An Analysis of the Lower Manhattan Revitalization Plan

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ABSTRACT

Most older cities in the United States are looking for ways to revitalize their aging central business districts (CBDs). As urban development patterns become increasingly metropolitan with the growth of 'edge cities' and suburban commercil complexes, cities at the center are faced with structural and locational impediments to growth.

New York has implemented a program called the Plan for the Revitalization of Lower Manhattan in an attempt to address the area's lack of competitiveness. This Plan combines zoning changes, tax abatements, energy charge abatements, and historic preservation initiatives in an incentive program designed to spur the redevelopment of existing building stock into both residential units and more modernized office space. This initiative offers a useful framework for examining the issues of how redevelopment in center cities can and should be managed.

This thesis uses four case studies to examine the Plan, its potential for success, and the problems the City will face going forward.

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Chapter 1

Introduction

Most older cities in the United States are looking for ways to revitalize their aging central business districts (CBDs). As urban development patterns become increasingly metropolitan with the growth of 'edge cities' and suburban commercial complexes, cities at the center are faced with structural and locational impediments to growth. The building stock and the infrastructure tend to be older, commutes are longer, and taxes for both residents and businesses the are higher.

In situations where metropolitan and regional economies are experiencing slow growth, or in some cases no growth, competition for commercial development and the tax base that comes with it, becomes a 'zero sum game'. In the case of metropolitan New York this is especially problematic given that the region's economic boundaries overlay three states. While governmental entities such as the Port Authority oversee some aspects of inter-state commerce, most economic development is not coordinated.

An example of the kind of competition this situation engenders is the bidding war Lower Manhattan and Jersey City waged for the new Coffee, Sugar and Cocoa Exchange. Negotiations between the Exchange and the two cities lasted almost 6 years. In the end the Exchange committed to remaining in New York when the City offered an incentive package worth more than $90 million (not including the value of the city-owned land where the new building is being constructed). While the cost of $25,000 per job saved[1] is relatively cheap,[2] this is the reality of regional competition New York City faces. As such, both new and old strategies for encouraging development and redevelopment within the City need to be examined within the context of local, metropolitan, and in some cases, regional competition. The focus of the debate must be concentrated on solutions which are economically sound in the long term.

In October of 1995, the City of New York implemented a program called the Plan for the Revitalization of Lower Manhattan, in an attempt to address the Downtown real estate market's

[1] New York Times, 10/15/95, pg. 12.
[2] Tennessee paid well over $100,000 per job for the Saturn Plant.

lack of competitiveness. The Plan combines zoning changes, tax abatements, energy charge abatements, and historic preservation initiatives in an incentive program designed to spur the redevelopment of Lower Manhattan's existing building stock into both residential units and more modernized office space. This initiative offers a useful framework for examining the issues of how redevelopment in center cities can and should be managed. Specifically, it provides the opportunity to consider the efficacy of both zoning changes and tax abatement incentives.

This thesis will explore a number of issues associated with the question of how to fulfill the goal of stabilization. First; what is the current state of the area's real estate market and what part of this stock lends itself to rehabilitation? Second; what have been the institutional impediments to conversion and how are these being changed? Third; will the current package of incentives create a speculative boom in housing in the area and can it sustain itself? Fourth; over the long-term, what rents justify the costs of rehabilitation and will those rents be affordable for all the prospective tenants. Finally; while high-end housing is typically the first suggested use, will such an economically narrow group of residents form the critical mass necessary to make Lower Manhattan an economically viable, self-sustaining community.

While this thesis will present the results of a series of four case studies of potential rehabilitation projects in Lower Manhattan as a way of addressing this issues, there is a broader question as to what kind of rehabilitation is needed to stabilize an inner-city CBD. This question is particularly salient in Lower Manhattan which is dominated by one inherently volatile industry (finance), but it is also applicable to most older metropolitan areas in the US.

As a result of severe over-building and shrinking demand, the New York commercial real estate market suffered a sustained downturn during the late 1980's and early 1990's. This downturn affected every sector of the metropolitan market, including the city's two central business districts (CBDs) in Midtown and Lower Manhattan, as well as the suburban markets in northern New Jersey, Westchester/Connecticut, and Nassau County. While this recession can be seen as part of a long-term real estate cycle, the unevenness of its severity and duration in each of these local markets is due, in part, to structural differences between them. As such, Lower Manhattan was the urban area which was hardest hard hit.

By 1995, when the collapse in rents and occupancy rates had stabilized in most of the region's markets, the asking rents in the Midtown market were almost 50% higher than those in Lower Manhattan and, more significantly, vacancy rates were far higher. Midtown's average was 10.8% while in parts of the Financial District it was nearly 29%[3]. Conventional wisdom suggests this dichotomy is the result of a number of structural differences which have dampened demand in the area for decades. These include poor accessibility, obsolete stock, a paucity of development sites, and an overwhelming dependence on the finance industry as the principal user of space.

The following is a brief synopsis of these deficiencies: In terms of accessibility, Lower Manhattan has been at a distinct disadvantage since even before the end of World War II when suburbanization started in earnest. While the area is well served by the subways, the Staten Island Ferry and PATH trains, all of the major commuter rail lines terminate in Midtown at Grand Central Station or Penn Station. In addition, Midtown and the 'edge cities' are more accessible to the most affluent suburbs by car. The same is true within the city where, with the exception of Battery Park City and Brooklyn Heights, an overwhelming majority of the middle and upper income residential neighborhoods are located on the Manhattan's Upper East and West Sides.

As of 1996, approximately 35% of Lower Manhattan's total commercial stock consisted of pre-war buildings, this constituted almost 35 million square feet of space. Another 15% of the present supply was built between W.W.II and 1968[4]. In many cases, the small floor plates, antiquated systems and environmental problems of the pre-war buildings have made them virtually obsolete as office space. Potential commercial tenants are looking for asbestos-free buildings with large floor plates and the capacity to accept advanced computer and telecommunications systems. As a result, many buildings are standing virtually empty with little chance of being reoccupied by traditional tenants.

Though the World Trade Center, Battery Park City, and a few projects like the Chase Manhattan Bank Building are built on large sites, Lower Manhattan has historically had a constrained and

[3] Williams Real Estate Co., 'A Five Year Analysis', pg. 8
[4] Williams Real Estate Co., 'A Five Year Analysis', pg. 10

expensive supply of buildable land. By contrast, Midtown and all of the suburban markets have historically had more abundant supplies of land.

Finally, during both the 1970's and the late 1980's and early 1990's, the financial industry on which Lower Manhattan has always been heavily dependent underwent extensive restructuring and downsizing. As advances in telecommunication obviated the need to be close to the exchanges, some jobs moved uptown or out of the city, while others were eliminated. In addition, these kinds of businesses are prone to large cyclical employment swings which, in turn, create pressure for shorter lease and sub-lease terms. Thus, while most financial firms still see the benefits of agglomeration, it is metropolitan clustering rather than a local clustering which characterizes their locational patterns.

Many of these problems, such as the area's comparative lack of access from Manhattan's middle and upper middle class residential neighborhoods, are not new; the City and the Financial District's business leaders have grappled with them for decades. The need to reinforce Lower Manhattan's status as a viable, competitive CBD was originally addressed by planners in the first Regional Plan Association Plan, published in 1929[5]. The first and second Lower Manhattan Plans of 1958 and 1966 both attempted to address the area's structural problems not only through radical redevelopment of its buildings, but of its infrastructure as well. The public / private development of the World Trade Center, South Street Seaport and Battery Park City represent the City's most concrete attempts to stimulate more activity and stabilize the area. More generally, the City has commonly offered developers incentive packages and zoning variances as a way of stimulating growth. As such, the Plan for the Revitalization of Lower Manhattan is just the latest in a long line of public / private interventions.

The depth of the 1990's real estate crash and its particular effect on Lower Manhattan prompted the city to create the Lower Manhattan Task Force. It issued a report in December of 1994, which made the following recommendations: upgrade and augment existing transportation links (a recommendation strongly reinforced in the Regional Plan Association's 1996 plan); relax existing zoning restrictions; consider more buildings for landmark status; and create a package of tax abatements for newly leased commercial space, and for mixed-use and residential

[5] Fitch, The Assassination of New York, pg. 85

conversions. While many of these of these recommendations are based on the established pattern initiatives, some are new. Of particular interest are the changes in the Zoning Resolution which will allow far more flexible adaptations of existing buildings from office space into housing.

The tax abatement proposals have recently been put in motion by the Guiliani administration after being voted into law by the New York State Legislature on October 12, 1995[6]. While the provision of tax abatements has characterized development in both Lower Manhattan and Midtown for decades, the changes in zoning may foreshadow a substantial policy shift toward liberalization. The city's approach to zoning has heretofore been based on imposing strict regulations, and granting variances on a case-by-case basis in return for specific concessions. The new initiatives are intended to be more pro-active and to foster more comprehensive redevelopment which combines residential, commercial and mixed-use projects in one district.

Early indications suggest the City's Revitalization Plan will be successful in generating new activity; as of July 1996, three residential redevelopment projects and one commercial renovation project are already underway. There is, however, the possibility that the subsidies will create an unnaturally speculative, volatile market which will push long-term prices above long-term demand. In addition, any recovery in Downtown is liable to be uneven.

Historically, New York's building booms, both residential and commercial, have benefited from direct government involvement in public/private development projects and or substantial subsidies, either through tax incentives or zoning bonuses. While this has been the case in most American cities, New York has a legacy of aggressive leadership in development finance. Nowhere is this truer than in lower Manhattan [7]. Though many of lower Manhattan's public / private projects serve as models of urban development - Battery Park City is the best example - strictly private development which goes ahead without some kind of public assistance is at a competitive disadvantage.

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[6] New York Senate Bill S5320-New York Assembly Bill A8028

[7] Mollenkopf, Fainstein, Power, Culture and Place: Essays on New York City, pg. 193.

Lower Manhattan has seen the realization of two large public / private urban development projects in the World Trade Center and Battery Park City during last 40 years and, while both can claim success within a limited set of goals, neither has ultimately been able to generate sufficient positive economic externalities to reach past their own boundaries and slow the area's continuing decline. Consequently, the Plan for the Revitalization of Lower Manhattan should be judged not only on its immediate successes, but also on its ability to create lasting change.

Chapter 2

History 1800-1960

Though New York City's population was less than 12,000 at the end of the revolutionary war (1783), its growth during the nineteenth century was unparalleled by any other city in the US. By 1820, the population had risen to 123,700, by 1840 it reached 312,700, by 1860 it exceed 813,000, and it topped one million by 1875[8].

Given that the city was established at the tip of Manhattan (what is now the Financial District), the only direction in which it could expand was north. Development reached the northern fringe of Harlem in the 1880's, and the city's expansion culminated with the consolidation of the outer boroughs in 1898[9]. This growth was characterized by an almost constant cycle of redevelopment. Older buildings were continually being torn down to accommodate newer more efficient uses of the city's increasingly valuable land. Thus, as growth pushed the city's residential boundaries northward, Lower Manhattan and Broadway in particular became an increasingly dense commercial center. This change was facilitated by a series of devastating fires, the two most notable of which, in 1835 and 1845, between them destroyed over 1000 buildings. Fires were "the nineteenth century version of urban renewal"[10].

Constant change was a direct function of the needs of the city's rapidly expanding mercantile economy. New York's exponential growth during the early 1800's was closely correlated with its ascendancy as America's largest port and, as such, much of its development was related to harbor. When transatlantic shipping moved from sail to steam power in the mid-1800's, the docks shifted from the East River to the Hudson. At the same time, dry goods, especially southern cotton, became the moving force in the economy with the result that entire neighborhoods were taken down and rebuilt as warehouses; during the 1850's, over 200 were built in the Park Place area alone[11].

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[8] Lockwood, Manhattan Moves Uptown, pg. 2.
[9] Allen, New York, New York, pg. 250.
[10] Lockwood, Manhattan Moves Uptown, pg. 25.
[11] Ibid., pg. 98.

While the leading edge of the speculative development moving up Manhattan was generally middle and upper income housing, it was overtaken by mercantile and retail development within ten to twenty years, especially along the central core of Broadway. The only residential neighborhoods which withstood the pressures of commercial development were the workers tenements along the Lower East Side. In these neighborhoods, the density of the housing justified a higher cost of land than even commercial developers could afford. As a result, the bankers, merchants, and businessmen, most of whom were tied to Lower Manhattan by the docks, the exchanges and the counting houses, became some of the earliest commuters. As the trip to work became longer and longer, new technologies were employed to keep the journey manageable, starting with the omnibus and ending with the subway, and the commuter railroads.

The first real change in the structure of the city's financial community came about as a result of the growth of the railroads and the industrialization fostered by the Civil War. The early nineteenth century had seen Lower Manhattan prosper mostly as a result of the success of its merchants and its port, but the large amounts of foreign capital needed by the country's industrialists and its burgeoning railroads required large new investment banks. As a result, firms like Morgan Bank and Kuhn Loeb and Company quickly gave Wall Street a national stature that couldn't be replicated. This concentration of capital, in turn, fostered an in-migration of corporations. By 1900, 69 of the 100 largest US corporations were headquartered in New York[12], including firms like Carnegie Steel which had moved from Pittsburgh and Standard Oil which had moved from Ohio.

Given the importance of face to face communication in the business world of the late nineteenth century, the benefits of agglomeration outweighed most other considerations. These benefits were particularly important to the bankers and the brokers working on the stock exchanges. Thus, while Lower Manhattan had thrived as a trans-shipment point for both foreign and domestic goods during the beginning of the nineteenth century, by 1900 it was even more important as a trans-shipment point for foreign and domestic capital. This dominance in the financial markets created a competitive advantage which New York retains to this day, in spite of the eroding importance of proximity in the face of the telecommunication revolution.

[12] Allen, New York, New York, pg. 200.

The agglomeration economy of the financial markets has been physically reflected in the density of Lower Manhattan's built stock. The advent of steel construction and the modern electric elevator in the 1880's quickly established the commercial high-rise building as the standard for the business district. The first commercial structure in New York with an electric elevator was a 13-story Tower Building built at 50 Broadway in 1888. While there was virtually no housing left in Lower Manhattan by the turn of the century, rising demand for office space continually inflated land values and spurred constant redevelopment of underutilized commercial properties as well. The result was series of tall, new office buildings built on the small lots of the early nineteenth century. These new taller buildings dramatically increased the density and hence the value of the land. By 1915, the 40-story Equitable Life Assurance Building, built out to the lot lines, had a floor-to-area ratio (FAR) of 30. This building and others like it throughout Lower Manhattan, with their lack of setbacks, prompted the introduction of setback zoning (the first in the country) in the next year[13].

High density characterized commercial developments in Midtown as well as those in Lower Manhattan. While the land constraints in Midtown were initially less severe, they were still pervasive, especially in the areas surrounding transit hubs like Grand Central Terminal. As a result, the early commercial development of East 42nd Street in particular was characterized by a number high-rise buildings such as the 56-story Chanin Building built in 1929, the 53-story Lincoln Building and the Chrysler Building in 1930.

By the start of World War II, the city had two distinctly developed business districts, one in Lower Manhattan concerned primarily with both shipping and finance and one in Midtown which was home to most of the city's corporate headquarters and much of its retail trade. The separation between the two was partly a consequence of the large and thriving manufacturing district which had grown up around the port during the nineteenth century, and a result of the physical attributes of the land: the soil in Tribeca, Soho and Greenwich Village has relatively poor bearing capacity.

In any case, Midtown had a clear advantage in terms of access. During the first part of the century, the railroads dominated both local and national transportation. As a result, Midtown,

[13] Ibid., pg. 265.

served by both Pennsylvania Station and Grand Central Terminal, was far easier to reach than the Financial District. Still, the importance of proximity in the financial world gave Lower Manhattan an continuing reason for being. Consequently, the country's 15 largest brokerage houses were all located there.

As commercial development continually changed the density of the city's stock, housing development became denser as well. While they rarely competed with commercial interests in bidding for land, apartment buildings were introduced to replace single family housing for the middle-class. The first was the Stuyvesant which was built in 1869 on East 18th St.[14]. With the introduction of elevated trains up both the East and West sides, the middle-class and lower middle-class areas above 59th St. developed rapidly between the 1880's and the 1920's. Again, none of these building types could compete with land rents paid by the tenements of the more centrally located lower East Side, whose density rates ran as high as 524 inhabitants per acre[15]. At the turn of the century, Manhattan was completely developed and in many areas, such as the neighborhoods on the Upper East Side townhouses which were less than twenty years old were being re-developed as apartment blocks to accommodate the City's continued growth.

The City's first modern commercial building boom occurred in the 1920's; 30 million square feet of office space was developed between 1921-1931[16]. With the exception of Rockefeller Center and a few other projects, the pace of construction lapsed during the 1930's early 1940's. However, pent-up demand produced a surge of new construction following World War II. Between 1946 and 1953, 965 new buildings were built and 2 million s.f. of new office space per year was added to Midtown. At the same time, 182,000 apartments, exclusive of public housing, were added to the city's stock, mostly on Upper East Side[17].

It was during this period that Midtown asserted itself as the preeminent central business district. While the Financial district continued to prosper, Midtown was increasingly the chosen location not only for corporations, but for all the businesses which offered corporate services such as advertising agencies, accounting firms and law firms. In terms of the locational economics of

[14] Ibid., pg. 233.
[15] Ibid., pg. 241.
[16] Fitch, The Assassination of New York, pg. 57.
[17] Stern, New York, 1930 pg. 58.

accessibility, either to the suburbs or to the substantially increased stock of middle and upper-income housing on the upper East and West Sides, Lower Manhattan could not compete. This problem was exacerbated by the massive post-war suburbanization of New York's growing white-collar work force.

At the same time, New York's port facilities and lower Manhattan's wholesale markets were moving out of the area, in part as a result of urban renewal efforts under the aegis of Robert Moses and in part because of a shift in shipping technology. While these businesses were not as concentrated or as visible as those in the city's financial sector, historically they added diversity to the area's economy. It was during this period that lower Manhattan became almost solely dependent on the health of the financial sector. As a result, the increasingly cyclical capital markets made real estate development in the Financial District a much more speculative endeavor than it was in Midtown.

Chapter 3

History 1960-1990

This thirty year period of commercial development in both of New York City's business districts - Lower Manhattan and Midtown - was marked by two very strong boom-bust cycles, the first of which began during the fifties and the last of which is still being felt in 1996. But while the cycles in both districts were roughly concurrent, Lower Manhattan lagged Midtown during the upturns and led during the downturns.

A key feature of development in Lower Manhattan throughout the entire period was the number of direct initiatives introduced to aid in its redevelopment. These included, the World Trade Center and Battery Park City, the two largest public and public / private commercial building projects in the city's history, as well as South Street Seaport and the unrealized Manhattan Landing project. The first boom which ended in the early 1970's added roughly 25 million square feet to the area's commercial stock, nearly 40% of which came from the World Trade Center. Another 25 million square feet was added during the second boom in the 1980's and of that, 6.3 million square feet was built at the World Financial Center. At the same time, virtually all of the new housing developed in Lower Manhattan during the period was built in Battery Park City.

While much of the private development during the 1960's and the 1980's was a result of the growth of the finance industry, it was also the product of generous incentive packages offered by the city both to businesses and developers. The most important of these was the tax abatement package offered by the Industrial Commercial Incentives Board (ICIB) which allowed for abatements based on the cost of new construction. As a result, nearly 50 million square feet of new commercial space was built in lower Manhattan during this thirty year period.

Unfortunately, though the building booms of the 1960's and the 1980's added to and upgraded Downtown's commercial space, neither could address many of the structural problems which underlie its long-term decline in competitiveness. As a result, the recession which began in the late 1980's saw sharp declines in occupancy and rents in Lower Manhattan's sub-markets. These declines outpaced those in all of Midtown's markets.

World Trade Center

By the end of the 1950's, many Downtown business leaders seriously worried about Lower Manhattan's ability to compete going forward. While there had been virtually no construction in Downtown's CBD between the end of the war and the mid-1950's, Midtown had started growing at a torrid pace almost immediately.

Though development activity in Lower Manhattan eventually began to pick up, Downtown's business leaders were justifiably concerned. As a result, the Downtown Lower Manhattan Association was formed in 1957 under the leadership of David Rockefeller (then head of Chase Manhattan Bank). The purpose of the group was to create a comprehensive new plan for modernizing Lower Manhattan. The first 'Plan for Lower Manhattan' was finished in 1958. The initial plan recommended demolishing obsolete structures, closing smaller streets to create "superblocks", and creating a new traffic loop, a heliport and a marina to improve access. It also revived the idea of building a World Trade Center for the Port Authority (PA), which had first been put forward in 1947 as part of an office and hotel complex to be built on 13 acres of land along the East River. Not coincidentally, the original site was close to Rockefeller's new 1.7 million square foot Chase Manhattan Building which was scheduled for completion in 1962[18].

In early 1963 however, the Port Authority, which had approved the plan in principal, moved the site to the West side. The final project had a number of significant features beyond the two towers. The two most important were the creation of the Port Authority Trans-Hudson (PATH) train system which linked Lower Manhattan with New Jersey and the relocation of a majority of the port facilities to Newark. While these were primarily political concessions, neither was a new idea. Planners had been advocating both since the 1920's and were explicit points in the RPA's first regional plan of 1929.

As soon as the 9 million square foot complex was announced, an opposition group called the Downtown West Businessman's Association was formed. Most of its members were small businessmen whose buildings would be condemned under the land assemblage (depending on which estimates are used, the project was to displace between 17,000 and 30,000 workers). The

[18] Ruchelman, The World Trade Center, Politics and Policies of Skyscraper Development, pg. 45.

group eventually contested the condemnations and takings to the Supreme Court. The core of their argument was that the Port Authority was using eminent domain for purely commercial purposes, a violation of its charter.

A number of prominent Midtown landowners agreed and formed a second opposition group called the Committee for a Reasonable World Trade Center. This committee included, among others, Lawrence Wein, owner of the Empire State Building, Walter Helmsley of Helmsley-Spear Inc. and Harold Uris of the Uris Building Corporation. Their principal complaint was that the Port Authority, which could use tax-exempt bond financing for its projects, was competing unfairly and that the bulk of the Trade Center's tenants would be private companies or governmental entities which were only marginally connected to trade.

While the World Trade Center (9 million square feet) and the Chase Manhattan Bank Building (1.7 million square feet) anchored a building boom in lower Manhattan which added 16.6 million square feet of rentable commercial space between 1960 and 1974, Midtown added even more.[19] At the same time, many upper income residents were choosing to relocate to the suburbs and take the train to work. When the recession of the 1974 ended Manhattan's building boom, lower Manhattan's structural problems were more severe than ever before and the downturn further eroded its competitiveness. The decline continued in spite of the substantial positive externalities which the World Trade Center provided. In fact, the project's success further weakened the older stock's marketability by competing directly and indirectly for tenants.

As the World Trade Center moved forward during the 1960s, a second Plan for Lower Manhattan was created which advocated radically restructuring the area to create better transportation routes, and ringing it with landfill, which would then be built out with a mix of commercial and residential projects. Elements of this plan can be seen in Lower Manhattan's second large public / private project, Battery Park City.

Battery Park City

Though Battery Park City was formally created in 1968 as a response to the Plan for Lower Manhattan, no actual construction was begun until 1980. During the initial phase, $200 million

[19] Mollenkopf, Fainstein, Power, Culture and Place: Essays on New York City, pg. 177.

worth of bonds were issued to create the land (using the landfill from the WTC excavation). The recession of the 1970s and the city's financial crisis squelched any possibilities of immediate development and eventually forced the Battery Park City Authority, the City and the State to restructure the project in 1979. After the restructuring, the Authority owned the land outright and the city provided a substantial package of tax abatements to developers willing to build on it. As a result, World Financial Center was begun in 1980. It was developed by Olympia and York, and built in two phases, WTC 1 and WTC 2 were occupied in 1985 and WTC 3 and WTC 4 were occupied in 1989.[20] The combination of Olympia and York's commitment to build the World Financial Center and the growing economy in the early 80's eventually led to the production of 4,032 units of rental and owner-occupied housing[21]. As of 1996, however, the residential sites in Battery Park North and most of the sites south of West Thames St. are still undeveloped.

