

September 29, 2016  
Claude Simon  
71 Tonjes Road  
Callicoon, NY 12723

Mr. Rob Caliguri  
JPMorgan Chase Bank, N.A.  
1985 Marcus Avenue  
New Hyde Park, NY 11042

RE: 336 East 56th Street Financing

Dear Rob:

Thank you for the Letter of Interest from Chase but it caught me by surprise. Some of the features of the offering are apparently related to a misunderstanding of my experience in real estate.

I thought I might share with you some of my experiences since it's somewhat painful for me to be categorized as a novice in real estate.

In 1979, the coop red herring was issued for the apartment I rented at 15 West 12th Street. This was my first real estate purchase. It was a sponsor apartment and the transaction was all cash and routine. I owned the apartment until 1997 when I sold it to my next door neighbor. I did not want to let it go but I was living in Georgia at the time and was in New York very infrequently. Instead, I built a back office apartment at my building at 160 Madison Avenue which served my purposes.

In 1981, Veratex, Inc., our textile company, was located at rented premises on the 4th Floor at 160 Madison Avenue, a seven story concrete and steel 1920's vintage sprinklered building. My father and I agreed to pursue the owner of the building with the purpose of purchasing the building. My father located the owner, retired in Florida. We negotiated the purchase of 160 Madison Avenue which was this ninety year-old owner's last remaining flagship New York property. He agreed to hold a mortgage for 90% of the purchase price at 9.5% for 30 years with payments payable to his three adult children. At the eleventh hour, it was discovered and disclosed that another tenant in the building had a right of first refusal written into his lease. We were forced to form a partnership with him, and as word spread through the building, other owner occupants wanted in. The building was ultimately purchased as a limited liability partnership by five owner occupants. It was one of the first "commercial coops" in New York.

In 1987, one of the partners, an architect on the 5th floor, expressed an interest in selling and I agreed to buy his 12.5% interest in the building. His business had taken a turn for the worse during that downturn and he was downsizing. My textile business was doing well and I needed more space. It was an all cash transaction.

In 1988, the 2nd floor owner occupant of 12.5% moved to larger premises. Their apparel business had taken off. They had several hot brands and had moved to larger premises. They were having trouble subleasing their floor during that time. I agreed to purchase their share but the right of first refusal by the retail owner occupant blocked my purchase. According to the Partnership Agreement, when two owners wanted to purchase, the purchaser was to be determined by vote of the board. The swing vote on the board was held by another owner occupant who had already signed a waiver of his own right of first refusal. What I did not know and found out during a heated negotiation meeting of all owner occupants was that the deciding voter was attempting to force me to buy him out. The drama was unnecessary since I happily agreed to buy his share and the retail owner occupant ended up with the 2nd floor. The transaction was partially financed by the seller and was paid in full in three years. We took over building management of 160 Madison Avenue in 1988.

In 1990, I purchased the architect's remaining 8% interest in the building. It was a routine all cash

transaction.

In 1992, I bought a summer home former farm house in Sullivan County, New York on 33.5 acres. My first offer was refused but several months later I raised my offer corresponding to a decline in interest rates which offer was accepted. Citibank financed 1/2 of the purchase price on a 15 year variable rate amortized mortgage. The loan was paid off in full early. .

In 1995, our textile business had outgrown its production. I decided to expand our production by opening a new factory to manufacture tricot fabrics. I settled on a factory building owned by Imperial Shrude in Ellenville, New York. Negotiations with Shrude dragged on. Their demands seemed to increase as time went on. Their conditions became more onerous. The building needed a lot of work. The contract was topping out at 22 pages single spaced. I started looking elsewhere and very quickly found a 35,000 sq ft building in Soperton, Georgia on 6 1/2 acres to house the new factory. A five page double spaced contract was quickly signed. Financing was arranged through The Bank of Soperton for 75% financing 15 years amortized at 80% of prime variable. The loan was paid off in full in 2013.

In 1996, I moved to Soperton, GA and put the factory together and into production. I rented an apartment close to the factory. My wife, Carolyn, moved down in 2000 and we were married in 2004. Our two sons were born in Dublin, Georgia in 2004 and 2006. I continued to hold onto my summer house in Sullivan County.,

In 1998, during a trip back to the farm in Sullivan County, I discovered an adjoining parcel for sale which comprised 12.5 acres and a manufactured home. I purchased the property for all cash and ultimately removed the manufactured home.

