APPRAISAL REPORT

Seven-Story and Basement
Retail / Office Loft Building
160 Madison Avenue
New York, New York 10016

PREPARED FOR

Mr. George Theodotou
Assistant Vice President
Intervest National Bank
One Rockefeller Plaza
New York, New York 10020

PREPARED BY

RHR Valuation Services, Inc.
501 Arthur Street
Centerport, New York 11721

DATE OF VALUE

April 21, 2011

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RHR
Valuation
Services
Inc.

May 10, 2011

Mr. George Theodotou
Assistant Vice President
Intervest National Bank
One Rockefeller Plaza
New York, New York 10020

Re: Seven-Story and Basement
Retail / Office Loft Building
160 Madison Avenue
New York, New York 10016

Mr. George Theodotou:

At your request, the undersigned has prepared an appraisal report of the above-captioned property.

The subject property is located on the westerly side of Madison Avenue, 73.95± feet north of East 32nd Street, in the Murray Hill section of the Borough of Manhattan, City and State of New York. The property is identified on the tax maps of the City of New York as Block 862, Lot 20.

The subject improvements were constructed circa 1921, and consist of a seven-story and basement commercial loft building with street level retail space and office type spaces on the upper floors. The structure has a gross area of 14,280± square feet on a site of 2,335± square feet.

The analyses, opinions and conclusions were developed, and this report has been prepared, in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of The Appraisal Foundation. In addition, the appraisal report is intended to comply with FIRREA (12CFR Part 34) and USPAP.

Furthermore, this appraisal report was performed in conformance with the requirements of Intervest National Bank as set forth in your engagement letter dated April 19, 2011. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. We are not responsible for unauthorized use of this report.

501 Arthur Street, Centerport, New York, 11721
Tel: 631-425-1101 Fax: 646 365 0509
rhrvalre@verizon.net

The purpose of this appraisal report is to estimate the subject property's market value of the Leased Fee Interest as of the stated valuation date. The intended use of this appraisal is for loan underwriting and or credit decisions by Intervest National Bank. The intended user of this report is Intervest National Bank.

At the time of inspection, the subject property had two vacant spaces (street level retail and 4th floor) with the remainder of the building occupied by three tenants with leases, one month to month tenant and the owner.

There were no potential environmental hazards noted at the time of inspection and an Environmental Audit is not necessary.

After evaluating all the available information regarding the subject with consideration given to the items that influence value and utilizing the Income Capitalization Approach and the Direct Sales Comparison Approach, it is the opinion of the appraiser that as of April 21, 2011, the "As-Is" market value of the subject property's Leased Fee Interest is:

FOUR MILLION SIX HUNDRED TEN THOUSAND DOLLARS
($4,610,000)

It is the opinion of the appraiser that "As-Stabilized" the prospective market value of the subject property's Leased Fee Interest as of November 1, 2011, is:

FOUR MILLION SEVEN HUNDRED THIRTY THOUSAND DOLLARS
($4,730,000)

A report of 82 pages, plus an addendum, is attached to and made part of this report. The opinions of value expressed within are made subject to the certification, assumptions, limiting and qualifying conditions, and all other information contained in the following report.

Very truly yours,

Richard H. Robbins
Certified General Real Estate Appraiser
New York Certificate #464629

RHR
Valuation
Services
Inc.

CERTIFICATE OF APPRAISAL

Premises: 160 Madison Avenue
New York, New York

Richard H. Robbins inspected the interior and exterior of the subject property and the exterior of each of the comparable properties and prepared the analysis concerning the real estate that is the subject of this appraisal report.

The statements of fact contained in this report are true and correct.

The appraiser has acted in an independent capacity and that the appraisal assignment was not based on a requested minimum valuation, a specific valuation or the approval of a loan.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and is my personal, unbiased professional analyses, opinions and conclusions.

The undersigned has no present or prospective interest in the property that is the subject of this report and has no personal interest or bias with respect to the parties involved.

My compensation is not contingent on an action or event resulting from the analysis, opinions or conclusions in, or the use of, this report.

I have the knowledge and experience to complete the appraisal assignment in a competent manner.

The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

No one provided significant professional assistance to the person signing this appraisal report.

Date: May 10, 2011

Richard H. Robbins
Certified General Real Estate Appraiser
New York Certificate #46000004629

SUMMARY OF FACTS AND CONCLUSIONS

SUBJECT PROPERTY ADDRESS:	160 Madison Avenue New York, New York
LOCATION:	Located on the westerly side of Madison Ave., 73.95± feet north of East 32nd Street
OWNER OF RECORD:	160 Madison Avenue Owners Corporation (Claude Simon)
PROPERTY RIGHTS APPRAISED:	Leased Fee Interest
LEGAL IDENTIFICATION:	Block 862, Lot 20
IMPROVEMENT:	The subject improvements consist of a seven-story and basement mixed-use commercial loft building with street level retail space and office type spaces on the upper floors.
BUILDING SIZE:	14,280± square feet
PLOT/AREA SIZE:	2,335± square feet
ZONING:	C5-2 Commercial
2011/12 REAL ESTATE TAXES:	$80,140 (rd.)
HIGHEST AND BEST USE: "As Improved"	As a mixed-use building containing street level retail space and commercial loft units on the upper floors.
FLOOD ZONE:	Zone X, area of minimal flooding Community-Panel Number 360497-0182-F, dated September 5, 2007
CENSUS TRACT:	74.00
MARKETING PERIOD:	Less than 12 months
EXPOSURE TIME:	Less than 12 months
DATE OF INSPECTION:	April 21, 2011
VALUATION DATES:	
"AS-IS"	April 21, 2011
"AS-STABILIZED"	November 1, 2011
EST. MARKET VALUE "AS-IS"	$4,610,000
EST. MARKET VALUE "AS-STABILIZED"	$4,730,000
INSURABLE VALUE:	$1,815,000

UNDERLYING ASSUMPTIONS, LIMITING AND QUALIFYING CONDITIONS

This appraisal is made subject to the following assumptions and conditions:

1 The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to the title, which is assumed to be good and marketable.

2. Submission of this appraisal report does not require the Appraiser to give testimony or appear in court unless special arrangements have been previously made for that eventuality.

3. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

4. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structure, which would render them more or less valuable. The Appraiser assumes no responsibility for such conditions or for engineering, which might be required to discover such factors.

5. Information furnished to the Appraiser and contained in the report was obtained from sources considered to be true, correct and reliable. A reasonable effort has been made to verify such information, however, no responsibility for accuracy of such items can be assumed by the Appraiser.

6. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of the professional appraisal organizations with which the Appraiser is affiliated.

7. Neither all nor any part of the content of the report or copy thereof shall be used for any purposes by anyone but the client specified in the report, the borrower if appraisal fee is paid by same, the mortgagee or its successors and assigns, mortgagee insurers, consultants, professional appraisal organizations, or any state or federally approved financial institution, without the previous written consent of the Appraiser.

8. It is assumed that there is full compliance with all-applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in this appraisal report.

9. It is assumed that all applicable zoning, use and building code regulations and restrictions will be complied with unless a nonconformity has been stated, defined and considered in this appraisal report.

10. It is assumed that the existing or proposed improvements will conform to the Certificate of Occupancy as-issued by the appropriate municipal agency.

11. It is assumed that the subject property is not adversely affected by the presence of asbestos insulation or any other contaminant above or below ground. The Appraiser assumes no responsibility if such conditions exist or for any engineering necessary to discover such material or the cost to remove or cure. No adjustment has been considered in the appraised value to reflect these contingencies.

12. The Appraiser is not an engineer. No engineering study of the improvements described herein has been made, or made available. Any comments by the Appraiser as to the general condition of the improvements or the condition of any of the building components are based on the Appraiser's real estate market experience and are not intended to be relied upon in lieu of a complete engineering study.

13. That all mortgages, liens, encumbrances, leases and servitude's have been disregarded unless so specified within this appraisal report. The property is appraised as though under responsible ownership and competent management.

14. That no survey of the property has been made by the Appraiser, and no responsibility is assumed in connection with such matters. Sketches utilized in this appraisal report are included only to assist the reader in visualizing the property.

15. That this appraisal report is meant to be presented in its entirety. If this report is presented in any form other than its complete form, it becomes invalid.

16. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific survey or analysis of this property to determine whether the physical aspects of the improvements meet ADA accessibility guidelines. Since compliance matches each owner's financial ability with the cost to cure the property's potential physical characteristics, the real estate appraiser cannot comment on compliance to ADA. A brief summary of physical aspects is included in this report. It in no way suggests ADA compliance by the current owner. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.

APPRAISAL DEFINITIONS

Market Value

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus." [1] Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

Leased Fee Interest

"An ownership interest held by a landlord with specified rights that include the right of use and occupancy conveyed by lease to others; the rights of lessor (the leased fee owner) and lessee (lease holder) are specified by contract terms contained within the lease."[2]

Intended Use

"The use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment."[3]

Intended User

"The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment." [4]

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[1] Chapter 12, Code of Federal Regulation, Part 34.42 (f).

[2] The Dictionary of Real Estate Appraisal, 4th Edition, 2020 page 113.

[3] Ibid., p. 148.

[4] Ibid., p. 148.

Prospective Value Opinion

Prospective Value is defined as "A forecast of the value expected at a specified future date. A prospective value opinion is most frequently sought in connection with real estate projects that are proposed, under construction or under conversion to a new use, or those that have not achieved sellout of a stabilized level of long-term occupancy at the time the appraisal report is written."[5]

Stabilization

According to the Appraisal Institute *stabilization* is "when the property has reached the level of utility for which it has been planned. For rental projects, this means stabilized occupancy".[6]

Excess Rent

"The amount by which contract rent exceeds market rent at the time of the appraisal; created by a lease favorable to the landlord (lessor) and may reflect a locational advantage, unusual management, unknowledgeable parties, or a lease execution in an earlier stronger rental market. Due to higher risk inherent in the receipt of excess rent, it may be calculated separately and capitalized at a higher rate in the income capitalization approach"[7]

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[5] The Dictionary of Real Estate Appraisal, 4th Edition, 2002 page 224

[6] The Appraisal of Real Estate, 11th Edition, page 581

[7] The Dictionary of Real Estate Appraisal, 4th Edition, 2002 page 125

DEFINITION OF HYPOTHETICAL CONDITION

According to USPAP, a hypothetical condition is "that which is contrary to what exists, but is supposed for the purpose of analysis. Furthermore, hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property or about conditions external to the property, such as market conditions or trends, or the integrity of the data used in the analysis".

- Use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- Use of the hypothetical condition results in a credible analysis; and,
- The appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions." *(USPAP, 2010-11 ed.)*

The conditions of the appraisal are as follows:

- We have estimated the building size by information contained on the New York City Department of Finance's web site.
- The subject property consists of a seven-story mixed-use commercial loft building that was converted to cooperative ownership in 1985. Since that time, all of the subject units have been purchased by 160 Madison Avenue Owner's Corporation (Claude Simon).
- Five of the seven floors are occupied with three tenants with leases, one tenant on a month-to-month basis and one unit occupied by the owner. The retail space and the fourth floor were vacant at the time of inspection.
- In as much as Mr. Simon controls all of the units, we have been asked to appraise the subject under the assumption that it was a typical property available to the market as a single property.
- We have been informed that Mr. Simon is in negotiations to sell the entire property to the developer of the adjacent vacant property who has plans to develop the site with a 37-story luxury residential condominium.
- We have appraised the Leased Fee Interest of the property without any influence of a pending transaction or the benefit of any possible assemblage.
- We have made the assumption that the existing tenants would remain in-place and the available spaces would be rented at market levels.

VALUATION DATE

The effective date of valuation “as-is” is April 21, 2011 which is the date of inspection. The date of value “as-stabilized” is projected to be November 1, 2011, which is a 6-month time-frame in which to lease the available units.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of the subject property under two scenarios. The first being on an "as-is" basis and the second being the prospective value “as-stabilized”.

INTENDED USE AND USERS OF THE APPRAISAL

The intended use of this appraisal is for loan underwriting and or credit decisions by Intervest National Bank. The intended user of this report is Intervest National Bank.

IDENTIFICATION OF THE SUBJECT PROPERTY

The subject property is located on the westerly side of Madison Avenue, 73.95± feet north of East 32nd Street, in the Murray Hill section of the Borough of Manhattan, City and State of New York. The property is identified on the tax maps of the City of New York as Block 862, Lot 20. The legal address is 160 Madison Avenue, New York, NY. A legal description has been reproduced and appears in the addenda section of the report.

SUBJECT PROPERTY OWNERSHIP AND HISTORY

The subject property has been owned by 160 Madison Avenue Owners Corporation for over 20 years. In 1985, the building was converted to a cooperative form of ownership and since that time, Claude Simon has purchased all of the units and the entire building is in his control.

We have been informed that the Mr. Simon is in negotiations to sell the entire property to the developer who owns the adjacent vacant property that borders the subject to the south and west for $11,000,000.

The subject’s vacant space is publically listed for rent with the retail unit being offered for $83.33 per square foot and the 4th floor office space at $35.00 per square foot plus electric. As a result of the sale negotiation, the spaces are being presented with a “demolition” clause which basically states that if the property transfers for the purpose of demolition, the lease can be terminated. This caveat has limited the marketing potential of the space.

SCOPE OF APPRAISAL

We have inspected the subject site, collected and analyzed relevant governmental data, market transactions, rental data and construction costs. Market participants and other real estate professionals were consulted and real estate publications were referenced in the preparation of this report. A value conclusion for the subject property has been determined from an analysis of the data. Consideration was given to items such as current market conditions, local and regional real estate activity, demographic data, neighboring land uses, supply and demand, and various other physical attributes related to the subject site.

MARKETING PERIOD

Marketing Period is defined by the Appraisal Institute as "The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal" and "Reasonable marketing time is an estimate of the amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions. Marketing time differs from exposure time, which is always presumed to precede the effective date of the appraisal".

The subject property is a well-situated mixed-use commercial loft property located in the Murray Hill section of Manhattan. Were the property available for sale, we estimate that the marketing period would be less than one year.

ESTIMATE OF EXPOSURE TIME

Exposure time is defined as: "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market. Exposure time is different for various types of real estate and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort.[8] Exposure time is different for various types of real estate and value ranges and under various market conditions."

In estimating exposure time for the subject property, we have gathered data from comparable sales and have concluded a reasonable exposure time for the subject property to be less than one year.

[8] USPAP 1995 Edition, The Appraisal Foundation

VALUATION PROCESS

The subject improvements consist of a 7-story and basement elevatored commercial loft building with 1 street level retail unit and 6 floors of office/loft units.

The subject property was converted to cooperative ownership over 20 years ago, however 100% of the units are owned by 160 Madison Avenue Owners Corporation (Claude Simon) and as such, the building can be transferred as one entity or the units can be sold individually.

We have been asked to appraise the property as if it was typically owned and in the analysis that follows, we have disregarded the pending sale and have appraised the building as if it were not influenced by the benefit of an assemblage. We have made the assumption that the existing tenants would remain in-place and the available retail and office spaces would be rented at market levels.

In all valuation approaches, local market data is sought when appropriate for sales and offerings of similar properties, current prices for construction materials and labor, rent levels within similar properties and their operating expenses and current rates of return on investments. From this data, value estimates may be developed for the land and property as a whole. As part of this assignment, research was conducted for current leases, sales and offerings, as well as surveying brokers, appraisers, lenders, building owners and managers, and public records.

The Income Capitalization Approach will be used as the primary method of valuation to measure the value of the subject as a rental property. This process requires analysis of the income and expenses of the property and the capitalization of the indicated net income into a value indication. The methodology and application of rents is explained more fully in the Income Capitalization Approach section of the report.

The Direct Sales Comparison Approach is based on the principal of substitution, which asserts that an informed purchaser would pay no more for a property than the cost of acquiring a substitute property offering similar features and utility. The main premise of this Approach is that the market value of a property is directly related to the prices of comparable competitive properties. The sales of comparable properties are then adjusted for differences in characteristics when compared to the subject. This Approach is a direct measure of market activity and is most reliable when there is accurate sales data available. Considering the current resale market, this Approach will be applied in establishing market value for the subject property and we will analyze the sale of comparable properties on a sale price per square foot basis.

The Cost Approach is based on the principal of substitution, which states that a potential purchaser of a property would not pay more for an improved property than the cost to obtain a similar site and construct a building with similar features and desirability. This approach has the most validity when a structure is new and there is an adequacy of land sales, which can be relied upon. The subject building was originally constructed approximately 90 years ago, and the measure of construction costs, depreciations, and obsolescence, which have occurred since the time of construction, would be difficult to estimate. Additionally, the lack of comparable meaningful land sales further restricts the use of this approach therefore; the Cost Approach will not be applied in this analysis.

PHOTOGRAPHS OF SUBJECT PROPERTY

Front view of subject building.