South Street Seaport

The South Street Seaport, which was originally conceived of as part of the Southeast Urban Renewal Plan in the early 1970's, represented a different kind of public / private collaboration. While it was built with the aid of direct and indirect government funding like many projects before it, it was the only high-profile preservation effort in Lower Manhattan and as such, its economic goals were less distinct. Over time, however, the project's commercial success overshadowed its achievements in preservation. The Rouse Company, in conjunction with the City Planning Commission, used a combination of Urban Development Action Grants (UDAGs) and Historic Preservation Tax Credits to fund the project. The project was completed in 1982.

Manhattan Landing

The one big public / private landfill project which did not come to fruition in Lower Manhattan was Manhattan Landing, a $1.2 billion waterfront development conceived of by the Office of Lower Manhattan Development in association with David Rockefeller and the DLMA. It called for 6 million square feet of office space, 9500 apartments, a 1000 car garage, and a 400 room hotel. The project was set to begin in 1972, but the financing package was delayed and the recession combined with New York's financial crisis effectively killed the project.

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[20] Oppenheim, "A Public Sector Financial Dream, New York's Battery Park City Development", pg. 20.
[21] Hamilton, Rabinowitz, Alschuler, "A Report on the Downtown Manhattan Residential Market." pg. 23.

Other Incentives

A separate approach, mention earlier, which the City used to foster commercial development in Lower Manhattan during the 1980's was the use of Industrial and Commercial Incentives Board (ICIB) tax abatements. The aim of the ICIB was to encourage the creation of industrial jobs and this was broadly applied to the construction industry which has accounted for as much as 7% of the city's jobs and far larger portion of its "blue-collar" jobs. This source was used as partial financing for 28 office building projects in 1982 alone and accounted for over 90% of an estimated $47 million in tax expenditures that year[22] .

One very successful citywide incentive which was notably absent in spurring redevelopment in lower Manhattan during any of its boom-bust cycles was the J-51 tax abatement program. Though this program was substantially responsible for the introduction of residential conversions in Soho and Tribeca, it was never implemented on a broad scale below Chambers St. Initially introduced in 1955 to help non-profit developers upgrade cold-water, low-income tenements, it was substantially amended in 1975 to include the market-rate conversion of commercial and industrial spaces into residential units. As a result of the tax changes, the number of conversions underwritten doubled in its first year and continued to grow. By 1978, the amount of taxes forgone was $71.4 million. It reached high of $155 million in 1981[23].

This program was initially controversial because as much as 75% of value of subsidy went to upper income beneficiaries in Manhattan, but it has been argued that those subsidies brought far greater ancillary benefits by establishing what have become two of the city's highest income neighborhoods[24]. The program was changed in 1984 to exclude private sector gut-rehabilitations. Given that the J-51 subsidy program is largely credited with fostering the creation of these two neighborhoods, it's modest use in Lower Manhattan is particularly striking and underscores the historical dominance of returns from commercial redevelopment over housing in the area.

Whether this was the product of market-driven forces or incentives which were more favorable for commercial development is subject to some debate. However, given that much of the

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[22] Mollenkopf, Fainstein, Power, Culture and Place: Essays on New York City, pg. 184.
[23] Brecher, Setting Municipal Priorities, 1986, pg. 76.
[24] Mollenkopf, Fainstein, Power, Culture and Place: Essays on New York City, pg. 183.

building stock south of the World Trade Center and west of Broadway consisted (and still consists) of underutilized loft buildings, it seems plausible to speculate that throughout most of the period, the option value of holding the underlying land for future commercial development was higher than the value of residential conversion.

A second housing incentive program which played a role in almost every new housing project built in Manhattan in the 1970's and 1980's was the 421a program. This program which was introduced in 1971 offered a graduated five-year tax abatement for housing built on vacant or under-utilized land. Between 1971 and 1978, it was used in 88% of all multi-family housing starts in the city[25]. By 1988, the value of the program's tax abatements reached $114 million. Generally, the housing produced under this program was a upper-middle income residents. The average tenants of this projects had incomes 2.4 times higher than the city average[26].

Special Purpose Zoning

In addition to direct involvement in development, abatements, and incentive programs, the city used special zoning districts, to foster development. The Zoning Resolution of the City of New York contains four 'Special Purpose Zoning Districts' which outline the Planning Commission's aims in controlling and fostering lower Manhattan's growth. These four districts are the Special Greenwich St. District (1971), the Special South Street Seaport District (1972), the Special Manhattan Landing Development District (1973) and the Special Battery Park City District (1981). The history and the effects of zoning are discussed further in the chapter on zoning.

The 1980's

As was the case in most markets in the US, the 1980's represented the largest real estate boom in New York's history in absolute terms. Between 1979 and 1989, the lower Manhattan CBD saw approximately 46 million square feet built and the Midtown CBD saw 104 million square feet built[27]. In contrast to the post-war boom, the two markets rose together during this period, but once again the Financial District lagged far behind in terms of production.

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[25] Ford, Housing Policy and the Urban Middle Class, pg. 55.
[26] Ibid.
[27] Edward S. Gordon Co.

In addition to the locational disadvantages already catalogued, lower Manhattan also suffered from a lack of large, developable sites. This was especially true in terms of privately held sites. The majority of large parcels available were in Battery Park City and consequently 25% of the new construction in the 1980's occurred there. In contrast, Midtown possessed many development sites, especially from Sixth Avenue West. A number of factors contributed to this: Firstly, the area had never been as intensely developed as lower Manhattan, and the industry which had occupied much of the land had moved out of Manhattan. Second, the blocks were laid out in the 1811 plan and were much larger than those downtown. The first condition was, in part, the result of zoning policy which up-zoned the entire area in the second Zoning Resolution in 1961. Notwithstanding the differences between the two markets, lower Manhattan's growth was explosive and the stock of commercial space grew by nearly 100%.

While much of the growth in both CBD's was fostered by a burgeoning stock market and the attendant growth in financial services, it was also the result of the speculative pressures which were present in most commercial markets in the US during the 1980's. These included, favorable tax treatment for depreciation as a result of the 1981 Tax Act, and increased institutional and international investment based on the perception that owning real estate enhanced returns while diversifying portfolios.

In addition to these general incentives, the City also offered an array of tax abatements to help its real estate compete with the growing suburban markets in New Jersey, Westchester/Fairfield and Nassau counties. During this period the competitive effects of these markets grew dramatically. In 1980, the 31 counties which make up the City's suburban ring contained 13% of the region inventory of commercial buildings, by 1990, that number had increased to 35%. This tripling of market share added 173 million square feet of space over the course of just ten years[28]

The result was that, while vacancies were at historic lows at the beginning of the decade, 2.61% in 1981, by 1986 vacancies were once again above 10%[29]. During this boom, both BCD's in Manhattan developed very distinct sub-markets. While these were basically locational in Midtown, in lower Manhattan the sub-markets were characterized by building type as well as district. The following chapter illustrates the dis-intermediation which began to occur as the effects of over-building became evident in the later 1980's.

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[28] Yaro, Hiss, A Region at Risk, pg. 116.
[29] Ibid.

While the newer buildings logically command higher rents, they also exhibit much lower vacancy rates. This becomes evident when comparing the sub-markets of the World Trade Center and the World Financial Center with those of the Financial District and the City Hall Area. Though the building stock in the first two areas is generally much newer than that of the latter two, in a well-functioning market, the lower rents should eventually lower vacancy rates.

It seems clear however, that when vacancies increased throughout the city in the massive downturn of the late 1980's and early 1990's, older buildings in Lower Manhattan suffered disproportionately. It has been suggested that this was due in part, to the obsolescence of the area's many pre-war buildings. The data, however, contradicts this hypothesis suggesting that the segment of the market which fared the worst was the group of buildings built between 1946 and 1968 (see chart on page 26 in the following chapter). An alternate theory is that these buildings, which are nominally Class A and Class B, were in more direct competition with the heavily subsidized projects of the 1970's and 1980's than the predominantly Class C pre-war buildings.

Whether the subsidies came in the form of the Port Authority or Battery Park City's ability to use tax-exempt financing, or the tax abatement programs of the 1980's, those project's built without assistance, or with lesser degrees of it, were at a distinct competitive disadvantage[30].

[30] Mollenkopf, Fainstein, Power, Culture and Place: Essays on New York City, pg. 62.

Chapter 4

Current Market

Commercial

The current state of Manhattan's real estate market reflects many of the issues which have been addressed up to this point. The dis-intermediation between Midtown and Lower Manhattan can be seen in vacancy and rental rates in both the commercial sector of the market as well as in the residential sector. While both CBDs had an overhang of roughly 23 million square feet in the first quarter of 1996, in Midtown this translated into a vacancy rate of 14.20% (down from 18.00% in the first quarter of 1992). In contrast, rate in Lower Manhattan this equaled a 25.11% vacancy rate (its highest historical level). Though neither market could be classified as healthy, Midtown is currently competitive with most national markets, while Lower Manhattan ranks among the worst along with Houston and Los Angeles.

What is particularly striking about both Manhattan business districts is the large number of sub-markets. In both cases, sub-markets are defined by small locational differences which can create large variations in both vacancies and asking rents. But there are differences: for example, in 1995 the Midtown Broadway posted a vacancy rate of 6.58% and average rents of $28.33 per square foot, while 6th Avenue's average vacancy rate was 10.14% and its average rents were $35.99. Meanwhile, Fifth Avenue posted vacancy rates of 12.70% with rents of $36.01 and Madison Avenue had vacancy rates of 17.13% with rents of $39.23[31]. Thus while the different vacancy rates in these sub-markets correlate roughly to rents, they also correlate to building age. The further west the sub-market, the younger the average building age. In Lower Manhattan however, both rents and vacancies are higher in those sub-markets with older buildings. Thus the markdown paid for older space is still accompanied by higher vacancies. Since the market has not equilibrated itself, it is evident that either asking rents must still go lower, or there are structural differences which price cannot address.

In New York, locational distinctions must be drawn very finely. This is especially true in Lower Manhattan where the urban fabric is its most varied. While the blocks around the World Trade

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[31] Williams Real Estate Co., "A Five Year Analysis 1991-1995", pg. 12

Center and the World Financial Center have either been assembled or created to resemble a more modern plan, the layout of the streets in the Financial District remains pre-industrial. Thus, when analyzing the competitiveness of a building, it may be as important to factor in the age of the planning as well as the age of the buildings. The data and the map below represents the downtown market as six sub-markets, and shows the average age of building stock in various parts of Lower Manhattan:

Area 1	Battery Park City (1970's Landfill west of West St., includes WFC)
Area 2	Bounded by Reade St., West St., Broadway, and Barclay St.
Area 3	Bounded by Barclay St., West St., Broadway and Battery Place (Includes WTC)
Area 4	Bounded by Broadway, Park Row, Frankfort St., Dover St., South St. and Fulton St.
Area 5	Bounded by Fulton St., South St., Liberty St., Maiden Lane, and Broadway
Area 6	Bounded by Liberty St., Maiden Lane, South St., Exchange Place, and Broadway
Area 7	Bounded by Exchange Place, South St., State St., Battery Place, and Broadway

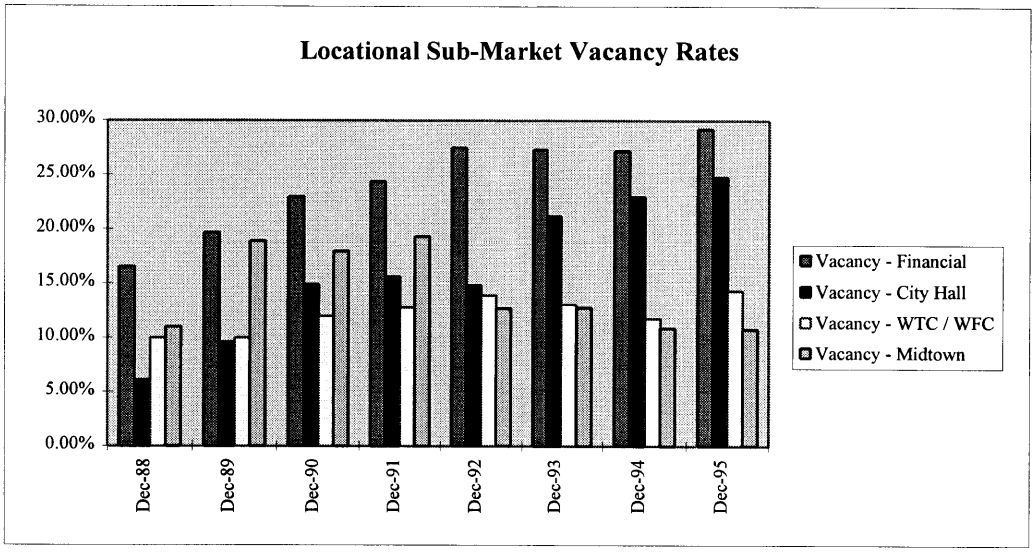
Location	Area 1	Area 2	Area 3	Area 4	Area 5	Area 6	Area 7
Building Age							
1980-1990	0.96	0.37	0.02	0.11	0.08	0.06	0.05
1940-1979	0.03	0.01	0.48	0.77	0.09	0.77	0.06
Pre-1939	0.00	0.62	0.50	0.12	0.83	0.17	0.89
Median Age	1985	Pre-1939	1958	1973	Pre-1939	1956	Pre-1939

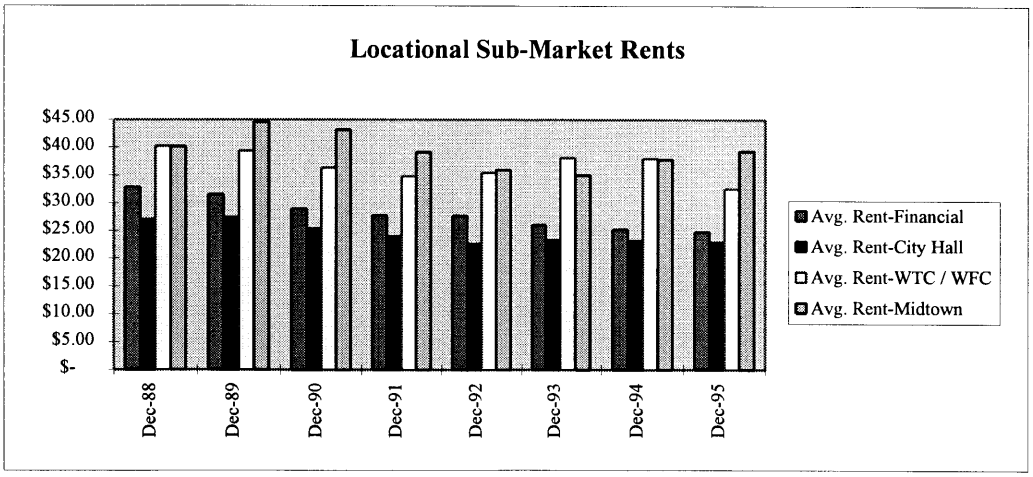
The correlation of age and districts follow the periods of redevelopment fairly closely. Thus, while the market is divided by location as are most sub-markets throughout the City, in Lower Manhattan, location also correlates highly with age and building quality. This correlation points to, among other things, the difficulties associated with lack of developable land. Whereas Downtown's earlier development booms relied on private redevelopment, since World War II, the City has been largely responsible for the creation of large sites. As a result, new development has occurred in very specific areas, notably Battery Park City, the World Trade Center, and to some extent on reclaimed waterfront along parts of South St.

The Following chart, divided more broadly into three sub-markets shows the effect of these age differentials on the market.

Year	*Dec-88*	*Dec-89*	*Dec-90*	*Dec-91*	*Dec-92*	*Dec-93*	*Dec-94*	*Dec-95*
Vacancy - Financial	16.50%	19.70%	23.00%	24.40%	27.50%	27.30%	27.20%	29.20%
Vacancy - City Hall	6.10%	9.60%	14.90%	15.60%	14.80%	21.20%	23.00%	24.80%
Vacancy - WTC / WFC	10.00%	10.00%	12.00%	12.80%	13.90%	13.10%	11.80%	14.30%
Vacancy - Midtown	11.00%	18.90%	17.90%	19.30%	12.70%	12.80%	10.90%	10.80%

Year	*Dec-88*	*Dec-89*	*Dec-90*	*Dec-91*	*Dec-92*	*Dec-93*	*Dec-94*	*Dec-95*
Avg. Rent-Financial	$ 32.88	$ 31.60	$ 29.05	$ 27.86	$ 27.80	$ 26.11	$ 25.32	$ 24.90
Avg. Rent-City Hall	$ 27.09	$ 27.52	$ 25.46	$ 24.07	$ 22.75	$ 23.46	$ 23.30	$ 23.04
Avg. Rent-WTC / WFC	$ 40.23	$ 39.38	$ 36.39	$ 34.86	$ 35.49	$ 38.16	$ 38.01	$ 32.63
Avg. Rent-Midtown	$ 40.19	$ 44.52	$ 43.19	$ 39.18	$ 36.02	$ 35.04	$ 37.85	$ 39.33





When comparing the sub-markets of the World Trade Center and the World Financial Center with those of the Financial District and the City Hall Area, the difference is profound. The WTC and WFC rates closely track those of Midtown fairly closely suggesting that their age and prominent locations offset the locational disadvantages of being Downtown (there is still a premium which fluctuates from $2 to $6 per square foot for locations in Midtown).

By contrast, the vacancy and rental rates in the City Hall area and in the Financial District suggest a growing lack of competitiveness with any of the other markets. While the substantial difference in the age of the building stock in the different sub-markets outlined in the first chart above explains some of the variation in vacancy rates, the following chart refutes the notion that the older the building is the less marketable it will be.

While the older buildings in lower Manhattan's historic core suffered disproportionately during the massive downturn of the late 1980's and early 1990's, the segment of the market which fared the worst was not the pre-war buildings, but the stock built between 1946 and 1968.

Vacancy Rate	Prewar	1946-1968	1968-1995	Total
Jan. 1, 1996	25.33%	32.06%	19.00%	23.32%
Jan. 1, 1990	18.74%	16.70%	17.36%	17.41%
6 yr. Change	6.59%	15.36%	1.64%	5.91%

Average Rent Rate	Prewar	1946-1968	1968-1995	Total
Jan. 1, 1995	$ 19.92	$ 27.07	$ 30.00	$ 25.45
Jan. 1, 1990	$ 23.40	$ 28.97	$ 37.52	$ 31.12
6 yr. Change	$ (3.48)	$ (1.90)	$ (7.52)	$ (5.67)
6 yr. Change %	-14.87%	-6.56%	-20.04%	-18.22%

Source: Williams Real Estate Company

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6 yr. Change %	-14.87%	-6.56%	-20.04%	-18.22%

Source: Williams Real Estate Company

There are two alternate theories which might explain this anomaly. First, these buildings, which are generally Class A and Class B space, with relatively large floor plates and modern HVAC systems, are in more direct competition for modern tenants with the heavily subsidized projects of the 1970's and 1980's.

The changes which put the pre-war buildings at such a disadvantage are not new and as such, have been reflected in relatively lower rents for some time. Whether these subsidies came in the form of the Port Authority or Battery Park City's ability to use tax-exempt financing as was the case at the World Trade Center and the World Financial Center, or the tax abatement programs of the 1980's, projects built in the 1950's and 1960's with lesser degrees of assistance were at a distinct competitive disadvantage.

This is a problem which will continue to affect any new development undertaken without tax incentives and as such, puts a great deal of pressure on the City's tax base going forward. In fact, a former president of the Real Estate Board of New York suggested that, because of this situation, it would be economically unfeasible to build any commercial projects in the future without tax abatements[32].

A second theory is that landlords, in many cases lenders who have foreclosed and written down the value of the building, are holding rents high - fully $10 per square foot higher than the rents in pre-war buildings - during the downward part of the real estate cycle in order to retain the

[32] Mollenkopf, Fainstein, Power, Culture and Place: Essays on New York City, pg. 44.

option value of more lucrative leases when the market returns[33]. This argument seems implausible given the severity and duration of the downturn.

Whatever the reason, it is clear that the City will need to monitor the effects of the Plan for the Revitalization of Lower Manhattan carefully. Given that pre-war buildings are much easier to convert to apartments than the first and second generation office buildings of the first post-war period, they will provide better opportunities for developers to utilize government incentive programs for housing conversions. This leaves the owners of the early post-war buildings with few new opportunities.

Residential

While the market for office space remains mixed at best in Midtown and weak in Lower Manhattan, the city has seen a surge in the rental housing market during the last two years. Average Manhattan rents have risen 15% a year for the last two years after having remained flat or declining slightly during the previous four years. As shown in the following chart, the strongest growth has been in the market for larger apartments, suggesting that the City has started retaining, and attracting families.

Year	Studio	One BR	Sm. 2 BR	Large 2-BR	2-BR+
Jul-92	$ 815.00	$ 1,500.00	$ 2,160.00	$ 2,900.00	$ 3,800.00
Oct-92	$ 850.00	$ 1,575.00	$ 2,300.00	$ 3,050.00	$ 4,200.00
Jan-93	$ 825.00	$ 1,600.00	$ 2,200.00	$ 2,850.00	$ 3,775.00
Apr-93	$ 825.00	$ 1,600.00	$ 2,200.00	$ 2,850.00	$ 3,775.00
Jul-93	$ 845.00	$ 1,650.00	$ 2,100.00	$ 2,700.00	$ 3,600.00
Oct-93	$ 875.00	$ 1,645.00	$ 2,250.00	$ 2,900.00	$ 3,800.00
Jan-94	$ 895.00	$ 1,695.00	$ 2,300.00	$ 3,050.00	$ 3,900.00
Apr-94	$ 875.00	$ 1,670.00	$ 2,400.00	$ 3,100.00	$ 3,700.00
Jul-94	$ 910.00	$ 1,710.00	$ 2,350.00	$ 3,100.00	$ 3,940.00
Oct-94	$ 910.00	$ 1,750.00	$ 2,460.00	$ 3,200.00	$ 4,250.00
Jan-95	$ 940.00	$ 1,795.00	$ 2,550.00	$ 3,300.00	$ 4,300.00
Apr-95	$ 965.00	$ 1,800.00	$ 2,650.00	$ 3,340.00	$ 4,600.00
Jul-95	$ 975.00	$ 1,835.00	$ 2,625.00	$ 3,400.00	$ 4,600.00
Oct-95	$ 980.00	$ 1,825.00	$ 2,700.00	$ 3,450.00	$ 4,700.00
Jan-96	$ 1,025.00	$ 1,950.00	$ 2,950.00	$ 3,700.00	$ 5,300.00
Apr-96	$ 1,070.00	$ 2,030.00	$ 3,075.00	$ 3,950.00	$ 5,850.00
Jul-96	$ 1,240.00	$ 2,275.00	$ 3,190.00	$ 4,210.00	$ 5,960.00
% Change	33.47%	29.67%	31.03%	32.30%	36.66%

Source: Halstead's New York

[33] Interview with Steve Boxer

There are a substantial number of new apartment buildings under construction both on the Upper East Side and on the Upper West Side in response to this rising demand. Two of these projects at 68th and Broadway and 66th Broadway were begun over three years ago.

At the same time, prior to the passage of the Plan for the Revitalization of Lower Manhattan there were no planned residential developments or redevelopments in Lower Manhattan. The nearest large-scale project under construction (and the only large one south of 14th St.) is Tribeca Tower, a 52-story, as-of-right project on Duane St., four blocks north of City Hall.

Even in Battery Park City which has Downtown's most established residential community, the first two residential projects planned in Battery Park City North have been on hold for over a year as a result of lack of construction financing. This may be due in part, to Battery Park City Authority's relatively lenient terms for retaining an option to build as compared with private market deals, but given the level of activity uptown, it is clear that Downtown's residential markets can't compete with more established neighborhoods. This is borne out by a rent discount of 20 % in the Financial District's existing units.[34] Paradoxically, nearby Tribeca and Soho have some of the highest rents in the city, though they have relative dearth of services. This shows the potential value of establishing a neighborhood.

