

# BBG

## **APPRAISAL REPORT**

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A 264 Key Hotel  
9 Crosby Street  
New York, NY 10013

## **REQUESTED BY**

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9 Crosby LLC  
c/o Mr. Danny Avidan  
261 Madison Avenue, 27th Floor  
New York, NY 10016

## **PREPARED BY**

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BBG, Inc.  
112 Madison Avenue, 11<sup>th</sup> Floor  
New York, NY 10016

## **EFFECTIVE DATES OF VALUE**

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|       |                   |
|-------|-------------------|
| As Is | December 31, 2016 |
|-------|-------------------|



March 1, 2017

9 Crosby LLC  
c/o Mr. Danny Avidan  
261 Madison Avenue, 27th Floor  
New York, NY 10016

Re: Appraisal File No. 1170000316  
A 264 Key Hotel  
9 Crosby Street  
New York, NY 10013

Dear Mr. Avidan:

In accordance with your request, the undersigned have prepared an appraisal report of the above-captioned property for the purpose of estimating the “as is” fair value of the subject property’s fee simple interest.

The subject is a 264 key hotel completed in 2011. We note that one key, a PH unit with outdoor space, is under renovation and will be operational in early 2017. The subject is 25-stories, and contains a gross building area of 121,165 square feet. In addition to hotel rooms, the subject contains a 5,000 SF restaurant known as Nomo Kitchen, which is located in a greenhouse space, a lobby bar, nightclub located off the lobby, a meeting room on the second floor, and a meeting room/private dining room located in the lobby. The gallery and terrace offer 2,500 SF of meeting space. The subject is located on the west side of Lafayette Street through to the east side of Crosby Street between Howard and Grand Streets in the Soho neighborhood of New York County, City and State of New York. The subject is identified on the tax maps of New York County as Block 233 Lot 2. The site measures 14,470 square feet and is zoned M1-5B.

The subject underwent significant improvements since new management arrived in May 2016. These improvements include adding one key (a PH unit with private outdoor space that is currently under renovation), refurbishment of the lobby, restaurant, and common areas with new furnishings, art, decor, walls and flooring, added revenue in the form of a \$25 amenity fee, and lowered expenses. These improvements result in an increase in value over June 2016.

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NEW YORK, NY 10016

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Mr. Danny Avidan  
Page 2  
March 1, 2017

Given the subject's zoning and character of the area, the highest and best use of the subject property is continued use as a hotel. This conclusion is based upon the physical characteristics of the subject property, the nature of the subject's location, the current zoning and general trends affecting the property.

Our analyses, opinions and conclusions were developed, and this report has been prepared, in conformance with the Standards of Professional Practice and Code of Professional Ethics of the Appraisal Institute, the Uniform Standard of Professional Appraisal Practice (USPAP), and Title XI (with amendments) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

After carefully considering all available information concerning the subject property and all apparent factors affecting value, we have concluded at the following value estimate for the subject property:

| Value Type       | Date              | Value         |
|------------------|-------------------|---------------|
| As Is Fair Value | December 31, 2016 | \$259,000,000 |

The opinions of value expressed herein are subject to the certification, assumptions and limiting conditions, and all other information contained in the following written appraisal report.

Thank you for the opportunity to serve you.

Sincerely,



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Joel Leitner, MAI, CRE  
Managing Director  
State Certified General Appraiser #46-3011



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Michelle Zell, MAI  
Senior Appraiser  
(212) 682-8293  
mzell@lbbgres.com  
State Certified General Appraiser #46-49921

**SUBJECT PROPERTY PHOTO**  
**9 CROSBY STREET**



## SUMMARY OF SALIENT FACTS AND CONCLUSIONS

**Subject Property:** A 264 Key Hotel  
9 Crosby Street  
New York, NY 10013

**Building Description:** The subject is a 264 key hotel completed in 2011. We note that one key, a PH unit with outdoor space, is under renovation and will be operational in early 2017. The subject is 25-stories, and contains a gross building area of 121,165 square feet. In addition to hotel rooms, the subject contains a 5,000 SF restaurant known as Nomo Kitchen, which is located in a greenhouse space, a lobby bar, nightclub located off the lobby, a meeting room on the second floor, and a meeting room/private dining room located in the lobby. The gallery and terrace offer 2,500 SF of meeting space.

The subject underwent significant improvements since new management arrived in May 2016. These improvements include adding one key (a PH unit with private outdoor space that is currently under renovation), refurbishment of the lobby, restaurant, and common areas with new furnishings, art, decor, walls and flooring, added revenue in the form of a \$25 amenity fee, and lowered expenses. These improvements result in an increase in value over June 2016.

**Location:** The subject is situated on the west side of Lafayette Street through to the east side of Crosby Street between Howard and Grand Streets in the Soho section of Manhattan, New York.

**Block/Lot:** Block 233, Lot 2

**Site Area:** 14,470± square feet

**Zoning:** M1-5B

**Flood Hazard Status:** Zone X, an area of minimal flooding per Flood Insurance Rate Map #360497-0182F.

**Marketing Time:** Between six months and one year.

**Exposure Time:** Between six months and one year.

**Property Rights Appraised:** Fee simple

**Date of Inspection:** January 13, 2017

**Fair value Conclusions:**

| Value Type       | Date              | Value         |
|------------------|-------------------|---------------|
| As Is Fair Value | December 31, 2016 | \$259,000,000 |

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## **INTRODUCTION**

### **IDENTIFICATION OF THE SUBJECT PROPERTY**

The subject is a 264 key hotel completed in 2011. We note that one key, a PH unit with outdoor space, is under renovation and will be operational in early 2017. The subject is 25-stories, and contains a gross building area of 121,165 square feet. In addition to hotel rooms, the subject contains a 5,000 SF restaurant known as Nomo Kitchen, which is located in a greenhouse space, a lobby bar, nightclub located off the lobby, a meeting room on the second floor, and a meeting room/private dining room located in the lobby. The gallery and terrace offer 2,500 SF of meeting space. The subject is located on the west side of Lafayette Street through to the east side of Crosby Street between Howard and Grand Streets in the Soho neighborhood of New York County, City and State of New York. The subject is identified on the tax maps of New York County as Block 233 Lot 2. The site measures 14,470 square feet and is zoned M1-5B.

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### **PURPOSE OF THE APPRAISAL**

To estimate the "as is" fair value of the subject property's fee simple interest.

### **INTENDED USER**

This Appraisal is to be used by ASRR CAPITAL LTD in its immediate and periodic reports, to be published in Tel Aviv Stock Exchange in 2017. We confirm that we have given our full consent to the inclusion of the Appraisal in its entirety within the ASRR CAPITAL LTD immediate and periodic reports to be published in the Tel Aviv Stock Exchange in 2017 or disclosed to the Israeli Security Authority and the Tel Aviv Stock Exchange.

### **INTENDED USE**

The Intended Use is for asset management.

### **PROPERTY RIGHTS APPRAISED**

The property rights appraised are the fee simple interest. A fee simple estate can be defined as: "an absolute fee; a fee without limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power, and taxation. An inheritable estate."

## **DATES OF VALUE ESTIMATES**

The date of our “as is” valuation is December 31, 2016. Michelle Zell, MAI inspected the property on January 13, 2017.

## **HISTORY OF THE SUBJECT PROPERTY**

The land was purchased in 2005 and the hotel was constructed between 2007 and 2011. It opened in February 2011 as part of Morgans Hotel Group. 9 Crosby LLC, an entity composed of Rotem Rosen and Alex Sapir, in partnership with Buddha Bar founder/owner Gerard Guez, acquired the subject from a financial institution that foreclosed on the property on March 6, 2015 for \$200M (per the deed). The contract was signed in June 2014. Our value is higher than the contract price because the hotel was purchased out of foreclosure, and general market appreciation.

When the current ownership took control of the hotel and its management, any existing clientele information was unavailable and no reservations or events were scheduled. As a result, the hotel suffered decreased occupancy and ADR throughout 2015 and early 2016. A new management team took over the property in May 2016 and has made vast improvements to the asset. Significant changes include renovations to the lobby, restaurant, and common areas, adding a key (a PH unit) which is currently under renovation and will be operational in March 2017, plans to reopen the nightclub in 2017, plans to renovate part of the lobby bar to accommodate private dining and meeting space, adding a \$25 amenity fee which will raise the revenue significantly, and cutting significant expenses. Upon completion of the renovation of the new PH unit, it will have luxurious high end finishes and significant outdoor space, and will function as a private event space and room.

Below we highlight how some of the changes above will impact the financials. First, the amenity fee of \$25 is projected to produce \$935,000 in profit, as there are no expenses associated with this income. For the first 17 days of January produced \$45,439 in amenity income, which annualizes into a yearly income of \$966,176. Ownership’s projection of \$935,000 appears reasonable, as January is one of the slowest months of the year.

Next we examine the reopening of the nightclub. Prior to 2014, the nightclub produced an income in excess of \$1,000,000. Ownership revenue of \$591,000 in year 1, followed by \$1,000,000 as stabilized. This income is reasonable and will be applied in our cash flow. We note that the reopening of the nightclub is not associated with an increase in expenses, as it will be staffed by current employees.

Finally, the new penthouse unit, which is slated to open in March 2017, is projected to produce and annual income of \$578,932 in 2018. We apply an income of \$250,000 in 2017.

The total increase in revenue is \$1,743,853 in 2017, per ownership.

On the expense side, management has renegotiated several contracts, and eliminated some positions and services. The total savings are projected to be approximately \$1,050,000. The total increase in profit from the increased revenue and decreased expenses is \$2,795,000.

It appears that the property is finally under prudent management and is on track to compete with the competitive set.

### **EXPOSURE TIME**

Exposure time has been defined, as the estimated length of time the real property interest appraised would have been offered in the market prior to the hypothetical consummation of a sale at fair value on the effective date of appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market.

Exposure time is always presumed to precede the effective date of appraisal. It is our opinion that a normal exposure time for the subject property is between six months and one year. This conclusion is predicated on interviews with brokers and other real estate industry sources and on information obtained in the verification process. The value reported herein presumes such an exposure time.

### **ESTIMATE OF REASONABLE MARKETING TIME**

Given the subject's present condition and location and the marketing times for similar properties, we estimate the marketing time for the subject to be between six months and one year.

### **Extraordinary Assumptions**

According to The Dictionary of Real Estate Appraisal (6th Edition), an Extraordinary Assumption is "An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis." This appraisal is subject to the following extraordinary assumptions: Ownership is able to implement the projected increases in profit per the plan described above.

### **Hypothetical Conditions**

According to The Dictionary of Real Estate Appraisal (6th Edition), a Hypothetical Condition is 1. A condition that is presumed to be true when it is known to be false; 2. A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis." In the development of our opinions of value, we have applied the following Hypothetical Condition: None.

## DEFINITION OF FAIR VALUE

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value. The IFRS explains that a fair value measurement requires an entity to determine the following:

- (a) the particular asset or liability being measured;
- (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- (c) the market in which an orderly transaction would take place for the asset or liability; and
- (d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

## DEFINITION OF REAL ESTATE-RELATED FINANCIAL TRANSACTION<sup>1</sup>

Any transaction involving:

- The sale, lease, purchase, investment in or exchange of real property, including interests in property, or the financing thereof; or
- The refinancing of real property or interests in real property; or
- The use of real property or interests in property as security for a loan or investment, including mortgage-backed securities.

## SCOPE OF WORK

BBG, Inc. has been retained by 9 Crosby LLC to prepare a market valuation of the subject property. Within the course of this assignment, the appraisers have:

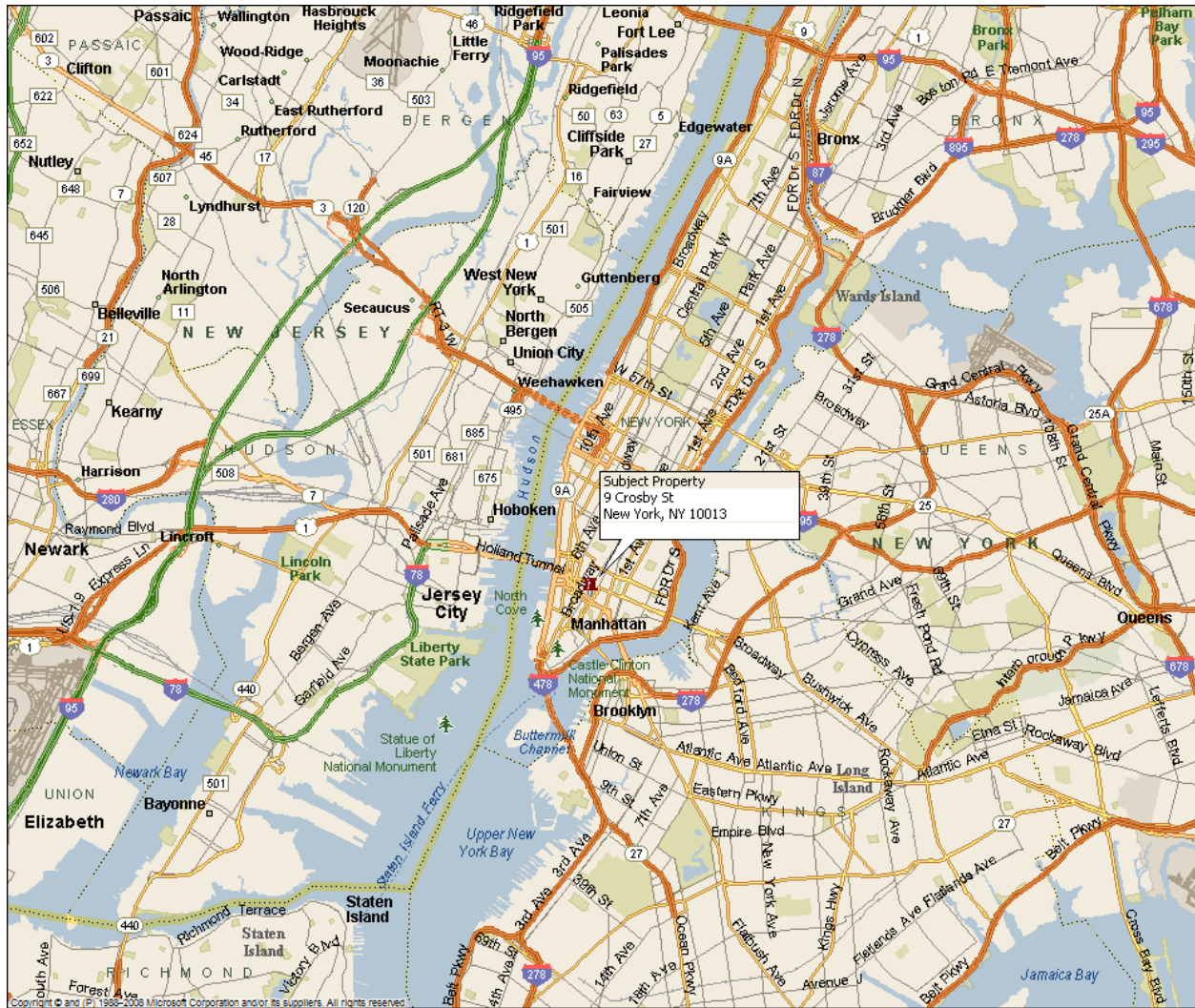
- Researched and investigated the subject's location in terms of its economic activity, development patterns, and future trends and related their impact on the subject's hotel.
- Determined the Highest and Best Use of the subject property based on an analysis of all relevant factors.
- Analyzed the subject's historical operating statements.

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<sup>1</sup> 12 U.S.C. 3350(5) (FIRREA section 1121(5))

- Researched the comparable hotel market to determine an ADR and occupancy rate for the subject's proposed hotel.
- Analyzed comparable hotel expenses to project a cash flow for the hotel portion.
- Researched comparable hotel sales to determine a value via the Sales Comparison Approach.
- Reconciled the values to conclude to an as is fair value as of December 31, 2016.

AREA MAP



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## CURRENT ECONOMIC CONDITIONS

*U.S. Economy.* The U.S. economy struggled in the first quarter, growing at only 1.2%, continuing a trend of anemic first quarters. Employment growth has been weakening, but consumption spending and the housing market continue to show strength. The direct effects of Brexit and the Trump presidency on the domestic economy are estimated to be limited.

*Financial Markets.* Markets pushed to new record highs despite a particularly difficult period starting with a market correction in the first quarter and turmoil after the Brexit referendum. Volatility, a drop in trading, and a flat yield curve have impaired Wall Street profits, which fell 48% in the first quarter relative to the same period last year. However, the market has rallied following the November election.

*Monetary Policy & Inflation.* Inflation continues to run below target, and there is heightened uncertainty due to the outcome of the U.K.'s referendum. As a result, it is expected that the Fed will hold off on interest rate hikes until markets settle and stronger conditions return.

*NYC Labor Market.* The labor force participation rate has declined at the U.S. level but increased to record highs in New York City. Demographics have played a large role in both trends.

*NYC Residential Market.* The City's housing market ended 2015 on a strong note. Manhattan is still the most coveted submarket as it continues to shatter price records while Brooklyn prices have risen at the fastest pace over the past 5 years.

*NYC Office Market.* Following a strong 2015, commercial markets showed signs of softening in 2016. With the first building in the Hudson Yards megaproject officially opened in May, the influx of new office towers is expected to further push up vacancy rates.

### The U.S. Economy

The resilience of world growth was again thrown into question with the dramatic outcome of the Great Britain referendum to leave the European Union. The IMF downgraded their global forecast for 2017 by 0.1 percentage point to 3.4% because of the unexpected uncertainty caused by the Brexit. For the U.S., the main impacts come through stronger safe haven demand for dollar denominated assets that will lead to an appreciation of the dollar and lower domestic interest rates. However, the impact will probably not be large. Most forecasters are projecting a net impact ranging from zero to -0.2 percentage points of GDP growth in 2017.

While the shock from Brexit appears to be relatively small, the danger is that it comes during a particularly vulnerable period. The U.S. GDP revisions for the first quarter extended the strange seasonal pattern of uneven growth evident for the last 6 years. The third and last estimate of first quarter 2015 GDP boosted growth to 1.1% (annualized), up from the prior estimate of 0.8%. While this was marginally better than the average first quarter growth rate over the prior 5 years of 0.8%, the average growth rate for the other 3 quarters over the same 5-year period was 2.6% per quarter, highlighting the existence of "residual seasonality" in the GDP data and launched two long-term projects to identify the source of the issue. The first project will attempt to

improve seasonal adjustment of source data provided by other data agencies. The second entails developing a seasonally unadjusted estimate for GDP and major components to allow direct identification of changes in seasonal trends.

Statistical issues notwithstanding, growth is still being hampered by drag from business fixed investment and the overhang of inventory. In addition, exports have been hurt by the growing strength of the dollar, which appreciated over 10% in 2015 on a trade weighted basis. Some relief came through the modest drop of the dollar through the first 5 months of 2016. Nevertheless, the turmoil caused by the Brexit vote and the possibility of future Fed rate hikes will continue to drive demand for dollar denominated assets and keep upward pressure on the dollar. Non-residential investment and changes in private inventories have been an even larger headwind, collectively subtracting 0.8 percentage points from first quarter growth. While business investment has been weak through this recovery, inventory adjustments typically occur quickly. However, inventory adjustments have now been a drag for 3 consecutive quarters—the most protracted correction since the start of the last recession.

Wage growth continues to be a perennial problem. Average hourly wages of private employees grew only 2.3% in 2015 and has averaged only 2.5% (year over year) through June. The wage and salary portion of the employment cost index has been similarly lethargic, growing just 2.1% year over year in the first quarter 2016. One measure that has been more upbeat is the Atlanta Fed's wage growth tracker, which hit 3.6% growth (year over year) in June—the strongest showing since 2009. The main difference between the Fed's measure and the BLS average hourly wage statistic is that the Fed follows the same group of individuals over time, whereas BLS data is an average over workers included in the monthly sample. As a result, the latter measure can be biased due to composition effects. In particular, if a high wage worker is replaced by a low wage worker, the average wage will be lower.

Other measures of employment activity are sending more optimistic signals. The weekly initial unemployment claims data has trended lower, indicating a healthy job market. Claims have been below 300,000 for 71 consecutive weeks, the longest such streak since 1973. The job openings and labor turnover (“JOLTS”) data for May was neutral. Job openings fell to 5.5 million seasonally adjusted—the fewest since December—down from an all-time high of 5.8 million in April. Layoffs were relatively unchanged in May at 1.7 million. Voluntary quits have been flat while the number of people hired was little changed at 5 million after falling in April to 5.1 million, down from 5.3 million in March and 5.5 million in February.

The housing sector is also showing remarkable strength despite the restrained GDP numbers and the financial market volatility seen earlier this year. Within the GDP investment categories, residential investment is the lone positive factor, adding a healthy 0.52 percentage points to first quarter growth. Furthermore, other measures of housing activity hint at further gains in the second quarter. New home sales in the first quarter were up about 2% year over year at an annualized rate of 551,000, the second best showing since 2007 behind April's 586,000. Total private housing starts also reflected this trend at 1.16 million units in May (of which 764,000 were single-family), close to the post-recession high of 1.2 million. Existing home sales have also been strengthening, gaining 0.3% in May to 5.53 million units at a seasonally adjusted annual rate—a 9-year high and a 4.5% increase over May 2015. Since the existing home sales

numbers tend to lag new home sales (because they are counted at the close of the contract), this strength is likely to continue.

With strong demand and thin inventories, housing prices are appreciating strongly. The Case-Shiller repeat sales index for 20 major cities was up 5.4% year over year in April. Many of the West Coast cities have been experiencing double-digit price jumps driven by the growth of high wage tech jobs. At the same time, the inventory of existing homes is low and actually fell 5.7% year over year in May. At the current sales pace, there are 4.7 months of existing homes in the sales pipeline, down from 5.2 months in May 2015. With 30-year mortgages still below 4% and likely headed lower, demand over the remainder of the selling season will likely remain strong.

After a flat first quarter, consumer spending rebounded in April and May, growing by 1.1% and 0.4% per month, respectively. At the same time, contrary to expectations that the energy savings windfall would translate into stronger spending, consumers have been cautious over the past 3 quarters. One outcome has been a slowly increasing savings rate, which peaked at 5.9% in March, up from 5% in mid-2015. The strong May personal consumption spending brought this rate down to 5.3%.

While there are sign of weakness, the U.S. economy seems poised to continue the moderate growth path that has characterized this recovery. The risks continue to be centered on global growth, exacerbated by Brexit turmoil and the monetary policy disconnect between the U.S. Fed and other central banks. The Brexit vote will lead to even more accommodative monetary policy at the European Central Bank, the Bank of Japan, and a host of other European monetary authorities, which have already been setting negative policy rates. Furthermore, China's growth of 6.9% in 2015 was its slowest in 25 years and resulted in the government lowering its 2016 growth target to 6.5% to 7%.

## **Financial Markets**

Financial markets have been having an unusually tough year with a challenging first quarter, a calmer interlude, followed by the Brexit vote turmoil. In the first quarter, the S&P 500 index dropped 10.5% through the second week of February, but was able to claw back the losses by March. By mid-June, the measure was up nearly 3% for the year (or an impressive 14.6% gain from the February low). The markets have rallied since Donald Trump won the presidential election in November 2016. The Chicago Board Options Exchanged Volatility Index ("VIX") predictably hit a 2016 high of 28 in February but soon dropped to around 15 in May and early June, indicating calmer trading conditions. The pause in volatility was dramatically disrupted by the Brexit vote chaos at the end of June which sent the VIX back up to near yearly highs around 25 and shaved 3.5% off the S&P 500 the date after the vote.

Fortunately, after 2 days of freefall, equity prices quickly rebounded. By the middle of July, the S&P was up 2.5% compared to the day prior to the U.K. referendum. Over the same period, the FTSE 100 dropped 5.6% but regained all the losses and more by July. The long run reaction, however, is most evident in interest and exchange rates. Due to precautionary demand for non-risky assets and expectation that the Fed will now hold off on rate hikes, the 10-year treasury yield dropped nearly 40 basis points to below 1.4%, a record low in data going back to the early

1960's. Likewise, the rush to safe haven currencies has resulted in a 10% drop in the British pound against the U.S. dollar and Japanese yen.

Brexit worries notwithstanding, another factor that will drive equity markets in the longer term is the year-long slump in corporate profits. After hitting an all-time high in the second quarter 2015, profits fell 11% through the remainder of the year. The first quarter saw an uptick of 3.3%, quarter over quarter, but there were two anomalies that helped lift results. First, BP's \$20 billion oil spill settlement costs artificially pulled down fourth quarter levels, making a first quarter rebound more likely. In addition, there was an unusual jump in first quarter profits reported by Federal Reserve banks, which gained \$16.5 billion to an all-time high of \$118 billion at a seasonally adjusted annual rate. These are counted by BEA as financial sector profits and have been driven by the Fed's huge portfolio of assets which has been holding at \$4.5 trillion for the last 18 months—over 4 times higher than pre-recession levels. Despite the uptick, with tighter labor markets, waning productivity, weak global growth, and a strong dollar, the prospects of lasting profit growth appear dim.

With short-term interest rates stuck near zero and the longer yields falling, the yield curve is now the flattest since 2007. The spread between the 10-year and 2-year treasury yields has fallen 96 basis points over the last year to an 8.5-year low. However, the relationship is still positive at 0.81 percentage points and far from the negative spreads that are seen as harbingers of recessions. Furthermore, many factors driving down longer rates are temporary (such as the Brexit vote), and so the yield curve is expected to steepen as the U.S. economy moves past the current volatility.

### **Monetary Policy & Inflation**

A slowdown in the labor market and soft inflation forced the Fed to leave the Federal Funds Rate unchanged in June. This year is beginning to seem like last year when weak data and international concerns delayed policy normalization until December. With heightened uncertainty because of Brexit, decelerating job market, and lackluster inflation growth, the Fed is firmly on hold.

The slowing labor market soured the outlook of Federal Open Market Committee members who discussed a June rate hike during the April meeting. In addition, newly released projections shifted the FFR path down, largely reflecting reduced estimates of the neutral rate—the rate consistent with stable inflation and trend growth.

Inflation data, though below target, has behaved as Chair Yellen expected. The drag from oil prices and the dollar have begun to diminish. But in May, the core PCE, the Fed's preferred inflation measure, was unchanged at 1.6% year over year. Furthermore, the recent appreciation of the U.S. dollar should help keep inflation suppressed.

As the Fed has stressed, the path of the FFR is uncertain and data dependent as illustrated by the hold on the June hike due to the weak data. The British vote to leave the EU has further complicated the decision. The effects of Brexit should keep the Fed on hold for some time. Taking on a more dovish tone, Chair Yellen said, "We need to assure ourselves that the underlying momentum in the economy has not diminished."

## **Risks to the Forecast**

The forecast is predicated on the continuation of moderate domestic growth and more stable financial market conditions. One of the largest risks comes from global economic and financial developments which have been a major cause of recent volatility. In response, many central banks have been implementing extremely accommodative monetary policies with the European Central Bank and the Bank of Japan experimenting with negative interest rates. The disconnect between U.S. monetary policy and other central banks could potentially result in further appreciation of the dollar which would prolong pressure on U.S. industry and exporters. Likewise, a continuation of depressed energy and commodity prices, while benefitting consumers, has the potential to further damage the U.S. energy sector. As witnessed earlier this year, an episode of financial volatility quickly impairs Wall Street activity, pushing profits and securities wages lower. Furthermore, the strong dollar and weaker global growth could slow tourism and visitor spending in New York City and weaken the pace of international investment in local real estate.

## AREA ECONOMIC ANALYSIS - NEW YORK CITY

The New York Metropolitan Statistical Area (MSA) consists of the City of New York's five counties and the counties of Westchester and Rockland. The subject property is located in the City of New York, New York County (Manhattan). New York City's five boroughs cover 309 square miles.

The borough of Manhattan, or New York County, forms the central political, financial, and cultural core of the City and is the economic growth engine for the Greater New York region. Seventy-five percent of the City's employees work in Manhattan, which is home to the Midtown and Downtown business districts. The City's other boroughs are the Bronx, Brooklyn, Queens, and Staten Island (otherwise known as Bronx, Kings, Queens, and Richmond Counties). They also have strong, albeit significantly smaller, economies than Manhattan. Brooklyn and Queens have the largest behind Manhattan.

