

APPRAISAL
of
Pier 86 of the Hudson River Park
Block 1107, Lot 30
New York, New York 10036

SUBMITTED TO

Hudson River Park Trust
353 West Street
Pier 40, 2nd Floor
New York, NY 10011



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January 14, 2021

Hudson River Park Trust
353 West Street
Pier 40, 2nd Floor
New York, New York 10014

**Re: Pier 86 of the Hudson River Park
Block 1107, Lot 30**

To Whom It May Concern:

In accordance with your request, we have prepared an appraisal report of the above captioned property, herein referred to as the “subject property” or “subject”. The purpose of the appraisal is to render an opinion of the current fair market rental value (“market rent”) of the subject property as of January 1, 2020 given the use restrictions contained in the proposed lease between the Hudson River Park Trust, a New York State public benefit corporation, as landlord, and the Intrepid Museum Foundation, a New York State not-for-profit corporation, as tenant (the “Proposed Lease”). The intended use of the appraisal is to provide information in connection with the potential disposition of the leasehold interest by Hudson River Park Trust under the Proposed Lease. The intended user of this report is the client, Hudson River Park Trust. The report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice and Code of Ethics of the Appraisal Institute.

The subject of this report is identified as Pier 86 of the Hudson River Park at West 46th Street, New York, New York. It is legally defined as Block 1107, Lot 30. The subject property is located between Hudson River Park’s Pier 84 and the Manhattan Cruise Terminal’s Pier 88. It comprises a pier structure, bulkheaded land upon which is situated a Welcome Center building, lands underwater, and a narrow portion of bulkhead extending to the south. The subject is currently the home of the Intrepid Sea, Air & Space Museum which includes a Welcome Center, the historic aircraft carrier U.S.S. Intrepid upon whose deck is the Enterprise Space Shuttle, the historic U.S.S. Growler submarine, the Concorde SST supersonic airplane, and improved open space. The pier has served as the location of the Intrepid Sea, Air & Space Museum since 1982 and is in the western portion of Hell’s Kitchen neighborhood of Manhattan.

We have been advised by the client that Pier 86 is designated as a “park use” pier and permitted uses are therefore restricted to “park use.” Pursuant to the Hudson River Park Act (the “Act”), among the uses permitted on “park use” piers are: (i) public park uses, including passive and active public open space uses; (ii) historic or cultural preservation, including historic ships and vessels; (iii) public recreation and entertainment, including the arts and performing arts, on open spaces and, subject to certain limitations, within enclosed structures, and (iv) facilities incidental to public

access to, and use and enjoyment of park uses, such as food and gift concessions, information stands, and comfort stations. The Intrepid Sea, Air & Space Museum, whose occupancy at Pier 86 predates the Act, is a qualified park use. The Proposed Lease provides further definition and restricts use of the subject property to specific Permitted Uses which are comprised of Primary Uses and Ancillary Uses consistent with the “park use” provisions of the Act.

The client has advised that negotiations for the Proposed Lease were largely concluded in December 2019 and has requested an appraisal valuation as of January 1, 2020. While we are completing this valuation as of a date prior to the Coronavirus, the current health crisis cannot be ignored. The deadly Coronavirus, also known as COVID-19 has made its way across globe and has been responsible for over one million deaths. As a result of COVID-19, the Governor of the State of New York on March 7, 2020 issued Executive Order 202 declaring a New York State Health Emergency and thereafter temporarily limited certain businesses, including the Intrepid Sea, Air & Space Museum, from fully operating to prevent the spread of COVID-19. The World Health Organization officially declared COVID-19 a global pandemic on March 11, 2020.

COVID-19 has had significant negative impacts on the global economy and has been disruptive to business and supply chains across the world. It is currently difficult to measure the overall impacts on real estate values both in the short term and medium term. Suffice it to say, the US economy has contracted substantially. According to the latest advanced estimate by the U.S. Department of Commerce, the US economy shrank by 3.5% during 2020 compared to an increase of 2.2% in 2019, the largest annual decrease since 1946. Locally, unemployment in New York City as of December 2020 was 11%, and many have argued that the City’s recovery is likely to be slow and protracted.

Most economists and the Congressional Budget Office (CBO) are projecting bleak full-year figures for the local and global economies alike. Professionals vary in how they see recovery occurring in 2021 and beyond. However, most agree that we will be in a recessionary environment well into 2021. Unemployment has experienced drastic increases, and it is projected to continue to remain high into 2021. These larger economic factors and projections combined with the virtual shutdown of the retail, hospitality and other segments of the private sector are all indicators of the likely lessening demand for space of all types.

As a result of the adverse economic conditions caused by the COVID-19 pandemic, particularly as they relate to the New York City tourist market, it can be stated conclusively that the appraised market rent of the subject as of January 1, 2020 is not greater than the market rent as of the date of completion of this appraisal.

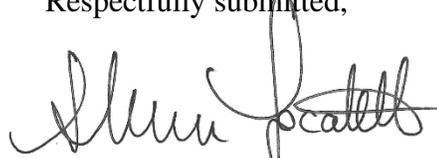
To complete this appraisal, we have employed a hypothetical condition. In our appraisal, we have solved for the market value of the subject property given the restrictions in the Proposed Lease between Hudson River Park Trust and the Intrepid Museum Foundation. Since this lease is not signed or effective, the market conditions under which the market rent is established is considered a hypothetical condition in this appraisal. The definition of a hypothetical condition can be found on page seven (7) of this report.

The following report sets forth all available data and methodology utilized in arriving at our value conclusion and should be read in its entirety. The appraisal is subject to the Underlying Assumptions and Contingent Conditions set forth on the following pages.

After an analysis of all relevant data and based upon the documentation presented within the following report, it is our opinion that the retrospective fair market rental value, given the associated restrictions of the subject property, and subject to our extraordinary assumptions, as of January 1, 2020, was:

ONE HUNDRED NINETY THOUSAND DOLLARS (\$190,000) PER ANNUM

Respectfully submitted,



Sharon Locatell, MAI, CRE, MRICS
President

State of New York Certified General Appraiser
I.D. #4600007350

APPRAISAL
of
Pier 86
Block 1107, Lot 30
New York, New York

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UNDERLYING ASSUMPTIONS AND CONTINGENT CONDITIONS

For the purpose of this appraisal, except as otherwise stated in the appraisal report, it is assumed:

1. That the legal description is correct.
2. That the title to the property is legally sufficient.
3. That there are no encumbrances or defects of title.
4. That the property is free and clear of all liens.
5. That the property will be efficiently managed and properly maintained.
6. That there are no structural conditions which are not apparent.
7. That there are no sub-surface soil conditions which would cause extraordinary development costs.

The appraisal is made subject to the following contingent conditions:

1. That no liability is assumed because of inaccuracies or errors in information furnished by others.
2. That no liability is assumed as a result of matters of legal character affecting the property, such as title defects, encroachments, liens, overlapping boundaries, party wall agreements, and easements.
3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser, and the appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. Except as the otherwise stated in the appraisal report, the value indication is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
4. This appraisal is to be used in whole and not in part. The appraisal is invalid if used in part.
5. That no survey, structural or sub-surface soil investigation was made of the property by the appraiser.
6. The appraiser herein by reason of this appraisal is not required to give testimony in court with reference to the subject property unless otherwise previously arranged.

7. Possession of this report, or copy thereof, does not carry with it the right of publication, nor may it be used for any purpose by anyone but the applicant without the previous written consent of the appraiser.
8. This appraisal was made for the purpose stated and should not be used for any unrelated purpose.
9. Each finding, prediction, assumption or conclusion contained in the appraisal report is the appraiser's personal opinion and is not an assurance that an event will or will not occur. Except as otherwise stated in the appraisal report, we assume that there are no conditions relating to the real estate, sub-soil or structures located on the real estate which would affect appraiser's analyses, opinions or conclusions with respect to the real estate that are not apparent.
10. Neither all nor any part of the contents of the appraisal report (especially the conclusions as to value, the identity of the appraiser, references to the Appraisal Institute or references to the MAI or SRA designations) shall be disseminated to the public through advertising media, public relations media, news media, sales media or other public means of communication without the prior written consent and approval of the appraiser.
11. Appraisers and Planners, Inc. has not made a specific compliance survey and analysis of the property to determine whether or not it is in conformity with the various detailed requirements of the Americans with Disabilities Act (ADA, effective January 16, 1992). It is possible that a compliance survey of the property and a detailed analysis of the ADA requirements may reveal that the property is not in compliance with one or more requirements. If so, this fact might have a negative effect upon the value of the property. Appraisers and Planners, Inc. is not an ADA expert and has no direct evidence relating to this issue. This report does not reflect possible non-compliance with the ADA or its potential negative effect on the concluded value herein.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Identification:	Pier 86 of the Hudson River Park New York, New York Block 1107, Lot 30
Location:	The subject site is situated on the westerly side of Manhattan. The subject site is a pier and abutting property along the Hudson River located on the westerly side of 12 th Avenue, directly across from West 46 th Street. The subject is located in the Hell's Kitchen neighborhood of the Borough of Manhattan, City and State of New York within Hudson River Park.
Owner:	Hudson River Park Trust under a long term lease with the City of New York.
Interest Appraised:	Market Rent with Restrictions.
Purpose of the Appraisal:	To render an opinion of the fair market rental value of the subject property, subject to the permitted uses under the Proposed Lease.
Intended Use of Appraisal:	To provide information in connection with a potential disposition by lease from Hudson River Park Trust to the Intrepid Museum Foundation.
Intended User:	The Intended User of this report is the Hudson River Park Trust, the client, and its advisors.
Property Description:	The subject property is legally identified as Block 1107, Lot 30 on the City of New York Tax Assessment Maps. It is located between Pier 84 to the south and Pier 88 to the north, within Hudson River Park at approximately West 46 th Street.
Zoning:	The subject site is zoned M2-3 subject to the further restrictions set forth in the Act.
Effective Date of Appraisal:	January 1, 2020
Fair Market Rental Value:	\$190,000 per annum

SCOPE OF THE APPRAISAL

Appraisers and Planners, Inc. has been retained by the Hudson River Park Trust to prepare an appraisal of the market rental value, pursuant to the restrictions of the Proposed Lease, of Pier 86 of the Hudson River Park.

This appraisal has been prepared in conformance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation as adopted by the Appraisal Institute and Code of Professional Ethics of the Appraisal Institute. To accomplish this assignment, the following scope of services was undertaken:

- Inspected Hudson River Park in the vicinity of 46th Street and made an exterior inspection of Pier 86.
- Analyzed demographic trends in the vicinity of the subject property: Regional, area and neighborhood data are based on published sources, the files and library of Appraisers and Planners, Inc. and our discussions with knowledgeable sources.
- Reviewed the Proposed Lease between the Hudson River Park Trust, a New York State public benefit corporation, as landlord, and the Intrepid Museum Foundation, a New York State not-for-profit corporation, as tenant.
- Analyzed zoning regulations applicable to the subject property. The subject's underlying M2-3 zoning designation is augmented by restrictions governed by The Hudson River Park Act as well as those specific permitted and prohibited uses detailed in the Proposed Lease.
- Analyzed the Highest and Best Use of the subject property based upon physically possible uses, legally permissible uses under the Proposed Lease, financially feasible uses and maximally productive uses.
- Conducted a study of retail, restaurant, museum, and special event space conditions in the subject market area. Market information is based upon published studies, the files and library of Appraisers and Planners, Inc. and our discussions with active participants and lenders in the marketplace.
- Examined all available lease and expense data pertaining to the subject property.
- Considered all approaches to value and developed the Income Approach in the valuation of the subject property.
- Provided a final market rental value, with restrictions, conclusion based upon the data and methodology set forth within the appraisal report.

IDENTIFICATION OF SUBJECT PROPERTY

The subject property is legally identified as Block 1107, Lot 30 on the City of New York Tax Assessment Maps. It is located between Pier 84 to the south and Pier 88 to the north, within the Hudson River Park at approximately West 46th Street. The subject property is located in the Hell's Kitchen neighborhood of Manhattan, County and State of New York within Hudson River Park.

PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to render an opinion of market rental value for Pier 86, given the aforementioned use restrictions.

INTENDED USE OF THE APPRAISAL

The intended use of the appraisal is to provide information in connection with a potential new lease for Pier 86 between Hudson River Park Trust as landlord, and Intrepid Museum Foundation as tenant.

EFFECTIVE APPRAISAL DATE

The effective appraisal date is January 1, 2020.

INTENDED USER

The intended user of the report is the Hudson River Park Trust and its advisors.

OWNERSHIP HISTORY

Records indicate ownership of Pier 86 is the Hudson River Park Trust under a long term lease with the City of New York. It is included as part of the Hudson River Park.

EXPOSURE TIME

Exposure time is defined as:

- 1. The time a property remains on the market.*
- 2. 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 on an analysis of past events assuming a competitive and open market.¹*

In estimating the appropriate exposure time applicable to the interest in the subject property we have considered marketing periods for similar type properties based on a survey of property listings as well as sales data and interviews with market participants.

¹ The Dictionary of Real Estate Appraisal, 6th Ed., (Illinois: Appraisal Institute, 2015), page 83

In addition, we have considered the availability of financing as of the effective appraisal date. It is our opinion that a reasonable exposure time applicable to the interest in the subject property as of the effective appraisal date is six (6) to nine (9) months.

DEFINITION OF FAIR MARKET VALUE

Market value is defined as follows:

“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:

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.”²

DEFINITION OF MARKET RENT

Market rent is defined as, “The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement, including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs).”³

DEFINITION OF HYPOTHETICAL CONDITION

Hypothetical Condition is defined as follows:

“That which is contrary to what exists but is supposed for the purpose of analysis. 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 about the integrity of data used in any analysis.”⁴

² Appraisal Institute, The Appraisal of Real Estate, 14th Edition, (Illinois: Appraisal Institute, 2013), page 59

³ Appraisal Institute, The Appraisal of Real Estate, 14th Edition, (Illinois: Appraisal Institute, 2013), page 447

⁴ Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th Ed., (Illinois: Appraisal Institute, 2010), page 97

Summary of Proposed Lease Terms

Demised Premises:	Property and improvements located at Pier 86 of the Hudson River Park, New York, New York. The “Premises” is defined in the lease as, “...adjacent upland area to the east of the Pier, the Improvements (including, without limitation, the Pier) and land-under-water associated waters and underwater lands, each within that certain area set forth in <u>Exhibit A</u> attached hereto. Premises shall not include any Trade Fixtures or the Vessels.”
Tenant Name:	Intrepid Museum Foundation, a New York State Not-for-Profit Corporation.
Landlord:	Hudson River Park Trust, a New York State Public Benefit Corporation.
Term:	Thirty (30) Years from commencement date; expected 2021.
Rental Rate:	One dollar per year.
Repair Funds:	Minimum of \$50,000 reserved by Tenant on Commencement Date to handle an assortment of repairs of the property and to provide ongoing allowance for future repairs and maintenance. In addition to basic pier and site maintenance, Tenant has obligations to make repairs to certain property components as follows:
Chiller Platform:	Per 4.03, Tenant shall make funds available for the Chiller Plant Platform Maintenance Work and Chiller Plant Platform Reconstruction Work. Upon completion of the Chiller Plant Platform Reconstruction Work the area will be incorporated into Pier Open Space for use by the public.
Southern Bulkhead:	Per 4.05 “Tenant shall be responsible for performing the Southern Bulkhead Repair Work during each Structural Repair Funding Period, subject to the cost limitation of the Southern Bulkhead Repair Cost Cap (\$150,000) [per five (5) year period]; provided that the Southern Bulkhead Repair Cost Cap shall not apply to any Southern Bulkhead Repair Work to the extent necessitated by an act of negligence or willful misconduct by Tenant or any other Tenant Party”
Repairs & Maintenance:	Per 14.01 Tenant shall maintain in good and sufficient repair and condition the Vessels and Premises, including the Pier, stair towers, the Bulkhead, all piles and foundations in addition to those supporting the Pier and Bulkhead, the Buildings, walkways, plazas,

gangways and ramps, grounds and landscaped areas, outdoor furniture, water fountains, bike racks, shade structures, quays, portals, exterior lighting fixtures, exterior signage, water, sewer and gas connections, pipes and mains located on or adjacent to the Premises, any alleys, sidewalks, sidewalk hoists, walkways/bikeways, vaults, gutters and curbs that are part of the Premises and all other Improvements.

Per 11.02, “If all or any portion of the Premises or the Improvements (including, without limitation, the Bulkhead and the Pier infrastructure) are damaged or destroyed by fire or other casualty, ordinary or extraordinary, foreseen or unforeseen (a “Casualty”), Tenant, at its sole cost and expense, whether or not such damage or destruction shall have been insured, and whether or not such insurance proceeds, if any, shall be sufficient for repairs, alterations, restorations, replacements and rebuilding, shall restore the Premises and the Improvements (as applicable) as nearly as possible to the condition in which they existed immediately before such Casualty..”

Tenant Impositions:

The lease is structured as a “net” lease whereby all operating expenses, whether ordinary or extraordinary, are the responsibility of the Tenant. We note that section 5.09 discusses the property’s tax-exempt status, and requirement of the Tenant to pay if it becomes taxable. The property is currently exempt because of its public ownership and could, subject to regulations, be exempt as well because of its not-for-profit museum use.

Utilities:

Per 6.01 Tenant obtains and pays all cost of utilities.

**Use of Premises &
Certain Other Areas**

Sections 8.01 to 8.08 detail at length the permitted and prohibited uses on the property, and the Tenant requirements to modify the uses (section 8.01(d)) and how much of the zoning floor area (ZFA) is utilized for each use. In summary, the uses are broken down into Primary and Ancillary Uses (the Permitted Uses) as well as the use of the Licensed Water Area as follows:

Primary Uses: Per 8.01, “The Premises shall be used and occupied by Tenant exclusively as, and for the operation of, the Museum including the exhibition of the Vessels, and for uses incidental thereto and in support thereof, including management and administration, maintenance, provision of information to the general public, sale of tickets, fundraising, and security (the “Primary Uses”) and for no other purpose other than the Ancillary Uses as set forth herein.

