

INTRODUCTION

The following has been prepared for the Friedman & Gotbaum LLP, in order to assess the financial feasibility of two development scenarios for a property at **121-125 East 85th Street** (Block 1514, Lots 10, 13) located on the Upper East Side of Manhattan. The subject property is located on the north side of East 85th Street, just west of Lexington Avenue. The subject site totals 15,575 square feet of lot area, improved by a low-rise synagogue building (Lot 10) occupied by Congregation Kehilath Jeshurun (CKJ), and an eight-story community facility building (Lot 13) occupied by the Ramaz School (Ramaz) and Congregation Kehilath Jeshurun. The subject property contains a split-zoning designation, R10 and C5-1.

Under current zoning (maximum FAR 12.0), the total floor area that can be developed is 186,900 square feet. It is the intent of both the "as-of-right" and proposed plan to preserve the synagogue building on Lot 10 and provide the enlarged community facility space required by the CKJ/Ramaz School to meet their mission. In order to achieve both objectives, both development scenarios incorporate a residential condominium component that will purchase the excess development rights from the CKJ/Ramaz School to partially fund the school expansion.

Under the "as-of-right" plan, the building configuration results in an FAR floor area of 149,181 square feet, approximately 37,700 square feet less than the maximum allowable floor area. This plan, given its height and setback restrictions, and the need to cantilever over the roof of the existing synagogue building is burdened by the additional construction costs (approximately \$25 per square foot) associated with the cantilever and limited sellable residential area due to the "leaving of 37,700 square feet of floor area "on the table."

The proposed plan provides for 186,241 square of FAR floor area and is presented as a taller building primarily occupying Lot 13, with very little encroachment over the existing synagogue building. The proposed plan benefits from the full amount of allowable building area as well as construction costs that reflect a more standard building envelope. However, the proposed plan, although within the FAR limitations, does not conform to certain height, rear yard, lot coverage, street wall and setback requirements, and therefore, the applicant seeks a variance for this project.

The economic analysis only discusses the residential development portion as it is the only component that generates income. The land value allocated to the existing synagogue and the CKJ/Ramaz portions are reflected in the adjusted site value, detailed in the "Site Valuation" section of this report.

None of the costs associated with the construction of the new CKJ/Ramaz School facility have been analyzed in this report including any extraordinary costs associated with the need for sub-cellars in order for the school to meet their programmatic needs. All of these costs are assumed to be borne by CKJ/Ramaz and are deemed irrelevant to the economic performance of the residential project under analysis, but necessary to meet the programmatic needs of the school and synagogue.

Summary of Findings & Conclusion

The subject site is situated on the north side of East 85th Street, just west of Lexington Avenue on the Upper East Side of Manhattan. The total lot area approximates 15,575 square feet. The property is has a split-zoning designation, R10 and C5-1, and has a maximum FAR of 12.0, or 186,900 square feet.

The "as-of right" scenario would create a total of 149,181 square feet of zoning floor area, which consists of the existing synagogue building, space for the use of CKJ/Ramaz, and a residential condominium development. Overall, it falls short of the allowable building area of 186,900 square feet, limiting the sellable residential area. Additionally, given the height and setback requirements, the "as-of-right" plan reflects a building configuration (building over the roof of the synagogue) that contains additional construction costs. The limited space and the higher costs do not provide for a viable project.

The proposed plan, which also contains the existing synagogue building, space for the CKJ and Ramaz School and a residential condominium component provides for 186,241 square of total floor area and is presented as a taller building primarily occupying Lot 13, with very little encroachment over the existing synagogue building. The proposed plan, which benefits from the full amount of allowable building area and construction costs reflecting a more standard building envelope, results in an economically viable project. Although conforming to FAR requirements, a variance is requested to address the height, rear yard, street wall, lot coverage, and setback issues among others.

Exhibit 1

Project Value and Profit Summary				
	Project Cost	Project Value	Project Value/Loss	Annual Return as % of Cost
"As-of-Right" Option	\$58,178,006	\$38,960,535	-\$19,217,471	-(18.0%)
Proposed Plan	\$77,668,425	\$89,986,955	\$12,318,530	6.3%

SITE DESCRIPTION

The site consists of a 15,575 square foot parcel (Lots 10 & 13) on Block 1514 on the Upper East Side of Manhattan. Combined, both lots combined provide about 150 feet of frontage along East 85th Street, with about 100 feet of depth. The subject property contains a split zoning designation, R10 and C5-1. Lot 10 is occupied by the Congregation Kehilath Jeshurun synagogue, and Lot 13 is improved with an eight-story community facility building occupied by the CKJ/Ramaz.

