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MEMORANDUM
Of Appraisal Review

June 20, 2006

To: James S. Sponable

From: Sandra Burnell

Subject: Bronx Terminal Market
City of NY Parks & Recreation
Replacement Parcel
LWCF Conversion/NYC Region

I have completed my review of the appraisal submitted by Patjo Appraisal Services, Inc. for the above referenced property located in the Borough of the Bronx, City of New York, County of the Bronx and State of New York. According to the appraiser, this appraisal was prepared in accordance with the Uniform Appraisal Standards for Federal Land Acquisitions. The appraisal was also prepared in accordance with New York State Appraisal Standards.

The subject property is a portion of a larger parcel. The larger parcel is located on the west side of Exterior Street/Major Deegan Boulevard, is irregular in shape and contains 8.29 acres (361,000 square feet) of upland and 1.84 acres (80,100 square feet) of land underwater. It is located on the east bank of the Harlem River and is criss-crossed by abandoned railroad tracks. The site is improved with four two-story buildings. Three are old industrial warehouses with truck doors and loading docks and one is an office/administration building. The four buildings total 160,000 square feet. The parcel is located in a HUD Flood Hazard Area (Zone A) which represents areas in the 100-year floodplain. The site is also mildly affected by wetlands with a small portion along the waterfront classified as Wetlands Adjacent Area.

The subject portion of the site is situated on the west side of Major Deegan Boulevard and extends to the Harlem River. It is improved with one and part of another of the two-story warehouse buildings. The upland portion totals 5.05 acres (220,000 square feet), the land underwater portion totals 1.37 acres (59,900 square feet) and the building area totals 74,560 square feet. The site has level topography, is irregular in shape with street frontage on two sides and the Harlem Rive on another side. The subject property will be taken from the midsection of the larger parcel, leaving two non-contiguous parcels. The northern remainder parcel will contain 65,800 square feet of upland and 26,568 square feet of building. The southern remainder parcel will have 75,200 square feet of upland and 58,875 square feet of building.

Utilities available to the subject include all urban utilities such as main water, sanitary and storm sewer, electric power, main natural gas, telephone, garbage collection service, postal service, fire and police protection.

Zoning for the subject is C4-4: Commercial District. This area was rezoned from a manufacturing to a commercial district. C4 districts are major commercial centers located outside of the central business districts. This district allows department stores, theaters and other commercial uses that serve a larger area. C4 districts are not permitted to include home maintenance and repair services, which would interrupt the desired continuous retail frontage. Per the appraiser, the subject site should accommodate approximately 1,227,400 square feet of building area.

The appraiser states the highest and best use of the property as vacant would be for retail or light manufacturing development. The highest and best use of the property as improved would be for redevelopment at a higher density with commercial (retail or office) or light manufacturing building.

The appraiser used the Sales Comparison and the Income Capitalization Approaches to estimate the fair market value of the subject property. For the Sales Comparison Approach, a Before and After Analysis was performed to determine the value of the **upland** portion of the subject. The first sales grid was used to estimate the market value of the larger parcel before the taking of the subject portion of the property. Five comparables were found and the following factors used for adjustment purposes: market condition/time, location, improvement, topography/shape, zoning and land size. After adjustments the final range of value was \$33.48 - \$41.63/SF, with a mean (average) of \$38.79/SF. The appraiser chose \$40/SF or \$14,440,000 as the fair market value of the subject (\$40/SF x 361,000 SF = \$14,440,000). This estimation of value appears reasonable and acceptable to the reviewer.

The second sales comparison grid was used to value the remainder portion of the property after the taking of the subject parcel. The remainder property is two non-contiguous parcels of 65,800 square feet and 75,200 square feet. Five comparables were found and the same factors were used for adjustment purposes. After adjustments the final range of value was \$43.05 - \$57.22/SF, with a mean of \$51.39/SF. The appraiser chose the following as the fair market value of the two non-contiguous remainder parcels:

65,800SF x \$54/SF =	\$3,553,200
75,200SF x \$50/SF =	\$3,760,000
Total Fair Market Value of the Remainder Parcels:	\$7,310,000

In order to determine the value of the subject portion of the property, the fair market value of the remainder parcel(s) is subtracted from the fair market value of the larger parcel:

Value of Larger Parcel:	\$14,440,000
Value of 2 non-contiguous Remainder Parcels:	- 7,310,000
Value of the **upland** portion of the subject property:	\$ 7,130,000

The appraiser then used the Income Capitalization Approach to estimate the fair market value of the subject. A Before and After Analysis was performed to determine the value of the subject.

According to the appraiser, the subject buildings have been occupied by several tenants on a small space basis. Many tenants have moved out recently due to the pending eminent domain action and the buildings are 70-80% vacant. For the purpose of the Income Approach analysis, the appraiser set aside the existing lease since it made provision for eminent domain acquisition. Also, since the appraiser observed that the space in the subject buildings are predominantly vacant, it was assumed that the space in the buildings would be leased at market rent to multiple tenants on a net basis with the landlord taking responsibility for paying real estate taxes, basic fire insurance and major structural repairs.