Ancillary Uses: Ancillary Uses shall include and be limited to the following: (i) access to and from the Intrepid and other incidental use, in either case, in connection with Functions on the Intrepid or other Vessel (but only to the extent that such use does not derogate from, or materially interfere, with the Primary Uses, including the times of required operation thereof as prescribed in subsection 8.01(b) below), (ii) retail and vending machine sales of food, alcoholic and non-alcoholic drinks...and the sale of gifts, films, photographs and souvenirs to any patrons and invitees of the Museum as is customary for museums in the City of New York, (iii) commercial filming and photography (but only to the extent that such use does not derogate from, or materially interfere with, the Primary Uses and the required times of operation prescribed in Section 8.01(b)), and (iv) the operation of simulators and rides, the nature of which are substantially related to subject matter(s) of the Museum, rather than for general amusement (and specifically excluding the operation of unrelated amusement park rides), and so long as such operation is substantially related to and does not derogate from the Primary Use.

Use of Licensed Water Area: Per 8.02, “Tenant and Landlord each acknowledges and agrees that the Licensed Water Area is not within the Premises, but Landlord hereby grants Tenant an exclusive license to dock the Growler (or a similar historic naval replacement vessel) on the north side of the Pier and to use such Licensed Water Area for such other purposes as set forth in this Section 8.02, which license shall be deemed to be subject to all the provisions of this Lease, including the Term.”

Prohibited uses are defined in section 8.04 of the lease, as follows:

(a) Generally Prohibited Uses. Any use which is not expressly permitted or provided for under this Lease, or for which Landlord has not granted its written approval, such approval to be in Landlord’s sole and reasonable discretion except as may otherwise be set forth herein, shall be prohibited.

(b) Dockage and Mooring. Except in connection with the performance of Tenant’s obligations under Section 4.05 above, mooring or docking of vessels along the Southern Bulkhead at any location, or in the water area south of the Intrepid, is prohibited.

(c) Parking. Other than short-term parking for service, delivery and security vehicles, Tenant shall establish and enforce rules such that vehicular parking on the Pier is prohibited.

Pier Open Space: Per Section 8.01(c), “In addition to the Permitted Uses, Tenant shall permit and facilitate general public

access to and use of the Pier, without any charge, and subject only to the limitations expressly set forth in this Lease; it being the intention of the parties hereto that the general public shall have access to and may use the Pier.”

Restriction on Use of Revenues: Tenant’s use of revenue generated from the subject property is restricted. Per 8.01(i): “all revenues derived by Tenant at or from or relating to the Premises through ticket sales, royalties, rentals, concessions, fees, charges, fundraising or through any other means (collectively, “Revenues”) shall, except as expressly provided herein, be used solely to pay or offset the costs of (x) operating the Museum at the Premises during the Term as a not-for-profit corporation, (y) performing Tenant’s obligations under this Lease, or (z) supporting the on-Premises operations of the Museum, including, but not limited to, promoting or advertising Museum content, exhibits, events and/or programming (so long as such promotion or advertising for Museum operations under this clause (z) is not in derogation of, and does not materially interfere with, the ongoing operation of the Museum on the Premises and Tenant’s ability to comply in all material respects with its obligations under this Lease).”

**Assignments,
Subleases and
Transfers**

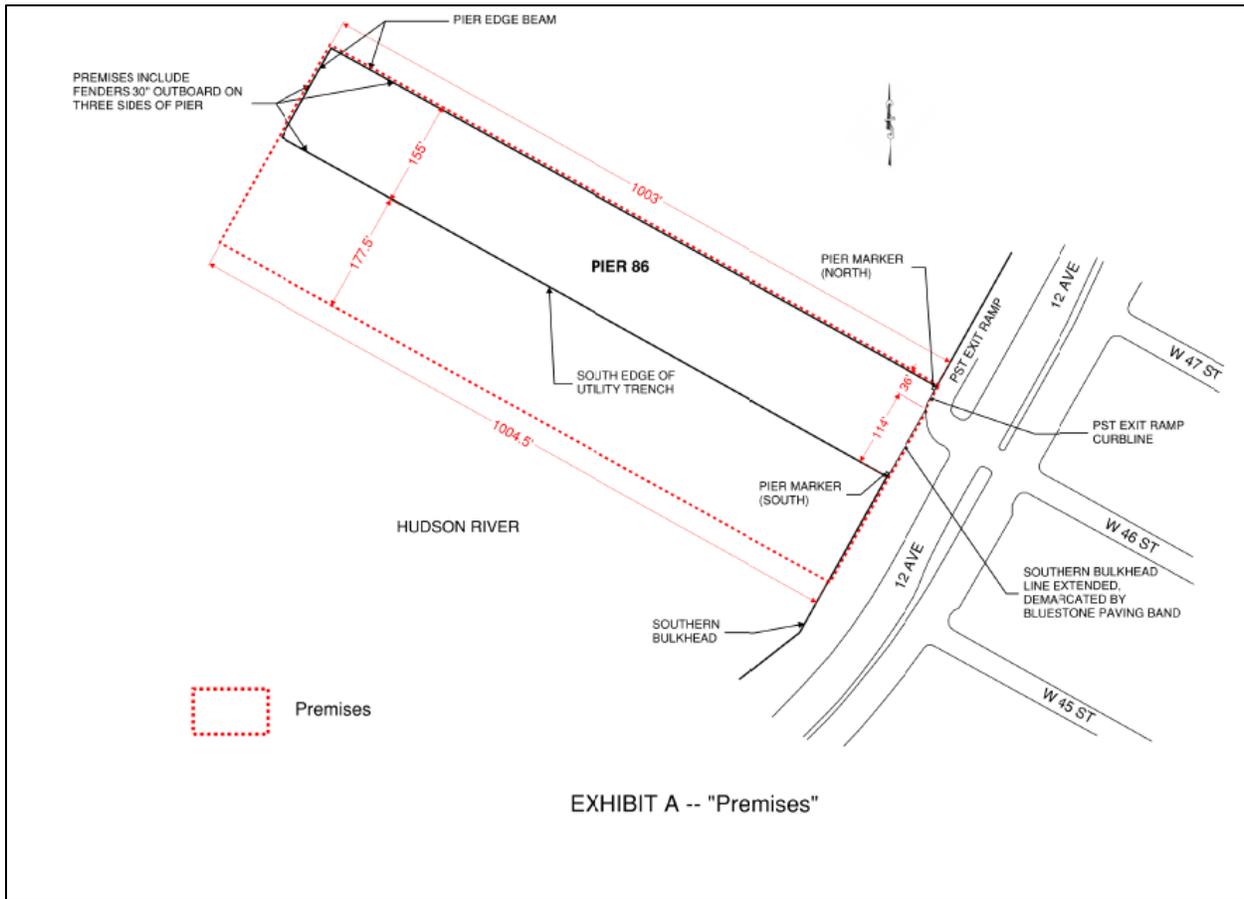
Section 13.02 states,

(a) “Tenant shall not pledge, mortgage, transfer or assign its interest, in whole or in part, in and to the Premises or the leasehold estate created hereby without the prior consent of Landlord.

(b) Without the prior consent of or notice to Landlord, Tenant may, subject to the provisions of Article 8 (including, without limitation, Section 8.01(e) thereof), sublease, grant, license or permit the use by any third party of any portion of the Welcome Center or the Pier Open Space for Ancillary Uses (an “Occupancy Agreement”), provided that (x) such Occupancy Agreement shall include an indemnification provision for the benefit of Landlord substantially in the form attached hereto as Exhibit L, subject to reasonable and customary changes thereto which do not materially and adversely reduce Landlord’s rights thereunder (it being understood that any Occupancy Agreement that does not satisfy these conditions shall not be permitted) and (y) subject to the provisions of Section 13.02(d) hereof, a copy of such Occupancy Agreement (sections of which may be designated by Tenant as “proprietary and confidential”) is provided to Landlord within thirty (30) days after the

execution of such Occupancy Agreement, but in no event later than commencement date of such Occupancy Agreement.

The Premises and Licensed Water Area are depicted on the following pages.



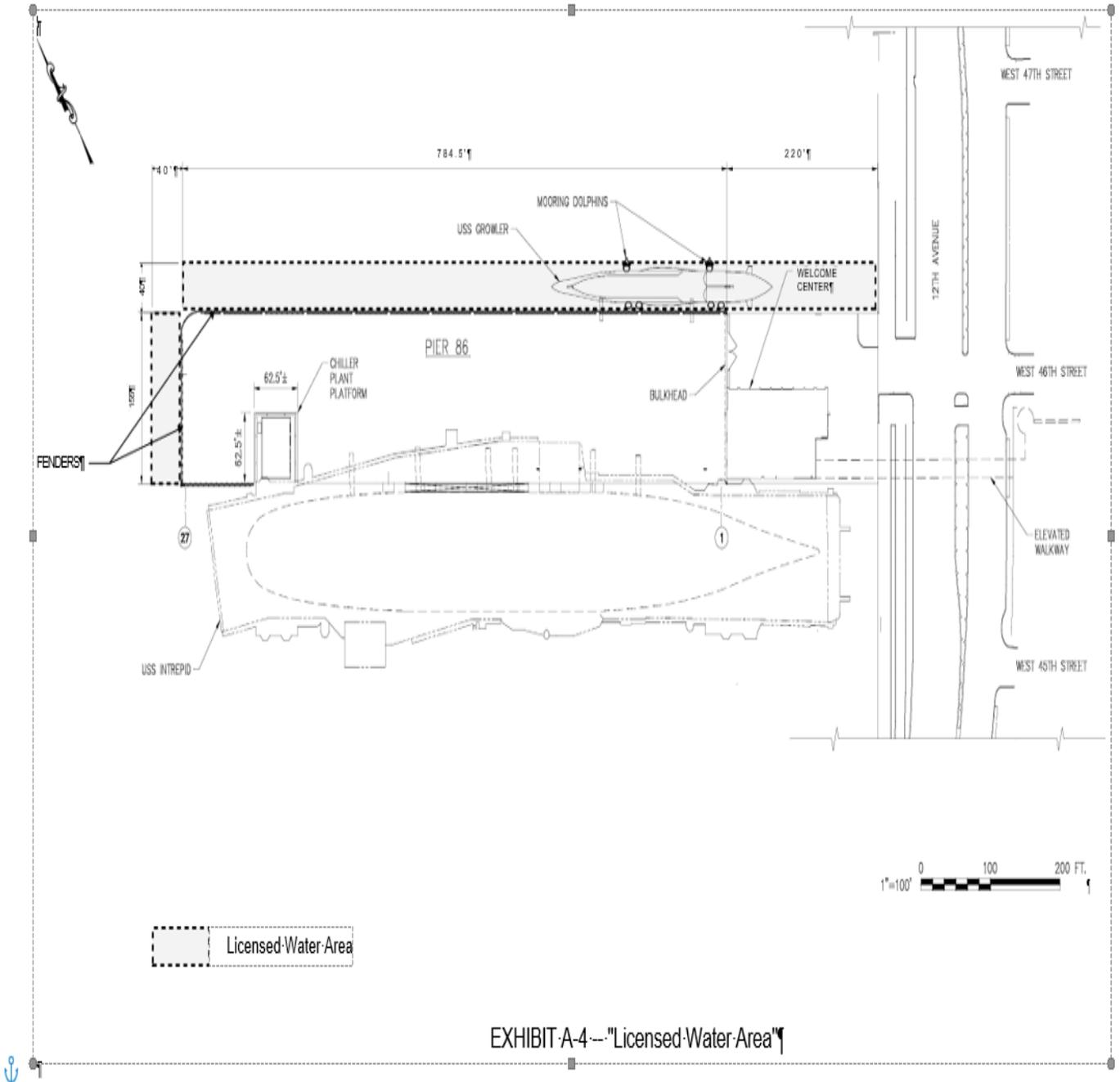


EXHIBIT A-4--"Licensed Water Area"

REGIONAL ANALYSIS

The following regional analysis is as of January 1, 2020, before the effects of COVID-19 impacted the global economy.

Location

The subject property is located in Manhattan, one of the five boroughs of New York City. New York City is the largest city in the United States and one of the largest in the world. It is located on New York Bay at the mouth of the Hudson River and comprises five boroughs, which are coterminous with five counties, as follows: Manhattan (New York County), the Bronx (Bronx County), Queens (Queens County), Brooklyn (Kings County), and Staten Island (Richmond County). The following map details New York City's geographic location within the Greater New York Metropolitan area.



Four interactive forces affect the market value of real property: social forces, economic circumstances, physical and environmental conditions and governmental controls.

SOCIAL FORCES

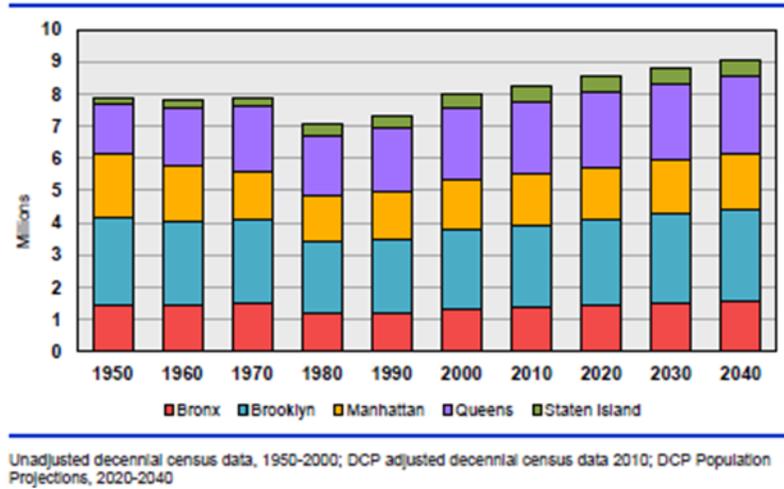
Social forces that influence real estate values within a particular area or region comprise the demographic characteristics and trends within a specified area, including but not limited to population and household formation. A review of these demographic trends is instructive in determining the basic demand for real property within the particular real estate market. **It is noted that some of the demographic data and projections have yet to account for the impacts of COVID-19, therefore the projections regarding household and population growth will likely need to be revised in the future as anecdotal evidence is suggesting that some tenants and owners are moving, whether temporarily or not, out of New York City due to COVID-19 concerns.**

Population

The New York metropolitan area is the most populous metropolitan area in the United States. Per U.S. census estimates, as of July 2017, the Greater New York area continues to rank first in population among the nation’s 366 metropolitan statistical areas and New York City is by far the most densely populated region within the Greater New York area.

Findings based on U.S. Census data and reports published by the New York City Department of City Planning (“Planning Department”) are summarized in the following charts and pages.⁵

Figure 2: Total Population, New York City and Boroughs, 1950-2040



Since 1980, the City’s population has grown in each decade, increasing by 3.5% in the 1980s and by 9.5% in the 1990s, reversing a long-term trend of declining population. The 2010 census revealed a more moderate rate of growth in years 2000 through 2010. The City’s population grew by 2.2% during this period. New York State reported a similar growth rate (2.2%) between 2000 and 2010. The City’s population is projected to increase to approximately 8.55 million people by 2020, an increase of 3.7% from 2010 to 2020. For the thirty-year period from 2010 to 2040, the City’s population is expected to grow to 9,025,145, increasing by more than 782,000 or 9.5%.

Table 1: Projected Total New York City Population by Borough, 2010-2040

	2010	2020	2030	2040	CHANGE							
					2010-2020		2020-2030		2030-2040		2010-2040	
					Number	Percent	Number	Percent	Number	Percent	Number	Percent
NYC	8,242,624	8,550,971	8,821,027	9,025,145	308,347	3.7	270,056	3.2	204,118	2.3	782,521	9.5
Bronx	1,365,108	1,446,788	1,518,998	1,579,245	61,680	4.5	72,210	5.0	60,247	4.0	194,137	14.0
Brooklyn	2,552,911	2,648,452	2,754,009	2,840,525	95,541	3.7	105,557	4.0	86,516	3.1	287,614	11.3
Manhattan	1,585,873	1,638,281	1,676,720	1,691,617	52,408	3.3	38,439	2.3	14,897	0.9	105,744	6.7
Queens	2,250,002	2,330,295	2,373,551	2,412,649	80,293	3.6	43,256	1.9	39,098	1.6	162,647	7.2
Staten Island	468,730	487,155	497,749	501,109	18,425	3.9	10,594	2.2	3,360	0.7	32,379	6.9

⁵ New York City Department of City Planning, “New York City Population Projections by Age/Sex & Borough, 2010-2014,” most recently updated in 2016

As of July 1, 2018, the City's population reached an estimated 8,398,748 residents, an increase of 223,615 residents, or 2.7%, since 2010. The growth in the City's population since 2010 has been primarily fueled by rising life expectancies which have partially offset net outflows from the City. While the City experienced robust growth after 2010, the rate of growth slowed in the later years of the decade and since 2016 the City's population has actually declined slightly.

Households

The following is based upon demographic information provided by Environmental Systems Research Institute ("ESRI"), an international supplier of geographic information system software, web GIS and geodatabase management applications. The household data, inclusive of the number of households and average household size, is summarized as follows:

Household Statistics							
Area	2000	2010	% Change	2019	% Change	5 Year	% Change
	Households	Census	2000-2010	Households	2010-2019	Projection	2019-2024
United States	105,480,101	116,716,292	10.7%	125,168,557	7.2%	129,922,162	3.8%
State of New York	7,056,860	7,317,755	3.7%	7,541,262	3.1%	7,611,733	0.9%
New York City (5 Boroughs)	3,021,322	3,109,784	2.9%	3,266,735	5.0%	3,340,918	2.3%
Manhattan	738,644	763,846	3.4%	801,196	4.9%	818,871	2.2%
Brooklyn	880,727	916,856	4.1%	973,213	6.1%	1,000,955	2.9%
Queens	782,664	780,117	-0.3%	813,547	4.3%	828,180	1.8%
Bronx	463,212	483,449	4.4%	508,409	5.2%	520,380	2.4%
Staten Island	156,341	165,516	5.9%	170,381	2.9%	172,544	1.3%

Source: ESRI; Compiled by Appraisers and Planners, Inc.

In the decade from 2000 through 2010, the number of households increased for all of the City's boroughs except for Queens, ranging from a 3.4% increase in Manhattan to a 5.9% increase in Staten Island. Between 2010 and 2019, household formation has increased in all five boroughs, with an overall increase in the City of 5.0%. As shown in the previous table, the overall number of households in New York City is anticipated to grow at an overall rate of 2.3%, or by 74,183 households, in years 2019 through 2024.

The average household size in the City is 2.6 persons, with Manhattan having the smallest household average size of 2.1 persons. It is estimated that nearly half of the households in Manhattan are single persons, twice the rate of the State average. The smaller household size is largely attributed to the job opportunities in Manhattan that attract a younger demographic, as well as a function of Manhattan lifestyles.

