Y	Halstead Property, LLC		\$38.53
445 East 80th Street	4.5	2.0	2.0	1,281 SF	\$4,500.00		Y	Halstead Property, LLC		\$42.15
445 East 80th Street	4.5	2.0	2.0	1,301 SF	\$4,000.00	Very Good	Y	Halstead Property Company		\$36.89
510 East 80th Street	3.0	1.0	1.0	725 SF	\$2,390.00	Excellent	Y	Bellmarc Realty		\$39.56
510 East 80th Street	3.0	1.0	1.0	800 SF	\$2,250.00	Excellent	Y	Domain Properties		\$33.75
511 East 80th Street	3.0	1.0	1.0	800 SF	\$2,900.00	Mint	Y	N/A		\$43.50
520 East 81st Street	2.5	1.0	0.0	500 SF	\$1,700.00	Good	Y	Citi Habitats, Inc.		\$40.80
245 East 93rd Street	3.0	1.0	1.0	825 SF	\$2,600.00	Excellent	Y	Plaza Real Estate		\$37.82
300 East 93rd Street	3.5	2.0	1.0	800 SF	\$2,500.00		Y	Lyons Den Properties		\$37.50
200 East 82nd Street	2.5	1.0	0.0	515 SF	\$2,495.00	Renovated	Y	Adelco Management		\$58.14
444 East 82nd Street	4.5	2.0	2.0	1,225 SF	\$4,500.00		Y	HALSTEAD PROPERTY, LLC		\$44.08
444 East 82nd Street	3.0	1.0	1.0	714 SF	\$2,700.00		Y	Halstead Property, LLC		\$45.38
505 East 82nd Street	2.0	1.0	0.0	500 SF	\$1,495.00	Excellent	Y	Nest Seekers		\$35.88
505 East 82nd Street	2.0	1.0	0.0	500 SF	\$1,495.00	Excellent	Y	Nest Seekers		\$35.88

Based on the CitiHabitat's YearEnd 2009 Black and White Report, we have adjusted then rents to reflect the 25.0 percent premium in rents for elevatored, doorman buildings over rents for walk-up buildings like the subject.

	STUDIO	1.0 BEDROOM	2.0 BEDROOM
Adjusted Avg. Annual Rent/SF	\$ 38.99	\$ 37.23	\$ 38.20
Adjusted Avg. Monthly Rent/Unit	\$ 1,778	\$ 2,390	\$ 3,923

These supplemental analyses, all of which contain comparables which have been documented and discussed in greater detail above, confirm that the February 2009 report correctly projected post renovation rents for the then 97 vacant units in the Subject Buildings at \$40.00 per square foot.

### SUBJECT RENT REGULATED UNITS

The subject property contained 93 rent regulated units. The rent roll indicated that the 93 rent regulated units achieve a total monthly rent of \$80,791 or \$969,495 per year, equating to \$26.65 per square foot. The average monthly rent is \$868.72 per unit.

### MAJOR CAPITAL IMPROVEMENT (MCI) REVENUE

The subject property will generate revenues from its proposed capital improvement program. Major capital improvements that are approved may be amortized over an 84 month (7 year) period and passed through, in the form of a rent surcharge, to rent stabilized tenants, based on a pro-rata basis. We based MCI revenues on a total capital expenditure of \$11,607,582. We assumed 90 percent of the total expenditure is approved as a Certified Reasonable Cost (CRC).

Major capital improvement revenues may not exceed 6 percent of the rent stabilized tenant's total lease payments in Year 1. As such, the potential MCI revenues are tested versus this threshold, and applied beginning in year 1 of the holding period.

A CRC of \$10,446,824, when amortized over an 84 month period, results in total permitted increases of \$124,366.95 per month. The pass throughs to tenants are pro-rated based on total room counts. The landlord may pass through \$654.56 per unit per month for the rent regulated units. MCI pass throughs only impact rent

regulated tenants. Pro-rated to only the 93 rent stabilized units, the potential maximum MCI revenue equates to \$60,874 per month in Year 1. This is above the threshold test of 6.0 percent.

The rent regulated units pay a total of \$969,495, and pass throughs are limited to 6 percent of this amount, equating to \$58,170 in total, or \$625.48 per apartment in Year 1. The MCI revenues reflect the revenue from the remaining rent regulated units.

