Skadden, Arps, Slate, Meagher & Flom LLP

Review of the Development Model and Absorption Period for the Residential Components of the Atlantic Yards Land Use Improvement and Civic Project

As of August 31, 2009

KPMG LLP

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September 16, 2009

Private

Mr. Neil Rock, Esq.,
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Four Times Square
New York, New York 10036-6522

Dear Mr. Rock,

KPMG LLP ("KPMG" or "we") has completed its model and absorption review to assist Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps" or "Counsel") representation of the Empire State Development Corporation ("ESDC"), in the preparation and adoption of a modified General Project Plan for the Atlantic Yards Land Use Improvement and Civic Project (the "Project") as of August 31, 2009 ("the Analysis Date"). The developer of the Project is Forest City Ratner Companies and certain affiliates ("Forest City Ratner" or "FCRC"). We understand that the ESDC will use our report for internal planning purposes. No other use is intended or implied.

KPMG's has performed a review of certain residential projections prepared by FCRC. The estimates have been prepared according to the General Project Plan dated July 18, 2006 for the Atlantic Yards Project located in Brooklyn, New York. This market study has set forth the terms of our engagement.

This report and appendices are for the internal use of Skadden Arps, and are not to be distributed externally to third parties other than Skadden's client, ESDC, in whole or in part, without prior written consent from KPMG in each instance, or used for any other purpose. We disclaim any responsibility or liability for losses, damages, or costs incurred by anyone as a result of the unauthorized circulation, publication, reproduction, or use of our deliverables contrary to the provisions of the engagement letter. Distribution to third parties will be authorized by an approved reader leader, in which users agree to the same terms of this agreement. All observations made in this report are as of the Analysis Date. We disclaim any intention or obligation to update or revise the observations whether as a result of new information, future events or otherwise. Should additional documentation or other information become available which impacts upon the observations reached in our deliverables, we reserve the right to amend our observations and summary documents, accordingly.

This report is not intended to be used, nor should be used, in connection with any tax matter. It should be noted further that the report is not intended or written by KPMG to be used, and cannot be used by a client or any other person or entity for the purpose of (i) avoiding penalties that may be imposed on any taxpayer or (ii) promoting, marketing, or recommending to any other party any matters addressed therein.

The Standard Terms and Conditions for Advisory and Tax Services (STCs), along with our Limiting Assumptions Addendum to the STCs, that are applicable to this engagement and our associated deliverables are attached to the engagement letter; with the exception of Terms and Conditions No.8 titled "Indemnification", which is excluded from this engagement.

The accompanying report provides a detailed explanation of our analysis. We appreciate the opportunity to perform this engagement and be of service to Skadden Arps and ESDC. If you have any questions, please feel free to contact Andrew Smith at (302) 528-1203 or Brian Johnson at (212) 872-5838.

Very truly yours,

Andrew W. Smith
Principal
KPMG LLP

TABLE OF CONTENTS

1 Engagement Overview

1.1 Overview

KPMG LLP ("KPMG" or "we") has completed its model and absorption review to assist Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps" or "Counsel") representation of the Empire State Development Corporation ("ESDC"), in the preparation and adoption of a modified General Project Plan for the Atlantic Yards Land Use Improvement and Civic Project (the "Project") as of August 31, 2009 ("the Analysis Date"). The developer of the Project is Forest City Ratner Companies and certain affiliates ("Forest City Ratner" or "FCRC"). We understand that the ESDC will use our report for internal planning purposes. No other use is intended or implied.

1.2 Atlantic Yards

The New York State Urban Development Corporation d/b/a the Empire State Development Corporation ("ESDC") has adopted a General Project Plan ("GPP") for the Atlantic Yards Land Use Improvement and Civic Project (the "Project") in accordance with the New York State Urban Development Corporation Act. The Project comprises the construction of a major mixed-use development in the Atlantic Terminal area of Brooklyn. Occupying an approximately 22-acre area, the Project Site (the "Project Site" or "Subject Property") is roughly bounded by Flatbush and 4th Avenues, Vanderbilt Avenue, Atlantic Avenue, and Dean and Pacific Streets and includes the approximately 9-acre (including the land under the 6th and Carlton Avenue Bridges) below-grade Long Island Rail Road ("LIRR") Vanderbilt Storage Yard and MTA storage yard for inactive NYCT buses.

The Project is being undertaken by ESDC, the City of New York (the "City"), the New York City Economic Development Corporation ("EDC") and affiliates of Forest City Ratner Companies ("Forest City Ratner"; together with its affiliates, "FCRC"), including, without limitation, Atlantic Yards Development Company, LLC ("FC-AYDC"), and Brooklyn Arena, LLC ("FC-BA"; together with FC-AYDC, the "Project Sponsors"). Additionally, the Metropolitan Transportation Authority ("MTA") is participating in the Project.

1.3 The Engagement Purpose and Scope

ESDC has committed funds to various infrastructure improvements and has sought the necessary approvals to acquire and convey real property interests to facilitate the overall project development. To assist in advising ESDC with respect to this aspect of the Project, Skadden Arps has requested an additional review of the reasonableness of the residential absorption estimates prepared by FCRC. The estimates have been prepared according to the General Project Plan and are being modified to reflect proposed changes to the Project scope.

1.3.1 Scope of Analysis

In conducting this engagement, our investigation and analyses included, but were not limited to, the following:

- KPMG located and obtained reference materials from FCRC. FCRC supplied all necessary Project residential absorption projections and related estimates to KPMG.
- KPMG held meetings or phone interviews with various Project sponsors and FCRC to obtain the background information and detailed market analyses for the residential component of the Project − Market-Rate Residential, Middle-Income Residential, Affordable Residential and Condominium Units.
- KPMG reviewed components of the projections including gross retail sale prices and absorption.
- In any instance where KPMG had a different opinion that was within the scope of our analysis, the variance is indicated in the report to follow.

1.3.2 Materials Provided

We were provided the following data from FCRC:

- Absorption Summaries for KPMG 8-31-09.xls;
- AY Sources and Uses 6-11-09 dist.pdf; and
- AY Summary for KPMG 6-8-09 dist.pdf.

2 Subject Property[1]

The Subject Property is located in Brooklyn, NY at the intersection of Atlantic and Flatbush Avenues, bounded by Pacific and Dean Streets and Vanderbilt Avenue, with a portion situated over the MTA/LIRR's Vanderbilt Rail Yards. Atlantic Yards will span approximately 22.0 acres and transform the current rail yards and predominantly underutilized and industrial area into 17 new buildings, including a state-of-the-art basketball venue.

The Subject Property will encompass approximately 336,000 square feet of office space, 6.36 million square feet of residential space (6,430 units of affordable, middle-income and market-rate housing), an 18,000 seat sports and entertainment venue - the Barclays Center - 247,000 square feet of retail space, a 165,000-square-foot hotel (180 rooms) and over 8.0 acres of intricately designed publicly accessible open space.

The height of the buildings will reportedly range from approximately 190 feet to 511 feet. Building 1 (B1), the building proposed for the corner of Flatbush and Atlantic Avenues, will not be taller than the nearby Williamsburg Savings Bank, which stands at 512 feet. Separate from the Atlantic Yards development, building heights as high as 600 feet have been approved by the City Council as part of the Downtown Brooklyn Plan.

The most important linkages for residential analysis concern the ability of a location to provide a particular quality of life. A key consideration for any resident of the Subject Property will be the availability of mass transportation. The Subject Property location has accessibility from all five boroughs and Long Island and is adjacent to the LIRR Flatbush Avenue Station, ten subway lines, including the 2, 3, 4, 5, N, Q, R, B, D, and M. Also, eleven bus lines serve the location, including the B25, B26, B28, B37, B41, B45, B52, B63, B65, B67, and B69.

Having such mass transportation access in New York City offers significant tenant drawing power for a residential development such as the Subject Property. Such linkages will permit the Subject Property to draw City residents employed throughout Manhattan and Brooklyn as well as residents working on Long Island who want to live in an urban environment.

Property specific features of a residential-income property are also important to the "quality of life" characteristics, especially for apartments and condominiums. The following illustration shows the proposed site plan for the Subject Property.[2]

[1] http://www.barclayscenter.com/about/about_atlanticyards.shtml
[2] Provided by Counsel in Atlantic Yards Presentation

3 General Market Overview

3.1 New York City Market Dynamics[3]

3.1.1 New York

Data from late 2008 and the first half of 2009 reflect the severe recession that has gripped the nation and New York City. Second Quarter 2009 saw a rebound in housing unit sales activity versus the extremely low number of sales recorded in the First Quarter. Due to the seasonality of the market, Second Quarter typically experiences an increase in sales volume compared to the First Quarter. This year, there was a 10.0 to 15.0 percent increase in the number of sales versus First Quarter 2009. Resale activity improved sharply, with sales up 30.0 to 35.0 percent versus last quarter. New development sales, however, declined. Compared to a year ago, the number of sales was still significantly lower. We estimate that sales are down approximately 50.0 to 60.0 percent versus Second Quarter 2008 (based on a reasonable estimate of Second Quarter sales accounting for the typical lag time between a closing and its reporting in public record). Median price fell in every bedroom category, ranging from a 3.0 percent decline for three-plus bedroom residences, to a 21.0 percent decline for studios.

With prolonged troubles in the economy and low sales activity, prices continue to fall in Manhattan. No particular market segment or neighborhood has been immune to the market's decline. Overall, median price declined 13.0 percent while average price per square foot declined 16.0 percent versus a year ago.

In Second Quarter 2009, there were very few townhouse sales. Townhouse sales in every neighborhood were down approximately 40.0 percent or more versus last year. Median price declined on the East Side and West Side by 41.0 percent and 3.0 percent, respectively. While Downtown and Uptown townhouses actually increased in median price by 30.0 percent and 49.0 percent, respectively; as the average size of the few townhouses sold was much larger than a year ago.

The loft market experienced a 25.0 percent decline in median price to $1.420 million and a 10.0 percent decline in average price per square foot to $1,083. Median price was unchanged for lofts between 2,000 to 2,500 square feet. Lofts over 2,500 square feet experienced the largest median price decline of any loft type, decreasing 20.0 percent since last year. Smaller lofts, between 1,000 to 1,500 square feet experienced a 3.0 percent decline in median price. Lofts recorded a larger sales decline than the overall market.

Manhattan's luxury market is defined as the top 10.0 percent of all co-op and condominium sales. Luxury resale co-ops fared better than condominiums, decreasing 6.0 percent in median price and average price per square foot. Luxury resale condominiums experienced a 22.0 percent decline in median price and a 23.0 percent decline in average price per square foot. The luxury new development market saw the largest decrease, falling 27.0 percent in median price and 39.0

[3] The Corcoran Report – 2nd Quarter 2009

percent in average price per square foot. The luxury market now has an average price per square foot below $2,000 in all product categories.

While sales activity is still down sharply from last year, many buyers have begun to re-enter the market. Total available inventory appears to have peaked, and is slowly retreating due to the increase in sales in the last few months, the steep drop off in the number of new developments coming to market, listings being taken off the market by non-serious sellers, and units being rented instead of sold. The number of listings absorbed per month has increased 170.0 percent since December 2008. June 2009 is the sixth straight month of increased absorption.

3.1.2 Brooklyn

As with the broader New York City market, conditions in Brooklyn have continued to decline through the Second Quarter 2009. The number of sales was down over 50.0 percent from Second Quarter 2008. Co-operative sales decreased a smaller percentage than condominium sales, falling 42.0 percent versus 57.0 percent for condominiums. One bedroom residences experienced the largest decline in sales, falling 63.0 percent compared to a year ago. However, there has recently been an uptick in sales activity resulting in an 11.0 percent increase in transactions over First Quarter 2009 levels. This increase is largely due to decreased pricing and historical seasonality. Overall, both median price and average price per square foot fell 11.0 percent from Second Quarter 2008 to $510,000 and $599 per square foot, respectively. All bedroom types recorded a price decrease, which was most pronounced in studio residences with a 31.0 percent drop.

Co-operative median price fell 11.0 percent from $450,000 to $399,500 and average price per square foot decreased 7.0 percent from $605 to $561 per square foot. The median price of two bedroom residences fell 22.0 percent year-over-year as the percentage of sales in prime neighborhoods declined from a year ago. One bedroom median price went unchanged as a result of transactions occurring in more expensive neighborhoods. However, there was an almost 50.0 percent decline in sales volume.

Condominiums experienced declines of 7.0 percent in median price and 11.0 percent in average price per square foot. Two- and three-plus bedroom residences experienced the largest decline in median price, falling 14.0 percent and 10.0 percent, respectively. With larger condominiums now more affordable due to price declines, two bedroom and larger residences continued to gain market share versus smaller units, representing 68.0 percent of sales compared to 54.0 percent in Second Quarter 2008. New development condominium sales continue to impact the Brooklyn residential real estate market, as developers added a significant amount of supply before the onslaught of the recession. New developments accounted for approximately 41.0 percent of the market wide sales activity this quarter.

Second Quarter 2009 witnessed a limited number of transactions involving townhouses. The results are somewhat mixed, as individual sales skewed the statistics. Overall, the median price for a single-family townhouse increased 38.0 percent over last year, buoyed by a small number of transactions in prime neighborhoods including Brooklyn Heights and Park Slope. However, multifamily townhouse sales declined by two-thirds compared to last year. The median price for a multifamily townhouse decreased 15.0 percent.

