METROPOLITAN VALUATION SERVICES
REAL ESTATE CONSULTING AND APPRAISAL

June 23, 2008

Hon. Meenakshi Srinivasan, Chairperson
New York City Board of Standards and Appeals
40 Rector Street
New York, NY 10007

re: Congregation Shearith Israel
6-10 West 70th Street
New York, NY
74-07-BZ

Dear Chairperson Srinivasan:

This letter is written in response to the reply submission of Freeman/Frazier dated June 17, 2008. I am a Member of the Appraisal Institute, holding the MAI designation. The Appraisal Institute is recognized as the nation's preeminent professional real estate appraisal organization. I also possess a license issued by the State of New York to conduct real estate appraisals of commercial properties in the New York. Being an MAI and holding a State issued appraisal license means that I was required to complete extensive specialized education, pass numerous examinations and testing. Additionally, it means that I must conform and produce work consistent with the Uniform System of Professional Appraisal Practice (USPAP), which also governs the ethical conduct of appraisers. Mr. Freeman curriculum vitae doe not indicate if he is a member of any recognized real estate appraisal organization or possesses any valuation license that would hold him accountable for the egregious distortions and misrepresentations contained within his many submissions already presented in this matter. I have been conducting valuation and appraisal services for large institutional lenders and investors in New York City for more than thirty-three years. I believe that were I to have produced the reports prepared by Freeman/Frazier, it is quite possible that administrative review by my peers could result in the loss of both my professional designation and state license, so flawed and biased are the Freeman/Frazier submissions.

So qualified, my expert opinion of the Freeman/Frazier June 17, 2008 submission is as follows.

Acquisition Cost

Freeman/Frazier (FF) provides a new Scheme A scenario analysis (the titled "Revised Proposed Development) in which they continue to use $12,347,000 as the Acquisition Cost the for the development rights assigned to the two floors of residential condominium space they envision. This developable building area is what remains of the as of right buildable area, as per zoning, after all the programmatic requirements of Congregation Shearith Israel are accommodated. Apart from the errors and poor judgment employed in reaching this value, it is my expert opinion that is entirely improper to provide an analysis of economic feasibility whereby the value of an entire building envelope is assigned to just a small portion of that building envelope. Their analysis is totally without merit, as there exists no valuation principles which justify such an approach, as it defies all economic common sense and market principles.

In their latest submission, the property owner (Shearith Israel) retains the lower two-thirds of the development envelope for their own use yet presumes that a potential developer of the remaining one-third of the site would pay for 100% of the site. This assumption hardly merit discussion, yet has been employed in each and every FF submission, despite object and without explanation or justification, and maintains each time that “We have already adequately addressed these objections in our prior responses.” The absurdity of their economic analysis is illustrated by the fact that the site acquisition cost (i.e. the land) actually exceeds the sale of the as built condominiums envisioned to be constructed on the site. Given the enormity of this false economic construct, it is difficult to understand why it continues to be proffered as justification of economic hardship.

Construction Costs

The opposition pointed out in their last submission that FF had failed to include all pages of the McQuilken Construction Cost estimates. Finally, in the June 17, 2008 submission, FF provided the complete estimates for three proposed scenarios. However, as has been their practice, they once again failed to provide the complete estimates for the two important as of right schemes, Scheme A and Scheme C. FF has been questioned repeatedly about the apparent skewing of allocated construction costs, suggesting that to many costs have been unreasonably charged to the residential component. FF has consistently either ignored this request for data. The newly provided information does finally provide insight into their allocation assumptions, as to what is "school" and what is "residential." On page 15 of the Proposed Estimate, the last page of FF's June 17, 2008 package, is reproduced as follows:

MC QUILKIN ASSOCIATES INC. — **DATE: 5/8/08**
PROJECT: CONGREGATION SHEARITH ISRAEL — **REV:**
LOCATION: NEW YORK, NY

PROPOSED APARTMENT MATRIX

Type	4	5	6	7	Penthouse	TOTALS
2BD 2BTH	1	-	-			1
2BD 2 1/2 BTH		-	-		1	1
4BD 3 1/2 BTH		1	1	1		3
TOTAL	1	1	1	1	1	5
Kitchens	1	1	1	1	1	5
Beds	2	4	4	4	2	16
Master Baths	1	1	1	1	1	5
Baths	1	2	2	2	1	8
Powder	-	1	1	1	1	4

We note that McQuilken Associates have included as a residential unit the 1,200 square foot caretaker's apartment on the fourth floor, and then made the mistaken assumption that "apartment" was equivalent to "condominium" and then included the construction cost of the "community" apartment as part of the condominium construction estimates. Given that the FF residential component had a total hard and soft cost of $7,699,000 or $1,448 per sellable square foot, their inclusion of 1,200 feet more in the residential component is thus overstated by $1,737,600. Thus, each and every one of their submissions has miscalculated profit by understanding the profit by $1,737,600.