[34] Interview with John West

Chapter 5

Zoning Issues

The Zoning Resolution of the New York City, introduced in 1916, was created for two reasons: first; it was a way of regulating the uses of real estate by segregating industry from other uses, especially in the garment district. Second; it was a way of regulating the growth of the city's built environment. Specifically, it sought to control the size and bulk of commercial high-rise buildings, and to a degree, regulate the city's density. At the time, Lower Manhattan was being overwhelmed by new buildings such as the 42-story Equitable Building, which were built out to the lot line. Not only did they negatively affect the built environment, they put an inordinate strain on the city infrastructure as well.

The most powerful set of controls in the first Resolution were the constraints on height and bulk. The Resolution created a set of street facade limits based on a multiple of the width of the street. A plane was then defined by a boundary line drawn from the middle of the street through the parapet at the top of a street facade and extended upward. Any floors built above this level had to be stepped back to stay within the prescribed envelope. The result was that private development of Manhattan's commercial stock was characterized by a distinctive tiered style. From its inception, zoning had a profound effect on the physical attributes of the City's buildings as well as their density.

While these guidelines were the based on the rule of law, the right to grant variances was also written into the first Resolution and quickly became a critical part of the development process. By the time the second Resolution replaced the first in 1961, the original 17-page document had grown to 81 pages with 2500 amendments and its intent had been seriously diluted. In addition, according to the first Resolution's density formulas, the city had a theoretical capacity of 55 million residents and 250 million workers[35].

The second Resolution, which was published in 1961 created one zoning map and divided the city into three separate use categories and 21 zoning districts. Of these, 10 are residential, 8 are commercial and three are manufacturing. In the beginning, these three uses were seen, to a large

[35] Kayden, Incentive Zoning in New York City: A Cost Benefit Analysis, pg. 6.

degree, as being non-compatible. While residential uses are allowed in commercial districts, the reverse is not true, and industrial uses aren't allowed in either of the other two use groups' districts. The principal aims of the second Resolution were to segregate activities, to down-zone the city (the current resolution allows for roughly 11 million residents[36]) and to replace bulk requirements with Floor-to-Area Ratios (FAR) , to introduce parking restrictions and finally, to create more open space on the City's private real estate.

Incentive Zoning

The desire for more open space has been addressed mostly through the use of incentive zoning. While zoning incentives are not the main focus of the second Resolution, they represent a major innovation which has had a profound effect on the city's built environment. Under this approach, developers could increase the FAR of their sites in return for providing amenities which the City wanted. By 1978 almost 8 million square feet of bonus space had been built[37]. That figure more than doubled by the end of the building boom of the 1980's. One of the most common bonuses was the granting of a higher FAR in exchange for a street level plaza. Like the bulk requirement of the first resolution, this created a very distinctive kind of built environment - the tall tower with a plaza. The unofficial model which the Planning Commission looked toward was Level House[38], a model repeated again and again especially in Midtown.

Special Development Districts

While the second Resolution made sweeping changes in the City's zoning in 1961, it has actively continued to evolve. By 1995 the Resolution contained 813 pages. One of the most significant modifications was the concept of Special Development Districts introduced in 1971. By creating targeted incentives within each district, the City has been able to mandate that developers pay for very specific changes and improvements in the area. In theory, this allows the City to maintain a general set of ordinances which regulate development throughout the city, while addressing very specific localized issues through the District plans. For example, in the Special Greenwich Street District, which covers much of the western half of Lower Manhattan, developers can receive FAR bonuses for improving transit stations in the district.

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[36] Kayden, Incentive Zoning in New York City: A Cost Benefit Analysis, pg. 6
[37] Ibid., pg. 65
[38] Ibid., pg. 69

In most cases, the special districts have specific requirements for the development of distinct sites. This is particularly true in the Special Greenwich Street Development District where 19 parcels have required improvements as a prerequisite for zoning bonuses which increase the area's FAR from 15 to 18.

There are 31 Special Development Districts citywide, but in the confined area of lower Manhattan below Chambers St. there are four. They are the Manhattan Landing District, the South Street Seaport District, the Greenwich Street District and the Battery Park City District. Between them, they cover more than 60% of the land. Thus, Lower Manhattan is perhaps the most comprehensively zoned area in the city.

All four special districts were designed to achieve very specific objectives. Among the stated goals of the Special Greenwich St. District were:

> to foster and promote the orderly expansion of commercial office development... to develop and implement a plan for improved pedestrian and vehicular circulation, including the grade separation of pedestrian and vehicular circulation systems in order to avoid congestion... to improve the rapid transit facilities in the area... to retain and promote the establishment of a variety of retail consumer and service business... and to promote the most desirable use of land in accordance with development and thus conserve and enhance the value of land and buildings and thereby protect the City's tax revenues.[39]

Looking beyond the introductory language, it becomes clear that the City Planning Commission designed the District to foster the implementation of many of the recommendations of the second Plan for Lower Manhattan (1966). However, the bonuses offered are exclusively targeted toward commercial development. While the incentives allowed developers to a achieve a maximum density of FAR 18 for office space, the maximum FAR for a residential project on the same site was 10.

Specifically, most of the District's requirements encourage a raised system of pedestrian walkways and the creation of bigger blocks combined with the demolition of much of the older warehousing stock. This idea was seriously flawed in that it pre-supposed the area's

[39] 'New York City Zoning Resolution', pg. 628.

development would happen within a time frame narrow enough to coordinate all the required improvements.

The Special South Street Seaport District was created, in part, to:

> encourage the preservation, restoration and in certain cases, redevelopment of real property and buildings thereon... into a South Street Environmental museum having associated cultural, recreational and retail activities... to assure the use of the South Street Seaport as an area of small historic and restored buildings, open to the waterfront, having a high proportion of public spaces and amenities, which would serve as an urban retreat from the neighboring commercial office buildings and activity of lower Manhattan...[40]

The Special Manhattan Landing Development District and the Special Battery Park City District share many specific goals. The language which is repeated the 'General Purposes' of each is as follows:

> to strengthen the business core of Lower Manhattan by improving the working environment... to provide major additional space for expansion of office uses and their ancillary functions... to broaden the regional choice of residence by introducing new housing in the vicinity of the major employment center of Lower Manhattan... and to promote the most desirable use of land and direction of building development in the Lower Manhattan area...[41]

In addition, both districts stress the importance of providing access to the waterfront to provide recreational opportunities for both the areas' office workers and the residents. This language reflects the Planning Commission's concern that all future development provide access to Manhattan's waterfront and it is outlined throughout the Zoning Resolution, not just in sections pertaining to Lower Manhattan.

Thus, while most of the districts' planned objectives reflect a straightforward goal of increasing allowable density to encourage commercial development, the specificity of zoning language quickly made some provisions obsolete and obstructive. For example, while none of the radical

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[40] New York City Zoning Resolution, pg. 644.
[41] Ibid., pg. 613.

changes the 'Plan for Lower Manhattan' proposed for the area's transportation infrastructure came to pass, many of the associated changes written into the 'Special District Zoning' were still in force as of 1995.

In addition, while the production of housing was a goal in the design of both the Battery Park City and Lower Manhattan Special Districts, the Zoning Resolution has generally favored housing in areas which are separate from commercial activities. Thus, the emphasis in most of Lower Manhattan including the Special Greenwich Street District has historically been on encouraging commercial development.

Parking

One of the items which is most strictly regulated in the Resolution is parking. While the Planning Commission first attempts to deal with parking mostly took the form of allowing curb-cuts, by 1960 the City began to use zoning as a way of dealing with traffic congestion. As a result the Resolution restricted the amount of parking allowed in commercial developments. Thus, as Lower Manhattan's density continued to increase, its accessibility by automobile has deteriorated.

Quality Housing Program

A relatively recent addition to the Zoning Resolution is the Quality Housing Program which was established in 1987 to foster the provision of multi-family housing that:

a. is compatible with the existing neighborhood's scale and character;
b. provides on-site recreation space to meet the needs of its occupants; and
c. is designed to promote the security and safety of the residents[42].

While this provision is aimed at new construction, it also applies to large scale conversion projects. In many instances its provisions are problematic in redevelopment projects.

Though zoning is by its nature reductive, defining what cannot built rather than what can, New York and most other American cities have gradually modified its function. As a result of the bonus system embodied in incentive zoning, development since 1961 has been characterized by the granting of even more variances than had been the case before the Zoning Resolution was

[42] 'New York City Zoning Resolution', pg. 718.

rewritten. The presumption is that the Planning Commission can foster development by adding, or more accurately, by restoring value to urban land by allowing increased FAR through variances and bonuses. The "quid pro quo" for the added value is the requirement that developers address specific locational issues, by improving mass transit stations for example, or by providing public plazas or arcades. This is especially true in the Special Districts, both on the Lower Manhattan CBD and in Midtown.

It is debatable whether this is a valid approach in highly speculative and cyclical commercial real estate markets such as New York. While bonuses and variances have fostered and perhaps over-stimulated development during the booms, the attendant improvements have not helped retain businesses, or stabilize rental and vacancy rates during the downturns. While the costs of these variances and bonuses are difficult to quantify, general sentiment is that the City has not gotten a fair return on its investment. This point has been made particularly clear during the real estate depression of the late 1980's and early 1990's.

Chapter 6

The Plan for the Revitalization of Lower Manhattan

Lower Manhattan Task Force

The Plan for the Revitalization of Lower Manhattan grew out of the recommendations made in the 1994 report of the Lower Manhattan Task Force. On December 15, 1994, the task force, co-chaired by deputy mayors Fran Reiter and John Dyson, issued a report in which they outlined lower Manhattan's problems, both economic and structural, as well as some of the changes required to address these. The major issues they identified: were transportation; planning and historic preservation; the necessity for new tax benefits; and the importance of finding new large-scale sites for development.

The two most concrete results of the Task Force's report are, the changes made to the Zoning Resolution of the City of New York, and New York Senate-Assembly Bill S5320-A8028 which passed on October 12, 1995. This bill contains a number of tax incentives as well as provisions for energy charge rebates. The combination of these initiatives and zoning liberalizations has created an environment designed to foster rehabilitation of the existing building stock, both as housing and as upgraded commercial space.

Zoning

Perhaps the most important element of the revitalization program is the change in the zoning policy. Historically, zoning has separated uses, i.e. housing has been kept away from commercial and commercial away from industrial. This is especially true in the 1961 Zoning Resolution[43]. A number of provisions added to the Resolution made it very difficult to build housing in Lower Manhattan outside of the Battery Park Special Development District and the Manhattan Landing Special Development District.

First, in an ongoing attempt to regulate loft conversions, the average minimum size of a converted residential unit was increased from 1200 to 1800 square feet in 1981. In addition, the amount of space allotted to a home occupation could not exceed 25% or 500 s.f. of the total.

[43] Bressi, , Planning and Zoning New York City, pg. 56.

Second, residential projects in a commercial district had a maximum allowable FAR of 10 - in contrast to the typical allowable commercial FAR of 15, or in many cases 18. Finally, parking in commercial districts was severely restricted to reduce the amount of automobile commuter traffic. Thus, even when the broader market conditions favored housing over commercial development, as they have done for the last few years, from a zoning standpoint, it has been difficult to develop housing in Lower Manhattan.

As such, the changes enacted as a result of the Task Force report are fundamentally important. These changes are as follows: First: the average minimum unit size has been decreased from 1800 s.f. to 900 s.f. Not only does this allow developers to create more marketable units, it also dramatically increases the flexibility of the floor layouts, an important consideration in conversions. Second, the restrictions on home occupation uses have been relaxed substantially. These uses may now occupy up to 49% of the total floor area. While this may not seem like critical consideration, it is important to remember that many of the buildings which have the potential to be rehabilitated have very deep floor plates and units can have large windowless spaces which cannot, by code, be used as bedrooms. In addition, though the constraining requirement that no unit can be more than four times its length is still in place, it has been modified to exempt home offices from the calculation. Third, the residential FAR has been raised to match the commercial FAR. While this might not have an immediate effect since most of the projects currently being considered are renovations, it does raise the value of parcels the area's under-developed parcels (located for the most part along the western edge of Lower Manhattan. Finally, the number of permitted accessory parking spaces has been increased to an amount equal to 20% of the number of units in a project up to a maximum of 200 spaces

Bill S5320-A8028

To date, most of the speculation about the potential for the rehabilitation of Lower Manhattan into a twenty-four hour city has revolved around the passage of this bill. Bill S5320-A8028's new redevelopment benefits break out into two categories, tax abatements and exemptions and energy cost reductions. A summary of each of the tax changes and of the energy charge reduction is as follows.

Lower Manhattan Real Property Tax Abatement

This five-year tax abatement program was added to the Real Property Tax Law to "stimulate office and retail leasing activity in pre-1975 office buildings in Lower Manhattan."[44] Although the benefits under Title 4 take the form of an abatement of the landlord's taxes, the actual beneficiaries of the program are the tenants who lease space at reduced rates that must (by law) reflect the tax savings realized by the landlord.[45] The abatement in the first three years is equal to "50% of the tax thus attributed to the eligible space, but cannot exceed $2.50 per square foot"[46]. In the fourth year, the abatement drops to two-thirds of the first year's amount, and in the fifth year to one-third the first year's amount.

Though the abatements are given to the landlords, the savings are required to be reflected in reduced rents to the tenants. There are three targeted groups, new tenants, renewal tenants and expansion tenants. Relocation tenants are only eligible if they are not relocating from within the city. There are a number of requirements. First, the leases signed must be for at least five years in the case of firms with less than 50 employees, and at least ten years in the case of firms with more than 50 employees. Second, landlords must spend at least $10 per square foot on renovations for tenants with leases of a minimum of five years and at least $35 per square foot on renovations for tenants with a minimum lease of ten years.

The purpose of this abatement is to improve the competitiveness of older commercial buildings which do not otherwise have compelling rehabilitation prospects, in relation to markets outside the city, for example Jersey City. The Alliance for Downtown New York estimates this package of benefits will create and retain more than 3000 jobs per year for three years[47].

Lower Manhattan Commercial Rent Tax Special Reduction

This amendment refers to a reduction in the taxes paid by tenants on their commercial rent. The reduction can last for up to 60 months. The reduction works by calculating the taxes due on a fraction of the actual rent. In the first year, called the base year, the reduction is equal to the entire amount of the rent, in other words, there is no rent tax. In the second and third years, the reduction is equal to the lesser of the rent paid in the base year or the current period. In the fourth year, the reduction is equal to the lesser of two-thirds of the lesser of the rent paid in the

[44] City of New York, "Summary Lower Manhattan Real Property Tax Abatement".
[45] Ibid.
[46] Ibid.
[47] Alliance for Downtown New York, "Summary Sheet".

base year or the current period. In the final year, the reduction is equal to one-third of the lesser of the rent paid in the base year or the current period.

The effect of this amendment is to give eligible tenants a substantial incentive to sign or renew leases in Lower Manhattan, while allowing the city to benefit from any sharp rent increases. In this instance, Lower Manhattan's competitiveness is increased over other areas within the city as well as outside.

The Lower Manhattan Residential Conversion Program

This program provides new benefits for the conversion of commercial and industrial buildings in Lower Manhattan into housing. A summary of the program is as follows:

> The tax exemption benefit under this section is an exemption from real property taxes, other than assessments for local improvements, on the amount of the assessed value attributable exclusively to the physical improvement, for a period not to exceed twelve years. In the first eight years the exemption is equal to 100% of such assessed value, in the ninth year, 80%, in the tenth year, 60%, in the eleventh year, 40%, and in the twelfth year, 20%.
>
> The tax abatement benefit under this section is an abatement of real property taxes for period not to exceed fourteen years. During the first year of the benefit period, the abatement is equal to the amount of the real property tax that would have been due but for the abatement. In the second through the tenth years of the benefit period, the abatement is equal to 100% of such amount, in the eleventh year, 80%, in the twelfth year, 60%, in the thirteenth year, 40%, and in the fourteenth year, 20%... Landmarked buildings receive an additional year of exemption and abatement benefits.[48]

This program represents the most generous set of incentives in the bill and underlines the City's desire to foster the creation of more housing in lower Manhattan. Given that the program has already spurred preliminary plans for the development of well over 2,000 market rate units.[49] As such, there are bound to be questions relating to the strategy of creating incentives for market rate housing at a time when residential rents in Manhattan have risen over 30% in the last two

[48] City of New York, "Summary Lower Manhattan Residential Conversion Program".
[49] Crains, 6/24/96, pg. 1.

years.[50] While any rental units created which rent for less than $2000 per month would be subject to rent stabilization throughout the benefit period, given the current rent cycle in New York's residential real estate market, most of the base rents will be above the cutoff. The argument used is the same as that used to rebut the criticisms made when it was shown that the incentives offered under the version of J-51 modified in 1975 largely benefited high-end builders and buyers - the neighborhoods created more than offset the cost to the city[51]. However, with the exception of rent stabilization, the issue of low and moderate income housing is largely overlooked in this initiative.

The Lower Manhattan Mixed-Use Property Program

The mixed-use program is largely modeled on the Industrial and Commercial Incentives Program (ICIP) except that it applies to existing buildings, not new construction. It provides a tax exemption for residential construction and for mixed-use commercial and residential construction where more than 25% of the building is reserved for commercial work. All work must begin before July 31, 1999 and must be finished within 36 months of starting. For the benefits to apply, the work undertaken must be worth at least 20% of the property's assessed value.

The exemptions under this program are from the real property taxes on the assessed value of the improvements. The terms are as follows:

> In the first eight years of the benefit period, a recipient of benefits would be exempt from 100% of the assessed value of the improvements attributable to the eligible construction work, in the ninth year, 80%, in the tenth year, 60%, in the eleventh year, 40%, and in the twelfth year, 20%. Landmarked buildings receive an additional year of benefits.[52]

Again, the tax benefits for mixed-use conversions are substantial, and again they reflect the City's desire to give private developers incentives to help create a 'twenty-four hour city'. The Alliance for Downtown New York predicted that the combined tax incentives of the Residential Conversion Program and the Mixed-Use Conversion program together will produce more than 5000 new units of housing over the next ten years.[53]

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[50] Ibid., pg. 1.
[51] Interview with Steven Miller, CHPC.
[52] City of New York, "Summary of Lower Manhattan Mixed-Use Property Program".
[53] Alliance for Downtown New York, "Summary Sheet".

Lower Manhattan Energy Program

Bill S5320-A8028 also establishes a program to reduce electricity costs for commercial tenants in both renovated and newly constructed buildings. The program is set up such that the "private utility", in this case Con Edison offers a reduced rate to a "private redistributer of power", in most cases, the landlord. The landlord is then required to pass on the savings to the tenants. The benefits last for twelve years. The utility is then reimbursed through a special rebate which it can claim against its gross tax receipts.

There are number of eligibility requirements. First, the building must be located within lower Manhattan. Second, the owner must make one of the four following investments:

1. Invest a minimum of 20% of the building's assessed value in renovation so as to qualify for the real property tax benefits of the ICIP.

2. Obtain financing from the City's Industrial Development Agency and invest a minimum of 20% of the building's assessed value in renovation.

3. Lease property owned by the City or the New York State Urban Development Corporation and invest a minimum of 20% of the building's assessed value in improvements.

4. Invest a minimum of 20% of an existing building's assessed value to convert it to a mixed-use building eligible for tax exemption under proposed amendments to the Real Property Tax Law for construction work on mixed-use property.

While this is perhaps, the least direct incentive of all of those which are now available, it is an important one in light of the of the kind high-load commercial tenants which characterize most urban markets. This is especially true of the computer intensive finance industry.

Chapter 7

Case Studies

Pro Formas were run on four Buildings to examine both the efficacy and the effects of the Lower Manhattan Revitalization Program. They are: 55 Broad St., 2 Broadway, 45 Wall St. and 21 West St. Of the four selected, two, 55 Broad St. and 45 Wall St., are currently being redeveloped and the other two, 2 Broadway and 21 West St., have been substantially vacant for at least two years. 21 West St. is currently being analyzed by a number of developers to determine its redevelopment potential. As a result of its central location, 2 Broadway has also been examined cursorily, but its layout precludes a straight residential conversion. As such, these four buildings represent the kind of which could be effected by the City's Plan.

It should be noted that, while none are included, smaller projects also make up an important part of Lower Manhattan's building stock and these can benefit from the Revitalization Plan. There are, in fact, a number of projects, like the Wall Street Kitchen at 70 Broad St., Time Equities' live/work lofts at 47 West St. and a micro-brewery with apartments above 56 Beaver St. currently under construction.

Two of the projects, 45 Wall St. and 21 West St., are considered as residential conversions and the other two, 55 Broad St. and 2 Broadway, as office renovations. Based on interviews with a number of developers including: Rockrose Development Corp., The Related Companies, and Worldwide Holdings, none of the projects chosen were specifically considered for mixed use conversions, although part of the City's program specifically addresses such conversions. It may be that as the program matures, there will be more interest in mixed use, however the consensus is that the amount of available stock is large enough and diverse enough that developers will be able to find projects which can be more specifically defined.

The following section describes each project along with the assumptions made and the context in which they are being developed. The introductions are followed by a series of pro formas which illustrate the potential returns with and without the City's tax incentive package, given a set of basic assumptions. Finally, the effect of these results are described with respect to the goals of the Plan for the Revitalization of Lower Manhattan.

55 Broad St.

55 Broad Street is currently being redeveloped as the New York Information Technology Center by Rudin Management Co. The 31 story building was built in 1967 and contains 400,000 square feet of space. It is located at the heart of the Financial District. For most of its life it was the headquarters of Drexel, Burnham, Lambert (its major tenant), but after the company declared bankruptcy, the building stood empty for 4 years. The redevelopment project, which had the support of both the Empire State Development Corporation and the NYC Economic Development Corporation, actually began construction before the passage of the Revitalization Plan. It is, however, fully eligible for all of incentive programs. It was a fast-track job on which the lower floors were completed first, allowing leasing to begin by the end of 1995.

The renovation project has an extremely clear focus. The aim is to upgrade the buildings systems and communications capabilities specifically to draw multimedia businesses, and other high-tech tenants (an integral part of the City's Plan for Lower Manhattan). This project presents a combined effort by the developer and the City to capitalize on and reinforce the nascent business cluster known variously as "Silicon Alley" or "Multimedia Gulch" Among the improvements made, the building has been retrofitted with networked, broad bandwidth wiring, ISDN lines for the Internet and a fiber-optic infrastructure so that high-tech firms can be "wired" with the latest technology the day they move in.

In one instance, this represented a savings of almost $1000 per month for a 13,000 square foot tenant[54]. These firms represent a dynamic new market for finance-based Lower Manhattan and as of July, 1996, the building was 70% leased. As such, its initial success seems to be fulfilling the City's goals admirably. As a result of the response, Rudin Management Co. is planning similar upgrades for its entire Lower Manhattan portfolio.

The following cash flow analyses are based on pro formas which document two possible development scenarios, one with and one without the tax abatements. The physical layouts in these pro formas represent the actual building, but all the assumptions of development costs are

[54] New York Times 5/26/96, pg. 1 RE.

hypothetical and consistent with the three other pro formas (see Appendices for complete pro formas).

