Barbara Byrne Denham, Economist
New York, NY 10025

Ms. Regina Myer, President   November 24, 2015
Brooklyn Bridge Park
334 Furman Street
Brooklyn, NY 11201

Dear Ms. Myer,

In his letter as Director of the People for Green Space Foundation, Inc., Mr. Henry Richmond raises a number of points that I would like to address. I address his bullets in order.

> *Ms. Denham uses bizarrely incorrect tax data to validate BBPC's revenue assumptions. To cite one example, Ms. Denham claims that 360 Furman ST (aka One Brooklyn Bridge Park or OBBP), the first development in the park, has a Department of Finance (DOF) market value of ~$35.6 million (page 16), which is less than half of the verifiably correct value.*

On page 14, I wrote

> This suggests that the Department of Finance may not assess properties within the Brooklyn Bridge Park Project at the rates assumed in the model which could result in lower revenue for the Park. Indeed the FY 2016 tentative assessment roll for One Brooklyn Bridge Park shows a lower **market** value than from the FY2014 PILOT bill ($35.637 million in 2014 to $35.543 million in 2015).

First, the mistake in that paragraph is not the number but the word "market value." It should have read assessment value. Mr. Richmond likely knows that taxes are calculated on the assessed value which is 45% of the market value. Anyone with a basic math sense would have done the division and realized that the $35.5 million was the assessed value. If Mr. Richmond had simply done the math and divided $35.5 by 0.45, he would have seen that the market value derived is $79 million, which is very close to the $84.5 million he cites from the DOF.

Secondly, the $35.5 million assessment number that I refer to was from a **January 2015 DOF file** of preliminary values **showing PILOT bills by unit that indeed add up to $35.5 million.**

Thirdly, I submitted my report in late June, before the revised (actual) assessments were released by the Department of Finance. Mr. Richmond's numbers are based on the actual assessed values that were made available at the end of June. Any difference between the $79 million and $84.5 million can be attributed to the timing of the release of my report (using the January 2015 numbers) and Mr. Richmond's citing of revised numbers. However, the fact that DOF's valuation can swing by such a large amount between the preliminary valuation and the actual value, further bolsters my argument that DOF assessments are very unpredictable.

> *Ms. Denham claimed to assess a "sample of high-end residential buildings" (page 14). Yet, she selected buildings like 25 Joralemon ST (pictured below), which is a small building that was built in 1907 and has a Department of Finance (DOF) market value of (only) $1.5 million.*

While it is true that the DOF sets a market value for this building at $1.5 million, recent data from Propertyshark, a subscription-based real estate database that mines sales comparable data from the Department of Finance, shows that individual units in this building have sold for north of $1.8 million, nearly $1,000 per square foot. I invite anyone to check recent listings in this building and argue that the units do not qualify as high-end real estate.

Moreover, this building actually has a *higher market value per square foot* than the other high-end buildings that Mr. Richmond does not cite. In other words, a building that Mr. Richmond does not consider high-end is assessed at a higher value than those he does.

In effect, Mr. Richmond not only draws attention to the fact that the DOF market value for the building is well below what it is actually selling for, but he, once again, reinforces the exact point I was trying to make with the chart which is that high-end real estate properties in Brooklyn Heights and DUMBO are being assessed at wildly inconsistent rates.

25-27 Joralemon St, Brooklyn, NY 11201

Unit	**Sale Date**	**Sale Price**
Unit RES		
Unit 1	10/7/2015	$1,875,000
Unit 2	9/13/2005	$1,250,000
Unit 3	7/21/2011	$1,400,000

Building

Building class	**Walk-up Cooperative Building (Other than Condominiums) (XC6) ?**
Landmark	**None**
Sq. ft.	**6,000**
Building dimensions	**100 ft x 60 ft**
Stories	**1**
Has garage	**n/a**
Year built	**1907**

> *Outdated rent data. Ms. Denham does not provide data to validate BBPC's revenue numbers for Empire Stores, leaving the assumed revenue potential as unexamined as it was previously when*

> *we raised questions about the revenue potential based on BBP's continued use of outdated rent estimates and understated square footage of this vastly enlarged commercial development.*

As stated in the report, based on my close to 20 years of experience in the New York commercial real estate market, I do not think Empire Stores will lease up at the rate that the model assumes. It is too far from the subway, companies prefer a location that allows them wide access to a large pool of labor. Manhattan vacancy rates are still relatively high and rents are not accelerating. Therefore, there is little pressure driving companies to other markets such as Brooklyn.

Moreover, my assertion on Empire Stores leasing yields an immaterial change in the model's revenues. As per my report on page 22:

> Reduce PILOT revenues at Empire Stores to reflect the assumption that the remaining space is leased in five years, not two. This only impacts the PILOT in the first fifteen years when the ICAP applies such that **the net effect of the PILOT assumption change yields a modest decline of $280,570 in 2018 (23% lower) and up to $220,000 in 2027 (3.7% lower).**

> *Profit sharing arrangements are unaddressed. It is inconceivable that the profit-sharing arrangements on Pierhouse and Empire Stores are not in-the-money given the dramatic increase in area real estate and rents.*

The report includes several statements and historic references pertaining to the riskiness of making overly lofty revenue assumptions. I stand by my statements.