### MISCELLANEOUS REVENUE

Miscellaneous income includes forfeited deposits, late fees, and other miscellaneous items. We budgeted \$12,500 for miscellaneous revenue. This is a typical amount experienced in the marketplace, for a building in the size range of the subject. The miscellaneous revenue includes income from forfeited security deposits and interest income, and miscellaneous fees (i.e., lost keys, lock replacement).

### POTENTIAL GROSS INCOME

Potential gross income in Year 1 may be summarized as follows:

Residential – Market:	\$1,437,765
Residential – Rent Regulated:	969,495
MCI Revenue	58,170
Miscellaneous Revenue:	12,500
Total:	<u>\$2,477,929</u>

### ANALYSIS OF EXPENSES

Following are the projected operating expenses we have used in our proforma analysis. We utilized the same expense projection as February 2009 report. Please refer to the 2009 report for details.

C&W			
Expense	Forecast	Per SF	Analysis
Real Estate Taxes	\$557,534	\$15.46	A complete discussion of the taxes is included in the Real Property Taxes and Assessments section of this report. The real estate taxes are based on the stabilized operation of the subject building.
Insurance	\$135,700	\$1.60	The insurance expense includes the cost of fire and extended liability coverage.
Salary and Benefits	\$296,900	\$3.50	This expense covers the cost of salary and benefits for the operation of the building on a rental basis. It considers the need for full-time superintendents and porters.
Utilities	\$267,200	\$3.15	This category includes common area heat and electricity, gas and/or oil expenses. It considers the extraordinary increase in fuel costs witnessed in 2006, 2007, and early 2008.
Water and Sewer	\$106,000	\$1.25	This category includes all water and sewer charges.
Repairs and Maintenance	\$212,100	\$2.50	Repairs and maintenance considers the ongoing maintenance to the interior and exterior of the building, pest control, as well as any minor and ordinary maintenance to the plumbing and electrical systems, kitchen appliances and the roof. It also includes monies for contract labor for specific repair and maintenance functions.
General and Administrative	\$25,400	\$0.30	This expense covers the cost of office overhead, supplies and administrative costs.
Legal and Professional Fees	\$29,700	\$0.35	Our estimate is based on the budgeted expense plus expense levels at competing properties.
Management	\$63,600	\$0.75	This covers the cost for all management personnel and financial reporting.
Painting and Supplies	\$47,500	\$0.56	This expense allows for the periodic painting of units and common areas. As a rental building, the landlord is required to paint units every three years and usually upon turnover.
Depreciation Factor	\$350,952	\$4.14	2009 depreciation factor plus 2.0 percent of the capital expenditure. Calculation: \$17,005 (2009 Depreciation Factor) + (\$16,697,332 (Renovation Cost) x 2%) = \$350,952
Miscellaneous	\$21,200	\$0.25	This accounts for minor unforecasted expenses.

## INCOME AND EXPENSE PRO FORMA

The following chart is our opinion of income and expenses for Year 1.

PROFORMA - BUILDING-WIDE & IN-UNIT RENOVATION 429 EAST 64TH STREET & 430 EAST 65TH STREET NEW YORK, NEW YORK		
	Year One	
INCOME	Total	\$/GBA
Market Rate Units Revenue	\$1,437,765	
Rent Stabilized Units Revenue	\$969,495	
MCI Revenue	\$58,170	
Miscellaneous Revenue	\$12,500	
<b>Total Gross Income</b>	<b>2,477,929</b>	
Less: Vacancy and Credit Loss	247,793	
<b>Effective Gross Income</b>	<b>2,230,136</b>	
<b>OPERATING EXPENSES</b>		
<b>Real Estate Taxes</b>	<b>557,534</b>	<b>\$6.57</b>
Insurance	135,700	\$1.60
Salary & Benefits	296,900	\$3.50
Utilities	267,200	\$3.15
Water & Sewer	106,000	\$1.25
Repairs & Maintenance	212,065	\$2.50
General & Administrative	25,400	\$0.30
Legal & Professional Fees	29,700	\$0.35
Painting & Supplies	47,500	\$0.56
Management fees	63,600	\$0.75
Depreciation Factor	350,952	\$4.14
Miscellaneous Expense	21,200	\$0.25
<b>TOTAL EXPENSES</b>	<b>2,113,751</b>	<b>\$24.92</b>
<b>NET OPERATING INCOME</b>	<b>116,386</b>	<b>\$1.37</b>

Based on stabilized operations, the NOI is estimated at \$116,386. The calculation used to determine the denominator is the sum of the 2009/2010 assessed value and 45.0 percent of renovation costs. Based on this calculation, the denominator equates to \$10,047,300, which produces **1.158%** of economic return.