Discounted Cash Flow Analysis **With Incentives**

55 Broad Street

Time Period	Equity Invest.	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow		
Year 0	$ (6,474,800)	$ -		$ (6,474,800)	NPV @ 12%	$954,131
Year 1		$ (3,167,903)	$ -	$ (3,167,903)		
Year 2		$ 301,421	$ -	$ 301,421	IRR	13.05%
Year 3		$ 500,508	$ -	$ 500,508		
Year 4		$ 707,661	$ -	$ 707,661	Percentage Breakdown	
Year 5		$ 636,488	$ -	$ 636,488	ATCF - Operations	19.98%
Year 6		$ 574,132	$ -	$ 574,132	ATCF - Sales Proceeds	80.02%
Year 7		$ 520,859	$ -	$ 520,859		
Year 8		$ 763,665	$ -	$ 763,665		
Year 9		$ 1,016,301	$ -	$ 1,016,301		
Year 10		$ 1,230,925	$ -	$ 1,230,925		
Year 11		$ 1,456,189	$ -	$ 1,456,189		
Year 12		$ 1,692,522	$ -	$ 1,692,522		
Year 13		$ 2,407,167	$ 25,515,723	$ 27,922,890		
Totals	$ (6,474,800)	$ 836,831	$ 25,515,723	$ 27,680,857		

Return on Investment (By Year) **With Incentives**

55 Broad Street

	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
IRR	-	-	8.55%	10.00%	10.64%	11.41%	12.86%	13.05%
NPV @ 12%	$ (7,604,977)	$ (7,369,367)	$ (1,789,397)	$ (1,189,888)	$ (897,920)	$ (437,123)	$ 727,121	$ 954,131

Discounted Cash Flow Analysis **Without Incentive Program**

55 Broad Street

Time Period	Equity Investment	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow		
Year 0	$ (5,134,800)	$ -		$ (5,134,800)	NPV @ 12%	$22,290
Year 1		$ (2,512,286)	$ -	$ (2,512,286)		
Year 2		$ (478,087)	$ -	$ (478,087)	IRR	12.03%
Year 3		$ (292,545)	$ -	$ (292,545)		
Year 4		$ (99,484)	$ -	$ (99,484)	Acquisition Cost	$ 10,800,000
Year 5		$ 101,397	$ -	$ 101,397		
Year 6		$ 310,415	$ -	$ 310,415		
Year 7		$ 527,899	$ -	$ 527,899		
Year 8		$ 754,191	$ -	$ 754,191		
Year 9		$ 989,645	$ -	$ 989,645		
Year 10		$ 1,234,632	$ -	$ 1,234,632		
Year 11		$ 1,489,537	$ -	$ 1,489,537		
Year 12		$ 1,747,339	$ -	$ 1,747,339		
Year 13		$ 1,470,838	$ 23,241,722	$ 24,712,560		
Totals	$ (5,134,800)	$ (1,688,499)	$ 23,241,722	$ 23,350,415		

In the first case, the development is predicated on the assumption that the acquisition cost of the building is $17.5 million dollars, or slightly less than the "Fair Market Value" (as determined by the City Assessor's office for tax assessment purposes). Using this assumption, and applying the abatements and incentives available under the Lower Manhattan Revitalization Program, the project has an IRR of 12.29% (this is based on a 14.30% vacancy rate which is analogous to the current rate at WFC / WTC[55]). While the actual IRR will probably be higher as a result of ESDC and NYCEDC financing, this shows that the economics of the project can work. It should be noted, however, that in spite of the building's impressive array of technological improvements, its robust leasing must be partially attributed to asking rents ($15.00-$25.00) which are more than 40% lower than those in Midtown's ($28.00-$40.54)[56].

One potentially significant result of the "with benefits" pro forma is the extremely high percentage of return derived from eventual sale of the building. The broader implication is that, the kind of speculative investors who would be interested in this project would require a higher return on their capital to compensate for the risk associated with the relative lack of cash flow.

On balance, however, 55 Broad St. represents exactly the kind of redevelopment project the City is trying to foster. It is aimed at high valued-added businesses which can take advantage of and reinforce the positive externalities of the agglomeration economics of Lower Manhattan. It should be noted though, that while the strategy used in redeveloping 55 Broad St. represents the kind of significant realignment toward new markets necessary to create a balanced economy in Lower Manhattan, it cannot be applied to every potential project in Downtown's 20+ million square feet of vacant space.

Without the Lower Manhattan Revitalization Plan, the value of 55 Broad St. and the land it occupies has to drop to $10.8 million before the project has a positive return, $9.7 million less than its 1995 assessed valuation. While this number can only be taken as a rough proxy of actual value, it suggests that either many Downtown assessments are still markedly overvalued, or the market is still continuing to lose value rapidly.

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[55] Edward S. Gordon Co.

[56] Williams Real Estate Co., 'A Five Year Analysis 1991-1995', pg. 12.

2 Broadway

2 Broadway is located at the base of Broadway, overlooking Bowling Green. The Building, which was built in 1958, is the largest of the four analyzed. It is 30 stories tall and contains 1,499,568 square feet. While it was built as class A office space, both its aluminum-clad exterior and its lobby are architecturally undistinguished. Though it enjoys a prominent location, it was not conceived of as a "headquarters building" like the Chase Manhattan Plaza, for example. It was however, one of the earlier downtown office building to offer floor plates of over 50,000 square feet. This was originally a strong selling point in the office market, but more recently, it has stymied developers who have studied the possibility of converting the building to residential use. The floors are far too deep to lay out as apartments.

Its principal attraction currently is its location. It is near the heart of the financial district, and it is also close to Battery Park, Downtown's largest open space. While its location elicited some initial response from residential developers, the Revitalization Plan benefits have not currently attracted any commercial developers to the building. From a planning point of view, it is an important building to consider because of it size (it occupies almost an entire block), its location and its effect on its immediate neighborhood. With these characteristics in mind, a pro forma was developed for renovating the building as commercial space using the Revitalization Plan abatements and incentives (see Appendices for complete pro formas). The results are as follows:

Discounted Cash Flow Analysis **With Incentives**

2 Broadway

Time Period	Equity Investment	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow		
Year 0	$ (19,646,760)	$ -		$ (19,646,760)	NPV @ 12%	$66,005
Year 1		$ (9,612,501)	$ -	$ (9,612,501)		
Year 2		$ 1,447,435	$ -	$ 1,447,435	IRR	12.03%
Year 3		$ 2,132,932	$ -	$ 2,132,932		
Year 4		$ 2,846,180	$ -	$ 2,846,180	Percentage Breakdown	
Year 5		$ 2,354,160	$ -	$ 2,354,160	ATCF - Operations	34.00%
Year 6		$ 1,892,547	$ -	$ 1,892,547	ATCF - Sales Proceeds	66.00%
Year 7		$ 1,462,183	$ -	$ 1,462,183		
Year 8		$ 2,298,098	$ -	$ 2,298,098		
Year 9		$ 3,167,834	$ -	$ 3,167,834		
Year 10		$ 3,892,807	$ -	$ 3,892,807		
Year 11		$ 4,654,385	$ -	$ 4,654,385		
Year 12		$ 5,454,045	$ -	$ 5,454,045		
Year 13		$ 7,804,553	$ 56,760,310	$ 64,564,863		
Totals	$ (19,646,760)	$ 4,821,033	$ 56,760,310	$ 66,908,206		

Discounted Cash Flow Analysis **Without Incentive Program**

2 Broadway

Time Period	Equity Investment	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow		
Year 0	$ (14,266,760)	$ -		$ (14,266,760)	NPV @ 12%	$34,203
Year 1		$ (6,980,247)	$ -	$ (6,980,247)		
Year 2		$ (2,068,374)	$ -	$ (2,068,374)	IRR	12.01%
Year 3		$ (1,445,757)	$ -	$ (1,445,757)		
Year 4		$ (797,934)	$ -	$ (797,934)	Acquisition Cost	$ 15,100,000
Year 5		$ (123,888)	$ -	$ (123,888)		
Year 6		$ 577,439	$ -	$ 577,439		
Year 7		$ 1,307,149	$ -	$ 1,307,149		
Year 8		$ 2,066,386	$ -	$ 2,066,386		
Year 9		$ 2,856,342	$ -	$ 2,856,342		
Year 10		$ 3,678,256	$ -	$ 3,678,256		
Year 11		$ 4,533,417	$ -	$ 4,533,417		
Year 12		$ 5,423,166	$ -	$ 5,423,166		
Year 13		$ 7,738,975	$ 67,141,625	$ 74,880,600		
Totals	$ (14,266,760)	$ (7,465,228)	$ 67,141,625	$ 69,639,794		

Using the current assessed "Fair Market Value"[57] of $96,000,000 as the purchase price, the renovation 2 Broadway did not make economic sense and indicated that the current assessment is still too high. Given the stability of the land price, this suggests that the building itself is losing value and that its value has not yet reached an equilibrium, even with the abatements and incentives offered. By setting the acquisition price at $37,750,000 however, the project has a theoretical return of 12%. Though most of the return still comes from the sale of the building, the portion was relatively smaller than was the case with 55 Broad St. It should be noted however that due to the building's size, both the build-out and the lease-up time may be underestimated and the cash-flow projections overstated.

Without the benefits of the Lower Manhattan Revitalization Plan, the value of 2 Broadway and the land it occupies has to fall to $15.06 million before the project has a positive return. This represents a drop of $80 million from its 1995 assessed valuation which suggests that not only is the building still losing value, it is also detracting from the value of the underlying land. If the land component averages between 50% and 70% (a figure based on the NYC Assessor's averages) of the value of a project in Lower Manhattan, then the un-renovated building at 2 Broadway is worth far less than the raw land would be (using the Assessor's Office average of 50%-70%, this price would be between $48 million and $67.2 million).

[57] Determined using the Class 3 assessment multiplier of 45%.

Given the current market, it seems unlikely that 2 Broadway will be redeveloped under the Lower Manhattan Revitalization Plan, at least not within its current four year time frame. Buildings like this one will continue to present logistical challenges for the City and financial ones for their owners. Speculation is difficult, but if the building eventually reaches a lower equilibrium price, it may become a candidate for a mixed-use rehabilitation. The lower floors have relatively large plates, a feature which remains important in modern corporate offices, and the upper floors have shallower floors and views of Battery Park and the harbor. Still, any development scenario suggests a radical repricing and mixed-use development is rare in New York, even on the best sites. This implies that financing will be problematic.

45 Wall St.

45 Wall St. is one of the first two residential conversions being built under the Lower Manhattan Revitalization Plan (the other being developed by Crescent Heights Investments at 25 Broad Street is less than a block away). It is 27 stories tall, contains 493,187 square feet and has a masonry exterior. Given its location and the fact that it probably will be the first building ready for occupancy, it should offer some good early indications as to the effects of the residential component of the Revitalization Plan. It is being undertaken by the Rockrose Development Corp., one of the City's pre-eminent developers of apartments in rehabilitated buildings. The company specializes in residential rehabilitation and has a long and successful track record building in fringe areas. It has traditionally focused on developing and operating rental apartments in Manhattan below 96th Street. While the abatements in the Plan favor condominiums over rental units, the rental market is currently perceived as being much stronger.

While most of the buildings being considered for residential conversion in Lower Manhattan are Pre-War buildings, 45 Wall St. was built in 1958. However, because of its site, the floors are relatively shallow. The plan calls for 441 apartments in total - the large majority are studios and one-bedrooms. Many units have what are termed "home-occupation offices" which allow for deeper layouts than are normally accepted under residential zoning. The unspoken presumption is that many of these "offices", which have no windows, will be used as bedrooms. It seems likely that the layouts of these units will reflect the general nature of many of the anticipated new apartment conversions. The following pro forma uses the actual unit count, but all costs and other assumptions are hypothetical and are consistent with the other three pro formas:

Discounted Cash Flow Analysis **With Incentives**

45 Wall Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (10,684,179)	$ -		$ (10,684,179)	NPV @ 12%	$159,686
Year 1		$ (4,356,153)		$ (4,356,153)		
Year 2		$ 1,715,817	$ -	$ 1,715,817	IRR	12.17%
Year 3		$ 1,870,169	$ -	$ 1,870,169		
Year 4		$ 2,035,327	$ -	$ 2,035,327	Percentage Breakdown	
Year 5		$ 2,207,460	$ -	$ 2,207,460	ATCF - Operations	76.35%
Year 6		$ 2,386,859	$ -	$ 2,386,859	ATCF - Sales Proceeds	23.65%
Year 7		$ 2,573,826	$ -	$ 2,573,826		
Year 8		$ 2,768,674	$ -	$ 2,768,674		
Year 9		$ 2,971,732	$ -	$ 2,971,732		
Year 10		$ 2,636,068	$ -	$ 2,636,068		
Year 11		$ 2,309,309	$ -	$ 2,309,309		
Year 12		$ 1,905,663	$ -	$ 1,905,663		
Year 13		$ 1,511,676	$ 11,243,286	$ 12,754,962		
Totals	$ (10,684,179)	$ 22,536,426	$ 11,243,286	$ 23,095,532		

Return on Investment Assuming Sale (By Year) **With Incentives**

45 Wall Street

	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
IRR	18.18%	18.29%	18.53%	16.55%	15.00%	13.47%	12.26%	12.17%
NPV @ 12%	$ 4,648,492	$ 5,287,189	$ 6,255,316	$ 4,469,557	$ 2,968,591	$ 1,422,685	$ 246,348	$ 155,686

Discounted Cash Flow Analysis **Without Incentive Program**

45 Wall Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (8,943,758)	$ -		$ (8,943,758)	NPV @ 12%	($0)
Year 1		$ (3,646,549)		$ (3,646,549)	IRR	12.00%
Year 2		$ (63,507)	$ -	$ (63,507)		
Year 3		$ 202,562	$ -	$ 202,562	Acquisition Cost	$ 2,797,893
Year 4		$ 479,654	$ -	$ 479,654		
Year 5		$ 768,222	$ -	$ 768,222		
Year 6		$ 1,068,735	$ -	$ 1,068,735		
Year 7		$ 1,381,684	$ -	$ 1,381,684		
Year 8		$ 1,707,578	$ -	$ 1,707,578		
Year 9		$ 2,046,950	$ -	$ 2,046,950		
Year 10		$ 2,400,350	$ -	$ 2,400,350		
Year 11		$ 2,464,369	$ -	$ 2,464,369		
Year 12		$ 2,286,555	$ -	$ 2,286,555		
Year 13		$ 2,517,666	$ 26,730,156	$ 29,247,823		
Totals	$ (8,943,758)	$ 13,614,269	$ 26,730,156	$ 31,400,667		

While the pro forma for 45 Wall St. shows a return on investment is which has higher cash flows from operations than from sales proceeds, the numbers are biased by the fact that the sales price is calculated as the thirteenth year NOI divided by the cap rate. As a result of the steadily decreasing effect of the tax abatements, the project's profitability is most affected by the time of sale. Given that the developer can, in effect, sell the tax break to potential homeowners, the earlier a unit is sold, the higher the portion of the abatement a developer can incorporate into the price. The chart above labeled, Return on Investment, illustrates this point. According to the pro forma, selling in the seventh year provides the highest return. In fact, the number is skewed forward since the projected sale price is based on an NOI which does not account for the diminishing effect of the tax breaks. A rational buyer however, would discount the abatement based on the number of years left.

In spite of the economics of this argument, both of the first two residential conversions to be completed under the Plan for the Revitalization of Lower Manhattan, 45 Wall St. and 25 Broad St., will contain rental apartments. While this does not preclude an early sale of either building, the most efficient way of maximizing the profits generated by the abatement package would be to sell the units as condominiums. Using this structure, developers can build housing and

effectively "sell" the full value of the tax breaks to apartment buyers. Obviously that value is highest at the beginning of the conversion project's life-span.

The fact that the first two projects are rental projects may well be due to the availability of financing. Lower Manhattan is very much a residential frontier, and as such an unknown market. Given the rental housing market's extremely low vacancy rates, rental units should, at least initially, produce much more consistent cash flows. This is especially true for units on lower floors which are deep in Downtown's "canyons". This represented the state of the market in 1995 when these projects were being financed.

In the pro forma run without the tax incentives, a return of 12% requires that the acquisition cost be $2,797,893. This suggests not only that the building detracts from the value of the underlying land, but also that under the previous zoning, the maximum density (FAR 10 for residential projects in commercial districts) was not high enough to sustain the cost of new residential construction.

21 West Street

21 West Street is a 335,746 square foot, 32-story, art deco building located on the Western edge of the Lower Manhattan as defined by the Revitalization Plan. It has been vacant for more than five years. It lies across West St. from the Southern portion of Battery Park City and has extensive views of both the harbor and the lower Hudson. Its footprint, 75' x 180' allows for relatively efficient unit layouts, although it partially abuts another tower on its south wall so many apartments will be deep. It was widely thought to be one of the leading candidates for conversion, but it was not part of the first wave of development.

The primary reason for this is its location. The building is basically landlocked by West St. (a ten-lane surface street) and the entrance to the Brooklyn-Battery Tunnel. There is access across a pedestrian bridge and from Western Union Way (a one block street beginning at Battery Park). More importantly, the lower west side of Lower Manhattan is perhaps its most depressed corner. It remained a mixed commercial and light industrial area through both of the two Post-War building booms in spite of its relative proximity to both the WTC / WFC area and the Financial District. The construction of the World Trade Center largely sealed the area off from commercial activity from the 1960's forward and it has not prospered since. As such, the property presents the highly localized nature of Lower Manhattan, and its redevelopment potential must reflect this as well.

Discounted Cash Flow Analysis

21 West Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (5,886,500)	$ -		$ (5,886,500)	NPV @ 12%	$3,227,097
Year 1		$ (3,397,392)	-	$ (3,397,392)	IRR	17.11%
Year 2		$ 1,429,861	$ -	$ 1,429,861		
Year 3		$ 1,555,595	$ -	$ 1,555,595	Percentage Breakdown	
Year 4		$ 1,686,545	$ -	$ 1,686,545	ATCF - Operations	81.01%
Year 5		$ 1,822,927	$ -	$ 1,822,927	ATCF - Sales Proceeds	18.99%
Year 6		$ 1,964,963	$ -	$ 1,964,963		
Year 7		$ 2,112,885	$ -	$ 2,112,885		
Year 8		$ 2,266,935	$ -	$ 2,266,935		
Year 9		$ 2,427,364	$ -	$ 2,427,364		
Year 10		$ 2,199,953	$ -	$ 2,199,953		
Year 11		$ 1,979,456	$ -	$ 1,979,456		
Year 12		$ 1,719,158	$ -	$ 1,719,158		
Year 13		$ 1,466,352	$ 8,712,969	$ 10,179,321		
Totals	$ (5,886,500)	$ 9,442,319	$ 8,712,969	$ 1,288,884		

Discounted Cash Flow Analysis **Without Incentive Program**

21 West Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (5,416,877)	$ -		$ (5,416,877)	NPV @ 12%	$30,366
Year 1		$ (3,126,349)	$ -	$ (3,126,349)	IRR	12.04%
Year 2		$ 268,409	$ -	$ 268,409		
Year 3		$ 420,111	$ -	$ 420,111	Acquisition Cost	$ 7,550,000
Year 4		$ 576,227	$ -	$ 576,227		
Year 5		$ 736,883	$ -	$ 736,883		
Year 6		$ 902,209	$ -	$ 902,209		
Year 7		$ 1,072,340	$ -	$ 1,072,340		
Year 8		$ 1,247,413	$ -	$ 1,247,413		
Year 9		$ 1,144,431	$ -	$ 1,144,431		
Year 10		$ 1,249,218	$ -	$ 1,249,218		
Year 11		$ 1,356,968	$ -	$ 1,356,968		
Year 12		$ 1,467,762	$ -	$ 1,467,762		
Year 13		$ 1,581,683	$ 15,495,219	$ 17,076,902		
Totals	$ (5,416,877)	$ 2,097,243	$ 15,495,219	$ (4,567,047)		

Given comparable costs, the return on investment on 21 West St. is higher than that shown for 45 Wall St., yet no developers have committed to the project. There are number of potential explanations which must be considered. First, though residential rents show less locational differentiation than do commercial rents[58], 21 West St. has serious access problems. It is substantially cut off from both Lower Manhattan and Battery Park City by high-traffic streets. Second, given its proximity to the Brooklyn Battery Tunnel, there are real concerns about air quality.

Still, given that the building lays out better for residential use than many other conversion candidates, and that its views are among the best outside of Battery Park City, it seems likely that these locational factors have played a large part in keeping 21 West St. out of the first development cycle. The character of the businesses and the building stock in the adjacent area bounded by Trinity Place, Liberty St. and West St. remains mixed at best. The neighborhood is perhaps the least visible in Lower Manhattan. For the Plan for the Revitalization of Lower Manhattan to succeed, it needs to foster development in areas like this as well as in the more central area around the intersection of Wall St. and Broad St.

As was the case for 45 Wall St., the pro forma "without incentives" requires a purchase price ($7,550,000) which is substantially discounted from the current assessment to create a 12%

[58] Interview, Christopher Poussant, Halstead Properties.

return. Again, the building in its "pre-Revitalization Plan" state actually detracted from the value of the underlying land. Thus, in both cases, the tax incentives are a critical part of any plan to foster the development of housing.

Chapter 8

Conclusions

The Plan for the Revitalization of Lower Manhattan has begun to address some of the areas problems as outlined by the Lower Manhattan Task Force, especially the lack of housing. There are already more than 2000 proposed units in various stages of planning and construction, with 25 Broad St. and 45 Wall St. set to open in early 1997. By comparison, Battery Park City added only 4,032 units during its first 10 years[59]. As the pro formas demonstrate, given present property values, development of these units would not have been economically feasible without the zoning changes and tax incentives made available under the Plan.

Whether the commercial initiatives are broad enough to stabilize the office market remains to be seen. The initial success of 55 Broad St., as well as the current reconstruction of 40 Wall St. by the Trump Organization suggest the tax incentives are having some immediate effects. What is less clear however, is how much of the more 20+ million square feet of vacant space can economically be recycled under any incentive program, given the City and the region's projected rate of job of .75% per annum over the next decade[60]. While there are more potential redevelopment projects like 55 Broad St., there are also many buildings like 2 Broadway which are likely to see continued erosion in their values.

One important conclusion of the case studies is that, without considering other available incentives, commercial developers will need to hold the renovated properties much longer than residential developers to see equivalent returns on their investments (see the Return on Investment by Year Charts for 45 Wall St. and 55 Broad St.). This, combined with the complexity involved in receiving the benefits, suggests that only the most promising candidates for commercial redevelopment will be converted. Thus the unevenness which characterizes the real estate market Downtown will become, if anything, even more pronounced. While the net effect of the Plan will be positive, alternative solutions must still be found for those buildings which remain unimproved.

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[59] 1990, US Census
[60] Yaro and Hiss, A Region at Risk, pg. 31.

Though the Plan for the Revitalization of Lower Manhattan comprises a number of different elements, to a large degree these can be categorized under two headings, zoning policy and tax policy. In many ways, these two components of the Plan are moving in different directions. While the City Planning Commission has simplified and liberalized the zoning requirements for residential conversions in commercial districts, and is working to revise the Special Development Districts, the tax and energy abatements offered under the Program add a new layer of complex and on-going requirements to be fulfilled by developers and overseen by city officials. This is particularly true of the commercial incentive programs.

While the City has a long history of commercial abatement programs, they have tended to focus on the owners rather than on the tenants. In the new Plan, most of the abatements on commercial rehabilitations are contingent on signing new tenants and passing many of the benefits on to the them. While this creates much better incentives for tenants, it also creates a scenario where the City must continually monitor the composition of a building's tenants in relation to the program requirements. Not only will this effect the owners' flexibility both in who leases space and what the terms of those leases are, it will also require a new layer of oversight for the Finance Department. Since the Plan is less than a year old however, the effects of this complexity can only be speculated upon, but the Finance Department is already trying make modifications to its interpretations of the eligibility requirements[61]. This represents a significant obstacle of the long-term implementation of the commercial incentive programs.

While the requirements a far less complex in the residential benefit programs, there are policy problems which have broader implications. Though the starting rents in Lower Manhattan are forecast to begin 20% below the current Manhattan[62] average, if the conversions are a success these discounts will not last. And given that the maximum rents for rent stabilization are $2000 per month, the number of regulated units seems likely to be small. Thus, as has been the case with most of the City's market-rate apartment incentive programs, the protection they offer against rent escalation is minimal. Given the City's chronically constrained housing supply, this is a serious problem, one which puts the City at a competitive disadvantage both regionally and

[61] Interview with Finance Department Official
[62] Defined as below 96th St. and not including any units below Chambers St.

nationally. In Manhattan, the change in home prices in relation to income has risen 340.29% over the last decade; this compares with a national average of 69.26%[63].