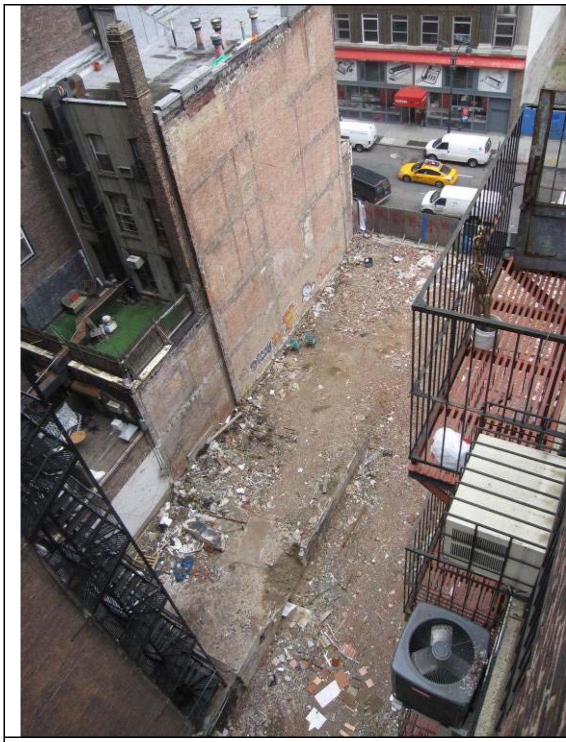
PHOTOGRAPHS OF SUBJECT PROPERTY

Front view of subject building looking north along Madison Avenue

PHOTOGRAPHS OF SUBJECT PROPERTY

View of subject building looking south along Madison Avenue

PHOTOGRAPHS OF SUBJECT PROPERTY


View of adjoining vacant parcel behind subject


Rear view of subject and adjoining vacant lot


View of roof


View of roof

PHOTOGRAPHS OF SUBJECT PROPERTY

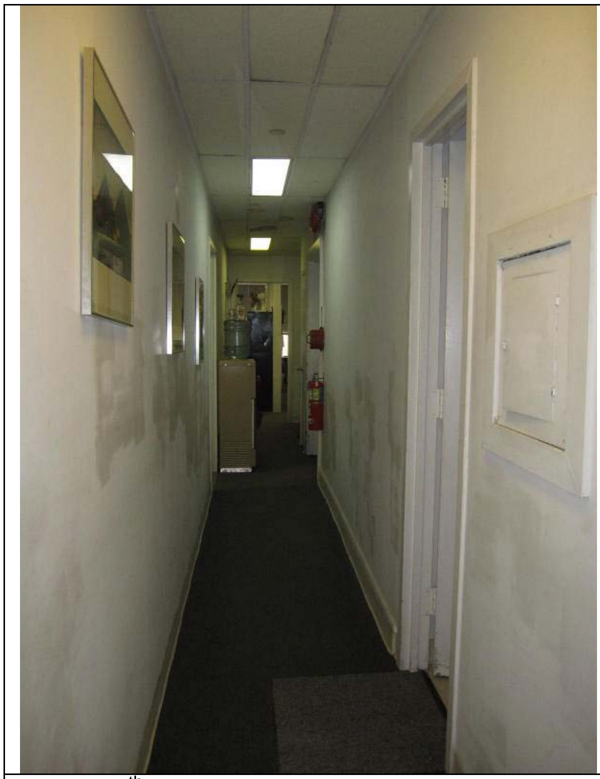

View of first floor lobby area


View of first floor lobby area

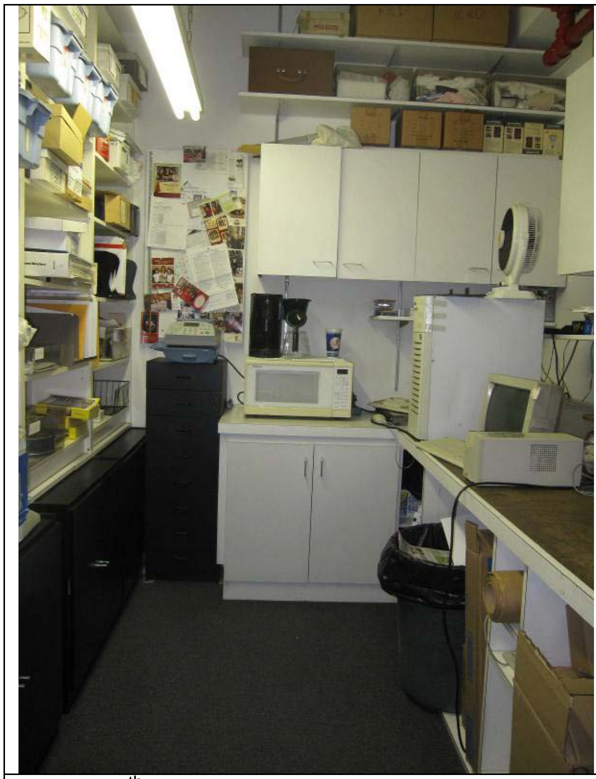

View of vacant retail space


View of vacant retail space from mezzanine

PHOTOGRAPHS OF SUBJECT PROPERTY



View of 7th floor space



View of 7th floor space

View of 7th floor space

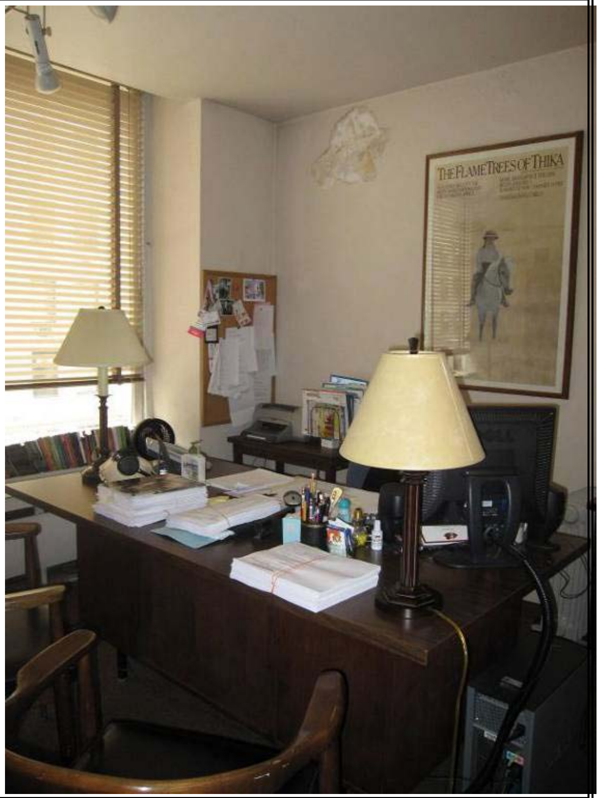
PHOTOGRAPHS OF SUBJECT PROPERTY

View of 6th floor space

View of 6th floor space

View of 6th floor space

PHOTOGRAPHS OF SUBJECT PROPERTY

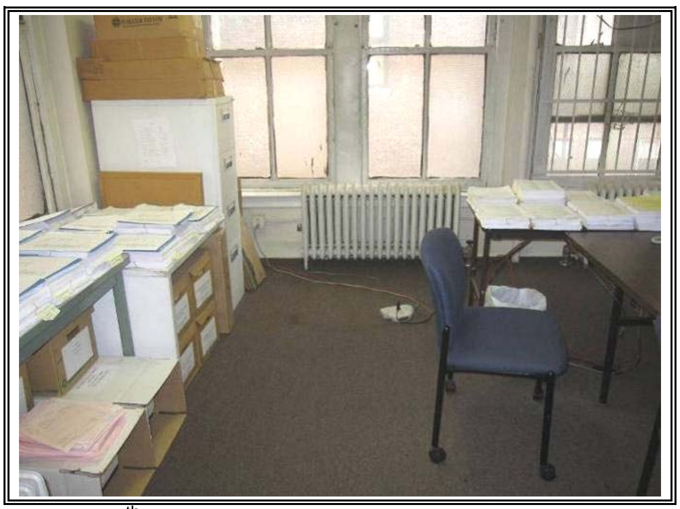


View of 5th floor space

View of 5th floor space

PHOTOGRAPHS OF SUBJECT PROPERTY

View of 5th floor space



View of 5th floor space

View of 5th floor space

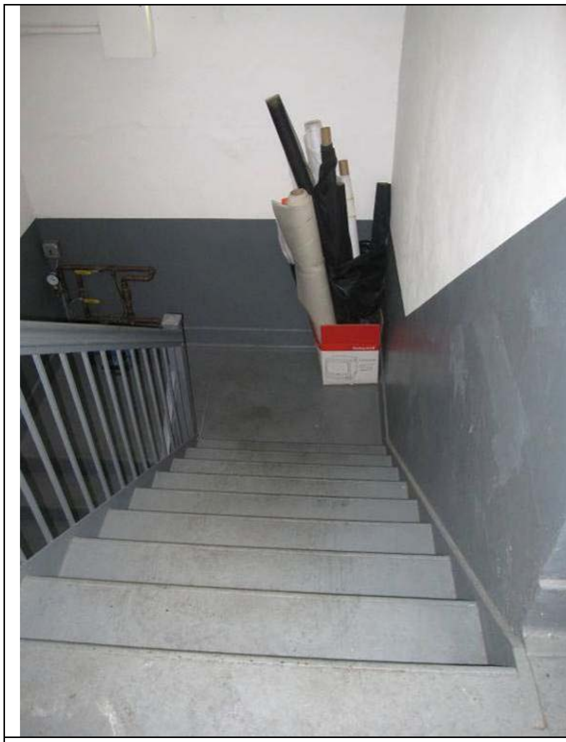
PHOTOGRAPHS OF SUBJECT PROPERTY


View of 4th floor space


View of 4th floor space

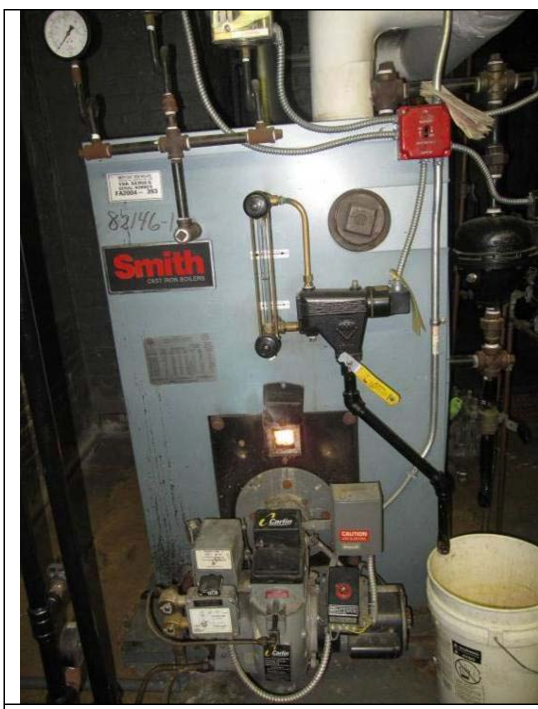

View of 4th floor space

PHOTOGRAPHS OF SUBJECT PROPERTY



View of typical stairwell

View of typical stairwell



View of boiler

View of basement area

PHOTOGRAPHS OF SUBJECT PROPERTY

View of basement area

View of basement area

View of basement area

AREA MAPS


Subject Property
160 Madison Avenue
New York, NY
New York
Long Island Sound
Long Island
Atlantic
Ocean
NEW JERSEY
CONNECTICUT
Philadelphia
Newark
Paterson
Elizabeth
Yonkers
Stamford
Bridgeport
New Haven
Trenton
1999 Microsoft Corp. All rights reserved.


Subject Property
160 Madison Avenue
New York, NY
New York
Long Island Sound
Newark International Airport
John F. Kennedy International Airport
Staten Island
Upper New York Bay
Lower New York Bay
Jamaica Bay
GATEWAY N.R.A.
Jersey City
Hoboken
Yonkers
Mount Vernon
New Rochelle
Port Chester
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REGIONAL & AREA ANALYSIS

Manhattan, an island approximately 22.7 square miles in size and about two miles across at its widest point, is situated at the confluence of the Hudson and East Rivers, and is the focus of business, cultural and residential activity of the tri-state area. The tri-state area (New York, New Jersey, and Connecticut) encompasses approximately 8,500 square miles and contains a population of over 18 million persons. Manhattan (New York County) is one of the five boroughs that make up the City of New York. The other boroughs are Bronx County, Kings County (Brooklyn), Queens County and Richmond County (Staten Island). The Island of Manhattan is subdivided into various unofficial communities and areas. The subject property's location is identified as Clinton.

New York City is recognized as being a national and international commercial and cultural center of unparalleled importance and influence in world affairs. New York is considered to be the nation's financial and business capital because of the presence of Wall Street and the New York Stock Exchange. Manhattan's central business district contains the greatest concentration of business activities in the United States.

In addition to financial institutions, many other principal industries also consider New York to be their capital, including advertising, fashion, publishing, communications, printing, jewelry and design. To accommodate the many business travelers, as well as tourists and residents, the City has a wide variety of hospitality, cultural and recreational facilities. In addition to business travelers, New York City's cultural attractions, entertainment, restaurants and retail shopping have helped to make it the number one tourist destination in the Country.

It is also the home of the United Nations, the Statue of Liberty and the World Trade Center. Other attractions include the Empire State Building at 34th Street and Fifth Avenue and Rockefeller Center at 51st Street. The theaters in the Broadway district attract international attention. Lincoln Center, home of the Metropolitan Opera, the New York Philharmonic, the New York City Ballet and Opera and the Julliard School of Music, are considered to be some of the most important centers for the performing arts in the world. The Metropolitan Museum of Art, the Museum of Modern Art, the American Museum of Natural History, the Cooper-Hewitt Museum, the Guggenheim, and many of the City's other museums and galleries are internationally respected. New York City's universities, including Columbia, Fordham, New York University and the City University of New York, are attended by students from all parts of the world.

The theater district, along Broadway and Seventh Avenue in the mid-40's, is home to numerous legitimate theaters and cinemas featuring first quality entertainment. In addition, there are numerous cabarets and supper clubs as well as a variety of restaurants featuring foods of many nations and regions at a wide range of prices.

New York is also one of the world's leading art centers. Many galleries and auction houses known worldwide are located throughout the Upper East Side of the city, as well as in So Ho and Greenwich Village. These facilities all work to establish and reinforce the economic vibrancy and cosmopolitan nature of the city.

Population

New York City is the most populous city in the nation, with more than eight million residents, and one of the largest populations in the world. Population trends in the area had been stable through the period 1960 to 1970. During the 1970's and into this decade, overall population has declined by approximately 573,000 persons. The principal cause of this shrinkage has been a decline in birthrate, the maturation of the population residing in the suburbs, and a reversal of national migratory patterns, which resulted in a shift of population to the south and west. According to the United States Bureau of the Census, there has been a 9.4% gain in the population since 1990.

2000 Rank	1990 Population	2000 Population	Annual % Change 1990-2000
1 New York	7,322,564	8,008,278	9.4
2 Los Angeles	3,485,398	3,694,820	6.0
3 Chicago	2,783,726	2,896,016	4.0
4 Houston	1,630,553	1,953,631	19.8
5 Philadelphia	1,585,577	1,517,550	-4.3
6 Phoenix	983,403	1,321,045	34.3
7 San Diego	110,549	1,223,400	10.2
8 Dallas	1,006,877	1,188,580	18.0
9 San Antonio	935,933	1,144,646	22.3
10 Detroit	1,027,974	951,270	-7.5

Source: US. Department of Commerce, Bureau of the Census.

Adjustments in population and other factors have resulted in fundamental changes in the New York City job sector from a manufacturing center to a white collar financial and business center. The redistribution of jobs within the area has fostered a stability and perhaps even an expansion in housing formations in the city.

The majority of the labor force resides outside the Manhattan business districts and are in New York City's remaining four boroughs and the neighboring suburbs of Nassau, Suffolk and Westchester Counties along with the neighboring states of New Jersey and Connecticut. Many commute to the city on some form of mass transportation.

Transportation

A network of surface and subsurface public transportation grids the City. The New York City Transit Authority and its affiliate, the Staten Island Rapid Transit Operating Authority, operate one of the largest municipal transit systems in the world. This system consists of more than 200 miles of subway routes and more than 500 miles of bus routes, many of which operate 24 hours a day.

On a typical business day, more than five million passengers ride the trains and buses. In addition, the City operates ferries between Staten Island and lower Manhattan.

Simultaneously, the Port Authority Trans-Hudson System (PATH) operates a rapid rail system between New York and several cities in New Jersey. This system provides fast, inexpensive transportation to the many people who commute between New York and New Jersey.

Local and express bus service is available providing surface transportation to most points within Manhattan and the outer boroughs. In an effort to improve the flow of automobile traffic in the midtown area, the city has instituted several innovative traffic laws which, combined with strict parking law enforcement, have eased midtown traffic congestion during all but peak hours. A system of peripheral roadways conduct commercial and commuter traffic around the central business areas.

The Port Authority Bus Terminal is located at Eighth Avenue between West 40th and West 42nd Streets, seven blocks north of Madison Square Garden and the Pennsylvania Railroad Station.

Economic Overview

As a general overview of the current economic environment in the New York metropolitan area, we have reproduced excerpts from the latest Beige Book, which is a report that is issued by the Federal Reserve eight times per year.

The book reports on current economic conditions and the following is the excerpt from the report that was issued on April 13, 2011 for the Second District:

> "The Second District's economy has strengthened further since the last report. Firms in various industries report widespread increases in input prices and some increases in selling prices, while retail prices are generally reported to be stable. Labor market conditions improved moderately, with increased hiring reported in a number of industries. Retail sales were robust in February and March, with particular strength in auto sales. Consumer confidence has been mixed but generally steady since the last report. Tourism activity rebounded somewhat in March, after weakening modestly in February. Commercial real estate markets have been mixed. Housing markets have been generally stable, with relative strength at the lower end of the market. Finally, bankers report some weakening in household loan demand, and a moderate increase in delinquencies on commercial and industrial loans.
>
> **Consumer Spending**
>
> Retailers generally report strong results for February and March. One major retail chain notes that sales were ahead of plan in February and March, while another describes sales as on plan. A number of retail contacts note that, due to the later Easter this year, sales were modestly lower in March than a year earlier, but this effect is expected to be reversed in April.

Unseasonably cool weather was not considered a major factor. Two major retail chains note that New York City under-performed the rest of the region in terms of sales growth last month. Inventories are generally reported to be at desired levels, and prices are reported to be stable, though one large retailer notes that it is testing out price increases on certain lines of merchandise.

Retail credit conditions continued to improve. Confidence surveys have given mixed results since the last report. Siena College's survey of New York State residents shows consumer confidence among NY State residents leveling off in March, after falling in February. The Conference Board reports that residents of the Middle Atlantic states (NY, NJ, Pa) became considerably less confident about the near-term outlook, in March, but that their assessment of current conditions improved for the 4th straight month.

Tourism activity in New York City picked up again in March, after slowing somewhat in February. Occupancy rates at Manhattan hotels moved up noticeably in March, and the number of occupied rooms was up modestly from a year earlier. Hotel revenues, which had slipped below comparable 2010 levels in February, rebounded in March. Attendance and revenues at Broadway theaters also slipped in February but rebounded above year-earlier levels in March.

Construction and Real Estate

Housing markets across the District have been generally stable since the last report, with the lower end of the market generally performing a bit better than the higher end, and re-sales performing better than new home sales. An authority on New Jersey's housing industry reports that market conditions remain weak: despite some uptick in resale transactions, the spring season, thus far, has been unusually slow. Brokers report that there have been more all-cash deals but also more distress sales. Sales and construction of new homes remain at exceptionally weak levels. A Buffalo-area real estate contact reports that selling prices have increased modestly from a year ago, but that sales activity has been mixed--brisk at the lower end of the market, with some sellers receiving multiple offers, but sluggish at the middle and upper ends of the market.