### POPULATION

|                  | 1980             | 1990             | 2000             | 2010             | 2016             | 2021 Est         |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Overall          | 7,071,639        | 7,322,564        | 8,008,278        | 8,175,133        | 8,588,195        | 8,895,691        |
| % Change         |                  | 3.55%            | 9.36%            | 2.08%            | 5.05%            | 3.58%            |
| Bronx            | 1,168,972        | 1,203,789        | 1,332,648        | 1,385,108        | 1,456,268        | 1,510,813        |
| % Change         |                  | 2.98%            | 10.70%           | 3.94%            | 5.14%            | 3.75%            |
| Brooklyn         | 2,230,936        | 2,300,664        | 2,465,259        | 2,504,508        | 2,657,953        | 2,767,581        |
| % Change         |                  | 3.13%            | 7.15%            | 1.59%            | 6.12%            | 4.12%            |
| <b>Manhattan</b> | <b>1,428,285</b> | <b>1,487,536</b> | <b>1,529,252</b> | <b>1,585,873</b> | <b>1,647,786</b> | <b>1,693,415</b> |
| <b>% Change</b>  |                  | <b>4.15%</b>     | <b>2.80%</b>     | <b>3.15%</b>     | <b>3.90%</b>     | <b>2.77%</b>     |
| Queens           | 1,891,325        | 1,951,598        | 2,229,379        | 2,230,722        | 2,351,550        | 2,442,130        |
| % Change         |                  | 3.19%            | 14.23%           | 0.06%            | 5.42%            | 3.85%            |
| Staten Island    | 352,121          | 378,977          | 443,728          | 468,730          | 474,638          | 481,752          |
| % Change         |                  | 7.63%            | 17.09%           | 5.63%            | 1.26%            | 1.50%            |

Source: 1980-2010, US Census; 2016 The Nielsen Company

New York City is home to more than 8 million people in over 3 million households. Brooklyn is the most populous borough with 31% of the City's population. Manhattan's 1.65 million residents, at 48,800 residents per square mile, make it one of the most densely populated residential areas in the nation. While the 1980's and 1990's saw the continuing trend of migration of city residents to neighboring suburbs, due primarily to high housing costs and density of living, the total population was bolstered by the large number of immigrants arriving in the city each year.

The 5.05% increase in the City's census population from 2010 to 2016 can be attributed to the decrease in unemployment rate as well as increasing appeal of the City over the course of the long. In addition, more accurate Census counts may have benefited New York during this Census period. The City's population now totals 42% of the state's total population. Except for Staten Island, each of New York City's five boroughs has a population greater than 1,400,000. The city's population is expected to continue growth over the next 5 years.

**MANHATTAN POPULATION TRENDS, 2010-2021**

| Description   | 2010 Census | 2016 Estimate | % Change 2010-2016 | 2021 Projection | % Change 2016-2021 |
|---------------|-------------|---------------|--------------------|-----------------|--------------------|
| Population    | 1,585,873   | 1,647,786     | 3.90%              | 1,693,415       | 2.77%              |
| Households    | 763,846     | 797,313       | 4.38%              | 822,173         | 3.12%              |
| Families      | 308,828     | 321,812       | 4.20%              | 329,756         | 2.47%              |
| Housing Units | 847,090     | 886,121       | 4.61%              | 914,503         | 3.20%              |

Source: The Nielsen Company

Claritas estimates the 2016 population for Manhattan at 1,647,786 and projects a small increase by 2021. The number of households in Manhattan is also projected to increase 3.12% between 2016 and 2021 from 797,313 to 822,173. These statistics are reflective of stable, mature market.

**Manhattan Economy and Employment**

The economy of New York City is the biggest regional economy in the United States and is home to the New York Stock Exchange and NASDAQ, the world's largest stock exchanges by market capitalization and trading activity. New York is distinctive for its high concentrations of advanced service sector firms in fields such as law, accountancy, banking, and management consultancy. Likewise, creative industries such as new media, advertising, fashion, design, and architecture account for a growing share of employment, with New York City possessing a strong competitive advantage in these industries.

**Unemployment**

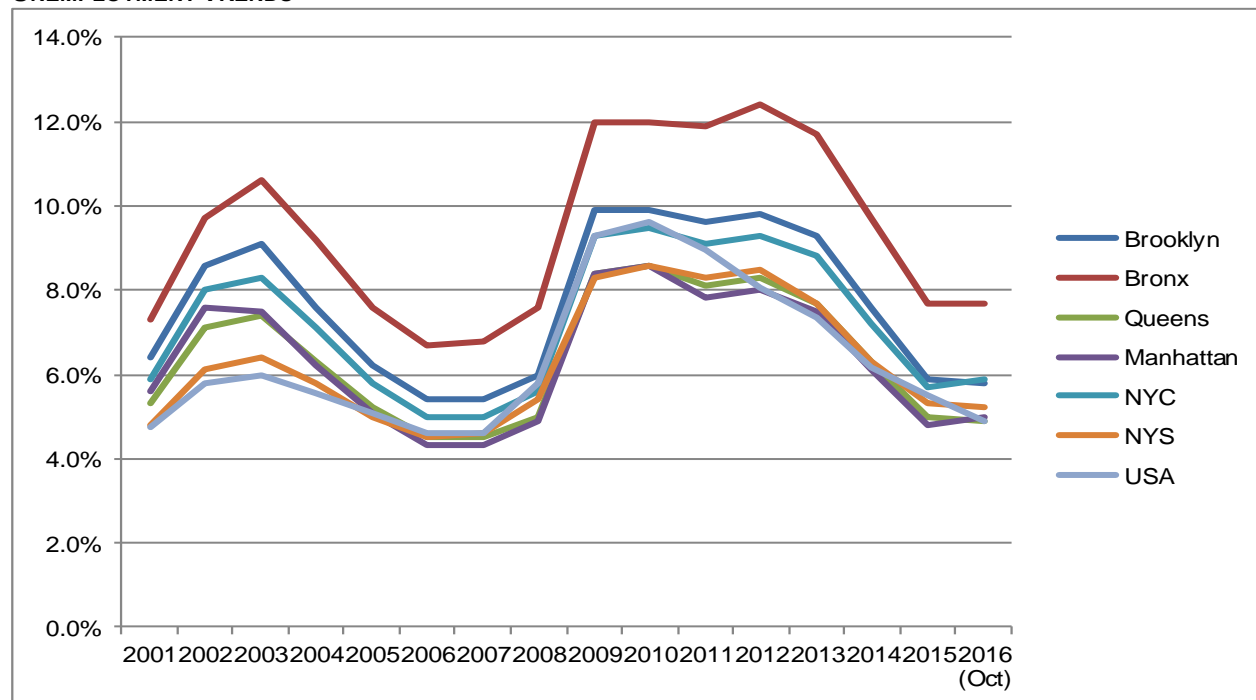
As of October 2016, Manhattan’s unemployment rate was 5% slightly higher the country’s as a whole. These statistics indicate a decrease in unemployment since 2012 as a result of the moderate recovery from the recession. The following table illustrates historical and current unemployment rates:

**UNEMPLOYMENT RATES**

| Year       | Brooklyn | Bronx | Queens | Manhattan | NYC  | NYS  | USA  |
|------------|----------|-------|--------|-----------|------|------|------|
| 2001       | 6.4%     | 7.3%  | 5.3%   | 5.6%      | 5.9% | 4.8% | 4.7% |
| 2002       | 8.6%     | 9.7%  | 7.1%   | 7.6%      | 8.0% | 6.1% | 5.8% |
| 2003       | 9.1%     | 10.6% | 7.4%   | 7.5%      | 8.3% | 6.4% | 6.0% |
| 2004       | 7.6%     | 9.2%  | 6.3%   | 6.2%      | 7.1% | 5.8% | 5.5% |
| 2005       | 6.2%     | 7.6%  | 5.2%   | 5.1%      | 5.8% | 5.0% | 5.1% |
| 2006       | 5.4%     | 6.7%  | 4.5%   | 4.3%      | 5.0% | 4.5% | 4.6% |
| 2007       | 5.4%     | 6.8%  | 4.5%   | 4.3%      | 5.0% | 4.6% | 4.6% |
| 2008       | 6.0%     | 7.6%  | 5.0%   | 4.9%      | 5.6% | 5.4% | 5.8% |
| 2009       | 9.9%     | 12.0% | 8.4%   | 8.4%      | 9.3% | 8.3% | 9.3% |
| 2010       | 9.9%     | 12.0% | 8.6%   | 8.6%      | 9.5% | 8.6% | 9.6% |
| 2011       | 9.6%     | 11.9% | 8.1%   | 7.8%      | 9.1% | 8.3% | 8.9% |
| 2012       | 9.8%     | 12.4% | 8.3%   | 8.0%      | 9.3% | 8.5% | 8.1% |
| 2013       | 9.3%     | 11.7% | 7.7%   | 7.5%      | 8.8% | 7.7% | 7.4% |
| 2014       | 7.6%     | 9.7%  | 6.3%   | 6.1%      | 7.2% | 6.3% | 6.2% |
| 2015       | 5.9%     | 7.7%  | 5.0%   | 4.8%      | 5.7% | 5.3% | 5.5% |
| 2016 (Oct) | 5.8%     | 7.7%  | 4.9%   | 5.0%      | 5.9% | 5.2% | 4.9% |

Source: NYS Department of Labor, Bureau of Labor Statistics

**UNEMPLOYMENT TRENDS**



New York City’s employment base has historically enjoyed the distinction as an international center of business, commerce, tourism, and culture. The FIRE (finance, insurance, and real estate) and services (including the professions of legal, engineering services, consulting, tourism, recreation, health care, computers and data processing) segments are considered the primary sources of “white collar,” or office prone, employment in the region.

**TOP NON-GOVERNMENT EMPLOYERS NEW YORK CITY (EMPLOYEES)**

| Employer                                    | # of Employees Firmwide |
|---------------------------------------------|-------------------------|
| Verizon Communications, Inc. (VZ)           | 177,300                 |
| J.P.Morgan Chase & Co. (JPM)                | 241,359                 |
| International Business Machines Corp. (IBM) | 379,592                 |
| Citigroup Inc. (C)                          | 241,000                 |
| Philip Morris International (PM)            | 82,500                  |
| MetLife Inc. (MET)                          | 68,000                  |
| PepsiCo Inc. (PEP)                          | 271,000                 |
| American International Group Inc. (AIG)     | 65,000                  |
| Prudential Financial Inc. (PRU)             | 48,331                  |
| Pfizer Inc. (PFE)                           | 78,300                  |

Source: Crains Book of Lists 2016

New York City is also the center of media (journalism and publishing), arts, fashion, and design. Businesses in New York City can capitalize on the synergy created from the presence of more than 200,000 companies, the access to investment capital and consumers, and the City’s attractive quality of life. Companies in New York City include headquarters and regional offices of leading world companies including 39 Fortune 500 firms—the highest of any city in the United States—making New York the nation’s headquarters capital

**NYC EMPLOYMENT BY INDUSTRY (000's)**

|                                      | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    | 2013    | 2014    | 2015    | 2016    |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Construction                         | 115.7   | 118.5   | 119.7   | 124.4   | 118.1   | 107.4   | 104.4   | 120.8   | 133.6   | 138.7   | 147.0   |
| Manufacturing                        | 107.1   | 101.0   | 89.1    | 81.8    | 79.9    | 73.3    | 74.2    | 76.0    | 76.5    | 80.4    | 78.8    |
| Trade, Transportation, and Utilities | 550.7   | 576.6   | 562.5   | 578.8   | 556.8   | 584.5   | 584.1   | 593.7   | 622.4   | 624.4   | 629.0   |
| Information                          | 163.1   | 165.9   | 160.1   | 168.8   | 159.3   | 160.6   | 174.8   | 178.6   | 185.1   | 192.9   | 199.0   |
| Financial Activities                 | 453.5   | 467.9   | 430.4   | 456.7   | 434.2   | 434.9   | 444.6   | 434.0   | 450.4   | 457.5   | 467.3   |
| Professional and Business Services   | 564.5   | 591.4   | 578.7   | 600.9   | 583.5   | 606.1   | 639.3   | 639.4   | 672.4   | 709.2   | 718.8   |
| Education and Health Services        | 701.0   | 707.0   | 756.4   | 738.5   | 764.1   | 781.9   | 763.9   | 819.9   | 845.3   | 898.1   | 878.7   |
| Leisure and Hospitality              | 281.7   | 297.0   | 310.8   | 307.0   | 320.5   | 339.3   | 365.9   | 379.6   | 413.6   | 421.0   | 457.6   |
| Other Services                       | 153.3   | 158.1   | 162.3   | 164.0   | 167.0   | 157.5   | 171.1   | 174.1   | 179.8   | 187.7   | 191.2   |
| Government                           | 554.7   | 559.2   | 557.1   | 564.6   | 538.2   | 544.4   | 585.0   | 545.5   | 540.5   | 548.7   | 565.4   |
| Total                                | 3,645.3 | 3,742.6 | 3,717.6 | 3,792.8 | 3,721.6 | 3,789.9 | 3,874.3 | 3,961.6 | 4,119.6 | 4,258.6 | 4,332.8 |

Source: New York State Department of Labor

From 2006 to July 2016, decreases in private employment in the city were seen in only a few of the sectors. There were increases in most sectors, which include Education and Health Services, Professional and Business Services, Trade, Transportation, and Utilities, and Government. The remaining sectors of employment have remained relatively stable.

Office-using employment amounts to approximately 30% of total New York City employment, reflective of the financial and services orientation of the local economy. New York City's prime office inventory is concentrated in Manhattan within the two major submarkets of Downtown and Midtown. Brooklyn's central business district in Downtown Brooklyn is anchored by Brooklyn Borough Hall and MetroTech Center, a 16-acre urban corporate campus. Long Island City in Queens is located across the East River from Midtown Manhattan and has long been a center of manufacturing, distribution, and industrial services.

**MANHATTAN ECONOMY AND EMPLOYMENT**

The economy of New York City is the biggest regional economy in the United States and is home to the New York Stock Exchange and NASDAQ, the world's largest stock exchanges by market capitalization and trading activity. New York is distinctive for its high concentrations of advanced service sector firms in fields such as law, accountancy, banking and management consultancy.

Over the years, manufacturing has accounted for a significant share of employment. Garments, chemicals, metal products, processed foods, and furniture are some of the principal products. The food processing industry is the most stable major manufacturing sector in the city.

Likewise, creative industries such as new media, advertising, fashion, design, and architecture account for a growing share of employment, with New York City possessing a strong competitive advantage in these industries. The following table summarizes the labor force statistics of Manhattan compared to the other boroughs of New York City.

**JULY 2016 LABOR FORCE DATA**

|                                    | Labor Force<br>(000's) | Employed<br>(000's) | Unemployed<br>(000's) | Unemployment<br>Rate |
|------------------------------------|------------------------|---------------------|-----------------------|----------------------|
| Bronx County (Bronx)               | 609.9                  | 562.9               | 47.0                  | 7.7%                 |
| Kings County (Brooklyn)            | 1,229.3                | 1,157.3             | 72.0                  | 5.9%                 |
| <b>New York County (Manhattan)</b> | <b>921.2</b>           | <b>876.8</b>        | <b>44.4</b>           | <b>4.8%</b>          |
| Queens County (Queens)             | 1,168.4                | 1,111.2             | 57.2                  | 4.9%                 |
| Richmond County (Staten Island)    | 223.5                  | 210.4               | 13.1                  | 5.9%                 |
| New York City                      | 4,152.3                | 3,918.5             | 233.8                 | 5.6%                 |

Source: NYS Department of Labor

**New York City Personal Income**

Average household income in New York City increased by 47.3% between 2000 and 2016 from \$57,645 to \$84,883 . This is higher than the 41.5% increase experienced by New York State.

**NYC & STATE HOUSEHOLD INCOME**

|                          | New York City |               | New York State |               |
|--------------------------|---------------|---------------|----------------|---------------|
|                          | 2000 Census   | 2016 Estimate | 2000 Census    | 2016 Estimate |
| Average Household Income | \$57,645      | \$84,883      | \$61,489       | \$86,978      |
| Median Household Income  | \$38,846      | \$54,837      | \$44,138       | \$60,445      |

Source: The Nielsen Company

Manhattan is the most affluent borough in New York City with a 2016 estimated average household income level of \$126,648. The next highest borough in terms of average household income is Staten Island at \$92,238. The following table illustrates per capita income figures for New York City and the various boroughs.

**NYC HOUSEHOLD INCOME**

|                  | Average Household Income<br>2000 | Average Household Income<br>2016 (est) | % Change<br>2000-2016 |
|------------------|----------------------------------|----------------------------------------|-----------------------|
| Bronx            | \$38,885                         | \$49,312                               | 26.81%                |
| Brooklyn         | \$46,279                         | \$74,279                               | 60.50%                |
| <b>Manhattan</b> | <b>\$83,976</b>                  | <b>\$126,648</b>                       | <b>50.81%</b>         |
| Queens           | \$54,663                         | \$77,618                               | 41.99%                |
| Staten Island    | \$67,698                         | \$92,238                               | 36.25%                |
| New York City    | \$57,645                         | \$84,883                               | 47.25%                |

Source: The Nielsen Company, U.S. Census

As evident, Manhattan exhibits the highest average income among the New York City boroughs and is nearly twice the level of the United States overall. Manhattan accounts for nearly 20% of New York State’s total income. The borough is home to nine of the wealthiest big city neighborhoods in the nation, testifying to its affluence. Nearly all of Manhattan’s zip codes below 96th Street have median household incomes well above the national median. The most affluent concentrations of households border Central Park on Manhattan’s West Side between 77th and 91st Streets and on the East Side along Fifth, Park, and Madison Avenues between 60th and 96th Streets. Other affluent pockets include the southern tip of Manhattan at Battery Park City and the communities surrounding Lower Manhattan’s Financial District such as TriBeCa. In contrast, the area north of Central Park, as well as portions of the Lower East Side, is where residents with the lowest median household incomes reside.

## **Culture and Recreation**

New York City offers an unsurpassed variety of cultural activities. New York is a world renowned center of culture, entertainment, and shopping. New York contains hundreds of museums, art galleries, theaters, restaurants, and retail stores.

The City is home to such musical institutions as the New York City Symphony, Carnegie Hall, Lincoln Center, Brooklyn Academy of Music, and Metropolitan Opera and, with its many Broadway and off-Broadway plays and musicals, is the performing arts capital of the world. Several world famous dance troupes are located in New York including the Alvin Ailey Company and Dance Theater of Harlem.

World class museums include the Metropolitan Museum of Art, Museum of Modern Art, The Guggenheim, and Museum of Natural History. Other attractions include the Statue of Liberty, New York Aquarium, Bronx Zoo, Brooklyn Botanical Gardens, Empire State Building, United Nations, New York Stock Exchange, and many others, which draw millions of visitors each year.

New York City has significant parkland including Central Park, an 843-acre oasis in Manhattan; Prospect Park in Brooklyn; and Jamaica Bay National Wildlife Refuge in Queens. New York City has teams in every major professional sport.

## **Educational and Professional Facilities**

New York City has 173 schools of higher education including 21 two-year colleges, 45 four-year colleges, professional schools, law schools, and vocational schools. Manhattan is home to some of the most prominent educational institutions in the nation including Columbia University, New York University, The Juilliard School, and Manhattan School of Music. The CUNY (City University of New York) system offers an affordable education in its 6 community colleges and 11 campuses with 4-year and graduate programs across all 5 boroughs. Notable colleges and universities located outside Manhattan include Pratt Institute in Brooklyn—a well-recognized school of art and architecture; St. John’s University and Queens College in Queens; and Fordham University in the Bronx. New York City also has two of the most highly regarded public high schools in the nation—Stuyvesant and Bronx Science. As in most urban areas, the City’s public primary and secondary education system is considered only fair overall with a wide range in quality of education from district to district.

New York City has 75 short-term general hospitals, many of which are affiliated with local professional universities. World famous research hospitals include NYU-Cornell, Rockefeller, Columbia, and New York Hospital. Other highly ranked hospitals include Memorial Sloan-Kettering Cancer Center, Mount Sinai Hospital, New York Eye and Ear Infirmary, and New York Presbyterian Hospital.

## **Transportation**

New York City is served by the most diverse transportation system in the United States. The region’s transportation network links the area to the regional, national, and global commerce and trade. A brief synopsis of the area’s transportation system follows:

## RAIL SYSTEM

- **NYC Subway System:** a 660-mile subway line servicing approximately 5.0 million passengers on an average weekday and approximately 1.6 billion passengers a year. NYC Transit operates approximately 6,485 cars 24 hours a day throughout Manhattan, Queens, Brooklyn, and the Bronx. The 26 subway routes are interconnected, and many lines feature express trains, across-the-platform transfers to local trains, and "skip-stop" express service.
- **Metro North:** Based in the landmark Grand Central Terminal in Midtown Manhattan, the MTA Metro North Railroad is the second largest commuter line in the United States, providing approximately 270,000 customer trips each weekday and some 80 million trips per year. With 384 route miles and 775 miles of track, Metro North goes to 120 stations distributed in seven counties in New York State--Dutchess, Putnam, Westchester, Bronx, New York (Manhattan), Rockland, and Orange--and two counties in the state of Connecticut--New Haven and Fairfield.
- **Long Island Railroad:** This commuter line runs from the eastern tip of Long Island to Pennsylvania Station in Manhattan and to Atlantic Terminal in Brooklyn. The MTA Long Island Rail Road is the busiest commuter railroad in North America, carrying an average of 288,000 customers each weekday on 728 daily trains. Annual ridership is approximately 82 million persons per year. In 1998, the LIRR completed a 10-year, \$2.1 billion investment in improvements including the transformation of Penn Station into a modern, safe and attractive facility with a new 34th Street entrance.
- **(PATH) Port Authority Trans-Hudson Subway System:** The PATH carries 70% of all passengers entering New York City from New Jersey. Approximately 242,000 commuters use the PATH each weekday. The annual passenger trips for 2007 were 71.6 million.

## BUS SYSTEM

- **New York City Transit:** Regularly scheduled bus service in New York City's five boroughs handles 2.4 million riders daily and 738 million annually. 208 local and 36 express bus routes operate in the five boroughs, covering 2,109 miles.
- **Port Authority Bus Terminal:** Regional bus lines serve approximately 57 million passengers a year, with most service to and from New Jersey.

## AIRPORTS

- **Newark Airport:** The Port Authority of New York and New Jersey has operated Newark Liberty International Airport (EWR) under a lease with the City of Newark since March 22, 1948. EWR is located in Essex and Union Counties between the New Jersey Turnpike (accessible from Exits 13A and 14), U.S. Routes 1 & 9, and I-78. The airport is about 16 miles from Midtown Manhattan. EWR consists of about 2,027 acres.
- **LaGuardia Airport:** LaGuardia Airport (LGA) has been operated by The Port Authority of New York and New Jersey under a lease with the City of New York since June 1, 1947. LGA consists of 680 acres and 72 aircraft gates. By the end of 2000, the combined Port Authority and airline investment for LaGuardia's Redevelopment Program was \$830 million. The redevelopment program includes expanding and modernizing the Central Terminal Building,

reconfiguring and widening roadways, improving runways and taxiways, a passenger terminal in the east end, airline modernization of gate areas and passenger service areas, and other rehabilitation projects.

· **John F. Kennedy Airport:** John F. Kennedy International Airport (JFK) is operated by The Port Authority of New York and New Jersey under a lease with the City of New York since June 1, 1947. JFK is located in the southeastern section of Queens County, New York City, on Jamaica Bay. It is 15 miles by highway from midtown Manhattan. JFK consists of 4,930 acres, including 880 acres in the Central Terminal Area (CTA). The airport has more than 30 miles of roadway.

## Outlook

Pushing the limits is a good description of New York City as a whole, as housing prices soar, the infrastructure becomes less reliable, and young people begin to plan their lives elsewhere. Moody's Economy.com predicts two more years of strong employment growth, with gains of 94,990 jobs (2.3%) in 2015 and 91,760 (2.1%) in 2016. Employment growth is forecast to sputter to a halt by 2019. The pace of population growth is expected to fall to about the Northeast average starting in 2016.

## HOTEL MARKET ANALYSIS

In projecting rates and occupancy based on the subject's use as a hotel property, we have utilized current market information on the Manhattan lodging market. The following information is abstracted from PriceWaterhouseCoopers 3<sup>rd</sup> Quarter 2016 Manhattan Lodging Index.

Despite tepid growth in occupancy, revenue per available room ("RevPAR") declined 3.1% in the third quarter, as a lack of pricing power continued to weigh on the performance of Manhattan hotels. Declines in average daily rate ("ADR") accelerated throughout the third quarter, more than offsetting marginal growth in occupancy. Persistent headwinds, including the weakness in corporate transient demand and a strong US dollar, in addition to a significant increase in supply, have continued to weigh negatively on hotel performance in Manhattan. Overall, a 0.3% increase in occupancy was offset by a 3.4% decrease in ADR, resulting in a 3.1% decline in RevPAR.

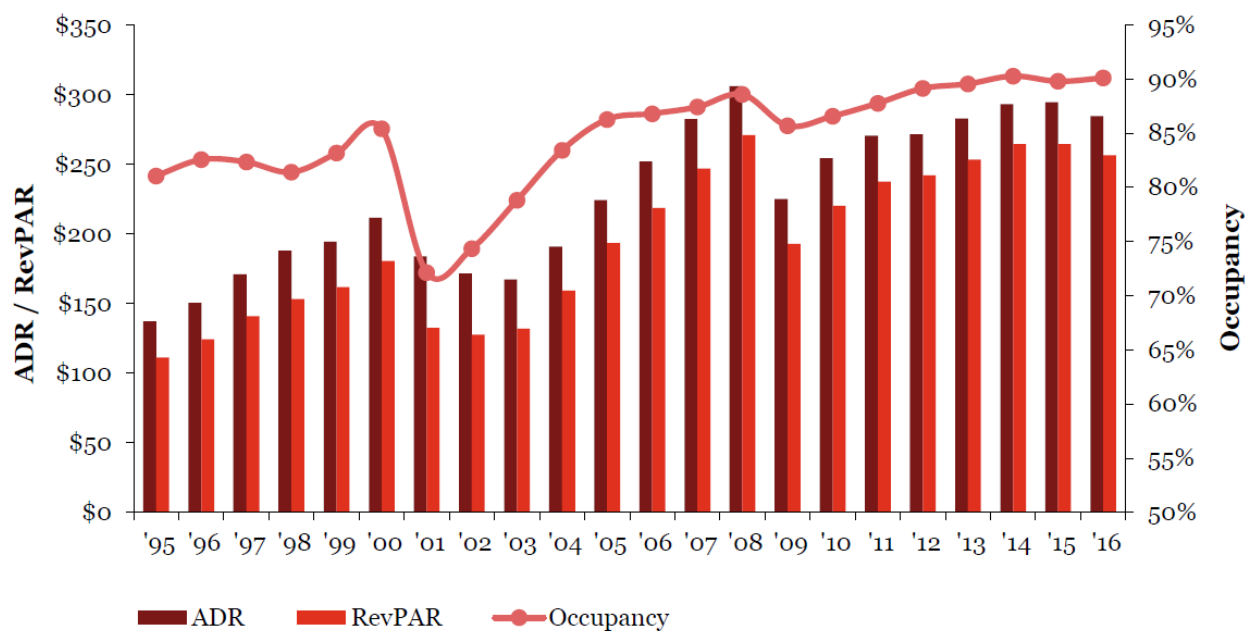
On a year-to-date basis, RevPAR at Manhattan hotels has declined 3.5%. Lower-priced hotels in the Upscale and Upper Midscale classes were better able to grow occupancy levels during the quarter, resulting in their outperformance relative to higher-priced hotels in the Luxury and Upper Upscale segments. In the Upper Midscale segment, a 2.3 percent increase in occupancy was offset by a 2.7% decrease in ADR, resulting in a 0.4% decline in RevPAR. Upscale hotels also experienced an increase in occupancy of 1.9%, but a 4.1% decrease in ADR resulted in a 2.3% decline in RevPAR. Pricing power continued to be a significant headwind, as ADR declined in every month across classes.

Lodging performance throughout the five Manhattan submarkets was largely mixed. Midtown East continued to underperform the remaining submarkets, as a 5.5% decline in occupancy, coupled with a 5.2% decline in ADR, resulted in a 10.4% decrease in RevPAR for the quarter. Upper Manhattan continued to outperform the other submarkets, with a 3.1% increase in occupancy, combined with a 0.8% decline in ADR, resulting in a RevPAR increase of 2.3%; the only submarket to have RevPAR growth for the quarter. On a year-to-date basis, Midtown East continues to significantly underperform the remaining submarkets, with RevPAR declining 8.2% through the first nine months of the year.

Conversely, Upper Manhattan is the only submarket to achieve growth in RevPAR over this same time period, albeit modest at 0.7%. ADR levels declined for both full-service and limited-service hotels during the third quarter, resulting in RevPAR declines of 3.6% and 1.1%, respectively. Limited-service hotels had better year-over-year quarterly changes relative to their full-service peers in both occupancy and ADR, resulting in a tempered 1.1 percent decline in RevPAR. For the first nine months of 2016, RevPAR declined 3.6% for full-service hotels and 3% for limited-service hotels.

Independent hotels continued to outperform chain-affiliated hotels throughout the third quarter. A 2.1% increase in occupancy levels was partially offset by a 1.1% decline in ADR, resulting in a RevPAR increase of 1.0%. Chain-affiliated hotels experienced declines in both occupancy and ADR, resulting in a 5.4% decrease in RevPAR for the same period. On a year-to-date basis, independent hotels have largely outperformed chain-affiliated hotels. RevPAR levels for independent hotels were flat, while RevPAR for chain-affiliated hotels declined 5.4%.