Zoning changes on the other hand, are heralding an era of less restrictive planning. The removal of the various restrictions on residential uses in rehabilitated buildings makes conversion far less complicated than it is was under the loft zoning of the 1981. In addition, the change to a maximum residential FAR of 15 (from a maximum FAR of 10) in commercial districts gives landowner new flexibility to consider both residential and commercial development options. Prior to these changes, in commercially zoned areas such as Lower Manhattan, potential residential projects could not compete with commercial projects which allowed 50% to 80% higher FARs. The removal of these impediments is the most basic and the most important part of the Plan's residential component.

Going forward, it seems reasonable to argue that in sections of the City such as Lower Manhattan where there is essentially a complete inventory of buildings, markets forces are a better determinant of use than zoning ordinances. As such, more liberal zoning regulations with regard to rehabilitation, represent a cost effective way to spur development.

This kind of approach does, however, bring up a number of considerations which are currently being discussed by the Planning Commission and by private groups such as the Citizens for Housing and Planning Council. Specifically, where is the dividing line between too much and not enough regulation. Many of the zoning changes made dealt with space, light and use regulations which date, in some cases, back to the reform movement at the turn of the century. The question that arises is, if the existing regulations were unrealistically restrictive, what should the new minimum standards be? With the current rate of rent appreciation in Manhattan's residential market, tenants are willing to settle for apartments that offer the barest minimum in terms of acceptable housing. In spite of the City's minimum standards, historically many people have lived in illegal conversions. The gentrification of Soho and Tribeca was initially fueled by illegal conversions and the Loft Law was an attempt to gain control after the fact. While in the current case, the zoning changes in the Plan for the Revitalization of Lower Manhattan pave the way for new residential development rather than codifying the finished product, at the same

[63] Yaro and Hiss, A Region at Risk, pg. 56.

time, the City is ceding a considerable amount of control to the market. In the first analysis, this seems like an effective tradeoff.

Like the J-51, 421a and ICIB programs before it, the Plan for the Revitalization of Lower Manhattan works on the principal of offering developers the ability to capitalize on a series of tax breaks. As such, once the new projects are built, the developers profit from the value of the built-in tax breaks. This is especially true in the case of the residential conversions where the abatements last for up to fourteen years. As all four case studies demonstrate, this creates a condition where much of the potential return comes from the final sale rather than from the cash flows, and where relatively quick sales provide the maximum return. Again this is especially true for the residential conversions.

These built-in incentives suggest that the kind residential development which will take place will be in the form of speculative condominiums and co-operatives. The turnover for the developers will be quick and that the sources of financing will require high rates of return to compensate for the relative risk of sales versus cash flows from operation. Ultimately however, this should fulfill the City's goal of creating a larger pool of owner-occupants who will have more stake in the area's future than renters (both Tribeca and Soho, earlier beneficiaries of similar development incentives under the J-51 Program, have significantly higher owner occupancy rates than Manhattan as a whole[64]).

In fact, both 45 Wall St. and 25 Broad St. are being developed as rental buildings which will be held and managed. While this seems to contradict the behavior predicted by the pro formas, there is a plausible explanation. Given that these two projects were the first started under the Plan, at a time when there was still considerable uncertainty both about the potential of Downtown's residential market and the tax incentives being offered, lenders would only commit on rental properties. The rental market is currently much stronger and the cash flows are much more secure.

Anecdotal evidence from brokers in the area suggests however, that this situation has reversed itself and that currently, venture capitalists are looking at projects Downtown (21 West St. in

[64] 1990, US Census

particular) and that they are willing originate non-recourse loans with a 90% loan to value ration given 25% participation and a five-year return of capital. This is the kind of behavior suggested by both the pro formas and the structure of the tax abatement programs.

Thus one probable result of the Plan for the Revitalization of Lower Manhattan is that most of the tax abatements will be transferred into developer profits relatively quickly rather than underwriting the cost of housing for the first generation of new residents. Still, if the current pace of development is sustained even for short period, the urban mix of Downtown will be significantly changed. While this kind of distribution of tax abatements has been criticized in the past (especially in relation to the J-51 Program), from a policy standpoint, the creation of new neighborhoods with their attendant positive economic externalities generally offset these inequities[65].

At the same time, the depth of the problems in the Lower Manhattan real estate market suggest that even an overwhelmingly positive response to the Plan will provide only partial relief to the area's commercial stock. The unevenness of the market, characterized by sub-markets defined by location and age will be difficult to overcome in trying to achieve a broad-based revival. Buildings such as 2 Broadway are likely to remain empty even at much lower valuations.

The wave of multimedia companies leasing space downtown and in 55 Broad St. specifically, shows that the Plan for the Revitalization of Lower Manhattan has the potential to foster new business growth. But, while the Alliance for Downtown New York predicts that it will help retain or create 3000 jobs in each of the next three years, the retention/ creation of these 10,000 jobs must still be assessed in a regional context. The Plan for the Revitalization of Lower Manhattan should be viewed as one of the first of many steps in securing Downtown's future.

Many of the high-tech firms the City is trying to attract are start-up companies and eventually, they will either grow or die. Lower Manhattan must be able to either foster that growth or find new businesses to replace those which move out. Places like Jersey City which, with its lower tax rates (state and city) and its dramatically lower energy costs, was a prime target in the makeup of the Plan, will eventually respond to the City's initiative. And it should be noted that

[65] Ford, Housing Policy and the Urban Middle Class, pg. 156

the window for the commercial initiatives is relatively short. Thus it is critical, that the new housing and office space created by the Plan be reinforced by more investments in infrastructure.

Whether these takes the form of more public space, improved educational opportunities or improved transportation, these initiatives must be started quickly to build on the momentum generated by the plan. While Tribeca and Soho dealt with a gradual inflow of residents, the potential scale of the new residential component of Lower Manhattan, and the speed with which it could be developed demands concerted action on many fronts. For example, the MTA is currently planning to finance its capital improvements with operating revenues. This implies a severe lack of funding new investments, which in turn, will continue to hamper the long term success of Lower Manhattan. Without comprehensive planning, The Plan for the Revitalization of Lower Manhattan could become a victim of its own success.

If the Plan is as successful in spurring the construction of housing as its first year suggests, the City will have to work assiduously to provide the kind of residential infrastructure which is beyond the reach of the private sector. Specifically, this issues of public open space and education need to addressed quickly.

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Mr. Steven Boxer, Alliance for Downtown New York

Mr. Robert Cook, DeForest and Duer, L.L.P.

Mr. Sandy Frucher, Olympia and York Companies

Mr. Richard Landman, NYU Real Property

Mr. David Lowenfeld, Worldwide Holdings Development Corp.

Mr. Steven Miller, Citizen's Housing and Planning Council

Mr. Christopher Poussant, Halstead Realty

Mr. Andrew Weiner, Morison and Forester, L.L.P.

Mr. John West, Rockrose Development Corp.

Mr. David Wine, The Related Companies

Mr. Robert Yaro, Regional Plan Association

Investment Characteristics and Assumptions

55 Broad Street

Building Use		Commercial	
Year Built		1965	
Rentable Area (S.F.)		402,000	
Energy Costs (per S.F.)	$	2	Based on Average Usage/S.F. (as Estimated by ConEd)
Acquisition Cost	$	17,500,000	Actual Acquisition Cost
Renovation Costs ($37.50/S.F.)	$	14,874,000	Based on Total Actual Porject Cost Less Acquistion Price
Total Cost	$	32,374,000	
Original Assessed Value	$	9,221,880	Based on 1995 Assessments by NYC Finance Dept.
New Assessed Value	$	14,568,300	Based on Total Cost x Assessment Multiplier of 45%
Holding Period (yrs.)		12	
Projected Sales Price			
1st Yr. NOI	$	3,172,146	
Annual Increase % NOI		4.00%	
Equity Investment	$	6,474,800	Based on Loan to Value Ratio of 80%

Debt Financing — Does Not Include ESDC or NYCEDC Funding

Loan Amount	$	25,899,200	
Interest Rate (%)		12.00%	Based on LIBOR Plus 575 bps
Term to Maturity (yrs.)		12	
Amortization Term (yrs.)			
Loan Constant		12.23%	
Loan Points		1.0	
Lender Participation (%)		0.0%	
Lender Yield (%)		12.22%	
Debt to Equity Ratio		4.0:1.0	

Taxation

Depreciable Basis	$	21,436,500	Based on % of Assessed Value in Land (37.5% Avg. Estimate from NYC Finance Dept.)
Depreciable Life (yrs.)		39	

Applicable Benefit Programs

55 Broad Street

Real Estate Tax Special Reduction		
Assessed Property Value		
Constant Class 2 Tax Rate	10.81%	Current Tax Rate on Class 2 and Class 3 Properties
1st Year Reduction	50.00%	Based on Lower Manhattan Revitalization Program
2nd Year Reduction	50.00%	" " " "
3rd Year Reduction	50.00%	" " " "
4th Year Reduction	33.33%	" " " "
5th Year Reduction	16.67%	" " " "

Commercial Rent Tax Special Reduction		
1st Year Base Rent		
Comm. Rent Tax Rate	6.00%	Current Tax Rate - Does Not Apply to Tenants Paying Less Than 40,000 in Yearly Rent
1st Year Reduction	100.00%	Based on Lower Manhattan Revitalization Program
2nd Year Reduction*	100.00%	" " " "
3rd Year Reduction*	100.00%	" " " "
4th Year Reduction*	66.67%	" " " "
5th Year Reduction*	33.33%	" " " "

Lower Manhattan Energy Program		
1st Year Base Rent		
Commercial Electric Rate		
1st Year Rate	70.00%	Based on Lower Manhattan Revitalization Program
2nd Year Rate	70.00%	" " " "
3rd Year Rate	70.00%	" " " "
4th Year Rate	70.00%	" " " "
5th Year Rate	70.00%	" " " "
6th Year Rate	70.00%	" " " "
7th Year Rate	70.00%	" " " "
8th Year Rate	70.00%	" " " "
9th Year Rate	76.00%	" " " "
10th Year Rate	82.00%	" " " "
11th Year Rate	88.00%	" " " "
12th Year Rate	94.00%	" " " "
13th Year Rate	100.00%	

First Year Income and Expense Pro Forma

55 Broad Street

Rent Rates				Effective Rents					
Office Space	Sq. Footage	Rental Rates	Gross Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Floors 2-6	120,000	$ 16.00	$ 1,920,000	$ 15.04	$ 15.04	$ 15.04	$ 15.36	$ 15.68	$ 16.00
Floors 7-11	80,000	$ 17.50	$ 1,400,000	$ 16.45	$ 16.45	$ 16.45	$ 16.80	$ 17.15	$ 17.50
Floors 12-30	204,000	$ 25.00	$ 5,100,000	$ 23.50	$ 23.50	$ 23.50	$ 24.00	$ 24.50	$ 25.00
Retail	8,000	$ 11.00	$ 88,000	$ 10.34	$ 10.34	$ 10.34	$ 10.56	$ 10.78	$ 11.00
Average Rent		$ 20.65		$ 19.41	$ 19.41	$ 19.41	$ 19.82	$ 20.24	$ 20.65

Gross Revenues		$ 8,508,000	Rents are Based on Leases Currently Being Signed in the Building
Less:			Effective Rents are Based on the Commercial Rent Tax Reduction
Vacancy Rate	14.30%	$ 1,148,580	The Vacancy Rate is Based on the 6/1/96 Rate in the WTC/WFC Area
Effective Gross Income		$ 7,359,420	
Less:			
Energy Costs		$ 804,000	Base Case: $2.00 per S.F.
Operating Expenses		$ 2,127,000	Based on 25% of Gross Revenues
R. E. Taxes @ 10.807%		$ 1,719,954	Based on 1995 Assessed Value plus Improvements x Assessment Multiplier
Replacement Reserve (5%)		$ 340,320	Based on 5% of Gross Revenues
Net Operating Income		$ 3,172,146	
Less:			
Debt Service		$ (3,167,903)	
Before Tax Cash Flow		$ 4,244	

Projected After-tax Cash Flow from Operations

55 Broad Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Effective Gross Income	$ 7,359,420	$ 7,653,797	$ 7,959,949	$ 8,278,347	$ 8,609,480	$ 8,953,860	$ 9,312,014	$ 9,684,495	$ 10,071,874	$ 10,474,749	$ 10,893,739	$ 11,329,489
Less:												
Electric Charges	$ 562,800	$ 562,800	$ 562,800	$ 562,800	$ 562,800	$ 562,800	$ 562,800	$ 562,800	$ 611,040	$ 659,280	$ 707,520	$ 755,760
Other Operating Expenses	$ 2,127,000	$ 2,212,080	$ 2,300,563	$ 2,392,586	$ 2,488,289	$ 2,587,821	$ 2,691,334	$ 2,798,987	$ 2,910,946	$ 3,027,384	$ 3,148,480	$ 3,274,419
R.E. Taxes	$ 859,977	$ 859,977	$ 859,977	$ 1,146,693	$ 1,433,323	$ 1,719,954	$ 1,719,954	$ 1,719,954	$ 1,719,954	$ 1,719,954	$ 1,719,954	$ 1,719,954
Capital Reserves	$ 340,320	$ 350,530	$ 361,045	$ 371,877	$ 383,033	$ 394,524	$ 406,360	$ 418,551	$ 431,107	$ 444,040	$ 457,362	$ -
Net Operating Income	$ 3,469,323	$ 3,668,410	$ 3,875,563	$ 3,804,391	$ 3,742,035	$ 3,688,761	$ 3,931,567	$ 4,184,204	$ 4,398,827	$ 4,624,091	$ 4,860,425	$ 5,579,357
Less:												
Debt Service	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)	$ (3,167,903)
Before Tax Cash Flow	$ 301,421	$ 500,508	$ 707,661	$ 636,488	$ 574,132	$ 520,859	$ 763,665	$ 1,016,301	$ 1,230,925	$ 1,456,189	$ 1,692,522	$ 2,411,454
Plus: Mortgage Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Plus: Replacement Reserve	$ 340,320	$ 357,336	$ 375,203	$ 393,963	$ 413,661	$ 434,344	$ 456,061	$ 478,864	$ 502,808	$ 527,948	$ 554,345	$ 582,063
Less: Depreciation	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)	$ (549,654)
Less: Cost Amortization	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)	$ (21,583)
Taxable Income	$ (230,917)	$ (213,901)	$ (196,034)	$ (177,274)	$ (157,575)	$ (136,892)	$ (115,175)	$ (92,372)	$ (68,429)	$ (43,288)	$ (16,891)	$ 10,826
Less:												
Applic. of Suspended Losses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Taxable Income (Loss)	$ (230,917)	$ (213,901)	$ (196,034)	$ (177,274)	$ (157,575)	$ (136,892)	$ (115,175)	$ (92,372)	$ (68,429)	$ (43,288)	$ (16,891)	$ 10,826
Tax Benefit (Liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,287
After-Tax Cash Flow	$ 301,421	$ 500,508	$ 707,661	$ 636,488	$ 574,132	$ 520,859	$ 763,665	$ 1,016,301	$ 1,230,925	$ 1,456,189	$ 1,692,522	$ 2,407,167

Mortgage Interest and Amortization Schedule

55 Broad Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Mortgage Amount	$ 25,899,200											
Payment	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903	$ 3,167,903
Interest												
Amortization												
Year End Mortgage Balance	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200	$ 25,899,200

Depreciation and Adjusted Basis Schedule

55 Broad Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Cost Basis	$ 32,374,000											
Depreciable Basis	$ 21,436,500											
Depreciation Expense	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654	$ 549,654
Accumulated Depreciation	$ 549,654	$ 1,099,308	$ 1,648,962	$ 2,198,615	$ 2,748,269	$ 3,297,923	$ 3,847,577	$ 4,397,231	$ 4,946,885	$ 5,496,538	$ 6,046,192	$ 6,595,846
Additions to Cost Basis:												
Loan Points	$ 258,992											
Appl. of Replace. Reserve	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amort. of Loan Points	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950	$ 12,950
Accumulated Amortization	$ 12,950	$ 25,899	$ 38,849	$ 51,798	$ 64,748	$ 77,698	$ 90,647	$ 103,597	$ 116,546	$ 129,496	$ 142,446	$ 155,395
Adjusted Year-end Basis	$ 32,070,389	$ 31,507,785	$ 30,945,182	$ 30,382,578	$ 29,819,975	$ 29,257,371	$ 28,694,768	$ 28,132,164	$ 27,569,561	$ 27,006,958	$ 26,444,354	$ 25,881,751

Computation of Gain-on-Sale Net Sales Proceeds

55 Broad Street

Gross Sales Price	$	60,346,322	Based on NOI x Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(1,206,926)	
Net Sales Price	$	59,139,396	
Less Adjusted Basis			
Development Cost	$	32,374,000	
Loan Points	$	258,992	
Applic. of Replace. Reserve	$	4,834,854	
Accumulated Depreciation	$	7,145,500	
Accumulated Cost Amort.	$	168,345	
	$	30,154,001	
Gain on Sale	$	28,985,395	
Less Application of Unutilized Losses	$	(1,397,991)	
Net Gain-on-Sale	$	27,587,403	
Tax Liability @ 28%	$	7,724,473	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	60,346,322
Less Brokerage Commission	$	(1,206,926)
Net Sales Price	$	59,139,396
Less Tax Liability	$	7,724,473
Less Mortgage Balance	$	25,899,200
Net Sales Proceeds	$	25,515,723

Discounted Cash Flow Analysis **With Incentives**

55 Broad Street

Time Period	Equity Invest.	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow			ROI by Year	
Year 0	$ (6,474,800)	$ -		$ (6,474,800)	NPV @ 12%	$954,131	Yr. 5	-
Year 1		$ (3,167,903)	$ -	$ (3,167,903)			Yr. 6	-
Year 2		$ 301,421	$ -	$ 301,421	IRR	13.05%	Yr. 7	8.55%
Year 3		$ 500,508	$ -	$ 500,508			Yr. 8	10.00%
Year 4		$ 707,661	$ -	$ 707,661	Percentage Breakdown		Yr. 9	16.40%
Year 5		$ 636,488	$ -	$ 636,488	ATCF - Operations	19.98%	Yr. 10	11.41%
Year 6		$ 574,132	$ -	$ 574,132	ATCF - Sales Proceeds	80.02%	Yr. 11	12.86%
Year 7		$ 520,859	$ -	$ 520,859			Yr. 12	13.05%
Year 8		$ 763,665	$ -	$ 763,665				
Year 9		$ 1,016,301	$ -	$ 1,016,301				
Year 10		$ 1,230,925	$ -	$ 1,230,925				
Year 11		$ 1,456,189	$ -	$ 1,456,189				
Year 12		$ 1,692,522	$ -	$ 1,692,522				
Year 13		$ 2,407,167	$ 25,515,723	$ 27,922,890				
Totals	$ (6,474,800)	$ 836,831	$ 25,515,723	$ 27,680,857				

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Net Proceeds Discounted @ IRR		
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 6,474,800
1	$ (3,167,903)	$ (2,802,285)	$ -	$ -	Percentage Breakdown	
2	$ 301,421	$ 235,860	$ -	$ -	ATCF - Operations	19.98%
3	$ 500,508	$ 346,443	$ -	$ -	ATCF - Sales Proceeds	80.02%
4	$ 707,661	$ 433,298	$ -	$ -		
5	$ 636,488	$ 344,741	$ -	$ -		
6	$ 574,132	$ 275,077	$ -	$ -		
7	$ 520,859	$ 220,751	$ -	$ -		
8	$ 763,665	$ 286,303	$ -	$ -		
9	$ 1,016,301	$ 337,044	$ -	$ -		
10	$ 1,230,925	$ 361,107	$ -	$ -		
11	$ 1,456,189	$ 377,888	$ -	$ -		
12	$ 1,692,522	$ 388,526	$ -	$ -		
13	$ 2,407,167	$ 488,801	$ 25,515,723	$ 5,181,244		
Sub-Total		$ 1,293,556		$ 5,181,244		

First Year Income and Expense Pro Forma **Without Incentive Program**

55 Broad Street

Rent Rates				Effective Rents					
Office Space	Sq. Footage	Rental Rates	Gross Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Floors 2-6	120,000	$ 15.04	$ 1,804,800	$ 15.04	$ 15.04	$ 15.04	$ 15.04	$ 15.04	$ 15.04
Floors 7-11	80,000	$ 16.45	$ 1,316,000	$ 16.45	$ 16.45	$ 16.45	$ 16.45	$ 16.45	$ 16.45
Floors 12-30	204,000	$ 23.50	$ 4,794,000	$ 23.50	$ 23.50	$ 23.50	$ 23.50	$ 23.50	$ 23.50
Retail	8,000	$ 10.34	$ 82,720	$ 10.34	$ 10.34	$ 10.34	$ 10.34	$ 10.34	$ 10.34
Average Rent		$ 19.41		$ 19.41	$ 19.41	$ 19.41	$ 19.41	$ 19.41	$ 19.41

Gross Revenues		$ 7,997,520	Rents are Based on Leases Currently Being Signed in the Building
Less:			Effective Rents are Based on the Commercial Rent Tax Reduction
Vacancy Rate	14.30%	$ 1,143,645	The Vacancy Rate is Based on the 6/1/96 Rate in the WTC/WFC Area
Effective Gross Income		$ 6,853,875	
Less:			
Energy Costs		$ 804,000	Base Case: $2.00 per S.F.
Operating Expenses		$ 1,999,380	Based on 25% of Gross Revenues
R. E. Taxes @ 10.807%		$ 1,720,388	Based on 1995 Assessed Value plus Improvements x Assessment Multiplier
Replacement Reserve (5%)		$ 319,901	Based on 5% of Gross Revenues
Net Operating Income		$ 2,814,206	
Less:			
Debt Service		$ (2,512,286)	
Before Tax Cash Flow		$ 301,920	

Projected After-tax Cash Flow from Operations **Without Incentive Program**

55 Broad Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Effective Gross Income	$ 6,853,875	$ 7,128,030	$ 7,413,151	$ 7,709,677	$ 8,018,064	$ 8,338,786	$ 8,672,338	$ 9,019,231	$ 9,380,001	$ 9,755,201	$ 10,145,409	$ 10,551,225
Less:												
Electric Charges	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000	$ 804,000
Other Operating Expenses	$ 1,999,380	$ 2,079,355	$ 2,162,529	$ 2,249,031	$ 2,338,992	$ 2,432,551	$ 2,529,854	$ 2,631,048	$ 2,736,290	$ 2,845,741	$ 2,959,571	$ 3,077,954
R.E. Taxes	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388	$ 1,720,388
Capital Reserves	$ 319,901	$ 329,498	$ 339,383	$ 349,564	$ 360,051	$ 370,853	$ 381,978	$ 393,438	$ 405,241	$ 417,398	$ 429,920	$ -
Net Operating Income	$ 2,010,206	$ 2,194,789	$ 2,386,851	$ 2,586,694	$ 2,794,633	$ 3,010,994	$ 3,236,118	$ 3,470,358	$ 3,714,082	$ 3,967,674	$ 4,231,530	$ 4,948,884
Less:												
Debt Service	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)	$ (2,512,286)
Before Tax Cash Flow	$ (502,080)	$ (317,497)	$ (125,435)	$ 74,409	$ 282,347	$ 498,709	$ 723,833	$ 958,073	$ 1,201,797	$ 1,455,388	$ 1,719,245	$ 2,436,598
Plus: Mortgage Amort.	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Plus: Replace. Reserve	$ 319,901	$ 335,896	$ 352,691	$ 370,325	$ 388,841	$ 408,283	$ 428,698	$ 450,133	$ 472,639	$ 496,271	$ 521,085	$ 547,139
Less: Depreciation	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)	$ (485,231)
Less: Cost Amortization	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)	$ (17,116)
Taxable Income	$ (182,446)	$ (166,451)	$ (149,656)	$ (132,022)	$ (113,505)	$ (94,063)	$ (73,649)	$ (52,214)	$ (29,708)	$ (6,076)	$ 18,738	$ 44,792
Less:												
Applic. of Suspended Loss.	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,487,266
Net Taxable Income (Loss)	$ (182,446)	$ (166,451)	$ (149,656)	$ (132,022)	$ (113,505)	$ (94,063)	$ (73,649)	$ (52,214)	$ (29,708)	$ (6,076)	$ 18,738	$ 2,532,059
Tax Benefit (Liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,420	$ 1,002,695
After-Tax Cash Flow	$ (502,080)	$ (317,497)	$ (125,435)	$ 74,409	$ 282,347	$ 498,709	$ 723,833	$ 958,073	$ 1,201,797	$ 1,455,388	$ 1,711,824	$ 1,433,903