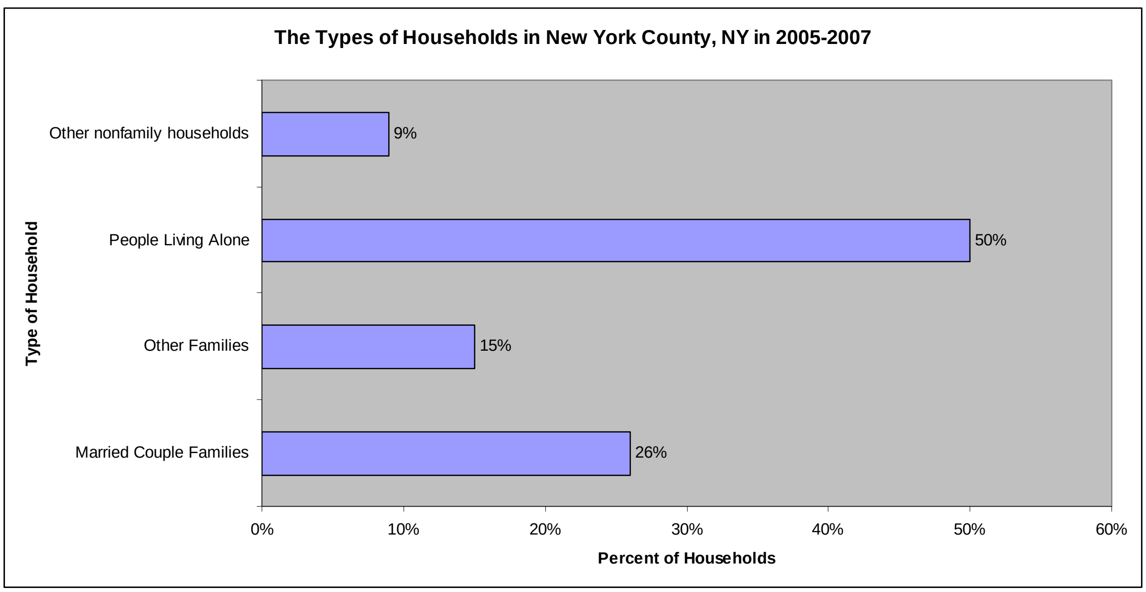
Given the likelihood that a majority of the residents at the Subject Property will come from Manhattan and Brooklyn, we have provided an overview of New York County followed by the same for Kings County.

3.2 New York County Overview[4]

3.2.1.1 Households and Families

From 2005 to 2007 there were 735,000 households in New York County. The average household size was 2.1 people.

Families made up 41.0 percent of the households in New York County. This figure includes both married-couple families (26.0 percent) and other families (15.0 percent). Nonfamily households made up 59.0 percent of all households in New York County. Most of the nonfamily households were people living alone, but some were composed of people living in households in which no one was related to the householder.



3.2.1.2 Nativity and Language

Twenty-eight percent of the people living in New York County from 2005 to 2007 were foreign born. Seventy-two percent were native, including 45.0 percent who were born in New York.

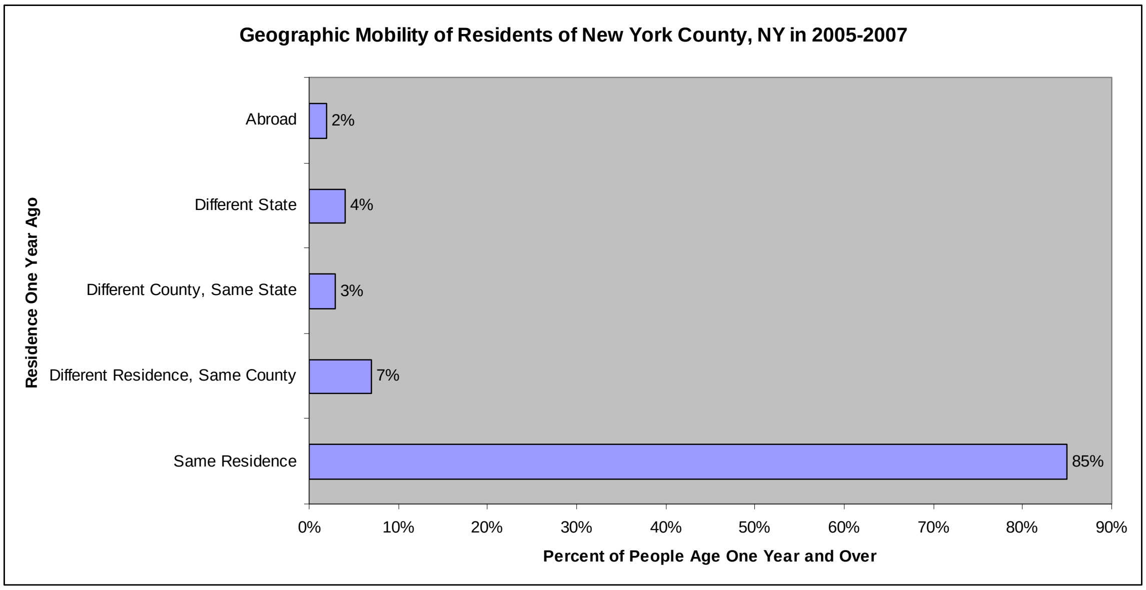
Among people at least five years old living in New York County from 2005 to 2007, 39.0 percent spoke a language other than English at home. Of those speaking a language other than English at

[4] U.S. Census Bureau

home, 58.0 percent spoke Spanish and 42.0 percent spoke some other language; 45.0 percent reported that they did not speak English "very well."

3.2.1.3 Geographic Mobility

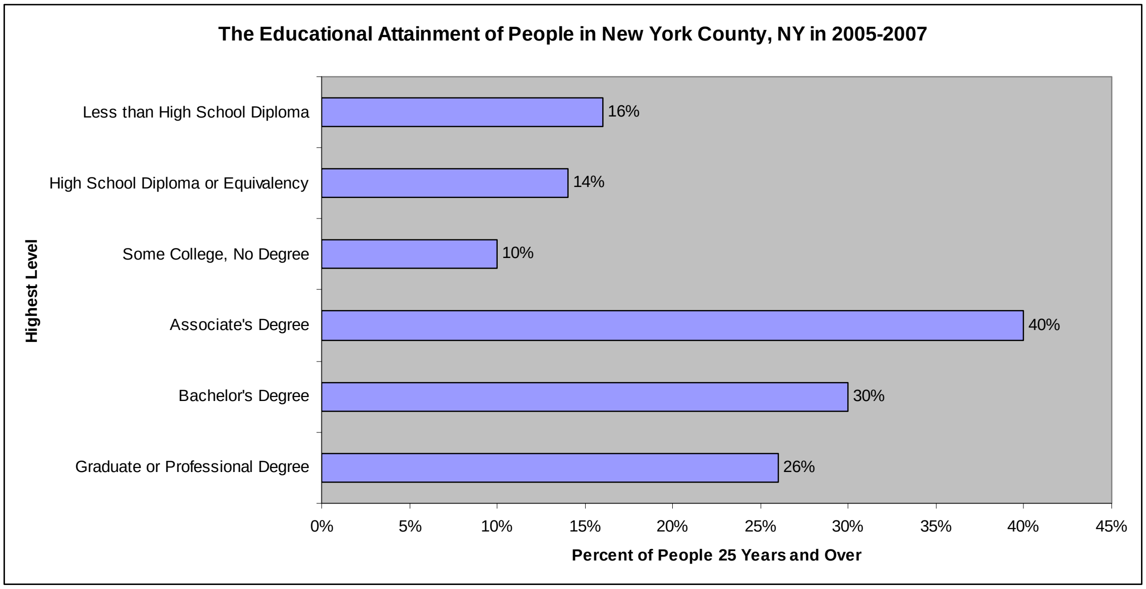
From 2005 to 2007, 85.0 percent of the people at least one year old living in New York County were living in the same residence one year earlier; 7.0 percent had moved during the past year from another residence in the same county, 3.0 percent from another county in the same state, 4.0 percent from another state, and 2.0 percent from abroad.



3.2.1.4 Education

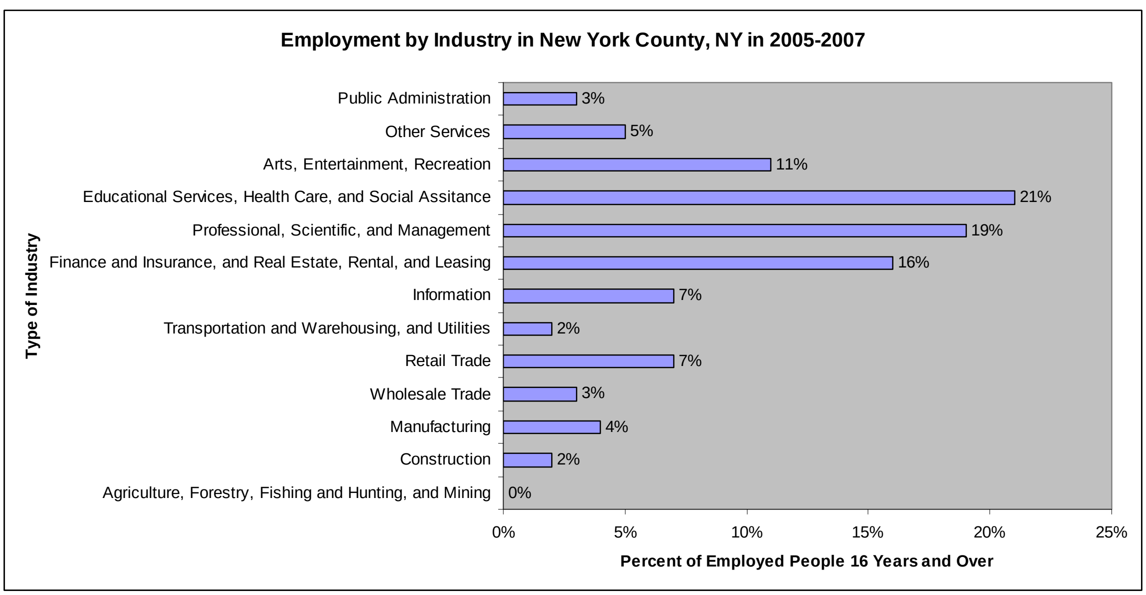
From 2005 to 2007, 84.0 percent of people 25 years and over had at least graduated from high school and 56.0 percent had a bachelor's degree or higher. Sixteen percent were dropouts; they were not enrolled in school and had not graduated from high school.

The total school enrollment in New York County was 338,000 from 2005 to 2007. Nursery school and kindergarten enrollment was 38,000 and elementary or high school enrollment was 167,000 children. College or graduate school enrollment was 134,000.



3.2.1.5 Industries

From 2005 to 2007, for the employed population 16 years and older, the leading industries in New York County were Educational services, and health care, and social assistance, 21.0 percent, and Professional, scientific, and management, and administrative and waste management services, 19.0 percent.



3.2.1.6 Occupations and Type of Employer

Among the most common occupations were: Management, professional, and related occupations, 57.0 percent; Sales and office occupations, 22.0 percent; Service occupations, 14.0 percent; Production, transportation, and material moving occupations, 5.0 percent; and Construction, extraction, maintenance and repair occupations, 2.0 percent. Eighty-one percent of the people employed were private wage and salary workers; 10.0 percent were federal, state, or local government workers; and 10.0 percent were self-employed.

3.2.1.7 Travel to Work

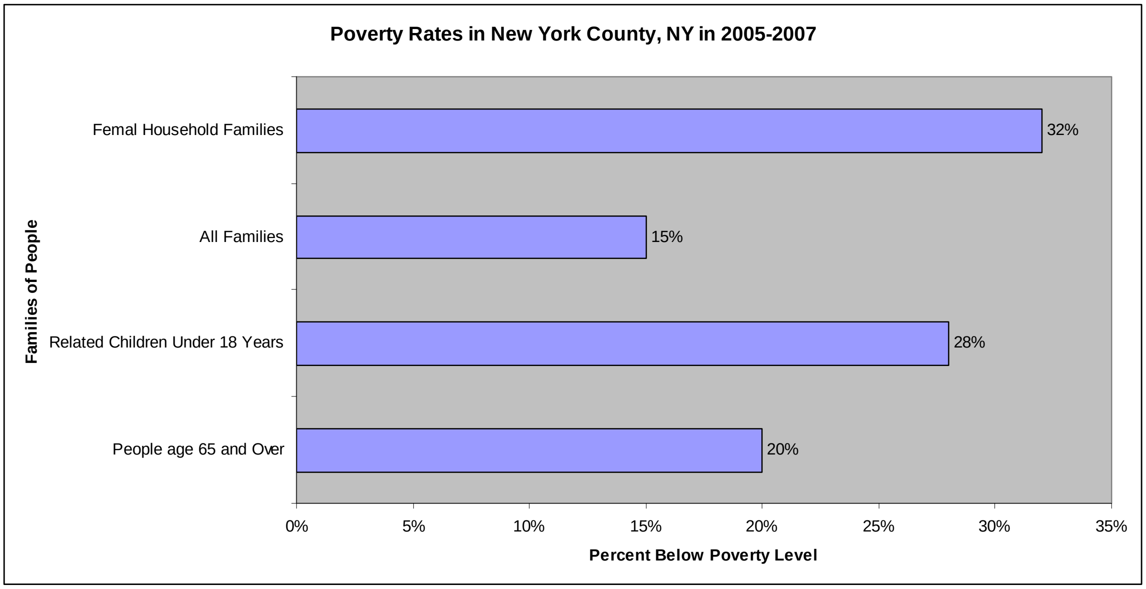
Seven percent of New York County workers drove to work alone from 2005 to 2007, 3.0 percent carpooled, 57.0 percent took public transportation, and 26.0 percent used other means. The remaining 6.0 percent worked at home. Among those who commuted to work, it took them on average 30.5 minutes to get to work.

3.2.1.8 Income

The median income of households in New York County was $62,268. Eighty-one percent of the households received earnings and 10.0 percent received retirement income other than Social Security. Twenty-one percent of the households received Social Security. The average income from Social Security was $13,710. These income sources are not mutually exclusive; that is, some households received income from more than one source.