### Manhattan Q3 Performance, 22-Year Trend



Source: PwC, based on STR data

### RECENT HOTEL TRANSACTIONS

Five hotel transactions occurred in the second quarter and 4 hotels sold in the third quarter, ranging in price from approximately \$359,000 to approximately \$1,200,000 per key. These transactions are displayed in the following table:

| Transaction Date           | Hotel Name                                       | Rooms | Transaction Price | Price Per Room |
|----------------------------|--------------------------------------------------|-------|-------------------|----------------|
| Jul-16                     | Hilton Homewood Suites                           | 292   | \$ 168,050,000    | \$ 575,514     |
| Jul-16                     | Hilton Garden Inn Chelsea                        | 169   | \$ 65,000,000     | \$ 384,615     |
| Aug-16                     | Club Quarters Hotel, Midtown                     | 167   | \$ 60,000,000*    | \$ 359,281     |
| Aug-16                     | Club Quarters Hotel, Opposite Rockefeller Center | 230   | \$ 95,000,000*    | \$ 413,043     |
| * Allocated property price |                                                  |       |                   |                |
| Jun-16                     | NYLO New York City                               | 282   | \$140,000,000     | \$496,454      |
| Jun-16                     | Andaz 5 <sup>th</sup> Avenue                     | 184   | \$215,200,000     | \$1,169,565    |
| Jun-16                     | 70 Park Avenue                                   | 205   | \$79,000,000      | \$385,366      |
| May-16                     | Chelsea Pines Inn                                | 23    | \$13,750,000      | \$597,826      |
| Apr-16                     | 11 Howard                                        | 221   | \$170,000,000     | \$769,231      |

Source: Real Capital Analytics

**RECENT AND PLANNED HOTEL OPENINGS/CLOSINGS**

9 hotels opened recently in Manhattan. The 140-room AKA Wall Street opened in June, and the Beekman, a 287-room property from Thompson Hotels opened in August. In September, the 96-room Bernice Hotel, the 185-room Four Seasons Hotel New York Downtown, and the 325-room Arlo Hudson Square opened. In October, the 226-room Fairfield Inn & Suites New York Manhattan/Central Park opened. The 250-room Arlo NoMad, the 317-room Courtyard by Marriott New York Downtown Manhattan/World Trade Center Area and the 230-room EVEN Hotel Grand Central all opened in November.

Based on the subject's projected branding and excellent location, we expect the subject will compete favorably in the market. Furthermore, due to the high price of land in 2016, we expect a slowdown in construction in the upcoming years. We do not expect many new hotels to be delivered in 2019-2020. The tables on the following pages summarize hotels projected to come online in 2017.

2017

| Property                                        | Location                    | Neighborhood      | Owner/Developer                   | Anticipated Opening/Closing | Rooms   |
|-------------------------------------------------|-----------------------------|-------------------|-----------------------------------|-----------------------------|---------|
| Carnegie Hotel                                  | 160 W 56th St               | Times Square Area | Carnegie Towers LLC               | Jan-17                      | 63      |
| Luma Hotel Times Square                         | 120 W 41st St               | Times Square Area | Stanford Hotels Corporation       | Jan-17                      | 130     |
| SLS Hotel                                       | 444 Park Ave S              | Midtown South     | 444 Park Avenue Associates        | Jan-17                      | 190     |
| DoubleTree by Hilton New York Times Square West | 350 W 40th St               | Times Square Area | 710 Third Partners LLC            | Feb-17                      | 612     |
| Hotel 50 Bowery NYC                             | 50 Bowery                   | Lower Manhattan   | Bower Holdings LLC                | Mar-17                      | 229     |
| Waldorf Astoria New York                        | 301 Park Ave                | Times Square Area | Anbang Insurance Group            | Mar-17                      | (1,413) |
| Whitby Hotel                                    | 18-20 W 56 <sup>th</sup> St | Times Square Area | Firmdale Hotels                   | Mar-17                      | 86      |
| Public Hotel & Condominiums                     | 215 Chrystie St             | Lower Manhattan   | Chrystie Land Associates LLC      | Mar-17                      | 370     |
| Unnamed Hotel                                   | 310 W 40th St               | Times Square Area | 310 Group LLC                     | Mar-17                      | 287     |
| Crowne Plaza                                    | 320 W 36th St               | Times Square Area | Landmark Realty LLC & Run 78 LLC  | Mar-17                      | 249     |
| Embassy Suites                                  | 60 W 37th St                | Times Square Area | Hidroock Realty Inc.              | Apr-17                      | 313     |
| Fairfield Inn & Suites by Marriott              | 100 Greenwich St            | Lower Manhattan   | Sun Moon New York LLC             | Apr-17                      | 192     |
| The Arzen Hotel                                 | 24 John St                  | Lower Manhattan   | Westbury Realty Associates LLC    | May-17                      | 89      |
| Times Square EDITION                            | 701 7th Ave                 | Times Square Area | Ian Schrager Company              | May-17                      | 452     |
| The Bryant                                      | 20 W 40th St                | Times Square Area | 20 W 40 Bryant Park Owner LLC     | Jun-17                      | 230     |
| Hotel Indigo NYC Financial District             | 10 Maiden Lane              | Lower Manhattan   | 10-12 MLane LLC                   | Jun-17                      | 192     |
| CitizenM on Bowery                              | 185 Bowery                  | Lower Manhattan   | OSIB-BCRE                         | Jun-17                      | 300     |
| TownePlace Suites                               | 326 W 44th St               | Times Square Area | M&R Hotel Management              | Jun-17                      | 112     |
| Hilton Garden Inn Financial Center              | 6 Water St                  | Lower Manhattan   | Magna Hospitality                 | Jun-17                      | 249     |
| Courtyard by Marriott                           | 461 W 34th St               | Lower Manhattan   | 34-10 Development LLC             | Jun-17                      | 399     |
| Renaissance Hotel                               | 233 - 237 W 125th St        | Uptown            | Danforth Development Partners LLC | Jun-17                      | 210     |
| Unnamed Hotel                                   | 44 W 29th St                | Lower Manhattan   | Devli Properties Inc              | Jun-17                      | 109     |
| Residence Inn by Marriott                       | 215 Pearl St                | Lower Manhattan   | The Lam Group                     | Jun-17                      | 120     |
| Courtyard by Marriott                           | 215 Pearl St                | Lower Manhattan   | The Lam Group                     | Jun-17                      | 200     |
| Assemblage Extended Stay Hotel                  | 17 John St                  | Lower Manhattan   | 17 John Street Property Owner LLC | Jun-17                      | 106     |
| Pod Hotel                                       | 577 9th Ave                 | Times Square Area | 400 Times Square Associates LLC   | Jun-17                      | 527     |
| Restoration Hardware Hotel                      | 55 Gansevoort               | Lower Manhattan   | Delshah Capital                   | Jun-17                      | 14      |
| Pestana Hotel                                   | 338 W 39th St               | Times Square Area | CBCS 39 LLC                       | Jun-17                      | 176     |
| Moxy – Times Square South                       | 485 Fashion Ave             | Times Square Area | 485 7th Avenue Associates LLC     | Jun-17                      | 618     |
| aloft Manhattan                                 | 50 Trinity Place            | Lower Manhattan   | Fit Investment Corporation        | Jun-17                      | 173     |
| Marriott Hotel                                  | 151 Maiden Lane             | Lower Manhattan   | 151 Maiden Lane LLC               | Jul-17                      | 271     |
| Unnamed Hotel                                   | 16 E 39th St                | Times Square Area | M&R Hotel Management              | Jul-17                      | 180     |
| Hilton Garden Inn                               | 326 W 37th St               | Times Square Area | Bridgeton LLC                     | Aug-17                      | 252     |
| Walker Hotel Tribeca                            | 396 Broadway                | Lower Manhattan   | Bridgeton Holdings                | Nov-17                      | 170     |

2017 (continued)

| Property                        | Location     | Neighborhood      | Owner/Developer                   | Anticipated Opening/Closing | Rooms |
|---------------------------------|--------------|-------------------|-----------------------------------|-----------------------------|-------|
| aloft New York Midtown          | 25 W 38th St | Times Square Area | Fortuna Fifth Ave LLC             | Dec-17                      | 175   |
| Battery Maritime Building Hotel | 10 South St  | Lower Manhattan   | Dermot BMB LLC c/o Dermot Co Inc. | Dec-17                      | 61    |
| Prime Hotel                     | 17 W 24th St | Lower Manhattan   | Prime Hotel Management LLC        | Dec-17                      | 68    |
| aloft Midtown                   | 44 W 30th St | Lower Manhattan   | The Lam Group                     | Dec-17                      | 200   |

Manhattan Market Data

The following tables summarize current occupancy, ADR, and RevPAR for Manhattan hotels. YTD for all of Manhattan, the average occupancy, ADR, and RevPAR was 86%, \$265, and \$228 respectively as of September 2016. The occupancy increased 0.2% since the prior year. ADR decreased 3.7% since the prior year. RevPAR decreased 3.5% since the prior year.

All Manhattan

|                     | Occupancy          |       |       |       | ADR                |          |          |          | RevPAR             |          |          |          | September YTD      |          |          |
|---------------------|--------------------|-------|-------|-------|--------------------|----------|----------|----------|--------------------|----------|----------|----------|--------------------|----------|----------|
|                     | July               | Aug   | Sep   | 3Q    | July               | Aug      | Sep      | 3Q       | July               | Aug      | Sep      | 3Q       | Occ.               | ADR      | RevPAR   |
| 2015 Market Average | 90.2%              | 88.8% | 90.4% | 89.8% | \$261.51           | \$255.32 | \$368.25 | \$294.62 | \$235.87           | \$226.77 | \$332.91 | \$264.56 | 85.8%              | \$275.61 | \$236.39 |
| 2016 Market Average | 89.8%              | 89.5% | 91.0% | 90.1% | \$256.44           | \$247.29 | \$350.29 | \$284.48 | \$230.40           | \$221.21 | \$318.86 | \$256.32 | 86.0%              | \$265.41 | \$228.16 |
|                     | % Change from 2015 |       |       |       | % Change from 2015 |          |          |          | % Change from 2015 |          |          |          | % Change from 2015 |          |          |
| Market Average      | -0.4%              | 0.7%  | 0.7%  | 0.3%  | -1.9%              | -3.1%    | -4.9%    | -3.4%    | -2.3%              | -2.5%    | -4.2%    | -3.1%    | 0.2%               | -3.7%    | -3.5%    |

By Class

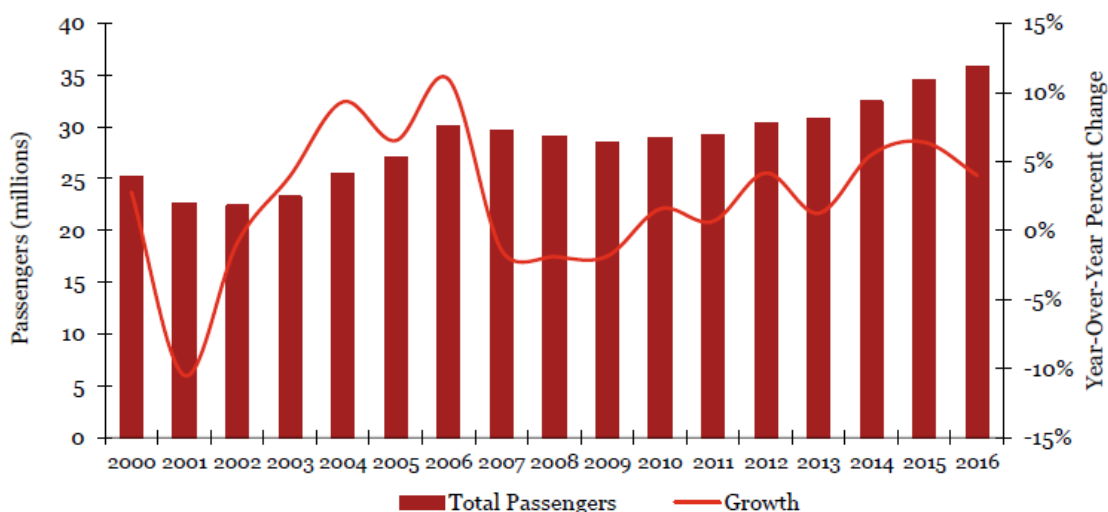
|                       | Occupancy          |       |       |       | ADR                |          |          |          | RevPAR             |          |          |          | September YTD      |          |          |
|-----------------------|--------------------|-------|-------|-------|--------------------|----------|----------|----------|--------------------|----------|----------|----------|--------------------|----------|----------|
|                       | July               | Aug   | Sep   | 3Q    | July               | Aug      | Sep      | 3Q       | July               | Aug      | Sep      | 3Q       | Occ.               | ADR      | RevPAR   |
| Luxury - 2015         | 82.9%              | 80.5% | 85.5% | 82.9% | \$397.59           | \$386.15 | \$592.04 | \$459.72 | \$329.58           | \$310.91 | \$506.02 | \$381.28 | 79.5%              | \$436.39 | \$346.91 |
| Luxury - 2016         | 81.5%              | 80.8% | 84.4% | 82.2% | \$397.27           | \$383.16 | \$562.17 | \$448.81 | \$323.85           | \$309.66 | \$474.51 | \$369.11 | 79.1%              | \$426.15 | \$337.09 |
| Upper Upscale - 2015  | 91.5%              | 89.8% | 91.2% | 90.8% | \$264.33           | \$260.11 | \$363.16 | \$295.39 | \$241.98           | \$233.65 | \$331.15 | \$268.35 | 86.7%              | \$280.12 | \$242.78 |
| Upper Upscale - 2016  | 90.0%              | 89.5% | 90.8% | 90.1% | \$257.83           | \$248.54 | \$346.83 | \$284.20 | \$231.93           | \$222.42 | \$314.83 | \$255.98 | 85.9%              | \$268.67 | \$230.66 |
| Upscale - 2015        | 92.7%              | 91.2% | 90.6% | 91.5% | \$229.38           | \$222.60 | \$309.39 | \$253.03 | \$212.62           | \$203.08 | \$280.27 | \$231.54 | 88.4%              | \$232.54 | \$205.67 |
| Upscale - 2016        | 93.2%              | 92.8% | 93.8% | 93.2% | \$222.00           | \$213.50 | \$293.85 | \$242.73 | \$206.81           | \$198.06 | \$275.71 | \$226.33 | 89.3%              | \$223.14 | \$199.34 |
| Upper Midscale - 2015 | 91.5%              | 91.9% | 93.7% | 92.4% | \$198.62           | \$194.05 | \$273.64 | \$221.93 | \$181.77           | \$178.35 | \$256.31 | \$204.95 | 87.2%              | \$202.15 | \$176.24 |
| Upper Midscale - 2016 | 94.3%              | 94.3% | 94.9% | 94.5% | \$196.20           | \$189.44 | \$263.38 | \$215.93 | \$185.05           | \$178.66 | \$249.90 | \$204.06 | 89.4%              | \$194.67 | \$173.99 |
|                       | % Change from 2015 |       |       |       | % Change from 2015 |          |          |          | % Change from 2015 |          |          |          | % Change from 2015 |          |          |
| Luxury                | -1.7%              | 0.4%  | -1.2% | -0.8% | -0.1%              | -0.8%    | -5.0%    | -2.4%    | -1.7%              | -0.4%    | -6.2%    | -3.2%    | -0.5%              | -2.3%    | -2.8%    |
| Upper Upscale         | -1.7%              | -0.4% | -0.4% | -0.9% | -2.5%              | -4.4%    | -4.5%    | -3.8%    | -4.2%              | -4.8%    | -4.9%    | -4.6%    | -0.9%              | -4.1%    | -5.0%    |
| Upscale               | 0.5%               | 1.7%  | 3.6%  | 1.9%  | -3.2%              | -4.1%    | -5.0%    | -4.1%    | -2.7%              | -2.5%    | -1.6%    | -2.3%    | 1.0%               | -4.0%    | -3.1%    |
| Upper Midscale        | 3.1%               | 2.6%  | 1.3%  | 2.3%  | -1.2%              | -2.4%    | -3.7%    | -2.7%    | 1.8%               | 0.2%     | -2.5%    | -0.4%    | 2.5%               | -3.7%    | -1.3%    |

## AIR TRAFFIC

Air traffic levels in the third quarter of 2016 increased approximately 4.0 percent from year-ago levels. The three major New York metropolitan airports - Newark Liberty International Airport, LaGuardia International Airport and John F. Kennedy International Airport - combined to serve approximately 35.8 million passengers during the third quarter of 2016, up approximately 1.4 million from the same period a year ago. International passenger traffic increased approximately 3.8 percent to a level of approximately 13.4 million passengers, compared to approximately 12.9 million during the same period last year.

The following chart displays passenger traffic and growth data for the third quarter over the past seventeen years.

**Q3 2016 Passenger Traffic**



Source: Port Authority of New York and New Jersey

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## MANHATTAN HOTEL MARKET OVERVIEW

The following Manhattan lodging overview is abstracted from a presentation prepared by HVS for the NYU Hospitality Conference in June 2016.

### Summary

With a population of over 18 million, the New York metropolitan area is one of the largest urban areas in the world and the largest in the United States. Despite the loss of the World Trade Center buildings, New York has remained at the core of national and international financial dealings and has continued as the global center of corporate headquarters in finance and services, media, entertainment and telecommunications, manufacturing, and trade. The New York City hotel market remains one of the top-performing in the nation, although 2015 was the first year in which market-wide RevPAR performance declined since 2009. Similarly, to 2014, the market reacted to ongoing supply increases by maintaining occupancy levels and foregoing average rate growth. Demand grew by over 3%, with occupancy remaining in the mid-80s despite continuous growth in supply; this trend speaks to the strong demand fundamentals of New York City and the market's historical ability to absorb new openings. However, the impact of significant supply increases over the last few years was reflected by a -1.6% decline in market-wide average rate over that attained in 2014. The perception of increased competition by operators in the market has hindered the ability to achieve rate premiums, particularly in times of compression in the market.

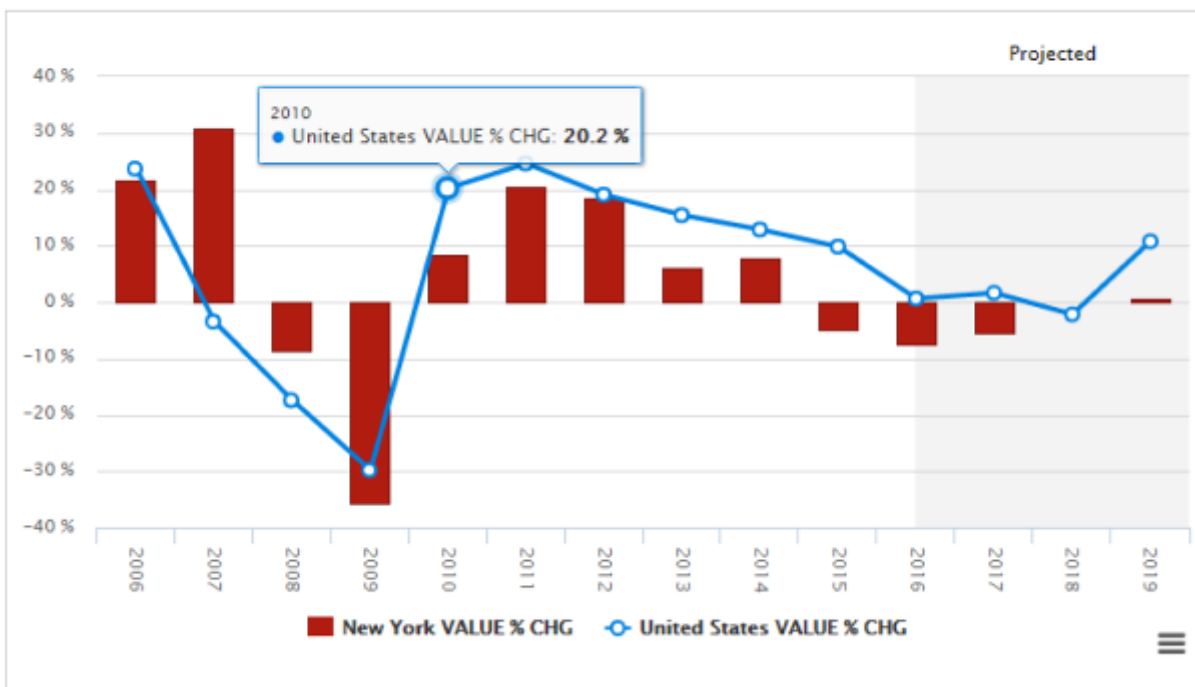
We anticipate that the strong demand typical of New York City will likely persist, despite strong supply growth into 2018; occupancy is expected to remain in the mid-80% range. Average rates, which have been more directly affected by market-wide supply trends, are expected to decline further through 2016 and cause RevPAR to decline, as well. By 2017, we forecast minimal RevPAR growth, fueled by a rebound in average rates. After 2018, supply growth should taper; thus, the market's ability to improve RevPAR gains is likely to improve. As of year-end 2015, RevPAR was still 2% lower than the 2008 peak level. We forecast that RevPAR will return to its previous peak level by 2019.

Transaction activity remains strong in Manhattan, with buyers competing heavily for assets, and sellers seeking to maximize their investment gains. High investor interest, particularly from Asia and the Middle East, continues to put downward pressure on capitalization rates, driving hotel values to peak levels. In 2015, transactions of stabilized assets realized capitalization rates around 5%, with capitalization rates on luxury assets as low as 3%. As Manhattan is viewed as the nation's top gateway city, hotel investors from all over the world consider it to be an essential and low-risk market for their portfolio. Transaction activity is expected to remain high over the next couple of years due to increased interest from investors and the increasing availability of assets for sale.

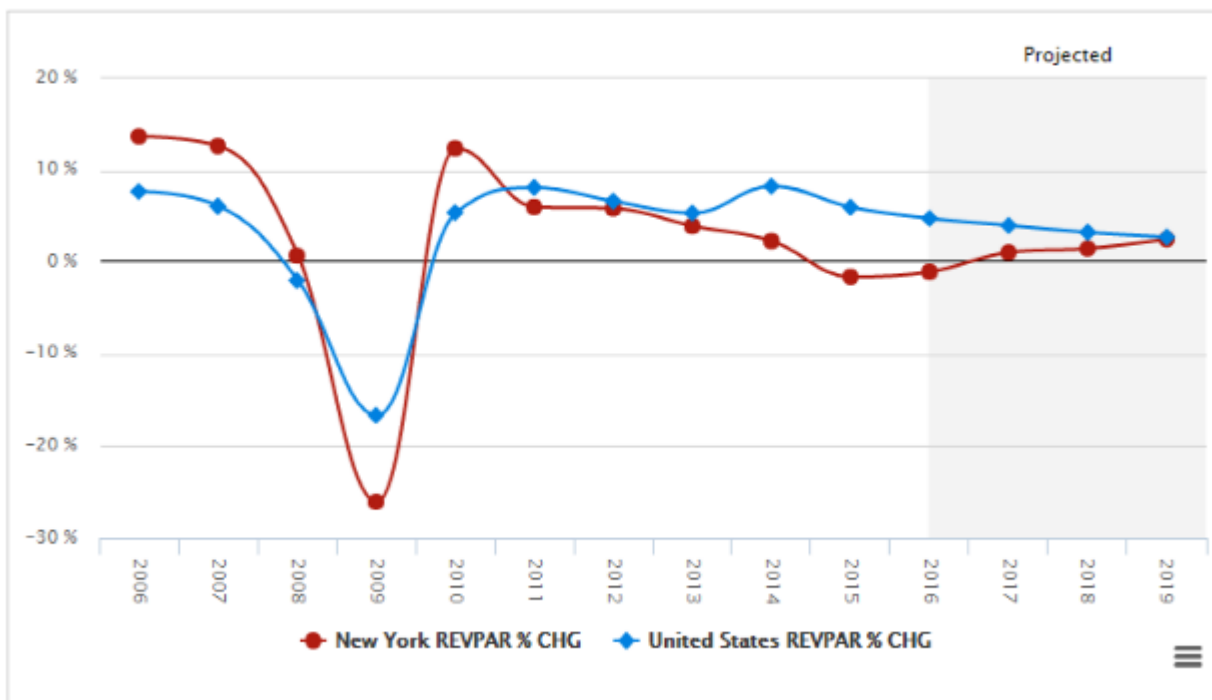
Hotel values declined moderately in 2015, primarily a result of average rate losses. We anticipate that the value of New York City hotels will continue to depreciate in 2016 and 2017, albeit to a lesser extent, as average rate and RevPAR continue to decline. As previously mentioned, by 2018, the supply pipeline should thin out somewhat, which will allow for a rebound in performance and help to boost values. A full rebound in growth is forecast by 2019. With a few

exceptions, hotels in New York City are priced above replacement cost. Manhattan remains the top hotel investment market in the U.S. and one of the most attractive in the world.

**Change In Value For Market:**



**New York RevPar % Change**



Source: HVS

The following information is abstracted from a hotel market overview prepared by Ten X dated November 2016.

New York City’s economy continues to grow to astounding heights, though the pace of growth has slowed through 2016. Metro employment grew 2.2% year over year, cooling slightly from the mid 2% to mid 3% range seen in 2015, though employment has exploded to a level 14% higher than its pre-recession peak. The most obvious deceleration is evident in the metro’s professional/business service sector, which saw payrolls increase inly 1.8% from a year ago amid job losses in 4 of the past 6 months. Financial services employment has been rocky as well, as job losses have caused employment to decline 0.2% from a year ago. New York’s education/healthcare services sector has been steadfast though, with payrolls still growing in the 3-4% range this year. Unemployment has jumped significantly, rising 100 bps to the low 6% range, higher than the US overall. Population growth came in slightly behind the US pace in 2015 at 0.7% but given the size and maturity of the market, it will not challenge NYC’s growth prospects.

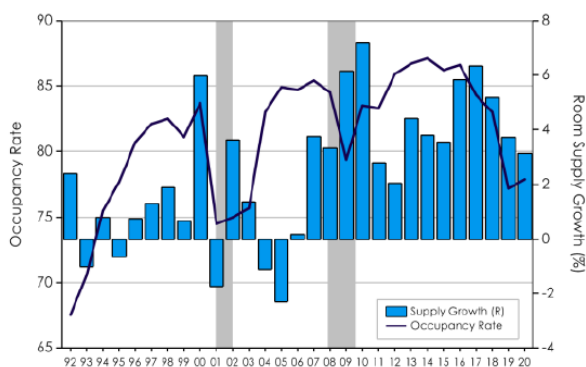


### LEISURE/HOSPITALITY EMPLOYMENT

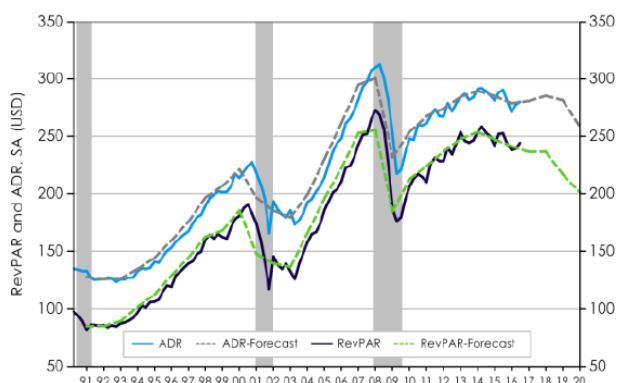


New York City hotel fundamentals continue to buckle under the pressure of supply additions. Room supply has increased 5% from a year ago, and demand is barely managing to keep pace with 5.2% overall gains year over year. This has left occupancies up 30 bps from a year ago at 86.7%, per STR. Room rates grew in the quarter but remain down substantially from a year ago, and RevPAR continues to decline on a year over year basis as well. Traditional supply additions are poised to continue at a robust pace in the coming years, and the shadow supply of Airbnb lingers as well, despite a recent New York State bill aimed to curb illegal listings.

### OCCUPANCIES AND SUPPLY GROWTH



### REVPAR AND ADRS



HOTEL OPERATING FUNDAMENTALS FORECAST

|                        | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     | 2020     |
|------------------------|----------|----------|----------|----------|----------|----------|----------|
| Room Supply            | 87,945   | 91,051   | 96,351   | 102,451  | 107,751  | 111,751  | 115,251  |
| Additions              | 3,216    | 3,106    | 5,300    | 6,100    | 5,300    | 4,000    | 3,500    |
| Occupancy              | 87.1%    | 86.2%    | 86.6%    | 84.3%    | 83.0%    | 77.2%    | 77.9%    |
| Room Rate              | \$289.57 | \$284.99 | \$278.72 | \$280.67 | \$285.16 | \$281.45 | \$258.66 |
| RevPar                 | \$253.73 | \$247.31 | \$241.29 | \$236.51 | \$236.70 | \$217.15 | \$201.43 |
| RevPar Growth          | 2.4%     | -2.5%    | -2.4%    | -2.0%    | 0.1%     | -8.3%    | -7.2%    |
| Value Index (% Change) | 10.2%    | -1.2%    | 4.4%     | 0.3%     | -2.2%    | -27.5%   | -6.9%    |

Sources: STR, Ten-X Research forecasts

LODGING STATISTICS

|                                 | US               |                  |         | New York City  |                  |         |
|---------------------------------|------------------|------------------|---------|----------------|------------------|---------|
|                                 | 3Q16             | 2Q16             | Change  | 3Q16           | 2Q16             | Change  |
| Hotel Cap Rate                  | 8.5%             | 8.5%             | 4 bps   | 5.8%           | 5.7%             | 6 bps   |
| Hotel Deal Volume               | \$ 7,608,122,129 | \$ 7,135,505,232 | 6.6%    | \$ 540,932,727 | \$ 1,715,100,000 | -68.5%  |
| Hotel \$/Key                    | \$ 150,840       | \$ 153,165       | -1.5%   | \$ 452,273     | \$ 455,656       | -0.7%   |
| Occupancy Rate (SA)             | 65.3%            | 65.5%            | -15 bps | 86.7%          | 85.3%            | 136 bps |
| Average Daily Rate (SA)         | \$ 125.07        | \$ 123.53        | 1.2%    | \$ 280.00      | \$ 277.29        | 1.0%    |
| Revenue Per Available Room (SA) | \$ 81.72         | \$ 80.94         | 1.0%    | \$ 244.18      | \$ 239.09        | 2.1%    |

Sources: STR, Ten-X Research forecasts

## **LOCAL HOTEL MARKET ANALYSIS**

The purpose of this section is to link the general market to the subject property and the specific market in which it competes. As a major metropolitan area, New York City draws visitors nationally and internationally from business, leisure and group travel sectors.