ECONOMIC FORCES

New York City is a vibrant center for commerce and business and one of the three "world cities" (along with London and Tokyo) that dominate world finance. The City is also a cultural, political and leading media center, home to many of the world's most notable art museums, global institutions such as the United Nations and communications companies. In addition, the City attracts many visitors. Between 2011 and 2019, New York City had record-breaking numbers of visitors each year, achieving a record high of 65.1 million visitors in 2018. The strength of the City's tourism industry is one of the reasons the New York City economy fared better in the most recent recession when compared to other metropolitan areas. Additionally, the local economy has

benefitted from a growing diversity of its industries. One of the more dynamic growing sectors of the New York City economy is TAMI, which is an acronym for the Technology, Advertising, Media and Information industries. Jobs in the TAMI sector represent some of the highest paying jobs in the local economy and growth in this sector has contributed to a resurgence of many neighborhoods in Midtown South, whose older loft buildings offer a more unconventional type of office space that has proven to be highly desirable to the typical TAMI office user due to their taller ceiling heights and attractive pre-war architecture. As the TAMI sector continues to grow the Downtown market, which offers greater amenities and larger spaces in more recently constructed buildings, has attracted growing TAMI tenants whose space needs exceed what is typically available in Midtown South. Overall, New York City is benefitting from a local economy that is continuing to diversify and adapt to the latest innovations in business and technology.

Economic Cycles

Over the past 30 years, New York, along with the Nation, has gone through three recessions: (1) the recession of the early 1990s; (2) the tech-bubble recession, commencing in 2001; and (3) the financial crisis-led recession of 2007. The most recent national recession that began in December 2007 and officially ended in June 2009 led to a total of 92,200 jobs lost in New York City. As evident in prior recessions, New York City has proved to be one of the more resilient economies in the nation and was among the first to recapture all jobs that had been lost in the last recession.

Employment

NEW YORK CITY EMPLOYMENT STATISTICS (000s)													
Industry	2007	2010	% Change '07-'10'	2011	2013	2014	2015	2016	2017	2018	% Change 2010-2018	2019	% Change 2018 to 2019
Natural Resources, Mining, & Construction	127.3	112.5	-7.8%	112.3	122.2	129.2	139.3	147.2	151.1	158.8	41.16%	159.9	0.7%
Manufacturing	101.0	76.3	-50.9%	75.7	76.4	76.6	77.8	76.1	73.1	70.3	-7.86%	67.3	-4.3%
GOODS PRODUCING:	228.3	188.8	-32.0%	188.0	198.6	205.8	217.1	223.3	224.2	229.1	21.35%	227.2	-0.8%
Trade/Transportation/Utilities	570.6	559.7	0.4%	575.6	605.0	620.6	630.2	630.4	634.3	633.4	13.17%	632.7	-0.1%
Information	166.8	165.9	-17.2%	170.8	179.2	185.0	189.0	192.6	197.1	205.1	23.63%	211.2	3.0%
Financial Activities	467.2	428.3	-9.6%	439.1	437.5	449.2	459.3	465.9	469.8	474.9	10.88%	482.4	1.6%
Professional/Business Svcs.	592.3	575.3	-1.1%	597.5	642.9	669.0	700.0	722.3	742.3	765.4	33.04%	794.1	3.7%
Education/Health Svcs.	721.6	771.6	23.0%	789.2	831.1	866.4	896.9	928.7	963.4	1006.3	30.42%	1055.0	4.8%
Leisure/Hospitality	297.8	322.2	23.9%	342.2	385.4	408.5	427.8	440.2	452.1	464.0	44.01%	466.2	0.5%
Other Svcs.	157.7	160.6	8.0%	165.2	174.9	180.2	185.7	190.1	191.5	192.9	20.11%	194.7	0.9%
Government	559.0	558.0	-1.3%	550.6	544.4	545.4	549.9	552.3	552.1	584.7	4.78%	588.0	0.6%
SERVICE PRODUCING:	3533.0	3541.6	3.7%	3630.2	3800.4	3924.3	4038.8	4122.5	4202.6	4326.7	22.17%	4424.3	2.3%
TOTAL NON-FARM EMPLOYMENT:	3761.3	3730.4	1.0%	3818.2	3999.0	4130.1	4255.9	4345.8	4426.8	4555.8	22.13%	4651.5	2.1%

Source: New York State Department of Labor Statistics; compiled by Appraisers and Planners, Inc.
Note: data is not seasonally adjusted.

The New York City economy began to improve in the latter part of 2010, as the recovery took hold, as shown in the employment table above; between year-end 2010 and year-end 2011, the local economy added 87,800 new jobs. According to data provided by the New York State Department of Labor Statistics, in the eight years since year-end 2010, the New York City economy added a total of 821,000 jobs, an average increase in that eight-year period of 2.41% per annum. The large majority of new jobs were created in the service sector of the local economy,

with the leisure/hospitality sector experiencing the largest overall increase of 43.70%, or 140,800 new jobs, followed by the professional/business service sector, with an overall increase of 32.47%, or 186,800 jobs, and the Education and Health Services sector, which had an overall increase of 30.40%, or 234,600 new jobs. New York City is in its ninth consecutive year of job creation, “making it the longest sequence of job gains on record”⁶ and in the fourth quarter of 2019, the City economy added 24,950 new jobs, representing one of the highest numbers of jobs created in a single quarter during the current [as of January 1, 2020) economic expansion period.

As of the end of 2019, 95.1% of total employment in the City is in the service sector, while only 4.9% of all employment is in the goods producing sector. While 2015 saw an uptick in manufacturing jobs in New York City, the manufacturing sector has steadily contracted since that time with a loss of 10,500 jobs, or 13.5%. The small percentage of jobs that are in the goods producing industries relative to the overall City economy reflects the significant contraction in manufacturing jobs that has taken place over the past several decades, a decline that mirrors the overall contraction in manufacturing that has occurred throughout the country. While there is currently an increasing demand for American and locally made products, high operating costs in New York City often make large scale manufacturing costs prohibitive.

In New York City, the financial activities sector led by Wall Street employs approximately 10.9% of all those employed in the services providing sector. This sector, which historically led recoveries, was slow to recover from the most recent recession. In 2007, prior to the “great recession,” the average annual employment within the sector was 467,200 jobs; by year-end 2010, the sector contracted by 9.6%, losing 38,900 jobs. However, similar to the overall New York City economy, the recovery in the financial activities sector began to take hold in the latter part of 2010, as the rate of job losses slowed. By year-end 2011, this sector recovered 10,800 jobs, or just about 28% of all jobs that had been lost. Since that time, the financial service sector for the most part has continued to steadily improve, albeit at a modest rate, lagging behind almost all of the other sectors of the local economy. However, as of year-end 2017, and for the first time since the recovery took hold in 2010, the financial activities sector recorded a record number of jobs of 469,800, approximately 2,600 more jobs than its pre-recession level. As of year-end 2019 the total number of jobs in financial activities achieved a recent high mark of 482,400 or 15,200 more jobs than there were prior to the great recession. Most analysts agree that while the City’s economy will continue to diversify and become less reliant upon Wall Street, the financial activities sector will remain an important component of the New York City economy, as it registers some of the highest paying jobs in the City.

The number of private sector jobs in New York City has recently grown more rapidly than initially forecast and at the fastest rate of growth in almost 25 years. However, a significant percentage of this growth has been in the leisure/hospitality and education and health services sectors, two sectors which typically comprise a larger number of lower paying jobs, especially when compared to Wall Street. For example, based on the 2019 Significant Industries Report published by the

⁶ NYC Quarterly Economic Update published by the NYC Comptroller and found at https://comptroller.nyc.gov/wp-content/uploads/documents/QEU_19Q1.pdf

New York State Bureau of Labor Information (*most recent publication*)⁷, the median salary for workers in the leisure/hospitality and education and health services industries was \$31,500 and \$45,000 per annum, respectively, compared to the 2018 average on Wall Street of \$398,600. However, there has been strong growth in the Professional and Business Services and TAMI sectors of the local economy, which offer jobs that on average pay over \$110,000 per annum for occupations such as software developers and computer systems analysts. Most economists agree that the City's development of new industries has helped to diversify the local economy and bodes well for the overall health of the New York City economy.

Unemployment

New York City's ebb and flow in unemployment generally mirror the national economy. Strong employment figures were exhibited in years 2005 through 2007, reflecting a robust economy, but were followed by rising unemployment rates beginning in 2008, as the ill effects of the "great recession" began to be felt. Unemployment continued to increase through 2010, as the local and national economies were slow to recover. Since year-end 2010, the local and national economies have improved, as evidenced by the steady decline in the unemployment rates. In fact, unemployment rates reported for Manhattan, New York City, New York State and the nation over the past couple of years have been historically low, suggesting that local and national economies have fully recovered from the last recession. Unemployment rates from 2005 through 2019 for the Borough of Manhattan, New York City, New York State, and the Country overall are, as follows:

ANNUAL AVERAGE UNEMPLOYMENT RATES (Not Seasonally Adjusted)

<u>Year</u>	<u>Manhattan</u>	<u>New York City</u>	<u>New York State</u>	<u>U.S.</u>
2019	3.50%	3.90%	4.00%	3.70%
2018	3.70%	4.10%	4.10%	3.90%
2017	4.00%	4.50%	4.70%	4.40%
2016	4.50%	5.20%	4.80%	4.90%
2015	4.90%	5.70%	5.30%	5.30%
2014	6.10%	7.30%	6.30%	6.20%
2013	7.50%	8.80%	7.70%	7.40%
2012	8.00%	9.30%	8.50%	8.10%
2011	7.80%	9.10%	8.20%	8.90%
2010	8.60%	9.60%	8.60%	9.60%
2009	8.40%	9.20%	8.30%	9.30%
2008	4.90%	5.50%	5.40%	5.80%
2007	4.30%	4.90%	4.50%	4.60%
2006	4.30%	5.00%	4.60%	4.60%
2005	5.10%	5.80%	5.00%	5.10%

Source: NY State Department of Labor and the US Bureau of Labor Statistics; compiled by Appraisers and Planners, Inc.

If the economy remains strong, unemployment is expected to remain at historically low levels. In

⁷ <https://labor.ny.gov/stats/PDFs/Significant-Industries-New-York-City.pdf>

addition, the retiring of “baby boomers” through 2029 will likely intensify any labor shortage, as the expectation is that there will not be enough workers to take their place.

Household Income

An important measure of an area’s economic health is median household income. A summary of Borough, the City and the state median household incomes is below:

Area	Median Household Income						
	2000	2010	% Change 2000-10	2019	% Change 2010-2019	2024	% Change 2019-2024
	Median Household	Median Household		Median Household		Median Household	
United States	\$42,253	\$51,362	21.6%	\$60,548	17.9%	\$69,180	14.3%
State of New York	\$43,643	\$55,267	26.6%	\$65,889	19.2%	\$75,649	14.8%
New York City (5 Boroughs)	\$41,248	\$53,583	29.9%	\$62,062	15.8%	\$71,924	15.9%
Manhattan	\$47,306	\$72,695	53.7%	\$88,172	21.3%	\$105,223	19.3%
Brooklyn	\$32,509	\$42,903	32.0%	\$58,062	35.3%	\$67,409	16.1%
Queens	\$42,960	\$54,341	26.5%	\$65,339	20.2%	\$74,048	13.3%
Bronx	\$27,947	\$32,892	17.7%	\$38,122	15.9%	\$41,617	9.2%
Staten Island	\$55,516	\$65,085	17.2%	\$80,574	23.8%	\$93,199	15.7%

Source: ESRI; compiled by Appraisers and Planners, Inc.

While the cost of living in New York State and New York City is high, the indicated median household income for the State and City is also high. The State of New York has a median household income that is higher than both the City and national average, while the Borough of Manhattan far surpasses both with a median household income in 2019 of \$88,172. This is more than 42% greater than the median income for the City, almost 34% greater than the median income for the state and 42.6% higher than the national average. The median income in New York City increased by 29.9% in years 2000 through 2010, equating to an average increase of 2.7% per annum, while Manhattan’s median income during that same time period increased at an overall rate of 53.7%, or 4.39% per annum. Between 2019 and 2024, the median income for the City and the Borough of Manhattan is projected to continue to experience healthy increases that will surpass the average rate of inflation, with the City’s median income increasing by 3.0% per annum, while the median income for Manhattan is anticipated to increase at the average annual rate of 3.6%.

The Borough of Manhattan has historically had some of the highest income levels in the Nation. This trend is expected to continue over the next five years, with Manhattan’s median income anticipated to increase to \$105,223, exceeding the City’s anticipated median income by 46.3%; the State of New York by 39.1%, and the national average by 52.1%.

Tourism

New York City, led by Manhattan, is the leading domestic and international tourist center in the United States and tourism has been a significant economic force in the City’s recovery since 2008. In 2018, the City had another record-breaking year with a new record high of 65.1 million tourists, marking the ninth straight year of increases in the number of tourists visiting the City, as exhibited in the following table:

New York City Tourism / Visitation Statistics					
<u>Period</u>	<u>Visitor Spending</u>	Domestic	International	<u>Total Visitors</u>	Annual Change (%)
		<u>Visitors</u>	<u>Visitors</u>		<u>(Total Visitors)</u>
2018	--	51.5 M	13.6 M	65.1 M	3.66%
2017	44.2 B	49.7 M	13.1 M	62.8 M	3.80%
2016	43.0 B	47.8 M	12.7 M	60.5 M	3.42%
2015	42.2 B	46.2 M	12.3 M	58.5 M	3.54%
2014	41.2 B	44.5 M	12.0 M	56.5 M	4.10%
2013	38.8 B	42.8 M	11.5 M	54.3 M	3.00%
2012	36.9 B	41.8 M	10.9 M	52.7 M	3.50%
2011	34.5 B	40.3 M	10.6 M	50.9 M	4.30%
2010	31.5 B	39.0 M	9.8 M	48.8 M	--

Source: NYC & Company; compiled by Appraisers and Planners, Inc.

Many factors have contributed to the increase in tourism over the past decade, including, among others, the establishment of *NYC & Company*, a quasi-public/private organization, which was created to promote New York City tourism, a dollar that had historically been weak against the Euro, the significant growth in the number of hotel rooms, and the City's enhanced reputation as a safe place to visit. Most recently, in 2018, international travel grew by 3.6% when compared to the prior year, as New York City continues to be the most popular city for international visitors. Growth in international travel is considered vital in the tourist industry, as international travelers tend to stay longer and spend more than domestic visitors. Going forward, it is anticipated that the number of tourists visiting the City each year will continue to expand, and tourism is expected to make a significant contribution to the local economy into the foreseeable future. In fact, NYC & Company has projected a record number of visitors for the City in 2019 of 67.1 million, an anticipated increase of 2,000,000 visitors over the prior year. This would make it the tenth straight year that the number of tourists coming to New York City has increased.

However, with the continued strength of the dollar, and slowing growth predicted for the worldwide economy, there are notable risks associated with sustained visitor spending. The International Monetary Fund (IMF) projects global growth to rise from 2.9% in 2019 to 3.3% in 2020 and 3.4% in 2021; all three figures are down from 3.6% in 2018. In a January 2020 World Economic Outlook Update⁸ the IMF states, "Global growth is projected to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent for 2021—a downward revision of 0.1 percentage point for 2019 and 2020 and 0.2 for 2021 compared to those in the October World Economic Outlook (WEO)." GDP releases so far this year, together with generally softening inflation, point to weaker-than-anticipated global activity. Investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-term spending. Accordingly, global trade, which is intensive in machinery and consumer durables, remains sluggish. The projected growth pickup in 2020 is precarious, presuming stabilization in currently stressed emerging market and developing economies and progress toward resolving trade policy differences."

⁸ <https://www.imf.org/en/Publications/WEO/Issues/2019/07/18/WEOupdateJuly2019>

Economic Projections

The U.S. economy is in its tenth year of expansion, which is the longest expansion recorded since the U.S. government began collecting economic data in the mid-1880s. Inflation remains low despite record employment. The New York City economy remains strong, recording 2.4% growth in Real Gross City Product (“GCP”) in fourth quarter 2019, after reflecting 1.6% growth in the prior quarter; this compares favorably to the national Gross Domestic Product (“GDP”) which grew by 2.1% in the fourth quarter of 2019, representing a slight decrease in GDP growth from the third quarter 2019 when GDP grew by 1.9%. The NYC Comptroller’s fourth quarter 2019 quarterly economic report⁹ indicates that the strong economic growth was a function of a strong labor market with strong wage growth. The local economy continued to benefit from the performance of the banking industry, which is identified as a “key driver” of the City’s economy. Bank revenues and profits were aided by recent deregulation and changes in corporate taxes, however employment in the financial sector declined for the fifth consecutive quarter, shedding 3,400 jobs, the biggest loss of jobs since Q3 2009 as the earnings of the six largest banks declined 4.3% in Q4 on a year-over-year basis.

New York City is in its ninth consecutive year of job creation according to the Comptroller’s report, “making it the longest sequence of job gains on record” and in fourth quarter 2019, the City economy added 24,950 new jobs, or 2.2% on a seasonally adjusted annualized basis. However, the report notes that while job growth and low unemployment reflect a strong local economy, optimism in the economy is tempered by the fact that the largest gains continue to be in the health care and social services and in the leisure and hospitality sectors of the economy, which typically represent lower paying jobs. Further, the report goes on to highlight the fact that while a good percentage of new jobs in the City were created in the professional and business services sector, which are generally some of the higher paying jobs, a large percentage of the new jobs were in the administrative and support services, which represent the lower wage industries in that sector.

In addition to job growth and unemployment levels, the Comptroller identifies other economic indicators that help gauge the health of the local economy including labor force participation, average hourly earnings, level of venture capital investment, commercial leases and residential sales. The economic indicators were mixed, as commercial leasing, labor force participation and residential sales declined year-over-year, while other indicators showed positive growth. Further, in the fourth quarter 2019, the average hourly wage in New York City was \$38.23, reflecting a 4.0% increase year over year; venture capital investment in the New York metro area reached a record high in the fourth quarter of \$3.03 billion, a 24.7% year over year increase; new commercial office leasing increased to 9.0 million square feet in fourth quarter 2019, a 11.7% year over year decrease from the strong activity in the fourth quarter of 2018. Vacancy increased to 11.1% in Q4 2019 from 9.2% in Q4 2018, while total availabilities dramatically increased 22.2% year over year.

However, as is discussed in detail in the market analysis sections presented later in our report, as asking base rents have continued to increase, tenant concessions have increased dramatically, resulting in lower effective rents for landlords. Residential real estate sales were mixed, with the number of sale transactions increasing in Manhattan, while decreasing in Brooklyn and Queens.