> *Consider 360 Furman ST (the first development site in the park). Ms. Denham claims that 360 Furman ST "as per the model" generates tax before abatements or exemptions of just over $4 per square foot. In reality, the residential units generate $7.78 per square foot in unabated residential taxes, which is almost double the figure presented by Ms. Denham on page 15. Not surprisingly, compiling the actual residential tax bills from the DOF website tells the same story.6*

First, the graph on page 15 served **simply** as an illustration of what I labeled:

Risk Factor III: The model's PILOT assumptions are in line with comparable properties which are assessed at inconsistent rates.

Given that I did not use the comparable properties in my assessment of the BBP model assumptions, I could have put this graph in the appendix. I addressed the *numerator* for the 360 Furman Street numbers above. However, I divided the tax calculation by the **gross** square footage for this chart. I used gross square footage for all the properties used in the chart. It appears that Mr. Richmond is dividing the unabated tax calculation by the net residential square footage. Because 360 Furman Street is a conversion of an industrial building, the difference between net and gross area is very large.

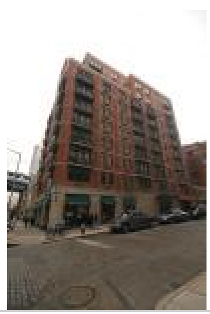
While it is true that the gross square footage number in the chart includes retail and garage space for 360 Furman Street, the denominator for other calculations in the chart include a few retail and/or garage spaces as well. To recap: the formula used to create the chart for all buildings was the unabated market value x 45% x 12.86% divided by gross square feet for all the properties selected.

To reiterate, the chart on page 15 was used as an illustration, not as a basis for the model assumptions.

> *Consider 65 Washington ST. Ms. Denham claims that the "tax w/ no abatements or exemptions" of 65 Washington ST is over $14 per square foot on page 15. Yet, DOF data from its website shows that in reality, the figure is about half the figure claimed by Ms. Denham. Again, not surprisingly, the building's actual tax bill tells the same story.*

If Mr. Richmond had taken a walk down Washington Street, he would see that the building that he and the DOF are calling 65 Washington Street is labeled 81 Washington Street.

PropertyShark lists two buildings with the address of 65 Washington Street (see below). The $6.73 per square foot number he refers to in his footnote is precisely the number I list for 81 Washington Street.

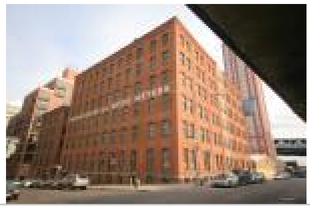


65 Washington St, Brooklyn, NY 11201

- **Dumbo, Vinegar Hill, Down Town Brooklyn, Boerum Hill**
- **13 story building**
- 50,457 square feet

13 story building on a 126x109 lot zoned M1-2R8A. Built in 2000. Currently 50457 square feet. 59 total units. Corner lot: NE. $5,223,600 assessed value.

Property Report   View Ownership Details   Find Comps (Radius Search)



65-91 Washington St, Brooklyn, NY 11201

- **Dumbo, Vinegar Hill, Down Town Brooklyn, Boerum Hill**
- **5 story building**
- 123,700 square feet

40x110 5 story building on a 273x110 lot zoned M1-2R8A. Built in 1914. Currently 123700 square feet. 104 total units. Corner lot: CR. $6,264,000 assessed value.

Property Report View Ownership Details Find Comps (Radius Search)

> *The comparable universe selected by Ms. Denham is clearly inappropriate, and it serves to mask the true earnings power of the BBPC. Consider all of the Brooklyn condos in the DOF condo spreadsheet that were built after 2000 and have assessed value over $20 million.*

Mr. Richmond includes a table under this statement that calculates the unabated taxes per square foot for his selected group of properties that he deems more appropriate than the ones I included. His table again strengthens my assertion that the DOF assesses properties at inconsistent rates: his numbers range from $5.30 per square foot to $13.63 per square foot, which nearly match the range of numbers in my chart.

Finally, and most importantly, Mr. Richmond at no point in his letter addresses the major expense of the park which is the maritime costs. A large segment of Brooklyn Bridge Park (835,000 square feet) is built on piers that are supported by 13,000 pilings. BBP hopes to minimize the cost to restore these 50-year-old pilings by investing in a $250 million preventative maintenance program that pre-treats the pilings with epoxy cutting off the oxygen to marine borers that have eaten into the wooden pilings. Whether BBP follows through with the preventative maintenance program or pays to replace the pilings, they will have to incur significant costs. As the multiple scenarios in my study showed, even under the most liberal revenue and expense assumptions, BBP will incur steep losses unless they collect ground rent and long-term payments from the ground lease of Pier 6. As per my study:

> **If BBP were only responsible for covering operating, maintenance and capital costs, it could feasibly do so with the forecasted revenue stream that does not include Pier 6. However, the analysis above shows that Pier 6's upfront and recurring revenue are needed to cover the**

significant maritime costs that are estimated to total $342 million (preventative maintenance) or $600 million (traditional).

In sum, I believe I have addressed and refuted all of Mr. Richmond's points in his letter. I stand by all of the assumptions and analysis in my report including my comprehensive assessment of the revenue and expense assumptions of the BBP model as well as my very thorough analysis of the history of Brooklyn's real estate market.

Finally, it goes without saying that at no time did Mr. Richmond try to contact me to clarify any of these points on my analysis.

As always, I am available by phone or email if you need to get in touch with me for any further questions or clarifications.

Sincerely,

Barbara Byrne Denham