Activity in New York City's co-op and condo market was generally stable in the first quarter, though the high end of the market has slowed a bit. While total activity was relatively flat versus a year ago, co-op sales rose sharply, while condo sales fell sharply. New condo units represent a smaller proportion of total apartment sales than they have in recent years. Overall, listing inventory is down roughly 5 percent from a year ago. Prices are steady in Manhattan, but continue to drift down in the other boroughs. Manhattan's apartment rental market has picked up somewhat since the last report. Overall, rents were reported to be little changed in March, but rents on smaller (studio) apartments continued to climb and were up more than 10 percent from a year ago. Vacancy rates declined, after edging up in January and February, and the inventory of available units is described as tight.

Office markets have been mixed but generally steady across the District in the first quarter of 2011. The office vacancy rate rose moderately in Manhattan and Long Island (where it reached a multi-year high), but was little changed in Northern NJ. However, asking rents in all these areas moved up, and landlords reportedly scaled back on concessions.

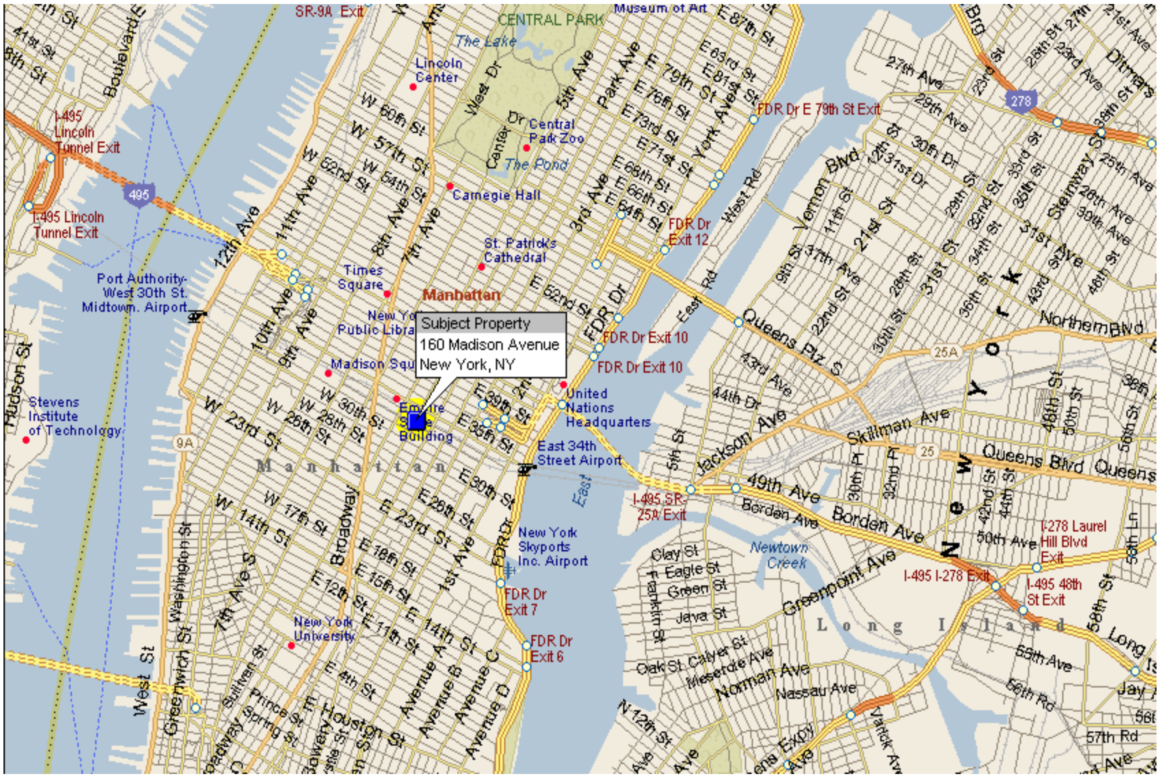
Other Business Activity

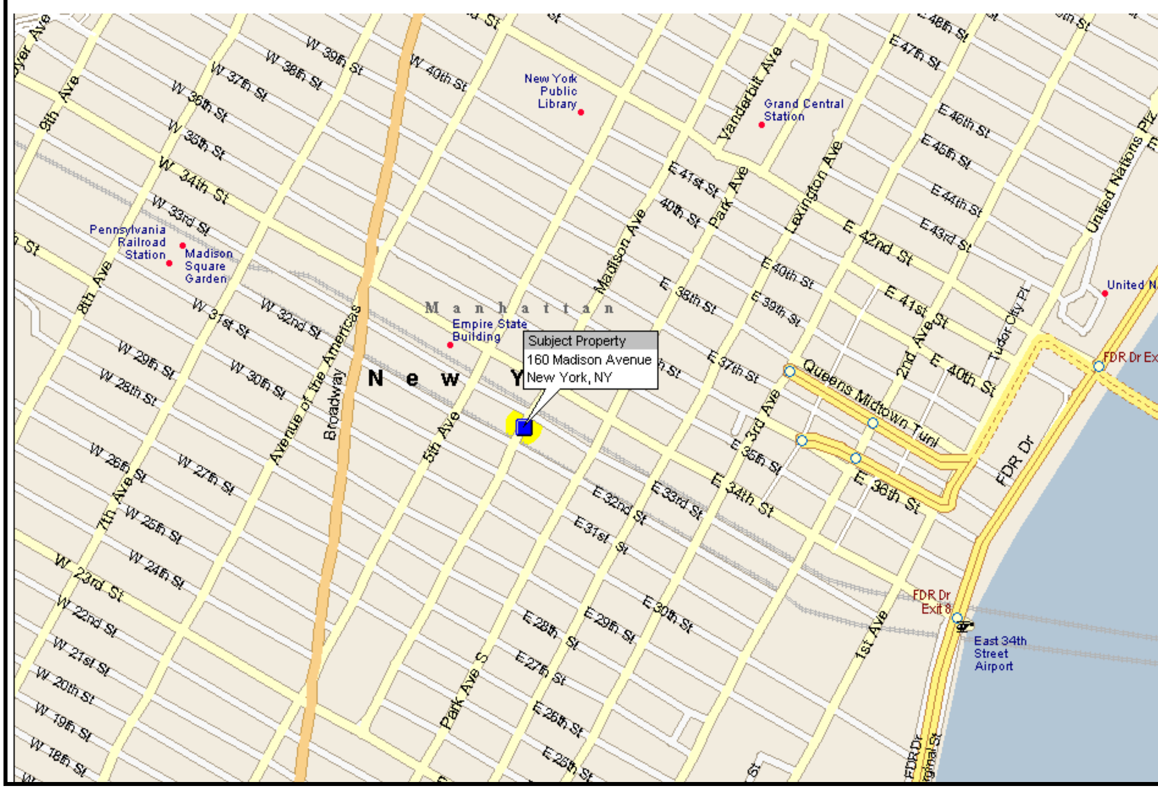
Reports from business contacts suggest some broad-based improvement in the labor market. A major New York City employment agency reports a marked pickup in hiring activity in March and describes it as the best month in a number of years. The pickup has been most notable in financial and legal services but also in other areas, such as public relations and real estate. On the supply side, this contact notes that there are fewer candidates looking, and that more employed people are making moves. More generally, firms in both manufacturing and other sectors report a further pickup in both hiring activity and general business conditions in early March, and contacts remain optimistic about the near term outlook. A trucking-industry contact reports that shipping activity has picked up steadily in recent months, but that firms face rising costs from both rising energy prices and more stringent federal regulations. More broadly, firms in various industries report increasingly widespread increases in input prices, and some increase in selling prices.

Financial Developments

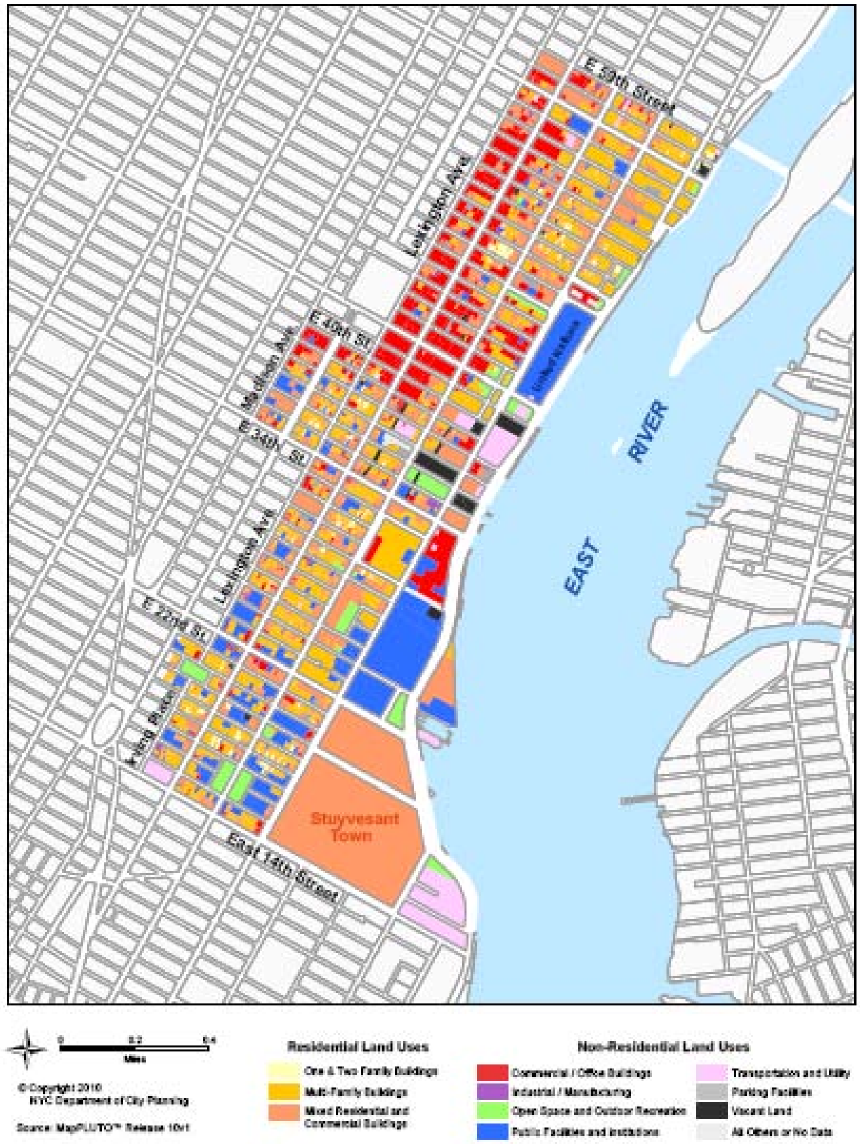
Bankers report decreased demand for consumer loans and residential mortgages, increased demand for commercial mortgages and no change in demand for commercial and industrial loans. The decrease was most prevalent for residential mortgages. Bankers indicate steady demand for refinancing. Respondents report no change in credit standards for consumer loans and a tightening of credit standards for the other loan categories. No banker reported an easing of credit standards in any category. Bankers report a decrease in spreads of loan rates over costs of funds for residential mortgages but no change in spreads in the other loan categories. Respondents also note a decrease in the average deposit rate. Bankers report an uptick in delinquency rates for commercial and industrial loans but no change in delinquency rates for the other loan categories."

LOCAL AREA MAPS





<u>**COMMUNITY DISTRICT 6 MAP**</u>



LOCAL AREA DESCRIPTION

The subject property is located in Manhattan's Community District #6 in the neighborhood known as Murray Hill. Collectively, Community District #6 encompasses the neighborhoods of the Stuyvesant Park, Stuyvesant Town, Grammercy Park, Murray Hill, Tudor City, Peter Cooper Village, Turtle Bay, Beekman Place and Sutton Place.

The District's borders are East 14th Street on the south, East 59th Street on the north, portions of Irving Place, Lexington Avenue and Madison Avenue on the west and the East River on the east.

Community District #6 contains a mix of low to high-rise residential buildings, office buildings, hotels, apartment houses, and a diverse range of incomes, ages, professions and ethnic groups. Businesses in the area range from neighborhood oriented personnel service shops to worldwide headquarters of major corporations. The area is also home to many notable national and international retailers. Residential properties (including mixed-use) comprise 55%± of properties in the district, with the remaining properties utilized for commercial, industrial, public recreation, utility or other type purposes. As of the 2000 U.S. Census, the population of District #6 was 136,152. The following table summarizes the mix of land uses found throughout the district as of 2009:

Land Uses – Community District #6

Land Use	Lots	Percent of Total
1- to 2-Family Residential	241	1.6%
Multi-family Residential	1,057	24.6%
Mixed Residential/Commercial	778	30.2%
Commercial/Office	413	14.3%
Industrial	22	0.4%
Transportation/Utilities	44	6.5%
Institutions	205	15.7%
Open Space/Recreation	29	3.4%
Parking Facilities	31	0.8%
Miscellaneous	69	2.3%
Vacant Land	13	0.3%
Total	2,902	100.0%

Source: New York City Department of City Planning.

The nearest subway stations to the subject are located at East 33rd Street and Park Avenue which is serviced by the 6 train and at Grand Central Station which is serviced by the 4, 5, 6, S and 7 trains. Connections to the entire metropolitan subway system can be made from this station. Metro North and Amtrak are also located within Grand Central Station.

Penn Station is situated approximately ½ mile west of the subject where the Long Island Rail Road, New Jersey Transit and Amtrak can be accessed. Local bus service is available along the Avenues with the nearest cross-town service provided along 34th and 42nd Streets. For motorists, the area is convenient for ingress and egress to and from New York City.

The Queens-Midtown Tunnel and the Queensborough 59th Street Bridge are each situated nearby the subject. The FDR Drive is located just east of the subject, and carries north and southbound vehicular traffic. The major cross streets in the area include 34th Street and 42nd Street.

The subject lies within the boundaries of the 13th Police Precinct, which encompasses an area of 1.08 square miles. Within the confines of the precinct, there are 3 Elementary Schools, 3 Junior High Schools, 14 High Schools and 2 Colleges including New York University. Additionally, within the precinct, there are 17 houses of worship of all major denominations.

Medical facilities in the area include N.Y.U. Medical Center, Bellevue Hospital Center, Joint Disease Hospital, Cabrini Hospital and Beth Israel Hospital. Some of the more notable institutions and places of interest in the vicinity include the Empire State Building, United Nations Headquarters, the Chrysler Building, Citi-Corp Center, the Morgan Library Museum and Grand Central Station.

In terms of recreation, the nearest park of any significance to the subject is Central Park, which is located approximately 1 mile northwest. Additional facilities are located within close proximity to the subject with Bryant Park, Union Square Park and Madison Square Park located nearby. Chelsea Piers offers a variety of sports and entertainment activities and this complex is situated to the west of the subject at Twelfth Avenue and 23rd Street.

There are houses of worship of all major denominations and public and private schools within close proximity to the subject area. The main campus of New York University is located at Washington Square Park, which is approximately 1 mile south of the subject property.

Overall, real estate transactions in the immediate area as well as the entire Borough and City of New York, has slowed from previous years. As a result, values for spaces similar to the subject are likely to remain flat or increase slightly over the next couple of years.

DISCUSSION OF RETAIL RENTAL MARKET

The Real Estate Board of New York issues a semi-annual report detailing the Manhattan Retail Market, the most recent report was released in the Fall of 2010 and the following is an executive summary of the Manhattan market.

EXECUTIVE SUMMARY

Our Retail Advisory Group reports a noticeable increase in retail tenant interest and competition for space. This tenant interest has led to an increase in asking rents and activity in Manhattan particularly for space in major retail corridors, such as those highlighted in our report.

The asking rent for all available space in Manhattan increased 4 percent to $118 psf since spring 2010. Similarly, the Midtown and the East Side neighborhoods saw the average asking rent for all available space increase 10 percent to $149 and 9 percent to $180 since the spring of this year.

However, beyond the popular and well-known shopping corridors highlighted in our report, our group points out that vacancies persist and rents have remained flat in many smaller, local shopping areas.

The financial crisis that occurred in the fall of 2008 had a dramatic impact on the net wealth of consumers leading to a severe decline in retail sales. During that uncertain climate retail tenants halted any planned expansion, especially the opening of new stores. By mid-2009, the economy slowly and unevenly emerged from the recession and consumers began to loosen their purse strings. Retail tenants recognized it was an opportunistic time and began to re-enter the market looking for affordable space or for an opportunity to move into a more exclusive area for their expansion plans. This pick up in activity brought about healthy competition for available space and improved the retail market. A handful of retail corridors saw a significant boost in lease signings, according to our Advisory Group. Madison Avenue saw a sharp decline in the number of available stores and asking rents have improved modestly from a year earlier. With a lower price point than upper Fifth Avenue, Madison Avenue owners benefited from a migration of tenants that wanted a high profile address at a more reasonable price. Fifth Avenue continues to be strong with little availability. Uniglo committed to lease 90,000 square feet at 666 Fifth Avenue, said to be the largest retail lease in Manhattan.

Another area to benefit from this competition for space was lower Fifth Avenue (42nd to 49th Streets). At the height of the market, H & M and Zara had opened showcase stores at 42nd Street. These stores anchored this stretch of Fifth Avenue, creating energy and necessary co-tenancy for other retailers to consider flagship locations south of 49th Street and bringing leasing activity further south. Large blocks of space were assembled to cater to the growing demand and recent deals include Guess, Urban Outfitters and Syms/Filene. These transactions send a strong signal of optimism in the retail brokerage community.

In addition to healthy competition, another boost for the retail market has been the resurgence of tourism and the weak dollar. Though hotel rates have not rebounded to the highs of a few years earlier, hotel occupancy has. Tourists spending less money on hotels, combined with a purchasing power boost from the weak dollar, has led to increased retail activity in areas visited by tourists. As a result, Times Square and 34th Street Herald Square now have limited availability. SoHo has emerged as a strong and popular retail market. Similarly, we have seen the evolution of the Meatpacking District and the West Village as a solid and desirable location for shoppers and stores.

A retail trend that has improved demand is the emergence of "Fast Fashion", such as H & M, Uniqlo, and Forever 21. These value retailers are coming into the New York market and taking advantage of the trend toward less expensive, but fashion forward apparel.