We also estimated the denominator based on the assessed value of the real estate taxes utilized in the proforma, which is 25.0 percent of the effective gross income. We applied the 2009/2010 tax rate to the real estate taxes to determine the assessed value. This equates to a real estate tax assessment of \$4,271,310. Based on this denominator, the economic return equates to **2.725%**. A Reasonable Return as defined by the New York City Administrative Code is 6.0 percent per annum. In both cases, the subject property does not generate a "reasonable return" as improved.

The results of the analysis indicate that continued operation of the property in its renovated conditions with capital expenditure is not economically feasible. The level of feasibility is made worse if measured on a leveraged basis.

## CONCLUSION

Based on continued use without building-wide capital improvement but with capital expenditure sufficient to cure fire and safety conditions in units, the proforma develops a return of **1.158%** based on the valuation. Therefore, we have concluded that the imposition of the landmark's designation on November 21, 2006, has rendered the

property incapable of generating a reasonable return on valuation as defined in the New York City Landmarks Law.

The result of this analysis also indicates that continued operation of the property in its current condition is not economically feasible. We conclude that the Landmark designation creates a hardship upon ownership as a result of projected economic performance.

## ELEVATOR INSTALLATION SCENARIO

The Gleeds August 2012 Conceptual Estimate of Probable Cost report indicates a total capital expenditure of \$25.4 million, rounded to renovate the subject buildings and install elevators (8) to each wing. This equates to \$299 per square foot of gross building area, which is reasonable for hard costs associated with this type of renovation. Due the current layout of the subject property, installing eight elevators requires unit combinations, which also calls for a complete in-unit renovation. The installation is only possible if all units are vacated. The plan calls for unit combinations to allow access to all units. Based on Gleeds report, the new net rentable area will be 63,720 square feet with a total of 120 residential units, post unit combinations.

An evaluation of feasibility must consider a rate of return for the capital expended. Gleeds has estimated only the hard costs, including labor, to complete such a renovation. Several soft costs were not identified, such as architectural, engineering, insurance, real estate tax carry and permits, which represent additional and substantial costs beyond the Gleeds estimate.

Furthermore, an estimate of feasibility must also consider the status of rent regulated tenancy in the buildings. The renovation analyzed by Gleeds at the request of the Landmarks Preservation Commission would require that the building be completely vacated. Because neither the rent control nor the rent stabilization statute permits the relocation of tenants to facilitate a rehabilitation (even a major one), the only way to vacate the building would be to buy out all of the rent regulated tenants. Even if this could be done (and there is no assurance that it could be), there is no way to predict either how long it would take or how much it would cost – both critical factors in the cost of the project.

We refer to the Citi Habitat reports adopted and used by HRA which indicates that elevator buildings command a 10 to 15 percent premium in the market when compared to walk-up buildings (Citi Habitat Year End 2009 Market Report, Pages 9-10). Allowing for a 15 percent premium to the \$40.00 per square foot rent conclusion for the subject, results in added revenue of \$6.00 per square foot of net rentable area. In this scenario, the subject's proposed net rentable area is 63,720 square feet, on account of the use of previously rentable space for elevator shafts. Potential gross revenues could increase by \$382,320 per year. Assuming 5 percent for vacancy and credit loss, an allocation of 25 percent of effective revenues for real estate taxes and \$0.50 per square foot in added electric and maintenance costs for the elevators, results in additional net operating income of approximately \$230,000 per year, rounded. Furthermore, it does not consider the 2.0 percent depreciation factor which further reduces the calculation of estimated revenue.