Adjacent uses include high rise multiple dwellings up to 30 stories tall, smaller multiple dwellings and community facility structures.

A map of the subject property is presented.

ZONING & DEVELOPMENT OPTIONS

Under current zoning (maximum FAR 12.0), the total floor area that can be developed is 186,900 square feet. It is the intent of both the "as-of-right" and proposed plan to preserve the synagogue building on Lot 10 and provide the much need community facility space required by CKJ/Ramaz. In order to achieve both objectives, both development scenarios incorporate a residential condominium component. Given height and setback requirements the "as-of-right" and proposed development plans are configured differently which impact the economic viability of each scenario.

1. **"As-of-Right"- Residential & Community Facility-** The construction of a mixed use facility containing 168,452 of above grade gross building area in a 16 story building with 149,181 square feet of FAR floor area, which is approximately 37,700 square feet less than allowed under current zoning. The project will contain 24 residential units sitting above a 10 story community facility building. The net residential square footage of the mixed use building will be 34,337 square feet. This income producing residential portion is the only part of the building under analysis.
2. **Proposed - Residential Development & Community Facility -** The construction of a mixed use facility containing 204,788 of above grade gross building area in a 28 story building with 186,241 square feet of FAR floor area. The project will contain 53 residential units sitting above a 10 story community facility building. The net residential square footage of the mixed use building will be 69,991 square feet. This income producing residential portion is the only part of the building under analysis.

SITE VALUATION - "AS IS"

The value of the subject site is based on the recent sales of under-utilized and vacant land in the Upper Manhattan area. **Exhibit 2** presents recent property sales, and for each of these properties, the sales price per square foot, given the applicable zoning FAR, is represented by the sales per allowable building area (ABA) square foot. Even though all of the noted sales are similar to the subject and are in close proximity to the subject site, we have made several adjustments to determine comparability, especially as relates to time of sale, size, and location, as the site is particularly well located between Park and Lexington Avenues in the very desirable Upper East Side. **Exhibit 2** provides an adjusted average for the property sales.

Exhibit 2

Property Sale Comparables - Adjustment Grid

	NO. 1	NO. 2	NO. 3	NO. 4
Location	439 E 77 St	429 E 74 St	1655 Madison Ave	1427-29 2 Ave
Block/Lot	1472-17	1469-14	1616-21	1429-23&24
Zoning	R8B	R8B	R7-2	C1-9
Lot Size (SF)	7,236	6,554	1,875	3,081
ABA SF	28,944	26,216	6,450	36,972
Sales Date	7/6/2006	6/1/2006	1/23/2006	7/21/2005
Sales Price	\$12,300,000	\$10,151,200	\$2,650,000	\$14,260,940
Price/ABA SF	\$424.96	\$387.21	\$410.85	\$385.72
Adjustment Factors				
Time	1.00	1.00	1.05	1.10
Location	1.00	1.05	0.90	1.03
Size	1.10	1.10	1.10	1.10
Zoning	1.00	1.00	1.00	1.00
Composite Adj.	1.10	1.16	1.04	1.25
Adj. Price/ABA SF	\$467.45	\$447.23	\$427.08	\$480.73
Avg. Adj. Price/ ABA SF		\$455.62 /ABA SF		

Based on the above comparables, and the 10 FAR allowable for the site without any bonuses, the site would have a market value as follows:

Subject Site:

R10/C5-1 Land (Block 1514, Lots 10, 13)

15,575 SF @ 10.0 FAR = 155,575 ABA SF

155,575 ABA SF @ \$445.56/ABA SF = \$70,963,363

Total Site Value = \$ 70,963,363

However, we have adjusted the total site value shown above to reflect the existing synagogue building which is to remain on site, and the community facility space associated with CKJ/Ramaz. The total amount of space for both these community facility religious uses represents 60.6% of the total allowable buildable area excluding bonuses (ABA SF).

In effect, the developer is left with 61,366 square feet of ABA SF (excluding any bonuses) and therefore we have reduced the total site value to reflect this development potential. Therefore, we have utilized \$27,959,793 as the Site Value in the pro forma analysis. Again it must be noted that any permitted bonuses in FAR have not been valued.