⁹ <https://comptroller.nyc.gov/reports/new-york-city-quarterly-economic-update/>

Average residential sale prices increased in Manhattan and Brooklyn, but decreased in Queens. With the increasing inventory, it takes longer to sell a unit in Manhattan, with the average days on market increasing 6.5% year over year to 99 days. The luxury residential market has been severely impacted over the past year with days on market increasing substantially and asking and closing prices decreasing. According to Douglas Elliman, listing inventory also rose 9.3% from the prior year to 6,643. The absorption rate, defined as the number of months to sell all inventory at the current rate of sales, also increased in Q4 2019 to 8.3 months from 7.5 months in Q4 2018.

The Comptroller's report concludes that, "Leading economic indicators were mixed, reflecting some short-term anxiety, but maintained a general positive future outlook. An assessment of business conditions among firms in the New York City area is provided by ISM-New York, Inc. (Table 7). The most recent report shows that business in the New York City metro area continue to be pessimistic since Q3 2019. The current business condition index (which measures the current state of the economy from the perspective of business procurement professionals) remains below the 50 percent threshold as it was 45.7 percent in Q4 2019, relatively unchanged from the 45.5 percent from the previous quarter. Any number below 50 percent typically indicates contraction."

As of the effective date of appraisal, most New York City economists and real estate analysts anticipated that the local economy will continue to grow, albeit modestly over the short term but recognize the market risks and the fact that we are passed the peak of the current [as of January 1, 2020] "long in the tooth" cycle. In addition, the City's rent regulated multi-family housing sector is projected to be severely adversely affected by the recent passage in June 2019 of new rent regulation legislation, which put in place several measures to strongly limit income growth on rent-regulated buildings, while also restricting the condominium and conversion market by requiring 51% of tenants to agree to a conversion plan up from 15%.

Local Market Indicators

There are several localized indicators germane to the real estate market that indicate the subject's Midtown office market may be in for somewhat of a bumpy ride. Firstly, seasonally-adjusted October Job Growth in New York City was 0.6%, the smallest gain since 3Q 2010. Nationally, private sector job growth was 1.3%, outpacing NYC job growth.

Investment Sales Activity Down – Capital Leaving New York

According to Cushman and Wakefield's (C&W) 4Q 2019 Property Sales Report, investment sales continue to exhibit mixed results. C&W states,

"Despite the largely negative sentiment towards the New York City investment sales market in 2019, dollar volume remained strong, buoyed by institutional sales with a total of \$45.4 billion—down 15.6% from 2018, but still historically high. However, the number of properties sold in 2019 was the lowest annual total since 2011 with 3,113 properties sold, down 23.9% year-over-year. This decrease is attributed to New York City's most actively traded asset class, the multifamily sector. The decrease in multifamily investment was far more pronounced relative to other property types as the rent regulation legislation that passed on June 14th weighed heavily on the market, with year-over-year decreases of 36.0% in transactional volume and 42.1% in dollar volume. This decline was amplified in the second half of 2019, as the number of multifamily properties sold decreased by 30.1%

and dollar volume decreased by 25.6% from the first half of 2019, recording some of the lowest biannual totals in the past decade.”

Through year end 2019, C&W identified \$16.1 billion in office sales, but we note that a significant portion of these office assets are accounted for in three transactions: WarnerMedia’s \$2.2 billion sale leaseback and the two (2) \$900m trades of the Coca Cola Building, a retail-heavy asset at 711 Fifth Avenue.

Unizo Holdings Retrades

Unizo Holdings has stated that it is leaving the New York City market and as a result sold off its Manhattan holdings. Three office assets were recently sold, reflecting a “break even” on the holdings; in one case the retrade was less than the initial purchase price. 685 Third Avenue sold in December 2019 for \$451,250,000 following Unizo’s purchase of the property in October 2017 for \$467,500,000. Unizo also sold two assets in 2019 along West 25th Street in Chelsea for a combined price of \$229,000,000 after purchasing them for \$210,000,000 in March of 2015.

WeWork’s Stumble

Following reported valuations as high \$47 billion, Manhattan’s largest tenant has had significant troubles in 2019 including the cancellation of a public IPO, a restructuring of the company and massive layoffs in excess of 2,400 employees. As of October 2019, WeWork leased in excess of 5 million square feet across 55 buildings in Manhattan and recent reports¹⁰ indicate the company is looking to exit approximately 100 leases or 15% of its office space. This could have significant impacts on both the investment sales market, the ability for landlords with heavy WeWork exposure to refinance their assets, and could increase inventory throughout Manhattan.

GOVERNMENTAL FORCES

The City of New York City is governed by the Mayor, who functions as the City's chief executive officer, and a 51-member elected City Council, which serves as the City's legislative body. Each borough has a Borough President, Council persons who represent individual districts within each borough, and Community Boards that are local representative bodies. A City Comptroller acts as the chief fiscal officer, and a Public Advocate represents the consumers of City services. The Mayor is responsible for preparing and administering the City's expense and capital budgets, which must be approved by the City Council. While the Council is responsible for establishing annual real estate taxes, it does not have the authority to impose other taxes unless they have been authorized by State legislation. Among the Comptroller's responsibilities is evaluating the Mayor's budget, including the underlying assumptions and methodology. Land use policies are written and implemented by the City through the Department of City Planning and City Planning Commission. Properties that have been designated as City Landmarks and located within designated historic districts are subject to further regulations, as promulgated by the New York City Landmarks Preservation Commission. The City of New York provides all municipal services, including public transportation, schools, health care, police and fire protection.

¹⁰ <https://www.cnn.com/2019/12/12/wework-may-pull-out-of-as-many-as-100-leases.html>

New York City Legislation – Recent Changes

The New York City Council recently passed the Climate Mobilization Act, known as Local Law 97, and on April 22, 2019, Mayor De Blasio signed the bill into law. The new law mandates energy reductions for New York City properties that are 25,000 square feet or larger with exemptions made for certain properties, including city owned buildings. There are concerns among members of the real estate industry that the costs to meet the new requirements will be prohibitive. It is not known at this time to what extent the application of the new regulations will affect New York City real estate values, as the implementation of the new regulations is timed to begin in 2024 and to be fully implemented by 2040. Building owners have the option to retrofit buildings to comply with the new standards or use several other compliance alternatives such as Carbon Offsets, Renewable Energy Credits (RECs), or Carbon Trading. According to Urban Green Council's Retrofit Market Analysis¹¹, if all buildings choose efficiency the total costs to meet carbon caps range between \$16.6 billion and \$24.3 billion in New York City alone, essentially a 13x increase over today's annual retrofit spending of \$235 million. Using Carbon Offsets, during the first compliance period from 2024 to 2029, up to 10% of a building's annual emissions limit can be deducted with the purchase of green house gas offsets, also known as carbon offsets. In addition to offsets, building owners have the option of purchasing unlimited RECs to be deducted from their reported annual building emissions for electricity consumption.

Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law by President Trump on December 22, 2017, introducing a shift in national tax policy impacting all sectors of the economy. As it relates to the New York City economy and real estate markets, the TCJA is expected to have a profound effect on commercial real estate, as it lowers the corporate tax rate to 21%, from 35%, establishes a 20% business income deduction for pass-through income, and encourages accelerated depreciation and one-time capital expenditures. The TCJA also doubled the Estate tax exemption, allowing owners to pass property more easily to successors and heirs, and to estate plan more effectively. Additionally, a byproduct of the TCJA is expected in the area of affordable housing. The reduction in the corporate tax rates devalues Low-Income Housing Tax Credits (LIHTC), which are the main incentives used to create affordable housing. An analysis by the Manhattan-based accounting firm Novogradac & Company predicted that lowering the corporate tax rate to 21 percent would reduce the supply of new affordable homes nationally by 235,000 over the next 10 years.

The TCJA is also expected to have a significant impact on the residential real estate market, both in New York City and throughout the metropolitan area, where property taxes are generally much greater than in most of the U.S. The TCJA placed a \$10,000 cap on State and Local Tax (SALT) deductions, and reduced the mortgage interest deduction on new mortgages of \$750,000 or less, down from \$1,000,000. These two changes could dramatically increase the annual homeownership cost in New York City, New Jersey and Connecticut, potentially reducing demand for office space. One analysis by Moody's Analytics predicted that housing prices could fall by

¹¹ https://www.urbangreencouncil.org/sites/default/files/urban_green_retrofit_market_analysis.pdf

10.4 percent in Manhattan, and even more in some of the surrounding areas. Because of the SALT tax caps and costs of doing business in New York City, in 2019 Icahn Enterprises announced a relocation of operations of the hedge fund to Florida, which has no income tax. According to press reports, Icahn Enterprises offered employees a \$50,000 relocation bonus. According to a CNBC article, “Icahn is the latest in a string of financial executives, including billionaire hedge fund managers Paul Tudor Jones and David Tepper, who are decamping from the Northeast for Florida which boasts lower taxes.”¹² Firms like Tepper’s Appaloosa Management, Jones’s Tudor Investment Corp and Icahn’s firm are typical Park Avenue and Plaza District tenants.

Conclusion

As of January 1, 2020, population growth, household formation, and median income trends in New York City have experienced healthy levels of growth during the expansion phase of this economic cycle. City economists anticipate that the local economy will continue to expand through 2020, which would represent a 10-year economic expansion, the longest economic expansion in the City’s history. However, based on recent corrections in the land sales and luxury condominium sales market and the increased concessions for office and retail space, many real estate participants believe that the peak of the real estate market occurred sometime between the end of 2015 and the middle of 2016 and that we are far past the peak. In an August 19, 2019 article published in *The Real Deal Magazine* entitled, *The Economy May be Starting to Slow. Real Estate is Taking Notice*,¹³ Francis Greenburger of Time Equities is quoted as saying, “This is the tenth inning of a nine-inning game... You realize that one day it’s going to end.” In the same article, Heidi Learner, Chief Economist of Savills states, “I think the fact that we haven’t seen a more dramatic compression in cap rates more recently suggests there is more concern about growth going forward...” Additionally, optimistic projections for the workforce are tempered by the reality that the largest areas of job growth are occurring in lower paying industries, further exacerbating the dichotomy between the City’s very wealthy residents and its less affluent working and middle classes.

In addition, while the national economy is strong and consumer confidence is at an all-time high, there remains uncertainty regarding our current trade policy and the use of tariffs, in particular with China that could adversely affect our economy. In fact, on July 31, 2019, the Federal Reserve (“the Fed”) for the first time since it began raising rates in December 2015 elected to lower the federal funds rate a quarter of one percent, from 2.50% to 2.25%, in order to preemptively offset any adverse effects on the U.S. economy that could be a result of the global economic slowdown and the on-going trade negotiations with China. A second, 0.25% point rate cut was made at the Fed’s September 18, 2019 meeting followed by a third cut at the October 30, 2019 meeting setting the target rate between 1.50% and 1.75%. Though the Fed’s forecast showed no further rate lowering, the members of the Federal Open Market Committee were divided on what action the Fed should take moving forward. Although the New York City economy is one of the most resilient economies in the country, several factors could continue to impact the real estate market negatively

¹² <https://www.cnbc.com/2019/09/13/billionaire-investor-carl-icahn-to-leave-new-york-for-florida.html>

¹³ <https://therealdeal.com/national/2019/08/19/so-far-real-estate-is-holding-its-own-amid-an-uncertain-economy/>

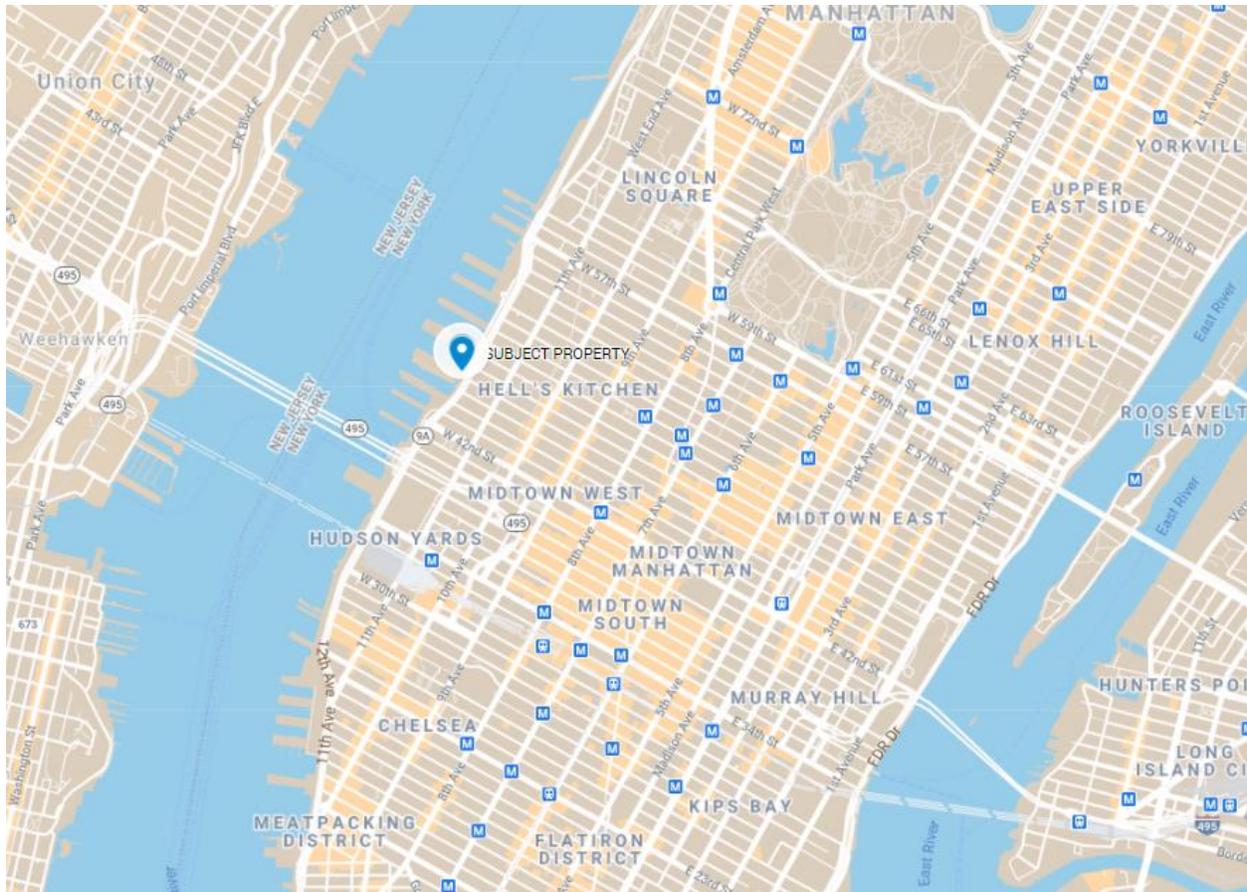
such as continued fallout from the SALT tax cap, an extended trade war with China and the European Union, and a further extension of the economic cycle propped up by further rate cuts.

LOCATIONAL ANALYSIS

General Location Characteristics

The subject is located within Hudson River Park at the westerly end of the Hell's Kitchen area of the Borough of Manhattan, City and State of New York and within Manhattan Community Board 4. Surrounding neighborhoods include Chelsea to the south and Lincoln Square to the north. Times Square is located to the east of the subject. The subject neighborhood is traditionally considered to be bordered by 34th Street to the south, 59th Street to the north, 8th Avenue to the east, and the Hudson River to the west. The subject property is a pier in the Hudson River and is adjacent to Piers 88 and 90, which currently serve as the Manhattan Cruise Terminal and Pier 84 of Hudson River Park. The property is mapped as follows:

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Nearby and Adjacent Land Uses

The immediate location of the subject property falls within the neighborhood of Hell's Kitchen which extends from Eighth Avenue to the Hudson River and from West 59th Street to West 41st Street. Hell's Kitchen comprised of mid- and high-rise apartment buildings as well as walk-up buildings on many side streets. The western side of the neighborhood has seen many large developments, most notably to the south of the subject property. Notable developments include The Atelier Condo building, Silver Towers, 535 West 43rd Street Luxury Apartments, and many others.

The subject neighborhood is diverse, and home to many nightlife attractions, such as Stage 48, Hudson Terrace, and the Press Lounge. About five blocks to the north of the subject property is the recording studio for The Daily Show with Trevor Noah. Further to the north at West 55th Street is the renowned Alvin Ailey American Dance Studio

Retail uses nearby the subject property include many car dealerships, such as Chrysler, Dodge, Jeep, Ram, Fiat of Manhattan, Toyota of Manhattan, Lexus of Manhattan, and Bentley of Manhattan, to name a few. The car dealerships are generally located along 11th Avenue. Car dealerships, as a retail tenancy, differ from the typical restaurant and retail uses that are prevalent along 9th and 10th Avenues and many other neighborhoods of New York City. They are a defining characteristic of the neighborhood and somewhat separate the low-rise, walk-up apartment uses of Hell's Kitchen and the larger developments and other uses along the Hudson River.

Approximately four (4) blocks south of the subject pier across 12th Avenue is the Consulate General of the People's Republic of China in New York. Located on 12th Avenue, between West 42nd and 43rd Street, the Chinese Consulate is a nine-story, 351,438 square foot building that overlooks the Hudson River and is directly across 12th Avenue from Pier 83.

The Hudson River Greenway, owned by the New York State Department of Transportation, abuts the subject property to the east between the pier and 12th Avenue. The Hudson River Greenway extends from Dyckman Street to the north to Battery Park to the south. The greenway is separate from motor traffic, offering a safe place to bike, roller blade, and scooter. It has been noted that the Hudson River Greenway is the most heavily used bikeway in the United States. The Hudson River Greenway connects to the East River Greenway, which runs along the East River and FDR Drive on the eastern side of Manhattan. Together with the Harlem River Greenway, this continuous bike loop is 32 miles long and spans the entire circumference of the island of Manhattan.

Nearby Piers and Their Uses

Pier 84 is directly south of the subject pier. Pier 84 was opened to the public in 2006 and is almost 1,000 feet long and approximately 100,000 total square feet. Pier 84 is one of the largest piers on the Manhattan waterfront and features many attractions, including a boathouse that houses the Manhattan Kayak Company. The Manhattan Kayak Company offers paddleboard and kayak rentals, lessons, and group outings. To the east on Pier 84 is a building which houses a restaurant concession, bicycle rental business and public restrooms. Lastly, Pier 84 has an environmental education classroom, a dog run, a community garden, and many open walkways for public use.