The cost of installing the elevator by itself (and exclusive of any properly allocable soft costs) is estimated by Gleeds at \$4.4 million, rounded. It would take 19 years, rounded, of increased revenues to recover the installation costs of the elevators. Typical MCI guidelines reflect a return of capital expenditures over a 7 year period.

The uncertainty as to the timing and the cost of gaining possession of the building, the cost of installing the elevator, and the relatively modest increase in rent attributable to the elevators renders this scenario's proposed renovation costs to not be financeable. For that reason, any such renovation/rehabilitation could be implemented only if it were paid for entirely with the owner's equity. However, no rational and prudent owner would make this kind of investment in light on the length of time needed to earn a return of any kind, much less a reasonable return on capital invested and potential profit.

In sum, the absence of any way – whether by equity or by lending – to finance a gut renovation scenario involving the installation of elevators makes it infeasible.



## ADDITIONAL DISCUSSION

C&W was provided with a memorandum prepared by HRA, which focuses on the economic feasibility of the subject property. The following section discusses our review of the memorandum as well as an analysis that compares C&W's and HRA's projections. We have also included further support and explanation of rent, vacancy and collection loss, and expense conclusions exhibited in C&W's 2009 Economic Feasibility report.

### THE HRA REPORT

The HRA report focused its market research on two factors: residential vacancy rates and residential rental rates. Much of the market research emanates from market reports published by CitiHabitats, Prudential Douglas Elliman, and MNS. The HRA report presents information for periods between 2007 and through the second quarter of 2011. Herein, we focus only upon 2009, the test year used in application to the LPC.

HRA details CitiHabitats' reported average rent for Upper East Side studio units which was \$1,432 per month for calendar year 2009; \$1,787 per month for one-bedroom units; and \$2,363 per month for two-bedroom units. These rent levels, combined with an analysis of 2007-2011 listings within area buildings, set HRA's basis for a reconciled conclusion of market rent, which totaled \$1,508 per unit per month for the subject's vacant units.

The HRA rent estimate is misleading for several reasons.

- Average rent levels are not reconciled to the subject, which is demised into units that are not representative of average apartments on the Upper East Side. The subject units are smaller than average, with below average layouts, room sizes and electric amperage. Prudential Douglas Elliman's 2009 market report indicates average studio sizes of 530 square feet and one-bedroom sizes of 786 square feet. Given that the average unit size in the subject is 371 square feet, it is simply wrong to treat the average published rent as directly applicable to the property.
- The average rental rates are not effective rents that reflect the rent concessions prevalent in 2009.
- The conclusion that an average rent of \$1,508/month/apartment cannot be achieved since the legal rents in many of the units will, even after renovation, still be lower than the market rent.

An analysis of the last legal rents for the 45 vacant units at 429 East 64th Street indicates that, based on Gleeds/Project Consult's in-unit recoverable renovation costs, the average monthly legal rent will increase only to \$1,374 per month. Adding a 3.0 percent one-year renewal rent increase raises the average legal rent only to \$1,415 per month. Using the same methodology, legal rents within the 39 vacant units at 430 East 65th Street would reach only \$1,477 per month. To achieve \$1,508 per unit per month income, additional capital expenditures would be required, altering the calculation for real estate taxes and the denominator in the HRA economic analysis. We note that increasing rent levels would not be welcomed by many of the occupants of these buildings, as such increases would make the units less affordable.

The HRA comparable analysis also uses rent listings from area walk-up apartment buildings from as of 2011; only about 130 of its 409 listings were for apartments being offered in 2009. There is no adjustment for a listing price discount, for rent increases between 2009 and 2011, reported to be 11 to 20 percent, or for concessions. Finally, there is no adjustment to account for the smaller subject unit sizes compared to the market norms. HRA refers to these comparables as "409 rent transactions." However, not one of them is a completed lease transaction; they are merely listings of units for rent.

The LPC should bear in mind in assessing the accuracy of the HRA report the following omissions, each of which individually has an adverse effect on the accuracy of its conclusions and all of which together render its conclusions materially misleading.

- Its derivation of market rents from listings data and from average published rates, does not provide a meaningful comparison to the subject.
- Its failure to consider the relationship between permitted legal rents and market rent estimates results in an overstatement of the potential revenue on the subjects' effective gross income.
- The absence of consideration of both the smaller sizes and poorer quality of the subject units further overstates potential revenue.
- No consideration of the discount to listing rates in 2009 or concessions prevalent in the market.