In 2002, I purchased the 2nd floor at 160 Madison Avenue from the retail owner occupant in an all cash purchase, leaving my father and one other partner in the building. In 2004, my father transferred his 20.5% interest in the building to me.

In 2005, I completed the payoff on the mortgage for the farm home in Sullivan County. Citibank offered a no fee variable rate HELOC on the farm which I accepted.

In 2006, when my son Henry was born, I purchased a beautiful craftsman style home in Soperton, GA for the family using funds from the HELOC.

By 2007, my father's health had begun to deteriorate and my oldest was starting school. I began to think about moving back to New York. An opportunity for a larger factory with a working plant manager partner became available in North Carolina which would offer a stepping stone back to New York and the opportunity to greatly expand the textile business. The deal was struck and the plant and equipment were leased for three years from Hornwood, Inc. with rents to be applied against an agreed purchase price at the end of the lease, at our option. We moved to North Carolina early in 2008 and closed the factory in Georgia. The Georgia factory had been reasonably successful, supplying product to us throughout those years. During those years in Georgia, I became familiar with building and plant management. At one point, I was approached by the Treutlen County attorney in a condemnation of a right of way on the plant property pursuant to a Federal requirement of a buffer zone for their sewage treatment plant. We settled on a cash payment to me in lieu of condemnation and everyone was happy. I also borrowed and repaid a small loan for the building in Soperton from the Bank of Soperton for capital improvements to the factory building.

Also in 2007, I purchased another adjoining 8 1/2 acre parcel in Sullivan County from a neighbor for all cash.

In May of 2008, I finally made a deal to buy out the last remaining partner at 160 Madison Avenue. We had come close three times before, each time the purchase price climbing significantly higher but there were always personality issues. The purchase was fully financed by Intervest Bank using 160 Madison Avenue to collateralize the loan. It was a 6.5% 5/30 balloon. Joe Berko of

Berko Associates was the mortgage broker.

In June of 2008, I leased out the vacant building in Soperton to an auto parts distributor as a warehouse for 10 years. Because of the recession, the tenant never took possession. We made a six figure cash settlement with the tenant and terminated the lease.

The remainder of 2008 proved to be very difficult and challenging. The recession took its toll on the textile business and there were several personal tragedies. We cut costs at the plant. 160 Madison was not fully leased but netted enough to cover the loan payments. I sold the house in Soperton at break even. We sold off excess equipment for cash. We cut benefits and I took no salary. I twice renegotiated the lease with Hornwood.

By 2009, we were ready to move back to New York, leaving the North Carolina factory in the capable hands of my partner. There had been significant losses but it had made the turn and was generating good cash. But New York had become much more expensive. I had become accustomed to a low cost of living in one of the poorest rural counties in Georgia. So we moved into the summer farmhouse home full time.

In 2010, the factory in North Carolina was closed. I decided not to exercise the option to purchase. The handwriting was on the wall for textiles and manufacturing in general.

There had always been rumors about development of the 160 Madison Avenue block. There was an old Con Ed substation next door which had become home to Andy Warhol's "Factory". It was a low rise T-shaped building in the middle of the block extending in the back to 32nd and 33rd Streets. It had been vacant for some time. It was an odd and impractical layout. Someone had bought it and it changed hands a couple of times. It had been demolished in anticipation of a development. I had been in negotiations for the sale of air rights and/or the 160 Madison Avenue building for many years but nothing ever took off. By 2010, the owners of that development site were in deep trouble and in default. There was always conversation that usually ended up getting me nothing but another legal bill. Even so, I always insisted on demolition clauses in all my leases with 160's commercial tenants.

When I got the call from the owner next door, I was not impressed; another deal, another bank, another pie-in-the-sky.

He said, "Meet my money man."

When the man in the rumpled raincoat showed up at the Eventi Hotel and the Hotel Staff stood at attention, I knew it was real. We sat and met and talked cordially. He asked for my number which I readily gave to him.

He said, "Claude," and paused.

"I'll give you your asking."

I asked him, because I was skeptical, "Why would you buy my building when you don't even own the vacant parcel next door?"

"Claude", he said as he rose to his feet and extended his hand, "all that aside, do we have a deal?"

"Yes", I said, and we shook hands.