COMPARABLE LEASES AND SALES

Residential Condominium Sale Comparables

The "as-of-right" and proposed plan incorporates market-rate residential development. The "as-of-right" scheme the plan includes a 6-story, 24 unit condominium building atop the existing Synagogue and new and expanded CKJ/Ramaz. The proposed plan calls for a 53 unit condominium apartment building along with the new and expanded CKJ/Ramaz. These units have an average size that ranges from of approximately 1,431 square feet to 1,310 square feet respectively. Exhibit 3 presents recent sales in several newly constructed condominiums in the area.

Exhibit 3

Residential Apartment Sales Comparables - Adjustment Grid

	NO. 1	NO. 2	NO. 3	NO. 4	NO. 5
Location	171 East 84th St	1437 Third Ave	150 East 85th St	201 East 80th Street	350 East 82nd St
Block & Lot	1513 (Avg-14 Units)	1527/ (Avg-6 Units)	1513/ (Avg 7 Units)	1526/NA	1544/ (Avg 5 Units)
Unit Size	997	1,335	827	1,949	884
Sale Date	2006-7	2006	2006	Asking	2007
Sales Price	\$1,130,600	\$1,429,167	\$867,000	\$2,800,000	\$914,000
Sales/SF	\$1,134.00	\$1,070.40	\$1,048.01	\$1,436.63	\$1,034.40
Adjustment Factors					
Time	1.00	1.05	1.05	0.95	1.00
Location	1.00	1.05	1.00	1.00	1.10
Size	1.00	1.00	1.05	1.00	1.00
Condition	1.00	1.00	1.00	1.00	1.00
Composite Adj.	1.00	1.10	1.10	0.95	1.10
Adj. Price/SF	\$1,134.00	\$1,180.12	\$1,155.43	\$1,364.80	\$1,137.85
Avg. Adj. Price/SF – Condo			\$1,194.24	/SF	

Based on the above sales comparables, conversations with real estate brokers familiar with the area and the floor plans for the both the "as-of-right" and the proposed plan, we expect the apartment units to have an average selling price of \$1,135 per square foot for the "as-of-right" units and \$1,285 per square foot for the condo units in the proposed plan.

These figures represent the average for each scenario based on the stacking plans presented in the Appendix. The higher average for the proposed design is due to the additional height of the proposed building.

Comparable Rate Summary

Exhibit 4 below summarizes the adjusted comparable rates for the permitted use as well as the proposed non-conforming use on the site. Additionally, Exhibit 4 presents the rounded rates that will be used in the financial pro forma analysis of each development scenario.

Exhibit 4

Comparable Rates and Pro-Forma Rate Summary

Use	Comparable Rate	Pro Forma Rate
Site Value	\$27,959,793	\$27,959,793
Residential Condo (As-of-Right)	\$1,194.44/SF	\$1,134.00 /SF
Residential Condo (Proposed)	\$1,194.44/SF	\$1,285.00 /SF

COST ANALYSIS

Costs for each of the scenarios analyzed were provided by McQuillkin Associates, Inc. They take into account the additional cost of the cantilever over the Synagogue in the "as-of-right" scenario. The details of these costs are presented in the application.

"As-of-Right" Multi-Story Residential Building

The total cost of the residential portion of the as-of-right project is estimated to be approximately \$20.91 million or \$334.50 per above grade residential area.

Proposed Multi-Story Residential Building

The total cost of the residential portion of the proposed project is estimated to be approximately \$32.77 million or \$310.30 per above grade residential area.

Exhibit 5

Construction Cost Summary

Use	Pro Forma Rate
"As-of-Right" Residential Building	\$334.50/sf
Proposed Residential Building	\$310.30sf

PRO FORMA ANALYSIS

Exhibit 6 presents the "Basic Development Assumptions" for the various development scenarios. **Exhibit 7** presents a summary of costs, income, and expenses for each development scenario, as well as an investment analysis. **Exhibit 8** presents a breakdown of the development costs for each scenario, including land valuation, base construction costs, FF &E costs, financing and soft costs. Additionally, a breakdown of the soft costs and financing costs for each scenario is presented.

Economic and Financial Assumptions

The **building size, zoning floor areas, and the rentable areas**, are as per the architectural schemes prepared by FXFOWLE Architects P.C. The **hard construction costs** are as per McQuillkin, Associates, Inc.