## **EXPLANATION OF THE C&W 2009 VACANCY AND COLLECTION LOSS ESTIMATE**

Residential vacancy rates in New York City vary across property classes but have been historically low, below 5.0 percent as measured by the Housing and Vacancy Survey, published triennially. Again, we do not believe application of an average market rent or vacancy level is appropriate for the subject units. There are two factors impacting gross revenue flows to a landlord comprised in the estimate for vacancy and credit loss. The first is actual vacancy within a property, which is a function of location, quality, condition, and the competitive position within its asset class. The subject is well below average in terms of its competitive position to attract tenants. Even based on the building-wide and in-unit renovations, the subject units are small with dysfunctional bathrooms and room sizes. The subject, as well as other buildings that are part of the City and Suburban complex, experience above average vacancy and turnover. The presence of so many like-kind apartments on the same city block also affects demand for the subject units. A landlord study of 55 units in buildings adjacent to the subject leased in 2011 took place during a period where 42 tenants vacated their units.

Creditworthiness of tenants is also a factor in vacancy and collection loss. Rent stabilized tenants falling in arrears are not immediately evicted. Slow or nonpayment of rents impacts budgeted and actual receipts and must be considered as part of a credit loss.

A combination of vacancy (5.0 to 7.5 percent) and credit loss (2.5 to 5.0 percent) is appropriate for the subject asset. High turnover rates coupled with tenants who refuse to pay a final month's rent would have an 8.3 percent impact (1/12<sup>th</sup>) on revenue for a unit. Furthermore, forfeited security deposits do not make up for rent arrears or nonpayment.

## **EXPLANATION OF C&W OPERATING EXPENSES**

The conclusions for operating expenses in the 2009 base case scenario were supported by area comparables with consideration for the qualities and attributes of the subject buildings. Individual expenses for specific categories may run higher than comparables due to high turnover rates, the cause of which has been detailed. Tenant move-ins/outs generate higher management and repair and maintenance costs. Poor quality insulation and multiple points of ingress/egress influence higher utility costs. The low amperage fuse box electrical system requires on-going repairs and upkeep. During the LPC presentation, C&W presented additional comparable expenses which are also illustrated hereafter. The conclusions made for operating expenses considered both the in-unit renovations and building-wide capital expenditures. The conclusions were not influenced by higher than normal historical expenditures for legal professional fees, and general and administrative costs.





## ASSUMPTIONS AND LIMITING CONDITIONS

"Report" means the appraisal or consulting report and conclusions stated therein, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Report.

"C&W" means Cushman & Wakefield, Inc. or its subsidiary that issued the Report.

"Appraiser(s)" means the employee(s) of C&W who prepared and signed the Report.

The Report has been made subject to the following assumptions and limiting conditions:

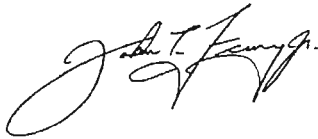
- No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
- The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor C&W shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters. Any authorized user of the Report is obligated to bring to the attention of C&W any inaccuracies or errors that it believes are contained in the Report.
- The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions in the Report.
- The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of C&W is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering or SEC material without C&W's prior written consent. Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by C&W in writing to use or rely thereon, hereby agrees to indemnify and hold C&W, its affiliates and their respective shareholders, directors, officers and employees, harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).
- Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Appraisal.
- The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value opinion contained in the Report is based.
- The physical condition of the improvements considered by the Report is based on visual inspection by the Appraiser or other person identified in the Report. C&W assumes no responsibility for the soundness of structural components or for the condition of mechanical equipment, plumbing or electrical components.