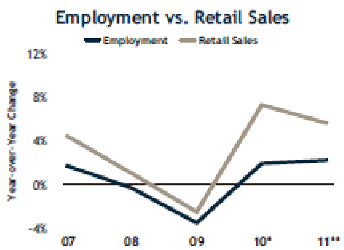
Another observation of our Retail Advisory Group is that in high traffic areas, such as Fifth Avenue and Times Square, tenants are expecting to make money in relatively expensive space and are not simply using these locations solely to advertise or to burnish their image.

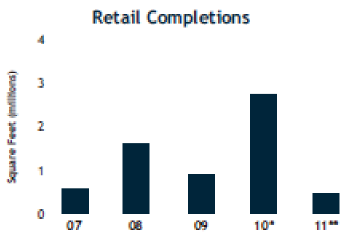
New York will continue to be a desirable destination for retail tenants, large and small, boutique or big box. The great recession has created hardship and casualties. However, for stores that have survived the recession, New York offers the rare opportunity now to find space below what a tenant would have expected to pay or in a neighborhood that would have been outside their price range a few short years ago.

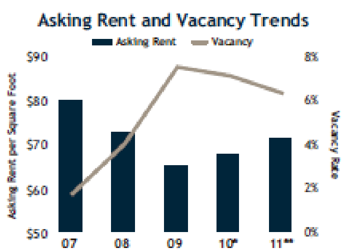
The following excerpt is from the 1st Quarter 2011 retail report issued by Marcus and Millichap focuses on the New York City retail market.

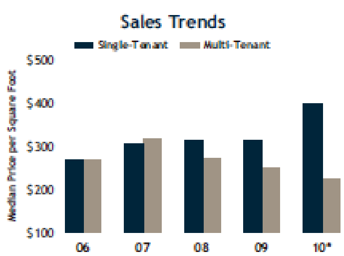
New York City

Up 2 Places 2011 Rank: 2 2010 Rank: 4









* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Rising Tourism, Strengthening Economy Stoke New York City Retail Market

Expanding employment and the continuing rebound in retail spending will drive improvements in retail vacancy and rents in New York City, making it one of the top markets in the country during 2011. Several trends will develop this year, potentially affecting near- and long-term operating conditions. Among these, weakness in the U.S. dollar will increase tourist volume, providing strong support for restaurants and retailers in highly visited areas, including Times Square and Fifth Avenue. Bolstered by the influx of foreign visitors, local hotel occupancy surpassed 80 percent last year and could swell to the mid-80 percent range in 2011 due to robust tourism and rising business travel. As foot traffic and spending strengthen during the year, Walmart will renew its push to open stores in New York. The retailer is considering sites in each borough, and its possible entrance into the city would signal greater willingness among local officials to embrace big-box retailers.

Financing for acquisitions of mixed-use properties continues to improve, with loan-to-value ratios generally ranging from 50 percent to 55 percent. Investors remain highly attracted to assets in most of Manhattan, although properties in the Bowery, Lower Eastside and Financial District command especially keen interest. In Brooklyn, transformation of the retail property market paused during the recession but appears to be gaining momentum. The Brooklyn housing market continues to recover, sustaining strong interest from national retailers for spaces along primary retail corridors such as Atlantic Avenue. In addition, more than 3,000 hotel rooms are slated for development in the borough, and demand for retail space to serve and entertain visitors will increase as a result.

2011 Market Outlook

- **2011 NRI Rank: 2, Up 2 Places.** New York City rose two positions to the #2 spot in this year's ranking, fueled by projections for accelerating job growth and the sharpest forecast decline in vacancy.
- **Employment Forecast:** Hiring will pick up in 2011 with the addition of 84,000 jobs, a 2.3 percent increase. Last year, total employment grew 2 percent through the creation of 71,000 positions.
- **Construction Forecast:** Completions will fall to 407,000 square feet in 2011 from 2.7 million square feet last year. This year's total includes 197,000 square feet of space in Manhattan.
- **Vacancy Forecast:** A vigorous economy will drive down citywide vacancy 80 basis points this year to 6.3 percent; positive net absorption will total 846,000 square feet. In 2010, vacancy decreased 40 basis points.
- **Rent Forecast:** After rising 3.7 percent last year, the average asking rent in the market will climb 5.7 percent to $71.12 per square foot in 2011.
- **Investment Forecast:** An expansion of financing capacity would release pent-up investor demand and trigger a greater number of transactions involving development sites. Purchases of sites for redevelopment remained virtually dormant over the past two years.

DISCUSSION OF OFFICE RENTAL MARKET

The following excerpt is from the 1st Quarter 2011 office report issued by Cushman & Wakefield which focuses on the New York City office market.

"Cushman & Wakefield today released first quarter 2011 statistics for the Manhattan commercial real estate market that show office market fundamentals continuing to improve driven by strong leasing activity. The relative surge in leasing has helped lower the Manhattan office vacancy rate to 10.0 percent at the end of March from 10.5 percent at the end of December 2010. The Manhattan office vacancy rate hit a five-year peak of 11.6 percent one year ago.

The improving conditions, along with increased availability of debt and equity capital, have led to significant growth in property investment throughout Manhattan. For the three month period ended March 31, approximately $5.5 billion of property sales were completed in Manhattan, up 133 percent from about $2.3 billion in the first three months of 2010.

New leasing activity rose to 7.6 million square feet during the first quarter, the highest quarterly total since the third quarter of 2006. Activity was approximately 34 percent higher, or 1.9 million square feet above the total for the first three months of 2010.

"On top of a very strong fourth quarter for new leasing activity, we've kicked off 2011 with even more momentum from pent up demand and decisive moves on the part of Manhattan businesses and organizations," said Joseph R. Harbert, Cushman & Wakefield's chief operating officer for the New York Metro Region.

"The strongest indicator of a shift in market direction is positive absorption, and this quarter's activity has really demonstrated that demand is outweighing supply in the market today."

Mr. Harbert pointed to absorption, which can be positive or negative in relation to whether more space is being leased (positive absorption) or added to the market vacant (negative absorption), as a strong indicator of the overall state of the market from a supply and demand perspective. At the end of the first quarter, Manhattan had approximately 439,000 square feet of positive absorption, despite blocks of available space as large as 600,000 square feet becoming available for lease during the period.

In the first quarter, all three Manhattan submarkets surveyed by Cushman & Wakefield - Midtown, Midtown South and Downtown - experienced declines in vacancy. Midtown's vacancy rate declined to 10.3 percent at the end of March from 10.6 percent at the end of December and 12.6 percent one year ago. Midtown South's vacancy rate declined to 8.0 percent, the lowest of any major central business district in the United States, from 8.6 percent at the end of December and 9.9 percent one year ago. Downtown's vacancy rate declined to 10.5 percent at the end of March from 11.5 percent at the end of December, although the vacancy is up 0.5 percentage points from one year ago.

The sublease vacancy rate - which represents space available directly from tenants with excess inventory - declined to 1.5 percent from 1.9 percent at the end of December and 2.6 percent one year ago. Sublease space now accounts for only 15.4 percent of all available office space in Manhattan, down from a peak of 28.2 percent in April 2009.

At the end of March, overall average asking rents in Manhattan registered $54.73, up from $54.34 at the end of December in their second consecutive quarterly increase. Average asking rents for class-A space rose to $62.47 from $61.96 at yearend. Net effective rents, which reflect actual completed transactions including landlord concessions, have risen 24 percent from the first quarter of 2010.

Ken McCarthy, Cushman & Wakefield's senior economist and head of Research for the New York Metro Region, said, "The key to the resilience of the New York commercial property market has been employment growth - that and limited new construction which sustained the market during the downturn."

Mr. McCarthy said New York has regained 40 percent of the jobs lost during the recession, a figure well above national employment growth which is closer to 14 percent. "If you look at what's happened in the market over past cycles, it's safe to project that as employment growth goes, so will Manhattan office rents," he said.

During the first quarter, there were several major office leases in Midtown and Downtown. The five largest included a 619,000 square foot lease for The City of New York at Four World Trade Center, a 482,000 square foot lease for Li & Fung at The Empire State Building, a 420,000 square foot lease for Lazard at 30 Rockefeller Center, a 389,000 square foot lease for Bloomberg at 120 Park Ave. and a 368,000 square foot lease for NYU Langone Medical Center at One Park Ave.

By industry, leasing activity for the first quarter was led by government, education and social services tenants, which combined accounted for approximately 19 percent of all leasing, followed by apparel, which accounted for roughly 17 percent, and financial services, which accounted for 16.5 percent. Information and media tenants accounted for about 12 percent of activity, followed by legal services, which accounted for about 8 percent.

INVESTMENT SALES

With the value of commercial property investments totaling $5.5 billion in the first quarter, the market has already reached 40 percent of total market activity completed in all of 2010. Last year, $13.6 billion of commercial property traded hands, up from a low of $3.5 billion in 2009.

In Midtown, which saw the most investment activity in the first quarter, completed transactions totaled $4.0 billion, up from $1.7 billion through the first three months of 2010. In Midtown South, closed property sales totaled $1.0 billion, up nearly 100 percent from $514 million completed at this time last year. In Downtown, closed property sales totaled $417 million, up 225 percent from the $128 million completed through this time last year.

By far, class-A office and hotel assets received the largest amount of investment, combining for nearly 60 percent of the total value of Manhattan property investment in the first quarter. Class-A office properties accounted for approximately $2.0 billion year to date, while hotel assets accounted for about $1.3 billion.

Private capital and real estate investment trusts (REITs) continue to lead all property acquisition in Manhattan, accounting for a combined $3.7 billion of the transactions through the end of March, or 68 percent of all investment. Foreign capital continues to be active, accounting for 14 percent of activity through March. Pension funds and corporate users accounted for 12.3 percent and 6.1 percent, respectively.

"We see a confluence of factors boosting commercial property investment in Manhattan today," said Mr. Harbert. He pointed to pent up demand for high quality assets from private and institutional investors, as well as the availability of debt and improving economic and real estate fundamentals. "It's clear that New York's employment growth is adding confidence in class-A office property, and New York's attraction as the premier tourist destination in the United States is driving investment in hotels," Mr. Harbert said.

Six of the seven largest office transactions that closed during the first quarter were recapitalizations. As many of these office transactions were for trophy-quality buildings, the average pricing for the top seven office transactions was $521 per square foot. Cap rates for these and other Class-A office transactions have ranged from 5 percent to 5.5 percent, indicating continued strong investor demand.

Notable first quarter office transactions include SL Green's recapitalization of 1775 Broadway (3 Columbus Circle) with the Moinian Group, CIM Group's acquisition of a 49 percent interest in 11 Madison Avenue from The Sapir Organization, Vornado Realty Trust's acquisition of a 95 percent stake in One Park Avenue and HNA Group's recapitalization of 1180 Avenue of the Americas. These transactions account for 27 percent of transaction activity through the first three months of the year. In all, there have been 17 closed transactions larger than $100 million across property types, versus 40 transactions above the $100 million threshold in 2010."

DESCRIPTION OF SUBJECT PROPERTY

The Site

The subject property is located on the westerly side of Madison Avenue, 73.95± feet north of East 32nd Street, in the Murray Hill section of the Borough of Manhattan, City and State of New York. The property is identified on the tax maps of the City of New York as Block 862, Lot 20.

The subject parcel has 24.58± feet of frontage along Madison Avenue with a depth of 95.00± feet resulting in a lot area of 2,335± square feet.

The overall visibility and accessibility for the subject is typical for the area. The topography of the site is generally level and lies at street grade. According to the Federal Emergency Management Agency's (FEMA) Flood Hazard Map, the subject is not situated within a Flood Zone and special flood hazard insurance is generally not required. The shape and size of the subject plot is functionally adequate and it is suitable to the commercial usage buildings found in the area.

In the area of the subject, Madison Avenue is a heavily traveled one-way thoroughfare that runs in a westerly direction. There is no on-site parking, with parking available along the street.

The subject site abuts a similar property to the north and shares a party wall. The lot immediately adjacent to the south and west is vacant and a 37-story luxury condominium project has been planned for the site. It is not known when or if the project will commence.

Public water, electric, gas and telephone service are available to the site. Electrical and gas service is provided by Consolidated Edison, telephone service is supplied by various providers and the City of New York provides water and sewer service.

The Improvements

The subject site is improved with a seven-story and basement elevatored commercial loft building that was constructed circa 1921.

The building contains retail space on the street level and office type units on each of the six upper floors.

The building dimensions are 24.58’ x 83.00’ which results in a footprint of 2,040± square feet and a total above grade area of 14,280± square feet.

The retail space is estimated at 1,800± square feet, plus approximately 200 square feet of mezzanine space. The remainder of the first floor is comprised of the tenant entrance and elevator lobby. Floors 2-7 each contain 2,040± square feet. With the exception of the fourth floor, each is a full floor unit. The fourth floor was vacant; however, it had been partitioned into small office suites.

The appraiser inspected the roof, the basement, the retail space, and the 4th, 5th, 6th and 7th floors. A description of the subject improvements are summarized as follows:

Exterior

Façade:	The exterior walls are finished with stone and brick.
Windows:	Windows are either fixed or double hung and are constructed from wooden frames. The retail unit has fixed display type windows.
Roof:	The roof consists of a built-up composition cover. The parapet walls are constructed of brick with terra-cotta copings. The roof houses the elevator machine room as well as a wooden water tank.

Interior

Entryway/First Floor:	The main tenant entrance consists of a metal/glass door which accesses a foyer with a second door allowing entry to the elevator lobby. The floors are finished with terrazzo, the walls are finished with marble and the ceilings are finished painted plaster. Lighting is provided from incandescent fixtures. The retail unit has a metal/glass door.
Retail Unit:	Currently finished with exposed ceilings, either vinyl tiled or carpeted floors, and painted gypsum walls. There are suspended fluorescent lighting fixtures.
Upper Floors:	Floors are finished with either hardwood, concrete, ceramic tiles, hardwood or carpet. The walls are typically finished with painted gypsum board and the ceilings are either exposed, suspended acoustic tiles or painted gypsum board. Each floor has two bathrooms. Lighting is supplied by incandescent or fluorescent fixtures.

Elevator:	There is one automatic passenger elevator that travels from the basement to the 7th floor.
Stairway:	The building has one stairway that extends from the basement to the roof that is constructed of a metal frame with concrete treads. There is standpipe within the stairway.
Electricity:	Electricity is the tenant's responsibility and each is separately metered.
Heating and Cooling:	There is one oil-fired boiler manufactured by Smith that provides heat to the entire building. Heat is distributed to the spaces via cast iron radiators. Hot water is supplied by individual electric fired water heaters within the units. Air-conditioning is supplied by individual systems within the spaces or from window units.
Basement:	The boiler, utility meters and storage space are contained in the basement. The basement is accessed from an interior stairway. There is also a sidewalk hatch.
Fire Protection:	The building is fully sprinklered and there are fire alarms throughout.

Functional Utility

From a utility standpoint, the subject accommodates its existing utilization as a multi-tenanted office/loft type property with street level retail.

At the time of inspection the improvements were found to be in average overall condition typical buildings of similar vintage in the area. In order to maintain an average condition, updating and maintenance must be performed on an ongoing basis.

Comments

To summarize, the improvements adequately accommodates its current use. Considering the foregoing, coupled with the relative stability of the area's existing tertiary office/loft market, it is the appraiser's opinion that the subject property is well suited and should benefit from its primary trade area.

The data contained within this section was obtained from the:

- Appraiser's field inspection, April 21, 2011.
- Owner supplied information.
- The City of New York Assessment, Planning and Zoning Departments.

ZONING MAP

ZONING MAP

THE NEW YORK CITY PLANNING COMMISSION

Major Zoning Classifications:

The number(s) and/or letter(s) that follows an **R**, **C** or **M** District designation indicates use, bulk and other controls as described in the text of the Zoning Resolution.

R – RESIDENTIAL DISTRICT

C – COMMERCIAL DISTRICT

M – MANUFACTURING DISTRICT

ZONING SUMMARY[9]

The subject property is zoned C5-2 which is a central commercial district intended for offices and high-end retail establishments that serve the entire metropolitan region and for streets where continuous retail frontage is desired. Famous shopping streets, such as Fifth Avenue, from 34th to 59th Streets, and Madison Avenue, from 57th to 87th Streets, are C5 districts. Parts of Lower Manhattan, Downtown Brooklyn and Long Island City are also within C5 districts.

Luxury department stores, large office buildings, and mixed building with residential space above office or commercial floors, are typical C5 uses. Hotels, retail shops and business services and custom manufacturing are permitted in C5 districts. The maximum commercial Floor Area Ratio in C5 districts ranges from 4.0 to 15.0, and the maximum residential FAR is 10.0, exclusive of any applicable bonus.

In C5-2 through C5-5 districts, a building occupied by commercial, residential and/or community facility uses may be configured as a tower. The Residential District equivalent of the C5-2 district is R10. The following are the principal bulk regulations of the C5-2 district:

Permitted Uses:	C5 districts permit a full range of commercial uses requiring a central location. Also permitted are various residential structures and community facilities.
Area and Bulk Requirements	
Minimum Lot Size:	1,700 sq. ft.
Minimum Lot Width:	18 feet
Maximum Height of Front Wall:	85 feet (6 stories)
Yard Setback Requirements	
Front:	None
Sides:	8 feet
Rear:	30 feet – residential 20 feet – commercial
Initial Setback:	20 feet – narrow street 15 feet – wide street
Off-Street Parking:	Exempt from providing parking facilities

After a review of the current zoning ordinance for the City of New York, it is our opinion that the subject improvements do not conform to the current zoning regulations. Additionally, the existing improvements are consistent with the surrounding development and the subject meets the desires and standards of the buyers and tenants within the marketplace.

Since the improvements were constructed prior to the current zoning regulations, they are considered to be a pre-existing non-conforming legal use.

[9] Source – Zoning Handbook, City of New York, Department of City Planning

TAX MAP[10]

10 Source – NYC Department of Finance

REAL ESTATE TAXES AND ASSESSMENT

The subject property is designated on the tax maps of the City of New York, as Block 862, Lot 20. The current class 4 tax rate is 10.312 per $100.00 of assessed value.

The property is taxed on the lower of either the actual assessment or transitional assessment, which in the subject's case is the transitional assessment. The 2011/12 assessments for the subject property are as follows:

	Actual Assessment	**Transitional Assessment**
Land	$495,000	$495,000
Improvement	$465,750	282,150
Total	$960,750	$777,150

Based on the current taxable assessment and tax rate, the real estate taxes for the subject property are as follows:

Taxable Assessment		**Tax Rate**		**Ind. Taxes**
$777,150	×	.10312	=	$80,139
			Say	$80,140

The taxing authorities for the City of New York have indicated that the real estate taxes for the subject property are current.