Further to the south, Circle Line and World Yacht operate from Piers 81 and 83. Together with the Intrepid Museum, Circle Line and World Yachts form a major concentration of tourist attractions that are served by both public and private buses.

Directly north of the subject pier is Pier 88. Pier 88 currently operates as the Manhattan Cruise Terminal in conjunction with Pier 90, the pier immediately north of Pier 88. The Manhattan Cruise Terminal is home to Norwegian Cruise Line's *Norwegian Breakaway*, which sails year-round out of the terminal. Pier 88 also services seasonal travel from additional cruise lines, including Carnival, Crystal, Cunard, Holland, Princess, and Disney. The pier also houses Aida Cruises, Costa Cruises, and Regent Seven Seas Cruises, albeit on less regular occasions.

During the COVID-19 pandemic, Manhattan Cruise Terminal housed the USS Comfort, a United States medical support vessel that offered medical attention for those who did not have the coronavirus. Pier 88 was most recently renovated in 2011, with New York City contributing \$4 million to the renovation. The pier was previously renovated in 2004 for a reported \$200 million to accommodate modern, large cruise ships. The Manhattan Cruise Terminal can accommodate a total of three (3) cruise ships at a time.

Hudson River Park

The subject property benefits from close proximity to several other public park areas along the western border of Manhattan. As mentioned earlier, the closest park is located on Pier 84, which is included in the overall Hudson River Park. Hudson River Park is a 550-acre public park located in and along the Hudson River from West 59th Street south to Battery Park City. Improvements include pedestrian paths, tennis courts, soccer fields, children’s playgrounds, dog runs, recreational piers, and many other open space features. Certain commercial and municipal uses permitted by the Hudson River Park Act include Circle Line, World Yacht, and Chelsea Piers, a 1.1 million square foot world class sports and entertainment arena open year-round to the public at West 23rd Street. Plans for the additional redevelopment of Hudson River Park at Gansevoort Peninsula, Pier 55, Pier 57 and Pier 97 are underway. Google has signed on to occupy the office space at Pier 57, and a food hall is forthcoming for the lower level. Pier 55 is to be transformed for park use as the \$250 million “Little Island” redevelopment, and is scheduled to open to the public in the first half of 2021.

Area Characteristics

In order to develop a comparison of basic demographic information for the subject’s local area we have relied on information compiled by ESRI which is a subscription service providing radius reports, radius maps, market reports, market maps and market ranking reports using current data, census data and five year projections. For purposes of comparison, we have researched demographic data for the subject zip code and the borough of Manhattan, New York. We believe this survey should adequately identify the characteristics of the local area. **It is noted that demographic data and projections presented below as of January 1, 2020 and have yet to account for the impacts of COVID-19.**

Population and Households

Trends for the population and households in the local areas surveyed are summarized below:

Population Statistics					
Area	Census 2010 Population	Projected 2020 Population	% Change From 2010	Projected 2025 Population	% Change 2020
Manhattan	1,585,873	1,650,033	4.0%	1,676,284	1.6%
Area Code: 10036	23,543	26,892	14.2%	28,361	5.5%

Source: ESRI

Household Statistics					
Area	Census	Projected	% Change	Projected	% Change
	2010	2020		2025	
	Households	Households	From 2010	Households	2020
Manhattan	763,846	797,526	4.4%	811,292	1.7%
Area Code: 10036	14,577	16,577	13.7%	17,466	5.4%

Source: ESRI

As summarized above, population in the Borough of Manhattan has steadily increased since 2010 and is anticipated to increase by 4.0% between 2020 and 2025. Population numbers in the local area are projected to increase at a much more rapid rate of 14.2% over the five-year term between 2020 and 2025. Over the same term, the number of households is anticipated to increase by 1.6% in Manhattan and by 5.5% in the local area.

Income

Another important measure of an area’s economic health is its income characteristics. A household consists of all the people occupying a single housing unit. While individual members of a household purchase goods and services, these purchases actually reflect household needs and decisions and levels of disposable income. Thus, the household (and subsequently, income) is one of the critical units to be considered when reviewing market data and forming conclusions about the demographic impact on any real property. The following charts details the median household income and per capita income for both the larger Manhattan market and the subject’s local market:

Median Household Income			
Area	Projected	Projected	% Change
	2020	2025	
	Income	Income	
Manhattan	\$88,043	\$99,415	12.9%
Area Code: 10036	\$91,363	\$107,911	18.1%

Source: ESRI

Per Capita Income			
Area	Projected	Projected	% Change
	2020	2025	
	Income	Income	
Manhattan	\$70,907	\$79,328	11.9%
Area Code: 10036	\$88,387	\$102,386	15.8%

Source: ESRI

As of 2020, ESRI projects Manhattan’s median household income at \$88,043 while the local area’s median household is projected at \$91,363. Household income projections for a five-year period

between 2020 and 2025 anticipate a rate of growth of 12.9% in Manhattan and 18.1% in the local area. Over the same five-year term, the per capita incomes for the borough and local area are expected to increase by 11.9% and 15.8%, respectively.

Existing Retail

The streets and avenues to the east of the subject are improved with mixed use buildings, most of which have retail at grade level. The area is very well served by many national and local retailers, including restaurants, cultural institutions, recording studios, car dealerships, nightclubs, and many other national and local retail and entertainment tenants.

One unique use located about 4 blocks to the south of the subject pier and across 12th Avenue is Lucky Strike Manhattan. Lucky Strike is a bowling alley with 26 bowling lanes, many billiard tables, and regular DJs and dancing. Another unique offering is located on Pier 81 within Hudson River Park which is leased to Circle Line-Sightseeing Yachts, Inc. Docked at Pier 81 is a boat named “Destiny” from which operates North River Lobster Company which offers Lobster Rolls, baskets of fries, and buckets of beer; offerings that would typically be seen at a New England Lobster Shack on the coastline.

In sum, the Hell’s Kitchen neighborhood is somewhat typical in its retail offerings as mentioned above. The neighborhood itself is home to numerous independent restaurants, art studios, bars and a variety of other retail uses. That being said, the immediate vicinity of the subject has many unique retail offerings, which we have highlighted above. These offerings utilize larger floor plates, as is the case with Lucky Strike. Others incorporate the waterfront and the Hudson River and cater to those seeking unique outdoor experiences in New York City.

Transportation

Most forms of private and public transportation are accessible to the subject property. The subject property is located on the westerly side of 12th Avenue, which has two-way traffic. Across 12th Avenue is West 46th Street, which is one-way street heading easterly.

The subject property is also accessed via the Hudson River Greenway owned by the New York State Department of Transportation. The Hudson River Greenway runs alongside and to the west of 12th Avenue and was built primarily for bike uses. As we have mentioned above, the Hudson River Greenway spans the west side of Manhattan, running from Battery Park to the George Washington Bridge.

The M50 Bus Line has a stop adjacent to the subject property. The M50 bus is a crosstown bus that begins at 12th Avenue and 42nd Street and ends at 49th Street and 1st Avenue. Majority of the bus stops on the M50 bus are located along West 50th Street and East 50th Street. On the other side of 12th Avenue from the subject property is the 12th Avenue and West 46th Street bus stop, which services the M50 and M12 bus lines. The M12 Bus line connects the West Village and Columbus Circle. The Route begins at the corner of West 12th Street and 8th Avenue and ends at the corner of West 58th Street and Broadway.

The nearest subway stop is the 50th Street Subway Station. The 50th Street Subway Station services the A/C/E trains. A slightly further walk is the 34th Street Station at Hudson Yards. This station services the 7 Train.

To the south at West 39th Street is the Midtown Ferry Terminal which provides waterborne transportation links to Jersey City, Hoboken, Weehawken, Battery Park City and Pier 11 at Wall Street.

Conclusion

The subject property is situated on the westerly side of 12th Avenue within Hudson River Park. The property is bounded by the Manhattan Cruise Terminal to the north, Hudson River Park's Pier 84 to the south and 12th Avenue and the Hell's Kitchen neighborhood to the east. It is a unique location given that it is a pier in an area that is a popular destination for tourism adjacent to the Manhattan Cruise Terminal and near Circle Line on Pier 83 which sees an estimated 1 million visitors per year, prior to the COVID pandemic. It is connected by bus to the busy 42nd Street corridor and is within walking distance to Times Square. Because of its numerous transportation links, we believe that the subject property is well suited for museum and other uses seeking access to large numbers of visitors.

With limitations set forth under the Proposed Lease, the subject property contains areas allocated for four permissible uses. These uses are museum use situated primarily in the Welcome Center building, ancillary retail and restaurant use also in the Welcome Center building, occasional special events on the Pier 86 open deck, and the docking of historic vessels along the perimeter of the pier. The Welcome Center building is the only significant enclosed structure on the pier and houses the admissions processing function of the museum (and not exhibit space which is primarily on the Intrepid vessel) and the aforementioned ancillary uses. The Intrepid vessel, which includes most museum exhibits, is not included in the leasehold and is in fact “on loan” to the tenant from the U.S. Navy. Consequently, with the exception of the special events on the Pier 86 open deck, the fair market value of the Welcome Center building encompasses the real estate value of associated with the high-volume museum together with its ancillary uses.

MUSEUM SPACE MARKET ANALYSIS

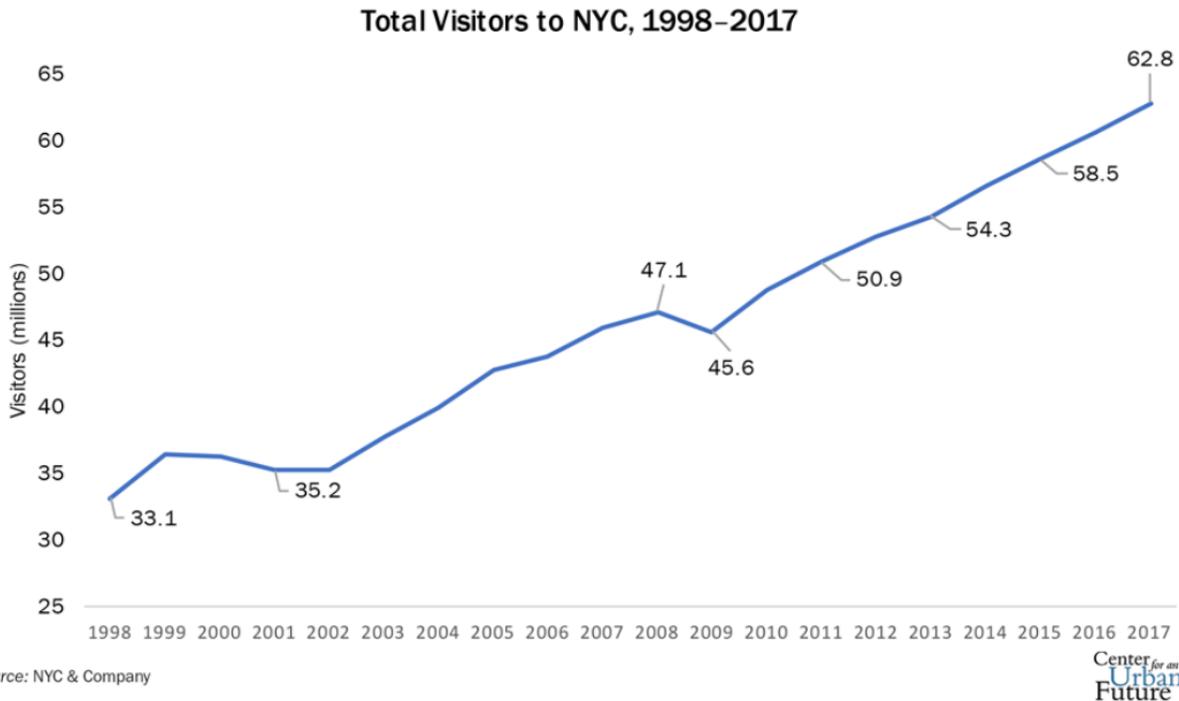
Given that the subject property at Pier 86 is restricted to park uses under the Act, which includes historic and cultural preservation, we have included an analysis of the museum and cultural markets in New York City. The New York City cultural market is very large as New York City is home to approximately 1,500 galleries; 725 nonprofit theater companies; 83 museums; 30 orchestras; 41 Broadway theaters; 170 performing arts centers; 6 zoos; and 28 botanical gardens. Furthermore, Manhattan is a culture center of New York City and the United States. It draws visitors from around the United States and the world given its wide array of offerings. Some of the most notable museums include the Metropolitan Museum of Art, the Museum of Modern Art, the Solomon R. Guggenheim Museum, the Whitney Museum of American Art, and the American Museum of Natural History. While this is by no means an exhaustive list, it does illustrate that some of the world’s best museums are located in New York City. These museums draw visitors from around the world each year, suggesting that New York City continues to be a major hub for museum uses. The following discussion outlines this in more depth.

The neighborhoods along the west side of Manhattan are increasingly home to museums and art galleries. The world-famous Whitney Museum of American Art is located about 30 blocks south of the subject property near 12th Avenue. West Chelsea, the neighborhood just south of Hell’s Kitchen along the Hudson River is home to numerous art galleries, including but not limited to, King David Gallery, Jim Kempner Fine Art, Luhring Augustine Gallery, Pavel Zoubok Fine Art, Doosan Gallery, and many more.

Through 2019, New York City museums have been experiencing high levels of attendance. The Metropolitan Museum of Art in New York City saw 7 million visitors in 2019, the third year in a row of over 7 million visitors. In 2018, The Met welcomed a record 7.4 million visitors across its

three locations. While we have highlighted the Metropolitan Museum of Art, many of the City's museums saw heightened attendance numbers until the outbreak of COVID-19.

New York City museum attendance is supported by some of the highest tourism numbers ever. While museum attendance has increased, so has the overall number of visitors to Manhattan. The following graph shows the growth in total visitors to Manhattan from 1998 to 2017.



The eight-year growth trend shown above continued strongly until the impact of COVID-19 was felt. In 2018, New York City saw a record 65.2 million visitors and reportedly hit 67 million in 2019.

The recent museum attendance and tourism statistics indicate that a strong market exists for museum uses in Manhattan in particular. In general, it appears that cultural institutions of New York City are in high demand and are likely contributing to the increase in the number of tourists that flock to New York City. The availability of a wide variety of art galleries, museums, and other cultural experiences have long been associated with Manhattan and, until COVID-19, appeared to still be in strong demand.

We note that the subject property's submarket is attractive for museum uses given its proximity to many well-known attractions in Manhattan and ease of access by most forms of urban transportation. The subject property is located directly west of Times Square and is approximately ten blocks south and about four blocks west of Columbus Circle. The Times Square area features numerous Broadway and off-Broadway theaters. Columbus Circle is a famous attraction as it is

proximate to Lincoln Center and the Museum of Arts and Design. Columbus Circle also has direct access to Central Park, one of the most famous destinations in Manhattan. Further, the subject property's location on Pier 86 offers visitors a waterfront experience unique among most New York City museums.

Comparable Museum Leases

As discussed above, the 18,562 square feet Welcome Center building located at the entrance of the subject property serves the admissions processing function of the museum (including security screening) and includes a museum gift shop and food concession.

In establishing a market for the Welcome Center building portion of the improvements, we have conducted a study of comparable museums including two (2) for-profit museums and two (2) not-for-profit museums and have applied appropriate adjustments to each lease for their differences relative to the subject Welcome Center building leased space. The adjustments are discussed after the chart set forth below:

	SUBJECT PROPERTY	Comp 1	Comp 2	Comp 3	Comp 4
Address	Pier 86	558 Broadway	77 Eighth Ave.	119 W 23rd St.	88 Greenwich St.
Tenant Name	Intrepid Air, Space & Sea Museum	Museum of Ice Cream	Museum of Illusions	Posterhouse Museum	9/11 Widows & Victims
Intersection/Cross Streets	46th & 12th Avenue	Btw. Prince & Spring	8th Ave & 14th St	Btw. 6th & 7th Aves	Rector & Greenwich St.
Neighborhood	Hell's Kitchen	SoHo	Greenwich Village	Chelsea	Lower Manhattan
Municipality	Manhattan	Manhattan	Manhattan	Manhattan	Manhattan
Execution Year	-	2019	2018	2017	2016
Block/Lot	1107/30	497/15	629/7504	799/28	18/7501
Lease Length (Years)	-	10 Years	10 Years	10 Years	-
Total Square Footage	18,562	23,281	4,545	15,900	34,139
Grade Square Footage	16,670	7,753	3,500	8,500	3,182
Lower Level Square Footage	N/A	8,001	1,045	7,400	N/A
Second Floor Square Footage	1,892	7,527	N/A	N/A	30,957
Annual Lease Amount	-	\$1,356,775	\$450,000	\$2,337,300	\$1,675,000
Monthly Rent	-	\$113,065	\$37,500	\$194,775	\$139,583
Per Foot Rent	-	\$58	\$99	\$147	\$49
Free Rent	-	-	-	7 Months	4 Months
Tenant Improvements (TI)	-	-	-	-	-
Concession Stand	Yes	-	-	Yes	-
Retail Store	Yes	Yes	Yes	Yes	-
Intangible Adjustments					
Market Conditions		0.00%	-7.50%	-5.00%	0.00%
Adjusted Price Per Square Foot		\$58	\$92	\$140	\$49
Physical Adjustments					
Location		-10.0%	-10.0%	-5.0%	0.0%
Unit Layout		7.5%	2.5%	5.0%	10.0%
Retail/Concession Stand		2.5%	2.5%	0.0%	2.5%
Size		2.0%	-5.0%	-2.0%	5.0%
Net Adjustments		2.0%	-10.0%	-2.0%	17.5%
Adjusted Price Per Square Foot		\$59	\$82	\$137	\$58

The leases in the preceding chart vary in terms of size, location, layout, and execution date and the information presented represents a cross section of market activity for museum leasing in Manhattan. The comparable leases are all located in the Downtown area of Manhattan and are all located in the grade level retail suites of their respective buildings.

The signed leases range in unadjusted price from \$49 to \$147 per square foot and range in size from 4,545 to 34,139 square feet. The leases were signed between the years of 2016 and 2019. It should be noted that comparable #4, the 2016 lease for 9/11 Tribute Museum at 88 Greenwich Street, was terminated early in late 2019.