- The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. C&W recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.
- The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser and C&W make no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.
- Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of the Property. The Appraisers are not qualified to detect such substances. C&W recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.
- Unless otherwise stated in the Report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the Property. C&W recommends that an expert in this field be employed to determine the compliance of the Property with the requirements of the ADA and the impact of these matters on the opinion of value.
- If the Report is submitted to a lender or investor with the prior approval of C&W, such party should consider this Report as only one factor, together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.
- In the event of a claim against C&W or its affiliates or their respective officers or employees or the Appraisers in connection with or in any way relating to this Report or this engagement, the maximum damages recoverable shall be the amount of the monies actually collected by C&W or its affiliates for this Report and under no circumstances shall any claim for consequential damages be made.
- If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and C&W, its employees and the Appraiser have no liability to such recipients. C&W disclaims any and all liability to any party other than the party that retained C&W to prepare the Report.
- Any estimate of insurable value, if included within the agreed upon scope of work and presented within this report, is based upon figures derived from a national cost estimating service and is developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage for replacing any structure. This analysis should not be relied upon to determine insurance coverage. Furthermore, we make no warranties regarding the accuracy of this estimate.
- By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein.

## CERTIFICATION OF APPRAISAL

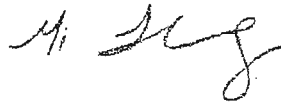
We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.



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John T. Feeney, Jr.  
Executive Director  
NY Certified General Appraiser  
License No. 46000028659



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M. Wendy Hwang  
Director  
NY Certified General Appraiser  
License No. 46000048428



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Robert Nardella, MAI, MRICS  
Senior Managing Director  
NY Certified General Appraiser  
License No. 46000004620

## ADDENDA CONTENTS



## PROFESSIONAL QUALIFICATIONS

### **Robert S. Nardella, MAI, MRICS**

Senior Managing Director

Valuation & Advisory

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#### **Background**

Robert S. Nardella is a Senior Managing Director of Cushman & Wakefield, Inc., working within the Valuation & Advisory Group. Mr. Nardella joined Cushman & Wakefield, Inc. in February 1987 while still attending college. He graduated from Pace University's Lubin School of Business, Class of 1987, with a Bachelor of Business Administration in Finance, and earned a Masters in Real Estate from New York University in 1997.

In March of 1993, Mr. Nardella was named Associate Director of Cushman & Wakefield, Inc. He was further promoted to Director in December 1994 and to Senior Director in September 2006. Mr. Nardella has received the Excellence in Quality Service Award for the Valuation Advisory division in the New York region, and was named Quality Control Manager for the New York region in 2004. Other appointments include National Account Manager of several key Cushman & Wakefield relationships, as well as service on the Career Development Committee. In January 2007, Mr. Nardella was appointed Operations Manager of the New York office within Valuation & Advisory, and was named Managing Director in June 2008. In January 2010, Mr. Nardella was named Senior Managing Director and Regional Manager for New York and New Jersey V&A operations.

#### **Real Estate Experience**

Since joining Cushman & Wakefield, Inc., Mr. Nardella has performed appraisal, feasibility and consulting assignments involving vacant land, developable air rights, office buildings, proposed and existing regional malls, shopping centers, industrial and residential complexes, condominiums, and investment properties throughout 25 states. Mr. Nardella has also successfully negotiated a ground lease for the development of a national chain restaurant.

#### **Education**

Pace University - Bachelor of Science, Finance – June 1987

New York University – Masters in Real Estate – January 1997

#### **Appraisal Education**

Mr. Nardella has successfully completed all courses and requirements to qualify for the MAI designation, and has currently completed the requirements under the continuing education program of the Appraisal Institute.

#### **Memberships, Licenses and Professional Affiliations**

- Designated Member of the Appraisal Institute (MAI designation achieved 1997)
- Member, Royal Institute of Chartered Surveyors (MRICS)
- State of New York Certified General Real Estate Appraiser, License No. 46000004620
- New York State Real Estate Salesperson

## PROFESSIONAL QUALIFICATIONS

### John T. Feeney, Jr.

Executive Director  
Valuation & Advisory

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#### Background

Mr. Feeney is a graduate of Manhattan College School of Business, Class of 1987, with a Bachelor of Science Degree in Finance. He entered the real estate business in 1985 with Cushman & Wakefield, Inc. Since that time, Mr. Feeney was promoted to Associate Director in October 1993 by the Executive Board of Cushman & Wakefield, Inc. He was subsequently promoted to Director in July 1996, to Senior Director in 2006 and to his current title of Executive Director in 2010.