Mortgage Interest and Amortization Schedule

55 Broad St.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Mortgage Amount	$ 20,539,200											
Payment	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286	$ 2,512,286
Interest												
Amortization												
Year End Mortgage Bal.	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200	$ 20,539,200

Depreciation and Adjusted Basis Schedule

55 Broad St.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Cost Basis	$ 18,924,000											
Depreciable Basis	$ 11,553,300											
Depreciation Expense	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231	$ 485,231
Accumulated Depreciation	$ 485,231	$ 970,462	$ 1,455,692	$ 1,940,923	$ 2,426,154	$ 2,911,385	$ 3,396,615	$ 3,881,846	$ 4,367,077	$ 4,852,308	$ 5,337,538	$ 5,822,769
Additions to Cost Basis:												
Loan Points	$ 410,784											
Appl. of Replace. Reserve	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,487,266
Amort. of Loan Points	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539	$ 20,539
Accumulated Amortization	$ 20,539	$ 41,078	$ 61,618	$ 82,157	$ 102,696	$ 123,235	$ 143,774	$ 164,314	$ 184,853	$ 205,392	$ 225,931	$ 246,470
Adjusted Year-end Basis	$ 18,829,014	$ 18,323,244	$ 17,817,474	$ 17,311,704	$ 16,805,934	$ 16,300,164	$ 15,794,394	$ 15,288,624	$ 14,782,854	$ 14,277,084	$ 13,771,314	$ 13,265,544

Computation of Gain-on-Sale Net Sales Proceeds **Without Incentive Program**

55 Broad Street

Gross Sales Price	$	51,468,389	Based on NOI x Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(1,029,368)	
Net Sales Price	$	50,439,021	
Less Adjusted Basis			
Development Cost	$	25,674,000	
Loan Points	$	410,784	
Applic. of Replace. Reserve	$	4,544,763	
Accumulated Depreciation	$	5,822,769	
Accumulated Cost Amort.	$	143,774	
Sub-Total	$	24,663,003	
Gain on Sale	$	25,776,018	
Less Application of Unutilized Losses	$	(1,029,088)	
Net Gain-on-Sale	$	24,746,930	
Tax Liability @ 28%	$	6,929,140	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	51,468,389
Less Brokerage Commission	$	(1,029,368)
Net Sales Price	$	50,439,021
Less Tax Liability	$	6,929,140
Less Mortgage Balance	$	20,539,200
Net Sales Proceeds	$	22,970,680

Discounted Cash Flow Analysis **Without Incentive Program**

55 Broad Street

Time Period	Equity Investment	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow		
Year 0	$ (5,134,800)	$ -		$ (5,134,800)	NPV @ 12%	($197,559)
Year 1		$ (2,512,286)	$ -	$ (2,512,286)		
Year 2		$ (502,080)	$ -	$ (502,080)	IRR	11.76%
Year 3		$ (317,497)	$ -	$ (317,497)		
Year 4		$ (125,435)	$ -	$ (125,435)	Acquisition Cost	$ 10,800,000
Year 5		$ 74,409	$ -	$ 74,409		
Year 6		$ 282,347	$ -	$ 282,347		
Year 7		$ 498,709	$ -	$ 498,709		
Year 8		$ 723,833	$ -	$ 723,833		
Year 9		$ 958,073	$ -	$ 958,073		
Year 10		$ 1,201,797	$ -	$ 1,201,797		
Year 11		$ 1,455,388	$ -	$ 1,455,388		
Year 12		$ 1,711,824	$ -	$ 1,711,824		
Year 13		$ 1,433,903	$ 22,970,680	$ 24,404,583		
Totals	$ (5,134,800)	$ (1,877,999)	$ 22,970,680	$ 22,718,866		

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Proceeds Discount. @ IRR		
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 5,134,800
1	$ (2,512,286)	$ (2,247,947)	$ -	$ -		
2	$ (502,080)	$ (401,982)	$ -	$ -	Percentage Breakdown	
3	$ (317,497)	$ (227,452)	$ -	$ -	ATCF - Operations	-5.43%
4	$ (125,435)	$ (80,406)	$ -	$ -	ATCF - Sales Proceeds	105.43%
5	$ 74,409	$ 42,678	$ -	$ -		
6	$ 282,347	$ 144,906	$ -	$ -		
7	$ 498,709	$ 229,016	$ -	$ -		
8	$ 723,833	$ 297,423	$ -	$ -		
9	$ 958,073	$ 352,250	$ -	$ -		
10	$ 1,201,797	$ 395,368	$ -	$ -		
11	$ 1,455,388	$ 428,416	$ -	$ -		
12	$ 1,711,824	$ 450,882	$ -	$ -		
13	$ 1,433,903	$ 337,941	$ 22,970,680	$ 5,413,707		
Sub-Total		$ (278,907)		$ 5,413,707		

Investment Characteristics and Assumptions

2 Broadway

Building Use		Commercial	
Year Built		1958	
Rentable Area (S.F.)		1,499,568	Based on 1995 Assessments by NYC Finance Dept.
Energy Costs (per S.F.)	$	2	Based on Average Usage/S.F. (as Estimated by ConEd)
Acquisition Cost	$	32,750,000	Cost Neccesary For Project To Have Positive NPV
Renovation Costs ($37.50/S.F.)	$	56,233,800	Based on Total Actual Porject Cost Less Acquistion Price
Total Cost	$	88,983,800	
Original Assessed Value	$	43,200,000	Based on 1995 Assessments by NYC Finance Dept.
New Assessed Value	$	40,042,710	Based on Total Cost x Assessment Multiplier of 45%
Holding Period (yrs.)		12	
Projected Sales Price			
1st Yr. NOI	$	8,490,217	
Annual Increase % NOI		4.00%	
Equity Investment	$	17,796,760	Based on Loan to Value Ratio of 80%

Debt Financing

Loan Amount	$	71,187,040	
Interest Rate (%)		12.00%	Based on LIBOR Plus 575 bps
Term to Maturity (yrs.)		20	
Amortization Term (yrs.)		35	
Loan Constant		12.23%	
Loan Points		2.0	
Lender Participation (%)		0.0%	
Lender Yield (%)		12.22%	
Debt to Equity Ratio		4.0:1.0	

Taxation

Depreciable Basis	$	68,515,050	Based on % of Assessed Value in Land (37.5% Estimate from NYC Finance Dept.)
Depreciable Life (yrs.)		39	

Applicable Benefit Programs

2 Broadway

Real Estate Tax Special Reduction		
Assessed Property Value		
Constant Class 2 Tax Rate	10.81%	Current Tax Rate on Class 2 and Class 3 Properties
1st Year Reduction	50.00%	Based on Lower Manhattan Revitalization Program
2nd Year Reduction	50.00%	" " " "
3rd Year Reduction	50.00%	" " " "
4th Year Reduction	33.33%	" " " "
5th Year Reduction	16.67%	" " " "

Commercial Rent Tax Special Reduction		
1st Year Base Rent		
Comm. Rent Tax Rate	6.00%	Current Tax Rate - Does Not Apply to Tenants Paying Less Than 40,000 in Yearly Rent
1st Year Reduction	100.00%	Based on Lower Manhattan Revitalization Program
2nd Year Reduction*	100.00%	" " " "
3rd Year Reduction*	100.00%	" " " "
4th Year Reduction*	66.67%	" " " "
5th Year Reduction*	33.33%	" " " "

Lower Manhattan Energy Program		
1st Year Base Rent		
Commercial Electric Rate		
1st Year Rate	70.00%	Based on Lower Manhattan Revitalization Program
2nd Year Rate	70.00%	" " " "
3rd Year Rate	70.00%	" " " "
4th Year Rate	70.00%	" " " "
5th Year Rate	70.00%	" " " "
6th Year Rate	70.00%	" " " "
7th Year Rate	70.00%	" " " "
8th Year Rate	70.00%	" " " "
9th Year Rate	76.00%	" " " "
10th Year Rate	82.00%	" " " "
11th Year Rate	88.00%	" " " "
12th Year Rate	94.00%	" " " "
13th Year Rate	100.00%	

First Year Income and Expense Pro Forma

2 Broadway

Rent Rates				Effective Rents					
Office Space	Sq. Footage	Rental Rates	Gross Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Floors 2-16	900,000	$ 16.50	$ 14,850,000	$ 15.51	$ 15.51	$ 15.51	$ 15.84	$ 16.17	$ 16.50
Floors 17-23	322,000	$ 19.00	$ 6,118,000	$ 17.86	$ 17.86	$ 17.86	$ 18.24	$ 18.62	$ 19.00
Floor 23-29	259,000	$ 25.00	$ 6,475,000	$ 23.50	$ 23.50	$ 23.50	$ 24.00	$ 24.50	$ 25.00
Retail	18,000	$ 11.00	$ 198,000	$ 10.34	$ 10.34	$ 10.34	$ 10.56	$ 10.78	$ 11.00
Average Rent		$ 18.44		$ 17.33	$ 17.33	$ 17.33	$ 17.70	$ 18.07	$ 18.44

Gross Revenues		$ 27,641,000	Rents are Based on Leases Currently Being Signed in the Building
Less:			Effective Rents are Based on the Commercial Rent Tax Reduction
Vacancy Rate	14.30%	$ 3,731,535	The Vacancy Rate is Based on the 6/1/96 Rate in the WTC/WFC Area
Effective Gross Income		$ 23,909,465	
Less:			
Energy Costs		$ 2,999,136	Base Case: $2.00 per S.F.
Operating Expenses		$ 6,910,250	Based on 25% of Gross Revenues
R. E. Taxes @ 10.807%		$ 7,403,358	Based on 1995 Assessed Value plus Improvements x Assessment Multiplier
Replacement Reserve (5%)		$ 1,105,640	Based on 5% of Gross Revenues
Net Operating Income		$ 8,490,217	
Less:			
Debt Service		$ (8,707,358)	
Before Tax Cash Flow		$ (217,141)	

Projected After-tax Cash Flow from Operations

2 Broadway	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Effective Gross Income	$ 23,909,465	$ 24,865,844	$ 25,860,477	$ 26,894,896	$ 27,970,692	$ 29,089,520	$ 30,253,101	$ 31,463,225	$ 32,721,754	$ 34,030,624	$ 35,391,849	$ 36,807,523
Less:												
Electric Charges	$ 2,099,395	$ 2,099,395	$ 2,099,395	$ 2,099,395	$ 2,099,395	$ 2,099,395	$ 2,099,395	$ 2,099,395	$ 2,279,343	$ 2,459,292	$ 2,639,240	$ 2,819,188
Other Operating Expenses	$ 6,910,250	$ 7,186,660	$ 7,474,126	$ 7,773,091	$ 8,084,015	$ 8,407,376	$ 8,743,671	$ 9,093,418	$ 9,457,154	$ 9,835,440	$ 10,228,858	$ 10,638,012
R.E. Taxes	$ 3,701,679	$ 3,701,679	$ 3,701,679	$ 4,935,819	$ 6,169,588	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358
Capital Reserves	$ 1,105,640	$ 1,138,809	$ 1,172,973	$ 1,208,163	$ 1,244,408	$ 1,281,740	$ 1,320,192	$ 1,359,798	$ 1,400,592	$ 1,442,609	$ 1,485,888	$ -
Net Operating Income	$ 10,092,501	$ 10,739,300	$ 11,412,303	$ 10,878,428	$ 10,373,286	$ 9,897,651	$ 10,686,485	$ 11,507,256	$ 12,181,306	$ 12,889,925	$ 13,634,505	$ 15,946,965
Less:												
Debt Service	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)	$ (8,707,358)
Before Tax Cash Flow	$ 1,385,143	$ 2,031,942	$ 2,704,945	$ 2,171,070	$ 1,665,928	$ 1,190,293	$ 1,979,127	$ 2,799,898	$ 3,473,948	$ 4,182,566	$ 4,927,147	$ 7,239,607
Plus: Mortgage Amort.	$ 9,266	$ 10,378	$ 11,624	$ 13,019	$ 14,581	$ 16,331	$ 18,290	$ 18,291	$ 18,292	$ 18,293	$ 18,294	$ 18,295
Plus: Replace. Reserve	$ 1,105,640	$ 1,160,922	$ 1,218,968	$ 1,279,917	$ 1,343,912	$ 1,411,108	$ 1,481,663	$ 1,555,747	$ 1,633,534	$ 1,715,211	$ 1,800,971	$ 1,891,020
Less: Depreciation	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)	$ (1,756,796)
Less: Cost Amortization	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)	$ (35,594)
Taxable Income	$ (677,484)	$ (621,090)	$ (561,798)	$ (499,454)	$ (433,896)	$ (364,951)	$ (292,436)	$ (218,352)	$ (140,564)	$ (58,886)	$ 26,875	$ 116,925
Less:												
Applic. of Suspend. Losses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 116,925
Net Taxable Income (Loss)	$ (677,484)	$ (621,090)	$ (561,798)	$ (499,454)	$ (433,896)	$ (364,951)	$ (292,436)	$ (218,352)	$ (140,564)	$ (58,886)	$ 26,875	$ 233,850
Tax Benefit (Liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,643	$ 92,605
After-Tax Cash Flow	$ 1,385,143	$ 2,031,942	$ 2,704,945	$ 2,171,070	$ 1,665,928	$ 1,190,293	$ 1,979,127	$ 2,799,898	$ 3,473,948	$ 4,182,566	$ 4,916,505	$ 7,147,002

Mortgage Interest and Amortization Schedule

2 Broadway	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Mortgage Amount	$ 71,187,040											
Payment	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358
Interest	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358	$ 8,707,358
Amortization												
Year End Mortgage Balance	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040	$ 71,187,040

Depreciation and Adjusted Basis Schedule

2 Broadway	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Cost Basis	$ 88,983,800											
Depreciable Basis	$ 40,042,710											
Depreciation Expense	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796	$ 1,756,796
Accumulated Depreciation	$ 1,756,796	$ 3,513,592	$ 5,270,388	$ 7,027,185	$ 8,783,981	$ 10,540,777	$ 12,297,573	$ 14,054,369	$ 15,811,165	$ 17,567,962	$ 19,324,758	$ 21,081,554
Additions to Cost Basis:												
Loan Points	$ 1,423,741											
Appl. of Replace. Reserve	$ -						$ 9,002,130					$ 8,596,482
Amort. of Loan Points	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187	$ 71,187
Accumulated Amortization	$ 71,187	$ 142,374	$ 213,561	$ 284,748	$ 355,935	$ 427,122	$ 498,309	$ 569,496	$ 640,683	$ 711,870	$ 783,057	$ 854,244
Adjusted Year-end Basis	$ 88,579,558	$ 86,751,574	$ 84,923,591	$ 83,095,608	$ 81,267,625	$ 79,439,642	$ 77,611,658	$ 75,783,675	$ 73,955,692	$ 72,127,709	$ 70,299,726	$ 68,471,742

Computation of Gain-on-Sale Net Sales Proceeds

2 Broadway

Gross Sales Price	$	159,469,646	Based on NOI x Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(3,189,393)	
Net Sales Price	$	156,280,253	
Less Adjusted Basis			
Development Cost	$	32,750,000	
Loan Points	$	1,423,741	
Applic. of Replace. Reserve	$	9,002,130	
Accumulated Depreciation	$	12,297,573	
Accumulated Cost Amort.	$	498,309	
	$	30,379,989	
Gain on Sale	$	125,900,264	
Less Application of Unutilized Losses	$	(3,958,960)	
Net Gain-on-Sale	$	121,941,304	
Tax Liability @ 28%	$	34,143,565	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	159,469,646
Less Brokerage Commission	$	(3,189,393)
Net Sales Price	$	156,280,253
Less Tax Liability	$	34,143,565
Less Mortgage Balance	$	71,187,040
Net Sales Proceeds	$	50,949,648

Discounted Cash Flow Analysis **With Incentives**

2 Broadway

Time Period	Equity Investment	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow		
Year 0	$ (17,796,760)	$ -		$ (17,796,760)	NPV @ 12%	$18,852
Year 1		$ (8,707,358)	$ -	$ (8,707,358)		
Year 2		$ 1,385,143	$ -	$ 1,385,143	IRR	12.01%
Year 3		$ 2,031,942	$ -	$ 2,031,942		
Year 4		$ 2,704,945	$ -	$ 2,704,945	Percentage Breakdown	
Year 5		$ 2,171,070	$ -	$ 2,171,070	ATCF - Operations	34.46%
Year 6		$ 1,665,928	$ -	$ 1,665,928	ATCF - Sales Proceeds	65.54%
Year 7		$ 1,190,293	$ -	$ 1,190,293		
Year 8		$ 1,979,127	$ -	$ 1,979,127		
Year 9		$ 2,799,898	$ -	$ 2,799,898		
Year 10		$ 3,473,948	$ -	$ 3,473,948		
Year 11		$ 4,182,566	$ -	$ 4,182,566		
Year 12		$ 4,916,505	$ -	$ 4,916,505		
Year 13		$ 7,147,002	$ 50,949,648	$ 58,096,650		
Totals	$ (17,796,760)	$ 4,421,090	$ 50,949,648	$ 60,093,898		

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Net Proceeds Discounted @ IRR		
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 17,796,760
1	$ (8,707,358)	$ (7,773,837)	$ -	$ -		
2	$ 1,385,143	$ 1,104,060	$ -	$ -	Percentage Breakdown	
3	$ 2,031,942	$ 1,445,967	$ -	$ -	ATCF - Operations	34.46%
4	$ 2,704,945	$ 1,718,520	$ -	$ -	ATCF - Sales Proceeds	65.54%
5	$ 2,171,070	$ 1,231,457	$ -	$ -		
6	$ 1,665,928	$ 843,627	$ -	$ -		
7	$ 1,190,293	$ 538,143	$ -	$ -		
8	$ 1,979,127	$ 798,851	$ -	$ -		
9	$ 2,799,898	$ 1,008,983	$ -	$ -		
10	$ 3,473,948	$ 1,117,671	$ -	$ -		
11	$ 4,182,566	$ 1,201,386	$ -	$ -		
12	$ 4,916,505	$ 1,260,797	$ -	$ -		
13	$ 7,147,002	$ 1,636,295	$ 50,949,648	$ 11,664,842		
Sub-Total		$ 6,131,918		$ 11,664,842		

First Year Income and Expense Pro Forma **Without Incentive Program**

2 Broadway

Rent Rates				Effective Rents					
Office Space	Sq. Footage	Rental Rates	Gross Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Floors 2-16	900,000	$ 15.04	$ 13,536,000	$ 15.04	$ 15.04	$ 15.04	$ 15.04	$ 15.04	$ 15.04
Floors 17-23	322,000	$ 16.45	$ 5,296,900	$ 16.45	$ 16.45	$ 16.45	$ 16.45	$ 16.45	$ 16.45
Floor 23-29	259,000	$ 23.50	$ 6,086,500	$ 23.50	$ 23.50	$ 23.50	$ 23.50	$ 23.50	$ 23.50
Retail	18,000	$ 10.34	$ 186,120	$ 10.34	$ 10.34	$ 10.34	$ 10.34	$ 10.34	$ 10.34
Average Rent		$ 16.75		$ 16.75	$ 16.75	$ 16.75	$ 16.75	$ 16.75	$ 16.75

Gross Revenues		$ 25,105,520	Rents are Based on Leases Currently Being Signed in the Building
Less:			Effective Rents are Based on the Commercial Rent Tax Reduction
Vacancy Rate	14.30%	$ 2,510,552	The Vacancy Rate is Based on the 6/1/96 Rate in the WTC/WFC Area
Effective Gross Income		$ 22,594,968	
Less:			
Energy Costs		$ 2,999,136	Base Case: $2.00 per S.F.
Operating Expenses		$ 6,276,380	Based on 25% of Gross Revenues
R. E. Taxes @ 10.807%		$ 7,403,358	Based on 1995 Assessed Value plus Improvements x Assessment Multiplier
Replacement Reserve (5%)		$ 1,004,221	Based on 5% of Gross Revenues
Net Operating Income		$ 7,911,009	
Less:			
Debt Service		$ (6,980,247)	
Before Tax Cash Flow		$ 930,762	

Projected After-tax Cash Flow from Operations **Without Incentive Program**

2 Broadway	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Effective Gross Income	$ 22,594,968	$ 23,498,767	$ 24,438,717	$ 25,416,266	$ 26,432,917	$ 27,490,233	$ 28,589,843	$ 29,733,436	$ 30,922,774	$ 32,159,685	$ 33,446,072	$ 34,783,915
Less:												
Electric Charges	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136	$ 2,999,136
Other Operating Expenses	$ 6,276,380	$ 6,527,435	$ 6,788,533	$ 7,060,074	$ 7,342,477	$ 7,636,176	$ 7,941,623	$ 8,259,288	$ 8,589,659	$ 8,933,246	$ 9,290,576	$ 9,662,199
R.E. Taxes	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358	$ 7,403,358
Capital Reserves	$ 1,004,221	$ 1,034,347	$ 1,065,378	$ 1,097,339	$ 1,130,259	$ 1,164,167	$ 1,199,092	$ 1,235,065	$ 1,272,117	$ 1,310,280	$ 1,349,589	$ -
Net Operating Income	$ 4,911,873	$ 5,534,490	$ 6,182,313	$ 6,856,359	$ 7,557,686	$ 8,287,396	$ 9,046,634	$ 9,836,590	$ 10,658,504	$ 11,513,665	$ 12,403,414	$ 14,719,222
Less:												
Debt Service	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)
Before Tax Cash Flow	$ (2,068,374)	$ (1,445,757)	$ (797,934)	$ (123,888)	$ 577,439	$ 1,307,149	$ 2,066,386	$ 2,856,342	$ 3,678,256	$ 4,533,417	$ 5,423,166	$ 7,738,975
Plus: Mortgage Amort.	$ 9,266	$ 10,378	$ 11,624	$ 13,019	$ 14,581	$ 16,331	$ 18,290	$ 18,291	$ 18,292	$ 18,293	$ 18,294	$ 18,295
Plus: Replace. Reserve	$ 1,004,221	$ 1,054,432	$ 1,107,153	$ 1,162,511	$ 1,220,637	$ 1,281,668	$ 1,345,752	$ 1,413,040	$ 1,483,691	$ 1,557,876	$ 1,635,770	$ 1,717,558
Less: Depreciation	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)	$ (1,587,085)
Less: Cost Amortization	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)	$ (28,534)
Taxable Income	$ (602,131)	$ (550,808)	$ (496,841)	$ (440,088)	$ (380,400)	$ (317,619)	$ (251,576)	$ (184,288)	$ (113,635)	$ (39,449)	$ 38,446	$ 120,235
Less:												
Applic. of Suspend. Losses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (38,446)	$ (120,235)
Net Taxable Income (Loss)	$ (602,131)	$ (550,808)	$ (496,841)	$ (440,088)	$ (380,400)	$ (317,619)	$ (251,576)	$ (184,288)	$ (113,635)	$ (39,449)	$ -	$ -
Tax Benefit (Liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
After-Tax Cash Flow	$ (2,068,374)	$ (1,445,757)	$ (797,934)	$ (123,888)	$ 577,439	$ 1,307,149	$ 2,066,386	$ 2,856,342	$ 3,678,256	$ 4,533,417	$ 5,423,166	$ 7,738,975