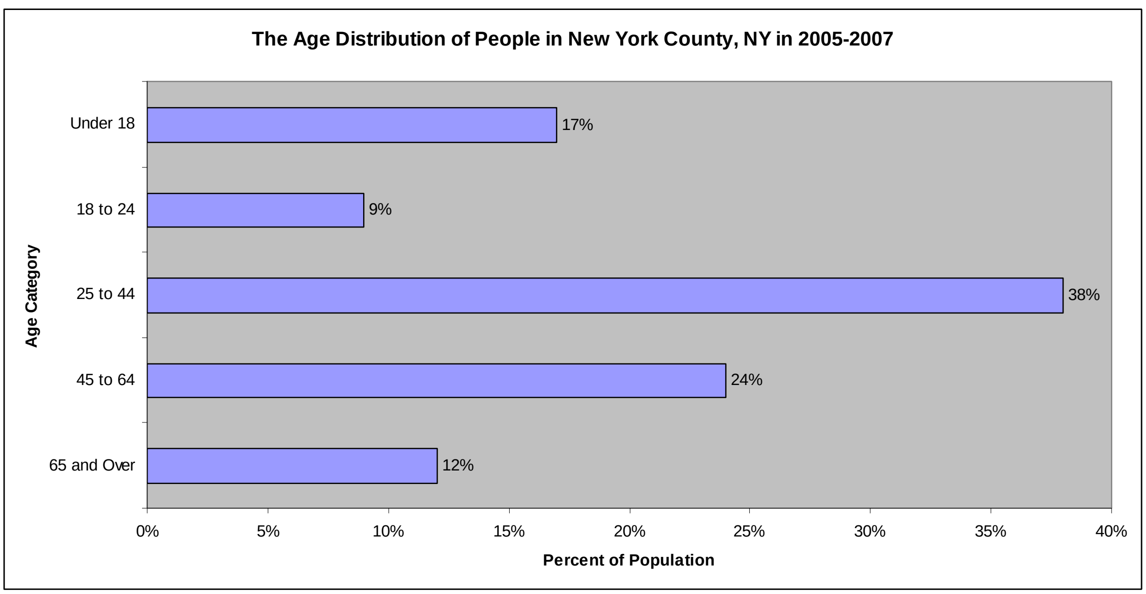
3.2.1.9 Poverty and Participation in Government Programs

From 2005 to 2007, 18.0 percent of people were in poverty. Twenty-one percent of related children under 18 years old were below the poverty level, compared with 20.0 percent of people 65 years old and over. Fifteen percent of all families and 32.0 percent of families with a female householder and no husband present had incomes below the poverty level.



3.2.1.10 Population

From 2005 to 2007, New York County had a total population of 1.6 million − 843,000 (52.0 percent) females and 770,000 (48.0 percent) males. The median age was 37.3 years. Seventeen percent of the population was under 18 years old and 12.0 percent was 65 years and older.



3.2.1.11 Housing Characteristics

From 2005 to 2007, New York County had a total of 839,000 housing units, 12.0 percent of which were vacant. Of the total housing units, 1.0 percent was in single-unit structures, 99.0 percent was in multi-unit structures, and less than 0.5 percent was mobile homes. Seven percent of the housing units were built since 1990.

3.2.1.12 Occupied Housing Unit Characteristics

From 2005 to 2007, New York County had 735,000 occupied housing units − 173,000 (23.0 percent) owner occupied and 563,000 (77.0 percent) renter occupied. Seven percent of the households did not have telephone service and 77.0 percent of the households did not have access to a car, truck, or van for private use. Two and a half percent had two vehicles or more.

3.2.1.13 Housing Costs

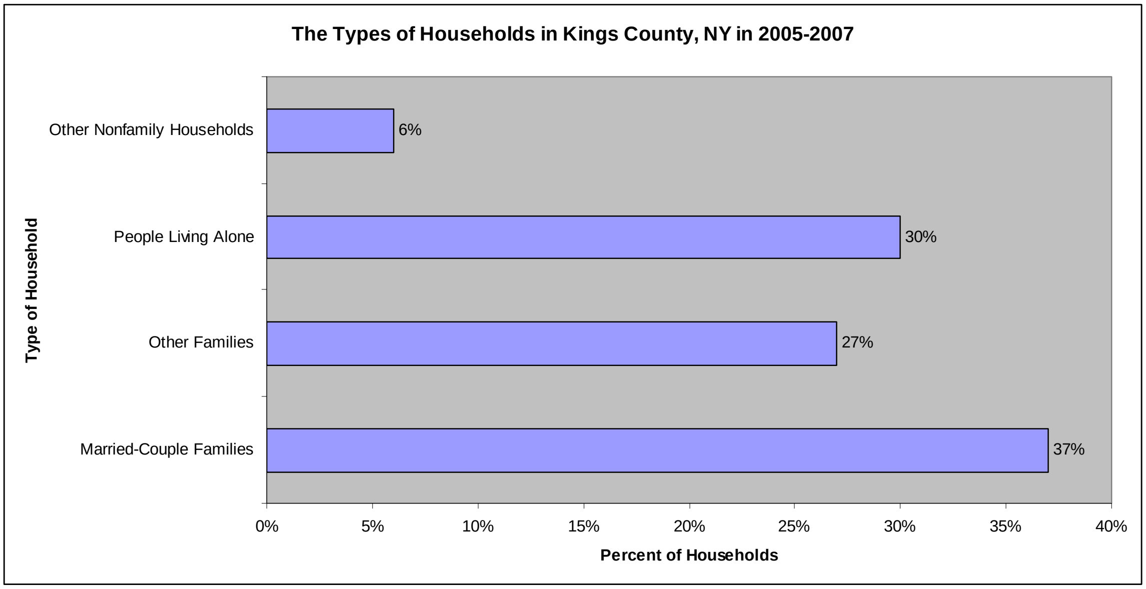
The median monthly housing costs for mortgaged owners was $2,825, non-mortgaged owners $742, and renters $1,115. People who spend 30.0 percent or more of household income on housing include 29.0 percent of owners with mortgages, 17.0 percent of owners without mortgages, and 42.0 percent of renters.

3.3 Kings County Overview[5]

3.3.1.1 Households and Families

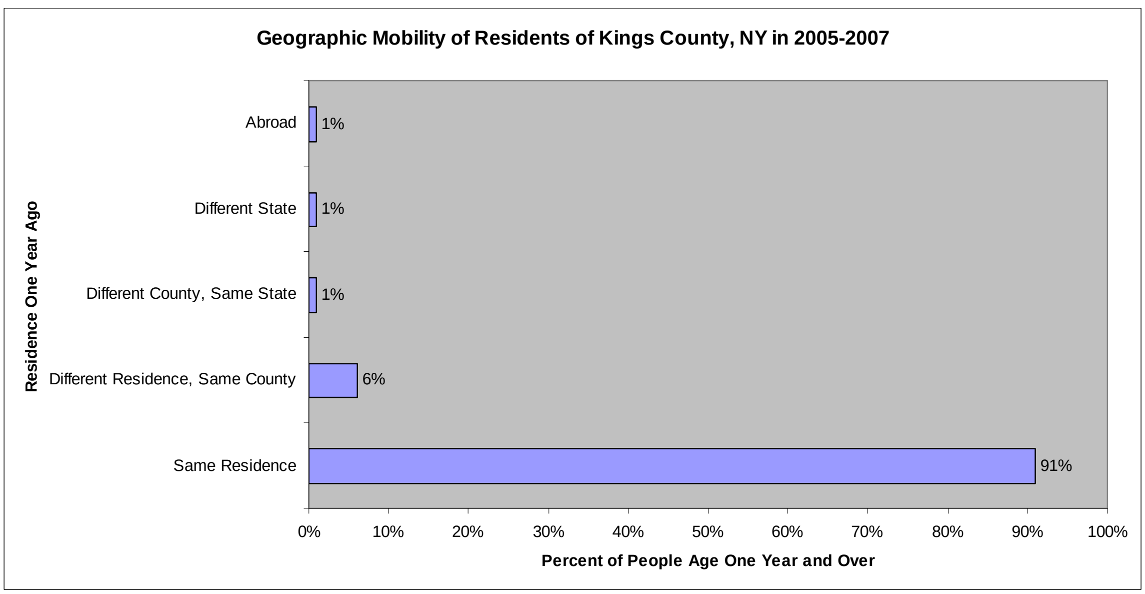
From 2005 to 2007 there were 878,000 households in Kings County. The average household size was 2.8 people. Families made up 64.0 percent of the households in Kings County. This figure includes both married-couple families (37.0 percent) and other families (27.0 percent). Nonfamily households made up 36.0 percent of all households in Kings County. Most of the nonfamily households were people living alone, but some were composed of people living in households in which no one was related to the householder.

[5] U.S. Census Bureau



3.3.1.2 Geographic Mobility

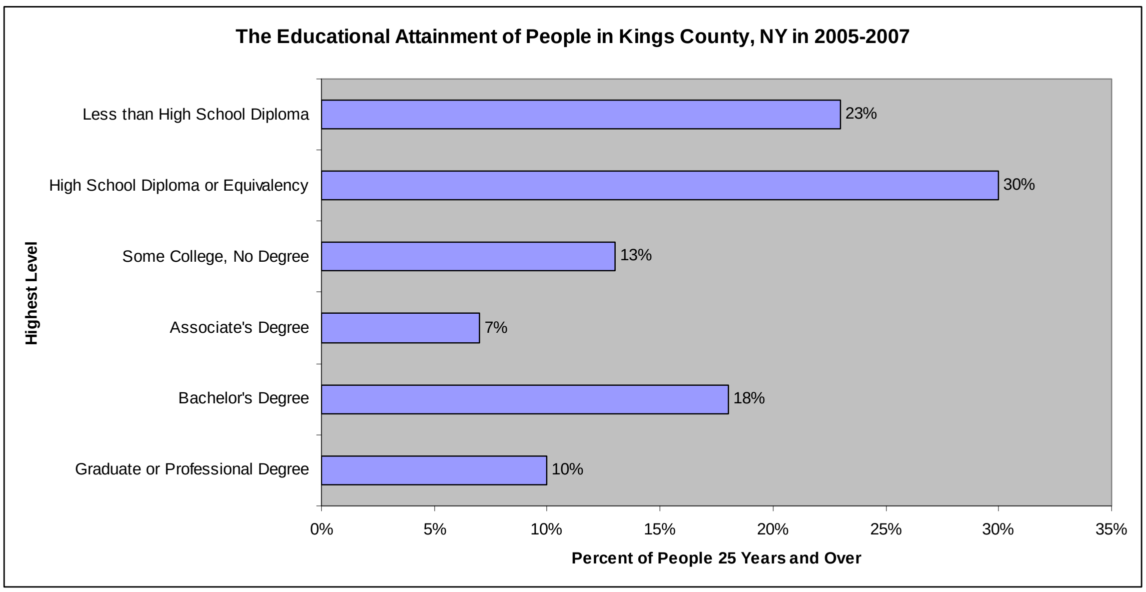
From 2005 to 2007, 91.0 percent of the people at least one year old living in Kings County were living in the same residence one year earlier; 6.0 percent had moved during the past year from another residence in the same county, 1.0 percent from another county in the same state, 1.0 percent from another state, and 1.0 percent from abroad.



3.3.1.3 Education

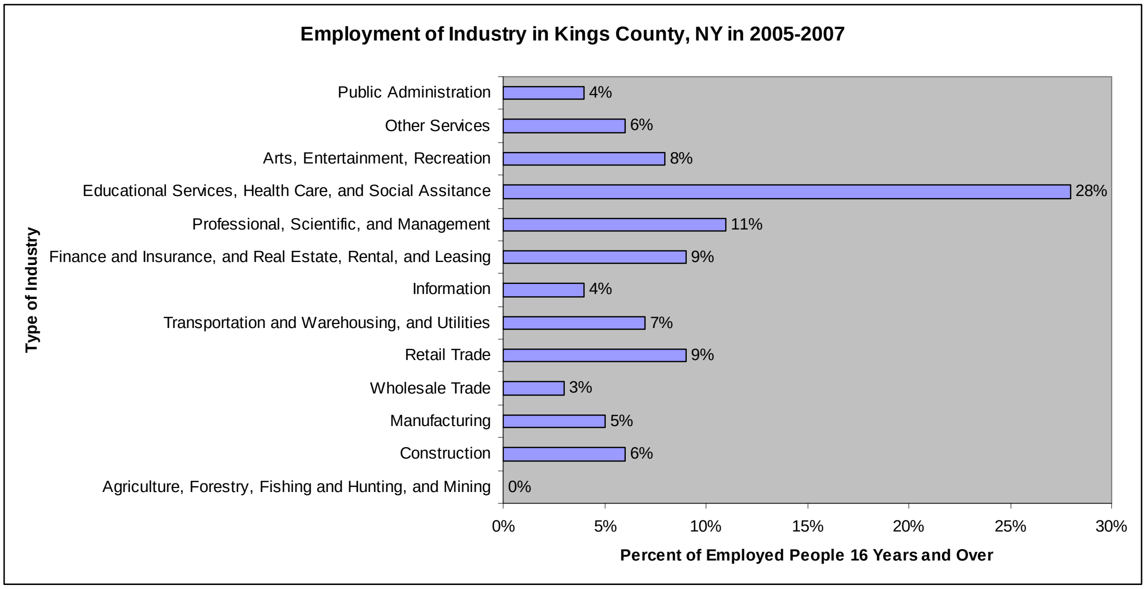
From 2005 to 2007, 77.0 percent of people 25 years and over had at least graduated from high school and 27.0 percent had a bachelor's degree or higher. Twenty-three percent were dropouts; they were not enrolled in school and had not graduated from high school.

The total school enrollment in Kings County was 697,000 from 2005 to 2007. Nursery school and kindergarten enrollment was 82,000 and elementary or high school enrollment was 435,000 children. College or graduate school enrollment was 180,000.



3.3.1.4 Industries

From 2005 to 2007, for the employed population 16 years and older, the leading industries in Kings County were Educational services, and health care, and social assistance, 28.0 percent, and Professional, scientific, and management, and administrative and waste management services, 11.0 percent.



3.3.1.5 Occupations and Type of Employer

Among the most common occupations were: Management, professional, and related occupations, 34.0 percent; Sales and office occupations, 25.0 percent; Service occupations, 23.0 percent; Production, transportation, and material moving occupations, 10.0 percent; and Construction, extraction, maintenance and repair occupations, 8.0 percent. Sixty-seven percent of the people employed were private wage and salary workers; 18.0 percent was federal, state, or local government workers; and 6.0 percent was self-employed.