On a per square foot basis, the subject's taxes equate to $5.61, which is toward the lower end of the range of the real estate taxes exhibited from the comparable buildings listed in the following table:

Property Address	**Sq. Ft. Area**	**RE Taxes PSF**	**Bldg. Classification**
Subject Property	14,280	$5.61	L8-Loft
164 Madison Avenue	12,250	$3.40	L8-Loft
12 East 33rd Street	29,967	$5.55	O9-Office
72-74 Madison Avenue	58,000	$6.14	L1-Loft
168 Madison Avenue	8,953	$7.56	L8-Loft
10 East 34th Street	48,538	$8.16	O5-Office
166 Madison Avenue	7,504	$8.56	O9-Office
165 Madison Avenue	28,268	$9.22	O1-Office
162 Madison Avenue	14,427	$9.64	09-Office

HIGHEST AND BEST USE ANALYSIS

Highest and Best Use is defined by the Appraisal Institute as: "The reasonably probable and legal use of vacant land or an improved property which is physically possible, appropriately supported, financially feasible, and that results in the highest value."[11]

This analysis considers the highest and best use of the subject site as if vacant and available to be developed and for the property as currently improved.

Market behavior and the economic principles of supply and demand are considered an essential concept of highest and best use. When the market value for a property is to be determined, the highest and best use analysis identifies the most profitable, competitive use to which a property can be put.

It should be noted that when a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

The four criteria that highest and best use must meet are:

- Physically Possible Use - An analysis to determine those uses of the subject, which can be deemed physically possible given the physical features, described in the site description.

- Legally Permissible Use - An investigation into existing zoning regulations, lease terms and deed restrictions on the site to determine which uses are legally permitted.

- Economically Feasible - An analysis to determine which of those uses deemed physically possible and legally permissible can provide a net return to the owner of the site.

- Maximally Productive - Among the economically feasible uses, which use will provide the highest net return or highest present worth.

[11] The Appraisal of Real Estate, 11th Edition, 1996, page 275.

Highest and Best Use "As-Vacant"

Physically Possible - The subject site consists of a rectangular shaped parcel that is typical in size and offers similar utility as compared to other similarly zoned sites utilized for commercial purposes within the immediate area.

The subject site, as vacant, has the physical characteristics necessary to support the development of the various uses that are legally permissible under the zoning ordinances of the City of New York.

Legally Permissible - The subject site is zoned C5-2 Commercial with permissible uses for new construction permitting a full range of commercial uses as well as various residential structures and community facilities. No known zoning changes to uses other than these are currently being considered or anticipated. The commercial nature of the area combined with the generally satisfactory condition of the area's improvements and the current and expected trends in supply and demand all support the current zoning.

It is our opinion that the site, if vacant, could be developed for the above legally permitted uses.

Financially Feasible - The basis of financial feasibility in this analysis is the likelihood that a proposed improvement would conform with market acceptance and fit harmoniously into its surroundings. The subject property is located within a well-defined setting, which is comprised of both mixed-use commercial and mixed-use residential properties. There is a noted demand for luxury residential space within the area, and it is reasonable to assume that residential use at market levels is financially feasible.

Additional support for residential use of the subject site comes from the easy access to employment in the surrounding areas via automobiles and public transportation. The nearby availability of shopping, services, and amenities such as schools and houses of worship also supports residential use.

Maximally Productive - The criteria for this aspect of highest and best use is that the ultimate land use should produce the highest residual land value that is consistent with rates of return warranted by the market.

It is the appraiser's opinion that the highest and best use for the subject site, as vacant, would be for the development of a mixed-use luxury residential building built to the fullest allowable zoning standards when market conditions warrant new construction.

Highest and Best Use "As-Improved"

The Highest and Best use of the subject site "as-improved" must be analyzed in order to determine if the current improvements add to the value of the subject property and offer the most productive use.

Legally Permissible - The subject property does not conform to the current zoning regulations. However, the improvements were constructed prior to the current zoning ordinances and represent a pre-existing non-conforming legal use.

Physically Possible - The subject improvements are physically possible as a result of their existence. In addition, the presence of similar improvements in the immediate area attests to the physical possibility of such improvements. The subject property is generally in average condition and does not suffer from any form of obsolescence that would seriously detract from value.

Financially Feasible - The subject property is located in Murray Hill neighborhood within a mixed-use area containing both commercial and residential uses where the demand for rental apartments and tertiary type office space has historically been strong.

With consideration given to the above, the utilization as a mixed-use commercial property containing street level retail and office on the upper floors is financially feasible.

Maximally Productive - All legally permissible, physically possible and financially feasible uses of the subject property, “as-improved”, have been presented and examined. The subject is consistent with similar mixed use loft/office properties in the area in terms of utility, and the improvements make typical use of the site

Therefore, it is the appraiser's opinion that the highest and best use of the site, as improved, is its present use as a mixed-use retail/commercial building that is occupied by multiple tenants at market levels.

INCOME CAPITALIZATION APPROACH

The Income Capitalization Approach is based on the premise that there is a distinct correlation between the level of income that a property can generate and its value. The fundamental principle of the Income Capitalization Approach is anticipation, and properties such as the subject are typically valued by the marketplace based upon the first year's income expectations and the present worth of future benefits resulting from ownership of the property.

In this Approach, the potential gross income is estimated, from which an amount is deducted to allow for vacancy and collection loss, which results in an estimated effective gross income. From the effective gross income, appropriate annual operating expenses are then subtracted to arrive at the net operating income (before debt service). The indicated net operating income is then divided by an appropriate capitalization rate to arrive at an estimate of value, or it is projected into the future over a selected but appropriate holding period and discounted along with the anticipated reversion (sale price at the end of the holding period).

The market value indication for the subject property will be estimated by the Direct Capitalization technique. Direct Capitalization is defined as "a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step either by dividing the income estimate by an appropriate income rate or multiplying the income estimate by an appropriate income factor."[12]

In order to determine the market viability of the subjects' existing lease contracts and to establish an economic rent to be applied to the vacant space, the month to month space and the space occupied by the owner a rental survey of the subject's retail and office markets was conducted.

The rental survey focused on actual and asking rental rates for both retail spaces as well as office space within the vicinity and surrounding areas of the subject and included discussions with owners, real estate brokers and market participants who are active in the subject's area. From these discussions, we have obtained both actual as well as general leasing information that has provided insights into the market dynamics and value parameters in the Murray Hill and the surrounding areas.

The comparable rental information that was utilized in our analysis is presented and analyzed on the following pages.

[12] The Appraisal of Real Estate, 11th Edition, 1996, page 461.

SUMMARY DISCUSSION OF OCCUPANCY LEASES

As of the valuation date, three leases encumbered the subject property. We have been provided with the subjects' lease contracts, and in valuing the property we have in part been guided by the supplied information.

Korean Sohmyung (2nd Floor)

This lease commenced in August 1998 and extends through July 31, 2012. The current base "gross" rental is $72,500 ($35.54 psf) per annum that increases to $75,000 ($36.76 psf) as of August 2011. This lease is structured, whereas the tenant is responsible for a 14.286% pro-rata share of increases above 1998/99 base year real estate taxes and operating expenses, individual electric consumption and all other expenses and services related to the demised space.

Seven Olive Corporation (3rd Floor)

This tenant has been in occupancy since 2010 and the current lease term expires in January 2020. The current "gross" base rental is $98,880 ($48.47 psf) per annum, which increases annually by 3%. Additionally, the tenant is responsible for a 12.5% pro-rata share of the increase over the 2009/10 base year taxes and operating expenses, individual electric consumption and all other expenses and services related to the demised space. It is stipulated in the lease that landlord has the option to cancel at a cost of $40,000 if the building is to be demolished.

Thomas Bouregy (5th Floor)

This tenant has been in place since 1999 and is now occupying the space on a month to month basis. The current "gross" base rental is $62,496 per annum ($30.64 psf). In addition to base rent, the tenant is responsible for individual utility consumption and all other expenses and services related to the demised space.

Insight Capitalists (6th Floor)

This current annual base rental is $90,000 ($44.12 psf) and the lease expires October 31, 2011. Additionally, the tenant is responsible for individual electric consumption and all other expenses and services related to the demised space.

The above information is summarized in the table on the following page.

SUMMARY OF SUBJECT LEASES

Lessee	Sq. Ft. Area	Lease Date	Lease Period	Annual Rental	Base Rent/ PSF	Ann. Incr.	*Pro Rata Share
Korean Sohmyung	2,040	08/98	08/10-07/11	$72,500	$35.54	---	14.29%
(2nd Floor)			08/11-07/12	$75,000	$36.76	---	
Seven Olive Corp.	2,040	12/09	01/11-01/12	$98,880	$48.47	---	12.50%
(3rd Floor)			01/12-01/13	$101,846	$49.92	3%	---
			01/13-01/14	$104,901	$51.42	3%	---
			01/14-01/15	$108,048	$52.96	3%	---
			01/15-01/16	$111,290	$54.55	3%	---
			01/16-01/17	$114,629	$56.19	3%	---
			01/17-01/18	$118,067	$57.88	3%	---
			01/18-01/19	$121,609	$59.61	3%	---
			01/19-01/20	$125,258	$61.40	3%	---
Thomas Bouregy	2,040	M/M*	-----	$62,496	$30.64	---	---
(5th Floor)							
Insight Capitalists	2,040	03/08	11/10-10/11	$90,000	$44.12	---	---
(6th Floor)							

* Stipulated within lease.

The subject's current rentals range from $30.64 to $48.47 per square foot.

DISCUSSION OF COMPARABLE RENTAL INFORMATION

In order to determine the market viability of the subjects' three existing lease contracts and to establish an economic rent to be applied to the space occupied on a month to month basis, the vacant space and the owner occupied space a market rental survey was conducted.

The rental survey focused on actual and asking rental rates for both street level retail spaces and office type space within the vicinity and surrounding areas of the subject and included discussions with owners, real estate brokers and market participants who are active in the subject's area. From these discussions, we have obtained both actual as well as general leasing information that has provided insights into the market dynamics and value parameters in Murray Hill and the surrounding areas.

The comparable information is from buildings within close proximity to the subject within the environs Murray Hill.

Office Rental Information

Rent No.	Property Address	Bldg. Description	Bldg. Description
A	165-167 Madison Ave. (SEC Mad. Ave. & E. 33rd St.)	Two 6-story Class C office buildings that were constructed in 1930. There is a total area of 28,270 square feet and the floors contain 2,400 square feet There are currently three units available with sizes of 700, 750 and 1,000 square feet with an asking rental of \$38 per square foot on a “gross’ basis, plus utilities.	
B	166 Madison Ave. (E. 32nd St. & E. 33rd St.)	7-story Class C office building constructed in 1920. There is a total area of 7,500 square feet and the floors contain 1,080 square feet There are currently two full floor units available for lease at an asking rental of \$33 per square foot on a “gross’ basis, plus individual utilities.	
C	148 Madison Ave. (SWC Mad. Ave. & E. 32nd St.)	16-story Class B office building constructed in 1917. There is a total area of 71,870 square feet and the floors contain 4,260 square feet There are currently two full floor units available for lease at an asking rental of \$36 per square foot “gross’’, plus electric. A 4,260 square foot space has recently been leased and had a similar asking price.	

Office Rental Information

D	149 Madison Ave. (SEC Mad. Ave. & E. 32nd St.)	12-story Class B office building constructed in 1917. There is a total area of 112,000 square feet. There is a 4,250 square foot space available at an asking rental of $35 per square foot on a “gross’ basis. A 3,656 square foot space has recently been leased and had a similar asking price.	
E	169-171 Madison Ave. (SEC Mad. Ave. & E. 34th St.)	16-story Class B office building constructed in 1926. There is a total area of 113,182 square feet and the floors contain 7,000 square feet There are currently two units available for lease with sizes of 2,639 and 3,700 square feet with both being offered at $33.00 per square foot on a “gross’ basis plus electric. A 3,500 square foot space has recently been leased and had a similar asking price.	
F	72 Madison Avenue (E. 27th St. & E. 28th St.)	12-story Class B office building constructed in 1911. There is a total area of 58,000 square feet and the floors contain 4,250 square feet There are currently five units available for lease at an asking rental of $32 per square foot on a “gross’ basis, plus electric	

Office Rental Information

G	12 East 33rd Street (Mad Ave. & Fifth Ave.)	12-story Class C office building constructed in 1910. There is a total area of 27,000 square feet and the floors contain 2,250 square feet There are currently three units available for lease at an asking rental of $27 per square foot on a "gross' basis. According to the leasing agent, one of these spaces has a contract out for signature.	

Summary of Office Rental Information

Rent No.	Property Address	Asking Rental PSF	Bldg. Type
A	165-167 Madison Ave.	$38.00	Class C
B	166 Madison Ave.	$33.00	Class C
C	148 Madison Ave.	$36.00	Class B
D	149 Madison Ave.	$30.00-$35.00	Class B
E	171 Madison Ave.	$33.00	Class B
F	72 Madison Avenue	$32.00	Class B
G	12 East 33rd Street	$27.00	Class C

Spaces in the above buildings are being offered in the $27 to $38 per square foot range and in the current real estate market, it is typical that the offering price is just a starting point of negotiations and it is more than likely that space will be rented below the offering price.

The subject's current rentals for the office spaces range from $30.64 to $48.47 per square foot.

When considering adjustments for differences in size, overall location, proximity to mass transportation, building type and amenities, etc., we have concluded that three of the subject units that are encumbered are being leased above market levels.

In as much as the subject property is a Class C type property, we have considered that the spaces would lease for less than those within a Class B property which would offers greater amenities than the subject. Therefore based on all of the available information, we have estimated that space within the subject would command a rental of from $27 to $29 per square depending on location within the building. In our analysis, we have estimated an average rental to be applied to the subject's office space at $28 per square foot "gross".

Retail Income

The subject property has one retail unit that is available for lease. In order to estimate a rental for the subject's retail space, we have gathered rental information for spaces similar to the subject.

The retail market in the subject's area has been relatively stagnant over the past couple of years and according to numerous brokers and owners we have spoken with, retail leasing activity has been virtually non existent with minimal activity taking place.

However, we were told of two leases that were recently transacted at 171 Madison Avenue which is located at the northeast corner with East 33rd Street. Without being more specific, the broker from Newmark Knight Frank indicated that one space contained 1,800± square feet and the other had 2,300± square feet. One space was being rented for typical retail purposes and the other to be utilized as professional space for a Dentist. In each case the starting rent level was at $80.00 per square foot "gross". In terms of location, this corner setting is better than the subject's mid-block location.

We had performed a visual survey along Madison Avenue from East 23rd Street to East 37th Street and have ascertained that there is an abundance of retail space available to be leased. Information for some of these spaces has been summarized as follows:

Location	Street	Sq. Ft. Area	Asking Rent PSF
80 Madison Avenue	E. 28th St.	3,500	$65.00
127 Madison Avenue	E. 30th St.	1,272	$84.00
143 Madison Avenue	E. 31st St.	2,500	$80.00
220 Madison Avenue	E. 37th St.	802	$59.85
4 East 36th Street	5th Ave. & Mad.	2,200	$65.00

In addition to the above, we have also considered information published by the Real Estate Board of New York. In the semi-annual Retail Report, the levels of asking rentals at various major retail neighborhoods throughout Manhattan is listed. The table illustrates the median asking rental prices within each of these corridors. This chart has been reproduced and appears in the addenda section of the report. The subject property is closest to the Midtown South area which as of Fall 2010 indicated a median asking rental for all available spaces of $76.00 per square foot. This is a decrease of 4% from the previous period.

The offering rentals range from $60 to $84 per square foot and when considering that when rented it is more than likely that spaces will be leased below the offering price.

Based on all of the information we have been able to obtain, we have estimated that a rental for the subject property retail unit would approximate $70 per square foot "gross".

DERIVATION OF RENTAL INCOME

We have determined that the contract rentals being collected for Korean Sohmyung, Seven Olive Corporation, and Insight Capitalists exceed market levels. Therefore, we have applied an estimated market rental to each of these spaces as well as a market rent to each of the remaining spaces that are either vacant, occupied by the owner or are occupied on a month to month basis.

The present value of the excess rent that will be collected for the three tenants has been calculated and will be added to the capitalized value arrived at via the Income Capitalization Approach.

Therefore, the subject's potential gross income has been derived as follows:

Space	Tenant	Sq. Ft. Area	Base Rent/ PSF	Annual Rental
1st Floor Retail	Vacant	1,800	$70.00	$126,000
2nd Floor Office	Korean Sohmyung	2,040	$28.00	57,120
3rd Floor Office	Seven Olive Corp.	2,040	$28.00	57,120
4th Floor Office	Vacant	2,040	$28.00	57,120
5th Floor Office	Thomas Bouregy	2,040	$28.00	57,120
6th Floor Office	Insight Capitalists	2,040	$28.00	57,120
7th Floor Office	Owner Occupied	2,040	$28.00	57,120
		14,040		$468,720

Additional Income

As discussed, a market rental was applied to each of the tenants and as such, the base year for real estate taxes and operating expenses would be the current year and there would be no overages due.

DISCUSSION OF EXCESS RENT

To account for the excess rental (contract - market) that is stipulated within the leasing contracts, the present value of each years rent overage was calculated for Korean Sohmyung, Seven Olive Corporation and Insight Capitalists and was then added to the capitalized value conclusion. The market rental for the current year was projected to increase at a rate of 3% per annum and an appropriate discount rate was employed in determining the present value factor.