We will begin our analysis by comparing the subject to the competitive set primarily in terms of physical and locational attributes. In doing so, we will identify the market in which the property competes. Next, we will examine historical occupancy and room rate trends, as well as the factors which will influence the continuation of such. In this analysis, we have relied on secondary data provided by Smith Travel Research, a prominent company which tracks hotel demand factors.

## **SUBJECT PROPERTY PRODUCTIVITY ANALYSIS**

The subject is a 25-story, 264 room hotel. It was completed in 2011 and was part of the Morgan's Hotel Group until March 2015. Now it is part of NoMo.

### **Property Rating**

In order to assess the subject's strengths and weaknesses with regard to the marketability, we have analyzed the subject in comparison to its competition in terms of its site characteristics and location. In addition, we studied the proposed physical attributes such as building design and construction, as well as non-physical items such as amenities and brand positioning. We should note that the project is compared to full service boutique hotels.

### **Market Standards**

To determine the market standard, we researched the amenities and services offered by the competitive set; we detail the amenities of each later in the Supply Analysis. Nearly all sectors include a small refrigerator, hair dryer, toiletries, phone, television, and Wi-Fi/internet access.

Although the specifics offerings vary, there are common items that most consumers have come to expect. Consumers who choose boutique brands expect unique, high design, trendy restaurants, high quality bath products and linens, and technology connectivity. The general tone in a boutique is intended to be intimate and personal, whereby the staff is highly trained offering consistent service.

As the moniker indicates, full-service hotels offer a wide variety of services and amenities to travelers. With commonly recognized flags, most appeal to a broad range of travelling segments, with features to satisfy the demands of business, groups, and leisure categories. While a mid-scale product will offer a small fitness center, a full-service hotelier provides a wide array of equipment, a pool, plus a spa. This comparison is consistent across nearly all offerings, from the range of services provided by the concierge, to valet parking and casual to formal dining options.

## **Competitive Position of the Subject Property**

With the new renovations and art, the subject building is above average and will appeal to the boutique traveler seeking a high end design hotel. Thus, if priced appropriately, we anticipate that the subject should capture at least its fair share of market demand in this segment. The bar/restaurant lounge component will also be a draw and considerable income producing factor.

## **Physical Elements**

The exterior design, appearance and quality of construction of the subject will appeal towards the high end of the market. Completed in 2011, the project, and FF&E are in excellent condition. The lobby, restaurant, and common areas received an upgrade in 2016, with new art, which makes the hotel look fresh and trendy.

In terms of room size, the average space is similar to the competitive set. The guest rooms are bright and modern, with floor to ceiling windows and excellent views.

In terms of unit-amenities, the subject competes favorably. To this end, guest rooms feature Flat-screen TVs, iPod docking stations, high quality linens and bath products, and wireless internet service. Ownership plans to install iPads in all rooms which will control the lights, shades, etc., and an Amazon Echo for guests to communicate with building staff.

Outside the guest suites to the common areas, travelers will also be pleased to find a consistent modern decor, with trendy design features including a well regarded restaurant and 2 popular bars as well as several terraces and common spaces for congregating. While we expect most guest will arrive via public transportation, the lack of on-site parking is a slight deficiency, but compensated by the fact that there are numerous parking facilities nearby.

## **General Location**

The subject site is located on Crosby and Lafayette Streets in Soho. In terms of the macro market in New York City, Soho is a well-regarded neighborhood known for its trendy shops and restaurants. Guests will find that Soho has many amenities and cultural institutions within easy walking distance. Thus, as a Boutique hotel, the site is almost ideal to support guests who travel for a variety of purposes.

## **Site Linkages**

The lynchpin to the success of marketing in Manhattan is easy access to transportation links. In this regard, the subject site is extremely well positioned, with 8 subway lines within several blocks of the parcel. In terms of auto transport, East Houston is a link to the FDR Drive and West Side Highway, which links the subject neighborhood to Brooklyn to the east and New Jersey to the west.

**CONCLUSION**

As a Boutique hotel, the subject competes favorably in the overall market, and draws attraction based on its high design, excellent condition, amenities, and proximity to transport.

**PERFORMANCE**

A research survey by HVS, a leading hotel information provider, indicates that Manhattan hoteliers are confident that the market will continue to be strong despite a temporary dip in RevPAR due to an increase in supply. To develop a forecast of occupancy and room rates, we have examined the historical interaction of supply and demand of the competitive set, in conjunction with the expected performance of the macro market reported by Smith Travel Research. The forecast accounts for any unexpected market weakness that could occur as a result of a myriad of factors, the primary of which is new supply. In this regard it is likely that continued success will spur other developments, further fueling competition. Furthermore, a slowdown of market expansion including ADRs and occupancy could alter the operating environment significantly. It is our view that investors in lodging properties are generally aware of these trends, and will advance forecasts with consideration of such.

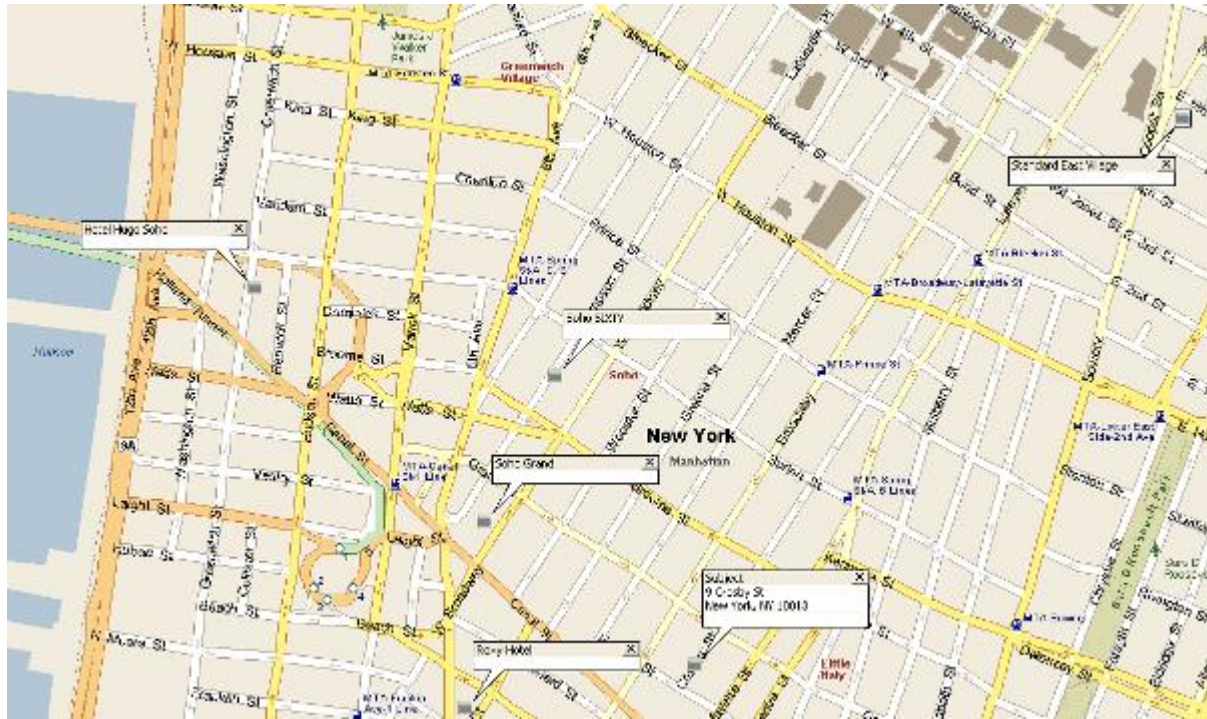
**THE SUBJECT’S COMPETITIVE POSITION**

The subject is a 264 key hotel. There are 5 hotels considered to be direct competitors. The hotels are summarized below.

**COMPETITIVE SET**

| Name                      | Rooms | Year Opened |
|---------------------------|-------|-------------|
| Soho Grand Hotel          | 353   | 1996        |
| Sixty SOHO                | 97    | 2001        |
| The Roxy Hotel Tribeca    | 201   | 2000        |
| The Standard East Village | 145   | 2008        |
| Hotel Hugo Soho           | 122   | 2014        |
| Total                     | 918   |             |

MAP OF COMPETITIVE SET



THE SOHO GRAND HOTEL



The Soho Grand Hotel was completed in 1996 and was one of the first luxury hotels in Soho. It is 17-stories tall and has 353 rooms. There are several bars and restaurants, and a gym.

**SIXTY SOHO**



Sixty SOHO is a 12-story 97 room hotel opened in 2001 in Soho. It has a popular restaurant as well as a roof top bar.

**ROXY HOTEL TRIBECA (FORMERLY TRIBECA GRAND)**



Roxy Hotel Tribeca is an 8-story 201 room hotel opened in 2000 in Tribeca. It has a bar, lounge, screening room, and gym.

**THE STANDARD EAST VILLAGE**



The Standard East Village is located in Cooper Square (3 Avenue and 5<sup>th</sup> Street) and was constructed in 2008. The hotel contains 145 rooms. The 21 story hotel is accessed via the original tenement-style building. The hotel features a full service restaurant with a Michelin starred chef, and a café offering live music. Rooms feature floor to ceiling windows, TV, Bluetooth speakers, 24 hour room service and free wifi.

**HOTEL HUGO SOHO**



Hotel Hugo Soho is located on Greenwich Street and Spring Street. It is a 15-story, 122 room hotel that opened in 2014. It has a full restaurant and 2 rooftop bars.

## Analysis of Comparable Hotels

The subject and all of the comparables are newly constructed/renovated, high end, luxury hotels in trendy neighborhoods of downtown Manhattan. The subject and all of the comparables have stylish restaurants and bars that are well regarded by tourists and locals alike. Prior to the transition from Morgan’s Hotel Group to NoMo, the subject’s occupancy outperformed the competitive set while the ADR and RevPAR underperformed the competitive set. When the current ownership took control of the hotel and its management, any existing clientele information was unavailable and no reservations or events were scheduled. As a result, the hotel suffered decreased occupancy and ADR throughout 2015 and into early 2016. When new management arrived in May 2016 the hotel began a dramatic turnaround, with an increase in occupancy from 83.9% in the second half of 2015 to 88.2% in the second half of 2016. Similarly, ADR increased from \$327 to \$333 from 2H 2015 to 2H 2016. These improvements resulted in a RevPAR increase of \$275 to \$297 from 2H 2015 to 2H 2016. These improvements are summarized in the table below, along with the same measurements in the competitive set. The table indicates the subject’s RevPAR increased 7% from 2H 2015 to 2H 2016 while the competitive set’s RevPAR increased 1.8%.

|                 | 1H2015    |          |          | 1H2016    |          |          |
|-----------------|-----------|----------|----------|-----------|----------|----------|
|                 | Occupancy | ADR      | RevPAR   | Occupancy | ADR      | RevPAR   |
| Subject         | 83.90%    | \$327.48 | \$274.80 | 88.20%    | \$332.63 | \$294.02 |
| % Change        |           |          |          | 5.1%      | 1.6%     | 7.0%     |
| Competitive Set | 87.30%    | \$365.99 | \$320.15 | 89.70%    | \$362.33 | \$325.87 |
| % Change        |           |          |          | 2.7%      | -1.0%    | 1.8%     |

The subject continues to lag the competitive set in mainly in rate. We expect the hotel to continue to improve over the next few years and to perform on par with the competitive set.

### Projected Occupancy Rate

The subject has a 2016 occupancy of 87% (88.2% in 2H 2016). The subject’s 2014 and 2015 occupancy was 88.4% and 82.5% respectively. The competitive set exhibits a 2016 occupancy rate of 85.8% as compared to 81.7% and 85.9% in 2014 and 2015, respectively. Under efficient management, we project the subject can maintain an 87.5% occupancy rate.

### Projected ADR

The subject’s 2016 ADR is \$305.60 (\$332.63 in 2H2016), as compared to \$342.84 for all of 2016 and \$362.33 in the 2H 2016. As previously mentioned, the subject’s ADR continues to underperform the competitive set. We expect this trend to end with the current management team in place. We project an ADR of \$345 and we apply a growth factor of 2% in year 2 followed by 3% annually.

The tables on the following pages summarize the subject’s performance in relation to the competitive set.

| <b>Occupancy (%)</b> |                     |             |             |                        |             |             |
|----------------------|---------------------|-------------|-------------|------------------------|-------------|-------------|
|                      | <b>Year To Date</b> |             |             | <b>Running 3 Month</b> |             |             |
|                      | <b>2014</b>         | <b>2015</b> | <b>2016</b> | <b>2014</b>            | <b>2015</b> | <b>2016</b> |
| My Property          |                     |             |             |                        |             |             |
| Competitive Set      | 88.4                | 82.5        | 87.0        | 89.4                   | 82.0        | 87.7        |
| Index (MPI)          | 81.7                | 85.9        | 85.8        | 83.6                   | 85.2        | 89.3        |
| Rank                 | 108.2               | 96.0        | 101.4       | 107.0                  | 96.2        | 98.2        |
|                      | 1 of 6              | 4 of 6      | 4 of 6      | 2 of 6                 | 4 of 6      | 5 of 6      |
| <b>% Chg</b>         |                     |             |             |                        |             |             |
| My Property          |                     |             |             |                        |             |             |
| Competitive Set      | 0.2                 | -6.8        | 5.5         | -0.7                   | -8.3        | 7.0         |
| Index (MPI)          | -1.2                | 5.1         | -0.1        | -1.1                   | 1.9         | 4.8         |
| Rank                 | 1.4                 | -11.3       | 5.7         | 0.4                    | -10.1       | 2.1         |
|                      | 3 of 5              | 6 of 6      | 2 of 6      | 4 of 5                 | 5 of 6      | 3 of 6      |
| <b>ADR</b>           |                     |             |             |                        |             |             |
|                      | <b>Year To Date</b> |             |             | <b>Running 3 Month</b> |             |             |
|                      | <b>2014</b>         | <b>2015</b> | <b>2016</b> | <b>2014</b>            | <b>2015</b> | <b>2016</b> |
| My Property          |                     |             |             |                        |             |             |
| Competitive Set      | 344.37              | 311.17      | 305.60      | 382.04                 | 342.65      | 352.61      |
| Index (ARI)          | 353.79              | 345.15      | 342.84      | 392.62                 | 393.01      | 385.25      |
| Rank                 | 97.3                | 90.2        | 89.1        | 97.3                   | 87.2        | 91.5        |
|                      | 4 of 6              | 5 of 6      | 5 of 6      | 4 of 6                 | 5 of 6      | 5 of 6      |
| <b>% Chg</b>         |                     |             |             |                        |             |             |
| My Property          |                     |             |             |                        |             |             |
| Competitive Set      | 3.1                 | -9.6        | -1.8        | 1.3                    | -10.3       | 2.9         |
| Index (ARI)          | -0.9                | -2.4        | -0.7        | -2.3                   | 0.1         | -2.0        |
| Rank                 | 4.0                 | -7.4        | -1.1        | 3.7                    | -10.4       | 5.0         |
|                      | 2 of 5              | 6 of 6      | 3 of 6      | 3 of 5                 | 6 of 6      | 1 of 6      |
| <b>RevPAR</b>        |                     |             |             |                        |             |             |
|                      | <b>Year To Date</b> |             |             | <b>Running 3 Month</b> |             |             |
|                      | <b>2014</b>         | <b>2015</b> | <b>2016</b> | <b>2014</b>            | <b>2015</b> | <b>2016</b> |
| My Property          |                     |             |             |                        |             |             |
| Competitive Set      | 304.57              | 256.59      | 265.88      | 341.65                 | 280.86      | 309.14      |
| Index (RGI)          | 289.18              | 296.45      | 294.04      | 328.25                 | 334.93      | 344.02      |
| Rank                 | 105.3               | 86.6        | 90.4        | 104.1                  | 83.9        | 89.9        |
|                      | 3 of 6              | 5 of 6      | 4 of 6      | 4 of 6                 | 4 of 6      | 5 of 6      |

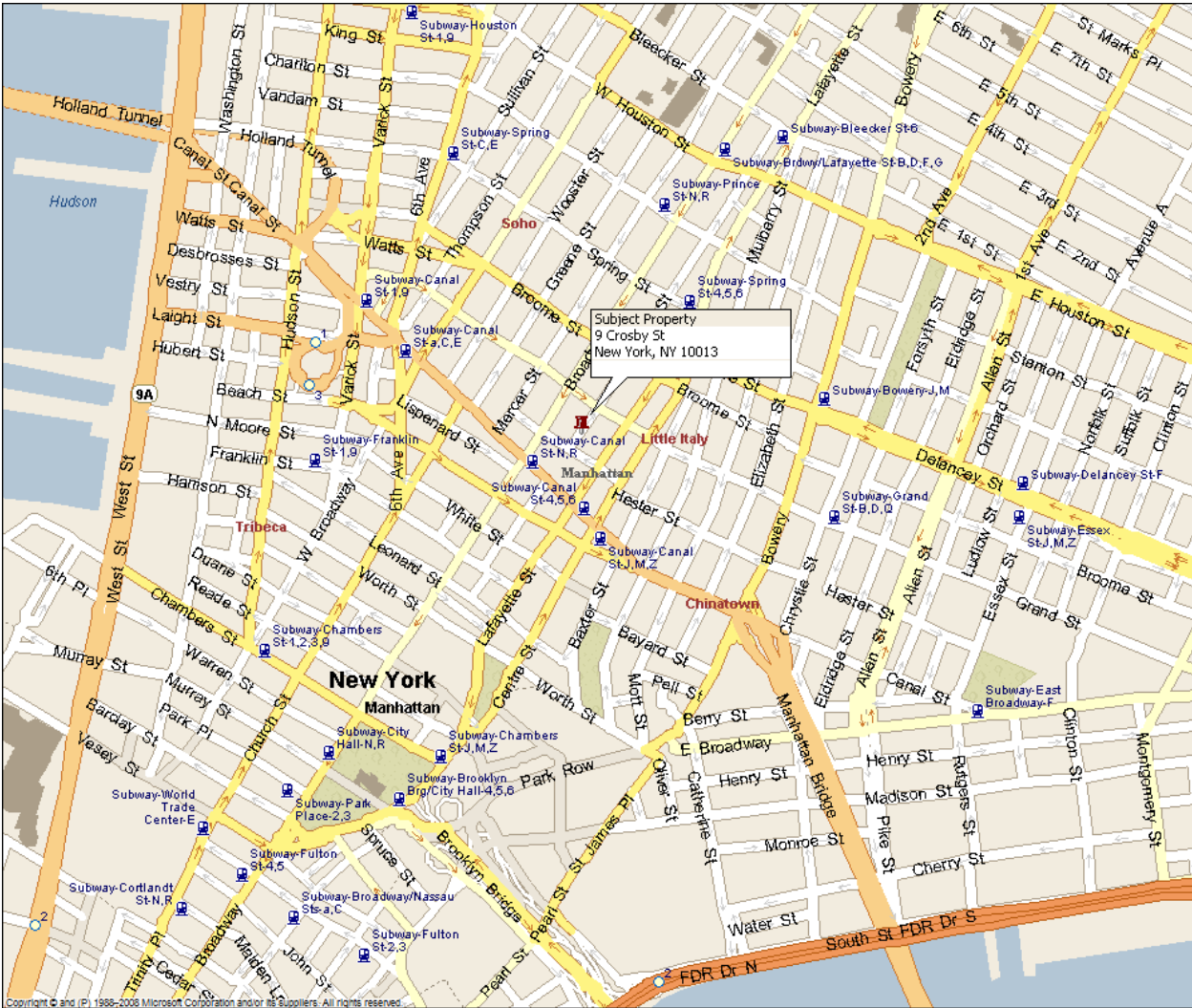
Source: STR

**COMPETITIVE SET STATISTICS**

| Occupancy (%)   | 2015   |        |        |        |        |        | 2016   |        |        |        |        |        |        |        |        |        |        |        |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                 | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    |
| My Property     | 84.6   | 87.0   | 86.0   | 84.5   | 77.1   | 84.2   | 69.0   | 81.6   | 86.4   | 93.5   | 91.1   | 93.3   | 86.1   | 88.8   | 91.6   | 89.2   | 88.6   | 85.3   |
| Competitive Set | 87.0   | 88.7   | 92.2   | 93.1   | 83.4   | 79.1   | 65.9   | 74.9   | 83.0   | 88.2   | 87.7   | 90.7   | 88.4   | 88.6   | 93.5   | 91.5   | 90.6   | 85.9   |
| Index (MPI)     | 97.3   | 98.1   | 93.2   | 90.8   | 92.4   | 106.4  | 104.7  | 108.9  | 104.0  | 106.0  | 103.9  | 102.9  | 97.4   | 100.2  | 97.9   | 97.5   | 97.8   | 99.3   |
| Rank            | 5 of 6 | 4 of 6 | 6 of 6 | 6 of 6 | 5 of 6 | 2 of 6 | 3 of 6 | 2 of 6 | 5 of 6 | 3 of 6 | 3 of 6 | 3 of 6 | 5 of 6 | 3 of 6 | 5 of 6 | 5 of 6 | 5 of 6 | 3 of 6 |
| <b>% Chg</b>    |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| My Property     | -6.4   | -0.4   | -5.3   | -8.0   | -12.9  | -4.3   | -7.2   | -2.7   | 2.5    | 5.0    | 29.4   | 8.6    | 1.7    | 2.0    | 6.5    | 5.5    | 15.0   | 1.3    |
| Competitive Set | 11.1   | 0.8    | 4.1    | 4.3    | 2.3    | -1.0   | -0.3   | -9.8   | 0.4    | -3.2   | -4.9   | -1.7   | 1.6    | -0.1   | 1.4    | -1.8   | 8.7    | 8.6    |
| Index (MPI)     | -15.8  | -1.2   | -9.1   | -11.8  | -14.8  | -3.3   | -6.9   | 8.0    | 2.1    | 8.5    | 36.1   | 10.4   | 0.1    | 2.2    | 5.0    | 7.4    | 5.8    | -6.7   |
| Rank            | 6 of 6 | 4 of 6 | 6 of 6 | 6 of 6 | 5 of 6 | 4 of 6 | 5 of 6 | 3 of 6 | 4 of 6 | 2 of 6 | 1 of 6 | 2 of 6 | 4 of 6 | 3 of 6 | 2 of 6 | 1 of 6 | 2 of 6 | 5 of 6 |
| ADR             | 2015   |        |        |        |        |        | 2016   |        |        |        |        |        |        |        |        |        |        |        |
|                 | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    |
| My Property     | 273.36 | 267.83 | 398.88 | 382.95 | 316.54 | 325.30 | 208.25 | 234.52 | 252.04 | 290.21 | 339.32 | 314.87 | 281.37 | 269.29 | 388.12 | 371.75 | 344.47 | 340.79 |
| Competitive Set | 304.19 | 294.54 | 423.70 | 426.01 | 374.91 | 372.61 | 258.03 | 283.91 | 291.02 | 339.92 | 377.29 | 349.10 | 301.93 | 298.26 | 419.09 | 402.57 | 379.89 | 372.25 |
| Index (ARI)     | 89.9   | 90.9   | 94.1   | 89.9   | 84.4   | 87.3   | 80.7   | 82.6   | 86.6   | 85.4   | 89.9   | 90.2   | 93.2   | 90.3   | 92.6   | 92.3   | 90.7   | 91.5   |
| Rank            | 5 of 6 | 5 of 6 | 4 of 6 | 5 of 6 | 5 of 6 | 5 of 6 | 5 of 6 | 5 of 6 | 4 of 6 | 5 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 5 of 6 | 5 of 6 | 5 of 6 |
| <b>% Chg</b>    |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| My Property     | -4.5   | -12.2  | -9.9   | -8.9   | -12.4  | -10.1  | -14.1  | -15.1  | -9.5   | -2.8   | -3.5   | 1.0    | 2.9    | 0.5    | -2.7   | -2.9   | 8.8    | 4.8    |
| Competitive Set | -0.3   | -1.8   | 0.7    | 1.0    | -0.7   | -0.6   | -3.5   | -3.1   | -0.3   | 2.1    | 0.9    | -1.5   | -0.7   | 1.3    | -1.1   | -5.5   | 1.3    | -0.1   |
| Index (ARI)     | -4.3   | -10.6  | -10.5  | -9.8   | -11.8  | -9.6   | -11.0  | -12.4  | -9.2   | -4.8   | -4.3   | 2.5    | 3.7    | -0.7   | -1.6   | 2.7    | 7.4    | 4.9    |
| Rank            | 6 of 6 | 6 of 6 | 6 of 6 | 6 of 6 | 6 of 6 | 6 of 6 | 6 of 6 | 6 of 6 | 5 of 6 | 6 of 6 | 5 of 6 | 2 of 6 | 1 of 6 | 5 of 6 | 3 of 6 | 2 of 6 | 2 of 6 | 1 of 6 |
| RevPAR          | 2015   |        |        |        |        |        | 2016   |        |        |        |        |        |        |        |        |        |        |        |
|                 | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    |
| My Property     | 231.38 | 232.98 | 343.06 | 323.72 | 243.93 | 273.75 | 143.60 | 191.29 | 217.73 | 271.23 | 309.27 | 293.80 | 242.17 | 239.04 | 355.61 | 331.44 | 305.22 | 290.63 |
| Competitive Set | 264.74 | 261.29 | 390.82 | 396.82 | 312.66 | 294.60 | 169.97 | 212.73 | 241.62 | 299.68 | 330.84 | 316.50 | 266.90 | 264.22 | 392.02 | 368.23 | 344.24 | 319.59 |
| Index (RGI)     | 87.4   | 89.2   | 87.8   | 81.6   | 78.0   | 92.9   | 84.5   | 89.9   | 90.1   | 90.5   | 93.5   | 92.8   | 90.7   | 90.5   | 90.7   | 90.0   | 88.7   | 90.9   |
| Rank            | 5 of 6 | 5 of 6 | 5 of 6 | 6 of 6 | 5 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 5 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 4 of 6 | 5 of 6 | 5 of 6 | 5 of 6 | 5 of 6 |

Source: STR

NEIGHBORHOOD MAP



## NEIGHBORHOOD DESCRIPTION

The subject property is located in the Borough of Manhattan, City and State of New York. The area encompassing the subject is Lower Manhattan, which extends south from 14th Street to the Battery. Lower Manhattan is a large area comprised of numerous distinct neighborhoods. Many of these neighborhoods are older ethnic communities which first evolved during the years of immigration in the late 19th and early 20th Centuries. These areas include the Lower East Side, Little Italy, Chinatown, and Greenwich Village. Other Lower Manhattan neighborhoods, such as SoHo, TriBeCa, the East Village, and Flatiron District, have taken form more recently as the result of post-World War II social and economic trends.

The subject's specific location is known as SoHo. The subject neighborhood is bounded by Houston Street to the north, Sixth Avenue to the east, Canal Street to the south and the Hudson River to the west. The neighborhoods which surround the subject neighborhood are Little Italy and Chinatown to the east, the West Village to the north, TriBeCa to the south, and the Hudson River to the west.



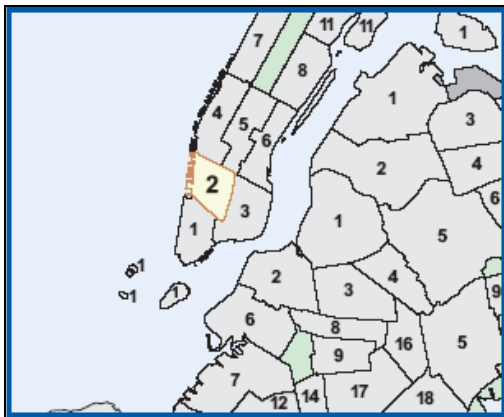
The main street of SoHo is West Broadway, which to the north becomes Fifth Avenue on the other side of Washington Square Park. The primary SoHo properties are in the SoHo-Cast Iron Historic District, which was created in 1973 and is bounded by West Broadway, Broadway and Crosby Street, and Houston and Canal Streets. West Broadway is the district's "main street" with the most famous art galleries, boutiques and restaurants, but the other streets in the district, Prince, Spring, Broome and Grand and Wooster, Greene and Mercer are all considered prominent. Many of the buildings were erected between the 1850's and 1880's. Cast iron parts for the facades were mass-produced locally and this district contains the world's largest collection of such facades, many in the Italianate or French Second Empire styles.