3.3.1.6 Travel to Work

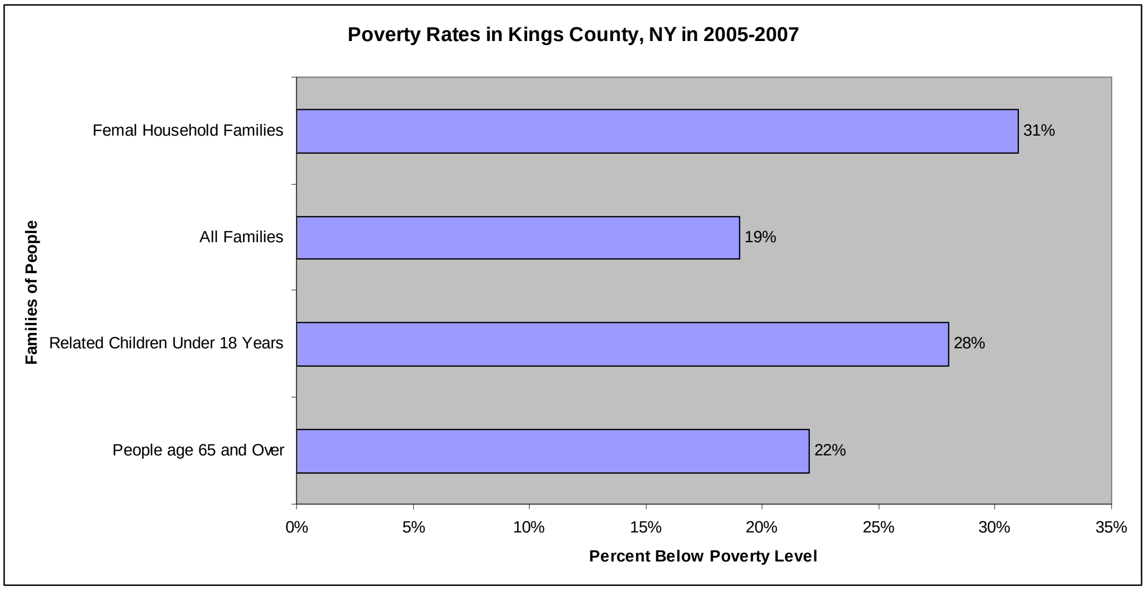
Twenty-one percent of Kings County workers drove to work alone from 2005 to 2007, 5.0 percent carpooled, 60.0 percent took public transportation, and 10.0 percent used other means. The remaining 3.0 percent worked at home. Among those who commuted to work, it took them on average 42.1 minutes to get to work.

3.3.1.7 Income

The median income of households in Kings County was $40,942. Sixty-seven percent of the households received earnings and 12.0 percent received retirement income other than Social Security. Twenty-four percent of the households received Social Security. The average income from Social Security was $12,798. These income sources are not mutually exclusive; that is, some households received income from more than one source.

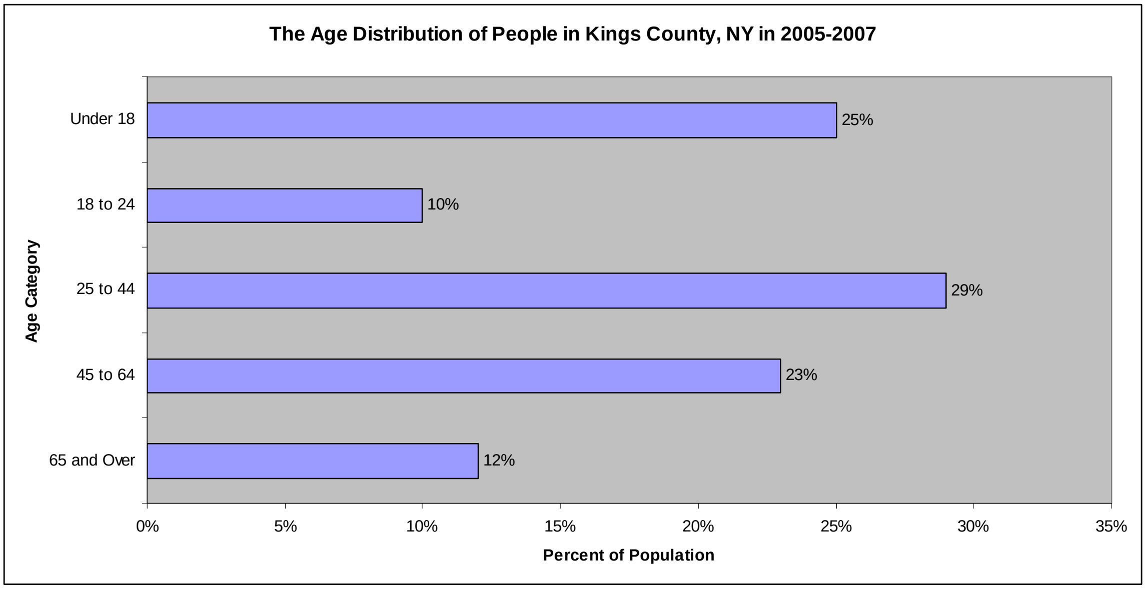
3.3.1.8 Poverty and Participation in Government Programs

From 2005 to 2007, 22.0 percent of people were in poverty. Twenty-eight percent of related children under 18 years old were below the poverty level, compared with 24.0 percent of people 65 years old and over. Nineteen percent of all families and 31.0 percent of families with a female householder and no husband present had incomes below the poverty level.



3.3.1.9 Population

From 2005 to 2007, Kings County had a total population of 2.5 million − 1.3 million (53.0 percent) females and 1.2 million (47.0 percent) males. The median age was 34.9 years. Twenty-five percent of the population was under 18 years old and 12.0 percent was 65 years and older.



3.3.1.10 Housing Characteristics

From 2005 to 2007, Kings County had a total of 954,000 housing units, 8.0 percent of which were vacant. Of the total housing units, 15.0 percent was in single-unit structures, 85.0 percent was in multi-unit structures, and less than 0.5 percent was mobile homes. Five percent of the housing units were built since 1990.

3.3.1.11 Occupied Housing Unit Characteristics

From 2005 to 2007, Kings County had 878,000 occupied housing units − 273,000 (31.0 percent) owner occupied and 605,000 (69.0 percent) renter occupied. Five percent of the households did not have telephone service and 56.0 percent of the households did not have access to a car, truck, or van for private use. Eight percent had two vehicles and another 2.0 percent had three or more.

3.3.1.12 Housing Costs

The median monthly housing costs for mortgaged owners was $2,261, non-mortgaged owners $697, and renters $930. People who spend 30.0 percent or more of household income on housing include 55.0 percent of owners with mortgages, 27.0 percent of owners without mortgages, and 50.0 percent of renters.

3.4 Brooklyn Lifestyle

Brooklyn is the largest and most populous of the five boroughs of New York City, covering over 71 square miles. Brooklyn has over 3,800 acres of parkland in major parks and over 65 miles of coastline, including seven miles of beaches.

Brooklyn has over a dozen major parks, as well as a multitude of smaller parks, playgrounds, squares, and "green-streets". Prospect Park is the largest of the parks at 536 acres and features the largest meadow in any urban U.S. park.

Brooklyn also has a number of other attractions including: The Brooklyn Library, the Brooklyn Museum, the Brooklyn Botanic Garden, and Battle Hill. Brooklyn is also known for its culture and arts with 30 museums, 60 branches of the Brooklyn Public Library, thousands of art studios, hundreds of exhibition galleries, and numerous special events.

Downtown Brooklyn is New York City's third largest central business district after Midtown and Downtown Manhattan. Because of its close proximity to lower Manhattan and excellent local and regional mass transit access, Downtown Brooklyn occupies a valuable and unique position in New York City as a competitive, back-office alternative to New Jersey. Generally bounded by Tillary Street to the north, Ashland Place to the east, Atlantic Center and Schermerhorn Street to the south, and Court Street to the west, it is a diverse area with a high concentration of major office buildings, regional stores, residential buildings, government offices and a number of major academic and cultural institutions. Brooklyn's Atlantic Avenue is a shopping destination due to specialty food markets, antique stores, independent boutiques, and the Atlantic Center shopping mall.

Brooklyn is well served by public transit. Eighteen New York City Subway lines, including the Franklin Avenue Shuttle, traverse the borough and approximately 90.0 percent of Brooklyn residents traveling to Manhattan use the subway. Major stations include, Atlantic Avenue-Pacific Street, Broadway Junction, DeKalb Avenue, Jay Street-Borough Hall, and Coney Island-Stillwell Avenue.

The public bus network covers the entire borough. There is also daily express bus service into Manhattan. Taxi cabs also provide transportation in Brooklyn, although they are less numerous in the borough. There are three commuter rail stations in Brooklyn: East New York station, Nostrand Avenue station, and Atlantic Terminal/Flatbush Avenue, the terminus of the Atlantic Branch of the Long Island Rail Road. The terminal is located adjacent to the Subject Property.

The great majority of limited-access expressways and parkways are located in the western and southern sections of Brooklyn. These include, the Brooklyn-Queens Expressway, the Gowanus Expressway, which is part of the Brooklyn-Queens Expressway, the Prospect Expressway, New York State Route 27, the Belt Parkway, and the Jackie Robinson Parkway. Major thoroughfares include, Atlantic Avenue, 4th Avenue, 86th Street, Kings Highway, Bay Parkway, Ocean Parkway, Eastern Parkway, Linden Boulevard, McGuiness Boulevard, Flatbush Avenue, Pennsylvania Avenue, and Bedford Avenue.

4 Demand Factors

The demand for housing is primarily a function of population, income, and linkages (the accessibility to employment, shipping, and schools). Population composition is the key determinate for measuring the demand for housing in a given location. There are four population elements that are of special concern, they are: 1) Population Growth, 2) Age of population/life-cycle patterns, 3) Household population, and 4) Tenure.

We will first provide a brief overview of employment followed by narrative for the remaining elements mentioned above. An overview of employment for NYC is provided given that many of the residents at the Subject Property will likely work outside of Brooklyn. Nonetheless, we have provided data on the Brooklyn economy as well.

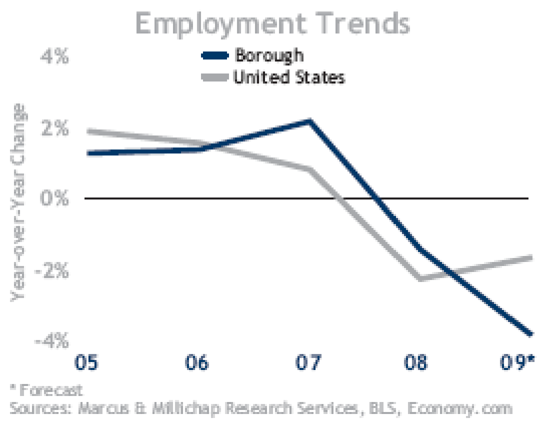
4.1 Employment

Although layoffs have not been as severe as originally predicted, still-sizable job cuts have weakened apartment demand in Manhattan. Economic stresses and fallout from the financial services industry are accelerating job cuts. New York City employers have shed 104,000 positions in the last year, while Manhattan businesses have trimmed payrolls by 2.7 percent, or 66,200 workers. Although the construction and trade, transportation and utilities sectors have eliminated 11,000 jobs in the past 12 months, layoffs have been more severe among white-collar occupations. During the last year, the financial activities and professional and business services sectors have let go 44,900 employees, a 5.0 percent decline. With employers likely to continue thinning payrolls, developers have begun to alter plans in anticipation of declining residential demand.

Unemployment in Manhattan has risen an average of 30 basis points each month since February 2009. The Second Quarter rate of approximately 6.5 percent is 210 basis points higher than one year earlier and 170 basis points above the rate at Year-End 2008. In all five boroughs, payrolls are projected to contract by 114,300 jobs in 2009. Manhattan employers are estimated to cut personnel levels by 2.9 percent, or 70,500 workers, after 27,800 positions were eliminated last year.

Over 33,000 businesses are located in Brooklyn, with 100,000 plus individuals that are engaged in sole proprietorships. Roughly 500,000 residents are employed by businesses located in the borough. Industrial parks in Williamsburg, Sunset Park, Gowanus, and other neighborhoods provide the space, infrastructure, and affordable rent for medium-sized to large businesses. Brooklyn was traditionally focused mainly in manufacturing, with Pfizer and the Brooklyn Naval Yard employing a large percentage of the total manufacturing jobs. The DUMBO market, which has benefited from an availability of cheap office rent and close proximity to Manhattan, benefited from numerous technology, entertainment, and financial support companies moving from Manhattan to Brooklyn. The current economic crisis has had significant impact on Brooklyn and will likely continue to do so for at least the near term. The graph on the following page shows the relationship between the Brooklyn employment and the United States over the past four years.[6]

[6] Marcus&Millichap – Apartment Research – Third Quarter 2009



Over the long term, it is estimated that thousands of jobs may be created in Red Hook, Sunset Park and Gowanus areas, where tax breaks are offered for relocating industrial and logistics companies. The ambitious residential/mixed-use redevelopment along the Gowanus Canal and other significant developments planned for Red Hook including Thor Equities' planned retail complex also could add employment stability to Brooklyn once the area emerges from the current economic recession.

The table below, from the U.S. Census Bureau, outlines New York City's, Brooklyn's, and the State of New York's employment statistics from the latest census results. [7]

U.S. Census Bureau Business QuickFacts	New York County	Kings County	New York State
Private nonfarm establishments with paid employees, 2006	104,317	43,292	5,159,502
Private nonfarm employment, 2006	2,035,167	481,878	75,327,642
Private nonfarm employment, percent change 2000-2006	-2%	12%	2%
Nonemployer establishments, 2006	212,728	195,879	1,473,564
Total number of firms, 2002	282,357	194,835	1,707,168
Black-owned firms, percent, 2002	6%	19%	8%
American Indian and Alaska Native owned firms, percent, 2002	1%	1%	1%
Asian-owned firms, percent, 2002	10%	13%	9%
Native Hawaiian and Other Pacific Islander owned firms, percent, 2002	0%	0%	0%
Hispanic-owned firms, percent, 2002	11%	12%	10%
Women-owned firms, percent, 2002	31%	32%	30%
Manufacturers shipments, 2002 ($1000)	10,950,335	6,353,555	147,317,463
Wholesale trade sales, 2002 ($1000)	140,669,286	11,579,249	343,663,041
Retail sales, 2002 ($1000)	25,904,575	10,909,140	178,067,530
Retail sales per capita, 2002	16,718	4,390	9,298
Accommodation and foodservices sales, 2002 ($1000)	10,714,578	1,020,122	27,835,952
Building permits, 2008	9,700	12,744	51,637

[7] U.S. Census Bureau

4.2 Population

According to a New York City Department of Planning Projections Report[8], New York City is projected to grow from over 8.0 million residents in 2000 to 9.1 million in 2030, an increase of 1.1 million or 13.9 percent. While New York City's population is projected to increase by 4.9 percent between 2000 and 2010, growth is expected to slow to 3.5 percent in the following decade, with the population reaching 8,693,000 in 2020. Between 2020 and 2030, however, the growth rate will climb back up to 4.9 percent, with the population reaching 9,120,000 in 2030.