For the Income Capitalization Approach Before Analysis, the appraiser estimated the fair market value for the larger parcel, which included four buildings totaling 160,000 square feet and a total land area of 361,000 square feet. The appraiser researched the market for rental data to estimate market rent. Once a market rent was established, the appraiser used the following formula to determine the net operating income of the four buildings:

PGI (Potential Gross Income)
-Vacancy & Loss
EGI (Effective Gross Income)
-Operating Expenses
NOI (Net Operating Income)

In order to capitalize the net income to value, the appraiser determined a capitalization rate of 8%. The following formula is used to determine the fair market value:

$$\text{Value} = \frac{\text{Net Operating Income}}{\text{Capitalization Rate}}$$

The summary of the appraiser's Income Approach valuation for the Before Analysis is:

PGI	$1,442,955
Less Vacancy & Loss	- 144,296
EGI	$1,298,660
Less Operating Expenses	- 605,435
Net Operating Income	$ 693,225

Net Operating Value	$ 693,225 = $8,670,000 Fair Market Value (rounded)
Capitalization Rate	.08

The appraiser states that there is a significant amount of excess land that is currently used for parking, which appears grossly under-utilized. The site as a whole is only 24% occupied by buildings with the amount of excess land estimated at 200,000 square feet. Using information based on the Sales Comparison Approach, the appraiser valued the excess land at $30/SF or $6,000,000 ($30/SF x 200,000 SF = $6,000,000). The total fair market value of the larger parcel in the Before Analysis is:

$ 8,670,000 (Income Approach Value of Before Analysis)
+ 6,000,000 (Excess Land Value)
$14,670,000 Total Fair Market Value of Before Analysis (Larger Parcel)

The appraiser next performed the Income Capitalization Approach for the remainder portion of the property after the taking of the subject parcel (After Analysis). This portion of the property consisted of 141,000 square of feet of land and 85,151 square feet of building. The same formulas were used with the following fair market value result:

PGI	$808,344
Less Vacancy & Loss	- 80,834
EGI	$727,510
Less Operating Expenses	-247,825
Net Operating Income	$479,684

Net Operating Value	$479,684 = $6,000,000 Fair Market Value (rounded)
Capitalization Rate	.08

$6,000,000 (Income Approach Value of After Analysis)
-2,560,000 (Excess Land Value)
$8,560,000 Total Fair Market Value of After Analysis (Remainder Parcel)

The fair market values established for the subject property by the Sales Comparison Approach and the Income Capitalization Approach is as follows:

	BEFORE (larger parcel)	AFTER (remainder parcel)	SUBJECT VALUE
Sales Comp. Approach	$14,440,000	$7,310,000	$7,130,000
Income Cap. Appoach	$14,670,000	$8,560,000	$6,110,000

The appraiser states that since there was insufficient historic income and expense information provided for the subject property, the value estimated by the Income Capitalization Approach was not as reliable as the Sales Comparison Approach value. In addition, the current building improvement represents an under-utilization of the subject property and the site is "ripe" for redevelopment. For these reasons, the appraiser placed much less weight on the value indicated by the Income Approach and established a fair market value for the upland portion of the subject property of $6,900,000).

In the addendum of the appraisal report, the appraiser valued the land underwater portion of the subject. As stated previously, the larger parcel contains 361,000 square feet of upland and 80,100 square feet of land underwater. The land underwater is identified as Open Water Slip #1 (34,900 square feet), Open Water Slip #2 (25,000 square feet) and Open Water Slip #3 (20,200 square feet). The slips are inlets from the Harlem River containing shallow waters (1-6 feet deep) and bulk heading that is in dilapidated condition. The appraiser valued the land underwater in the following manner:

BEFORE ACQUISITION (Larger Parcel)

Open Water Slip #1	34,900 SF	(to be taken)
Open Water Slip #2	25,000 SF	(to be taken)
Open Water Slip #3	20,200 SF	

The appraiser estimated the underwater land to be worth 15% of the upland (0.15 x $40.00/SF = $6.00/SF) for a value of $480,600 (80,100 SF x $6.00/SF = $480,600).

AFTER ACQUISITION (Remainder Parcel)

Open Water Slip #3	20,200 SF

Open Water Slip #3 is a portion of the remainder parcel. The appraiser valued the land underwater for slip 3 the same as for slips 1 & 2 at 15% of the upland value (0.15 x $40.00/SF = $6.00/SF) for a value of $121,200 (20,200 SF x $6.00/SF = $121,200).

MARKET VALUE OF UNDERWATER LAND TO BE TAKEN (Subject Property)

Value Before Acquisition	$480,600
Value After Acquisition	-121,200
Value of underwater portion of subject	$359,400 rounded to $360,000

This leads to a final value conclusion of $7,260,000 for the subject property:

Value of upland portion of subject	$6,900,000
Value of land underwater portion of subject	360,000
Total Fair Market Value of Subject Property	$7,260,000

The reviewer finds this value to be reasonable and acceptable.

Therefore, the appraiser's estimate of the fair market value of the subject property as $7,260,000 is hereby approved.

Seven Million Two Hundred Sixty Thousand Dollars
($7,260,000)

Sandra Burnell
Sandra Burnell
Real Estate Specialist 1

I have read and concur.

James S. Sponable
James S. Sponable
Director Real Property