Korean Sohmyung

Lease Period	Contract Rent PSF	Est. Market Rent PSF	Excess Rent PSF	Total Excess Rent	PV Factor @ 9%	PV of Rent Loss
07/01/10-06/31/11	$35.54	$28.00	$7.54	*$3,845	0.91743	*$3,528
07/01/16-06/31/17	$36.76	$28.84	$7.92	$16,166	0.84168	$13,607
Sum of Present Value of Annual Excess Rental						$17,134

Seven Olive Corporation

Lease Period	Contract Rent PSF	Est. Market Rent PSF	Excess Rent PSF	Total Excess Rent	PV Factor @ 9%	PV of Rent Loss
01/15/11-01/14/12	$48.47	$28.00	$20.47	*$31,320	0.91743	*$28,734
01/15/12-01/14/13	$49.92	$28.84	$21.08	$43,012	0.84168	$36,203
01/15/13-01/14/14	$51.42	$29.71	$21.72	$44,302	0.77218	$34,210
01/15/14-01/14/15	$52.96	$30.60	$22.37	$45,631	0.70843	$32,326
01/15/15-01/14/16	$54.55	$31.51	$23.04	$47,001	0.64993	$30,547
01/15/16-01/14/17	$56.19	$32.46	$23.73	$48,411	0.59627	$28,866
01/15/17-01/14/18	$57.88	$33.43	$24.44	$49,863	0.54703	$27,277
01/15/18-01/14/19	$59.61	$34.44	$25.18	$51,359	0.50187	$25,775
01/15/19-01/14/20	$61.40	$35.47	$25.93	$52,900	0.46043	$24,357
Sum of Present Value of Annual Excess Rental						$268,295

Insight Capitalists

Lease Period	Contract Rent PSF	Est. Market Rent PSF	Excess Rent PSF	Total Excess Rent	PV Factor @ 9%	PV of Rent Loss
11/01/10-10/31/11	$44.12	$28.00	$16.12	*$16,440	0.91743	*$15,083

*Remaining rental during lease period

Recapitulation of Excess Rental

Tenant	PV of Excess Rental
Korean Sohmyung	$17,134
Seven Olive Corporation	$268,295
Insight Capitalists	$15,083
Combined Total	$300,512

DISCUSSION OF VACANCY AND OPERATING EXPENSES

We have conducted research on the levels of vacancy for street level retail spaces and tertiary office/loft space within the subject's immediate area in order to establish a vacancy rate, which could be applied to the subject property. Our research included a visual survey, as well as discussions with building owners and local commercial real estate brokers who are active and knowledgeable of this particular market.

Earlier in the report we had cited the 1Q2011 Cushman-Wakefield office survey which indicated that in Midtown, Midtown South and Downtown there has been declines in vacancy. Of the three areas surveyed, the closest market to the subject would be Midtown South and the report stated that "Midtown South's vacancy rate declined to 8.0%, the lowest of any major central business districts in the United States, from 8.6% at the end of December and 9.9% one year ago".

We have augmented the reported information by surveying the local market and examined the availability at the properties in the immediate area which is as follows:

Property Address	Gross Area	Available Sq. Ft.	% Vacant
165-167 Madison Ave.	28,270	2,450	8.67%
148 Madison Ave.	71,870	8,520	11.85%
149 Madison Ave.	112,000	4,250	3.79%
171 Madison Ave.	113,182	6,339	5.60%
185 Madison Ave.	91,800	5,300	5.77%

The above buildings indicate current vacancy levels ranging from 3.79% to 11.85%.

Based on the size of the subject and its relatively small spaces, coupled with the amount of availability within similar buildings in the immediate area, we project and have applied a vacancy allowance of 7.5% to the office space.

We have also applied an amount of 1.0% for collection loss which allows for bad debt and delinquent collections. Therefore the total vacancy and collection loss was projected at 8.5% of the potential gross office income.

While no specific survey is available pertaining to the retail vacancy levels in the subject's immediate area we have conducted a visual survey in order to establish a vacancy rate that could be applied to the subject's retail section. We have also consulted published anecdotal information for further support.

As part of our survey we had observed the number of vacant stores from 23rd Street to 34th Street along Madison Avenue which revealed less than 1 in 10 were vacant.

Based on the available information, we have applied a vacancy allowance of 9.0%. When including an additional 1.0% for collection loss the total vacancy and collection loss was projected at 10.0% of the potential gross retail income.

Therefore, the subject's Effective Gross Income is derived as follows:

Est. Potential Gross Office Income	$342,720	
Vacancy & Collection Allowance @8.5%±	- 29,000	
Effective Gross Office Income		$313,720
Est. Pot. Gross Retail Income	$126,000	
Vacancy & Collection Allowance @10.0%±	- 12,600	
Effective Gross Retail Income		$113,400
Combined Effective Gross Income		$427,120

Operating Expenses

In this analysis, we have projected that the subject's space would be leased on a "gross" basis. Under this arrangement, the owner would be responsible for base year real estate taxes, common area operating expenses and utilities and structural repairs and maintenance. An additional amount was deducted for the costs associated with the management and administrative fees associated with the property.

The task of obtaining comparable expense data for a property similar in size and status as the subject is problematic at best. Therefore, in developing a level of operating expenses for the subject property, we have gathered information contained in the most recent Institute of Real Estate Management (IREM) *Income/Expense Analysis* for Manhattan and tempered this information from interviews with property managers and owners.

We were supplied with 2009 & 2010 operating statements for the subject property (see addenda) and in developing our pro-forma operating expenses; this information was in part relied upon.

It is our estimation that the expenses presented by the owner for repairs and maintenance and for common area utilities were above the level that is typical for a building like the subject.

There have been no major capital improvements over the past few years and there was no explanation given as to why the repair and expense item was higher than typical. The owner does occupy a portion of the building and it is possible that his expenses for his space were commingled with building wide expenses. Therefore, in the following analysis an appropriate amount was applied for each.

The items listed in the supplied statements are summarized as follows:

Item	2009 Overall	2009 PSF		2010 Overall	2010 PSF
Real Estate Taxes	$68,713	$4.73		$69,430	$4.78
Insurance	$11,846	$0.82		$14,187	$0.98
Water & Sewer	$1,891	$0.13		$1,057	$0.07
Repairs & Maintenance	$54,200	$3.73		$58,090	$4.00
Utilities	$9,962	$0.69		$8,215	$0.57
Fuel	$21,327	$1.47		$18,782	$1.29
Management, Legal, Prof.	$15,902	$1.09		$21,666	$1.49
Miscellaneous	$3,746	$0.26		$1,095	$0.08
Total	$187,587	$12.91		$192,522	$13.25

Real Estate Taxes

The 2011/2012 actual real estate tax burden of $80,140 was found to be within market levels and was utilized in the analysis.

Water & Sewer Charges

The subject property listed this expense at $0.13 and $0.07 per square foot in 2009 and 2010 respectively, while IREM indicated an expense of $0.11 per square foot. Based on this information and from discussions with property managers we have estimated this expense at $0.15 per square foot or $2,100 (rd.) per annum on a stabilized basis.

Insurance

The supplied expense was reported at $0.82 and $0.98 per square foot in 2009 and 2010. From discussions with insurance professionals as well as building owners, we have estimated an expense of $1.00 per square foot or $14,300 per annum (rd.).

Common Area Utilities

This expense category includes the expenditures for all utilities needed to operate the common areas of the building. When considering that the building is primarily comprised of full floor units and the tenants are individually responsible for the cooling of their spaces and the minimal common areas, we have applied an amount of $0.50 per square foot or $7,100 (rd.) per annum for the common area utility expense.

Heating Fuel

A building's fuel consumption is affected by numerous factors including number of degree-days in the heating season, amount of wind exposure, quality of windows, as well as the heating system efficiency. The cost of heating fuel is further affected by the price of heating fuel.

The subject property reported this expense at $1.47 and $1.29 per square foot during 2009 and 2010 respectively. Comparable information revealed a range of from $1.25 to $1.75 per square foot for this expense. Based on the above, and the recent rise in fuel costs, we have applied an amount of $1.75 per square foot or $25,000 per annum on a stabilized basis.

Repairs & Maintenance

This expense includes items related to the general repair and maintenance as well as the everyday upkeep of a building inclusive of the common areas. The expense also includes contracted services for scheduled cleaning, elevator repair, maintenance, electrical, plumbing, fire and life safety expenses, interior painting, outside maintenance, minor tenant improvements and other building wide upkeep and supplies. Based on comparable information and expense data listed in published cost indexes, as well as discussions with building owners and managers, an amount of $10,700 (rd.), or $0.75 per square foot, was projected on a stabilized basis.

Structural Repairs and Reserves

"A replacement allowance provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced periodically during the building's useful life".[13] Items in this category typically include roofs, HVAC and other mechanical systems, exterior maintenance, upkeep and replacement of windows and doors, etc.

This expense includes the costs associated with the normal maintenance of a building plus an allowance for a reserve fund. Based on comparable information and expense data listed in published cost indexes, as well as discussions with building owners and managers and the subject's age and condition, an amount of $5,000, or $0.35 per square foot, was projected on a stabilized basis.

Management, Legal and Administrative Fees

A major determinant in selecting a management fee for the subject property considers the occupancy of the property. Typically, management fees for multi-tenanted properties range from 3% to 5% of the effective gross income depending on the complexity of the property and the level of management required, inclusive of reporting and accounting services and leasing of space.

An amount of 4%± of the effective gross income was applied and provides for the management, legal, professional and administrative costs associated with the property and is considered reasonable for a property similar in size and complexity as the subject. Also included in this expense was an amount to cover the services of a part-time porter who whose duties would include common area cleaning.

[13] The Appraisal of Real Estate, Appraisal Institute, 11th Edition, 1996, Page 495.

STABILIZED ESTIMATE OF INCOME AND EXPENSES

Income		
Total Annual Potential Gross Income		$468,720
Vacancy & Collection Allowance		- 41,600
Effective Gross Income		$427,120
Expenses		
Real Estate Taxes	$80,140	
Water and Sewer	2,100	
Insurance	14,300	
Common Area Utilities	7,100	
Heating Fuel	25,000	
Repairs & Maintenance	10,700	
Reserve for Replacement	5,000	
Management, Legal & Professional	17,100	
Total Operating Expenses		$161,440
Net Operating Income		$265,680

DEVELOPMENT OF THE CAPITALIZATION RATE

In order to convert an estimated net operating income into a value indication for an income-producing property, a suitable capitalization rate must be developed, and the Mortgage-Equity technique was deemed to be the most appropriate method. The mortgage-equity technique involves estimating the value of a property on the basis of both mortgage and equity return requirements. Determinants in selecting an appropriate capitalization rate are risk, the levels of returns on competing investments, the quality of the property's income stream, and liquidity. A weighted average based on these factors in relation to their proportion of the total investment is used to comprise the overall capitalization rate.

Financing - Lenders were interviewed, and it was ascertained that the recent trend in mortgage rates for properties similar to the subject ranges from 5.0% to 6.0%. The terms of a loan can vary with the institution, and current lending policies have loan- to-value ratios ranging from between 65% to 75%. Mortgage terms typically run from 5 to 10 years with amortization schedules extending from fifteen to thirty years, creating a balloon payment at the time the mortgage comes to an end. In developing the capitalization rate for the subject property the following factors were applied: a loan-to-value ratio of 70%, a mortgage interest rate of 5.25%, and an amortization schedule of 25 years. These rates result in a mortgage constant of 7.191%.

Holding Period - Investors typically purchase properties such as the subject with the intentions of retaining them for a period of from five to fifteen years. In this analysis, a holding period of 10 years was selected.

Appreciation - Over the ten-year holding period, a 10% increase in value has been projected. This increase is based on the general long-term growth in sales prices and rents of similar commercial properties in the area.

Equity Yield Rate - Being that real estate competes with alternative investment opportunities, we have listed the rates of return for various selected investments. The following rates of return on long- and short-term investments were recently published in Bloomberg.com, Bankrate.com, the Wall Street Journal and the New York Times and indicate the cost of funds when financial conditions create a liquid environment.

Federal Funds Rate	0.10%
Treasury Bills (13 weeks)	0.05%
Commercial Paper (30-60 days)	0.14%
Discount Rate	0.50%
Prime Rate	3.25%
Certificates of Deposit (6 months)	0.71%
Ten-Year Treasury Notes	3.16%
10 Year Municipal Bonds (AAA)	2.77%
3 Month Libor	0.26%
30 Year Conventional Mortgage Rate	4.71%

In the selection of an appropriate yield rate, consideration was given to the preceding discussion as well as characteristics, which affect the subject property including location, age/condition and utility.

Further attention was given to items such as risk, liquidity, and the energy and cost efforts associated with management of the property. The summation approach was utilized to account for yield expectations associated with these investment considerations.

The Korpacz Survey summarizes expected rates of return, capitalization rates, and income and expense growth rates from a representative sample on institutional investors. These rates reflect exceptable expectations of yields desired by investors currently in the marketplace within the national CBD office market for investor grade properties.

For the first quarter of 2011 the survey indicated a range of from 6.0% to 11.0% with an average of 8.64% for investor quality properties in the national CBD office market.

The survey also indicated overall capitalization rates with a range of from 5.25% to 10.50% with an average of 7.42% down 11 basis points from the previous quarter.

A basic yield rate of 3.0% was selected based on the exhibited returns of Treasury Bonds, Municipal Bonds, and Utility Bonds. The 3.0% basic rate was increased by an amount of 200 basis points each for liquidity and asset management. An additional 200 basis points were added for risk.

Therefore, the resultant yield rate is 9.0% which is toward the middle of yield rates provided by the *Korpacz Real Estate Investor Survey.*

DERIVATION OF CAPITALIZATION RATE

	Ratio		Rate		Result
Mortgage	.70	x	0.07191	=	0.050337
Equity Rate	.30	x	0.09000	=	0.027000
Weighted Average					0.077337
Less Adj. For Equity Buildup (.70 x .25455 x .06582)					-0.011728
Basic Rate					0.065609
Less Adj. For Appreciation (.10 x .06582)					-0.006582
Indicated Capitalization Rate					0.059027
			Say:		0.060000

Therefore, the “as-stabilized” value for the subject property has been calculated as follows:

Net Operating Income	$265,680
Capitalized @ 6.0%	÷ 0.060
Indicated Value Via Income Approach	$4,428,000
Plus PV of Excess Rent	+ 300,512
Adjusted Value Via Income Approach	$4,728,512
Say:	$4,730,000

“AS-IS” VALUE

The preceding value indication was based on a stabilized occupancy, which has viewed the property as if the building was fully occupied. We have deducted the costs associated with achieving a stabilized occupancy from the capitalized value. These deductions include an amount to allow for rent loss for the time it would take to lease up the available units, renovation costs, and leasing and brokerage fees.

Estimated Rental Loss

Discussions with local brokers and owners have indicated that there is very little demand for retail space of all sizes. While it is difficult to estimate when the space will rent, we have projected that if price correctly it could rent within a six month time frame or by November 1, 2011.

The office spaces consist of small units which should rent within a relatively short time frame and we have estimated a two-month period before the fourth floor unit and the owner occupied unit would be rented. Therefore, the rent loss during the lease up period has been calculated as follows:

Space	Est. Annual Rental	Est. Monthly Rental	x	No. of Months	=	Est. Rent Loss
1st Floor Retail	$126,000	$10,500		6		$63,000
4th Floor	$57,120	$4,760		2		$9,520
7th Floor	$57,120	$4,760		2		$9,520
Total	$240,240					$82,040

Brokerage and Leasing Fees

These fees are typically paid within 6 months of a lease agreement and are dispersed in a lump sum amount. Based on discussions with active brokers in the subject's market it was learned that in smaller tertiary markets like the subject’s, leasing is either done by the landlord or by local brokers. When considering the preceding, an allowance of 15% of the first year’s gross rental was taken for brokerage and leasing fees.

Total Annual Rental	$240,240
Brokerage and Leasing Fees	× .15
Total Brokerage Fees	$36,036

When deducting the above costs and fees from the “prospective” value, the “as is” value is derived as follows:

Indicated “Upon Stabilization” Value		$4,730,000
Less		
Est. Retail Rental Loss	$82,040	
Broker & Leasing Fees	$36,036	
Total Deductions		$118,076
Indicated “As-Is” Value		$4,611,924
	Say:	$4,610,000

THE SALES COMPARISON APPROACH

The Sales Comparison Approach is defined as "a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments to the sales prices of the comparables based on the elements of comparison."[14]

This Approach is based on the proposition that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility. The market behavior and actions of buyers and sellers reflect their anticipation's of the future benefits to be derived from the ownership of competitive properties. The steps involved in the Sales Comparison Approach are as follows:

- "Research the market to obtain information on sale transactions, listings and offerings to purchase or sell properties similar to the subject property in terms of characteristics such as property type, date of sale, size, location and zoning.

- Verify the information by confirming that the data obtained is factually accurate and that the transactions reflect arm's length market considerations.

- Select relevant units of comparison (e.g., income multipliers or dollars per acre or per square foot) and develop a comparative analysis for each unit.

- Compare comparable sale properties with the subject property using the elements of comparison, and adjust the sale price of each comparable appropriately to the subject property or eliminate the sale property as a comparable.

- Reconcile the various value indications produced from the analysis of comparables into a single value indication or a range of values. In an imprecise market subject to varying occupancies and economies, a range of values may be a better conclusion than a single value estimate."[15]

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[14] Dictionary of Real Estate Appraisal, Appraisal Institute, 1993, page 318

[15] The Appraisal of Real Estate, 11th Edition, Appraisal Institute, 1996, page 401.

Elements of comparison include real property rights conveyed, financing terms, conditions of sale, market conditions (time), location, physical characteristics, economic characteristics, and the use of the property. Based upon discussions with real estate brokers, property owners and market participants active in the area, it was determined that the primary unit of comparison used in the subject's market is the sale price per square foot of above grade building area, and the market data which follows has been analyzed accordingly.

The subject property is improved with a 14,280± square foot seven-story and basement commercial loft building containing street level retail and office/loft type use on the upper floors. The subject has been classified as a L8 building by the City of New York.

Research was conducted for the sales of properties similar to the subject within the proximate and surrounding areas. The research was carried out through several sources, including published sales data and conversations with market participants active in the immediate and surrounding areas.