The South Village is an area dominated by older loft buildings and tenements. As was the case with several Lower Manhattan neighborhoods, the South Village was originally developed in the early 20th Century for industrial use. Up until the 1950's, this area was the scene of considerable manufacturing activity. By the late 1950's, however, New York City's industrial base was deteriorating due to high costs. This situation was especially true in Manhattan. Much of the South Village was abandoned, but restrictive zoning laws limited any alternative uses in the area.

During the 1960's, artists seeking low rents and large, airy spaces discovered the lofts of NoHo. Landlords who were desperate for rent were willing to, illegally, lease commercial spaces to artists seeking lofts. The artists, in turn, were willing to endure years of near isolation and incur the costs of converting the lofts into living space. Ultimately, zoning amendments were passed to permit living/work quarters for "certified" artists.

The main retail thoroughfares in the South Village are Sixth Avenue, Varick Street, Hudson Street, Spring Street, and Prince Street. SoHo to the east is a trendy area, which is very popular with artists and young professionals. To a considerable degree, the pattern of change which occurred in SoHo has been duplicated in the neighboring communities of NoHo, TriBeCa, and the South Village.

The subject is located within Manhattan Community District 2, which includes the West Village, SoHo, NoHo and Little Italy. Data from the New York City Department of City Planning shows District 2 to be a growing residential area.



| TOTAL POPULATION | 1990   | 2000   | 2010   |
|------------------|--------|--------|--------|
| Number           | 94,105 | 93,119 | 90,016 |
| % Change         | —      | -1.1   | -3.3   |

Between 1970 and 1980, the population of Community District 2 increased by 3.3%. Between 1980 and 1990, the population increased by 8.1%. The population decreased slightly by 1.1% between 1990 and 2000 and decreased 3.3% between 2000 and 2010.

| <b>INCOME SUPPORT</b>         | <b>2005</b>  | <b>2014</b>  |
|-------------------------------|--------------|--------------|
| Cash Assistance (TANF)        | 899          | 276          |
| Supplemental Security Income  | 1,758        | 1,196        |
| Medicaid Only                 | 6,341        | 6,028        |
| <b>Total Persons Assisted</b> | <b>8,998</b> | <b>7,500</b> |
| <b>Percent of Population</b>  | <b>9.7</b>   | <b>8.3</b>   |

Population data shows Community District 2 to be one of Manhattan's more affluent communities. In 2000, only 5.2% of the District's residents received some form of public assistance. In 2005 and 2014, 9.7% and 8.3% of the District's residents received some form of public assistance. In all of Manhattan, approximately 25% of the population receives public assistance. Most districts in Manhattan are within a range of 15% to 20%. We note, however, that Manhattan, with its mix of very wealthy and very poor residents, exhibits some of the greatest income disparities to be found anywhere. The poorest districts of Manhattan have more than 40% of all residents receiving assistance, while the most affluent districts show percentages below 5%.

The total land area of Community District 2 is 866.4 acres, or 1.4 square miles. Most of the land in the district is used for residential purposes, with multifamily apartments being the greatest land use. There is very little vacant land in the district. Land use in Community District 2 is broken down as follows:

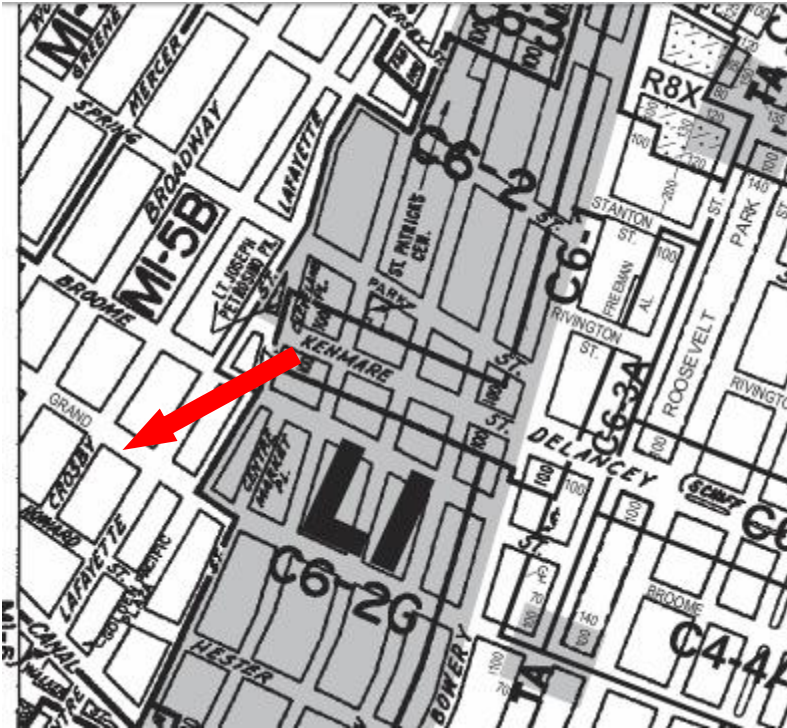
| <b>LAND USE, 2014</b>     |              |                     |              |
|---------------------------|--------------|---------------------|--------------|
|                           | <b>Lots</b>  | <b>Lot Area</b>     |              |
|                           |              | <b>Sq. Ft.(000)</b> | <b>%</b>     |
| 1- 2 Family Residential   | 564          | 920.2               | 3.3          |
| Multi-Family Residential  | 1,441        | 6,197.7             | 22.3         |
| Mixed Resid. / Commercial | 1,491        | 5,228.0             | 18.8         |
| Commercial / Office       | 710          | 4,666.0             | 16.8         |
| Industrial                | 172          | 1,121.5             | 4.0          |
| Transportation / Utility  | 29           | 4,432.6             | 16.0         |
| Institutions              | 187          | 2,307.0             | 8.3          |
| Open Space / Recreation   | 29           | 1,013.6             | 3.7          |
| Parking Facilities        | 69           | 565.6               | 2.0          |
| Vacant Land               | 53           | 1,246.2             | 4.5          |
| Miscellaneous             | 41           | 73.7                | 0.3          |
| <b>Total</b>              | <b>4,786</b> | <b>27,771.9</b>     | <b>100.0</b> |

Some 20 public, private and parochial schools are located in Community District 2. Houses of worship can be found throughout the area. Washington Square Park, a local landmark, is the largest recreation area in the District. Community District 2 is served by one Police Precinct and six Fire Department Houses. There are six senior citizen centers for the elderly of this area.

### **The Specific Subject Location**

The subject property is situated on the west side of Lafayette Street through to the east side of Crosby Street between Howard and Grand Streets in the Soho section of Manhattan, New York. The subject is several blocks north of Canal Street. The 4, 5, 6, N, and R trains are located within 2 blocks of the subject. The subject's location is one of the most desirable residential, retail and hotel areas in New York City.

**ZONING SUMMARY**



The subject property is located in an M1-5B Light Manufacturing District as designated by the City of New York. According to the *Zoning Handbook*, M1 districts are subject to strict performance standards. The uses common to these districts are light industries including knitting mills, research laboratories, and wholesale service facilities. In theory, nearly all industrial uses can locate in M1 areas if they can meet the rigorous performance standards required in the Zoning Resolution. The M1 district is often an industrial front yard or a buffer to adjacent residential or commercial districts.

Residential development is not permitted in M1 districts. Certain community facilities are allowed by special permit. Parking and loading requirements vary with district and use. High density M1 districts are exempt from parking requirements; however, accessory parking is required in the M1-1 district.

M1-5 districts are mapped in loft areas located in central business districts of Manhattan. The M1-5A and M1-5B districts permit artists to have joint living-work quarters in lofts of the SoHo/NoHo area of Lower Manhattan.

**Summary of Performance Regulations**

|                            |                                                             |
|----------------------------|-------------------------------------------------------------|
| Maximum Floor Area Ratio   | Manufacturing or Commercial: 5.0<br>Community Facility: 6.5 |
| Minimum Side Yard Setback: | 8 feet                                                      |
| Minimum Rear Yard Setback: | 20 feet                                                     |
| Initial Setback:           | 20 feet (narrow street)                                     |

|                 |                       |
|-----------------|-----------------------|
|                 | 15 feet (wide street) |
| Maximum Height: | 85 feet, or 6 stories |

**Summary of Use Regulations**

The following uses are permitted in M1 districts:

| Category           | Permitted Uses                                                                          |
|--------------------|-----------------------------------------------------------------------------------------|
| Use Group 4        | Churches, medical offices.                                                              |
| Use Groups 5-14    | The full range of retail, commercial, and recreational uses except for amusement parks. |
| Use Groups 16 & 17 | Light manufacturing uses.                                                               |

**Summary of Zoning**

The subject lot size is 14,470 square feet and the as of right FAR is 5.0, yielding a buildable area of 72,350 square feet. The subject contains a gross building area of 121,165 square feet. As the subject was completed in 2011, we will assume the development plans were approved and the subject conforms to the regulations.

It should be noted that we are not experts in the interpretation of complex zoning ordinances. The determination of compliance, however, is beyond the scope of a real estate appraisal. We know of no deed restrictions, private or public, that further limit the subject's use. The research required to determine whether or not such restrictions exist, however, is beyond the scope of this appraisal assignment. Deed restrictions are a legal matter, and only a title examination by an attorney or Title Company can usually uncover such restrictive covenants. Thus, we recommend a title search to determine if any such restrictions do exist.

**ASSESSED VALUE AND REAL ESTATE TAXES**



**Assessments**

The subject property is designated on the tax maps of the City of New York, Borough of New York, as Block 233, Lot 2. The tax year runs from July to June, so the subject is in the middle of the 2016/17 and 2017/18 years. The current 2016/17 and 2017/18 assessed value for the subject property is as follows:

| <b>2016/17</b>      | <u>Actual</u>        | <u>Transitional</u>  |
|---------------------|----------------------|----------------------|
| Land                | \$9,767,250          | \$8,588,790          |
| Building            | + 30,212,550         | 26,412,339           |
| Total               | \$39,979,800         | \$35,001,129         |
| Less ICAP Exemption | <u>-\$19,165,426</u> | <u>-\$19,165,426</u> |
| Assessed Value      | \$20,814,374         | \$15,835,703         |
| <b>2017/18</b>      | <u>Actual</u>        | <u>Transitional</u>  |
| Land                | \$9,767,250          | \$9,767,250          |
| Building            | + 29,271,600         | 28,357,689           |
| Total               | \$39,038,850         | \$38,124,939         |
| Less ICAP Exemption | <u>-\$19,165,426</u> | <u>-\$19,165,426</u> |
| Assessed Value      | \$19,873,424         | \$18,959,513         |

**Tax Rates**

The City of New York has four tax categories for real properties. The subject is classified as a Class 4 commercial property. The Class 4 tax rate for the 2016/17 tax year is \$10.574 per \$100 of assessed value. The Class 4 tax rate has been relatively stable over the past 3 years. The tax rates for future tax years have not yet been announced. The chart below illustrates historical tax rates in each class.

**REAL ESTATE TAX RATES, NEW YORK CITY**

| Year                  | Class 1 | Class 2 | Class 3 | Class 4 |
|-----------------------|---------|---------|---------|---------|
| 2003/2004             | 14.550  | 12.620  | 12.418  | 11.431  |
| 2004/2005             | 15.094  | 12.216  | 12.553  | 11.558  |
| 2005/2006             | 15.746  | 12.396  | 12.309  | 11.306  |
| 2006/2007             | 16.118  | 12.737  | 12.007  | 10.997  |
| 2007/2008             | 15.434  | 11.928  | 11.577  | 10.059  |
| First-Half 2008/2009  | 15.605  | 12.139  | 11.698  | 9.870   |
| Second-Half 2008/2009 | 16.787  | 13.053  | 12.577  | 10.612  |
| 2009/2010             | 17.088  | 13.241  | 12.743  | 10.426  |
| 2010/2011             | 17.364  | 13.353  | 12.631  | 10.312  |
| 2011/2012             | 18.205  | 13.433  | 12.473  | 10.152  |
| 2012/2013             | 18.569  | 13.181  | 12.477  | 10.288  |
| 2013/2014             | 19.191  | 13.145  | 11.902  | 10.323  |
| 2014/2015             | 19.157  | 12.855  | 11.125  | 10.684  |
| 2015/2016             | 19.554  | 12.883  | 10.813  | 10.656  |
| 2016/2017             | 19.991  | 12.892  | 10.934  | 10.574  |

Source: New York City Department of Finance

Based on the current tax rate of \$10.574 per \$100 of assessed value and the 2016/17 assessments, the subject's upcoming real estate taxes are projected as follows:

| 2016/2017 | Assessed Value | Taxable AV   | Tax Rate  | Tax Liability | SF      | Taxes/SF |
|-----------|----------------|--------------|-----------|---------------|---------|----------|
| Unabated  | \$35,001,129   | \$35,001,129 | x 10.574% | = \$3,701,019 | 121,165 | \$30.55  |
| Abated    | \$15,835,703   | \$15,835,703 | x 10.574% | = \$1,674,467 | 121,165 | \$13.82  |

In order to determine if the taxes are reasonable, we researched tax comparables for hotel properties. Tax comparables are presented as follows:

**TAX COMPARABLES HOTEL**

| Address          | Year Built/Renvt'd | Square Feet | Taxes/SF |
|------------------|--------------------|-------------|----------|
| 370 Canal St     | 2007               | 160,545     | \$23.90  |
| 2 York St        | 2005               | 65,283      | \$29.21  |
| 116 Bowery       | 1923/2006          | 29,665      | \$33.34  |
| 91 Bowery        | 2009               | 55,860      | \$20.09  |
| 107 Rivington St | 2003               | 59,000      | \$23.55  |
|                  |                    | Min:        | \$20.09  |
|                  |                    | Max:        | \$33.34  |
|                  |                    | Average:    | \$26.02  |

The comparables range from \$20.09 to \$33.34 per square foot. The subject's unabated taxes are within the comparable range.

### **ICAP (formerly ICIP) Exemption**

The City of New York grants tax exemptions and abatements under the Industrial and Commercial Abatement Plan (ICAP). Partial exemptions from or abatement of Real Estate Taxes for varying periods of up to 25 years are provided for eligible industrial or commercial buildings which are constructed, modernized, rehabilitated, expanded, or otherwise physically improved. A Certificate of Eligibility is issued for projects which meet the program requirements.

The program grants long-term real estate tax exemptions for the construction or alteration of eligible industrial or commercial buildings. Qualifying industrial projects may also receive a partial tax abatement for any existing real estate tax liability. For commercial projects, the program provides a full exemption on the increase in assessed value attributable to the improvements for 11 years, followed by four years of exemption declining at 20% per year. Commercial projects in designated "special exemption areas" and all industrial projects receive a full exemption for 16 years, with the exemption declining by ten percent annually for the next nine years. Industrial projects may also be eligible for a partial tax abatement based on the real estate taxes levied in the year prior to commencement of construction. For the first four years, the abatement equals 50% of the real estate tax imposed, followed by eight years in which the abatement declines by 10% every two years.

### **How it Works**

An exemption is granted on that portion of a property's assessed valuation known as the exemption base. The exemption base for each year is limited to the increase in assessed value solely attributable to improvements made to the commercial or industrial property. Industrial and commercial projects in special areas may also receive protection against future increases on the improvement due to inflation or general appreciation in fair value. Base taxes, as assessed prior to renovation or construction and land valuation taxes are never exempted. Exemptions vary based on a property's location and the nature of the construction project.

### **Subject Property Tax Burden**

The subject is currently in year 7 of a 12 year tax exemption. The exemption base is \$19,165,426. The increase in assessed value is fully exempt for 8 years, and then the exemption is phased out by 20% per year for the last 5 years. We utilize the actual taxes for the 2016/17 and 2017/18 tax years and apply a 2% increase in the assessed value thereafter. We apply the actual tax burden in our analysis, and take the average of 2016/17 and 2017/18 for our year 1 tax projection. Following the expiration of the exemption, we project a 2.5% increase in taxes annually. We discount the tax savings at 6%. The net present value of the tax benefit is \$6,900,000. This value is added to our sales comparison approach value.

|                                                |                | Discount Rate          | 6%           |                     |              | Annual Rate of Growth (Assessment): | 2%         |             |             |                    |                             |
|------------------------------------------------|----------------|------------------------|--------------|---------------------|--------------|-------------------------------------|------------|-------------|-------------|--------------------|-----------------------------|
|                                                |                | % OF EXEMPTION ALLOWED |              |                     |              |                                     |            |             |             |                    |                             |
| YEAR                                           | PROJECTED A.V. | MAXIMUM EXEMPTION      | (PHASE OUT)  | ALLOWABLE EXEMPTION | TAXABLE A.V. | TAX RATE                            | FULL TAXES | NET TAXES   | TAX SAVINGS |                    |                             |
| 2016/17                                        | 7              | \$35,001,129           | \$19,165,426 | 100%                | \$19,165,426 | \$15,835,703                        | 0.10574    | \$3,701,019 | \$1,674,467 | \$2,026,552        |                             |
| 2017/18                                        | 8              | \$38,124,939           | \$19,165,426 | 100%                | \$19,165,426 | \$18,959,513                        | 0.10574    | \$4,031,331 | \$2,004,779 | \$2,026,552        |                             |
| 2018/19                                        | 9              | \$38,887,438           | \$19,165,426 | 80%                 | \$15,332,341 | \$23,555,097                        | 0.10574    | \$4,111,958 | \$2,490,716 | \$1,621,242        |                             |
| 2019/20                                        | 10             | \$39,665,187           | \$19,165,426 | 60%                 | \$11,499,256 | \$28,165,931                        | 0.10574    | \$4,194,197 | \$2,978,266 | \$1,215,931        |                             |
| 2020/21                                        | 11             | \$40,458,490           | \$19,165,426 | 40%                 | \$7,666,170  | \$32,792,320                        | 0.10574    | \$4,278,081 | \$3,467,460 | \$810,621          |                             |
| 2021/22                                        | 12             | \$41,267,660           | \$19,165,426 | 20%                 | \$3,833,085  | \$37,434,575                        | 0.10574    | \$4,363,642 | \$3,958,332 | \$405,310          |                             |
| 2022/23                                        | 13             | \$42,093,013           |              | 0%                  | \$0          | \$42,093,013                        | 0.10574    | \$4,450,915 | \$4,450,915 | \$0                |                             |
| <b>PROSPECTIVE VALUE OF TOTAL TAX SAVINGS:</b> |                |                        |              |                     |              |                                     |            |             |             | <b>\$6,931,294</b> |                             |
|                                                |                |                        |              |                     |              |                                     |            |             |             |                    | <b>ROUNDED: \$6,900,000</b> |

**SITE DESCRIPTION**

The particulars of the site are summarized as follows:

**Location:** The subject is situated on the west side of Lafayette Street through to the east side of Crosby Street between Howard and Grand Streets in the Soho section of Manhattan, New York.

**Site Area:** 14,470± Square Feet

**Shape:** L shaped

**Frontage:** 50.17 feet on Crosby Street and 100.52 feet on Lafayette Street.

**Topography:** Generally level at street grade.

**Drainage:** Adequate

**Paving:** All roads are paved with asphalt in accordance with New York City standards. All roads appeared to be in satisfactory condition.

**Street Drainage:** Street drainage is collected with the utilization of recessed catch basins. The catch basins empty by gravity into the New York City sewer storm system mains.

**Street Lighting:** Street lighting consists of standard lighting fixtures which are 400-watt, sodium vapor fixtures and controlled by photo cells. The lighting fixtures are post mounted as per New York City requirements.

**Utilities + Services:**

|                                  |                                                                                                                                       |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Water Supply:                    | Water is supplied by the municipality and connected through one 4-inch metered domestic service and 1 6-inch fire protection service. |
| Gas Service:                     | Consolidated Edison Company                                                                                                           |
| Telephone:                       | Provided by Verizon or similar carriers.                                                                                              |
| Electrical:                      | Consolidated Edison Company (208 volt service to main building)                                                                       |
| Refuse, Fire Protection, Police: | City of New York                                                                                                                      |

**Hazardous Substances:** We observed no evidence of toxic or hazardous substances during our inspection of the site. However, we are not trained to perform technical environmental inspections and recommend the services of a professional engineer for this purpose.

**Flood Hazard Status:** The subject property is located in "Zone X" on the National Flood Insurance Program Rate Map, Community Panel #360497-0182F. Zone X is an area of minimal flooding.

**Conclusion:** The subject site is similar to other lots located in the immediate subject vicinity. The site conforms to neighboring standards in most respects and there are no negative external factors affecting the site. Based upon the current use of the site, all aspects of the site are functionally adequate.

**SUBJECT PROPERTY PHOTOS**

**VIEW FROM CROSBY STREET**



**VIEW FROM LAFAYETTE STREET**



LAFAYETTE STREET



**CROSBY STREET**



**LAFAYETTE STREET ENTRANCE**



**CROSBY STREET ENTRANCE**



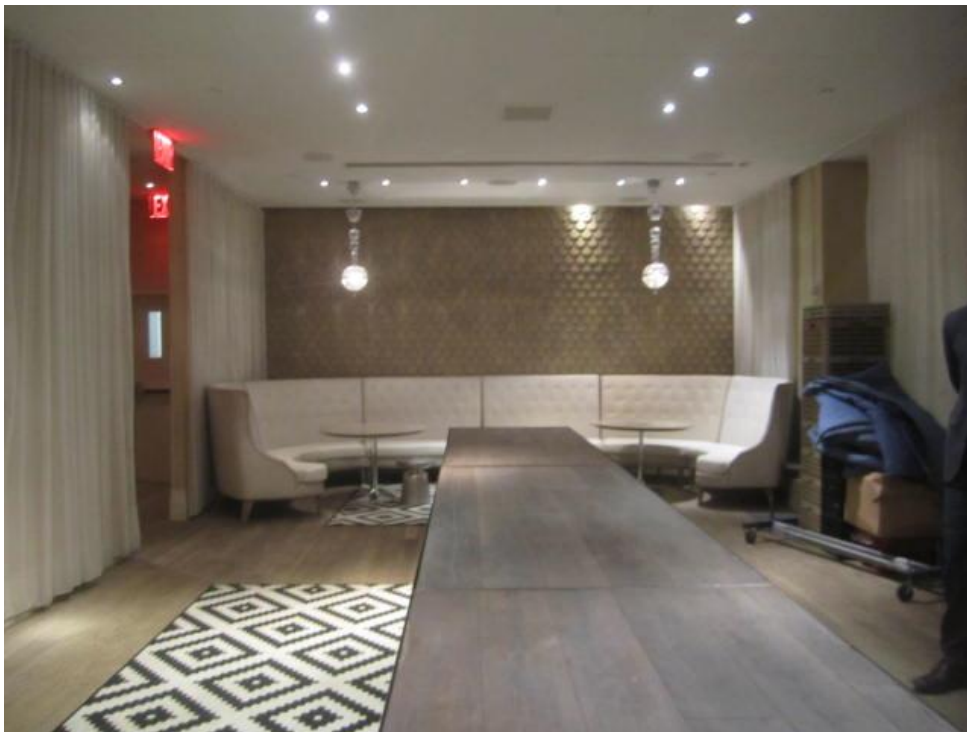
**HOTEL ENTRANCE**



**ENTRANCE TO RESTAURANT**



**MR. H BAR IN LOBBY**



LOBBY



**NOMO KITCHEN**



**NIGHTCLUB**



**GYM**



RECEPTION



**NEW PH UNIT UNDER RENOVATION**



**ROOF SPACE**



**KITCHEN**



**LOBBY ART**



**MEETING ROOM**



**TERRACE**



**ELEVATORS**



**COMMON HALLWAY**



Room



**BATH**



**BATH**



**GUEST ROOM**



**SITTING AREA**



**ROOM**



**BUILDING DESCRIPTION**

The subject is a 264 key hotel completed in 2011. We note that one key, a PH unit with outdoor space, is under renovation and will be operational in early 2017. The subject is 25-stories, and contains a gross building area of 121,165 square feet. In addition to hotel rooms, the subject contains a 5,000 SF restaurant known as Nomo Kitchen, which is located in a greenhouse space, a lobby bar, nightclub located off the lobby, a meeting room on the second floor, and a meeting room/private dining room located in the lobby. The gallery and terrace offer 2,500 SF of meeting space. Below is a summary of the construction and physical characteristics.

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Physical Description:</b> | The subject is a 25-story boutique hotel that was completed in January 2011. There are two below-grade levels. There are setbacks at the eastern and western side of the building at the lobby level. The building is accessed from Crosby Street via a landscaped courtyard where a greenhouse type of structure (garden building) was built. This garden building houses the full-service restaurant, “Nomo Kitchen”. The hotel has a lobby bar, a gym on the lower level and meeting rooms and terraces on the first floor, as well as a nightclub. |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                           |                                                                                                                                                                                                                        |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Foundation:</b>        | The building was built over an older 12-story steel-framed building, which was partially demolished and reinforced.                                                                                                    |
| <b>Structural System:</b> | Concrete slab on steel deck with steel beams and girders.                                                                                                                                                              |
| <b>Exterior Walls:</b>    | Glass and aluminum curtain wall.                                                                                                                                                                                       |
| <b>Roof:</b>              | IRMA roof. Terraces and setbacks are provided with pre-cast concrete pavers on pedestals.                                                                                                                              |
| <b>Entrances:</b>         | Crosby and Lafayette Streets.                                                                                                                                                                                          |
| <b>Windows:</b>           | Aluminum thermal windows. The windows are integral with the curtain wall system. Some vision panels are operable and can swing outwards. For safety reasons, the swing of the windows is limited to 6” from the frame. |

**Mechanicals**

|                                 |                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Heating/Cooling Systems:</b> | Heating and cooling is via water-sourced heat pumps units in the guestrooms and the lower levels of the building. Hot water is produced by a four-module gas-fired boilers and the condenser water is served by a roof-mounted cooling tower. The corridors are cooled and heated by a packaged RTU with gas-heating component. |
| <b>Elevators:</b>               | There is one service gearless traction type elevator, three passenger elevators, and a hydraulic freight elevator serving the sub-cellar through the lobby level.                                                                                                                                                               |
| <b>Sprinklers/Life Safety:</b>  | Automatic wet fire sprinkler and standpipe system, and fire alarm system.                                                                                                                                                                                                                                                       |
| <b>Water/Sewer:</b>             | Domestic water is supplied to the building via a booster pump system and domestic hot water is produced by means of plate heat exchangers from hot water produced by the boilers.                                                                                                                                               |
| <b>Gas Service:</b>             | National Grid gas service.                                                                                                                                                                                                                                                                                                      |
| <b>Electric Service:</b>        | Con Ed electric service.                                                                                                                                                                                                                                                                                                        |

**Interior Layout and Finish**

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Lobby:</b>               | The lobby level of the hotel is on the floor (2nd floor) above the main reception area at the ground floor. Both the reception area and the lobby, which is accessed via a winding open stair and the elevators, have wood flooring, texture-painted gypsum board walls, and painted gypsum board ceilings with decorative appliques. The lobby at the 2nd floor has access to the terraces at the eastern and western sides. |
| <b>Rest Rooms:</b>          | There are four toilet rooms at the ground floor, close to the reception area, and another two in the nightclub. The toilet rooms near the reception area typically have “penny” tiles and painted gypsum board walls and ceilings.                                                                                                                                                                                            |
| <b>Meeting Room:</b>        | There is a meeting room on the lobby level. The finishes consist of carpet floors, VWC, and painted gypsum board ceiling. This meeting room has access to the setback facing Lafayette Street.                                                                                                                                                                                                                                |
| <b>Restaurant and Bars:</b> | The main restaurant in the hotel, Nomo Kitchen, is located on the ground floor, and includes the dining area and bar in                                                                                                                                                                                                                                                                                                       |

the garden area. The nightclub is located on the ground floor and is accessible from the lobby. There is also a separate entrance on Lafayette Street. The space has an Asian motif including Chinese furniture, jewel tone satin pillows, gilt mirrors, beaded curtains and burgundy walls. There is a 3,000 SF roof top indoor/outdoor space is in the process of being converted to a penthouse unit.

**Kitchen:**

The main kitchen has quarry floor tiles, grease-resistant acrylic wall panels, and ACTs. This kitchen has commercial type equipment and all the working surfaces are of stainless steel finish. This kitchen, which is located at the subcellar, serves the restaurants and also caters to room service.

**Corridors:**

The finishes in the corridors consists of carpet floors, texture painted walls, and painted gypsum board ceilings.