The **construction loan rate** is based on the average paid in a survey of 312 appraisers, lenders and developers taken by *RealtyRates.com* in the 4th quarter of 2006. The average rate for a construction loan was 2.50% over prime. The lowest rate paid was 0.25% over prime. We have used 0.25% above the prime rate of 8.75%. The **construction loan amount** is equal to 85% of the total cost of construction and land, as this is the average loan to cost ratio according to the *RealtyRates.com* survey.

Lease and sales rates for each use are based on our analysis of comparable leases and/or sales and have been used as the basis for the prices indicated for each unit in the stacking plan.

Vacancy rates have been adjusted depending on use and reflect the current vacancy rate in the market for each use. **Current and New Real Estate Taxes** are the actual 2007 taxes on the property on the property and the exemption that currently exists has been used as the basis for taxes during construction. Condominium unit owners are expected to pay their own real estate taxes.

Soft costs are based on industry standards for each type of development, envisioned in each scenario. Where they are typically calculated on a percentage basis, this is shown in **Exhibit 8**.

Exhibit 6

Basic Development Assumptions

	As of Right Residential Use	Proposed Residential Use
Site Area	15,575	15,575
Total Gross Above Grade Building Area	62,512	105,617
Total FAR	9.6	12.0
Rentable/Saleable Area		
Residential Condo Apt Units (SF)	34,337	69,991
Construction Loan Rate	9.00%	9.00%
Lease up Time - Months	6	12
Construction Loan Amt.	\$41,539,555	\$51,623,211
Site Value	\$27,959,793	\$27,959,793
Lease & Sales Rates - Sq. Ft.		
Residential Apt Units/SF	\$1,134.65	\$1,285.69
Base Constr. Costs/sf -Resid	\$334.50	\$310.30
Base Constr. Costs	\$20,910,272	\$32,773,397
Management	5%	5%
Current Real Estate Taxes	\$0	\$0
New Real Estate Taxes	\$0	\$0

Exhibit 7

Pro Forma Analysis Summary

	As of Right Residential Use	Proposed Residential Use
Building Area (Sq. Ft.)		
Residential Area (SF)	34,337	69,991
Capital Investment Summary		
Site Value	\$27,959,793	\$27,959,793
Base Constr. Costs	\$20,910,272	\$32,773,397
Est. Soft Costs	\$9,307,941	\$16,935,235
Special Costs	\$0	\$0
Est. Total Dev. Costs	\$58,178,006	\$77,668,425
Return on Investment		
Project Development Cost	\$58,178,006	\$77,668,425
Less Residential Apt Sales	(\$38,960,535)	(\$89,986,955)
Est. Project Value/Profit	(\$19,217,471)	\$12,318,530
Annual Return As % of Cost	-18.0%	6.3%

Exhibit 8

Development Cost Summary

		As of Right Residential Use	Proposed Residential Use
	Basis		
Land & Bldg Value		\$27,959,793	\$27,959,793
Base Constr. Costs		\$20,910,272	\$32,773,397
Est. Soft Costs		\$9,307,941	\$16,935,235
Special Costs		\$0	\$0
Est. Total Dev. Costs		\$58,178,006	\$77,668,425
Est. Const. Loan Amount		\$41,539,555	\$51,623,211
Est. Const. Period (Mo.)		16	18
Est. Soft Costs:			
Archit. & Engin. Fees	5.0%	\$1,045,514	\$1,638,670
Construction Management	3.0%	\$627,308	\$983,202
Inspections, Borings & Surveys		\$25,000	\$25,000
Dev. Legal Fees		\$100,000	\$75,000
Permits & Approvals		\$20,000	\$50,000
Accounting		\$10,000	\$10,000
Real Property Tax		\$0	\$0
Insurance	2%	\$418,205	\$655,468
Appraisal Fees		\$30,000	\$30,000
Title Insurance	0.3%	\$95,063	\$95,063
Transfer Tax	1.75%	\$681,809	\$1,574,772
Con. Loan Int. Loan Rate@	8.75%	\$3,427,013	\$5,807,611
Con. Lender Fees	1.00%	\$415,396	\$516,232
Con. Lender Legal		\$50,000	\$50,000
Bank Inspect. Engin.		\$25,000	\$25,000
Residential Brokerage	6%	\$2,337,632	\$5,399,217
Total Est. Soft Costs		\$9,307,941	\$16,935,235