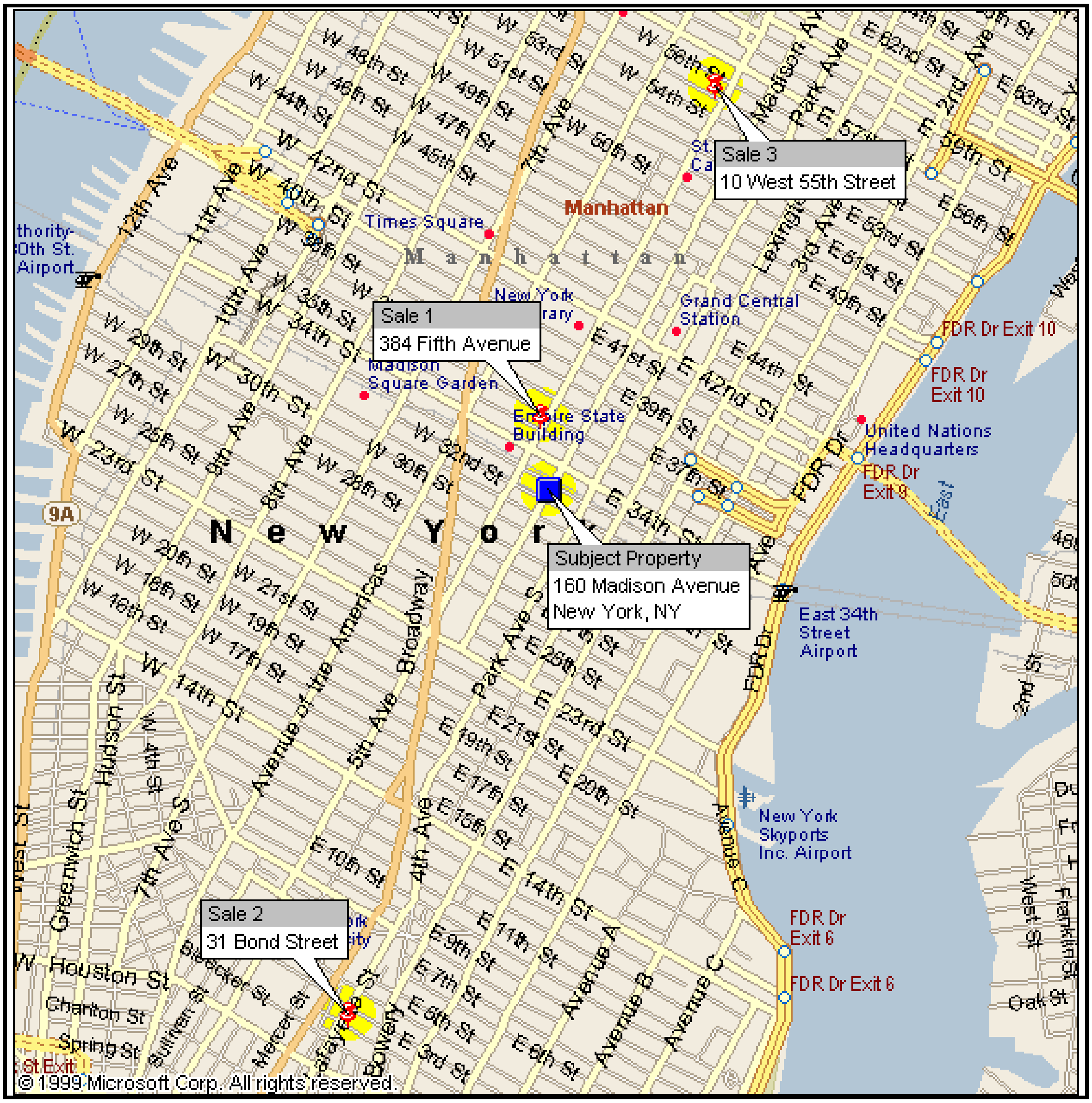
From our study, we have determined that there has been an extremely limited amount of sales activity for properties classified L8 during the past 18 months. Therefore, we have also included the sales of buildings classified as O9 Office, which for all intent and purposes are utilized similarly as the subject building. Information on this category of property also produced scarce results for properties comparable to the subject.

However, we have selected from among the available transactions those we deemed to be most comparable to the subject in the greatest number of value effecting characteristics and we utilized three closed sales, which were conveyed from January 2010 through January 2011.

The information, on these conveyances has been summarized and the results are presented on the following pages.

All sales were verified by deed, published data, discussions with a party to the sale or a broker. All sales are arm's-length transactions for cash or cash equivalency.

COMPARABLE SALES LOCATION MAP



Sale No.	Property Address
1	384 Fifth Avenue
2	31 Bond Street
3	10 West 55th Street

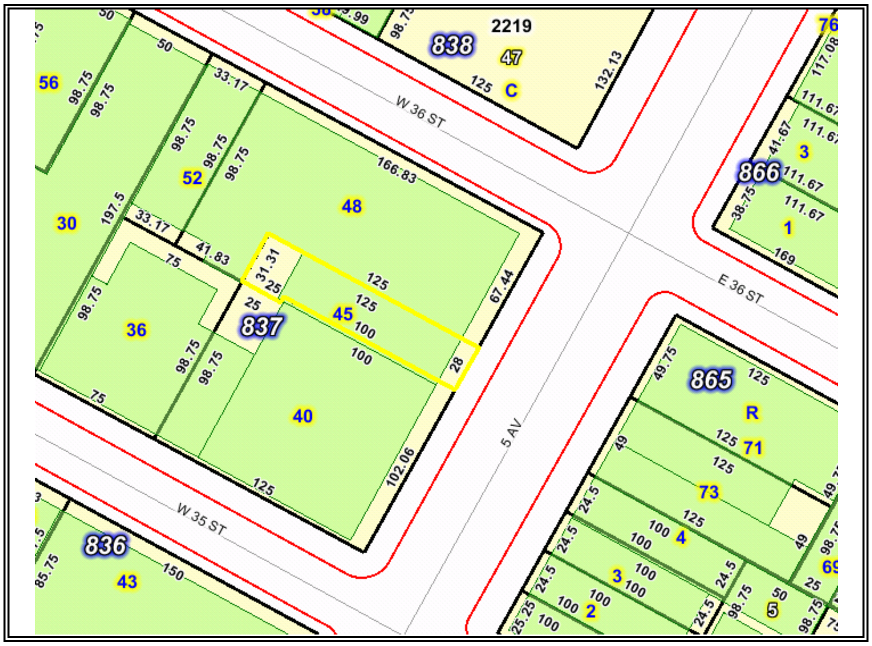
LIST OF IMPROVED SALES

Sale No. 1

Address:	384 Fifth Avenue New York, New York
Location:	Westerly side of Fifth Avenue, midblock between West 35th and West 36th Streets
Grantor:	Timur on 5th Avenue Inc.
Grantee:	Family Forever LLC
Date of Sale (Recorded):	01/25/11 (02/22/11)
Tax Map Number:	Block 837, Lot 45
Document Stamp:	62725
Indicated Sale Price:	$11,500,000
Zoning:	C5-3 Commercial
Description of Improvements:	Consists of an eight-story elevatored mixed-use building that was originally constructed circa 1906 and renovated in the mid 1980's. The building contains street level retail space and the upper floors are finished as office space. At the time of sale, the building had one street level retail tenant with the upper floors owner occupied. The property was in average overall condition at the time of sale.
Building Area:	28,000± square feet
Land Area:	3,500± square feet
Sale Price Per Sq. Ft:	$410.71
Verified:	Deed on Acris

Photo Sale 1


DAVID Z.
WWW. DAVIDZ. COM
CITY SPORTS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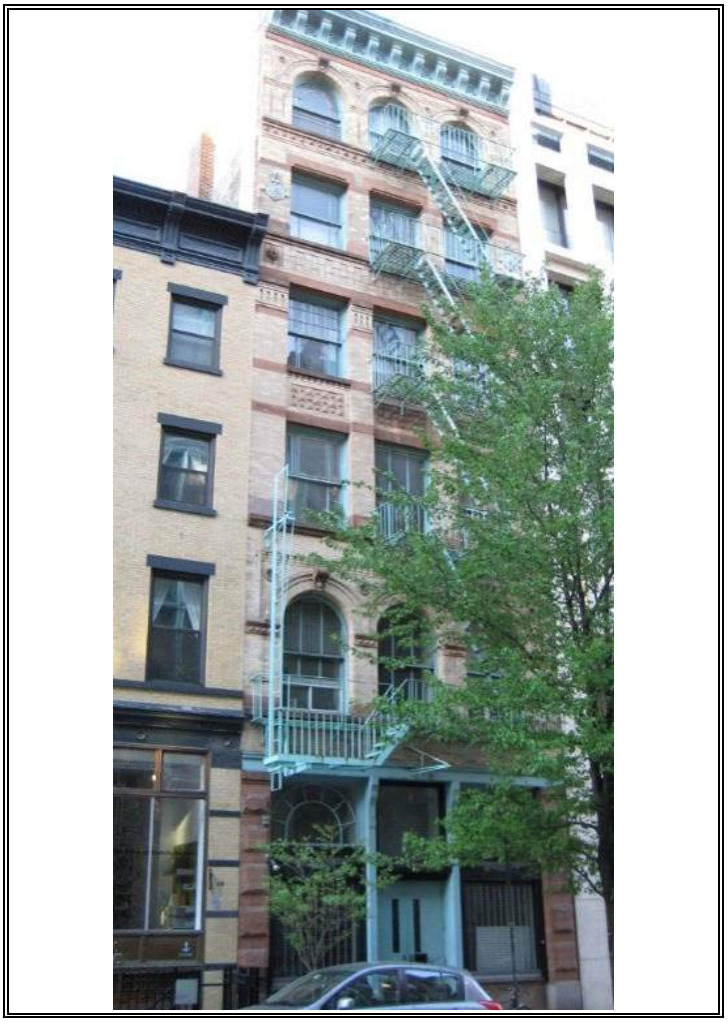
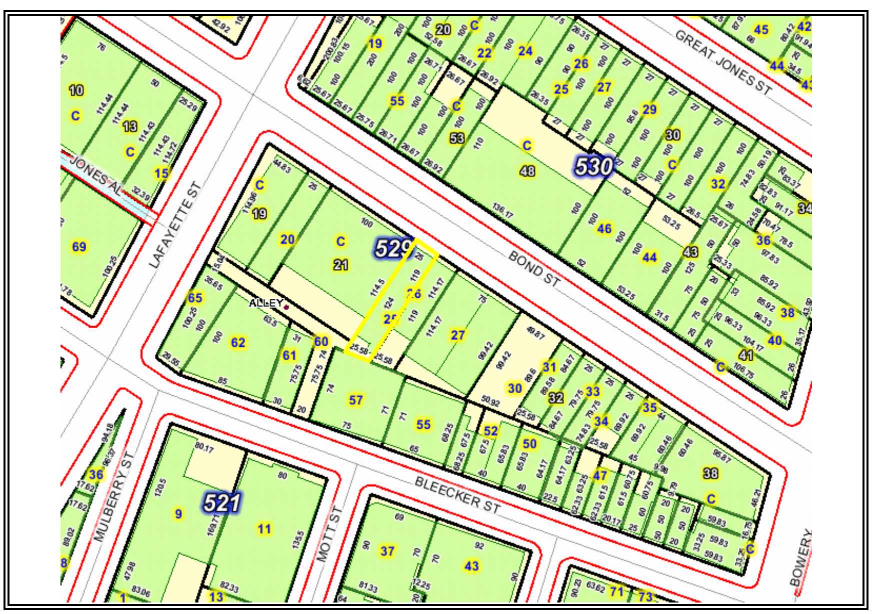
Sale No. 2

Address:	31 Bond Street New York, New York
Location:	Southerly side of Bond Street, 170± feet east of Lafayette Street
Grantor:	Heian Bunka Center Inc.
Grantee:	Monster Real Estate Inc.
Date of Sale (Recorded):	04/14/2010 (05/06/10)
Tax Map Number:	Block 529, Lot 25
Document Stamp:	152623
Indicated Sale Price:	$8,250,000
Zoning:	M1-5B – Manufacturing
Description of Improvements:	Consists of an six-story elevatored mixed-use office building that was originally constructed circa 1900 and renovated in the mid 1980's. The building contains street level retail (gallery) space and the upper floors are finished as office space and work studios. The building was delivered vacant. The property was in average overall condition at the time of sale.
Building Area:	16,693± square feet
Land Area:	3,100± square feet
Sale Price Per Sq. Ft:	$494.22
Verified:	Deed on Acris

Photo Sale 2



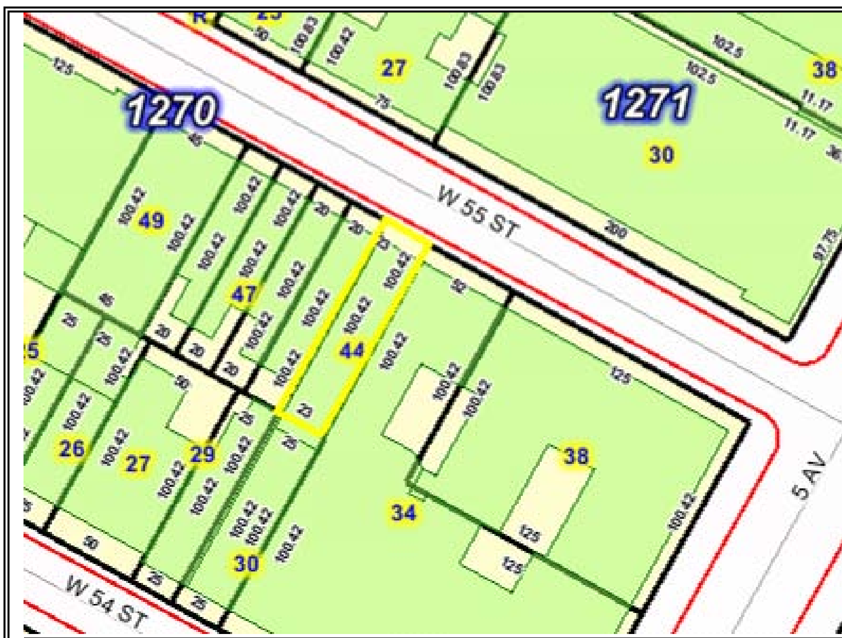

GREAT JONES ST
BOND ST
BLEECKER ST
LAFAYETTE ST
MULBERRY ST
MOTT ST
BOWERY
JONES AL
ALLEY
530
529
521

Sale No. 3

Address:	10 West 55th Street New York, New York
Location:	Southerly side of West 55th Street, 177± feet west of Fifth Avenue
Grantor:	Aderans America Holding Inc.
Grantee:	10 West 55th Street LLC
Date of Sale (Recorded):	01/21/10 (02/02/10)
Tax Map Number:	Block 1270, Lot 44
Document Stamp:	36527
Indicated Sale Price:	$6,000,000
Zoning:	C5-P – Commercial
Description of Improvements:	Consists of a four-story elevatored mixed-use building that was originally constructed circa 1930. The building contains street level retail space and the upper floors are finished as office space. At the time of sale, the building had one street level retail tenant with three office tenant on the upper floors. The property was in average overall condition at the time of sale.
Building Area:	9,200± square feet
Land Area:	2,310± square feet
Sale Price Per Sq. Ft:	$652.17
Verified:	Deed on Acris

Photo Sale 3


MINGLE
MINGLE
MINGLE
MINGLE
LEATHER SPA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Recapitulation of Improved Sales

Sale No.	Property Address	Sale Date	Sale Price	Bldg. Area	Land Area	SP PSF
---	Subject Property	---	---	14,280	2,325	---
1	384 Fifth Avenue	01/11	$11,500,000	28,000	3,500	$410.71
2	31 Bond Street	04/10	$8,250,000	16,693	3,100	$494.22
3	10 West 55th Street	01/10	$6,000,000	9,200	2,310	$652.17

The comparable sales were compared to the subject and adjustments have been considered for factors such as financing terms, market conditions (time), location, size, utility and age/condition. A positive adjustment indicates that the comparable is inferior to the subject while a negative adjustment indicates the comparable is better than the subject.

Financing Terms

The purpose of adjusting for financing terms is to determine cash equivalent sales prices for the comparable sales. There were no atypical conditions of sale or financing, and each of the sales was found to be arm's-length cash transactions. Therefore, an adjustment for financing or conditions of sale was not warranted, and none were applied.

Market Conditions (Time)

The sales occurred between January 2010 and January 2011. No adjustment was applied to Sale’s 1-3 since the market has remained relatively unchanged during this time frame up to the date of valuation.

Location

The location adjustment considers the affect of a property's setting and the relation to its sale price. An important determinant of value for commercial properties similar to the subject is access and visibility. Location on a side street, or at a busy but inaccessible intersection, results in an undesirable location from the perspective of a retail tenant. We have analyzed each of the comparable sales relative to the above stated criteria and have sought to make adjustments that reflect the merit of each of the sites relative to the subject property. Each of the comparables were considered as having better locations when compared to the subject by differing degrees and varying downward adjustments were applied.

Sale 1 is located on Fifth Avenue just north of the Empire State building, has better overall visability and significantly higher levels of pedestrian traffic than the subject and a downward adjustement was warranted.

Sale 2 is situated on Bond Street, directly opposite the new Ian Shrager hotel 40 Bond. This area has become a very trendy and desirable retail, commercial and residential location. Overall, this setting is superior to the subject and to compensate a downward adjustment was applied.

Sale 3 is situated in the center of Midtown in an area that has more appeal for both retailers and office users than the subject's immediate area. This property s situated just off of Fifth Avenue and is within close proximity to large hotels, large as well as boutique retailers as well as Central Park and as a result a downward adjustment was applied.

Size

The size of a property directly affects the sale price per square foot, and this adjustment accounts for difference in size. Typically, larger properties tend to sell for lower per square foot values than smaller properties. The subject property contains a gross area of 14,280± square feet, while the sales ranged in size from 9,200± to 28,000± square feet. The Sale Offer and Sale #2 were considered to be in a similar size class as the subject and were not adjusted. Sale #3 was adjusted downwards to compensate for the premium that is typically paid for a smaller property. Conversely, Sale #1 was adjusted upward to account for the discount usually received for a larger property.

Utility/Features

The utility/features adjustment reflects various building and site characteristics such as retail areas versus office/loft space, story height, quantity of tenants, HVAC systems, interior and exterior finishes, ceiling heights, office finishes, building wide amenities and overall design and appeal.

The subject property consists of a building which is similar in utility as the comparables. Therefore, adjustments for differences were not warranted.

Property Characteristics

We also considered an adjustment for age/condition, of the subject property relative to the comparables and a downward adjustment was applied to Sale #1 to compensate for its better condition relative to the subject.

While we have made a more complete interior inspection of the subject and observed its condition, we also observed the comparables from the exterior, as well as where possible the public areas such as the lobbies and vestibules.

The remaining comparables appear to have characteristics similar to that of the subject and thus no adjustments were made.

We have also considered the income characteristics of the comparables as compared to the subject. Each of the comparables are situated in areas that command higher retail rent levels than the subject and downward adjustments were applied.