From 2010 to 2020, growth is expected to slow in Staten Island, Manhattan, the Bronx, and Brooklyn. While higher growth is projected in the 2020–2030 period, borough growth rates will likely be below their 2000–2010 levels but still significant. The below chart shows the population growth projection by year and borough.

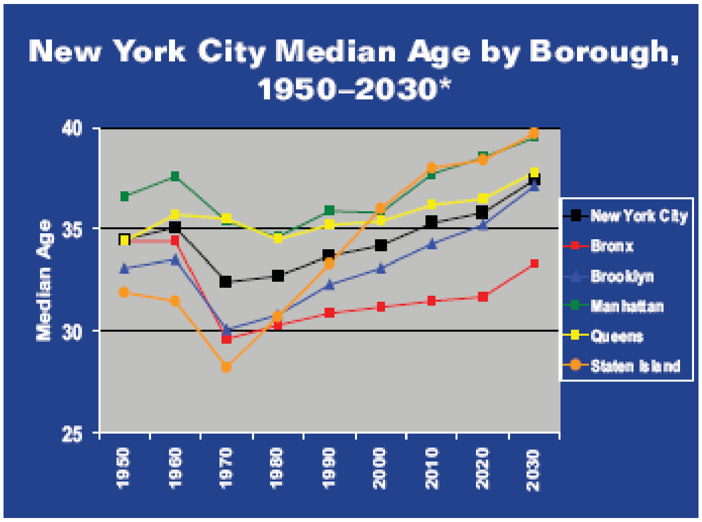
Brooklyn's population, which stood at 2,465,000 in 2000, is projected at 2,719,000 in 2030, an increase of 254,000 or 10.3 percent. With respect to growth by decade, the 2000 to 2010 period will see Brooklyn's population increase by 4.1 percent, followed by a dip in the subsequent decade to 2.4 percent. Growth is expected to then increase to 3.5 percent between 2020 and 2030. Compared to other boroughs, Brooklyn will have the second lowest level of growth, but will continue to have the largest population through 2030.

New York City Population by Borough, 1950–2030*

	1950	1960	1970	1980	1990	2000	2010	2020	2030
NYC	7,891,957	7,781,984	7,894,862	7,071,559	7,322,564	8,008,278	8,402,213	8,692,564	9,119,811
Bronx	1,451,277	1,424,815	1,471,701	1,168,972	1,203,789	1,332,650	1,401,194	1,420,277	1,457,039
Brooklyn	2,738,175	2,627,319	2,602,012	2,230,936	2,300,664	2,465,326	2,566,836	2,628,211	2,718,967
Manhattan	1,960,101	1,698,281	1,539,233	1,428,285	1,487,536	1,537,195	1,662,701	1,729,530	1,826,547
Queens	1,550,849	1,809,578	1,986,473	1,891,325	1,951,598	2,229,379	2,279,674	2,396,949	2,565,352
Staten Island	191,555	221,991	295,443	352,041	378,977	443,728	491,808	517,597	551,906

Although the overall growth in the 2000 to 2030 period is projected to be similar to increases seen in the recent past, dramatic changes are likely in the age composition of the population. The median ages for New York City and Brooklyn are 37.3 and 34.9 years old, respectively. The chart on the following page shows a timeline of median age by New York City borough.

[8] New York City Population Projections by Age/Sex & Borough 2000-2030 – Department of City Planning



As can be seen in the graph, Brooklyn has the second lowest median age, next to the Bronx. Typically, younger populations, such as Brooklyn's, will be more concerned with moving up into more expensive, larger units and about owning rather than renting. Future projections show that Brooklyn will continue to stay relatively young, which makes future luxury apartments and condominiums more necessary in the Brooklyn market place. The chart below shows the population projections for Brooklyn by age.

Population Projections for Total Population by Age Brooklyn, 2000–2030

Age	2000	2005	2010	2015	2020	2025	2030
0–4	182,599	174,319	175,499	177,989	178,823	177,588	174,691
5–9	189,677	176,236	168,285	168,178	170,750	171,945	170,992
10–14	182,866	192,815	179,201	169,909	169,971	172,931	174,372
15–19	177,281	186,933	197,071	182,011	172,848	173,320	176,536
20–24	183,217	185,013	195,087	204,247	188,878	179,953	180,675
25–29	197,427	200,154	202,207	211,946	222,179	205,867	196,294
30–34	192,287	192,217	194,934	195,495	205,108	215,643	200,104
35–39	189,671	182,777	182,788	183,945	184,632	194,409	204,665
40–44	178,929	188,821	182,011	180,743	182,073	183,573	193,572
45–49	161,246	168,103	177,479	169,788	168,788	171,056	172,691
50–54	145,954	162,580	169,566	177,793	170,241	170,546	173,033
55–59	106,000	127,532	142,146	147,063	154,379	149,677	150,182
60–64	95,514	98,942	119,046	131,665	136,349	145,621	141,391
65–69	77,839	83,321	86,376	103,041	114,070	121,194	129,598
70–74	71,826	62,769	67,218	69,097	82,423	94,762	100,793
75–79	59,036	58,941	51,595	54,762	56,369	70,902	81,526
80–84	38,450	39,605	39,552	34,358	36,486	41,306	51,844
85+	35,507	35,974	36,776	36,563	33,844	39,961	46,008
Total	2,465,326	2,517,052	2,566,836	2,598,593	2,628,211	2,680,254	2,718,967

Population Decline (of more than 5%)
Minimal Change (–5 to 4.9%)
Moderate Growth (5 to 20%)
High Growth (Greater than 20%)

As can be seen on the above chart, in 2015, when the majority of the Subject Property's units are going to come online, the majority of residents in Brooklyn are going to be in between the ages of 25 to 29 years old. The same is for Manhattan, with approximately 166,663 out of 1,697,498 total residents (roughly 10.0 percent) being in the same age range as shown with the following table.

Population Projections for Total Population by Age Manhattan, 2000–2030

Age	2000	2005	2010	2015	2020	2025	2030
0–4	76,048	79,450	80,484	80,092	79,619	80,905	81,961
5–9	73,358	69,965	73,262	72,706	72,344	72,246	73,587
10–14	69,288	74,186	70,872	72,835	72,275	72,209	72,260
15–19	75,186	81,478	86,655	81,887	83,868	83,619	83,702
20–24	120,674	115,768	125,632	132,176	124,799	128,205	127,975
25–29	167,563	160,999	153,903	166,663	176,395	166,018	171,327
30–34	163,589	166,004	159,808	149,940	162,418	172,799	162,977
35–39	138,792	149,676	152,117	143,489	134,714	146,758	156,443
40–44	118,434	130,747	141,284	140,767	132,757	125,475	136,998
45–49	106,870	111,841	123,689	131,051	130,605	124,161	117,548
50–54	98,871	105,036	110,095	119,444	126,600	127,501	121,392
55–59	78,059	90,889	96,727	99,281	107,684	115,827	116,961
60–64	63,687	72,882	85,072	88,676	90,974	100,624	108,497
65–69	52,358	57,633	66,162	75,639	78,784	83,020	91,964
70–74	46,670	43,336	47,807	53,618	61,267	66,429	70,129
75–79	37,371	38,759	36,053	38,892	43,639	52,829	57,352
80–84	24,790	25,984	26,946	24,402	26,317	32,541	39,412
85+	25,587	25,477	26,133	25,940	24,471	29,489	36,062
Total	1,537,195	1,600,110	1,662,701	1,697,498	1,729,530	1,780,655	1,826,547

Population Decline (of more than 5%)
Minimal Change (–5 to 4.9%)
Moderate Growth (5 to 20%)
High Growth (Greater than 20%)

If the above given projections turn out to be evenly reasonably accurate, the Brooklyn residential marketplace will demand more luxury apartments and condominiums over the next ten years. Price point will be a consideration in any transaction; however, the type of market-rate housing scheduled for the Subject Property (luxury/high-end condominiums and apartments) could then attract a share of the residents that wish to stay in Brooklyn as well as those who work in Manhattan given the reasonable commute.

4.3 Household Data

According to the U.S. Census Bureau, there are approximately 735,382 occupied housing units in New York City and 877,714 units in Brooklyn. Of those units, approximately 77.0 percent in New York City and 69.0 percent in Brooklyn are renter-occupied.

Multi-family permitting activity has accelerated 8.0 percent to 8,720 units over the past 12 months due to the expiration of the 421a tax abatement. Factoring out the 421a related permits, the number of requests is 1,920 units, a 72.0 percent year-over-year decline.

The impact of the current recession has led to a significant pressure on values of residential units. Prices at new for-sale projects have declined by more than 15.0 percent over the next 12 months. Market time inched down to 161 days in the second quarter as a result of seller provided discounts. The nearly 1,800 for-sale units expected to come online during the remainder of the year will result in continued price pressure over the near term. Although it remains to be seen if the bottom of the market has arrived, prices will eventually stabilize and demand will return. We note that development of affordable housing projects persists, despite the current economy. The Cook Street Housing complex in Williamsburg, for example, is expected to add 152 affordable units to inventory in the third quarter of 2009. Additionally, Hudson Development recently secured $43 million in financing for a 176 unit environmentally friendly building located in East New York; groundbreaking is scheduled for July.

4.4 Tenure

Tenure is the breakdown between renters and owners; this breakdown directly affects the segments of demand that a project should address and the marketability of existing units. As shown in the previous section, approximately 77.0 percent in New York City and 69.0 percent in Brooklyn of the housing units are renter-occupied. If we assume these percentages to stay relatively consistent over the next ten years, there will continue to be demand for rental units in the New York City and Brooklyn areas.

4.5 Income

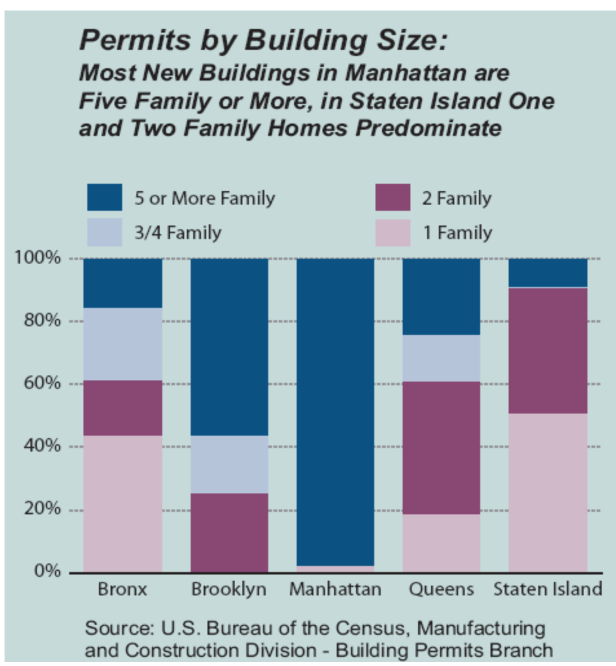
The table on the following page outlines the household incomes for New York City in general and Brooklyn in particular.[9] Although any new and upscale development in Brooklyn that offers transportation benefits similar to the Subject Property will likely attract residents from within New York City as well as the suburbs, a significant number of residents will likely come from Manhattan and to a lesser extent Brooklyn. Those from Brooklyn will likely involve "move-up" residents.

[9] U.S. Census Bureau

Income and Benefits	New York City County		Kings County	
	Population Estimate	Percent of Total	Population Estimate	Percent of Total
Total households	**735,382**	**100%**	**877,714**	**100%**
Less than $10,000	80,502	11%	121,817	14%
$10,000 to $14,999	43,081	6%	67,859	8%
$15,000 to $24,999	64,592	9%	104,423	12%
$25,000 to $34,999	54,006	7%	94,115	11%
$35,000 to $49,999	69,848	10%	119,388	14%
$50,000 to $74,999	102,589	14%	146,842	17%
$75,000 to $99,999	75,246	10%	87,665	10%
$100,000 to $149,999	89,194	12%	80,855	9%
$150,000 to $199,999	47,210	6%	28,884	3%
$200,000 or more	109,114	15%	25,866	3%

4.6 Construction Permits

The increase in demand can be seen by the increase in new construction permits. The number of permits authorized for new construction is a measure of how many new dwelling units will be completed and ready for occupancy, typically within three years, depending on the type of housing structure. In 2008, Brooklyn's permit requests increased by 16.6 percent to reach 12,744 total permits. The following graph breaks out the number of permits requested in 2008 by borough. [10]



[10] 2009 Housing Supply Report – New York City Rent Guidelines Board

In 2008, Brooklyn experienced a 3.3 percent increase in the number of residential units completed from the previous year, with a total of 7,306 units. Also in 2008, the Attorney General accepted 273 co-operative and condominium plans for Brooklyn, totaling 6,605 units. The table on the following page breaks out new dwelling units completed in New York City, by borough, from 1960 to 2008.[11]

Significant additions to inventory were made over the past several years, as they were during the previous three decades. These additions have not impacted the long-term occupancy for rental units, and demand for owned units is maintained except for periods of economic duress.