Since museum tenants are less common than typical retail uses, we expanded our search to include relevant museum leases in the last five (5) years. Given that these leases have been signed between the years of 2016 to 2019, we have adjusted for differences in market conditions. Most notably, we adjusted lease comparable 2 down by 7.5% since we have seen softness in the market since 2018 for grade level retail uses. We have also adjusted lease comparable 3 down by 5%. We did not adjust Comps 1 and 4 for market conditions as 2016 and 2019 were similar retail leasing environments to the date of value of this report.

Next, we have adjusted the comparable leases for location. Comps 1, 2, and 3 have been adjusted downward for their superior locations relative to the subject property. We note that the subject is not a high demand retail neighborhood and the comparable leases are in neighborhoods that command higher rents due to their desirability for grade-level retail and we have adjusted to account for this.

The Welcome Center at the subject property is spread across two floors, with the current concession stand located on the second floor. We note that the second floor is a mezzanine layout and comprises approximately 1,892 square feet of the 18,562 square feet.

The comparable leases are also spread across grade, second, and in some cases, basement spaces. We have adjusted all four lease comparables for differences in layout. We note that the Posterhouse Museum is spread across the basement, the grade level, and the second floor. Similarly, the 9/11 Tribute Museum has only 10% of its space at grade and the remainder in the basement. Our adjustments range from 2.5% to 10%, depending on the amount of space and the number of floors.

Some of the museum leases we have uncovered have a concession stand and/or retail space within the museum. We note that this space could be sub-leased to a retail store or operator and may not be owned and operated by the Museum itself. Given this consideration and the potential for revenue through this channel, we have adjusted Comparable Leases 1, 2 and 4 to account for this.

Lastly, we have adjusted the comparable leases for differences in total size. As mentioned earlier, the leases range in size from 4,545 to 34,139 square feet. Given the concept of the economies of scale, larger spaces typically lease for lower amounts on a per square foot basis.

Conversely, the same concept sees smaller spaces lease for higher amounts per square foot. With this in mind, we have adjusted our leases to account for differences in size.

Conclusion

Summary of Adjusted Comparable Rents	
Minimum	\$58
Maximum	\$137
Mean	\$84
Median	\$71
Conclusion	\$95
Final Estimated Market Value	\$1,763,390
Rounded	\$1,760,000

After considering the above leases, we believe that the subject Welcome Center space could generate a rental rate toward the higher end of the range at **\$95 per square foot, or \$1,760,000 per annum**. We note that the subject property currently receives rent from two subtenants occupying one-third of the total space, the food concession and the retail store. In the case of a museum entity leasing the entire Welcome Center, the tenant could sub-lease to these operators to off-set part of this annual lease payment. Therefore, we have also analyzed the local area's retail and food concession markets to understand market rents for such subtenancies to determine whether a further adjustment is warranted. Should the range of fair market rental values of the subleased retail space and food concession be significantly different than \$95 per square foot, then consideration would be given to adjusting the overall rental rate for the Welcome Center. However, as described below, the rental rates for the museum space and the food concession and the retail spaces are all within the same range, thus supporting the \$95 per square foot valuation for the entire Welcome Center.

ANCILLARY SPACE FOR RETAIL & RESTAURANT MARKET ANALYSIS

As mentioned above, the retail and restaurant space would likely be subleased and operated by a third-party. We have conducted a retail and restaurant market analysis to understand the potential market rent from subtenant space inside the Welcome Center to see if it different from the fair market value of the museum space.

The Manhattan retail leasing market is, as of January 1, 2020, in a downward transition from a very strong run which generally ended sometime in mid- to year-end 2015. The current softening of market conditions are characterized by increases in vacancy, increased landlord concessions and declining effective rental rates. According to the Fall 2019 retail market report published by the Real Estate Board of New York (REBNY), the per square foot average asking rents for ground floor retail space declined year-over-year in eleven of the seventeen high profile corridors. At the same time, in its 3Q 2019 Retail MarketBeat Report, Cushman & Wakefield reported that “As asking retail rents have continued to adjust over the past several years, Manhattan asking rents closed the third quarter of 2019 with YOY decreases in seven of the 11 statistical submarkets tracked by Cushman & Wakefield.”

The downturn of Manhattan’s retail market does not exist in a vacuum and is part of a larger national trend. A seismic shift in retailing is occurring nationally and locally in part due to an over-saturation of retail space, and the ever-growing influence of online retailing. During 2017 many prominent retailers began to downsize their operations with store closures or even announced bankruptcies. Examples include a luxury fashion label BCBG Max Azria, which filed for bankruptcy protection and announced it would close 120 of its stores, as well as more mainstream names such as Macy’s, Sears, Payless, American Apparel, the Limited, Wet Seal and the electronics chain H. H. Gregg. In a statement dated February 24, 2017, J.C. Penney announced that it planned to close 130 to 140 stores and two distribution facilities, citing slower consumer traffic and muted sales. The collapse of so many companies will have far-reaching consequences for retail-driven real estate owners both in the City of New York and nationally. Although New York City has seen falling asking rents and increased vacancy, there is a sense of cautious optimism in the New York City retail market with REBNY noting in their Spring 2019 Market Report that, “[in] the Manhattan retail market ... they are seeing increased interest in retail space by new retailers entering the market, retailers previously deterred by high prices, and retailers looking to move to emerging neighborhoods. Retail leasing activity among e-commerce and digitally native brands are highlighting the importance of brick-and-mortar locations as distribution hubs for products and a physical extension of their marketing presence.”

According to the Third Quarter 2019 CoStar New York City Retail Report, the Manhattan retail market is comprised of 4,514 retail buildings, representing over 57.2 million square feet of space. The survey reports average quoted asking rents for all of Manhattan of \$138.58 per square foot with a vacancy rate of 4.3%. This represents a minimal decrease in asking rents and an increase in vacancy, year-over-year, which suggests a correction is underway where landlords have realized the need to adjust their expectations for rental rates in order to fill vacant spaces. The subject’s more specific Midtown Retail Submarket reports a quoted asking rate of \$159 per square foot and

a vacancy rate of 3.1%. The recent trend for closed deals has been increased landlord concessions that benefit the tenant.

The far west side of Manhattan has experienced a major increase in retail with the Hudson Yards opening in March of 2019. The Hudson Yards development features a 1 million square foot retail center that features many high end retailers and restaurants. Some of the tenants include Neiman Marcus, Bluestone Lane, Jo Malone, Kiehl's, Theory, Van Leeuwen, and many more. This development has established the western side of Manhattan as a retail destination, which could potentially impact the subject property. The subject property is located just about 10 blocks to the north of Hudson Yards. Considering that Hudson Yards expects 60,000 visitors per day, the subject property could benefit as some of those visitors permeate north to towards the subject.

Comparable Retail Leases

To determine market value, we have researched recent leasing activity in the subject's market for use in our analysis. To get to an accurate market value for the subject property, we must review current lease rates to arrive at a lease value that the subject property could achieve if were to be leased to retail and food concession tenants. Presented on the following page are comparable leases uncovered in our research. We have included several recently signed in the subject's nearby Chelsea neighborhood, summarized as follows:

Address	Date	Tenant	SF	Term	Base Rent	Per Foot	Increases	TI	Free Rent	Floors	Comments
Pier 45	1-Jun-20	Drift Inn	310 SF interior, 1875 SF exterior	9 yrs.	\$40,000	\$48.52	\$106k/year, years 3-5	\$500k	-	Grade	5% on sales \$750-1m, 7.5% on sales \$1m-1.5m, 10% on sales over \$1.5m. Only open May-October
176 Perry St.	26-Mar-19	Perry Street Project, LLC	2,342	10 yrs.	\$192,000	\$ 81.98	3% per year	-	-	Grade	-
572 11th Ave.	9-May-19	The Learning Experience	11,129	-	\$834,675	\$ 75.00	-	-	12 mos.	Grade, Lower Level	-
572 11th Ave.	1-Jun-19	Starbucks	1,600	-	\$169,600	\$106.00	-	\$75/ft	-	Grade	-
525 W. 45th St.	1-Jan-19	LaDuca Shoes	2,300	10 yrs.	\$172,500	\$ 75.00	3% per year	-	3 mos.	Grade	-
Pier 26	5-Feb-16	City Vineyard	3,995	10 yrs.	\$300,000	\$ 75.00	3% per year	\$2m	-	Grade & Rooftop	Base rent bumps to \$309k year 5, 5% of revenue in excess of \$4m

Min	\$ 48.52
Max	\$106.00
Mean	\$ 76.92

The above comparable properties range from \$49 to \$106 per square foot. Two of the comparables are within Hudson River Park and range from \$49 to \$75 per square foot. The other three comparables are within the nearby Chelsea neighborhood and range from \$75 to \$106 per square foot.

Conclusion

The space considered for retail gift shop space in the Welcome Center building consists of approximately 4,399 square feet and the restaurant concession space is approximately 1,892 square feet. In sum, we are estimating that 6,291 square feet, or roughly one-third of the 18,562 square feet Welcome Center building will be sub-leased from the museum tenant for retail and restaurant use. As our range of \$49 to \$106 per square foot for these uses falls within same range as the

estimate for the museum space, this serves to support our estimation of \$95 per square foot as market rental for the entire 18,562 square feet Welcome Center building which includes both museum and ancillary retail and food concession uses.

OPEN SPACE FOR SPECIAL EVENTS MARKET ANALYSIS

As mentioned, the subject property is restricted to a “park use” under the Hudson River Park Act and the Proposed Lease. Included as an allowable use within this park-use restriction are uses such as concerts, limited corporate sponsored events, and not-for-profit fund raising events. Under the Proposed Lease an outdoor area of approximately 9,000 square feet is permitted for museum special temporary exhibitions, not dissimilar to certain not-for-profit events. Given this assumption, we have conducted a market study of comparable special event spaces in Manhattan.

New York City is home to many event spaces, ranging from rooftops to office space dedicated for daily events. The subject property’s pier location would serve as a unique offering for corporations and others looking to undertake sponsored events featuring photoshoots that feature the backdrop of the Hudson River and Manhattan skyline.

To understand the potential income to be generated by the pier for event spaces, we have researched the rental rates for other event spaces around New York City, including within Hudson River Park’s piers 25, 46 and 62. Event spaces in Manhattan are often quoted either by hour or by day. Sometimes the spaces are quoted by person and have a minimum and maximum for the number of guests. In our analysis, we have quoted by day for all spaces. The following table outlines the rates for spaces that we believe are similar to the subject property:

No.	Space Name	Neighborhood	Daily Rate	Space Type	Est. SF
1	Town Stages	Soho	\$32,000 - \$39,000	Indoor	10,000
2	Tribeca Rooftop	Tribeca	\$48,000	Outdoor	29,000
3	Classic Car Club Manhattan	Chelsea	\$40,000 - \$60,000	Indoor	6,000
4	Central Park Zoo	Central Park	\$20,000	Outdoor	N/A
5	The Altman Building	Chelsea	\$15,500	Indoor	13,500
6	Brooklyn Expo Center	Greenpoint	\$15,000	Indoor	60,000
7	99 Scott Warehouse	East Williamsburg	\$15,000	Indoor	4,953
8	American Brain Tumor Association Event	Pier 62	\$20,000	Outdoor	9,900
9	Allied Global Market "Pup Fest" Event	Pier 46	\$25,000	Outdoor	11,970
10	Tone House Fitness Games Event	Pier 46	\$25,000	Outdoor	11,970
11	San Pellegrino Event	Pier 46	\$25,000	Outdoor	11,970
12	Etrade Corporate Picnic	Pier 25	\$25,000	Outdoor	13,950
13	Nike Soccer Event	Pier 25	\$25,000	Outdoor	23,950

The above space types range from rooftops to interior, loft spaces, and unenclosed landscaped areas. The above comparables range from \$15,000 per day to up to \$60,000 per day. We also note that the daily rate for the Tribeca Rooftop is calculated by taking their minimum number of guests (178 people) and the cost per guest (\$270), which results in a rounded value of \$48,000 per day. We have also note that Numbers 8 through 13 are actual fees from events on piers in Hudson River Park. These were shared by the client and they are arranged by date from August, 2013 for Number 13 to November, 2019 for Number 8.

We have included a wide range of event spaces to outline how different venues vary in daily revenue depending on their offerings. Generally, event producers pay different rates for load-in and load-out days than actual event days, so that the average daily rate is ordinary somewhat lower than those cited above. Given the nature of subject property and its unique outdoor, waterfront offering, we have projected a potential daily rental rate averaging **\$25,000 per day**.

Next, we have assumed that the pier would host events outdoors only. Since these events would be outdoors, the pier is unlikely to receive many, if any, bookings during the winter months. As such, we find that the Spring, Summer, and Fall are the likely seasons for events, with most happening in the summer. In addition, because the owner, Hudson River Park Trust, would not allow events to be a primary use at the pier, the number of events would be limited. With this in mind, we have estimated that Pier 86 will host **16 events per year** and have applied this in our revenue estimations.

Conclusion

The subject property has a unique waterfront offering that could be used as an event space for limited periods. Given that it is not a typical event space and it is located on a pier, we have estimated that \$25,000 per day is reasonable relative to the current event space market. Next, we have estimated that the subject property is likely to hold around 16 events per year. As such, we estimate that the subject property will generate approximately **\$400,000 per annum** in potential gross revenue from special events.

DOCK SPACE FOR HISTORIC VESSEL MARKET ANALYSIS

Another potential source of income for the subject property is the dock space, however traditional use of the dock space for commercial use is not permitted for the subject property under the Act or Proposed Lease. According to the Act, the dock space at the subject property is limited primarily to historic vessels. As such, we have analyzed the market for historic vessels in the United States to understand the rental rates that a historic vessel would pay to dock at the subject property. The pier is currently leased to the Intrepid Museum Foundation which docks the aircraft carrier U.S.S. Intrepid on the south facing side and the submarine U.S.S. Growler on the north facing side. As noted, these vessels are currently “on loan” from the U.S. Navy and the use of the U.S.S. Intrepid is further restricted by its historic designation.

On east coast of the United States, the docked U.S.S. New Jersey in Camden, New Jersey and the docked U.S.S. North Carolina in Wilmington, North Carolina do not pay rent to the local municipality which owns the dock. In New York State, the Buffalo and Erie County Naval Park features the docked U.S.S. Little Rock, U.S.S. Sullivans and submarine U.S.S. Croaker and does not pay rent to the City of Buffalo or State of New York. It should be noted that all of these venues attract far fewer annual visitors than the Intrepid Sea, Air & Space Museum. Although all collect admissions, similar to the Intrepid, most depend also on various grants to meet operating expenses.

In an article dated May 14, 2011, the Star Advertiser, a publication based in Honolulu, Hawaii discusses the rental rates associated with historic vessels in the U.S. Navy facility at Pearl Harbor. The article discusses how the rent was increasing for the USS Missouri on Pier F-5. The new 5-year lease required the U.S.S. Missouri Memorial Association, a not-for-profit naval museum, to pay \$409,824 per annum for its location on the pier. Dockage for the U.S.S. Missouri at berth Pier Foxtrot-5 extends for 887 linear feet as compared to 820 feet for USS Intrepid. However the berth for the U.S.S. Missouri is along a bulkhead and not on a pier. Thus, the U.S.S. Missouri Memorial Association does not appear to have responsibility for maintaining an extensive marine structure, as is the case for the Intrepid Museum Foundation.

Since the date of publication of this article a new 25 year lease deal was announced in which the operator of the U.S.S. Missouri now pays the Navy a percentage of ticket sales instead of a fixed base rent. According to the Hawaii News in an article titled “Under a new lease deal, the Missouri memorial will stay in Pearl Harbor”, the percentage of ticket sales was not specified. That being said, the article quotes Michael A. Carr, President and CEO of the U.S.S. Missouri Memorial Association saying “it will be more than the roughly \$400,000 a year that the Missouri was paying under the former lease.” This article was dated April 19, 2017 and the leased premises apparently include Building 468, “a large structure on Ford Island at the entrance to Pier Foxtrot-5”. This 8,500 square feet building will be turned in to an Administrative Center, according to the same press release. The Administrative Center will also include many artifacts for the memorial, new public restrooms, and offices for the association’s staff.

Within New York City, a directly comparable lease is that of the South Street Seaport Museum with the City of New York. Under the lease, the Museum operates permanently docked and active historic vessels at Pier 15 including the Watertree, Lightship Ambrose, and sailing vessel Pioneer.

In addition, the Museum operates approximately 30,000 square feet of interior museum admission, gallery and gift shop space in the upland Schermerhorn and Museum blocks at the South Street Seaport. According to reliable sources, the Museum does not pay the City of New York rent for either the dockage or interior space.

Given this information, it is evident that standard lease structures are not suitable for the docking of historic naval vessels. Historic naval vessels are continually in need of maintenance and other high cost operational expenses. In the one documented case of an historic naval vessel operator paying rent, the leased premises included an 8,500 square foot building and used a percentage rent arrangement to provide necessary financial flexibility.

Conclusion

While we have found one data point for an historic vessel lease with a significant rent, its lease restructuring indicates that in order to remain an active museum and be financially successful, the landlord must be flexible with its lease terms. Lease flexibility is necessary because income and expenses of operating the historic vessel can vary quite substantially. One major factor is the upkeep of historic vessels. Historic naval vessels, and particularly those open to the public, require continual maintenance and attention. Rental payments can become difficult to maintain, and thus establishing a market rate applicable to the subject property is challenging, with most comparables no paying any rent.

Given these considerations, we have assigned a value of **\$0 per annum** for historic vessel docking at Pier 86.



ZONING MAP

ZONING ANALYSIS

The subject property is located within a M2-3, Medium Manufacturing. According to the New York City Department of Planning...

“M2 districts occupy the middle ground between light and heavy industrial areas. The four M2 districts, with different floor area ratios (FAR) and parking requirements, are mapped mainly in the city’s older industrial areas along the waterfront.”

Permissible uses in the M2-3 zoning district include manufacturing and limited commercial uses. M2-3 Zoning is mapped in Manhattan along the East and West Waterfronts.

The following bulk regulations apply to the subject:

Maximum Floor Area Ratio (FAR)	
Commercial:	2.0
Minimum Yard Requirement:	
Side Yard:	None
Rear Yard:	20 foot rear yard required
Maximum Height of Front Wall:	60 feet or 4 stories

As a pier property, the subject property is also subject to restrictive Waterfront Zoning requirements under Article VI, Chapter 2 of the NYC Zoning Resolution that regulate floor area of certain uses, enlargements, height and setback, signage, bulk, and visual corridors among other concerns.