#### Appraisal Experience

Since joining Cushman & Wakefield's Valuation & Advisory group, Mr. Feeney has worked on assignments including vacant land, air rights, office buildings, corporate headquarter facilities (both existing and proposed), shopping centers, industrial complexes, commercial properties, residential properties, hotels and investment properties throughout the United States.

Mr. Feeney is qualified as an expert witness in U.S. Bankruptcy Court, Southern and Eastern Districts of New York, and in the Supreme Court of the State of New York, County of New York, County of Queens and County of Nassau. Mr. Feeney has also been a guest speaker at Columbia University School of Business, and for the Appraisal Institute, Metropolitan District Chapter Number 4.

Since 1997, Mr. Feeney has headed the multi-family valuation team for New York's Valuation Services. During this time, Mr. Feeney has prepared appraisals and consulted on hundreds of multi-family assets including premier developments such as the Residences at the Time Warner Center, Trump World Tower, the Residences at 50 Central Park South, and One Beacon Court. Appraisal and consultation services have been provided to Con Edison on its transaction for its sites along First Avenue, proposed to be developed with over 5,000,000 square feet of mixed use buildings. Mr. Feeney's team was responsible for the appraisal of the first downtown residential buildings to be granted Liberty Bond Financing. Assignments have included properties in each borough of New York City, and include cooperatives, existing and proposed condominium developments, proposed and existing rental developments, 80/20 mixed use developments, Section 8 and Section 236 housing developments, Mitchell Lama developments, development sites, air rights, Low Income Housing Tax Credits, Inclusionary Housing, and benefits related to sub-market financing.

#### Education

Manhattan College	New York University
Riverdale, New York	New York, New York
Degree: B.S. Finance (1987)	Degree: Master of Science, Real Estate Development and Investment Analysis (Currently attending)

#### Appraisal Education

Mr. Feeney has successfully completed all required real estate courses required for the MAI designation offered by either the American Institute of Real Estate Appraisers or the Appraisal Institute.

#### Memberships, Licenses and Professional Affiliations

Associate Member of the Appraisal Institute  
New York State Certified General Real Estate Appraiser No. 46000028659

## Professional Qualifications

### M. Wendy Hwang

Director

Valuation & Advisory

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#### Background

Wendy Hwang joined the Valuation & Advisory group of Cushman & Wakefield in Midtown Manhattan in February 2006. Prior to joining Cushman & Wakefield, Ms. Hwang was an associate appraiser at Vanderbilt Appraisal Company, LLC in Manhattan. She also worked as a Software Engineer in North America Data Command Center for Citigroup Inc. and Information Technology Specialist for Beckton, Dickenson and Company.

#### Experience

Since joining the division, Ms. Hwang has worked on multi-unit residential properties, mainly in Manhattan and other four boroughs in New York City. She is working as an associate of John T. Feeney, Jr. who specializes in the portfolio valuation of residential properties. Previously, Ms. Hwang worked on residential appraisals including cooperative, condominium, single-family, multi-family, and townhouse residences at Vanderbilt Appraisal Company, LLC for over two years.

#### Education

Stevens Institute of Technology, Hoboken, NJ

Bachelor of Science, Computer Science, May 2003

Literature, May 2003

#### Appraisal Education

Kovats Real Estate and Insurance School, Maywood, New Jersey:

Uniform Standards of Professional Appraisal Practice (15-hour)

Introduction to Real Estate Appraisal (R-1)

Valuation Principles and Procedures (R-2)

Rockland County Board of Realtors, Pearl River, New York:

Fair Housing & Fair Lending/Environmental Issues (AQ-1)

New York Real Estate School, New York, New York:

Applied Residential Property Valuation (R-3)

Introduction to 1-4 Family Income Capitalization (R-4)

Basic Income Capitalization (G-1)

Advanced Income Capitalization (G-2)

Applied Income Property Valuation (G-3)

Appraisal Institute, New York, New York:

Basic Practices and Ethics

7-Hour National USPAP Update

Introduction to Valuation for Financial Reporting

Advanced Sales Comparison and Cost Approaches

#### Memberships, Licenses and Professional Affiliations

- State of New York Certified General Real Estate Appraiser, License #46000048428
- Associate Member of the Appraisal Institute – Metropolitan New York Chapter