[11] 2009 Housing Supply Report – New York City Rent Guidelines Board

Year	Bronx	Brooklyn	Manhattan	Queens	Staten Island	Total
1960	4,970	9,860	5,018	14,108	1,292	**35,248**
1961	4,424	8,380	10,539	10,632	1,152	**35,127**
1962	6,458	10,595	12,094	15,480	2,677	**47,304**
1963	8,780	12,264	19,398	17,166	2,423	**60,031**
1964	9,503	13,555	15,833	10,846	2,182	**51,919**
1965	6,247	10,084	14,699	16,103	2,319	**49,452**
1966	7,174	6,926	8,854	6,935	2,242	**32,131**
1967	4,038	3,195	7,108	5,626	3,069	**23,036**
1968	3,138	4,158	2,707	4,209	3,030	**17,242**
1969	1,313	2,371	6,570	3,447	3,768	**17,469**
1970	1,652	1,695	3,155	4,230	3,602	**14,334**
1971	7,169	2,102	4,708	2,576	2,909	**19,464**
1972	11,923	2,593	1,931	3,021	3,199	**22,667**
1973	6,294	4,340	2,918	3,415	3,969	**20,936**
1974	3,380	4,379	6,418	3,406	2,756	**20,339**
1975	4,469	3,084	9,171	2,146	2,524	**21,394**
1976	1,373	10,782	6,760	3,364	1,638	**23,917**
1977	721	3,621	2,547	1,350	1,984	**10,223**
1978	464	345	3,845	697	1,717	**7,068**
1979	405	1,566	4,060	1,042	2,642	**9,715**
1980	1,709	708	3,306	783	2,380	**8,886**
1981	396	454	4,416	1,152	2,316	**8,734**
1982	997	332	1,812	2,451	1,657	**7,249**
1983	757	1,526	2,558	2,926	1,254	**9,021**
1984	242	1,975	3,500	2,291	2,277	**10,285**
1985	557	1,301	1,739	1,871	1,939	**7,407**
1986	968	2,398	4,266	1,776	2,715	**12,123**
1987	1,177	1,735	4,197	2,347	3,301	**12,757**
1988	1,248	1,631	5,548	2,100	2,693	**13,220**
1989	847	2,098	5,979	3,560	2,201	**14,685**
1990	872	929	7,260	2,327	1,384	**12,772**
1991	656	764	2,608	1,956	1,627	**7,611**
1992	802	1,337	3,750	1,498	1,136	**8,523**
1993	886	616	1,810	801	1,466	**5,579**
1994	891	1,035	1,927	1,527	1,573	**6,953**
1995	1,166	1,647	2,798	1,013	1,268	**7,892**
1996	1,075	1,583	1,582	1,152	1,726	**7,118**
1997	1,391	1,369	816	1,578	1,791	**6,945**
1998	575	1,333	5,175	1,263	1,751	**10,097**
1999	1,228	1,025	2,341	2,119	2,264	**8,977**
2000	1,385	1,353	6,064	2,096	1,896	**12,794**
2001	1,617	2,404	6,036	1,225	2,198	**13,480**
2002	1,220	2,248	8,326	1,981	2,453	**16,228**
2003	1,473	2,575	3,798	2,344	2,589	**12,779**
2004 π	3,326	4,512	6,150	3,087	2,291	**19,366**
2005 π	3,012	5,007	5,006	4,526	1,942	**19,493**
2006 π	4,311	6,418	5,199	5,940	1,900	**23,768**
2007 π	4,445	7,073	7,521	5,940	1,450	**26,429**
2008 π	**4,241**	**7,306**	**6,141**	**5,672**	**1,021**	**24,381**

Note: Dwelling unit count is based on the number of Certificates of Occupancy issued by NYC Department of Buildings, or equivalent action by the Empire State Development Corporation or NYS Dormitory Authority. Prior year's data may be adjusted and may not match prior reports.

π Data from 2004-2008 now includes Final Certificates of Occupancies (as with all other years) as well as Temporary Certificates of Occupancy data for the first time. Data will be updated every year to reflect the most current estimates.

Source: New York City Department of City Planning, Certificates of Occupancy issued in Newly Constructed Buildings.

5 Supply, Vacancy, and Absorption Factors

5.1 Supply

With more affordable rents than Manhattan, Brooklyn has been able to sustain apartment demand and currently has the lowest vacancy of the five boroughs at 2.3 percent, which is an 80 basis point decline from first quarter 2009. Current rental vacancy is slightly higher at 3.2 percent; which is still very low and implies there is opportunity for successful development. The below chart details the owner vs. renter occupied residential units.[12]

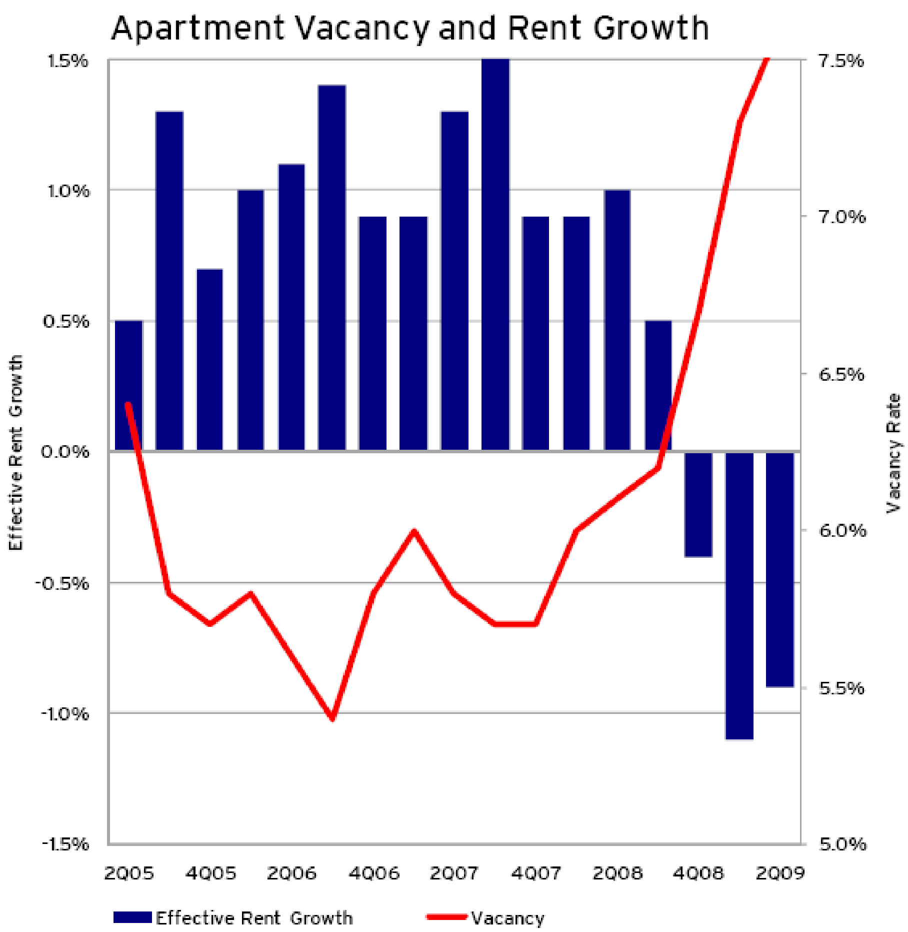
HOUSING OCCUPANCY	New York County		Kings County	
	Population Estimate	Percent of Total	Population Estimate	Percent of Total
Total housing units	838,794	100%	953,547	100%
Occupied housing units	735,382	88%	877,714	92%
Vacant housing units	103,412	12%	75,833	8%
Homeowner vacancy rate	2.3%	N/A	2.2%	N/A
Rental vacancy rate	3.2%	N/A	3.7%	N/A

5.2 Vacancy and Absorption[13]

5.2.1 Vacancy

As would be expected during a severe recession, the national vacancy rate continued to rise despite what has traditionally been a strong leasing period for apartment properties. The national vacancy rate rose to 7.6 percent, up 30 basis points from First Quarter 2009. This represents a 150 basis point year-over-year increase relative to Second Quarter 2008, and a 210 basis point increase in vacancy since the sector achieved its cyclical low of 5.5 percent in Third Quarter 2006. For perspective, vacancy levels of 7.6 percent is higher than the peak vacancy level that the multifamily sector reached in the previous downturn (when it hit 7.2 percent in First Quarter 2004); almost in parallel with the 25-year high national unemployment rate of 9.5 percent breached in June 2009, vacancies are at a 22-year high. The graph on the following page shows the relationship between apartment vacancy and rent growth in the U.S. apartment market.

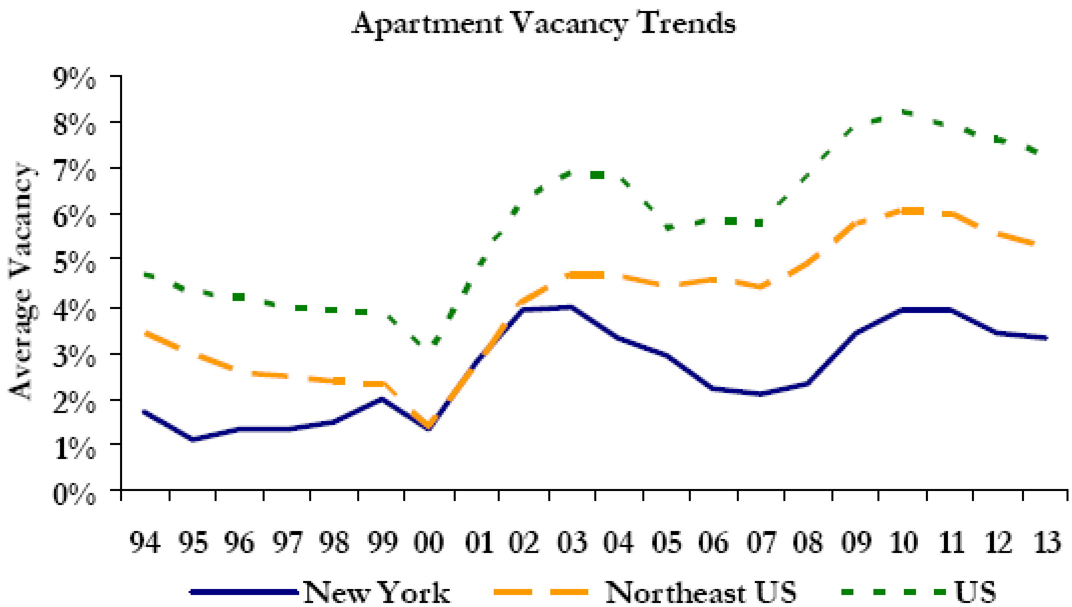
[12] U.S. Census Bureau
[13] Reis – Apartment First Glance – 2Quarter 2009



The market rate investment grade apartment vacancy rate fell 50 basis points to 2.9 percent in Second Quarter 2009, but remains 60 basis points higher than a year earlier. This is a low vacancy market: the highest year-end rate in recent years was the 4.0 percent recorded during 2003 in the wake of 9/11. Rates in the vicinity of 2.0 percent or less have been common. A vacancy rate of less than 5.0 percent—as measured by the triennial Housing and Vacancy survey ("HVS") jointly conducted by the city and U.S. Census Bureau, is used to justify a perpetual state of "housing emergency" which keeps the majority of the city's apartments rent regulated and out of the market rate inventory.

According to the HVS, the February and June 2008 vacancy rate (the duration of the sample range) for all rental housing in the city is 2.91 percent, down from 3.09 percent in 2005. In June 2009, Reis predicts vacancy for the market rate units will rise to 3.4 percent by year-end 2009 and 3.9 percent at year-end 2010 before leveling off and declining. The rate is projected to remain between 3.0 and 4.0 percent through 2013. As the economy improves the vacancy rate will likely decline, creating upward pressure on demand and pricing.

The graph on the following page shows the apartment vacancy trends for New York, the Northeast U.S. and all of the U.S.



Although the Subject Property will be competitive with only a small portion of the properties located in Brooklyn, an overview of the local market is useful for background information. To this end, we surveyed numerous brokers, property managers and other market participants to better understand the current construction projects expected to come online over the next one to three years. Based on these discussions, approximately 2,300 for-sale units are going to be available by Year-End 2009 alone. Below is a table that summarizes new development projects comparable to the Subject Property's, over 100 units. Indicated is the estimated building completion date, property type, percentage of the building that has already been pre-leased or sold and total number of units.