**Guest Rooms:**

The typical guestroom is furnished with a bed, a wall-mounted headboard and a night stand. Floor finishes consist of carpeting and painted gypsum board walls and ceilings. There are 17 guestroom plan types, which are tabulated below: Note this does not include the PH unit.

| GUESTROOM MIX                  |                   |                |
|--------------------------------|-------------------|----------------|
| Guestroom Type                 | No. of Guestrooms | Room Size (sf) |
| Standard Queen                 | 10                | 170            |
| Parlour Room                   | 6                 | 170            |
| Standard King                  | 31                | 192            |
| Superior Queen                 | 16                | 220            |
| Superior King                  | 32                | 220            |
| Superior City View Queen       | 26                | 220            |
| Superior City View King        | 42                | 220            |
| Deluxe Queen Corner            | 21                | 243            |
| Deluxe King Corner             | 21                | 243            |
| Deluxe Double Double           | 21                | 234            |
| Deluxe One Bedroom King        | 27                | 356            |
| Deluxe One Bedroom Queen       | 5                 | 358            |
| Penthouse D                    | 1                 | 350            |
| Penthouse C                    | 1                 | 490            |
| Penthouse B                    | 1                 | 490            |
| Penthouse A                    | 1                 | 530            |
| Penthouse                      | 1                 | 1100           |
| <b>Total Rooms/Average SF:</b> | <b>263</b>        | <b>242</b>     |

**Guest Room Amenities:**

Flat screen HDTV, iPod Docking Station, desk, 10 foot floor to ceiling windows, marble bath, Malin + Goetz bath products, luxurious bedding, private balcony in penthouse rooms. Units are projected to have an integrated iPad to control the room amenities, and Amazon Echo to community with hotel staff.

**Administrative Offices:**

The administrative and managerial offices typically have carpet floors, painted gypsum boards walls, and painted ceilings. Some offices, such as the housekeeping and chef's office, have VCTs on the floor.

|                              |                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Housekeeping/Laundry:</b> | The housekeeping area is located at the cellar level. This space has VCTs, painted gypsum board walls and open ceiling. As only light washing and drying is conducted in the premises, only a small washer and dryer are provided in the housekeeping area. Most of the laundry is performed by a service vendor.                                       |
| <b>Parking:</b>              | None                                                                                                                                                                                                                                                                                                                                                    |
| <b>Stairwells:</b>           | The building tower has scissors type stairs.                                                                                                                                                                                                                                                                                                            |
| <b>Landscaping:</b>          | Landscaping is provided on the courtyards facing Crosby Street. Specimen trees are planted on the open grade and a metal fence with arched openings and vines is provided along the north side. A trellis system, also covered with vines, is provided over the concrete walkway leading to the main entrance. There is an automatic irrigation system. |
| <b>Loading Dock:</b>         | The loading area is located near the northeastern corner of the ground floor of the building. This loading area, which is recessed from the exterior wall of the building, is accessed from the sidewalk along Lafayette Street. The loading area has concrete floor, painted gypsum board walls and open ceiling.                                      |

**CONDITION**

The subject was completed in 2011 and is in excellent condition with no observed deferred maintenance or functional obsolescence. The effective age is 5 years and the remaining economic life is 45 years.

**Summary**

The information contained in the sections entitled "Site Description" and "Building Description" was obtained from the following sources:

- Formal field inspection, January 13, 2017.
- Information provided by ownership
- New York City planning, zoning and assessment records

## HIGHEST AND BEST USE

The following definition of Highest and Best Use is set forth in The Dictionary of Real Estate Appraisal 6<sup>th</sup> edition sponsored by the Appraisal Institute. Highest and Best Use is:

1. The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.
2. The use of an asset that maximizes its potential and that is possible, legally permissible, and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.
3. The highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future.

In determining highest and best use, we have considered the following:

- The current trends of supply and demand on the market.
- Current zoning regulations and other possible restrictions.
- Neighboring land uses.

It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

In estimating highest and best use, alternative uses are considered and tested for the subject site.

- **Possible Use** - An analysis to determine those uses of the subject which can be deemed physically possible;
- **Permissible Use** - An investigation into existing zoning regulations, lease terms, and deed restrictions on the site to determine which uses are legally permitted;
- **Feasibility** - An analysis to determine which of those uses deemed possible and legal can provide a net return to the owner of the site;
- **Highest and Best Use** - Among the feasible uses, which use will provide the highest net return or highest present worth.

**As Vacant**

**Legally Permissible**

The subject property is located in a M1-5B which allows commercial, retail and community facility development as of right.

No known zoning change is currently being considered or anticipated. We are not aware of any public or private deed restrictions that preclude development on the site. Our analysis of the market indicates that the subject location supports the current zoning. It is our opinion that the site, if vacant, could be developed for the above legally permitted (and assumed) uses.

**Physically Possible**

The subject site is a typical size, offering very good utility for development. All necessary utilities are available, and there are no apparent easements or encroachments that would hinder development. Any of the above legally permitted uses, therefore, are considered physically possible.

**Financially Feasible**

The subject's location is mixed-use in character, and the subject's neighborhood has seen a good deal of new mixed-use development in recent years. A commercial development would be financially feasible.

**Maximally Productive/  
Highest and Best Use**

All legally permissible, physically possible and financially feasible uses of the subject property, as vacant, have been presented and examined. Based on the strong mixed-use location of the site, a commercial development such as a hotel would represent the highest and best use.

**As Improved**

**Legally Permissible**

The subject property is located in a M1-5B which allows commercial, retail and community facility development as of right.

No known zoning change is currently being considered or anticipated. The current use conforms to the zoning regulations.

**Physically Possible**

The subject site is a typical size, offering very good utility for development. All necessary utilities are available, and there are no apparent easements or encroachments that would hinder development. The subject was constructed in 2011 and is in excellent condition.

**Financially Feasible**

The subject's location is mixed-use in character, and the subject's neighborhood has seen a good deal of new mixed-use

development in recent years. The subject is a successful hotel and the current income provides a return to the land. It would be unreasonable to demolish the existing improvements. The existing use is the most financially feasible use.

**Maximally Productive/  
Highest and Best Use**

All legally permissible, physically possible and financially feasible uses of the subject property, as vacant, have been presented and examined. Based on the strong performance of the existing hotel, the current use is the highest and best use.

## APPRAISAL VALUATION PROCESS

In estimating the fair value of the fee simple, the appraiser has considered the three primary approaches to real estate valuation: the Cost Approach, the Sales Comparison Approach, and the Income Capitalization Approach.

The *Cost Approach* is based on the principle of substitution, which affirms that a prudent and informed purchaser will pay no more for a specific property than the cost of producing a substitute property of equal or similar desirability and utility. It is particularly applicable when the property is new or involves relatively new improvements with little, if any, accrued depreciation, and there is an active market in undeveloped land. It is also relevant in estimating the value of special purpose or use properties for which there is limited or no sale or rental market.

This approach is a method of valuation consisting of four basic steps:

- Estimation of the property's land value, as if vacant.
- Estimation of the current cost of replacing or reproducing the existing improvements.
- Estimation and deduction of accrued depreciation from all causes.
- Adding an entrepreneurial profit, the value of the land, and the depreciated value of the improvements.

The *Income Capitalization Approach* is predicated on the assumption that there is a definite relationship between the amount of income that a property is capable of producing and its value. The Income Capitalization Approach is based on the theory of anticipation, which affirms that value may be defined as the present worth of all rights to future benefits. In the Income Capitalization Approach, earning potential is forecast over a typical investor holding period, and appropriate deductions are made for expenses resulting in the net operating income.

In the *Sales Comparison Approach*, fair value is estimated by comparing the subject property to sales of similar properties. This Approach is based on the principle of substitution and contribution which states that a knowledgeable investor will pay no more for a property than would be paid for a comparable substitute property. This approach produces a value indication by comparing the subject with sales of similar properties.

Finally, the approaches to value are reconciled into a final fair value estimate. The strengths and weaknesses of each approach are discussed, and a final value estimate is established.

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## INCOME CAPITALIZATION APPROACH

In the Income Capitalization Approach, a property's capacity to generate future benefits is analyzed; the forecasted income is then capitalized into an indication of present value. Commonly used measures of anticipated benefits are:

- **Potential Gross Income:** the total potential income attributable to the real property at full occupancy before operating expenses are deducted. It may refer to the level of rental income prevailing in the market or that contractually determined by existing leases.
- **Effective Gross Income:** the anticipated income from all operations of real property adjusted for vacancy and collection losses.
- **Net Operating Income:** the anticipated net income remaining after all operating expenses are deducted from effective gross income.
- **Equity Dividend:** the portion of net income that remains after debt service is paid; this is returned to the equity position.
- **Reversion:** A lump-sum benefit an investor expects to receive upon the termination of the investment.

### Direct vs. Yield Capitalization

The income capitalization approach supports two methodologies: direct and yield capitalization.

- **Direct capitalization:** A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the income estimate by an appropriate rate or by multiplying the income estimate by an appropriate factor. This technique employs capitalization rates and multipliers extracted from sales. Only the first year's income is considered. Yield and value change are implied, but not identified overall. This method is most useful when the property is already operating on a stabilized basis.<sup>2</sup>
- **Yield Capitalization:** The capitalization method used to convert future benefits into present value by discounting each future benefit at an appropriate yield rate. This method explicitly considers a series of cash flows (net income over a holding period) over time together with any reversion value or resale proceeds. Since this technique explicitly reflects the investment's income pattern, it is especially suited to multi-tenant properties with varying leasing schedules as well as properties that are not operating at stabilized occupancy.<sup>3</sup>

### Conclusion

The Income Capitalization Approach is based on a discounted cash flow analysis based on a projected 10-year holding period. This analysis relies on market-derived average daily room rates, occupancy rates and expense levels. This method of analysis provides an estimate of the

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<sup>2</sup> *The Appraisal of Real Estate*, 12th edition (Chicago, IL: Appraisal Institute 2005): 493

<sup>3</sup> *The Appraisal of Real Estate*, 12th edition (Chicago, IL: Appraisal Institute 2005): 493

subject and depicts income and expenses each year over the projection period in order to determine annual net operating income levels. The net operating income streams, as well as the residual value, are discounted to a present fair value.

### Hotel Analysis

The subject contains 264 rooms. A hotel’s ability to generate room revenue is determined by annual occupancy rate and average daily room rate. The occupancy of a given hotel may be forecast based on its relative competitiveness with other hotels and its penetration through the market. Individual hotel facilities may operate above or below the area-wide occupancy or average rate, depending upon the particular attributes of the property.

As described in our Local Market Analysis, our forecast of ADR, Occupancy, and corresponding RevPAR for the next 5 years is reported below:

| <b>DISCOUNTED CASH FLOW ANALYSIS</b> |        |        |        |        |        |
|--------------------------------------|--------|--------|--------|--------|--------|
| Projection Year:                     | 1      | 2      | 3      | 4      | 5      |
| Days in Year:                        | 365    | 365    | 365    | 365    | 365    |
| Number of Rooms:                     | 264    | 264    | 264    | 264    | 264    |
| Rooms Available:                     | 96,360 | 96,360 | 96,360 | 96,360 | 96,360 |
| Occupied Rooms:                      | 84,315 | 84,315 | 84,315 | 84,315 | 84,315 |
| Occupancy Rate:                      | 87.5%  | 87.5%  | 87.5%  | 87.5%  | 87.5%  |
| Annual Increase in ADR:              | n/a    | 2.0%   | 3.0%   | 3.0%   | 3.0%   |
| Average Daily Rate:                  | \$345  | \$352  | \$362  | \$373  | \$385  |
| RevPAR:                              | \$302  | \$308  | \$317  | \$327  | \$336  |

### Additional Revenue

Although the majority of income generated by the subject property is from guest room rentals, additional revenue sources typical include sales from the restaurant and bars, as well as telephone charges and other miscellaneous sources.

### Income Projections

In order to estimate income from other sources, we have relied upon income ratios for similar hotels in Manhattan, as well as the owner’s projection for 2017 as well as the 2016 historical operating statement. As new management arrived in May 2016, we place more emphasis on the 2017 projections than the 2016 historicals.

## INCOME AND EXPENSE COMPARABLES

| <b>Composite - 4 Boutique Hotels (Confidential) - Manhattan</b> |                   |                                 |                   |                   |
|-----------------------------------------------------------------|-------------------|---------------------------------|-------------------|-------------------|
| <b>Number of Rooms:</b>                                         | <b>660</b>        | <b>240,900 - 100% potential</b> |                   |                   |
| <b>Occupied Rooms:</b>                                          | <b>204,582</b>    |                                 |                   |                   |
| <b>Days Open:</b>                                               | <b>365</b>        |                                 |                   |                   |
| <b>Occupancy:</b>                                               | <b>84.92%</b>     |                                 |                   |                   |
| <b>Average Rate:</b>                                            | <b>\$427.66</b>   | <b>Percentage</b>               | <b>Amount per</b> | <b>Amount per</b> |
| <b>RevPAR:</b>                                                  | <b>\$363.18</b>   | <b>of Revenue</b>               | <b>Available</b>  | <b>Occupied</b>   |
|                                                                 |                   |                                 | <b>Room</b>       | <b>Room</b>       |
| <b>REVENUE</b>                                                  | <b>(in 000's)</b> |                                 |                   |                   |
| Rooms                                                           | \$87,491          | 78.57%                          | \$132,562         | \$427.66          |
| Food & Beverage                                                 | \$11,636          | 10.45%                          | \$17,630          | \$56.88           |
| Telephone                                                       | \$1,517           | 1.36%                           | \$2,298           | \$7.42            |
| Commercial/Restaurant Rentals                                   | \$8,519           | 7.65%                           | \$12,908          | \$41.64           |
| Minibar                                                         | \$755             | 0.68%                           | \$1,144           | \$3.69            |
| Other Income (net)                                              | \$1,431           | 1.29%                           | \$2,168           | \$6.99            |
| Total                                                           | \$111,349         | 100.00%                         | \$168,711         | \$544.28          |
| <b>DEPARTMENTAL EXPENSES*</b>                                   |                   |                                 |                   |                   |
| Rooms                                                           | \$21,749          | 24.86%                          | \$32,953          | \$106.31          |
| Food & Beverage                                                 | \$9,078           | 78.02%                          | \$13,755          | \$44.37           |
| Telephone                                                       | \$1,073           | 70.73%                          | \$1,626           | \$5.24            |
| Minibar                                                         | \$111             | 14.70%                          | \$168             | \$0.54            |
| Other Expenses                                                  | \$363             | 25.37%                          | \$550             | \$1.77            |
| Total                                                           | \$32,374          | 29.07%                          | \$49,052          | \$158.24          |
| <b>DEPARTMENTAL INCOME</b>                                      | <b>\$78,975</b>   | <b>70.93%</b>                   | <b>\$119,659</b>  | <b>\$386.03</b>   |
| <b>OPERATING EXPENSES</b>                                       |                   |                                 |                   | <b>\$0.00</b>     |
| Administrative & General                                        | \$9,271           | 8.33%                           | \$14,047          | \$45.32           |
| Marketing                                                       | \$4,584           | 4.12%                           | \$6,945           | \$22.41           |
| Prop. Operations & Maint.                                       | \$4,451           | 4.00%                           | \$6,744           | \$21.76           |
| Utilities                                                       | \$2,779           | 2.50%                           | \$4,211           | \$13.58           |
| Total                                                           | \$21,085          | 18.94%                          | \$31,947          | \$103.06          |
| <b>HOUSE PROFIT</b>                                             | <b>\$57,890</b>   | <b>51.99%</b>                   | <b>\$87,712</b>   | <b>\$282.97</b>   |
| Management Fee                                                  | \$3,340           | 3.00%                           | \$5,061           | \$16.33           |
| <b>INCOME BEFORE FIXED CHARGES</b>                              | <b>\$54,550</b>   | <b>48.99%</b>                   | <b>\$82,651</b>   | <b>\$266.64</b>   |
| <b>FIXED EXPENSES</b>                                           |                   |                                 |                   | <b>\$0.00</b>     |
| Property Taxes                                                  | \$2,995           | 2.69%                           | \$4,538           | \$14.64           |
| Insurance                                                       | \$911             | 1.50%                           | \$1,380           | \$4.45            |
| Reserve for Replacement                                         | \$4,454           | 4.00%                           | \$6,748           | \$21.77           |
| Total                                                           | \$8,360           | 7.51%                           | \$12,667          | \$40.86           |
| <b>NET INCOME</b>                                               | <b>\$46,190</b>   | <b>41.48%</b>                   | <b>\$69,984</b>   | <b>\$225.78</b>   |

\*Departmental expense ratios are expressed as a percentage of departmental revenues.

**2016 PROFORMA AND 2017 PROJECTION**

|                                              | <b>Budcast</b>                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  | <b>Projection</b> |                     | <b>Projection</b>   |              |                   |               |
|----------------------------------------------|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|---------------------|---------------------|--------------|-------------------|---------------|
|                                              | <b>Jan 2017</b>                      | <b>Feb 2017</b>  | <b>Mar 2017</b>  | <b>Apr 2017</b>  | <b>May 2017</b>  | <b>Jun 2017</b>  | <b>Jul 2017</b>  | <b>Aug 2017</b>  | <b>Sep 2017</b>  | <b>Oct 2017</b>  | <b>Nov 2017</b>  | <b>Dec 2017</b>  | <b>Total</b>      | <b>Dec 2016 T12</b> | <b>Dec 2015 T12</b> |              |                   |               |
| <b>NoMo SoHo</b>                             |                                      |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                     |                     |              |                   |               |
|                                              | <input type="button" value="Print"/> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                     |                     |              |                   |               |
| Rooms Available                              | 8,153                                | 7,364            | 8,184            | 7,920            | 8,184            | 7,920            | 8,184            | 8,184            | 7,920            | 8,184            | 7,920            | 8,184            | 96,301            | 96,521              | 95,995              |              |                   |               |
| Rooms Sold                                   | 5,646                                | 5,651            | 6,802            | 7,073            | 7,312            | 7,305            | 7,244            | 7,310            | 7,311            | 7,557            | 6,762            | 6,766            | 82,739            | 83,627              | 75,060              |              |                   |               |
| ADR                                          | 228.21                               | 257.79           | 270.26           | 313.48           | 358.61           | 335.26           | 288.10           | 285.18           | 410.50           | 388.85           | 367.62           | 374.66           | 326.38            | 310.61              | 327.88              |              |                   |               |
| Occupancy%                                   | 69.3%                                | 76.7%            | 83.1%            | 89.3%            | 89.4%            | 92.2%            | 88.5%            | 89.3%            | 92.3%            | 92.3%            | 85.4%            | 82.7%            | 85.9%             | 86.6%               | 78.2%               |              |                   |               |
| RevPAR                                       | 158.04                               | 197.82           | 224.61           | 279.95           | 320.41           | 309.24           | 255.02           | 254.71           | 378.93           | 359.05           | 313.88           | 309.75           | 280.41            | 269.11              | 256.37              |              |                   |               |
| Total RevPAR                                 | 233.37                               | 290.00           | 312.08           | 413.16           | 438.39           | 435.14           | 369.83           | 358.01           | 508.32           | 498.90           | 467.38           | 463.76           | 399.38            | 351.18              | 329.39              |              |                   |               |
| Room Revenue                                 | 1,288,499                            | 1,456,730        | 1,838,243        | 2,217,201        | 2,622,267        | 2,449,154        | 2,087,075        | 2,084,533        | 3,001,138        | 2,938,505        | 2,485,905        | 2,534,971        | 27,004,222        | 70.2%               | 25,975,020          | 76.6%        | 24,610,329        | 77.8%         |
| Food and Beverage Revenue                    | 497,336                              | 560,783          | 570,968          | 866,009          | 777,421          | 808,054          | 747,527          | 643,203          | 834,294          | 941,246          | 1,030,556        | 1,081,362        | 9,358,759         | 24.3%               | 7,609,601           | 22.4%        | 6,650,624         | 21.0%         |
| Other Operated Departments                   | 116,840                              | 118,083          | 144,838          | 189,002          | 188,074          | 189,082          | 192,112          | 202,186          | 190,448          | 203,275          | 185,181          | 179,039          | 2,098,159         | 5.5%                | 311,254             | 0.9%         | 327,512           | 1.0%          |
| Miscellaneous Income (Net)                   | 0                                    | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                 | 0.0%                | 0                   | 0.0%         | 31,759            | 0.1%          |
| <b>Total Revenue</b>                         | <b>1,902,675</b>                     | <b>2,135,596</b> | <b>2,554,049</b> | <b>3,272,212</b> | <b>3,587,762</b> | <b>3,446,290</b> | <b>3,026,714</b> | <b>2,929,921</b> | <b>4,025,881</b> | <b>4,083,026</b> | <b>3,701,642</b> | <b>3,795,372</b> | <b>38,461,140</b> | <b>100%</b>         | <b>33,895,875</b>   | <b>100%</b>  | <b>31,620,225</b> | <b>100%</b>   |
| Room Expense                                 | 728,879                              | 703,499          | 762,083          | 798,957          | 804,045          | 786,502          | 827,885          | 809,274          | 830,098          | 845,277          | 795,106          | 826,749          | 9,518,355         | 35.2%               | 9,482,475           | 36.5%        | 8,581,605         | 34.9%         |
| Food and Beverage Expense                    | 484,270                              | 456,845          | 491,820          | 532,487          | 538,751          | 539,158          | 547,860          | 514,677          | 573,909          | 584,791          | 605,180          | 635,593          | 6,505,340         | 69.5%               | 6,201,677           | 81.5%        | 6,637,759         | 99.8%         |
| Other Operated Expenses                      | 16,882                               | 17,738           | 23,579           | 20,150           | 19,325           | 20,027           | 23,354           | 24,130           | 21,066           | 19,969           | 19,268           | 19,279           | 244,766           | 0.0%                | 239,701             | 0.0%         | 267,952           | 843.7%        |
| <b>Departmental Expense</b>                  | <b>1,230,031</b>                     | <b>1,178,083</b> | <b>1,277,481</b> | <b>1,351,594</b> | <b>1,362,122</b> | <b>1,345,688</b> | <b>1,399,099</b> | <b>1,348,081</b> | <b>1,425,072</b> | <b>1,450,037</b> | <b>1,419,554</b> | <b>1,481,620</b> | <b>16,268,462</b> | <b>42.3%</b>        | <b>15,923,853</b>   | <b>47.0%</b> | <b>15,487,315</b> | <b>49.0%</b>  |
| Administrative and General                   | 188,293                              | 188,326          | 205,406          | 225,256          | 242,890          | 237,581          | 221,836          | 220,658          | 251,849          | 257,577          | 245,884          | 248,270          | 2,733,826         | 7.1%                | 2,482,089           | 7.3%         | 3,009,148         | 9.5%          |
| Info and Telecom Systems                     | 24,110                               | 24,129           | 24,289           | 24,289           | 24,289           | 24,289           | 24,289           | 24,289           | 24,289           | 24,289           | 24,289           | 24,289           | 291,126           | 0.8%                | 331,732             | 1.0%         | 152,303           | 0.5%          |
| Sales and Marketing                          | 103,992                              | 98,062           | 109,509          | 102,738          | 103,930          | 108,073          | 105,636          | 102,264          | 96,457           | 113,614          | 99,178           | 98,557           | 1,242,011         | 3.2%                | 1,305,009           | 3.9%         | 1,240,209         | 3.9%          |
| Energy                                       | 54,719                               | 49,705           | 50,091           | 50,891           | 51,931           | 58,250           | 74,117           | 76,563           | 67,793           | 57,166           | 56,171           | 56,357           | 703,754           | 1.8%                | 682,622             | 2.0%         | 629,149           | 2.0%          |
| Property Operations & Maintenance            | 127,334                              | 121,006          | 133,970          | 136,403          | 135,368          | 132,068          | 147,077          | 136,685          | 138,095          | 139,473          | 137,179          | 139,447          | 1,624,106         | 4.2%                | 1,575,586           | 4.6%         | 1,557,379         | 4.9%          |
| <b>Undistributed Expense</b>                 | <b>498,448</b>                       | <b>481,228</b>   | <b>523,265</b>   | <b>539,577</b>   | <b>558,408</b>   | <b>560,261</b>   | <b>572,954</b>   | <b>560,458</b>   | <b>578,483</b>   | <b>592,118</b>   | <b>562,702</b>   | <b>566,920</b>   | <b>6,594,823</b>  | <b>17.1%</b>        | <b>6,377,038</b>    | <b>18.8%</b> | <b>6,588,188</b>  | <b>20.8%</b>  |
| <b>Gross Operating Profit</b>                | <b>174,196</b>                       | <b>476,284</b>   | <b>753,303</b>   | <b>1,381,042</b> | <b>1,667,233</b> | <b>1,540,341</b> | <b>1,054,661</b> | <b>1,021,382</b> | <b>2,022,325</b> | <b>2,040,870</b> | <b>1,719,387</b> | <b>1,746,831</b> | <b>15,597,855</b> | <b>40.6%</b>        | <b>11,594,984</b>   | <b>34.2%</b> | <b>9,544,722</b>  | <b>30.2%</b>  |
| Management Fees                              | 28,540                               | 32,034           | 38,311           | 49,083           | 53,816           | 51,694           | 45,401           | 43,949           | 60,388           | 61,245           | 55,525           | 56,931           | 576,917           | 1.5%                | 508,850             | 1.5%         | 736,931           | 2.3%          |
| <b>Income before Fixed Expense</b>           | <b>145,656</b>                       | <b>444,250</b>   | <b>714,992</b>   | <b>1,331,959</b> | <b>1,613,416</b> | <b>1,488,646</b> | <b>1,009,261</b> | <b>977,434</b>   | <b>1,961,937</b> | <b>1,979,624</b> | <b>1,663,863</b> | <b>1,689,900</b> | <b>15,020,938</b> | <b>39.1%</b>        | <b>11,086,134</b>   | <b>32.7%</b> | <b>8,807,791</b>  | <b>27.9%</b>  |
| Other Income                                 | (600)                                | (600)            | (600)            | (1,000)          | (1,200)          | (600)            | (1,100)          | (900)            | (1,000)          | (900)            | (900)            | (900)            | (10,300)          | 0.0%                | (10,905)            | 0.0%         | (6,502)           | 0.0%          |
| Insurance                                    | 18,777                               | 18,777           | 18,777           | 19,665           | 19,665           | 19,665           | 19,665           | 19,665           | 19,665           | 19,665           | 19,665           | 19,665           | 233,318           | 0.6%                | 230,529             | 0.7%         | 245,242           | 0.8%          |
| Taxes                                        | 140,621                              | 140,621          | 140,621          | 140,621          | 140,621          | 140,621          | 147,652          | 147,652          | 147,652          | 147,652          | 147,652          | 147,652          | 1,729,639         | 4.5%                | 1,509,236           | 4.5%         | 1,201,327         | 3.8%          |
| Leases                                       | 490                                  | 490              | 490              | 490              | 490              | 490              | 490              | 490              | 490              | 490              | 490              | 490              | 5,880             | 0.0%                | 5,777               | 0.0%         | 16,444            | 0.1%          |
| Other                                        | 0                                    | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                 | 0.0%                | 55,193              | 0.2%         | 699,354           | 2.2%          |
| <b>Total Fixed Charges</b>                   | <b>159,288</b>                       | <b>159,288</b>   | <b>159,288</b>   | <b>159,776</b>   | <b>159,576</b>   | <b>160,176</b>   | <b>166,707</b>   | <b>166,907</b>   | <b>166,807</b>   | <b>166,907</b>   | <b>166,907</b>   | <b>166,907</b>   | <b>1,958,537</b>  | <b>5.1%</b>         | <b>1,789,830</b>    | <b>5.3%</b>  | <b>2,155,865</b>  | <b>6.8%</b>   |
| <b>EBITDA</b>                                | <b>(13,632)</b>                      | <b>284,962</b>   | <b>555,704</b>   | <b>1,172,182</b> | <b>1,453,840</b> | <b>1,328,470</b> | <b>842,553</b>   | <b>810,526</b>   | <b>1,795,130</b> | <b>1,812,717</b> | <b>1,496,955</b> | <b>1,522,993</b> | <b>13,062,401</b> | <b>34.0%</b>        | <b>9,296,304</b>    | <b>27.4%</b> | <b>6,651,926</b>  | <b>21.0%</b>  |
| <b>EBITDA After FFE</b>                      | <b>(13,632)</b>                      | <b>284,962</b>   | <b>555,704</b>   | <b>1,172,182</b> | <b>1,453,840</b> | <b>1,328,470</b> | <b>842,553</b>   | <b>810,526</b>   | <b>1,795,130</b> | <b>1,812,717</b> | <b>1,496,955</b> | <b>1,522,993</b> | <b>13,062,401</b> | <b>34.0%</b>        | <b>9,296,304</b>    | <b>27.4%</b> | <b>6,651,926</b>  | <b>21.0%</b>  |
| Total Salaries and Wages                     | 704,009                              | 647,810          | 731,976          | 727,572          | 748,260          | 732,643          | 765,785          | 764,195          | 748,843          | 773,942          | 736,506          | 757,288          | 8,838,829         | 23.0%               | 8,361,112           | 24.7%        | 8,286,777         | 26.2%         |
| Total Service Charge Distribution            | 0                                    | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                | 0                 | 0.0%                | 0                   | 0.0%         | 33,080            | 0.1%          |
| Total Contract Labor                         | 6,900                                | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 6,900            | 82,800            | 0.2%                | 211,244             | 0.6%         | 322,553           | 1.0%          |
| Total Incentives                             | 17,849                               | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 17,849           | 214,186           | 0.6%                | 77,355              | 0.2%         | 136,739           | 0.4%          |
| <b>Total Salaries, Wages, CL and Bonuses</b> | <b>728,758</b>                       | <b>672,558</b>   | <b>756,724</b>   | <b>752,321</b>   | <b>773,009</b>   | <b>757,392</b>   | <b>790,534</b>   | <b>788,944</b>   | <b>773,592</b>   | <b>798,691</b>   | <b>761,255</b>   | <b>782,036</b>   | <b>9,135,815</b>  | <b>23.8%</b>        | <b>8,649,711</b>    | <b>25.5%</b> | <b>8,779,149</b>  | <b>24.8%</b>  |
| Total Supplemental Pay                       | 71,989                               | 64,294           | 46,474           | 40,568           | 58,963           | 50,478           | 68,524           | 61,452           | 56,926           | 44,805           | 65,090           | 71,271           | 700,834           | 1.8%                | 774,612             | 2.3%         | 598,152           | 1.9%          |
| Total Payroll Taxes and Benefits             | 283,193                              | 262,159          | 276,281          | 291,668          | 268,070          | 260,871          | 294,600          | 268,366          | 289,935          | 290,247          | 284,880          | 296,985          | 3,367,254         | 8.8%                | 3,241,326           | 9.6%         | 3,139,309         | 9.9%          |
| <b>Total Labor Cost and Related Expenses</b> | <b>1,083,940</b>                     | <b>999,011</b>   | <b>1,079,479</b> | <b>1,084,557</b> | <b>1,100,041</b> | <b>1,068,741</b> | <b>1,153,658</b> | <b>1,118,762</b> | <b>1,120,453</b> | <b>1,133,743</b> | <b>1,111,226</b> | <b>1,150,293</b> | <b>13,203,904</b> | <b>34.3%</b>        | <b>12,665,649</b>   | <b>37.4%</b> | <b>12,516,610</b> | <b>-11.4%</b> |

## Income Projections

**Rooms Income** – Full service hotels typically receive 70% of the income from rooms, while the remaining income is produced from food and beverage and other sources. Based on the ADR, occupancy and RevPAR above, the income from rooms represents 73.4% of the total income. The competitive set generates 78.6% of the income from rooms. Ownership’s 2016 projection was 76.6% and 2017 is 70.2%. Balancing all sources, our projection appears reasonable. Rooms income is \$29,088,675.