The goals of Waterfront Zoning are stated as:

- a) to maintain and reestablish physical and visual public access to and along the waterfront;
- (b) to promote a greater mix of uses in waterfront developments in order to attract the public and enliven the waterfront;
- (c) to encourage water-dependent uses along the City's waterfront;
- (d) to create a desirable relationship between waterfront development and the water's edge, public access areas and adjoining upland communities;
- (e) to preserve historic resources along the City's waterfront; and
- (f) to protect natural resources in environmentally sensitive areas along the shore.

Hudson River Park Uses

We note that while the subject property is mapped within a zoning district designated as M2-3 and subject to Waterfront Zoning, the uses within the Hudson River Park (“Park”) are subject to the Hudson River Park Act, approved and effective as of September 8th, 1998. The Hudson River Park Act restricts the subject property to “Park Uses”. According to the Act, Park use means:

1. Public park uses;
2. Public recreation, amusement rides and entertainment, including the arts and performing arts, on open spaces;
3. Public recreation, amusement rides and entertainment, including the arts and performing arts within enclosed structures;
4. Small-scale boating for recreational and educational purposes;
5. Environmental education and research, including museums;
6. Historic or cultural preservation including historic ships and vessels;
7. Wildlife and habitat protection;
8. Facilities incidental to public access to, and use and enjoyment of park uses, such as concession stands, information stands, comfort stations, boathouses, marinas, water taxis, and stands at which bicycles, skates, deck chairs, beach umbrellas, fishing tackle, other sports equipment or other similar products are rented or sold on a small scale basis.

Use Restrictions – Subject Lease

As detailed in the abstract of the Proposed Lease, the permitted and prohibited uses of the subject property are set forth in Section 8 of the Proposed Lease.

It should be noted the restrictions summarized do not represent the entire restrictions summarized in the *Zoning Resolutions* but are the most basic restrictions applicable. There are numerous other restrictions applicable that must be considered in the determination of true compliance. However, the determination of compliance with zoning restrictions is beyond the scope of a real estate appraisal, therefore, our comments regarding compliance apply only to the restrictions noted above. Furthermore, we are unaware of any deed restrictions that may further limit the subject property's use. Deed restrictions are a legal matter and only a title examination by an attorney or a title company can usually uncover such restrictive covenants. Thus, we recommend a title search to determine if any such restrictions do exist.

SITE DATA

Location: The property is situated along the westerly side of 12th Avenue at approximately West 46th Street in the Borough of Manhattan, City, County and State of New York.

Site Measurement: The total dimensions of all land to be demised under the Pier 86 lease are approximately 332.5 feet x 1,003.0 feet, or approximately 333,497.50 *square feet* of land and land underwater. In addition to the premises mentioned above, the Intrepid Museum Foundation also licenses additional land underwater to the north and west of Pier 86. The components of the site are as follows:

Licensed Water Area (North & West): An area underwater measuring approximately 903 feet in length and 40 feet in width has been licensed to accommodate the USS Growler submarine and other vessels to be docked to the north of Pier 86. In addition, an area underwater measuring approximately 155 feet in length and 40 feet in width is licensed at the westerly end of the pier for the temporary docking of other permitted vessels. Using the above dimensions, a total of 42,320 *square feet* of land underwater is to be licensed under the Proposed Lease in addition to the leased premises.

Lease Water Area for docking of the Intrepid: An area underwater measuring approximately 1,004.5 feet in length and 177.5 feet to the south of Pier 86 is included in the premises for the docking of the U.S.S. Intrepid. Using these dimensions, approximately 178,298.75 *square feet* of land underwater has been included in the leased premises for the docking of the U.S.S. Intrepid.

Pier 86: Pier 86 includes both a marine pier structure and bulkheaded land measuring approximately 1,003 feet in length and 155 feet in width. Using these dimensions, approximately 155,665.0 *square feet* above water is included in the lease premises for Pier 86. Within this Pier 86 area is a pile supported marine pier structure measuring approximately 783 feet in length and 155 feet in width (approximately 121,365 *square feet*) and a solid fill approach structure located immediately inshore of pier structure measuring approximately 220 feet in length and 155 feet in width (approximately 34,100 *square feet*). The solid fill structure serves as a transition between the upland area and the pile supported pier

structure. The approach structure allows pedestrian and vehicular traffic to pass between pile supported pier structure and the upland area to the east. The approach structure is bound on the north, west, and east sides by a granite block / concrete bulkhead that retains fill material. The two story 18,562 square feet Welcome Center building is constructed upon the bulkheaded approach structure.

An additional narrow area comprising the Southern Bulkhead extends to the south of the Pier 86 pier marker toward Pier 84 and forms part of the integrated berth in which the U.S.S. Intrepid is permanently docked.

Zoning: M2-3, a Medium Manufacturing District in an area subject to Waterfront Zoning. Uses are further governed by the Hudson River Park Act, as well as the use restrictions set forth in the Proposed Lease.

It is noted that any excess development rights generated by the subject property are reserved by the Hudson River Park / Lessor.

Topography: The site is generally flat and at grade.

Flood Zone: According to FEMA Flood Panel Map 3604970069F. This flood map was effective as of September 5, 2007. The property is located within the confines of FEMA Zone AE: areas determined to be at elevation levels of 10 feet.

We note that the subject property is a pier in the Hudson River.

Utilities Available: Utilities available to the site are telephone, provided by Verizon and others; gas and electric provided by Consolidated Edison; water and sewer provided by the City of New York.

Municipal Services: Street lighting, sanitation, street maintenance, police and fire protection are provided by the City of New York.

Ingress/Egress: Ingress and egress to the site are by means of 12th Avenue at the terminus of West 46th Street.

On the southeast corner of West 46th Street and 12th Avenue is a staircase to access a footbridge that provides access to the Intrepid

Museum by foot. The staircase and footbridge are located in a parking lot owned by the New York State Department of Transportation that exclusively services the subject property, primarily for tour bus drop off and pick-up. Neither the parking lot nor the footbridge are included in the leased premises.

**Potential Hazards/
Subsoil Conditions:**

Appraisers and Planners, Inc. is not aware of any potential hazards affecting the site.

**Easements and
Encroachments:**

Since a survey of title is beyond the scope of this report, a precise rendering of recorded easements and encroachments was not available. According to information provided by the Client, there are a series of easements and encumbrances on the subject property, summarized as follows:

1. The rights of the United States of America, in the exercise of its constitutional powers to regulate interstate commerce and the use of navigable waterways, to alter existing U.S. Bulkhead and Pierhead Lines, and to compel the removal (without compensation) of fill and other improvements (including buildings, piers and other structures) from land now or formerly lying below the high water mark of the Hudson River.
2. The rights of the State of New York in and to any land now or formerly under the waters of the Hudson River not effectively granted to the City of New York by Letters Patent dated September 28, 1871 and recorded March 9, 1872 in Liber 1194 at Page 651.
3. Rights of the United States government, the State of New York and the City of New York or any of their departments or agencies to regulate and control the use of piers, bulkheads, land under water and land adjacent thereto.
4. The rights of the People of the City and State of New York to use and have access to the waters of the Hudson River adjoining the Pier.
5. A portion of the Premises lies in the bed of Marginal Street Wharf or Place as the same is laid out on the official map of the City of New York. This portion of the Premises is subject to the restricted use and limitations imposed by the provisions of Section 35 of the General City Law.

6. Possible interests deriving from deed made by The City of New York, dated July 18, 1850 and recorded July 27, 1850 in Liber 549 at Page 135.
7. Revocability or lack of right to maintain vaults, excavations or sub-surface equipment beyond the line of the Premises.
8. Any state of facts an accurate survey or physical inspection of the Premises may show as of the date of this Lease.
9. Excluded Utility Matters.

We note that these easements do not impact the subject valuation, as the market rent incorporates the restrictions on use set forth in the Proposed Lease.

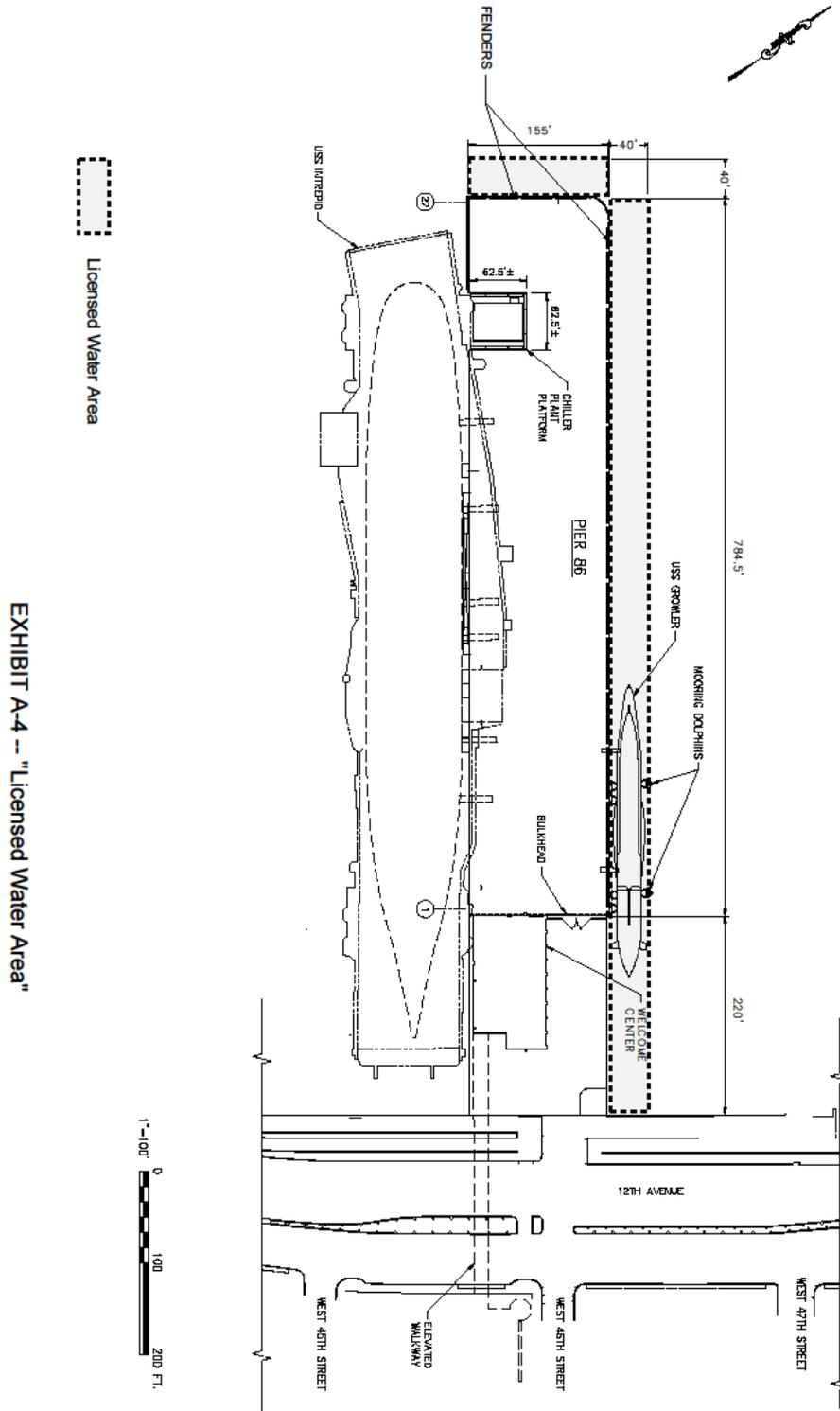
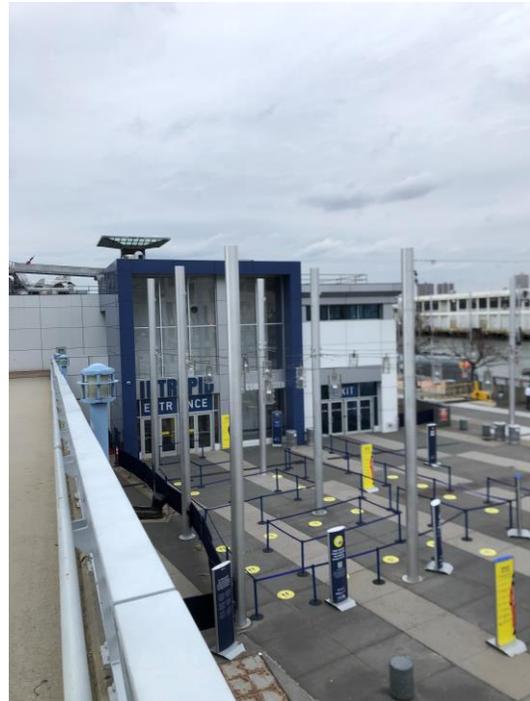


EXHIBIT A-4 -- "Licensed Water Area"

Subject Photographs



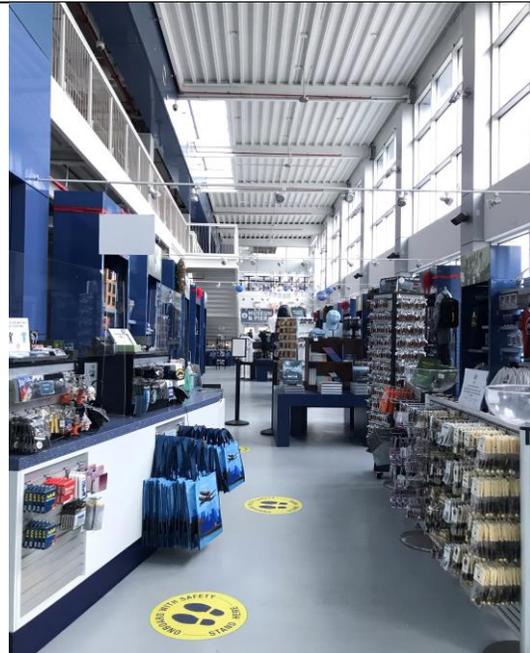
Welcome Center Exterior



View of Welcome Center from Stairs



Gift shop and entrance



Gift shop in Welcome Center



Ticket sales (first floor)



Second floor dining and queuing area



Second floor cafe



Central staircase

DESCRIPTION OF THE IMPROVEMENTS

Our description of the subject improvements is based on an interior inspection of the improvements as well as information provided by management.

The subject property is comprised of the entirety of Pier 86 located on the west side of Manhattan. In addition to the pier structure, the subject also includes bulkhead land which effectively attaches Pier 86 to the island of Manhattan. The bulkheaded land houses the Welcome Center building and stretches approximately 220 feet into the Hudson River. The bulkheaded land is approximately 155 feet wide, the same width as the pier structure.

The subject property is at approximately West 46th Street and has access by means of 12th Avenue (aka West Street or Joe DiMaggio Highway). According to the client, the above water pier structure and bulkheaded land is approximately 155,665 square feet. The pier is mainly open with concrete surfaces; however, it does have a couple of structures. The structures include an 18,562 square feet museum Welcome Center on the easterly portion of the pier. There is also a small temporary tented structure that serves as an ancillary temporary exhibit space for Growler. Lastly, there is a very small building at the Northeasterly side of the pier that serves as a security booth.

Welcome Center:

The Welcome Center is a two-story structure situated at the easterly side of the subject pier, is modern in appearance and measures approximately 18,562 square feet. The building is currently home to a concession for food, a gift shop, and the museum admissions area where patrons purchase tickets and queue up to enter the Intrepid Museum. The ground floor houses the gift shop, and main welcome area with ticket counters. The ticket counter comprises the entire southerly side of the building's first floor while the gift shop comprises the majority of the northerly portion of the Welcome Center building.

The current layout includes a two-story retail store that's approximately 2,849 square feet at grade with approximately 1,550 square feet on the second floor. The restaurant is located on the second floor as well, with approximately 880 square feet of dining space and 1,012 square feet of food preparatory space. The balance of the space totals 12,271 square feet that is currently utilized for ticket sales, waiting/queuing areas, admission to the museum and public rest rooms.

Pier Surface:

The pier surface has a number of site improvements including a series of four (4) stairs that provide access to the U.S.S. Intrepid at various elevations. Each staircase features an elevator that is located indoors. The stairs are outdoors, and each staircase wraps around the elevator shafts.

The westernmost portion of the pier houses a separate staircase providing access to the Concorde aircraft. Other improvements on the pier surface include a maintenance shed and chiller platform,

several outdoor seating areas, as well as a structure providing access to the U.S.S. Growler on the northerly side of the pier. At approximately half-way down the pier is an all-glass structure. This features an all-glass exterior supported by metal posts and beams that houses a flight simulator for patrons.

The U.S.S. Intrepid is docked on the southern side of the pier and the U.S.S. Growler is docked on the northern side of the pier. The Space Shuttle Enterprise is placed on the deck of the U.S.S. Intrepid and is housed in a temporary structure. All of the stair infrastructure mentioned earlier is on the southern side of the pier and serves as access to the Intrepid. The northern side of the pier is lined with outdoor seating, flagpoles that feature the American flag, and various lighting features. The U.S.S. Intrepid is listed on the National Register of Historic Places and is designated a National Historic Landmark.

We also note that the tenant under the Proposed Lease has signed a Memorandum of Understanding (MOU) with the New York State Department of Transportation, dated October 29, 2002. This agreement allows the tenant to utilize the pedestrian bridge over Route 9A at West 46th Street, which extends from the Welcome Center on the subject property to the east side facilities. The east side facilities are utilized as a drop-off parking lot for buses and group transportation to the subject property. It is our understanding that the tenant is responsible for maintenance and operational expenses associated with the Pedestrian Bridge.

HIGHEST AND BEST USE ANALYSIS

The highest and best use analysis and conclusions for a particular property provide the basis upon which the estimation of market value is predicated. The purpose of the highest and best use analysis is to identify the use of a property that is expected to produce the highest overall return and to identify comparable properties in estimating value.

According to the Appraisal Institute, **highest and best use** is defined as:

*"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in highest value."*¹⁴

In estimating highest and best use, four criteria are considered:

1. **Legally Permissible:** Those uses of the site which are permitted by zoning and deed restrictions
2. **Physically Possible:** The permitted uses of the site which are physically possible.
3. **Financially Feasible:** The possible uses which will produce a net return to the owner of the site.
4. **Maximally Productive Use:** The feasible use which produces the highest net return or the highest present worth.

The definition above applies specifically to the highest and best use of land. It is to be recognized that in cases where a site has an existing improvement on it, the highest and best use may very well be determined to be different from the improved 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.