Name of Development	Address in Brooklyn	Est. Completion	Unit Types	Percentage Pre-leased/Sold	# of Units
Richard Meier on Prospect Park	1 Grand Army Plaza	Fall 2009	Condos	75%	102
be @ Schermerhorn	189 Schermerhorn Street	Summer 2009	Rental/Condo	94%	246
BellTel	365 Bridge Street	Summer 2009	Rental/Condo	100%	248
Oro Condos	306 Gold Street	Fall 2009	Condos	75%	303
Forte	230 Ashland Place	Spring 2010	Condos	37%	108
110 Livingston	110 Livingston Street	Summer 2009	Rental/Condo	95%	300
Toren	150 Myrtle Ave	Spring 2010	Rental/Condo	98%	241
One Hanson	1 Hanson Place	Summer 2009	Condos	95%	189
The Brooklyner	111 Lawrence Street	Fall 2010	Rentals	40%	491
80 Dekalb Ave	80 Dekalb Ave	Fall 2010	Rentals	85%	365
80 Metropolitan	80 Metropolitan Avenue	Spring 2010	Condos	75%	114
Avalon Fort Greene	343 Gold Street	Spring 2010	Rentals	80%	620

Available market data indicates that upwards of an additional 1,500 units will be available over the next two years. In addition, despite the challenging economic environment, there are three apartment complexes totaling more than 580 units in planning. Below is a graph showing the relationship between construction, absorption, and vacancy for New York City.[14]

The following table shows historic and projected Brooklyn Class A and B apartment data. Of particular interest is the projected absorption levels starting in 2010 and continuing through 2013. Reis is projecting that there will be sufficient demand to result in increasing rental rates, albeit modest, combined with reduced vacancy.[15]

Year	Qtr	Inventory SF/Units	Completions	Inventory Growth%	Vacant Stock	Vacancy Rate	Vacancy Change(BPS)	Occupied Stock	Net Absorption	Asking Rent	Ask Rent % Chg
2004	Y	19,217	0	0.0%	519	2.7%	-70	18,698	134	$1,131.00	1.9%
2005	Y	19,473	256	1.3%	643	3.3%	60	18,830	132	$1,168.00	3.3%
2006	Y	19,523	50	0.3%	488	2.5%	-80	19,035	205	$1,260.00	7.9%
2007	3	19,753	0	0.0%	711	3.6%	10	19,042	-20	$1,363.00	3.6%
2007	4	19,753	0	0.0%	632	3.2%	-40	19,121	79	$1,374.00	0.8%
2007	Y	19,753	230	1.2%	632	3.2%	70	19,121	86	$1,374.00	9.0%
2008	1	19,753	0	0.0%	612	3.1%	-10	19,141	20	$1,372.00	- 0.1%
2008	2	19,841	0	0.4%	456	2.3%	-80	19,385	244	$1,425.00	3.9%
2008	3	19,873	32	0.2%	417	2.1%	-20	19,456	71	$1,426.00	0.1%
2008	4	19,873	0	0.0%	358	1.8%	-30	19,515	59	$1,440.00	1.0%
2008	Y	19,873	32	0.6%	358	1.8%	-140	19,515	394	$1,440.00	4.8%
2009	1	19,873	0	0.0%	835	4.2%	240	19,038	-477	$1,419.00	- 1.5%
2009	2	19,873	0	0.0%	477	2.4%	-180	19,396	358	$1,411.00	- 0.6%
2009	Y	19,873	0	0.0%	505	2.5%	70	19,368	-147	$1,411.00	- 2.0%
2010	Y	20,871	998	5.0%	647	3.1%	60	20,224	856	$1,416.00	0.4%
2011	Y	21,373	502	2.4%	727	3.4%	30	20,646	422	$1,448.00	2.3%
2012	Y	21,521	148	0.7%	639	3.0%	-40	20,882	236	$1,498.00	3.5%
2013	Y	21,719	198	0.9%	567	2.6%	-40	21,152	270	$1,552.00	3.6%

5.2.2 Absorption[16]

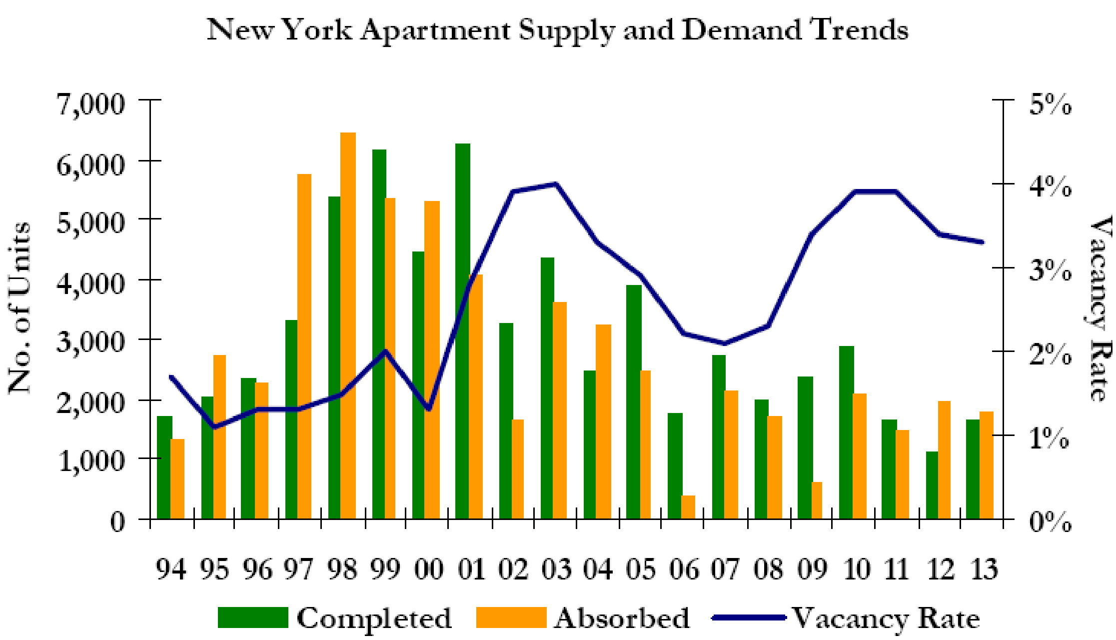
Demand rebounded from the sharp negative net absorption of the First Quarter, with Reis recording a positive 656 units for the Second Quarter. In a database going back to 1980, despite the worst recession in 50 years, net absorption is forecast to total positive 600 units for 2009. New York has substantial suppressed demand that would become manifest at affordable prices, from young natives forced to live with their parents to foreign and college-educated immigrants

[14] Reis.com
[15] Reis.com
[16] Reis Observer – New York Apartment Market

forced to live two or three to an apartment, or a room. Net absorption is forecast to remain positive as affordability and availability allow.

Both the condominium boom and the credit crunch have slowed the pace of investment grade and market rate apartment completions. So has the shift of development to the outer boroughs, where many new apartments and condos are too small for inclusion in the Reis database. There were no market rate apartment units completed in the First Quarter, leaving 6,085 units under construction (including subsidized housing in mixed-income buildings, the total is 7,076 units,). Reis projects just under 2,400 units will be completed in 2009 followed by 2,900 units in 2010, the most since 2005. Very little is forecasted to be completed from 2011 to 2013, as little has been started in the past year.

The graph on the next page shows the relationship between apartment supply and demand trends for New York City from 1994 and forecasted through 2013.[17]

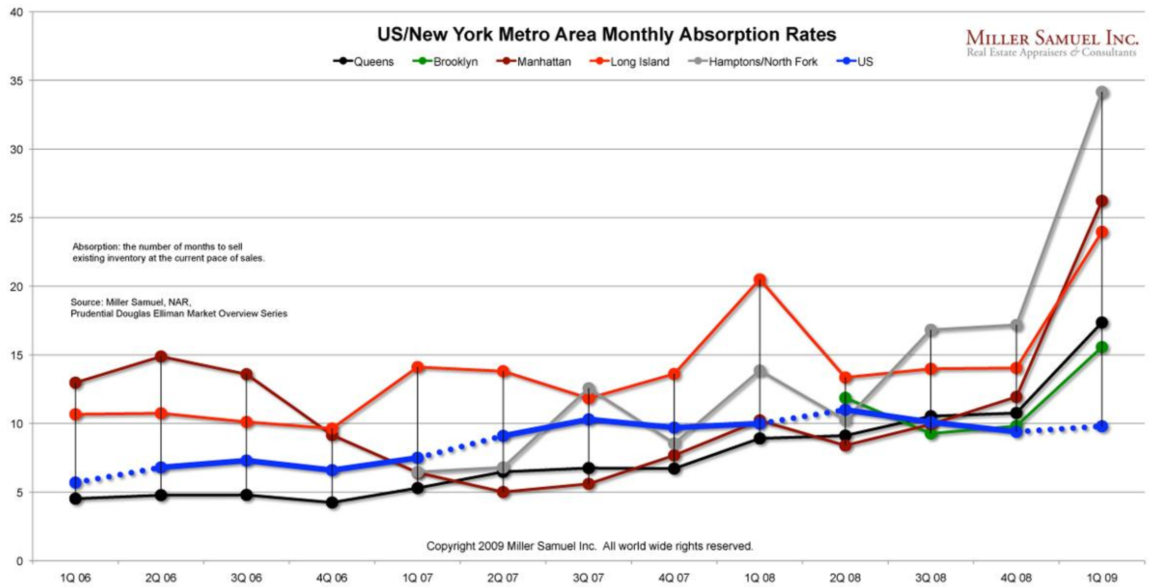


As can be seen in the above graph, historical vacancy peaked in 2002, 2003 and began to decline in years after as the rate between completed units and absorbed units shortened. Currently more projects are being completed than units are being absorbed, which has caused the vacancy rate to rise and continue to rise as the ratio between completed units and absorbed units expands. Not until late 2010 and early 2011, when the absorption rate increases and the number of completed units decrease, will the vacancy rate begin to decline. The Subject Property's first units are scheduled to come online in 2011.

Based on research reports prepared by Miller Samuel Inc., the current absorption rate (the number of months to sell existing inventory at the current pace of sales) for co-operative and

[17] Reis.com

condominium units in Brooklyn is 15 months (a new residential property of 100 units will take 15 months to occupy 100 percent of the units). This rate is higher than the U.S. average of 10 months but lower than Manhattan at 26 months. Subsequently the number of units leased/sold a month would be approximately 7 units in a typical 100 unit building, which is also the percentage of the residential property that you are able to lease/sell per month. The below graph details the absorption rates by metro area..[18]



5.2.3 Summary - Supply, Vacation and Absorption

Based on the analysis detailed earlier in this report, it seems reasonable that the vacancy rate in Brooklyn will remain even with year-end 2009 projections at approximately 3.0 to 4.0 percent. Since vacancy rates are closely tied to the economic and real estate cycle, it could be assumed that based on the historical vacancy rates shown previously that demand for Brooklyn apartments and/or condominiums will continue to increase with the recovery of the national and NYC economies. Thus, as the vacancy rate climbs through the remainder of the year for both New York City and Brooklyn, it seems reasonable that the rate will drop by the time that the Subject Property is scheduled to first become available in the marketplace.

As the vacancy rate continues to rise through the remainder of 2009, asking rents will likely continue to decline in keeping with the supply/demand curve. Forward projections show the vacancy rate for New York City climbing to 4.0 percent in 2011 and then beginning to gradually decline through 2013. According to the market reports, there were a large number of construction projects that were started/planned in 2007, when the economy could support additional housing capacity, and they will come online in early 2011; which is the main reason for the high vacancy assumption for 2011. The Subject Property is schedule to have the first of its the units come online in 2011 and continue to add units to the market place through 2019.

[18] Miller Samuel Inc.

5.3 Brooklyn Condominiums

FCRC provided its estimates of estimated per square foot sale prices for the Subject Property's market rate units. To test these estimates we compared them to current sale prices and opinion of market participants being mindful of the current economy as well as projections for the economy and the overall real estate markets.

Brooklyn has over 30 neighborhoods that differ in size and demographic. Based on our research, the Park Slope, Prospect Heights, and Fort Greene neighborhoods are most comparable to the Subject Property's neighborhood assuming the Subject Property is developed.

Below are FCRC's assumptions for condominiums by the proposed building numbers. It should be noted, that all of FCRC's assumptions are as of future dates, when the condominium units are scheduled to become available to the marketplace.

AY Building #	Number of Condo Units	Residential Sqft	Start Date	Completion Date	Sales Price / SF[19]
5	173	215,809	2/1/2013	2/1/2015	[redacted]
7	185	218,568	2/1/2014	2/1/2016	[redacted]
8	107	116,021	2/1/2015	2/1/2017	[redacted]
9	185	221,248	2/1/2017	2/1/2019	[redacted]
11	200	333,754	2/1/2017	2/1/2019	[redacted]
12	192	320,161	2/1/2017	2/1/2019	[redacted]
13	200	327,067	2/1/2016	2/1/2018	[redacted]
14	158	271,323	2/1/2015	2/1/2017	[redacted]

Recent transactions in the three neighborhoods reflect the ranges (on a per square foot basis) shown in the following table. Mindful that these prices are based on transactions that have occurred over the past 12 months during a severe recession, the value ranges for Fort Greene ($480 - $720), Park Slope ($500 - $950) and Prospect Heights ($470 - $1,225) lend support for the FCRC's projected sale prices when a modest inflation factor is applied given these future sales prices.

Condominiums/Co-operatives		
Neighborhood	**Minimum Sales/Sqft**	**Maximum Sales/Sqft**
Fort Greene	$ 480	$ 720
Park Slope	$ 500	$ 950
Prospect Heights	$ 470	$ 1,225
Average All	**$ 480**	**$ 970**

Given the timing of the Subject Property's entry into the market place, with what was described earlier in this report about the vacancy and absorption rates, the market data supports that the high-end/luxury nature of these properties, coupled with the number of building amenities that will be provided, such as proximity to transportation, the fact that the buildings will be brand new, the amount of retail surrounding the property, etc, will create a higher demand for the

[19] We have honored FCRC's request to not release the projected sales prices. However, they are generally in the range of $1,200 to $1,400 per square foot.

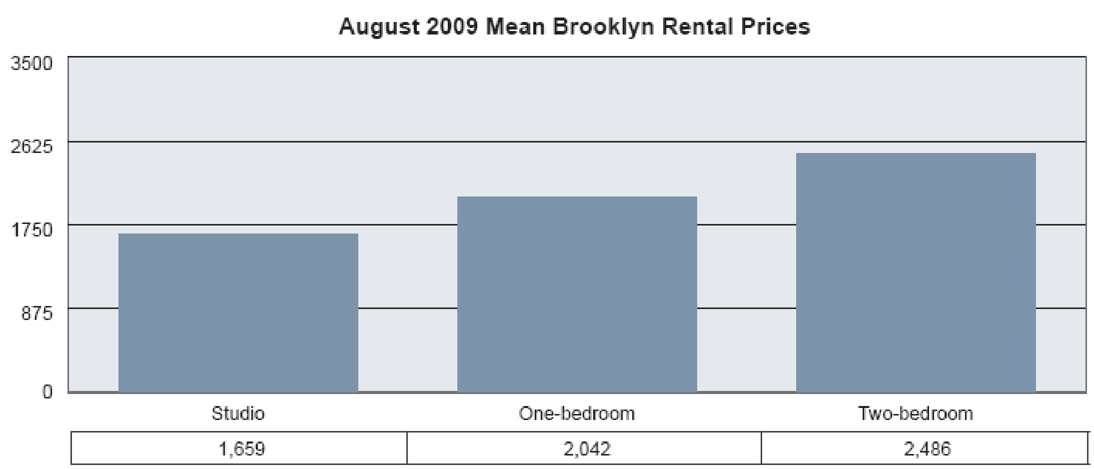
Subject Property and allow the units to be absorbed more quickly than other comparable properties, as well as, obtain a premium on asking sales price.