**F&B Income** – The subject has a strong F&B component, and we expect that a significant portion of income will be derived from the bars and restaurant. Lounge and restaurant spaces within boutique hotels typically generate significant income as they cater to both hotel residents and the general public. The subject’s Soho location is considered extremely active in terms of night life with a host of restaurants, nightclubs and bars within this destination area. The subject’s restaurant, is highly regarded by local residents. The comparable set receives 10.5% of the income from F&B. Ownership’s 2016’s projection is 22.4% and the 2017 projection is 24.3%. We apply an average of 22.8% of income from F&B. This increases to 23.4% in year 2 as the nightclub income is stabilized. F&B income is \$9,000,000 in year 1 and \$9,500,000 in year 2.

**Amenity Fee/Telephone Revenue and Other Operating Departments Income** – The competitive set indicates that income from other sources including the new amenity fee, telephone/internet charges, in-room mini-bars and other sundry items total food and beverage revenue equates to approximately 3% of total revenue. The 2016 projection is 1% and 2017 is 5.5%. We project the subject will generate 3.8% of the income from other sources. Our projection is \$1,500,000 of which \$935,000 is the amenity fee.

## Departmental Costs and Expenses

Departmental expenses are those expense items that are attributable to a specific profit center. Departmental expenses are discussed as follows:

**Rooms** - Rooms expense includes all expenses associated with the operation of guest rooms including wages, front desk, housekeeping, linen, guest services, reservations, supplies, decorations, commissions, etc. The 4 hotel competitive set projected rooms expenses at 25%. Ownership’s 2016 projection is 36.5% and 2017 is 35.2%. Based on the foregoing, we will project the subject's room's expense at 30%.

| Source                  | Projection as % of Rooms Revenue |
|-------------------------|----------------------------------|
| 4 Hotel Competitive Set | 25%                              |
| Owner 2017 Projection   | 35.2%                            |
| Appraiser Projection    | 30%                              |

**Restaurant (Food and Beverage)** – The 4 hotel competitive set indicated a restaurant / lounge expense of 78.02% of food and beverage revenues. Ownership’s 2016 and 2017 projections are 81.5% and 69.5%, respectively. The decrease is due to the reopening of the nightclub. We project a food and beverage expense of 70.0% of food revenues.

| Source                  | Projection as % of Restaurant Revenue |
|-------------------------|---------------------------------------|
| 4 Hotel Competitive Set | 78.02%                                |
| Owner 2017 Projection   | 69.5%                                 |
| Appraiser Projection    | 70.0%                                 |

**Miscellaneous Income** – The 4-hotel competitive set has segregated expenses for telephone/internet charges, in-room min-bar costs and other expenses. In total, expenses from these categories equate to approximately 70.73% (telephone), 14.70% (min-bar) and 25.37% (other) of their corresponding revenue generating items. Ownership does not report any expenses associated with this income source. We estimate this as 5.0% of income as there are no expenses associated with the amenity fee.

| Source                                 | Projection as % of Telephone Revenue |
|----------------------------------------|--------------------------------------|
| 4 Hotel Competitive Set: Telephone     | 70.73%                               |
| 4 Hotel Competitive Set: Mini-Bar      | 14.70%                               |
| 4 Hotel Competitive Set: Other Revenue | 25.37%                               |
| Owner 2017 Projection                  | 0%                                   |
| Appraiser Projection                   | 5.0%                                 |

### Undistributed Operating Expenses

Undistributed operating expenses are costs borne by the entire operation and not attributable to any one specific department or profit center.

**Administrative and General** - Included in this category are wages and salaries, equipment rental, customer relations, supplies, dues and subscriptions, contract services, credit card commissions, professional fees, audit fees, licenses and permits, and other items normally associated with this classification. The competitive set indicated administrative and general costs at 8.33% of total revenues. Ownership's 2016 projection is 8.3% and 2017 is 7.9%. We project this expense at 8% of total revenues.

| Source                  | Projection as % of Total Revenue |
|-------------------------|----------------------------------|
| 4 Hotel Competitive Set | 8.33%                            |
| Owner 2017 Projection   | 7.9%                             |
| Appraiser Projection    | 8%                               |

**Marketing and Sales Expense** - Marketing expenses include related salaries, brochures, entertainment, promotions, advertising, telephone expense, mailings, etc. The 4 hotel competitive set indicated marketing and sales expenses of 4.12%. Ownership's 2016 projection is 3.9% and 3.2% in 2017. Based upon market information, we apply a marketing and sales expense of 3.5%.

| Source                  | Projection as % of Total Revenue |
|-------------------------|----------------------------------|
| 4 Hotel Competitive Set | 4.12%                            |
| Owner 2017 Projection   | 3.2%                             |
| Appraiser Projection    | 3.5%                             |

**Property Operations and Maintenance** - Included in this category are the majority of repair and maintenance expense items and related salaries, supplies, electrical and mechanical repair, plumbing and heating repair, grounds maintenance, etc. The competitive set indicated this expense at 4.0% of total revenues. Typically, the rooms require more upkeep than the commercial components. Ownership's 2016 projection is 4.6% in 2016 and 4.2% in 2017. We apply a projection of 4.0% of total revenue.

| Source                  | Projection as % of Total Revenue |
|-------------------------|----------------------------------|
| 4 Hotel Competitive Set | 4.0%                             |
| Owner 2017 Projection   | 4.2%                             |
| Appraiser Projection    | 4.0%                             |

**Energy and Utilities Costs** - This category includes all energy related expenses such as water, sewer, gas, and electricity. The competitive set indicates energy costs of 2.50% of total revenue. As new construction, we project the subject has energy efficient systems. Ownership's 2016 projection is 2.0% in 2016 and 1.8% in 2017. We project this category at 2.0%.

| Source                  | Projection as % of Total Revenue |
|-------------------------|----------------------------------|
| 4 Hotel Competitive Set | 2.5%                             |
| Owner 2017 Projection   | 2.1%                             |
| Appraiser Projection    | 2.0%                             |

### Fixed Charges

**Real Estate Taxes** – As discussed in the “Real Estate Assessment and Taxes” section of the appraisal, we have projected real estate taxes of \$1,839,623 which is the average of the 2016/2017 and 2017/2018 actual taxes. The abated taxes will be applied until the exemption expires, after which point the tax burden will increase 2.5% annually.

**Insurance** – The competitive set reports insurance costs at 1.5% of total revenues. Ownership's 2016 expense was \$230,529 and 2017 is \$233,318. Accordingly, we estimate an insurance expense \$235,000 which equates to 0.6% of gross revenues. We grow this expense 2% annually.

**Management Fees** - This category covers the base compensation to a management company for time required to manage the subject property. An incentive management fee is essentially a bonus paid to management companies for achieving a specified profit. Ownership's projection is 1.5%. An industry standard fee of 2% of total revenues will be processed.

**Reserves for Replacement** - We have included a reserve for the replacement of furniture, fixtures, and equipment. According to an analysis completed by ownership using data from HVS, the subject will require a FF&E reserve of approximately 2.15% over the holding period in order to provide for a partial renovation in 6 years and a full renovation in 18 years. We apply a reserve of 3.0% of room revenues, which is considered an industry standard.

### **Total Hotel Operating Expenses**

Our expenses are 65.09% of gross revenue in year 1, going up to 70% as the tax exemption expires. Our competitive set exhibits an average expense ratio of yield a NOI of 58%. Ownership's 2017 projected expense ratio is 66%. Overall our projection appears reasonable.

### **Analysis of NOI Increase**

Ownership's 2017 projected NOI is \$13,062,401 which does not account for FF&E. Our year 1 NOI is \$13,821,998. Based on the improvements made in the second half of 2016, the property should continue to improve and perform on par with the competitive set.

## DISCOUNT RATE

In order to develop an indication of value by the Income Capitalization Approach, it is necessary to establish an acceptable yield rate to discount the annual cash flows and the reversion value.

Typical investors require a rate of return for investment quality property such as the subject which is greater than the safe or "riskless" rates offered for long term treasury notes and bonds or high grade corporate bonds. The difference between an investor's required rate of return and the safe rate is basically the premium necessary to compensate the investor for the added risks of inflation, management, and lack of liquidity offered by a real estate investment. The following rates have been used as market indicators.

| Survey of Competitive Rates |       |
|-----------------------------|-------|
| Federal Funds Rate          | 0.75% |
| Prime Rate                  | 3.75% |
| 10-year Treasury Bond       | 2.35% |
| 30-year Treasury Bond       | 2.93% |
| Corporate Bonds (20 year A) | 3.91% |
| Municipal Bonds (20 year A) | 3.47% |

Source: Bloomberg Rates, Jan. 2017

The Federal Funds Rate is a foundational rate determining the cost of funds by Federal Reserve banks to depository institutions.

The Prime Rate is a base rate posted by large banks for loans to corporations. It is a rate for business loans to banks' most creditworthy customers. It is no longer a lending rate, per se but a base rate, from which other rates are adjusted.

The 10- and the 30-year Treasury Notes are long-term obligations that are guaranteed by the federal government.

Corporate Bonds are long term securities protected by the creditworthiness of the issuer. Considerate of the tenant, we have utilized AAA quality returns.

Municipal Bonds are free of tax liabilities and, therefore, the return is typically less than investment opportunities which are taxable.

The Federal Funds Rate is a foundational rate determining the cost of funds by Federal Reserve banks to depository institutions. The Prime Rate is a base rate posted by large banks for loans to corporations. Long term issues such as 10 year Treasury Bonds are guaranteed by the federal government. Corporate Bonds and Utility Bonds are long term securities protected by the creditworthiness of the issuer.

Another source of anticipatory yield rates is provided by investment surveys conducted by the Real Estate Research Corporation (RERC) which summarize expected rates of return, including capitalization rates and income and expense growth rates, from a representative sample of

institutional investors. The rates reflect acceptable expectations of yields desired by investors currently in the marketplace. Surveys for NYC hotel properties show IRRs averaging 8.7%.

| Survey                  | Type of Product                       | Discount Rate        |
|-------------------------|---------------------------------------|----------------------|
| R.E.R.C. 3 Quarter 2016 | NYC Hotel                             | 8.7%                 |
| R.E.R.C. 4 Quarter 2016 | National Hotel                        | 8.5%-10.5% 9.5% avg  |
| PWC 3 Quarter 2016      | National Luxury/Upper Upscale Lodging | 6.5% - 12% 9.6% avg. |

In selecting an appropriate discount rate, we have considered the foregoing yields as well as the subject property's location, size, age and condition relative to competing properties. In the development of the discount rate for the subject property, consideration was given to the risk, liquidity, and the time and expense of asset management inherent with income producing property investment. The summation approach was utilized to account for yield expectations associated with these investment considerations. A 3.00% basic rate was used based on the return exhibited by corporate and utility bonds. The 3.00% basic rate is increased by 150 basis points for liquidity, 150 basis points for asset management, and 100 basis points for risk. This results in a 7% yield rate. Based on the foregoing, it is our opinion that a 7% before tax discount or yield rate would be required by a typical investor for a hotel property like the subject within a strong destination location.

The consensus of those actively engaged in the marketplace for hotels is that internal rates of return (based upon forecasting techniques and assumptions similar to those utilized herein) fall within a broad range depending upon numerous risk factors, including, among others:

- (a) *Location*: the better the location, the lower the IRR. The subject property is situated within a prime destination, mixed use district with an active cultural and recreational base. The area has excellent accessibility features and convenience to both residential and employment centers, and is also considered a destination location for tourism. Overall, this is considered to be a location with below average risk.
- (b) *Physical Characteristics of the Subject Property*: the newer the property, the higher the quality of construction and finishes, and the better the design and layout of the physical plant, the lower the IRR. The subject was completed in 2011 and is in excellent condition. Furthermore the property was refurbished in 2016.
- (c) *Degree of Forecasted Cash Flow Growth*: the greater the growth forecasted, the higher the IRR. After achieving stabilized occupancy levels, a modest rate of cash flow growth is projected based on general inflation expectations.
- (d) *Amount of Equity Investment Required*: the greater the required equity investment (that portion of the total acquisition cost not typically funded by conventional financing), the higher the IRR.
- (e) *Length of Projection Period*: the longer the projection period, the higher the IRR. We are utilizing a typical 10 year cash flow period.

- (f) *Type of Investment*: the riskier the perceived return on investment for a particular type of real estate, the higher the IRR.

In our opinion, due to the subject property's: (a) excellent destination location; (b) convenient accessibility from all points; (c) excellent condition and functional utility; and (d) the caution used in forecasting room rates and occupancy, we believe that a 7% discount rate is appropriate for the subject property. This rate falls just at the low end of the investor surveys, which is reasonable considering the subjects above average location and condition.

### Holding Period

The Third Quarter 2015 PWC survey reported the following holding periods indicated by various investor classes:

| Investor               | Forecast Period (yrs) |
|------------------------|-----------------------|
| Owner/Operator         | 1 to 4 years          |
| Real Estate Advisor    | 5 to 10 years         |
| REIT                   | 1 to 5 years          |
| Owner/Operator         | 4 to 6 years          |
| Life Insurance Company | 10 years              |

Based on the reported forecast periods, while considering time to stabilized operations, we anticipate a holding period of 10 years with the residual value based upon the net operating income in Year 11.

### Terminal Capitalization Rate and Estimated Reversion

Terminal capitalization rates as reported by RERC are as follows:

| Survey                  | Type of Product                       | Terminal Cap. Rate     | Going in Cap. Rate |
|-------------------------|---------------------------------------|------------------------|--------------------|
| R.E.R.C. 3 Quarter 2016 | NYC Hotel                             | 7.2%                   | 6.5%               |
| R.E.R.C. 4 Quarter 2016 | National Hotel                        | 7%-10% 8.3% avg.       | 6%-9% 7.5% avg.    |
| PWC 3 Quarter 2016      | National Luxury/Upper Upscale Lodging | 5.5% - 9.5% 7.23% avg. | 4% - 9% 6.92% avg  |

As indicated in the investment surveys, terminal capitalization rates average 7.2%. According to HVS, transaction activity remains strong in Manhattan, with buyers competing heavily for assets, and sellers seeking to maximize their investment gains. High investor interest, particularly from Asia and the Middle East, continues to put downward pressure on capitalization rates, driving hotel values to peak levels. In 2015, transactions of stabilized assets realized capitalization rates around 5%, with capitalization rates on luxury assets as low as 3%. According to the report by Ten X presented earlier in the appraisal, cap rates for New York hotels averages 5.8% as of November 2016. As Manhattan is viewed as the nation's top gateway city, hotel investors from all over the world consider it to be an essential and low-risk market for their portfolio. Transaction activity is expected to remain high over the next couple of years due to increased interest from investors and the increasing availability of assets for sale.

In order to determine an appropriate cap rate for the hotel portion of the subject property we researched cap rates for hotel properties in New York City.

**HOTEL SALES**

| Property                                           | Sale Date | Rooms | OAR  |
|----------------------------------------------------|-----------|-------|------|
| Wyndham Garden Hotel                               | Feb-16    | 124   | 5.5% |
| Doubletree Times Square: 1568 Broadway (Leasehold) | Dec-15    | 468   | 3.4% |
| The Marth Washington                               | Nov-15    | 264   | 2.3% |
| The GEM Hotel: 135 E Houston Street                | Apr-15    | 45    | 5.0% |
| Manhattan at Times Square 790 7th Avenue           | Feb-15    | 689   | 3.5% |
| The Waldorf Astoria: 301 Park Avenue               | Feb-15    | 1,413 | 3.0% |
| Sofitel: 43-45 West 44th Street                    | Nov-14    | 398   | 4.9% |
| Fairfield Inn and Suites West 33rd Street          | Sep-14    | 239   | 6.3% |
| AKA United Nations                                 | Sep-14    | 95    | 3.7% |
| Holiday Inn: 138 Lafayette Street                  | Jul-14    | 227   | 5.4% |
| Mondrian: 9 Crosby Street                          | Jun-14    | 263   | 5.8% |
| 373 Fifth Avenue                                   | Apr-14    | 70    | 5.8% |
| Hyatt Union Square                                 | Jun-13    | 178   | 6.4% |
| 125 West 26th Street: Holiday Inn                  | Jun-13    | 226   | 8.0% |
| 790 7th Ave: Manhattan at Times Square             | Oct-12    | 665   | 3.4% |
| 232 West 29th Street                               | Jun-12    | 228   | 8.4% |
| 410 East 92 Street                                 | May-12    | 226   | 7.5% |
| Park Central Hotel                                 | Jan-12    | 934   | 5.1% |
| Hampton Inn 35 Street                              | Dec-11    | 146   | 5.4% |
| The Algonquin                                      | Jun-11    | 174   | 3.5% |
|                                                    | min       | 45    | 2.3% |
|                                                    | max       | 1,413 | 8.4% |
|                                                    | avg       | 354   | 5.1% |

The hotel cap rates range from 2.3% to 8.4% with an average of 5.1%. The 2015 sales average 3.4%. We note cap rates have decreased dramatically in 2015. Hotel transactions have slowed along with most asset types in New York City in 2016. Based on the subject’s status as new construction and excellent location in Soho, as well as the highly regarded restaurant and bars, we conclude to a terminal cap rate of 5%.

| Year | # Sales | Avg Cap |
|------|---------|---------|
| 2015 | 5       | 3.4%    |
| 2014 | 6       | 5.3%    |
| 2013 | 2       | 7.2%    |
| 2012 | 4       | 6.1%    |
| 2011 | 5       | 5.0%    |

Below we present more focused cap rate comps for the subject. The information was compiled from Costar and LW Hospitality Advisors, and represents a sample of recent Manhattan hotel sales for which capitalization rates were available. For some of the sales, ADR and occupancy rates were also available. Accurate cap rate data for hotels is difficult to accurately ascertain, and in some cases the 2 sources quoted different cap rates. In this case, we report both cap rates. Hotels sales in which a repositioning or major renovation were planned were excluded from the analysis.

The stabilized cap rates range from 4.9% to 7% (or 6.5%, depending on the source). As a high end, luxury, boutique hotel, we highlighted 4 sales which are most similar to the subject. The Marriott East Side is highlighted because it has a similar ADR and occupancy as the subject. However, this sale is located in an inferior location. This sale traded in April 2015 at a 5.6% cap rate. The Nomad Hotel is a similar trendy hotel. This sale traded in November 2014 at a 5.7% cap rate. However, it is important to note this asset is a leasehold. The Sofitel traded in November 2014 at a 4.9% cap rate. Constructed in 1999, this sale is very similar to the subject based on design. Finally, the James Hotel, a similar trendy hotel constructed in 2010, and located in Soho, traded in May 2013 at a 5.5% cap rate. As noted earlier, cap rates have compressed since 2013.

| Property                  | Sale Date | Rooms | ADR   | Occupancy | Cap Rate                                      | Notes                                        |
|---------------------------|-----------|-------|-------|-----------|-----------------------------------------------|----------------------------------------------|
| Carlton House             | Sep-15    | 317   | \$281 | 85.10%    | 6.30%                                         | \$2.63M spent after sale. Inferior location. |
| GEM Hotel                 | Apr-15    | 45    |       |           | 5.50%                                         | Vastly inferior quality                      |
| Marriott East Side        | Apr-15    | 655   | \$320 | 86.0%     | 5.60%                                         | Inferior location.                           |
| Nomad Hotel               | Nov-14    | 168   | \$424 | 81.5%     | 5.70%                                         | Leasehold.                                   |
| Sofitel                   | Nov-14    | 398   | \$565 |           | 4.90%                                         | Built in 1999. Similar design and quality.   |
| Hampton Inn               | Sep-14    | 148   | \$255 | 87.7%     | 5.65%                                         | Inferior quality and location. Built 2012    |
| Holiday Inn Express       | Sep-14    | 135   | \$233 | 91.8%     | 5.65%                                         | Inferior quality and location. Built 2012    |
| Fairfield Inn (Leasehold) | Sep-14    | 239   | \$279 | 95.0%     | 6.3% or 5.8%<br>3.7% at time of<br>sale, 5.0% | Inferior quality and location. Leasehold.    |
| AKA UN                    | Sep-14    | 295   | \$295 | 100.0%    | proforma                                      | Built 1986. Plans to renovate amenity space. |
| Springhill Suites         | Jul-14    | 173   | \$297 | 88.0%     | 7% or 6.5%                                    | Inferior quality and location.               |
| 373 5 Ave                 | Apr-14    | 70    |       |           | 5.20%                                         | Inferior quality and location.               |
| James Hotel               | May-13    | 114   |       |           | 5.50%                                         | Similar quality and location.                |

In summary, 9 Crosby is most similar to the James Hotel (5.5% cap rate in 2013), the Nomad (5.7% cap rate with a leasehold) and the Sofitel (4.9% cap rate). When considering the subject's good location in Soho, excellent condition, and high end design aesthetic, combined with the upside potential to improve ADR, we believe our cap rates are justified.

The Cash Flow Analysis is presented on the following page.



### **Going In Capitalization Rate Analysis**

Our value translates into a going in cap rate of 5.34%. This is at the low end of the comparable investment surveys but is directly supported by the comparable New York sales. Again, this is reasonable based on the subject's location in a prime tourist destination in New York City. Our comparable sales exhibit cap rates ranging from 2.25% to 8.4% with an average of 5.1%, and a 2015 average of 3.4%

### **Final Value Conclusion**

Based on our 10-year DCF, our final value conclusion as of December 31, 2016 is \$259,000,000.

**VALUE AS OF DECEMBER 31, 2016**

**\$259,000,000**

## SALES COMPARISON APPROACH

In the Sales Comparison Approach, fair value is estimated by comparing the subject property to similar properties that have been sold recently or for which offers to purchase have been made. A major premise of the Sales Comparison Approach is that the fair value of a property is directly related to the prices of comparable, competitive properties.

The Sales Comparison Approach is based on the principle of substitution, which implies that a knowledgeable investor will pay no more for a property than the price that would be paid for a substitute property of similar utility and desirability. The procedure involved in this Approach is to research the market for sales of improved properties which are comparable to the subject, select appropriate units of comparison, adjust the sale prices to the subject, and then reconcile the range of adjusted sale prices into a single indication of value for the subject property.

### Unit of Comparison

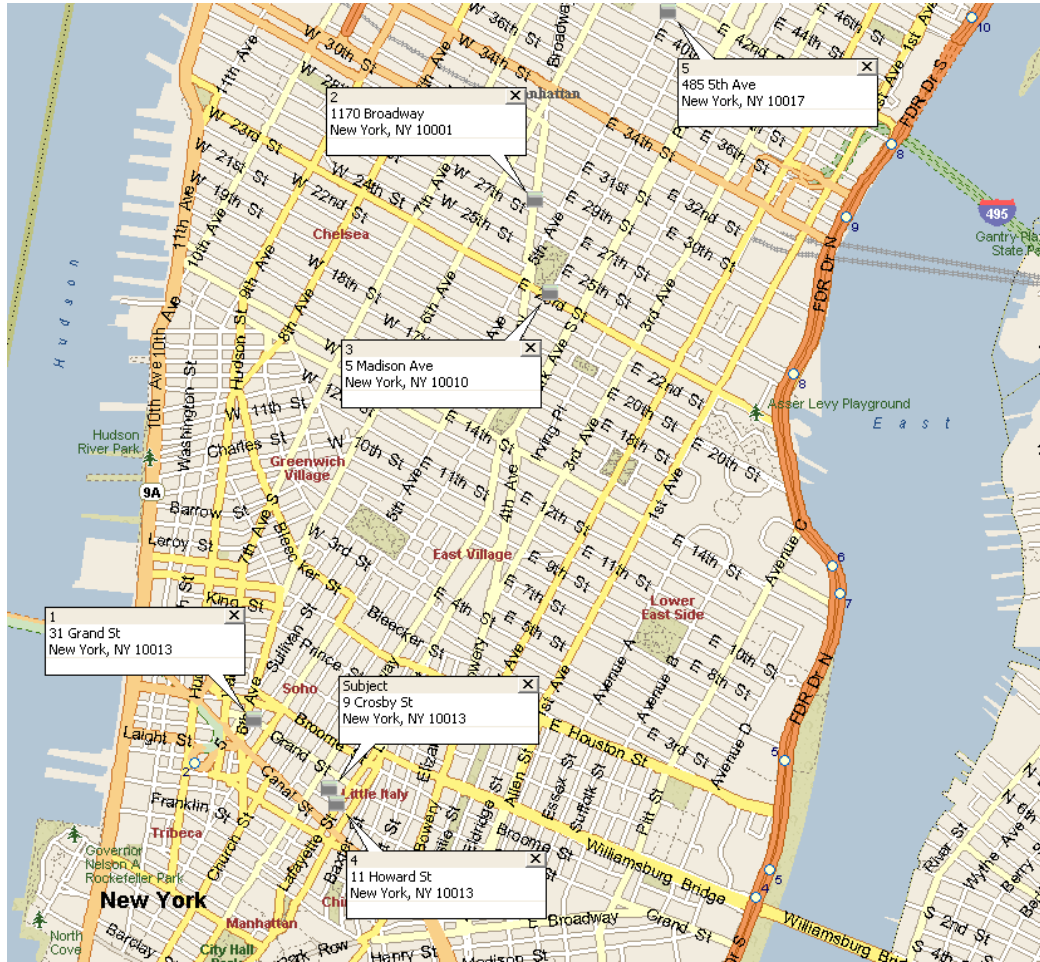
In order to analyze comparable sales, it is generally necessary to convert the sale prices to an appropriate unit of comparison. This process facilitates price comparisons between properties of different sizes, and it also enables the appraiser to adjust for qualitative differences. Since lodging properties are analyzed by their capacity to generate income per room (RevPAR), it is our view that an analysis of sales of lodging properties based on price per room would result in the most credible indication of value.


We researched and analyzed sales of lodging properties in the New York City area over the past year, and presented those which we view as the most competitive in support of our opinion of value.