By the time I was one block away, my attorney called me and reported that he had heard from the buyer's lawyer.

The down payment for the purchase was received within 2 weeks. It cleaned up all debt (mine and my father's) and left plenty of cash for operating, moving and purchasing an immaculate pied-a-

terre at 10 Park Avenue.

The Intervest loan matured in May of 2011, 2 months after the contract was signed to sell. The renewal process was exhausting. The loan originated before the recession and had to be renewed under an entirely new set of regulations requiring much more documentation. The building showed a break even because the buyer was paying the expenses but the bank saw a vacant building and wasn't comfortable despite a contract to sell. In the end, they renewed the loan. There was a prepayment penalty which the buyer paid.

Notices of Termination went out to the tenants. One tenant dragged their feet but there was no litigation. The buyer couldn't close on time but paid my carry costs until closing. He also gave me a side letter agreeing to loan me personally up to \$2,000,000 until closing. I never took advantage of that.

We had a 90th birthday party for my father in April, 2012. The building deal closed in June, 2012. We rented a troublesome loft on Fifth Avenue for our offices and moved in. It was a hot real estate market by then. I had planned on a 1031 but each nominated property turned into an auction and the 1031 failed. The money sat in escrow at the 1031 agent until December 2012.

I searched for properties throughout 2013. My father passed in June, 2013. The market was hot. Several deals fell through with buyers bidding up and brokers jumping in. In October 2013, I had come full circle to a small building that I had first seen which didn't impress me. I had remembered that my father liked it so I went back to take another look. I made an offer on the spot and it was accepted. The contract was signed by me and delivered with deposit to sellers attorney. The seller reneged and sold to a higher bidder. I was furious and we were gearing up to sue. The broker contacted me. He was a friend of the seller. He found another off-market building, a better building, same neighborhood. I looked. It was certainly a better building. I made a low ball offer which was accepted for the subject property, 336 East 56th Street. When you look at the purchase price, you should see a phenomenal buy and now know why. I do not believe another UES townhouse sold for that low in all of 2013.

The following month, I purchased 534 West 42nd Street Penthouse where I stay when I'm in New York and also houses my home-office. It also was a great buy from Madison Realty Capital, a high octane lender in possession.

I also sold the factory building in Soperton, Georgia back to the Industrial Development Authority for a nominal amount for tax purposes and to repay the community.

10 Park Avenue 9H was subleased to a cardiologist shortly thereafter because it was redundant as a pied-a-terre. I just renewed his lease for another year.

336 East 56th has been brought up to snuff with roofwork, insulation, masonry work, some plumbing and fire code stuff. It is fully leased and just this summer had two apartments turn over for the first time since purchase. I keep the place clean, safe and up to code. There have been three garbage violations since I bought and nothing more. NYFD has been through it with no violations. I have a rent stabilized tenant who has not made a single complaint to HPD. My commercial tenant has built a good business. All the taxes utilities, and other bills are paid up to date.

I've done extensive renovation work on my home in Sullivan County over the past few years to improve the quality and value as a full time home.

Through the years, I have gained extensive experience in leases, collections, property management, purchasing, selling, broker contact, tenant contact, vendor contact, DOB, HPD, Sanitation, NYFD, insurance, financing, contractors, accounting and taxes. I'm the President of the Condo Association at 534 West 42nd Street. The Board comprises two lawyers, one accountant and a mergers and acquisitions banker, if that tells you anything. I myself am a non-practicing attorney admitted to the bar in NYS in 1982.

Through all these transactions, I have used the same attorney, Darryl Vernon of Vernon & Ginsburg. My accountant through the years has remained the same, Allan C. Cohn and now his partner, Arthur Langer. My insurance broker is Guy Lustgarten of Lustgarten Associates. My concentration at Brooklyn Law School was real estate law.

I've always been conservative with respect to leverage. I don't borrow more than I can put to work at low risk or repay. I live modestly.

References for all transactions and some of the financing are available on request. I have closing statements for all of the aforementioned transactions. You may wish to speak to my attorney, Darryl Vernon, 212 949 7300.

Based on the above, I hope you will reconsider the terms of your Letter of Interest, specifically the loan amount and recourse requirement.

Thank you for your attention.

Sincerely,



Claude Simon  
Charles Henry Properties, LLC

cc: Steve Fillipo, Marcus Millichap Capital