The comparable sales were adjusted as follows:

Sale No.	Adj. Sale Price/ Sq. Ft.	Loc.	Size	Prop. Char.	Cond.	Total % Adj.	$ Adj.	Total Adj. Sale Price/ Sq. Ft.
1	$410.71	-15	10	-10	-5	-20	-$82.14	$328.57
2	$494.22	-10	0	-10	0	-20	-$98.94	$395.38
3	$652.17	-20	-10	-10	0	-40	-$260.87	$391.30

After adjustments were applied, the comparables displayed a range of from $328.57 to $395.38 per square foot. Sale #1 was the most current sale and represented the low end of the range.

With consideration given to all of the above-presented information, we have selected a range of value of $325.00 to $350.00 per square foot to be applied to the subject property.

Therefore, the value range is as follows:

Square Foot Area Above Grade	14,280		14,280
Value Choice Per Square Foot	× $325.00		× $350.00
Value via Sales Approach	$4,641,800	to	$4,998,000

Based on the above range, we have selected a value choice of $4,700,000.

RECONCILIATION AND FINAL VALUE CHOICE

The estimated "as-stabilized" values arrived at by the three traditional approaches to value used in this report are as listed below, and a brief discussion on each follows:

Cost Approach:	Not Utilized
Income Capitalization Approach:	$4,730,000
Sales Comparison Approach:	$4,700,000

Cost Approach

In appraisal theory, it is assumed that an informed purchaser would pay no more for a property than the cost of producing a similar investment. Ordinarily, its importance as a valuation tool is limited and overshadowed by the income and market approaches. It has, however, most validity when a building is new and there is a sufficiency of comparable land sales. Due to the extended age of the subject improvements and the lack of comparable meaningful land sales, the Cost Approach was not included in this report. The typical investor places little to no emphasis on this methodology for improvements of a similar design and age to the subject property.

Income Approach

The conversion of an anticipated income stream to current value is a most probative value indication for an investment property. Future monetary benefits attract investment capital to properties such as the subject. Factors such as security of cash flow, current tenancy, income tax benefits, anticipated appreciation and yields from other investments are all part of the equation leading to a value solution. The traditional capitalization approach was utilized in this report wherein a stabilized estimate of income and expenses is capitalized for an indication of value. This technique is a recognized valuation methodology used by participants in the mixed use office/loft market as investors purchase these buildings for their income-producing capabilities.

Direct Sales Comparison Approach

The theoretical basis for this valuation technique is that an informed purchaser will pay no more for a property than the cost of acquiring an existing property of similar investment features. This approach requires an active market supplying a sufficient number of sales of comparable improved properties. A slow market or a lack of sales of similar properties undermines the validity of this approach. As it applies to the valuation estimate of the subject property, there were a sufficient number of sales to abstract an overall pattern and form an estimate of value for the subject.

Based on the appraiser's inspection of the subject property and after evaluating all the available information regarding the subject with consideration given to the items that influence value and utilizing the Income Approach and the Direct Sales Comparison Approach, it is the opinion of the appraiser that as of November 21, 2011, the "as-stabilized" prospective value of the subject property's Leased Fee Interest is:

FOUR MILLION SEVEN HUNDRED THIRTY THOUSAND DOLLARS
($4,730,000)

It is the opinion of the appraiser that as of April 21, 2011, the "As-Is" market value of the subject property is:

FOUR MILLION SIX HUNDRED TEN THOUSAND DOLLARS
($4,610,000)

ADDENDA

INSURABLE VALUE

Insurable Value reflects the estimated replacement cost that would typically be covered by an insurer in the event of damage or destruction to the subject improvements.

In estimating replacement cost new, the appraiser has utilized the Marshall Valuation and the costs listed below are based on those found in the Marshall Valuation Service cost manual. We have determined that the subject property is a Class A-B construction, loft building and according to the Marshall & Swift manual, the base cost for such a building is $80.00 per square foot. After applying the appropriate adjustments for time, location, height and perimeter, as well as a cost for the basement, we arrived at an adjusted price per square foot for the subject property.

The product of the adjusted base cost per square foot and gross building area is the replacement cost.

Lofts			
Section 14 / Page 13			
Average/Good Class A-B			
Total Base Cost / Sq. Ft.		$80.00	
Sprinklers / Sq. Ft.		$2.00	
Adjusted Base Cost / Sq. Ft.		$82.00	
Adjustments			
Current Cost Multiplier	x 1.040		
Local Cost Multiplier	x 1.400		
Multi-Story Adjustment	x 1.020		
Perimeter Multiplier	x 1.030		
Composite Adjustment		x 1.530	
Adjusted Base Cost / Sq. Ft.			$125.43
Basements			
Total Base Cost/ Sq. Ft.		$41.81	
Sprinklers / Sq. Ft.		$2.00	
Adjusted Base Cost / Sq. Ft.		$43.81	
Adjustments			
Current Cost Multiplier	x 1.040		
Local Cost Multiplier	x 1.400		
Multi-Story Adjustment	x 1.020		
Perimeter Multiplier	x 1.030		
Composite Adjustment		x 1.530	
Adjusted Base Cost/Sq. Ft.			$67.02

	Sq. Ft. Area		Cost PSF		Total
Above Grade Area	14,280	x	$125.43	=	$1,791,140
Basement Area	2,040	x	$67.02	=	$136,721
Total Replacement Cost					$1,927,861

Insurance Exclusions

Insurance Exclusion must be subtracted from the replacement cost. Insurance exclusions are computed on the basis of items specifically excluded from coverage by the policy and its riders and endorsements. Items excluded herein are considered typical and consist of the following.

Architect Fees	6.0%	
Total Exclusions	6.0%	
Therefore:		
Total Replacement Cost:		$1,927,861
Less Insurance Exclusion (6.0% x $1,927,861)		115,672
Insurable Value		$1,812,189
	Say:	$1,815,000

REMAINING ECONOMIC LIFE

The Dictionary of Real Estate Appraisal, defines Remaining Economic Life as "The estimated period during which improvements will continue to contribute to property value: an estimate of the number of years remaining in the economic life of the structure or structural components as of the date of the appraisal.

In order to assist us in determining the subject's estimated economic remaining life we have in part relied on information contained in the Marshall Valuation Service cost manual. The manual indicated that the life expectancy for a loft property similar to the subject has a typical building life of 60 years.

Based on the information contained in the manual as well as our observations of the improvement's physical condition, it was estimated that the remaining economic life of the subject would be 30 years.

CLIENT SUPPLIED INFORMATION

160 MADISON AVENUE

RENT ROLL AS OF 12 31 2010

SPACE	TENANT NAME	TENANT SINCE	LEASE START	LEASE END	SQUARE FEET	RENT PER MONTH	EXPENSE PER MONTH	TOTAL PER MONTH
1st Floor and Basement	Vacant				4200			$0
2nd Floor	The Korean Sohmyung	1998	8 1 1998	7 31 2012	2500	$6.042	$864	$6 906
3rd Floor	Seven Olive Inc.	2010	1 15 2010	1 14 2020	2500	$8.240	$50	$8 290
4th Floor	Gary Hughes	2008	MTM	MTM	200	$700		$700
5th Floor	Thomas Bouregy	1999	7 15 1999	MTM	2500	$5.208	$348	$5.556
6th Floor	Insight Capitalists Mgt	2009	11 1 2009	10 31 2011	2500	$7.500	$0	$7 500
7th Floor	Veratex, Inc	1983	6 1 2007	5 31 2012	2500	$6.500		$6 500
				TOTAL	16900	$34.190	$1.263	$35.452

OPERATING EXPENSES

Year	2009	2010	As of 3 31 2011
Administrative Fee	2 400 00	2.400 00	600 00
Management	7 656.00	7.656.00	1.914 00
Bank Charges	1 296 00	978.00	144 00
Utilities	9.962 00	8.215.00	1 280 00
Fuel	21.327 00	18.782 00	21 695 00
Water	1.891 00	14.057 00	2 116 00
Insurance	11.846 00	14 187 00	4 417 00
Repairs & Maintenance	54.200.00	58.090 00	10 145 00
Postage & Supplies	3.961.00	3 961 00	656 00
Security Service	5.644.00	6.049 00	1 536 00
Real Estate Taxes	68.713.00	69.430 00	-
NYS Corp Tax	29.00	29 00	29 00
NYC Corp Tax	300 00	25 00	25 00
Legal & Professional	3.946 00	7 160 00	475 00
Accounting	1 900.00	4 450 00	2 250 00
Misc	3.746.00	1 095 00	-
Total	198.817.00	216.564 00	47 282 00
Interest Expense	96.687.00	96 687 00	22 902 00
Total with Interest Expense	295 504.00	313 251 00	70.184 00

This statement is true and correct

Claude Simon Pres 160 Madison Avenue Owners Corp

Real Estate Board of New York Semi-Annual Retail Report

MEDIAN ASKING RENT: MAJOR RETAIL NEIGHBORHOODS

ALL AVAILABLE SPACE (GROUND FLOOR, LOWER LEVEL, UPPER LEVEL, MEZZANINE)

	Fall 2010	Spring 2010	Fall 2009	% Change From Spring 2010	% Change From Fall 2009
MANHATTAN	$85	$85	$85	0%	0%
EASTSIDE	$124	$120	$124	3%	0%
60th Street to 96th Street, Fifth Avenue to the East River					
WESTSIDE	$105	$104	$105	1%	0%
60th Street to 116th Street, West of Morningside Park					
MIDTOWN	$100	$93	$90	8%	11%
35th Street to 59th Street					
MIDTOWN SOUTH	$76	$80	$78	-4%	-3%
15th Street to 34th Street					
DOWNTOWN	$80	$82	$84	-2%	-5%
South of 14th Street					
UPPER MANHATTAN					
97th Street and higher, Fifth Avenue to the East River;	$54	$52	$50	4%	8%
116th Street and higher, West of Morningside Park					

LEGAL DESCRIPTION

SCHEDULE A

Description of Land

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, County of New York, City and State of New York, bounded and described as follows:

BEGINNING at a point on the westerly side of Madison Avenue distant 73 feet 11 ½ inches northerly from the corner formed by the intersection of the westerly side of Madison Avenue and the northerly side of 32nd Street;

RUNNING THENCE Northerly along the westerly side of Madison Avenue 24 feet 7 inches;

THENCE Westerly part of the distance through a party wall 95 feet;

THENCE Southerly parallel with Madison Avenue 24 feet 7 inches;

THENCE Easterly parallel with 32nd Street and part of the distance through a party wall 95 feet to the westerly side of Madison Avenue to the point or place of BEGINNING.

CERTIFICATE OF OCCUPANCY

Date March 4,1941

CERTIFICATE OF OCCUPANCY

(Standard form adopted by the Board of Standards and Appeals and issued pursuant to Section 646 of the New York Charter, and Sections C26-181.0 to C26-187.0 inclusive Administrative Code 2.1.3.1. to 2.1.3.7. Building Code.)

This certificate supersedes C. O. No. 4571

To the owner or owners of the building ~~or premises~~

THIS CERTIFIES that the ~~new~~ altered ~~existing~~ building ~~premises~~ located at

160 Madison Avenue
24'7" front

Block 862 Lot 20

, conforms substantially to the approved plans and specifications, and to the requirements of the building code and all other laws and ordinances, and of the rules and regulations of the Board of Standards and Appeals, applicable to a building of its class and kind at the time the permit was issued; and

CERTIFIES FURTHER that, any provisions of Section 646F of the New York Charter have been complied with as certified by a report of the Fire Commissioner to the Borough Superintendent.

~~N.B. no.~~ Alt. No.— 538-1940 Construction classification—fireproof

Occupancy classification— factory . Height 7 stories, 75 feet.

Date of completion— August 15,1940 . Located in restricted retail Use District.

B Area 2 . Height Zone at time of issuance of permit 2965-1940

This certificate is issued subject to the limitations hereinafter specified and to the following resolutions of the Board of Standards and Appeals: (Calendar numbers to be inserted here)

PERMISSIBLE USE AND OCCUPANCY

STORY	LIVE LOADS Lbs. per Sq. Ft.	PERSONS ACCOMMODATED MALE	FEMALE	TOTAL	USE
Cellar					Printing shop and boiler
1st Story	120			25	Store
Mezzanine	120			15	Store
2nd Story	120			25	Offices, showrooms and Factory
3rd "	120			25	
4th "	120			25	
5th "	120			25	
6th "	120			25	
7th "	120			25	
					Note: Not more than 25% of floor area to be used for wholesale manufacturing for the 2nd to 7th stories.
					Note: Not more than 25% of the floor area to be used for incidental manufacturing on cellar and 1st floor.
					Fire alarm system approved by Fire Department November 15,1940.

[signature]
Borough Superintendent.

(Page 1)

ENGAGEMENT LETTER

INTERVEST NATIONAL BANK
ONE ROCKEFELLER PLAZA – SUITE 400
NEW YORK, NEW YORK 10020-2002
TEL: (212) 218-8383 FAX: (212) 218-8390

FDIC INSURED

INTERNET BANKING WWW.INTERVESTNATBANK.COM

FLORIDA DIVISION
625 COURT STREET
CLEARWATER, FLORIDA 33756
TEL: (727)442-2551/FAX: (727)446-4932

BRANCHES
CLEARWATER
1875 BELCHER RD. N. 727-791-6115
3175 NURSERY RD. 727-536-6229
2575 ULMERTON RD. 727-556-2755
483 MANDALAY AVE. 727-448-0961
S. PASADENA
6750 GULFPORT BLVD. 727-344-2265

LOWELL S. DANSKER — CHAIRMAN & CHIEF EXECUTIVE OFFICER
KEITH A. OLSEN — PRESIDENT
JOHN J. ARVONIO — SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

In reply, please refer to:

April 19, 2011

By Fax 646-365-0509 &
By Email rhrvalre@verizon.net

RHR Valuation Services, Inc.
Attn: Richard Robbins
501 Arthur Street
Centerport, NY 11721

Re: 160 Madison Avenue
New York, NY

Dear Richard:

Per our conversation today regarding the real estate appraisal request for a "Fair Market Value" of the fee simple interest and/or leased fee interest, if applicable, in the above referenced property, please accept this letter as confirmation of the mutually agreed upon appraisal **assignment** for a Complete Narrative Appraisal/Self Contained Report in conformance with the standards set forth in Schedule A.

The appraisal shall be performed for an agreed fee of **$3,500** and you will provide the undersigned with **two (2)** original reports, each manually signed by the appraiser, and **one** (1) in CD using PDF format. Please address the appraisal to: **George Theodotou, Asst. Vice President, Intervest National Bank**. Said report shall be delivered no later than **Tuesday, May 10, 2011**. The date for delivery may be extended due to unforeseen circumstances provided the extension is approved by the lender in advance of the original delivery date.

I am enclosing the property description with Income & Expense, and Rent Roll. The contact for inspection is Mr. Claude Simon, 912-529-4800 or 912-441-0062 (cell).

Please note the appraisal must specifically include the insurable value of the property.

Please sign and return the enclosed copy of this letter accepting the engagement.

Sincerely,

Sally Wang

Sally Wang,
Asst. Vice President

Accepted and Agreed:

R. Robb

Date: 4/25/11

SUBSIDIARIES OF INTERVEST BANCSHARES CORPORATION
NASDAQ SYMBOL- IBCA

ENGAGEMENT LETTER

SCHEDULE A

INTERVEST NATIONAL BANK
APPRAISAL REQUIREMENTS

The following guidelines must be followed in the preparation of your appraisal report. These guidelines will represent minimum standards as required by the Bank and will be reviewed according to the following:

1. The appraisal, analysis, opinions and conclusions should be prepared in conformance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Standards Board of the Appraisal Foundation (as required by the Financial Institutions Reform, Recovery and Enforcement Act - FIRREA), except that the departure provision of the USPAP shall not apply to federally regulated transactions for a complete appraisal assignment.

2. Disclose any steps taken that were necessary or appropriate to comply with the Competency Provision of the USPAP.

3. The Appraisal must be based on the following definition of market value.

Market Value as defined in Chapter 12, Code of Federal Regulation, Part 34.42(f) is; "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

a. Buyer and seller are typically motivated;

b. Both parties are well informed or well advised, and acting in what they consider their own best interests;

c. A reasonable time is allowed for exposure in the open market;

d. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

e. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

4. On one- to four-family residential properties, you should disclose, analyze and report, in reasonable detail, any transactions which occurred within one (1) year preceding the date your report is prepared. For all other properties, a period of three (3) years is required.

5. All appraisals must be written and in narrative form or on appropriate forms for the property type which results in a complete appraisal report. The reports must be sufficiently descriptive to enable a reviewer or user to readily ascertain the estimated value reported and rationale for the estimate. The report should also provide detail and depth of analysis that reflect the complexity of the real estate being appraised. If the appraiser departs from one or more of the three approaches to value, then it must be agreed to ahead of time by both parties, and it must be clearly disclosed in the appraisal report.

QUALIFICATIONS OF APPRAISER
RICHARD H. ROBBINS

I have over twenty-four years experience in the appraisal of commercial real estate including multi-family residential, industrial, office, vacant land and various specialty properties. This experience includes the preparation of narrative reports and covers the Metropolitan New York region including Long Island, New Jersey and several other states. I have prepared appraisals for the purposes of equity and mortgage investment, estate and gift tax purposes, transfer, insurance, and tax certiorari.

APPRAISAL EXPERIENCE

6/97 - Present RHR VALUATION SERVICES, INC.
Centerport, New York
President

2/94 – 6/97 SCHACKER APPRAISAL SERVICES
Melville, New York
Originator / Senior Vice President

4/92 - 2/94 FGH APPRAISAL SERVICES, INC.
Melville, New York
Senior Appraiser

12/86 - 4/92 GOODMAN-MARKS ASSOCIATES
Mineola, New York
Staff Appraiser

Education

State University of New York, College at Buffalo
Bachelor of Science Degree in Criminal Justice; May, 1976

Appraisal Institute and Related Courses

Course 101-Introduction to Appraisal of Real Property
Course 102-Applied Residential Property Valuation
Course 201-Principles of Income Property Appraising
Course 202-Applied Income Property Valuation
Course 410- Standards of Professional Practice Part A
Course 420- Standards of Professional Practice Part B
Course 430- Standards of Professional Practice Part C
Demonstration Appraisal Report
Professional Practice Seminar
FIRREA Overview and Practical Applications

Appraisal Licenses

New York State Certified General Real Estate Appraiser
Certificate No. 46000004629

Professional Affiliations

Appraisal Institute-MAI Candidate
Long Island Chapter 201