In this case, we have evaluated the subject property on the highest and best use given its use restrictions under the Act and Proposed Lease. In doing so, we have evaluated the subject property given various income streams that utilize the existing structures. We have projected a tenancy that includes an interior museum space with ancillary retail and restaurant uses in the Welcome Center, 16 events hosted on the Pier in tents or unenclosed areas, and the docking of historic vessels. We projected the market rents for each of these tenancies in the market analysis sections of this report to understand the potential income that could be generated at the subject property. This has given us a value for an income value to apply to our analysis in the income approach section that follows this discussion.

¹⁴ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th Ed., (Illinois: Appraisal Institute, 2010), page 93

APPRAISAL PROCESS

The appraisal process is the orderly program in which the data used to provide an opinion of the market value of the subject property is acquired, classified, analyzed and presented. The first step is defining the appraisal problem, i.e., identification of the real estate, establishing the effective date of the value estimate, addressing the property rights being appraised and the type of value sought. Once this has been accomplished, the appraiser considers all the factors that affect the value of the subject property. This study includes Area and Neighborhood Analyses, Site and Improvement Analyses, Highest and Best Use Analysis and the application of the three approaches to rendering an opinion of the property's value. The three traditional approaches to value real property are: the Cost Approach, the sales comparison approach, and the income capitalization approach.

The **Cost Approach** is used to arrive at a market value developed by computing the current cost of replacing a property and deducting any accrued depreciation resulting from one or more of the following factors: physical deterioration, functional obsolescence and external obsolescence. The resultant figure, combined with an adequate return for the entrepreneurial effort, is added to the land value to arrive at an indication of value for the whole property. Generally, the land value is obtained through the approach. The Cost Approach is often best suited to new or recently constructed properties with a minimum amount of accrued depreciation.

The **Sales Comparison Approach** is based on the principle of substitution since a prudent purchaser would pay no more for a particular property than the price necessary for the acquisition of a substitute property which offers equal utility. The appraiser gathers data on sales of comparable properties and analyzes the nature and condition of each sale, making logical adjustments for dissimilar characteristics. Typically, a common denominator is found. For land value, this is usually either a price per square foot or price per acre; for improved properties, the common denominator may be price per square foot, price per unit, or a gross rent multiplier. The sales comparison approach gives a good indication of value when sales of similar properties are available.

The **Income Capitalization Approach** is predicated on the assumption that there is a definite relationship between the amount of cash flow a property may generate and its value. The anticipated annual cash flow of the subject property is processed to produce an indication of value. This approach is based on the principle that value is created by the expectation of benefits derived in the future. The income capitalization approach encompasses two different techniques: discounted cash flow analysis and direct capitalization. In the discounted cash flow technique, the benefits to equity of annual cash flow and sale proceeds over a reasonable holding period are converted into a value estimate using current costs of equity capital. Rates of return are derived from yields anticipated by recent buyers of similar real estate. Factors such as risk, time, interest on the capital investment, and recapture of the depreciating asset are considered in the selection of rates. In the direct capitalization technique, the cash flow for the first stabilized year is converted into an indication of value by using an overall capitalization rate.

A final step in the appraisal process is the **Reconciliation** of the value indications. In the reconciliation the appraiser considers the relative applicability of each of the three approaches, examines the range between the value indications and places major emphasis on the approach that appears to produce the most reliable solution to the specific appraisal problem. The purpose of the appraisal, the type of property and the adequacy and reliability of the data are analyzed, and appropriate weight is given to each of the approaches to value. In analyzing the three approaches to value, it can be readily observed that most of the information pertaining to the fair market value of the subject property must be derived from the marketplace because the appraiser anticipates the actions of buyers and sellers in the market.

INCOME APPROACH

Introduction

The Income Capitalization Approach is based on the premise that the value of a property is represented by the present worth of anticipated future benefits to be derived from ownership. The Income Approach reflects the subject's income-producing capabilities. The two commonly used techniques of valuation associated with the Income Approach are Direct Capitalization and Yield Capitalization.

Direct Capitalization is a method utilized to convert a single year's estimate of income into a value indication. In this method, it is important that market comparables reflect risk, income, expenses and physical and locational characteristics similar to those of the subject. In direct capitalization, a precise allocation between return on and return of capital is not made because investor assumptions or forecasts concerning the holding period, pattern of income, or changes in value of the original investment are not simulated in the method. Using this method, one must:

1. Project potential income from all sources that a competent owner could generate from a property.
2. Deduct an estimate of vacancy and collection allowance to arrive at Effective Gross Income.
3. Deduct operating expenses and real estate taxes from Effective Gross Income. The result is a stabilized net operating income.
4. Develop an overall capitalization rate.
5. Divide the net operating income by the overall capitalization rate, resulting in an indication of value.

Yield capitalization involves the projection of income, expenses and capital costs over an assumed holding period. Each year's projected cash flow, before debt service, is discounted at a rate which reflects the investor's desired yield over the holding period. The reversionary resale value is added to the final year's income. The reversionary value is typically derived via direct capitalization of the net operating income for the year immediately following the holding period. This method is more accurate in cases where net income is expected to vary over the holding period.

In order to determine the fair market rental value of the subject property, we have first determined the value of the entire real estate. Thereafter, we have applied an appropriate long term rental factor to determine the current fair market ground rental value for the subject property. In formulating an opinion of the market value of the subject property, we have relied upon the Direct Income Capitalization method.

Potential Gross Income

Potential Gross Income (PGI) is the anticipated income from all operations of the real estate before an allowance is made for vacancy and credit loss. As discussed earlier in this report, the subject property has potential income streams from a variety of sources. As such, we have conducted a study

to understand the potential gross income for all aspects of the subject property. The following table outlines the potential gross income for all income streams at the subject property:

Welcome Center / Museum	\$1,763,960
Special Events Income	\$400,000
Historic Vessels Income	\$0
Total Potential Gross Income	\$2,163,960

Vacancy & Collection Loss

An investor and an appraiser are primarily interested in the cash revenues that an income producing property is likely to generate annually over a specified period rather than what could be produced were it always 100% occupied and all tenants were paying rent in full and on time. It is a prudent practice to expect some income loss, either in the form of actual vacancy, tenant turnover, non-payment, or slow payment of rent by tenants. This allowance is usually estimated as a percentage of gross potential income.

Since we are assuming that we have multiple tenants that operate businesses in different industries, we have applied different vacancy and collection rates to each of the income streams. We have used 7.5% for the Welcome Center / Museum space.

Agency Sales Commission

The Intrepid Museum would likely hire an agency for help market, schedule, and book events for the pier. Given our knowledge of this industry, we understand that the typical fee associated with this is approximately 12.5% and have applied this to our analysis.

Effective Gross Income

The Potential Gross Income for each of the income producing areas of the subject property after application of vacancy loss and sales commissions has resulted in a Total Effective Gross Income of **\$1,981,663** for the subject property. The EGI of each income stream is shown below:

Effective Gross Income - Welcome Center / Muesum	\$1,631,663
Effective Gross Income - Special Events	\$350,000
Effective Gross Income - Historic Vessels Income	\$0
Total Effective Gross Income	\$1,981,663

Operating Expenses

To project appropriate operating expenses, we have relied on information from the client regarding the expenses associated with operating Pier 86. The client has provided the following allocated expenses from the tenant's total reported expenses. The allocated expenses cover the costs to operate the pier public open space and Welcome Center, and do not include expenses associated with the U.S.S. Intrepid museum vessel, other museum exhibits and programs, or museum activities within the Welcome Center.

A discussion of individual operating expenses is presented as follows:

Real Estate Taxes: The subject property is exempt from real estate taxes. As such, we have included these as a line item but have projected a value of \$0, or "exempt" as discussed previously.

Open Space Maintenance/Payroll: This expense covers the labor costs for maintenance of the pier open space only. A stabilized maintenance expense of \$150,000 per annum is based on figures shared by the client for providing two shifts each day of the week. It does not include maintenance costs associated with the operation of the Welcome Center.

Open Space Utilities: This expense accounts for the annual utility costs to operate the pier open space only, such as the electricity and water for washing down surfaces. We have projected this expense at \$20,000 per annum. It does not include utility costs associated with the operation of the Welcome Center.

Open Space Security/Payroll: This expense covers the costs associated with the salaries for the security staff for the pier open space. The property has protective services personnel and a supervisor 24 hours per day, 7 days per week, 365 days per year. As such, we have projected this expense at \$230,000 per annum. It does not include security costs associated with the operation of the Welcome Center.

Building Repairs and Maintenance: This expense covers the ordinary repairs and maintenance for the Welcome Center at Pier 86. As the Proposed Lease is "net", these costs are the responsibility of tenant. The total square footage of the Welcome Center building at Pier 86 is about 18,562 square feet. We have projected this expense at \$6.50 per square foot based on industry standards. This results in a total amount of \$120,653 per annum per annum for ordinary building repairs and maintenance. It does not include repair and maintenance costs associated with the operation of museum programs in the Welcome Center.

Open Space Repairs, Maintenance, and Operations: This expense covers the repairs, maintenance, and operations associated with the open public space of the pier, excluding the labor costs of tenant. This estimated annual cost, provided by the client, includes snow removal (\$50,000), repairs to surface concrete and pavers (\$60,000), tree service (\$6,000), repairs and replacement of outdoor furniture, flags and flagpoles (\$9,500), and associated equipment rental (\$15,000). In addition, the Proposed Lease requires tenant to provide a pedestrian manager to help guide visitors across the esplanade and bikeway during busy times. The client has estimated this annual cost at \$24,000. Based on these estimated costs of operations, we have projected this total annual expense at \$164,500 per annum.

Annual Marine Structure Repairs: This expense includes amortized/average annual repair and associated costs for marine inspections and underwater surveys (\$20,000), repairs to piles and pier structure underdeck (\$75,000), and allowance for repairs for the Southern Bulkhead (\$30,000). These capital maintenance figures have been provide by the client based on actual and projected costs of tenant. The annual marine structure repairs are estimated as **\$125,000 per annum**.

Partial Pier Reconstruction – Amortized: This is the expense associated with a partial pier reconstruction of the chiller plant platform. Under the Proposed Lease, the tenant is required to demolish the area and reconstruct it to expand public open space. The client has estimated this expense based at \$6,867,531 based on costs estimated provided by tenant. We have amortized this expense over 30 years to arrive at **\$228,918 per annum**.

Insurance: this expense represents the allocated liability insurance for pier open space and fire insurance coverage for the Welcome Center. The estimated stabilized amount is **\$140,000 per annum**. It does not include costs associated with the operation of museum programs.

Reserves for Pier Replacement: This is the expense associated with capital maintenance costs associated with structural repairs for the pier, such as pilings, over the 30-year lease term. Based on information provided by the client we have projected this expense at \$3.00 per square foot based on the total square footage of the pier. The pier is approximately 121,365 square feet, resulting in a cost of **\$364,095 per annum**.

Management Fees: Management fees are commonly accounted for by using a percentage of the EGI. Based on a market-oriented management expense of 3.0% of the EGI, **\$59,450 per annum** is projected in our stabilized statement.

Net Operating Income

Given a projected EGI of \$1,981,663 and a total projected expense of \$1,602,616, a stabilized Net Operating Income (NOI) of **\$379,047** is projected in our analysis. A stabilized statement is presented as follows:

Stabilized Proforma

Welcome Center / Museum		18,568
Market Rent PSF		\$95.00
Potential Gross Rent - Welcome Center / Museum		\$1,763,960
Less: Vacancy & Collection Loss @	7.5%	(\$132,297)
Effective Gross Income - Welcome Center / Muesum		\$1,631,663
Number of Special Events - Pier		16
Daily Special Event Rate		\$25,000
Total Potential Gross Income - Special Events		\$400,000
Less: Agency Sales Commission	12.5%	(\$50,000)
Effective Gross Income - Special Events		\$350,000
Two Historic Vessels - Total Linear Feet		\$0
Less: Loss Factor @		\$0
Usable Linear Feet		N/A
Annual Rent per Linear Foot		\$0
Total Potential Rent - Historic Vessel Income		\$0
Less: Vacancy & Collection Loss @	0.0%	\$0
Effective Gross Income - Historic Vessels		\$0
Total Effective Gross Income		\$1,981,663
Expenses		
<i>Real Estate Taxes/PILOT Equivalent</i>		<i>Exempt</i>
Open Space Maintenance/Payroll		\$150,000
Open Space Utilities		\$20,000
Open Space Security/Payroll		\$230,000
Building Repairs and Maintenance		\$120,653
Open Space Repairs, Maintenance, and Operations		\$164,500
Annual Marine Structure Repairs		\$125,000
Partial Pier Reconstruction – Amortized		\$228,918
Insurance		\$140,000
Reserves for Pier Replacement		\$364,095
Management Fees & Administration	3%	\$59,450
Total Expenses		\$1,602,616
Net Operating Income		\$379,047

Derivation of Market Rent

The conversion of net operating income into annual “ground” rent is done via a two-step process. First, the net operating income is capitalized into value by employing a capitalization rate. Second, the capitalized value is translated into an annual rent by applying a ground rent capitalization rate. The ground rent capitalization rate is a substantially lower rate than the rate used to capitalize net operating income because this position is less risky, and is treated as an operating expense to the lessee.

In deriving the capitalization rate we considered the atypical subject property use as a museum Welcome Center with a special events component. The subject’s use as a museum Welcome Center is unique in the market, and there are limited sales from which to extract capitalization rates. Additionally, the special events component of the income is non-recurring seasonal income that is a riskier proposition than a leased space with contract income.

The property has a quasi-retail aspect to the cash flows but has substantially lower marketability than typical retail properties given the restrictions on uses. To estimate a reasonable capitalization rate, we have relied upon input from a number of market sources including investment bulletins published by PriceWaterhouseCoopers (PwC), Situs/RERC Real Estate Report, as well as market transactions and our own experience and awareness of current money market rates. The average capitalization rate reported by the survey is summarized below:

Reported Average Cap Rate		
RERC – 4th Quarter of 2019		Range
1st Tier Retail (Neigh/Comm.) Properties East Coast		5.5% to 9.8%
		7.2%
NYC:		6.5%
PwC –4th Quarter of 2019		Range
National Strip Shopping Center:	6.75 %	4.5% to 10.0%

We select a discount rate towards the higher end of the range of the overall rates, and above the average, at 9.0%. Using the capitalization rate of 9.0%, the estimated net operating income is capitalized into a value of **\$4,211,635**.

Ground Rent as Percentage of Land Rent:

We are aware of several listings and ground leases reflective of the percentage of underlying value. Because of the confidential nature of these conveyances, we have presented a limited summary of the transactions below:

Lease Date	Existing	Location	Planned Product	Annual Ground Rent	Estimated Underlying Value	Ground Rent Factor
2Q 2019	Land	Midtown Manhattan	Hotel	\$1,350,000	\$32,500,000	4.2%
Under Contract	Land	Harlem, Manhattan	Rental Apartment	\$1,100,000	\$22,500,000	4.9%
Under Contract	Land	Bronx	Rental Apartment	\$1,600,000	\$40,000,000	4.0%
3Q 17	Land	Lower East Side	Office	\$1,400,000	\$30,000,000	4.7%
1Q 18	Land	Midtown Manhattan	Office	\$4,100,000	\$100,000,000	4.1%
Listing (before sale)	Land	Astoria, Queens	Rental Apartment	\$875,000	\$19,500,000	4.5%

We note that the above transactions are of vacant land and there is additional construction risk associated with ground-up development as compared with the conversion of an existing building such as the subject property. Based on the data above, and the information provided with respect to the proposed lease terms, we conclude towards the lower of the range at a ground rent factor of 4.5% or an annual ground rent of \$189,524.

The estimated annual rent is therefore computed as follows:

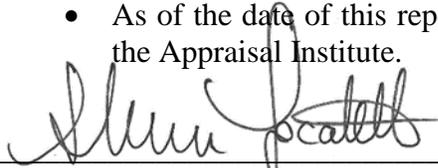
Value of Improvements of \$4,211,635 x Ground Rent Factor of 4.5% = \$189,524 or **\$190,000** rounded.

Therefore, it is our opinion that the retrospective fair market rental value, given the associated restrictions of the subject property, and subject to our extraordinary assumptions, as of January 1, 2020, was:

ONE HUNDRED NINETY THOUSAND DOLLARS (\$190,000) PER ANNUM

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- We have performed no services, as an appraiser, regarding the subject property within the three-year period immediately preceding this assignment.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 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 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.
- Charles Lalumiere provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, we have completed the continuing education program of the Appraisal Institute.


SHARON LOCATELLI, MAI, CRE, MRICS

**SHARON LOCATELL, MAI, MRICS - PRESIDENT
APPRAISERS & PLANNERS, INC.**

Sharon Locatell is President of Appraisers & Planners, Inc. headquartered in New York City. She is the former Executive Director of Brown Harris Stevens Appraisal & Consulting, LLC, where she headed the division for 18 years. Appraisers & Planners is a general appraisal and consulting business. Ms. Locatell has 30 years' experience in real estate valuation and consulting with a diversified background in terms of property type, and services offered. She is actively involved in market value appraisals, consulting assignments, arbitration proceedings, purchase price allocation studies, estate work, litigation support and expert witness testimony, and investment advisory consultation.

Sharon Locatell has acted as real estate appraiser and/or consultant to Rudin Management Company, Cord Meyer Development LLC, Jack Resnick & Sons, Inc., The LeFrak Organization Inc., The Shubert Organization, Rlichemont, New York Racing Association, Inc., Titan Capital, Emerald Creek Capital, Piaget, Roman Catholic Archdiocese of New York, Yeshiva University, Lord & Taylor, Wien & Malkin, Consolidated Edison, Friedman LLP, Rockefeller Center, GAP Inc., General Accident, as well as other institutions, corporations and individuals. Her valuations have also included Rockefeller Center and the MesseTurm in Frankfurt, Germany, one of Europe's tallest office buildings.

Sharon Locatell has testified as an expert witness in Federal District Court on numerous occasions, and in various local and state courts. She is also active as an arbitrator.

Ms. Locatell has experience in both consultation and valuation of all types of properties including commercial, residential, retail, industrial, vacant land, as well as lease analysis, and feasibility studies. Ms. Locatell's prior responsibilities have included valuation of Rockefeller Center as well as one of Europe's tallest office buildings, the MesseTurm located in Frankfurt, Germany.

EDUCATION

Gettysburg College
Gettysburg, Pennsylvania

Bachelor of Arts (BA)
(1984-1988)

University of Florida
Graduate School of Business
Administration

Masters Degree (MA)
Real Estate and Urban Analysis
(1988-1990)

PROFESSIONAL AFFILIATIONS

Member of Appraisal Institute **MAI**

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