5.4 Brooklyn Apartments

We also examined FCRC's assumptions for the rental properties to be constructed. Similar to the condominium units, all market rents are forecasted for the next two to ten years. Based on our research, the Park Slope, Prospect Heights, and Fort Greene neighborhoods are most comparable to the Subject Property. The below table details FCRC's rent assumptions on a square footage basis.

AY Building #	Number of Total Rental Units	Residential Sqft	Start Date	Completion Date	Market Rent /SF
2	402	339,031	2/1/2010	9/1/2011	$ 45
3	350	294,864	2/1/2010	9/1/2011	$ 45
4	887	702,048	2/1/2011	2/1/2013	$ 46
5	389	306,750	2/1/2013	2/1/2015	$ 52
6	564	426,977	2/1/2014	2/1/2016	$ 54
7	499	393,467	2/1/2014	2/1/2016	$ 54
8	480	379,042	2/1/2015	2/1/2017	$ 55
9	426	336,689	2/1/2017	2/1/2019	$ 59
10	602	462,952	2/1/2017	2/1/2019	$ 59
15	433	317,095	2/1/2012	2/1/2014	$ 51

The below graph page details the Brooklyn August 2009 mean rental price by property type on a monthly basis.[20]



We conducted the same analysis for the condominiums as for the apartments. Based on our market research, the apartment market rents projected by FCRC are moderately aggressive, given

[20] Brooklyn Rental Market Report – August 2009 – TDG/TREGNY

the current economic conditions, but are still within the range of prices for comparable apartments in the Park Slope, Prospect Heights, and Fort Greene neighborhoods. Based on market publications, recent condominium transactions, and our discussions with FCRC, the market data supports the assumptions that FCRC relied upon in their lease-up analysis for the apartment market rents are reasonable, given two main factors: 1) the current real estate market will have recovered by the time the apartment units come online and 2) the Subject Property will be sold at a premium compared to the market place, given the Subject Property's location, amenities, and newly developed status.

Recent rental transactions in the three neighborhoods reflect the ranges (on a per square foot basis) shown in the following table. Mindful that these prices are based on transactions that have occurred over the past 12 months during a severe recession, the market rent ranges for Fort Greene ($30 - $43), Park Slope ($23 - $48) and Prospect Heights ($24 - $39) lend support for the FCRC's projected sale prices.

Apartments		
Neighborhood	**Minimum Rent/Sqft**	**Maximum Rent/Sqft**
Fort Greene	$ 30	$ 43
Park Slope	$ 23	$ 48
Prospect Heights	$ 24	$ 39
Average All	**$ 26**	**$ 43**

Given the timing of the Subject Property's entry into the market place, with what was described earlier in this report about the vacancy and absorption rates, the market data supports that the high-end/luxury nature of these properties, coupled with the number of building amenities that will be provided, such as proximity to transportation, the fact that the buildings will be brand new, the amount of retail surrounding the property, etc, will create a higher demand for the Subject Property and allow the units to be absorbed more quickly than other comparable properties, as well as, obtain a premium on asking rent.

6 Conclusion

FCRC provided KPMG with its absorption estimates for the Subject Property; as detailed below. The majority of the properties are scheduled to come on-line by September 2015, and are forecasted to be completely absorbed within approximately 12 months, with the exception of Building Four.

Building Number	Unit Type	Months to 100% Occupancy	Total Number of Units	Units/Month Absorption	Absorption Percentage
Two	Rental	7	402	57	14%
Three	Rental	8	350	44	13%
Four	Rental	24	887	37	4%
Five	Rental/Condo	12	562	47	8%
Six	Rental	11	564	51	9%
Seven	Rental/Condo	12	684	57	8%
Eight	Rental/Condo	10	587	59	10%
Nine	Rental/Condo	12	611	51	8%
Ten	Rental	12	602	50	8%
Eleven	Condo	13	200	15	8%
Twelve	Condo	13	192	15	8%
Thirteen	Condo	13	200	15	8%
Fourteen	Condo	11	158	14	9%
Fifteen	Rental	9	431	48	11%
Average		**12**	**459**	**40**	**9%**

To really test the absorption levels of each building, one has to look at the absorption level of the market rate and middle income units. Given the lack of affordable housing in New York City, and its waiting list, it is reasonable to assume that low income units at each building will be absorbed as soon as they are brought to the market. Displayed on the following page are the market and middle income absorption estimates for the Subject Property.[21]

[21] The table does not include Low-Income Rental Units or Condominium Units in the analysis.

Building Number	Unit Type	Months to 100% Occupancy	Total Number of Units	Units/Month Absorption	Absorption Percentage
Two	**Combined Rental**	**7**	**293**	**42**	**14%**
	Market Rental	*7*	*201*	*29*	*14%*
	Middle Inc. Rental	*7*	*92*	*13*	*14%*
Three	**Combined Rental**	**8**	**264**	**33**	**13%**
	Market Rental	*8*	*175*	*22*	*13%*
	Middle Inc. Rental	*6*	*89*	*15*	*17%*
Four	**Combined Rental**	**24**	**887**	**37**	**4%**
	Market Rental	*24*	*711*	*30*	*4%*
	Middle Inc. Rental	*3*	*176*	*59*	*33%*
Five	**Combined Rental**	**8**	**311**	**39**	**13%**
	Market Rental	*8*	*194*	*24*	*13%*
	Middle Inc. Rental	*7*	*117*	*17*	*14%*
Six	**Combined Rental**	**11**	**450**	**41**	**9%**
	Market Rental	*11*	*282*	*26*	*9%*
	Middle Inc. Rental	*9*	*168*	*19*	*11%*
Seven	**Combined Rental**	**10**	**397**	**40**	**10%**
	Market Rental	*10*	*249*	*25*	*10%*
	Middle Inc. Rental	*8*	*148*	*19*	*13%*
Eight	**Combined Rental**	**10**	**383**	**38**	**10%**
	Market Rental	*10*	*241*	*24*	*10%*
	Middle Inc. Rental	*8*	*142*	*18*	*13%*
Nine	**Combined Rental**	**9**	**340**	**38**	**11%**
	Market Rental	*9*	*212*	*24*	*11%*
	Middle Inc. Rental	*7*	*128*	*18*	*14%*
Ten	**Combined Rental**	**12**	**480**	**40**	**8%**
	Market Rental	*12*	*302*	*25*	*8%*
	Middle Inc. Rental	*10*	*178*	*18*	*10%*
Fifteen	**Combined Rental**	**9**	**344**	**38**	**11%**
	Market Rental	*9*	*216*	*24*	*11%*
	Middle Inc. Rental	*7*	*128*	*18*	*14%*
Average All Combined Rental		**11**	**415**	**39**	**10%**
Market Rental Average		**11**	**278**	**25**	**10%**
Middle Inc. Rental Average		**7**	**137**	**21**	**15%**

We held discussions with market participants and reviewed our internal database to test whether FCRC was utilizing assumptions that were consistent with current market indicators and potential investors.

6.1 Condominium and Co-operative Absorption

Based on our analysis of the Brooklyn residential condominium and co-operative market, the market data shows that FCRC's assumptions are supported by current market data. The below table, summarizes some of our findings for the condominium and co-operative buildings in the marketplace.

Property Location	Unit Type	Est. Months to 100% Occupancy	Total Number of Units	Units/Month Absorption	Absorption of Total Property per Month
Prospect Heights	Condo	7	20	3	15%
Brooklyn Heights	Condo	25	246	10	4%
Brooklyn Heights	Condo	10	303	30	10%
Park Slope	Condo	12	37	3	8%
Park Slope	Condo	16	241	15	6%
Park Slope	Condo	13	189	15	8%

As you can see in the above table, for buildings with greater than 200 units, the absorption rate ranges from 10 to 30 units a month. FCRC's absorption rate for similar units is 15 units a month, which is within the range of our market data. Based on discussions with FCRC, they are assuming that by the time the condominium units come online, the real estate market will have stabilized and economic conditions will be more favorable to potential buyers that they are today, which means that units will be absorbed more quickly in the marketplace.

6.2 Apartment Absorption

Based on our analysis of the Brooklyn residential apartment market, the market data shows that FCRC's assumptions for the combined rental units (excluding low-income units) are towards the high end of the range, but not unreasonable. Given that the below market data has been compiled over the past 12 months, and the real estate markets are expected to recover, a forward looking absorption rate can be higher than that reflected over the previous 12 months. The below table summarizes some of our findings for the apartment buildings in the marketplace.

Property Location	Unit Type	Est. Months to 100% Occupancy	Total Number of Units	Units/Month Absorption	Absorption of Total Property per Month
Park Slope	Rental/Condo	12	60	5	8%
Brooklyn Heights	Rental/Condo	12	248	20	8%
Brooklyn Heights	Rental/Condo	15	300	20	7%
Fort Greene	Rental	10	620	60	10%

In the above table, absorption rates per units per month are generally lower than the assumptions that FCRC is relying upon (combined rental). For buildings ranging from 300 to 600 units, the absorption rate ranges from 20 to 60 units a month. FCRC's absorption rate for similar units, on average is 39 units a month, which is towards the higher end of the range of our market data. Similar to the condominium and co-operative assumptions, we held discussions with FCRC, and they are assuming that by the time the residential apartment units come online, the real estate market will have stabilized and economic conditions will be more favorable to potential buyers than they are today, which means that units will be absorbed more quickly in the marketplace.

When looking at the market rate units and middle income units separately FCRC's absorption rates appear within the range of the market data. Based on the characteristics of these buyers and affordable housing guidelines, these assumptions appear to be supported by market data.

We have reviewed FCRC's assumptions regarding the Subject Property's absorption rate, and market pricing, as well as, conducted our own market research including discussions with market participants and other market resources. Based on our discussions with FCRC, and the market information available to us as of the date of this market study, the absorption estimates provided by FCRC are consistent with market data.

Given the information provided in this report, it is probable that when the Subject Property's units are schedule to come online it will be the ideal time for apartment renters/condominium sellers in the market place. Historical data and future projections show that the vacancy rate in 2011 and onward will be below 3.0 percent in New York City and market rents will be on the incline as units are absorbed in supply of new units' decreases. Coupled with the projections of increases in New York City and Brooklyn population, there will be a strong need for housing in the next three plus years.

The Subject Property is located at a transit-accessible site, convenient to employment centers in downtown Brooklyn and in Manhattan, and is well situated to accommodate the growing housing demand in Brooklyn. Although the current recession has roiled the market for new condominium units in Brooklyn, Manhattan, and many other areas of the country, the current market downturn is not expected to affect the long-term trends pointing to increased population and associated housing demand in Brooklyn, which market evidence shows the Subject Property is well positioned to serve.

It should be noted that given the current economic environment, the real estate market has been very volatile in the past six to twelve months and this market study is limited to the current economic conditions as of the report date. External factors not foreseen by KPMG, could affect the findings of this market study in the future and the reader should take caution of these scenarios.

APPENDIX A – Certification

We hereby, to our best knowledge and belief, certify the following statements regarding this opinion:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, impartial, unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the assets, properties or business interests that are the subject of this report, and we have no personal interest with respect to the parties involved.
4. We have no bias with respect to the subject matter of this report or to the parties involved with this engagement.
5. Our compensation for this engagement is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the Company, the review of the Subject Properties, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
6. Our engagement for the provision of services was not contingent upon developing or reporting predetermined results.
7. Our analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with, generally accepted standards and are subject to the requirements of the code of professional ethics and standards of professional conduct of the professional appraisal organizations of which we are members.
8. Jay Ross and Augustine Wilkinson provided significant professional assistance to the persons signing this report.

Andrew W. Smith

F. Brian Johnson

APPENDIX B – Limiting Assumptions

KPMG LLP
Valuation Services Limiting Assumptions

1. **Nature of Opinion.** Neither our opinion nor our report are to be construed as a fairness opinion as to the fairness of an actual or proposed transaction, a solvency opinion, or an investment recommendation, but, instead, are the expression of our determination of the fair [market] value of the Subject Assets between a hypothetical willing buyer and a hypothetical willing seller in an assumed transaction on an assumed valuation date. For various reasons, the price at which the Subject Assets might be sold in a specific transaction between specific parties on a specific date might be significantly different from the fair [market] value expressed in our report.

2. **Going Concern Assumption, No Undisclosed Contingencies.** Our analysis (i) assumes that as of the Valuation Date the Company and its assets will continue to operate as configured as a going concern; (ii) is based on the past and present financial condition of the Company and its assets as of the Valuation Date; and (iii) assumes that the Company had no undisclosed real or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business, nor had any litigation pending or threatened that would have a material effect on our analysis.

3. **Reliance on Forecasted Data.** Any use of management's projections or forecasts in our analysis does not constitute an examination or compilation of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"). We do not express an opinion or any other form of assurance on the reasonableness of the underlying assumptions or whether any of the prospective financial statements, if used, are presented in conformity with AICPA presentation guidelines. Further, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

4. **Verification of Legal Description or Title.** We have made no investigation of legal description or title and have assumed that owner(s) claims to property are valid. No consideration will be given to liens or encumbrances which may be against the property except as specifically stated as part of the financial statements you provide to us as part of this engagement. Full compliance with all applicable federal, state and local zoning, environmental, and similar laws and regulations is assumed, unless otherwise stated, and responsible ownership and competent management are assumed.

5. **Verification of Hazardous Conditions.** We will not investigate the extent of any hazardous substances that may exist as we are not qualified to test for such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation or other hazardous substances or environmental conditions may effect the value of the property, the value will be estimated predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility will be assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

6. **Condition of Property.** We assume no liability whatsoever with respect to the condition of the subject property for hidden or unapparent conditions, if any, of the subject property, subsoil or structures, and further assume no liability or responsibility whatsoever with respect to the correction of any defects which may now exist or which may develop in the future. Equipment components considered, if any, were assumed to be adequate for the needs of the property's improvements, and in good working condition, unless otherwise reported.

7. **Zoning.** It is assumed that all public and private zoning and use restrictions and regulations had been complied with, unless nonconformity was stated, defined and considered in the report.

8. **The Americans with Disabilities Act ("ADA").** The ADA became effective January 26, 1992. We will not make a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we will not consider possible non-compliance with the requirements of the ADA in estimating the value of the property.