Mortgage Interest and Amortization Schedule

2 Broadway	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Mortgage Amount	$ 57,067,040											
Payment	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247	$ 6,980,247
Interest	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)	$ (6,980,247)
Amortization												
Year End Mortgage Bal.	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040	$ 57,067,040

Depreciation and Adjusted Basis Schedule

2 Broadway	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Cost Basis	$ 71,333,800											
Depreciable Basis	$ 32,100,210											
Depreciation Expense	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085	$ 1,587,085
Accumulated Depreciation	$ 1,587,085	$ 3,174,169	$ 4,761,254	$ 6,348,338	$ 7,935,423	$ 9,522,508	$ 11,109,592	$ 12,696,677	$ 14,283,762	$ 15,870,846	$ 17,457,931	$ 19,045,015
Additions to Cost Basis:												
Loan Points	$ 1,141,341											
Appl. of Replace. Reserve	$ -						$ 8,176,374					$ 7,807,935
Amort. of Loan Points	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067	$ 57,067
Accumulated Amortization	$ 57,067	$ 114,134	$ 171,201	$ 228,268	$ 285,335	$ 342,402	$ 399,469	$ 456,536	$ 513,603	$ 570,670	$ 627,737	$ 684,804
Adjusted Year-end Basis	$ 70,830,989	$ 69,186,837	$ 67,542,686	$ 65,898,534	$ 64,254,383	$ 62,610,231	$ 60,966,079	$ 59,321,928	$ 57,677,776	$ 56,033,624	$ 54,389,473	$ 52,745,321

Computation of Gain-on-Sale Net Sales Proceeds **Without Incentive Program**

2 Broadway

Gross Sales Price	$	147,192,224	Based on NOI x Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(2,943,844)	
Net Sales Price	$	144,248,380	
Less Adjusted Basis			
Acquisition Cost	$	71,333,800	
Loan Points	$	1,141,341	
Applic. of Replace. Reserve	$	8,176,374	
Accumulated Depreciation	$	11,109,592	
Accumulated Cost Amort.	$	399,469	
	$	69,142,453	
Gain on Sale	$	75,105,927	
Less Application of Unutilized Losses	$	(3,535,516)	
Net Gain-on-Sale	$	71,570,411	
Tax Liability @ 28%	$	20,039,715	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	147,192,224
Less Brokerage Commission	$	(2,943,844)
Net Sales Price	$	144,248,380
Less Tax Liability	$	20,039,715
Less Mortgage Balance	$	57,067,040
Net Sales Proceeds	$	67,141,625

Discounted Cash Flow Analysis **Without Incentive Program**

2 Broadway

Time Period	Equity Investment	Annual After-Tax Cash Flow	After-Tax Net Sales Proceeds	Total After-Tax Cash Flow
Year 0	$ (14,266,760)	$ -		$ (14,266,760)
Year 1		$ (6,980,247)	$ -	$ (6,980,247)
Year 2		$ (2,068,374)	$ -	$ (2,068,374)
Year 3		$ (1,445,757)	$ -	$ (1,445,757)
Year 4		$ (797,934)	$ -	$ (797,934)
Year 5		$ (123,888)	$ -	$ (123,888)
Year 6		$ 577,439	$ -	$ 577,439
Year 7		$ 1,307,149	$ -	$ 1,307,149
Year 8		$ 2,066,386	$ -	$ 2,066,386
Year 9		$ 2,856,342	$ -	$ 2,856,342
Year 10		$ 3,678,256	$ -	$ 3,678,256
Year 11		$ 4,533,417	$ -	$ 4,533,417
Year 12		$ 5,423,166	$ -	$ 5,423,166
Year 13		$ 7,738,975	$ 67,141,625	$ 74,880,600
Totals	$ (14,266,760)	$ (7,465,228)	$ 67,141,625	$ 69,639,794

NPV @ 12%	$34,203
IRR	12.01%
Acquisition Cost	$ 15,100,000

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Proceeds Discounted @ IRR
0	$ -	$ -	$ -	$ -
1	$ (6,980,247)	$ (6,231,582)	$ -	$ -
2	$ (2,068,374)	$ (1,648,482)	$ -	$ -
3	$ (1,445,757)	$ (1,028,674)	$ -	$ -
4	$ (797,934)	$ (506,847)	$ -	$ -
5	$ (123,888)	$ (70,254)	$ -	$ -
6	$ 577,439	$ 292,328	$ -	$ -
7	$ 1,307,149	$ 590,769	$ -	$ -
8	$ 2,066,386	$ 833,741	$ -	$ -
9	$ 2,856,342	$ 1,028,863	$ -	$ -
10	$ 3,678,256	$ 1,182,815	$ -	$ -
11	$ 4,533,417	$ 1,301,452	$ -	$ -
12	$ 5,423,166	$ 1,389,897	$ -	$ -
13	$ 7,738,975	$ 1,770,683	$ 67,141,625	$ 15,362,050
Sub-Total		$ (1,095,290)		$ 15,362,050

Total Discounted Cash	$ 14,266,760
Percentage Breakdown	
ATCF - Operations	-7.68%
ATCF - Sales Proceeds	107.68%

Investment Characteristics and Assumptions **With Incentives**

45 Wall Street

Building Use		Residential		
Year Built		1958		
Rentable Area / Units		493,187	/441	Based on Actual Number of Units Being Constructed
Acquisition Cost	$	11,500,000		Based on Total Cost less Renovation Costs
Renovation Costs ($85/S.F.)	$	41,920,895		Based on Estimate of Actual Costs
Total Cost	$	53,420,895		
Intial Assessed Value	$	6,600,000		Based on 1995 Assessments by NYC Finance Dept.
New Assessed Value	$	24,039,403		Based on Total Cost x Assessment Multiplier of 45%
Assessed Value less Land	$	19,914,403		
Holding Period (yrs.)	$	12		
Projected Sales Price	$	85,528,574		
1st Yr. NOI	$	3,750,866		
Annual Increase % NOI		4.00%		
Equity Investment	$	10,684,179		Based on Loan to Value Ratio of 80%

Debt Financing

Loan Amount	$	42,736,716	
Interest Rate (%)		10.00%	Based on LIBOR Plus 375 bps
Term to Maturity (yrs.)		12	
Amortization Term (yrs.)		0	
Loan Constant		10.19%	
Loan Points		2.0	
Lender Participation (%)		0.0%	
Lender Yield (%)		10.49%	
Debt to Equity Ratio		4.0:1	

Taxation

Depreciable Basis	$	46,233,395	Based on % of Assessed Value in Land (37.5% Estimate from NYC Finance Dept.)
Depreciable Life (yrs.)		27.5	

Real Estate Tax Special Reduction

45 Wall Street

Twelve Year Tax Exemption (for Increased Value Due to Conversion)		
Projected Property Assessment		
Constant Class 2 Tax Rate	10.81%	Current Tax Rate on Class 2 and Class 3 Properties
1st Year Exemption	100.00%	Based on Lower Manhattan Revitalization Program
2nd Year Exemption	100.00%	" " " "
3rd Year Exemption	100.00%	" " " "
4th Year Exemption	100.00%	" " " "
5th Year Exemption	100.00%	" " " "
6th Year Exemption	100.00%	" " " "
7th Year Exemption	100.00%	" " " "
8th Year Exemption	100.00%	" " " "
9th Year Exemption	80.00%	" " " "
10th Year Exemption	60.00%	" " " "
11th Year Exemption	40.00%	" " " "
12th Year Exemption	20.00%	" " " "

Fourteen Year Abatement		
1st Year Abatement	100.00%	Based on Lower Manhattan Revitalization Program
2nd Year Abatement	100.00%	" " " "
3rd Year Abatement	100.00%	" " " "
4th Year Abatement	100.00%	" " " "
5th Year Abatement	100.00%	" " " "
6th Year Abatement	100.00%	" " " "
7th Year Abatement	100.00%	" " " "
8th Year Abatement	100.00%	" " " "
9th Year Abatement	100.00%	" " " "
10th Year Abatement	100.00%	" " " "
11th Year Abatement	80.00%	" " " "
12th Year Abatement	60.00%	" " " "
13th Year Abatement	40.00%	" " " "
14th Year Abatement	20.00%	" " " "

First Year Income and Expense Pro Forma

45 Wall Street

Number of:		Monthly Rental Rates	Gross Income	
Studio	167	$ 912	$ 1,827,648	Note: Number of Units Based on Actual Layout
1BR Units	232	$ 1,680	$ 4,677,120	Based on 6/96 Average Manhattan Rents x 80% (Excl. Above 96th St., BPC, LM)
2BR Units	23	$ 2,848	$ 786,048	
2BR+ Units	16	$ 4,768	$ 915,456	
Duplex	3	$ 5,800	$ 208,800	
Retail (S.F.)	5,000	$ 0.83	$ 50,000	
Gross Revenues			$ 8,465,072	
Less:				
Vacancies @ 5%			$ 423,254	Note: Current Vacancy Rate @ Less Than 1.5%
Effective Gross Income			$ 8,041,818	
Less:				
Operating Expenses			$ 1,269,761	Note: Operating Expenses @ 15% of Gross Income
R. E. Taxes @ 10.807%			$ 2,597,938	
Replace. Reserve @ 5%			$ 423,254	
Net Operating Income			$ 3,750,866	
Less:				
Debt Service			$ (4,356,153)	
Before Tax Cash Flow			$ (605,288)	

Projected After-tax Cash Flow from Operations

45 Wall Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Gross Operating Income	$8,041,818	$8,363,491	$8,698,031	$9,045,952	$9,407,790	$9,784,102	$10,175,466	$10,582,484	$11,005,784	$11,446,015	$11,903,856	$12,380,010	$12,875,210	$13,390,219
Less:														
Operating Expenses	$1,269,761	$1,307,854	$1,347,089	$1,387,502	$1,429,127	$1,472,001	$1,516,161	$1,561,646	$1,608,495	$1,656,750	$1,706,452	$1,757,646	$1,810,375	$1,864,687
R.E. Taxes - Ex. Property	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$142,652	$285,305	$427,957	$570,610
R.E. Taxes - Conversions	$0	$0	$0	$0	$0	$0	$0	$0	$906,078	$1,812,156	$2,718,235	$3,624,313	$4,530,391	$4,530,391
Capital Reserves	$423,254	$440,184	$453,389	$466,991	$481,001	$495,431	$510,294	$525,602	$541,370	$557,612	$574,340	$591,570	$609,317	$627,597
Net Operating Income	$6,348,804	$6,615,454	$6,897,552	$7,191,459	$7,497,662	$7,816,670	$8,149,011	$8,495,236	$7,949,840	$7,419,497	$6,762,176	$6,121,176	$5,497,169	$5,796,935
Less:														
Debt Service	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)	($4,356,153)
Before Tax Cash Flow	$1,992,651	$2,259,300	$2,541,399	$2,835,306	$3,141,509	$3,460,517	$3,792,858	$4,139,083	$3,593,687	$3,063,344	$2,406,023	$1,765,023	$1,141,016	$1,440,781
Plus: Mortgage Amort.														
Plus: Replace. Reserve	$423,254	$440,184	$453,389	$466,991	$481,001	$495,431	$510,294	$525,602	$541,370	$557,612	$574,340	$591,570	$609,317	$627,597
Less: Depreciation	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)	($1,681,214)
Less: Cost Amort.	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)	($35,614)
Taxable Income	$699,076	$982,656	$1,277,960	$1,585,468	$1,905,681	$2,239,119	$2,586,323	$2,947,857	$2,418,229	$1,904,127	$1,263,535	$639,765	$33,505	$351,550
Less:														
Applic. Suspended Losses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$33,505
Net Taxable Income (Loss)	$699,076	$982,656	$1,277,960	$1,585,468	$1,905,681	$2,239,119	$2,586,323	$2,947,857	$2,418,229	$1,904,127	$1,263,535	$639,765	$33,505	$385,055
Tax Benefit (Liability)	$276,834	$389,132	$506,072	$627,845	$754,650	$886,691	$1,024,184	$1,167,351	$957,619	$754,034	$500,360	$253,347	$13,268	$152,482
After-Tax Cash Flow	$1,715,817	$1,870,169	$2,035,327	$2,207,460	$2,386,859	$2,573,826	$2,768,674	$2,971,732	$2,636,068	$2,309,309	$1,905,663	$1,511,676	$1,127,748	$1,288,300

Mortgage Interest and Amortization Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Mortgage Amount	$ 42,736,716													
Payment	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153
Interest	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153	$ 4,356,153
Amortization														
Year End Mortgage Bal.	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716	$ 42,736,716

Depreciation and Adjusted Basis Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Cost Basis	$ 53,420,895													
Depreciable Basis	$ 46,233,395													
Depreciation Expense	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214	$ 1,681,214
Accumulated Depreciation	$ 1,681,214	$ 3,362,429	$ 5,043,643	$ 6,724,857	$ 8,406,072	$ 10,087,286	$ 11,768,501	$ 13,449,715	$ 15,130,929	$ 16,812,144	$ 18,493,358	$ 20,174,572	$ 21,855,787	$ 23,537,001
Additions to Cost Basis:														
Loan Points	$ 854,734													
Appl. of Replace. Reserve	$ -	$ -												
Amort. of Loan Points	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737	$ 42,737
Accumulated Amort.	$ 42,737	$ 85,473	$ 128,210	$ 170,947	$ 213,684	$ 256,420	$ 299,157	$ 341,894	$ 384,630	$ 427,367	$ 470,104	$ 512,841	$ 555,577	$ 598,314
Adjusted Year-end Basis	$ 52,551,678	$ 50,827,727	$ 49,103,776	$ 47,379,825	$ 45,655,874	$ 43,931,923	$ 42,207,972	$ 40,484,021	$ 38,760,070	$ 37,036,119	$ 35,312,167	$ 33,588,216	$ 31,864,265	$ 30,140,314

Computation of Gain-on-Sale Net Sales Proceeds

45 Wall Street			
Gross Sales Price	$	61,211,762	Based on Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(1,224,235)	
Net Sales Price	$	59,987,527	
Less Lender Participation	$	-	
Less Adjusted Basis			
Acquisition Cost	$	53,420,895	
Loan Points	$	854,734	
Applic. of Replace. Reserve	$	4,943,865	
Accumulated Depreciation	$	(20,174,572)	
Accumulated Cost Amort.	$	(512,841)	
Sub-Total	$	38,532,081	
Gain on Sale	$	21,455,446	
Less Application of Unutilized Losses	$	-	
Net Gain-on-Sale	$	21,455,446	
Tax Liability @ 28%	$	6,007,525	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	61,211,762
Less Brokerage Commission	$	(1,224,235)
Net Sales Price	$	59,987,527
Less Lender Participation	$	-
Less Tax Liability	$	6,007,525
Less Outstanding Mortgage Balance	$	42,736,716
Net Sales Proceeds	$	11,243,286

Discounted Cash Flow Analysis **With Incentives**

45 Wall Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF			ROI by Year	
Year 0	$ (10,684,179)	$ -		$ (10,684,179)	NPV @ 12%	$159,686	Yr. 5	18.18%
Year 1		$ (4,356,153)		$ (4,356,153)			Yr. 6	18.29%
Year 2		$ 1,715,817	$ -	$ 1,715,817	IRR	12.17%	Yr. 7	18.53%
Year 3		$ 1,870,169	$ -	$ 1,870,169			Yr. 8	16.55%
Year 4		$ 2,035,327	$ -	$ 2,035,327	Percentage Breakdown		Yr. 9	15.00%
Year 5		$ 2,207,460	$ -	$ 2,207,460	ATCF - Operations	76.35%	Yr. 10	13.47%
Year 6		$ 2,386,859	$ -	$ 2,386,859	ATCF - Sales Proceeds	23.65%	Yr. 11	12.26%
Year 7		$ 2,573,826	$ -	$ 2,573,826			Yr. 12	12.17%
Year 8		$ 2,768,674	$ -	$ 2,768,674				
Year 9		$ 2,971,732	$ -	$ 2,971,732				
Year 10		$ 2,636,068	$ -	$ 2,636,068				
Year 11		$ 2,309,309	$ -	$ 2,309,309				
Year 12		$ 1,905,663	$ -	$ 1,905,663				
Year 13		$ 1,511,676	$ 11,243,286	$ 12,754,962				
Totals	$ (10,684,179)	$ 22,536,426	$ 11,243,286	$ 23,095,532				

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Net Proceeds Discounted @ IRR			
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 10,684,179	
1	$ (4,356,153)	$ (3,883,631)	$ -	$ -			
2	$ 1,715,817	$ 1,363,768	$ -	$ -	Percentage Breakdown		
3	$ 1,870,169	$ 1,325,211	$ -	$ -	ATCF - Operations	76.35%	
4	$ 2,035,327	$ 1,285,799	$ -	$ -	ATCF - Sales Proceeds	23.65%	
5	$ 2,207,460	$ 1,243,273	$ -	$ -			
6	$ 2,386,859	$ 1,198,492	$ -	$ -			
7	$ 2,573,826	$ 1,152,185	$ -	$ -			
8	$ 2,768,674	$ 1,104,968	$ -	$ -			
9	$ 2,971,732	$ 1,057,359	$ -	$ -			
10	$ 2,636,068	$ 836,188	$ -	$ -			
11	$ 2,309,309	$ 653,077	$ -	$ -			
12	$ 1,905,663	$ 480,467	$ -	$ -			
13	$ 1,511,676	$ 339,790	$ 11,243,286	$ 2,527,232			
Sub-Total		$ 8,156,947		$ 2,527,232			

First Year Income and Expense Pro Forma **Without Incentive Program**

45 Wall Street

Number of:		Monthly Rental Rates	Gross Income	
Studio	169	$ 912	$ 1,849,536	Note: Number of Units Based on Actual Layout
1BR Units	230	$ 1,680	$ 4,636,800	Based on 6/96 Average Manhattan Rents x 80% (Excl. Above 96th St., BPC, LM)
2BR Units	23	$ 2,848	$ 786,048	
2BR+ Units	16	$ 4,768	$ 915,456	
Duplex	3	$ 5,800	$ 208,800	
Retail (S.F.)	5,000	$ 0.83	$ 50,000	
Gross Revenues			$ 8,446,640	
Less:				
Vacancies @ 5%			$ 422,332	Note: Current Vacancy Rate @ Less Than 1.5%
Effective Gross Income			$ 8,024,308	
Less:				
Operating Expenses			$ 1,266,996	Note: Operating Expenses @ 15% of Gross Income
R. E. Taxes @ 10.807%			$ 2,174,742	
Replace. Reserve @ 5%			$ 422,332	
Net Operating Income			$ 4,160,238	
Less:				
Debt Service			$ (3,646,549)	
Before Tax Cash Flow			$ 513,689	

Projected After-tax Cash Flow from Operations **Without Incentive Program**

45 Wall Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Gross Operating Income	$8,024,308	$8,345,280	$8,679,092	$9,026,255	$9,387,305	$9,762,798	$10,153,310	$10,559,442	$10,981,820	$11,421,092	$11,877,936	$12,353,053	$12,847,176	$13,361,063
Less:														
Operating Expenses	$1,266,996	$1,305,006	$1,344,156	$1,384,481	$1,426,015	$1,468,796	$1,512,859	$1,558,245	$1,604,993	$1,653,142	$1,702,737	$1,753,819	$1,806,433	$1,860,626
R.E. Taxes - Ex. Property	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262	$713,262
R.E. Taxes - Conversions	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676	$2,038,676
Capital Reserves	$422,332	$439,225	$456,794	$475,066	$494,069	$513,831	$534,385	$555,760	$577,991	$601,110	$625,155	$650,161	$676,167	$703,214
Net Operating Income	$3,583,042	$3,849,111	$4,126,203	$4,414,770	$4,715,284	$5,028,233	$5,354,127	$5,693,499	$6,046,898	$6,414,902	$6,798,107	$7,197,136	$7,612,637	$8,045,284
Less:														
Debt Service	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)	($3,646,549)
Before Tax Cash Flow	($63,507)	$202,562	$479,654	$768,222	$1,068,735	$1,381,684	$1,707,578	$2,046,950	$2,400,350	$2,768,353	$3,151,558	$3,550,587	$3,966,088	$4,398,736
Plus: Mortgage Amort.														
Plus: Replace. Reserve	$422,332	$439,225	$456,794	$475,066	$494,069	$513,831	$534,385	$555,760	$577,991	$601,110	$625,155	$650,161	$676,167	$703,214
Less: Depreciation	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)	($1,562,549)
Less: Cost Amort.	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)	($29,813)
Taxable Income	($1,233,537)	($950,574)	($655,913)	($349,074)	($29,558)	$303,153	$649,601	$1,010,348	$1,385,978	$1,777,101	$2,184,351	$2,608,386	$3,049,894	$3,509,588
Less:														$16,478,400
Applic. Suspended Losses	$0	$0	$0	$0	$29,558	($303,153)	($649,601)	($1,010,348)	($1,385,978)	($1,009,465)	$0	$0	$0	$0
Net Taxable Income (Loss)	($1,233,537)	($950,574)	($655,913)	($349,074)	$0	$0	$0	$0	$0	$767,636	$2,184,351	$2,608,386	$3,049,894	$19,987,988
Tax Benefit (Liability)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$303,984	$865,003	$1,032,921	$1,207,758	$7,915,243
After-Tax Cash Flow	($63,507)	$202,562	$479,654	$768,222	$1,068,735	$1,381,684	$1,707,578	$2,046,950	$2,400,350	$2,464,369	$2,286,555	$2,517,666	$2,758,330	($3,516,508)

Mortgage Interest and Amortization Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Mortgage Amount	$ 35,775,031													
Payment	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549	$ 3,646,549
Interest	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)	$ (3,646,549)
Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Year End Mortgage Bal.	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031	$ 35,775,031

Depreciation and Adjusted Basis Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Cost Basis	$ 44,718,788													
Depreciable Basis	$ 42,970,105													
Depreciation Expense	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549	$ 1,562,549
Accumulated Depreciation	$ 1,562,549	$ 3,125,099	$ 4,687,648	$ 6,250,197	$ 7,812,746	$ 9,375,296	$ 10,937,845	$ 12,500,394	$ 14,062,943	$ 15,625,493	$ 17,188,042	$ 18,750,591	$ 20,313,141	$ 21,875,690
Additions to Cost Basis:														
Loan Points	$ 715,501	$ -												
Appl. of Replace. Reserve	$ -	$ -												
Amort. of Loan Points	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775	$ 35,775
Accumulated Amort.	$ 35,775	$ 71,550	$ 107,325	$ 143,100	$ 178,875	$ 214,650	$ 250,425	$ 286,200	$ 321,975	$ 357,750	$ 393,525	$ 429,300	$ 465,075	$ 500,850
Adjusted Year-end Basis	$ 43,835,965	$ 42,237,640	$ 40,639,316	$ 39,040,992	$ 37,442,668	$ 35,844,343	$ 34,246,019	$ 32,647,695	$ 31,049,370	$ 29,451,046	$ 27,852,722	$ 26,254,397	$ 24,656,073	$ 23,057,749

Computation of Gain-on-Sale Net Sales Proceeds **Without Incentive Program**

45 Wall Street

Gross Sales Price	$	76,126,372	Based on Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(1,522,527)	
Net Sales Price	$	74,603,844	
Less Lender Participation	$	-	
Less Adjusted Basis			
Acquisition Cost	$	44,718,788	
Loan Points	$	715,501	
Applic. of Replace. Reserve	$	5,139,958	
Accumulated Depreciation	$	(18,750,591)	
Accumulated Cost Amort.	$	(429,300)	
Sub-Total	$	31,394,355	
Gain on Sale	$	43,209,489	
Less Application of Unutilized Losses	$	-	
Net Gain-on-Sale	$	43,209,489	
Tax Liability @ 28%	$	12,098,657	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	76,126,372
Less Brokerage Commission	$	(1,522,527)
Net Sales Price	$	74,603,844
Less Lender Participation	$	-
Less Tax Liability	$	12,098,657
Less Outstanding Mortgage Balance	$	35,775,031
Net Sales Proceeds	$	26,730,156