A simpler, and clearly more objective analysis of a mixed-use development, as requested by the Board, would be to cost out a building with only community space, thus a four floor building here, and then cost out the complete as of right mixed-use building, including community space and condominiums. Then, the incremental cost of the condominium component could be clearly determined. Otherwise, the basis for allocation cannot be determined. For example, in the FF approach, the school component is not charged for a roof.

Return on Equity and Relevance of Original Cost

There is a difference between a reasoned expert opinion and one that is purely conclusory. FF, which is claiming to be a valuation expert, offers only conclusory opinions that return on equity is not the appropriate method and that original cost is not a factor to be utilized in determining reasonable return.

As to return on equity, FF states "We also have noted that this is a typical methodology utilized in professional real estate analyses for condominium projects in general." I completely disagree and note that the Board of Standards and Appeals own instructions require a return on equity analysis. FF continues to respond to criticism resulting from contradictions in their methodology. For example, they state that they estimate profit on an unleveraged investment yet deduct financing costs. Although clearly performing inconsistent and contradictory analyses, the FF June 17, 2008 letter fails to respond to the extremely large valuation error. An error that once again supports their unsupportable assumption, that the as of right development of this rectangular shaped, level site located just off Central Park West, is not economically feasible.

Income From School

FF claims that figures for school rental income and capitalization in prior filings were merely hypothetical. Further, FF provides neither the current rent or the rent negotiated with the Beit Rabban School for the new building. When constructing a build-to-suit for a specific tenant (such as the school), it is common practice to negotiate a lease prior to construction. If a construction loan were required to construct the property, both the construction and permanent lenders would require such a lease. As the facility to be constructed is both a build-to-suit and, according to the submission, is to be financed with a construction loan, one would reasonably expect to see a lease for the premises. It is the applicant's burden to provide this information, and they have chosen not to do so. Typically, the lease rate is a function of the cost to build the improvements, factoring in land value and the rent represents a reasonable return on the total investment cost.

It is interesting to note a number of undisputed facts in the record. Beit Rabban's IRS filings show rent paid of $480,000 a year. The charts and tables provided by the Congregation show that classroom space is to be doubled, suggesting that rent for the new facility should be at least $1,000,000 per year..

Common Sense

As a designated expert in real estate appraisal and valuation, I can state unequivocally that with few exceptions, a good appraisal or evaluation should be able to be understood by virtually anyone. That's because the assumptions underlying the analysis should be consistent and based on simple common sense. When an expert's conclusions defy common sense, such as the conclusory and unreasoned statements offered by FF, the results must be presumed unreliable.

Inconsistency runs amok in the FF reports; from the land value, the construction costs, soft costs, saleable area measurement, profit calculation. Justifying their inconsistencies, sometimes FF cite BSA "submission practice" (which they do not document, only assert), yet most of the time they ignore the BSA's own directives for submission documentation.

Common sense is to be suspended if one is accept the FF submissions. Developers are to pay for development rights they are not sold, monies received by the seller in the form of "acquisition costs" disappear from the profit accounting, construction loan interest and lender's fees are paid but no financing is assumed, the return to equity (as required by the BSA) is measured as a return on total investment rather than the equity investment. In the parallel universe of Freeman/Frazier, the laws of economics as we know them are suspended and always changing. What is stated as fact one day is lost the next in a fog of yet another development scheme and cost estimates.

Common sense is simple. Repeated attempts by Freeman/Frazier to prove that this regularly shaped rectangular level site, located just off Central Park West is not economically feasible to develop within the as of right zoning criteria is a notion that defies rational discussion and common sense. Through gross distortions, manipulative and questionable arithmetic, uncertain and apparent bias in the apportionment of construction costs, unsound economic assertions and conflicting value assumptions, does FF make a case for economic hardship. Given the enormity of these flaws, errors and flaws contained within their many submissions, it should be a simple matter to conclude that granting a variance based upon economic hardship is totally without merit.

Very truly yours,

METROPOLITAN VALUATION SERVICES, INC.

By: Martin B. Levine, MAI
Chairman
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