Discounted Cash Flow Analysis **Without Incentive Program**

45 Wall Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (8,943,758)	$ -		$ (8,943,758)	NPV @ 12%	($0)
Year 1		$ (3,646,549)		$ (3,646,549)	IRR	12.00%
Year 2		$ (63,507)	$ -	$ (63,507)		
Year 3		$ 202,562	$ -	$ 202,562	Acquisition Cost	$ 2,797,893
Year 4		$ 479,654	$ -	$ 479,654		
Year 5		$ 768,222	$ -	$ 768,222		
Year 6		$ 1,068,735	$ -	$ 1,068,735		
Year 7		$ 1,381,684	$ -	$ 1,381,684		
Year 8		$ 1,707,578	$ -	$ 1,707,578		
Year 9		$ 2,046,950	$ -	$ 2,046,950		
Year 10		$ 2,400,350	$ -	$ 2,400,350		
Year 11		$ 2,464,369	$ -	$ 2,464,369		
Year 12		$ 2,286,555	$ -	$ 2,286,555		
Year 13		$ 2,517,666	$ 26,730,156	$ 29,247,823		
Totals	$ (8,943,758)	$ 13,614,269	$ 26,730,156	$ 31,400,667		

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Net Proceeds Discounted @ IRR		
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 8,943,758
1	$ (3,646,549)	$ (3,255,847)	$ -	$ -		
2	$ (63,507)	$ (50,627)	$ -	$ -	Percentage Breakdown	
3	$ 202,562	$ 144,180	$ -	$ -	ATCF - Operations	31.51%
4	$ 479,654	$ 304,829	$ -	$ -	ATCF - Sales Proceeds	68.49%
5	$ 768,222	$ 435,910	$ -	$ -		
6	$ 1,068,735	$ 541,454	$ -	$ -		
7	$ 1,381,684	$ 625,004	$ -	$ -		
8	$ 1,707,578	$ 689,662	$ -	$ -		
9	$ 2,046,950	$ 738,151	$ -	$ -		
10	$ 2,400,350	$ 772,848	$ -	$ -		
11	$ 2,464,369	$ 708,447	$ -	$ -		
12	$ 2,286,555	$ 586,902	$ -	$ -		
13	$ 2,517,666	$ 576,984	$ 26,730,156	$ 6,125,862		
Sub-Total		$ 2,817,896		$ 6,125,862		

Investment Characteristics and Assumptions

21 West Street

Building Use		Residential		
Year Built		1931		
Rentable Area / Units		335,746	/260	Based on Possible Number of Units Which Could Be Constructed
Acquisition Cost	$	9,000,000		Based on Last Sales Price (1994)
Renovation Costs ($90/S.F.)	$	30,217,140		Based on Estimate of Costs
Total Cost	$	39,217,140		
Intial Assessed Value	$	3,600,000		Based on 1995 Assessments by NYC Finance Dept.
New Assessed Value	$	17,647,713		Based on Total Cost x Assessment Multiplier of 45%
Assessed Value less Land	$	12,022,713		
Holding Period (yrs.)	$	12		
Projected Sales Price				
1st Yr. NOI	$	3,264,488		
Annual Increase % NOI		4.00%		
Equity Investment	$	5,886,500		Based on Loan to Value Ratio of 80%

Debt Financing

Loan Amount	$	33,330,640	
Interest Rate (%)		10.00%	Based on LIBOR Plus 375 bps
Term to Maturity (yrs.)		12	
Amortization Term (yrs.)		0	
Loan Constant		10.19%	
Loan Points		2.0	
Lender Participation (%)		0.0%	
Lender Yield (%)		10.49%	
Debt to Equity Ratio		4.0:1.0	

Taxation

Depreciable Basis	$	33,592,140	Based on Total Cost Less Value in Land (37.5% Estimate from NYC Finance Dept.)
Depreciable Life (yrs.)		27.5	

Real Estate Tax Special Reduction

21 West Street

Twelve Year Tax Exemption (for Increased Value Due to Conversion)		
Projected Property Assessment		
Constant Class 2 Tax Rate	10.81%	Current Tax Rate on Class 2 and Class 3 Properties
1st Year Exemption	100.00%	Based on Lower Manhattan Revitalization Program
2nd Year Exemption	100.00%	" " " "
3rd Year Exemption	100.00%	" " " "
4th Year Exemption	100.00%	" " " "
5th Year Exemption	100.00%	" " " "
6th Year Exemption	100.00%	" " " "
7th Year Exemption	100.00%	" " " "
8th Year Exemption	100.00%	" " " "
9th Year Exemption	80.00%	" " " "
10th Year Exemption	60.00%	" " " "
11th Year Exemption	40.00%	" " " "
12th Year Exemption	20.00%	" " " "

Fourteen Year Abatement		
1st Year Abatement	100.00%	Based on Lower Manhattan Revitalization Program
2nd Year Abatement	100.00%	" " " "
3rd Year Abatement	100.00%	" " " "
4th Year Abatement	100.00%	" " " "
5th Year Abatement	100.00%	" " " "
6th Year Abatement	100.00%	" " " "
7th Year Abatement	100.00%	" " " "
8th Year Abatement	100.00%	" " " "
9th Year Abatement	100.00%	" " " "
10th Year Abatement	100.00%	" " " "
11th Year Abatement	80.00%	" " " "
12th Year Abatement	60.00%	" " " "
13th Year Abatement	40.00%	" " " "
14th Year Abatement	20.00%	" " " "

First Year Income and Expense Pro Forma

21 West Street

Number of:		Rental Rates	Gross Income	
Studios	81	$ 912	$ 886,464	Note: Number of Units Based on Actual Layout
1BR Units	86	$ 1,680	$ 1,733,760	Rents Based on 6/1/96 Average Manhattan Rents x 80% (Excl. Above 96th St., BPC, LM)
2BR Units	48	$ 2,840	$ 1,635,840	
2BR+ Units	44	$ 4,768	$ 2,517,504	
Duplex	1	$ 6,000	$ 72,000	
Retail (S.F.)	5,000	$ 0.83	$ 50,000	
Gross Revenues			$ 6,895,568	
Less:				
Vacancies @ 5%			$ 344,778	Note: Current Vacancy Rate @ Less Than 1.5%
Effective Gross Income			$ 6,550,790	
Less:				
Operating Expenses			$ 1,034,335	Note: Operating Expenses @ 15% of Gross Income
R. E. Taxes @ 10.807%			$ 1,907,188	
Replacement Reserve @ 5%			$ 344,778	
Net Operating Income			$ 3,264,488	
Less:				
Debt Service			$ (3,397,392)	
Before Tax Cash Flow			$ (132,905)	

Projected After-tax Cash Flow from Operations

21 West Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Gross Operating Income	$6,550,790	$6,812,821	$7,085,334	$7,368,747	$7,663,497	$7,970,037	$8,288,839	$8,620,392	$8,965,208	$9,323,816	$9,696,769	$10,084,640	$10,488,025	$10,907,546
Less:														
Operating Expenses	$1,034,335	$1,065,365	$1,097,326	$1,130,246	$1,164,153	$1,199,078	$1,235,050	$1,272,102	$1,310,265	$1,349,573	$1,390,060	$1,431,762	$1,474,715	$1,518,956
R.E. Taxes - Ex. Property	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$77,810	$155,621	$233,431	$311,242
R.E. Taxes - Conversions	$0	$0	$0	$0	$0	$0	$0	$0	$653,113	$1,306,227	$1,959,340	$2,612,453	$3,265,566	$3,265,566
Capital Reserves	$344,778	$358,570	$372,912	$387,829	$403,342	$419,476	$436,255	$453,705	$471,853	$490,727	$510,356	$530,771	$552,001	$574,081
Net Operating Income	$5,171,676	$5,388,886	$5,615,096	$5,850,673	$6,096,002	$6,351,484	$6,617,534	$6,894,586	$6,529,977	$6,177,290	$5,759,202	$5,354,033	$4,962,312	$5,237,701
Less:														
Debt Service	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)	($3,397,392)
Before Tax Cash Flow	$1,774,284	$1,991,494	$2,217,703	$2,453,280	$2,698,610	$2,954,091	$3,220,142	$3,497,193	$3,132,585	$2,779,898	$2,361,810	$1,956,641	$1,564,920	$1,840,309
Plus: Mortgage Amort.														
Plus: Replace. Reserve	$344,778	$358,570	$372,912	$387,829	$403,342	$419,476	$436,255	$453,705	$471,853	$490,727	$510,356	$530,771	$552,001	$574,081
Less: Depreciation	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)	($1,221,532)
Less: Cost Amort.	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)	($27,776)
Taxable Income	$869,754	$1,100,756	$1,341,308	$1,591,801	$1,852,644	$2,124,259	$2,407,088	$2,701,590	$2,355,130	$2,021,317	$1,622,859	$1,238,104	$867,613	$1,165,082
Less:														
Applic. Suspended Losses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Taxable Income (Loss)	$869,754	$1,100,756	$1,341,308	$1,591,801	$1,852,644	$2,124,259	$2,407,088	$2,701,590	$2,355,130	$2,021,317	$1,622,859	$1,238,104	$867,613	$1,165,082
Tax Benefit (Liability)	$344,423	$435,899	$531,158	$630,353	$733,647	$841,207	$953,207	$1,069,830	$932,631	$800,441	$642,652	$490,289	$343,575	$461,373
After-Tax Cash Flow	$1,429,861	$1,555,595	$1,686,545	$1,822,927	$1,964,963	$2,112,885	$2,266,935	$2,427,364	$2,199,953	$1,979,456	$1,719,158	$1,466,352	$1,221,345	$1,378,936

Mortgage Interest and Amortization Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Mortgage Amount	$ 33,330,640													
Payment	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392	$ 3,397,392
Interest	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)	$ (3,397,392)
Amortization	$ -	$ -												
Year End Mortgage Bal.	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640	$ 33,330,640

Depreciation and Adjusted Basis Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Cost Basis	$ 39,217,140													
Depreciable Basis	$ 33,592,140													
Depreciation Expense	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532	$ 1,221,532
Accumulated Depreciation	$ 1,221,532	$ 2,443,065	$ 3,664,597	$ 4,886,129	$ 6,107,662	$ 7,329,194	$ 8,550,727	$ 9,772,259	$ 10,993,791	$ 12,215,324	$ 13,436,856	$ 14,658,388	$ 15,879,921	$ 17,101,453
Additions to Cost Basis:														
Loan Points	$ 666,613													
Appl. of Replace. Reserve	$ -	$ -	$ -	$ -	$ -	$ -	$2,723,161	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amort. of Loan Points	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331	$ 33,331
Accumulated Amort.	$ 33,331	$ 66,661	$ 99,992	$ 133,323	$ 166,653	$ 199,984	$ 233,314	$ 266,645	$ 299,976	$ 333,306	$ 366,637	$ 399,968	$ 433,298	$ 466,629
Adjusted Year-end Basis	$ 38,628,890	$ 37,374,027	$ 36,119,164	$ 34,864,301	$ 33,609,438	$ 32,354,575	$ 31,099,712	$ 29,844,849	$ 28,589,986	$ 27,335,123	$ 26,080,260	$ 24,825,397	$ 23,570,534	$ 22,315,671

Computation of Gain-on-Sale Net Sales Proceeds

21 West Street

Gross Sales Price	$	49,623,117	Based on Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(992,462)	
Net Sales Price	$	48,630,655	
Less Lender Participation	$	-	
Less Adjusted Basis			
Acquisition Cost	$	39,217,140	
Loan Points	$	666,613	
Applic. of Replace. Reserve	$	2,723,161	
Accumulated Depreciation	$	(17,101,453)	
Accumulated Cost Amort.	$	(399,968)	
Sub-Total	$	25,105,493	
Gain on Sale	$	23,525,161	
Less Application of Unutilized Losses	$	-	
Net Gain-on-Sale	$	23,525,161	
Tax Liability @ 28%	$	6,587,045	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	49,623,117
Less Brokerage Commission	$	(992,462)
Net Sales Price	$	48,630,655
Less Lender Participation	$	-
Less Tax Liability	$	6,587,045
Less Outstanding Mortgage Balance	$	33,330,640
Net Sales Proceeds	$	8,712,969

Discounted Cash Flow Analysis

21 West Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (5,886,500)	$ -		$ (5,886,500)	NPV @ 12%	$3,227,097
Year 1		$ (3,397,392)	-	$ (3,397,392)	IRR	17.11%
Year 2		$ 1,429,861	$ -	$ 1,429,861		
Year 3		$ 1,555,595	$ -	$ 1,555,595	Percentage Breakdown	
Year 4		$ 1,686,545	$ -	$ 1,686,545	ATCF - Operations	81.01%
Year 5		$ 1,822,927	$ -	$ 1,822,927	ATCF - Sales Proceeds	18.99%
Year 6		$ 1,964,963	$ -	$ 1,964,963		
Year 7		$ 2,112,885	$ -	$ 2,112,885		
Year 8		$ 2,266,935	$ -	$ 2,266,935		
Year 9		$ 2,427,364	$ -	$ 2,427,364		
Year 10		$ 2,199,953	$ -	$ 2,199,953		
Year 11		$ 1,979,456	$ -	$ 1,979,456		
Year 12		$ 1,719,158	$ -	$ 1,719,158		
Year 13		$ 1,466,352	$ 8,712,969	$ 10,179,321		
Totals	$ (5,886,500)	$ 9,442,319	$ 8,712,969	$ 1,288,884		

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Net Proceeds Discounted @ IRR		
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 5,886,500
1	$ (3,397,392)	$ (2,900,940)	$ -	$ -		
2	$ 1,429,861	$ 1,042,510	$ -	$ -	Percentage Breakdown	
3	$ 1,555,595	$ 968,447	$ -	$ -	ATCF - Operations	81.01%
4	$ 1,686,545	$ 896,542	$ -	$ -	ATCF - Sales Proceeds	18.99%
5	$ 1,822,927	$ 827,437	$ -	$ -		
6	$ 1,964,963	$ 761,576	$ -	$ -		
7	$ 2,112,885	$ 699,242	$ -	$ -		
8	$ 2,266,935	$ 640,596	$ -	$ -		
9	$ 2,427,364	$ 585,697	$ -	$ -		
10	$ 2,199,953	$ 453,257	$ -	$ -		
11	$ 1,979,456	$ 348,233	$ -	$ -		
12	$ 1,719,158	$ 258,246	$ -	$ -		
13	$ 1,466,352	$ 188,083	$ 8,712,969	$ 1,117,575		
Sub-Total		$ 4,768,925		$ 1,117,575		

First Year Income and Expense Pro Forma **Without Incentive Program**

21 West Street

Number of:		Rental Rates	Gross Income	
Studios	81	$ 912	$ 886,464	Note: Number of Units Based on Actual Layout
1BR Units	86	$ 1,680	$ 1,733,760	Rents Based on 6/1/96 Average Manhattan Rents x 80% (Excl. Above 96th St., BPC, LM)
2BR Units	48	$ 2,840	$ 1,635,840	
2BR+ Units	44	$ 4,768	$ 2,517,504	
Duplex	1	$ 6,000	$ 72,000	
Retail (S.F.)	5,000	$ 0.83	$ 50,000	
Gross Revenues			$ 6,895,568	
Less:				
Vacancies @ 5%			$ 344,778	Note: Current Vacancy Rate @ Less Than 1.5%
Effective Gross Income			$ 6,550,790	
Less:				
Operating Expenses			$ 1,034,335	Note: Operating Expenses @ 15% of Gross Income
R. E. Taxes @ 10.807%			$ 1,755,034	
Replacement Reserve @ 5%			$ 344,778	
Net Operating Income			$ 3,416,642	
Less:				
Debt Service			$ (3,126,349)	
Before Tax Cash Flow			$ 290,293	

Projected After-Tax Cash Flow from Operations **Without Incentive Program**

21 West Street	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Gross Operating Income	$6,550,790	$6,747,313	$6,949,733	$7,158,225	$7,372,971	$7,594,161	$7,821,985	$8,056,645	$8,298,344	$8,547,295	$8,803,713	$9,067,825	$9,339,860	$9,620,055
Less:														
Operating Expenses	$1,034,335	$1,065,365	$1,097,326	$1,130,246	$1,164,153	$1,199,078	$1,235,050	$1,272,102	$1,310,265	$1,349,573	$1,390,060	$1,431,762	$1,474,715	$1,518,956
R.E. Taxes - Ex. Property	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052	$389,052
R.E. Taxes - Conversions	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866	$1,387,866
Capital Reserves	$344,778	$358,570	$372,912	$387,829	$403,342	$419,476	$436,255	$453,705	$471,853	$490,727	$510,356	$530,771	$552,001	$574,081
Net Operating Income	$3,394,758	$3,546,461	$3,702,576	$3,863,232	$4,028,558	$4,198,689	$4,373,763	$4,553,921	$4,739,309	$4,930,077	$5,126,379	$5,328,375	$5,536,226	$5,750,100
Less:														
Debt Service	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)	($3,126,349)
Before Tax Cash Flow	$268,409	$420,111	$576,227	$736,883	$902,209	$1,072,340	$1,247,413	$1,427,571	$1,612,959	$1,803,728	$2,000,030	$2,202,025	$2,409,877	$2,623,751
Plus: Mortgage Amort.														
Plus: Replace. Reserve	$344,778	$358,570	$372,912	$387,829	$403,342	$419,476	$436,255	$453,705	$471,853	$490,727	$510,356	$530,771	$552,001	$574,081
Less: Depreciation	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)	($1,140,715)
Less: Cost Amort.	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)	($25,560)
Taxable Income	($553,087)	($387,594)	($217,135)	($41,563)	$139,276	$325,541	$517,393	$715,002	$918,538	$1,128,180	$1,344,112	$1,566,521	$1,795,603	$2,031,558
Less:														
Applic. Suspended Losses	$0	$0	$0	$41,563	($139,276)	($325,541)	($972,692)							
Net Taxable Income (Loss)	$0	$0	$0	$0	$0	$0	($455,299)	$715,002	$918,538	$1,128,180	$1,344,112	$1,566,521	$1,795,603	$2,031,558
Tax Benefit (Liability)	$0	$0	$0	$0	$0	$0	$0	$283,141	$363,741	$446,759	$532,268	$620,342	$711,059	$804,497
After-Tax Cash Flow	$268,409	$420,111	$576,227	$736,883	$902,209	$1,072,340	$1,247,413	$1,144,431	$1,249,218	$1,356,968	$1,467,762	$1,581,683	$1,698,818	$1,819,254

Mortgage Interest and Amortization Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Mortgage Amount	$ 30,671,533													
Payment	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349	$ 3,126,349
Interest	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)	$ (3,126,349)
Amortization	$ -	$ -												
Year End Mortgage Bal.	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533	$ 30,671,533

Depreciation and Adjusted Basis Schedule

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Cost Basis	$ 36,088,410													
Depreciable Basis	$ 31,369,660													
Depreciation Expense	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715	$ 1,140,715
Accumulated Depreciation	$ 1,140,715	$ 2,281,430	$ 3,422,145	$ 4,562,860	$ 5,703,575	$ 6,844,289	$ 7,985,004	$ 9,125,719	$ 10,266,434	$ 11,407,149	$ 12,547,864	$ 13,688,579	$ 14,829,294	$ 15,970,009
Additions to Cost Basis:														
Loan Points	$ 613,431	$ -												
Appl. of Replace. Reserve	$ -	$ -												
Amort. of Loan Points	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672	$ 30,672
Accumulated Amort.	$ 30,672	$ 61,343	$ 92,015	$ 122,686	$ 153,358	$ 184,029	$ 214,701	$ 245,372	$ 276,044	$ 306,715	$ 337,387	$ 368,058	$ 398,730	$ 429,401
Adjusted Year-end Basis	$ 35,530,454	$ 34,359,068	$ 33,187,681	$ 32,016,295	$ 30,844,908	$ 29,673,522	$ 28,502,136	$ 27,330,749	$ 26,159,363	$ 24,987,976	$ 23,816,590	$ 22,645,203	$ 21,473,817	$ 20,302,430

Computation of Gain-on-Sale Net Sales Proceeds **Without Incentive Program**

21 West Street

Gross Sales Price	$	55,362,259	Based on Going-Out Cap. Rate of 10%
Less Brokerage Commission	$	(1,107,245)	
Net Sales Price	$	54,255,014	
Less Lender Participation	$	-	
Less Adjusted Basis			
Acquisition Cost	$	36,088,410	
Loan Points	$	613,431	
Applic. of Replace. Reserve	$	2,723,161	
Accumulated Depreciation	$	(13,688,579)	
Accumulated Cost Amort.	$	(368,058)	
Sub-Total	$	25,368,365	
Gain on Sale	$	28,886,649	
Less Application of Unutilized Losses	$	-	
Net Gain-on-Sale	$	28,886,649	
Tax Liability @ 28%	$	8,088,262	

Net Sales Proceeds: The Investment (Cash Flow) Analysis

Gross Sales Price	$	55,362,259
Less Brokerage Commission	$	(1,107,245)
Net Sales Price	$	54,255,014
Less Lender Participation	$	-
Less Tax Liability	$	8,088,262
Less Outstanding Mortgage Balance	$	30,671,533
Net Sales Proceeds	$	15,495,219

Discounted Cash Flow Analysis **Without Incentive Program**

21 West Street

Time Period	Equity Investment	Annual After-Tax Cash Flow (ATCF)	After-Tax Net Sales Proceeds	Total ATCF		
Year 0	$ (5,416,877)	$ -		$ (5,416,877)	NPV @ 12%	$30,366
Year 1		$ (3,126,349)	$ -	$ (3,126,349)	IRR	12.04%
Year 2		$ 268,409	$ -	$ 268,409		
Year 3		$ 420,111	$ -	$ 420,111	Acquisition Cost	$ 7,550,000
Year 4		$ 576,227	$ -	$ 576,227		
Year 5		$ 736,883	$ -	$ 736,883		
Year 6		$ 902,209	$ -	$ 902,209		
Year 7		$ 1,072,340	$ -	$ 1,072,340		
Year 8		$ 1,247,413	$ -	$ 1,247,413		
Year 9		$ 1,144,431	$ -	$ 1,144,431		
Year 10		$ 1,249,218	$ -	$ 1,249,218		
Year 11		$ 1,356,968	$ -	$ 1,356,968		
Year 12		$ 1,467,762	$ -	$ 1,467,762		
Year 13		$ 1,581,683	$ 15,495,219	$ 17,076,902		
Totals	$ (5,416,877)	$ 2,097,243	$ 15,495,219	$ (4,567,047)		

Time Period	Annual After-Tax Cash Flow (ATCF)	Annual ATCF Discounted @IRR	After-Tax Net Sales Proceeds	AT Proceeds Discnt'd. @ IRR		
0	$ -	$ -	$ -	$ -	Total Discounted Cash	$ 5,886,500
1	$ (3,397,392)	$ (2,900,940)	$ -	$ -		
2	$ 1,429,861	$ 1,042,510	$ -	$ -	Percentage Breakdown	
3	$ 1,555,595	$ 968,447	$ -	$ -	ATCF - Operations	81.01%
4	$ 1,686,545	$ 896,542	$ -	$ -	ATCF - Sales Proceeds	18.99%
5	$ 1,822,927	$ 827,437	$ -	$ -		
6	$ 1,964,963	$ 761,576	$ -	$ -		
7	$ 2,112,885	$ 699,242	$ -	$ -		
8	$ 2,266,935	$ 640,596	$ -	$ -		
9	$ 2,427,364	$ 585,697	$ -	$ -		
10	$ 2,199,953	$ 453,257	$ -	$ -		
11	$1,979,456	$ 348,233	$ -	$ -		
12	$1,719,158	$ 258,246	$ -	$ -		
13	$1,466,352	$ 188,083	$8,712,969	$1,117,575		
Sub-Total		$4,768,925		$1,117,575		