### Summary of Comparable Sales

| No.     | Address                                       | Sale Date | Rooms (Keys) | Sale Price    | Sale Price Per Room |
|---------|-----------------------------------------------|-----------|--------------|---------------|---------------------|
| 1       | The James: 31 Grand Street                    | May-13    | 114          | \$85,000,000  | \$745,614           |
| 2       | NoMad Hotel: 1170 Broadway                    | Nov-14    | 168          | \$150,000,000 | \$892,857           |
| 3       | New York Edition Clocktower: 5 Madison Avenue | Apr-15    | 273          | \$343,000,000 | \$1,256,410         |
| 4       | 11 Howard Street                              | Apr-16    | 221          | \$170,000,000 | \$769,231           |
| 5       | Andaz 5th Avenue: 485 5th Avenue              | Jun-16    | 184          | \$215,200,000 | \$1,169,565         |
| Low     |                                               |           | 114          | \$85,000,000  | \$745,614           |
| High    |                                               |           | 273          | \$343,000,000 | \$1,256,410         |
| Average |                                               |           | 192          | \$192,640,000 | \$966,735           |

### COMPARABLE LODGING PROPERTY SALES



|                               |                                                                                                                                                                                                                |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SALE NO:</b>               | 1                                                                                                                                                                                                              |
|                               |                                                                                                                              |
| <b>LOCATION:</b>              | The James: 31 Grand Street<br>New York, NY                                                                                                                                                                     |
| <b>BLOCK/LOT:</b>             | 227/52                                                                                                                                                                                                         |
| <b>SITE AREA (SF):</b>        | 11,335                                                                                                                                                                                                         |
| <b>GBA (ABOVE GRADE):</b>     | 102,520                                                                                                                                                                                                        |
| <b>NUMBER OF ROOMS:</b>       | 114                                                                                                                                                                                                            |
| <b>PROPERTY DESCRIPTION:</b>  | A 20-story hotel.                                                                                                                                                                                              |
| <b>SALE DATE:</b>             | May 1, 2013                                                                                                                                                                                                    |
| <b>YEAR BUILT:</b>            | 1910                                                                                                                                                                                                           |
| <b>GRANTOR:</b>               | BCRE Grand Street Owner LLC                                                                                                                                                                                    |
| <b>GRANTEE:</b>               | The Prudential Insurance Company of America                                                                                                                                                                    |
| <b>SALE PRICE:</b>            | \$85,000,000                                                                                                                                                                                                   |
| <b>PRICE PER ROOM:</b>        | \$745,614.04                                                                                                                                                                                                   |
| <b>PRICE PER SQUARE FOOT:</b> | \$829.11                                                                                                                                                                                                       |
| <b>TERMS:</b>                 | Market                                                                                                                                                                                                         |
| <b>DOCUMENT NUMBER:</b>       | 2013000199180                                                                                                                                                                                                  |
| <b>COMMENTS</b>               | This is the sale of a 20 story hotel located in Soho. Amenities include a gym, business center, restaurant operated by David Burke, pool with cabanas, bar with indoor/outdoor seating, and a roof top lounge. |

SALE NO: 2



|                               |                                                                                                                                                                                                                                                               |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>LOCATION:</b>              | NoMad Hotel: 1170 Broadway<br>New York, NY                                                                                                                                                                                                                    |
| <b>BLOCK/LOT:</b>             | 829/50                                                                                                                                                                                                                                                        |
| <b>SITE AREA (SF):</b>        | 13,474                                                                                                                                                                                                                                                        |
| <b>GBA (ABOVE GRADE):</b>     | 142,633                                                                                                                                                                                                                                                       |
| <b>NUMBER OF ROOMS:</b>       | 168                                                                                                                                                                                                                                                           |
| <b>PROPERTY DESCRIPTION:</b>  | A 12-story hotel                                                                                                                                                                                                                                              |
| <b>SALE DATE:</b>             | November 26, 2014                                                                                                                                                                                                                                             |
| <b>YEAR BUILT:</b>            | 1903/renovated 2012                                                                                                                                                                                                                                           |
| <b>GRANTOR:</b>               | Square Mile Capital Management LLC                                                                                                                                                                                                                            |
| <b>GRANTEE:</b>               | The Sydell Group                                                                                                                                                                                                                                              |
| <b>SALE PRICE:</b>            | \$150,000,000                                                                                                                                                                                                                                                 |
| <b>PRICE PER ROOM:</b>        | \$892,857                                                                                                                                                                                                                                                     |
| <b>CAP RATE:</b>              | 5.70%                                                                                                                                                                                                                                                         |
| <b>PRICE PER SQUARE FOOT:</b> | \$1,052                                                                                                                                                                                                                                                       |
| <b>TERMS:</b>                 | Market                                                                                                                                                                                                                                                        |
| <b>DOCUMENT NUMBER:</b>       | NA                                                                                                                                                                                                                                                            |
| <b>COMMENTS</b>               | This 168 key, full service hotel is located on the corner of Broadway and West 28th Street in NoMad. The property has a restaurant, bar and 4,000 SF of event space. No gym. This is a leasehold. The hotel houses a renowned restaurant by chef Daniel Humm. |

SALE NO:

3



LOCATION:

New York Edition Clocktower: 5 Madison Avenue  
New York, NY

BLOCK/LOT:

853/1

SITE AREA (SF):

6,360

GBA (ABOVE GRADE):

267,000

NUMBER OF ROOMS:

273

PROPERTY DESCRIPTION:

A 41-story hotel

SALE DATE:

April 1, 2015

YEAR BUILT:

1909/Renovated 2015

GRANTOR:

MI NY Clock Tower LLC (c/o Marriott International Inc.)

GRANTEE:

Black Slate F 2013 LLC (c/o Abu Dhabi Investment Authority)

SALE PRICE:

\$343,000,000

PRICE PER ROOM:

\$1,256,410

PRICE PER SQUARE FOOT:

\$1,285

TERMS:

Market

DOCUMENT NUMBER:

2015000115493

COMMENTS

This is a sale of the New York Edition Clocktower which was completed in May 2015. The sale occurred during the final stages of renovation. The property is located on the corner of Madison Avenue and 24th Street, directly across from Madison Square Park. EDITION is a partnership between Marriott and Ian Schrager, and Marriott will operate the hotel. The hotel will contain 273 keys, a restaurant, meeting space, gym, lobby bar, and spa. The 41-story building was constructed in 1909 as the headquarters for Metropolitan Life Insurance Company, and is a landmark. The contract was signed in January 2014.

|                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                   |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>SALE NO:</b>               | 4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |  |
| <b>LOCATION:</b>              | 11 Howard Street<br>New York, NY                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                   |
| <b>BLOCK/LOT:</b>             | 209/19                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                   |
| <b>SITE AREA (SF):</b>        | 8,380                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                   |
| <b>GBA (ABOVE GRADE):</b>     | 112,900                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                   |
| <b>NUMBER OF ROOMS:</b>       | 221                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                   |
| <b>PROPERTY DESCRIPTION:</b>  | A 11-story hotel                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                   |
| <b>SALE DATE:</b>             | April 14, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                   |
| <b>YEAR BUILT:</b>            | 1961/Renovated 2015                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                   |
| <b>GRANTOR:</b>               | Soho Hotel Owner LLC                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                   |
| <b>GRANTEE:</b>               | CR1 Howard Street LLC                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                   |
| <b>SALE PRICE:</b>            | \$170,000,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   |
| <b>PRICE PER ROOM:</b>        | \$769,231                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                   |
| <b>PRICE PER SQUARE FOOT:</b> | \$1,506                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                   |
| <b>TERMS:</b>                 | Market                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                   |
| <b>DOCUMENT NUMBER:</b>       | 2016000136669                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   |
| <b>COMMENTS</b>               | 11 Howard Street/138 Lafayette Street was acquired in a sale leaseback transaction on April 14, 2016 for \$170,000,000 (\$769,230/room). On the same day, a new Memorandum of Lease was sold in the amount of \$138,050,500 to RFR Holding LLC by Commerz Real. The lease is a 10-year term with 2 options to extend the term of the Lease for two successive periods of 5 years each. The term of the Lease commenced on April 14, 2016 and expires on April 30, 2026. We are not privy to any other details of the lease. There is a total of 221 rooms and the asset was renovated in 2015-2016. Amenities include a gym, conference center and several trendy restaurants/bars but some of the amenities were not open as of the date of sale. The property is located one block from the subject in Soho. |                                                                                   |

SALE NO:

5



LOCATION:

Andaz 5th Avenue: 485 5th Avenue  
New York, NY

BLOCK/LOT:

1276/1

SITE AREA (SF):

17,550

GBA (ABOVE GRADE):

190,357

PROPERTY DESCRIPTION:

A 14-story hotel

SALE DATE:

June 24, 2016

YEAR BUILT:

1914/renovated 2011

GRANTOR:

H.E. Newport, LLC

GRANTEE:

TAK Hospitality, LLC

SALE PRICE:

\$215,200,000

PRICE PER ROOM:

\$1,169,565

PRICE PER SQUARE FOOT:

\$1,131

TERMS:

Market

DOCUMENT NUMBER:

2016000235990

COMMENTS

This is the sale of the Andaz 5th Avenue located on the corner of 41 Street and 5th Avenue in Midtown Manhattan. The property was converted from an office building in 2010/2011. The hotel includes 184 guest rooms (including 42 hotel suites), a full-service restaurant on the ground floor, a popular bar in the cellar, and an open-air courtyard adjacent to expansive meeting and event space.

## ADJUSTMENTS

Adjustments to the comparable sales have been considered based on comparison to the subject for property rights, financing terms, conditions of sale, market conditions, location, size, branding, utility/amenities, and condition.

- Property Rights Appraised:** The purpose of this adjustment is to account for differences in the property rights which were transferred with the sale. The property rights being valued in this analysis are the fee simple interest of the subject. Sale 2 is a leasehold and warrants an upward adjustment. Note that we are not privy to the terms of the lease, and the actual lease terms can have a substantial impact on value. Sale 4 was a sale leaseback transaction and warrants a small upward adjustment.
- Financing:** The purpose of adjusting for financing terms is to determine cash equivalent sale prices for the comparable sales. All of the sales were cash transactions or financed at market rates. No adjustments were required.
- Conditions of Sale:** This adjustment refers to the motivations of the buyer and seller involved in a particular transaction. No adjustments were required.
- Market Conditions:** Sale 1 transacted in 2013. Cap rates have compressed at least 1% between 2013 and year end 2015, as shown in the cap rate comps table in the income approach. 1% cap rate compression equates to a 20% increase in value. We apply a 20% increase to sale 1. Sale 2 transacted in late 2014 and warrants a 3% increase. Sale 3 occurred in early 2015 and warrants a small upward adjustment. Sales 4 and 5 transacted in 2016 and are not adjusted.
- Location:** The subject is well-located in Soho, a hip and trendy neighborhood. The subject has restaurants and bars that appeal to both tourists and local residents.
- Sale 1 is similarly located in Soho, but is within close proximity to the Holland Tunnel, a congested and less desirable area. This sale warrants an upward adjustment.
- Sale 2 is located in NoMad, a similarly desirable location. No adjustment is warranted.
- Sale 3 is located on 24<sup>th</sup> Street and Madison Avenue, across from Madison Square Park. This is a similarly desirable location. No adjustment is warranted.

Sale 4 is one block from the subject and is not adjusted.

Sale 5 is in Midtown, across 5<sup>th</sup> Avenue from the New York Public Library and Bryant Park. This is a superior hotel location. Sale 5 is adjusted downward.

**Size:**

This adjustment accounts for the difference in size between each of the comparables and the subject property. The subject has 264 guest rooms while the sales range from 114 to 273 guest rooms. No adjustments are required.

**Branding:**

Sale 3 is a Marriott Edition and Sale 5 is an Andaz, both of which are upscale brands. These sales warrant downward adjustments as they are affiliated with a major international brand. No further adjustments are warranted.

**Utility/amenities:**

This adjustment accounts for such factors as building height, exterior appeal, frontage and amenities for each comparable. Sale 3 warrants a downward adjustment to account for its ICAP tax abatement. No other adjustments are warranted.

**Condition:**

The subject was constructed in 2011 and is in excellent condition. It has hip, modern, fashion forward décor that is appealing to most travelers. In addition, the lobby, restaurant, and common areas were refreshed this year with new art, décor, and finishes. All of the sales were constructed/renovated within the past few years and have a similar hip design. Sale 3 was completed in 2015 and has superior finishes. This sale warrants a downward adjustment. Sale 4 warrants a small upward adjustment because the asset was not fully operational at time of sale.

**COMPARABLE SALES ADJUSTMENT GRID**

| Sale No.                       | 1                             | 2                             | 3                                                   | 4                   | 5                                      |
|--------------------------------|-------------------------------|-------------------------------|-----------------------------------------------------|---------------------|----------------------------------------|
| Address:                       | The James: 31<br>Grand Street | NoMad Hotel:<br>1170 Broadway | New York Edition<br>Clocktower: 5<br>Madison Avenue | 11 Howard<br>Street | Andaz 5th<br>Avenue: 485 5th<br>Avenue |
| Sale Date:                     | 5/1/2013                      | 11/26/2014                    | 4/1/2015                                            | 4/14/2016           | 6/24/2016                              |
| Rooms:                         | 114                           | 168                           | 273                                                 | 221                 | 184                                    |
| Sale Price:                    | \$85,000,000                  | \$150,000,000                 | \$343,000,000                                       | \$170,000,000       | \$215,200,000                          |
| Sale Price Per Room:           | <b>\$745,614</b>              | <b>\$892,857</b>              | <b>\$1,256,410</b>                                  | <b>\$769,231</b>    | <b>\$1,169,565</b>                     |
| Property Rights:               | 0%                            | 10%                           | 0%                                                  | 5%                  | 0%                                     |
| Adjusted Price Per Room:       | \$745,614                     | \$982,143                     | \$1,256,410                                         | \$807,692           | \$1,169,565                            |
| Financing Terms:               | 0%                            | 0%                            | 0%                                                  | 0%                  | 0%                                     |
| Adjusted Price Per Room:       | \$745,614                     | \$982,143                     | \$1,256,410                                         | \$807,692           | \$1,169,565                            |
| Conditions of Sale:            | 0%                            | 0%                            | 0%                                                  | 0%                  | 0%                                     |
| Adjusted Price Per Room:       | \$745,614                     | \$982,143                     | \$1,256,410                                         | \$807,692           | \$1,169,565                            |
| Market Conditions:             | 20%                           | 3%                            | 2%                                                  | 0%                  | 0%                                     |
| Adjusted Price Per Room:       | \$894,737                     | \$1,011,607                   | \$1,281,538                                         | \$807,692           | \$1,169,565                            |
| Location:                      | 5%                            | 0%                            | 0%                                                  | 0%                  | -10%                                   |
| Size:                          | 0%                            | 0%                            | 0%                                                  | 0%                  | 0%                                     |
| Branding:                      | 0%                            | 0%                            | -10%                                                | 0%                  | -10%                                   |
| Utility/Amenities:             | 0%                            | 0%                            | -5%                                                 | 0%                  | 0%                                     |
| Condition:                     | <u>0%</u>                     | <u>0%</u>                     | <u>-10%</u>                                         | <u>5%</u>           | <u>0%</u>                              |
| Total Adjustments:             | <b>5%</b>                     | <b>0%</b>                     | <b>-25%</b>                                         | <b>5%</b>           | <b>-20%</b>                            |
| <b>Adjusted Price Per Room</b> | <b>\$939,474</b>              | <b>\$1,011,607</b>            | <b>\$961,154</b>                                    | <b>\$848,077</b>    | <b>\$935,652</b>                       |
|                                | <b>Unadjusted</b>             |                               |                                                     | <b>Adjusted</b>     |                                        |
| LOW                            | \$745,614                     |                               |                                                     | \$848,077           |                                        |
| HIGH                           | \$1,256,410                   |                               |                                                     | \$1,011,607         |                                        |
| AVERAGE                        | \$966,735                     |                               |                                                     | \$939,193           |                                        |
| MEDIAN                         | \$892,857                     |                               |                                                     | \$939,474           |                                        |

**Reconciliation**

Before adjustments, the comparable sales show a price range from \$745,614 to \$1,256,410 per room, with an average of \$966,735 and a median of \$892,857 per room. After adjustments, the comparable sales show a tighter range of \$848,077 to \$1,011,607 per room with an average of \$939,193 and a median of \$939,474 per room.

Sale 1 is the most similar to the subject, as both are located in Soho, and both were constructed approximately 5 years ago. However, sale 1 closed in 2013, and values have increased dramatically since then. Sale 2 is a similar hip hotel located in the NoMad neighborhood. However, this sale is a leasehold. Sale 2 has an adjusted price of \$1,011,607 per key. Sale 3 (Clocktower) and 5 (Andaz) are the most desirable hotel properties in our sales comparison approach. These assets have an adjusted price of \$961,154 and \$935,652 per key, which represents the high end of the range. Sale 4 is located one block from the subject and is a similar trendy hotel. This was a sale leaseback transaction and we do not know the most of the details

about the lease. Further, the hotel was not entirely completed and the restaurants were not opened at the time of sale.

Overall the subject is most similar to sales 1 and 4 based on location, age of construction/renovation, and quality/design. Sale 1 transacted in 2013 and values have increased dramatically since that time. As mentioned above, Sale 4 was a sale leaseback transaction. We do not know the significant details of the lease and therefore cannot analyze the financial impact of the lease on the sale transaction. Further, the hotel was not entirely completed and the restaurants were not opened at the time of sale. Therefore, we emphasize sale 1 which traded for an adjusted price of \$939,474 per room. Considering the recent physical and financial improvements to the subject since new management arrived in May 2016, we conclude to a value indication of \$950,000 per room. We add the NPV of the ICAP to our value. The total value is calculated as follows:

**VALUE CONCLUSION**

| Rooms |   | Value Per Room |   | Total Value   |   | ICAP        | Total Value Rounded |
|-------|---|----------------|---|---------------|---|-------------|---------------------|
| 264   | x | \$950,000      | = | \$250,800,000 | + | \$6,900,000 | \$258,000,000       |

**SALES COMPARISON APPROACH****DECEMBER 31, 2016****\$258,000,000**

**RECONCILIATION AND FINAL VALUE ESTIMATE**

The estimated values arrived at by the approaches to value used in this report are as follows:

| Approach                  | Value            | Date              | Value Conclusion |
|---------------------------|------------------|-------------------|------------------|
| Sales Comparison Approach | As Is Fair value | December 31, 2016 | \$258,000,000    |
| Income Approach           | As Is Fair value | December 31, 2016 | \$259,000,000    |

The Cost Approach is traditionally a good indicator of value when properties being appraised are new or close to new and during periods when there is little external obsolescence. The cost approach has limited utility in the valuation of existing hotels. The quantification of external and incurable functional obsolescence is based on numerous adjustments. It is our experience that knowledgeable purchasers of complex hotel properties are more concerned with the economics of the investment. Therefore, the cost approach has little significance. In light of its minimal value and the difficulty in quantifying the varying sources of depreciation, we have not utilized the cost approach in estimating the value of the subject property.

To estimate the subject property's value via the Income Capitalization Approach, we have analyzed the local market for transient accommodations, examined the competitive environment, projected occupancy and average rate levels, and developed a forecast of income and expense that reflects anticipated income trends and cost components through a stabilized year of operation. Through a discounted cash flow and income capitalization procedure, the value of each component was calculated; the total of the mortgage and equity components equates to the value of the property. Our experience indicates that the procedures used in estimating fair value by the income capitalization approach are comparable to those employed by the hotel investors who constitute the marketplace. For this reason, we believe that the income capitalization approach produces a credible value estimate.

The Sales Comparison Approach is considered a reliable indicator of value when few differences exist between the comparable sales and the subject, and the sales data collected is considered to be reliable and accurate. 2015 was an extraordinarily active year for hotel sales in Manhattan, and there is continued strong demand for hotel properties in New York City from a variety of investors. However, due to the inherent differences between the subject and the sales, we have utilized the Sales Comparison Approach mainly as a check against our value via the Income Approach. Our value via the Income Approach is well supported by the Sales Comparison Approach.

The final value conclusion for the subject property is as follows:

|                  |                   |               |
|------------------|-------------------|---------------|
| Value Type       | Date              | Value         |
| As Is Fair Value | December 31, 2016 | \$259,000,000 |

**ADDENDA**

- SENSITIVITY ANALYSIS
- HISTORICAL VALUES
- PPA
- CONTINGENT AND LIMITING CONDITIONS
- CERTIFICATION
- QUALIFICATIONS
- APPRAISER'S STATE CERTIFICATION

**SENSITIVITY ANALYSIS**

|          |               |               |               |               |               |
|----------|---------------|---------------|---------------|---------------|---------------|
| Cap Rate |               |               |               |               |               |
| % Change | -10%          | -5%           | 5.00%         | 5%            | 10%           |
|          | 4.50%         | 4.75%         |               | 5.25%         | 5.50%         |
| Value    | \$277,000,000 | \$267,000,000 | \$259,000,000 | \$251,000,000 | \$244,000,000 |

|                |               |               |               |               |               |
|----------------|---------------|---------------|---------------|---------------|---------------|
| Occupancy Rate |               |               |               |               |               |
| % Change       | -10%          | -5%           | 87.50%        | 5%            | 10%           |
|                | 78.75%        | 83.13%        |               | 91.88%        | 96.25%        |
| Value          | \$230,000,000 | \$244,000,000 | \$259,000,000 | \$273,000,000 | \$288,000,000 |

|          |               |               |               |               |               |
|----------|---------------|---------------|---------------|---------------|---------------|
| ADR      |               |               |               |               |               |
| % Change | -10%          | -5%           | \$345.00      | 5%            | 10%           |
|          | \$310.50      | \$327.75      |               | \$362.25      | \$379.50      |
| Value    | \$230,000,000 | \$244,000,000 | \$259,000,000 | \$273,000,000 | \$289,000,000 |

|               |               |               |               |               |               |
|---------------|---------------|---------------|---------------|---------------|---------------|
| Discount Rate |               |               |               |               |               |
| % Change      | -10%          | -5%           | 7.00%         | 5%            | 10%           |
|               | 6.50%         | 6.75%         |               | 7.25%         | 7.50%         |
| Value         | \$269,000,000 | \$264,000,000 | \$259,000,000 | \$254,000,000 | \$249,000,000 |

|          |               |               |                 |               |               |
|----------|---------------|---------------|-----------------|---------------|---------------|
| ADR %    |               |               | 2% year 1, then |               |               |
| % Change | 2.50%         | 2.75%         | 3.00%           | 3.25%         | 3.50%         |
| Value    | \$249,000,000 | \$254,000,000 | \$259,000,000   | \$264,000,000 | \$269,000,000 |

## HISTORICAL VALUES

| Date              | Value         |
|-------------------|---------------|
| December 31, 2016 | \$259,000,000 |
| June 30, 2016     | \$257,000,000 |
| December 31, 2015 | \$260,000,000 |
| March 6, 2015     | \$268,000,000 |
| June 30, 2014     | \$250,000,000 |

## PURCHASE PRICE ALLOCATION

There are potentially three components that constitute the total value of an asset: real property, personal property including furniture, fixtures & equipment (FF&E) and intangible assets (goodwill, business values).

As the subject was recently acquired and rebranded, we do not allocate any value to intangibles or goodwill.

The next step in allocating the value is to determine the value of the land and the depreciated value of the improvements. Based on the land sales below we conclude to a value of \$750 for the subject's land. This is higher than the comparables, and the subject allows for a significantly taller development.

### COMPARABLE SALES SUMMARY CHART

| Sale No. | Address                 | Sale Price   | Sale Date | Zoning                  | Buildable Area | Price PSF Buildable |
|----------|-------------------------|--------------|-----------|-------------------------|----------------|---------------------|
| 1        | 287 East Houston Street | \$15,276,875 | Nov-14    | R8A with a C1-5 overlay | 30,100         | \$508               |
| 2        | 136-142 Bow ery         | \$45,518,705 | Oct-14    | C6-1G                   | 76,998         | \$591               |
| 3        | 171-173 Chrystie Street | \$15,078,630 | Oct-14    | C6-3A                   | 26,802         | \$563               |
| 4        | 50-62 Clinton Street    | \$28,125,325 | Oct-14    | R7A with a C1-5 overlay | 40,000         | \$703               |
| 5        | 24 Second Avenue        | \$32,022,680 | Jul-14    | C6-2A and R8B           | 56,261         | \$569               |
| 6        | 347 Bow ery             | \$19,083,080 | Jun-13    | C6-1                    | 29,622         | \$644               |

The site area is 14,470 square feet and the allowable FAR per zoning is 5.00, yielding a buildable area of 72,350. However the subject was constructed using air rights. According to the NYC Department of Buildings, the new building has a zoning area of 116,805 square feet. We will utilize this value in our land valuation. Based on a zoning area of 116,805 and a land value of \$750 per square foot, the value of the land is \$87,603,750.

### Depreciation

According to Marshall & Swift, hotels from the same scale have a useful life of 60 years. The table below summarizes the useful life of the building improvements and FF&E for 4 major hotel groups:

| <b>Hotel group</b> | <b>FF&amp;E useful life (yrs)</b> |
|--------------------|-----------------------------------|
| Starwood           | 3-10                              |
| Hyatt              | 3-20                              |
| Melia              | 3-18                              |
| Rezidor            | 5-20                              |

Buildings in New York City tend to last significantly longer than their useful life and the subject received a refreshing of décor, common areas and the restaurant, which extends the useful life. Based on the data below, we project a useful life of 60 years for the building and 11 years for the FF&E. We apply straight line depreciation. The building is 5 years old. Note the land does not depreciate.

Based on a total value of \$259,000,000, \$171,396,250 is allocated to the building and FF&E.

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## ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report has been made with the following general assumptions:

1. Any legal description or plats reported herein are assumed to be accurate. Any sketches, surveys, plats, photographs, drawings or other exhibits are included only to assist the intended user to better understand and visualize the subject property, the environs, and the competitive data. We have made no survey of the property and assume no responsibility in connection with such matters.
2. The appraiser has not conducted any engineering or architectural surveys in connection with this appraisal assignment. Information reported pertaining to dimensions, sizes, and areas is either based on measurements taken by the appraiser or the appraiser's staff or was obtained or taken from referenced sources and is considered reliable. No responsibility is assumed for the costs of preparation or for arranging geotechnical engineering, architectural, or other types of studies, surveys, or inspections that require the expertise of a qualified professional.
3. No responsibility is assumed for matters legal in nature. Title is assumed to be good and marketable and in fee simple unless otherwise stated in the report. The property is considered to be free and clear of existing liens, easements, restrictions, and encumbrances, except as stated.
4. Unless otherwise stated herein, it is assumed there are no encroachments or violations of any zoning or other regulations affecting the subject property and the utilization of the land and improvements is within the boundaries or property lines of the property described and that there are no trespasses or encroachments.
5. BBG, Inc. assumes there are no private deed restrictions affecting the property which would limit the use of the subject property in any way.
6. It is assumed the subject property is not adversely affected by the potential of floods; unless otherwise stated herein.
7. It is assumed all water and sewer facilities (existing and proposed) are or will be in good working order and are or will be of sufficient size to adequately serve any proposed buildings.
8. Unless otherwise stated within the report, the depiction of the physical condition of the improvements described herein is based on visual inspection. No liability is assumed for the soundness of structural members since no engineering tests were conducted. No liability is assumed for the condition of mechanical equipment, plumbing, or electrical components, as complete tests were not made. No responsibility is assumed for hidden, unapparent or masked property conditions or characteristics that were not clearly apparent during our inspection.
9. If building improvements are present on the site, no significant evidence of termite damage or infestation was observed during our physical inspection, unless so stated in the report. No termite inspection report was available, unless so stated in the report. No responsibility is assumed for hidden damages or infestation.
10. Any proposed or incomplete improvements included in this report are assumed to be satisfactorily completed in a workmanlike manner or will be thus completed within a reasonable length of time according to plans and specifications submitted.

11. No responsibility is assumed for hidden defects or for conformity to specific governmental requirements, such as fire, building, safety, earthquake, or occupancy codes, except where specific professional or governmental inspections have been completed and reported in the appraisal report.
12. Responsible ownership and competent property management are assumed.
13. The appraisers assume no responsibility for any changes in economic or physical conditions which occur following the effective date of value within this report that would influence or potentially affect the analyses, opinions, or conclusions in the report. Any subsequent changes are beyond the scope of the report.
14. The value estimates reported herein apply to the entire property. Any proration or division of the total into fractional interests will invalidate the value estimates, unless such proration or division of interests is set forth in the report.
15. Any division of the land and improvement values estimated herein is applicable only under the program of utilization shown. These separate valuations are invalidated by any other application.
16. Unless otherwise stated in the report, only the real property is considered, so no consideration is given to the value of personal property or equipment located on the premises or the costs of moving or relocating such personal property or equipment.
17. Unless otherwise stated, it is assumed that there are no subsurface oil, gas or other mineral deposits or subsurface rights of value involved in this appraisal, whether they are gas, liquid, or solid. Nor are the rights associated with extraction or exploration of such elements considered; unless otherwise stated. Unless otherwise stated it is also assumed that there are no air or development rights of value that may be transferred.
18. Any projections of income and expenses, including the reversion at time of resale, are not predictions of the future. Rather, they are our best estimate of current market thinking of what future trends will be. No warranty or representation is made that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the task of an appraiser to estimate the conditions of a future real estate market, but rather to reflect what the investment community envisions for the future in terms of expectations of growth in rental rates, expenses, and supply and demand. The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes with future conditions.
19. Unless subsoil opinions based upon engineering core borings were furnished, it is assumed there are no subsoil defects present, which would impair development of the land to its maximum permitted use or would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.
20. BBG, Inc. representatives are not experts in determining the presence or absence of hazardous substances, defined as all hazardous or toxic materials, wastes, pollutants or contaminants (including, but not limited to, asbestos, PCB, UFFI, or other raw materials or chemicals) used in construction or otherwise present on the property. We assume no responsibility for the studies or analyses which would be required to determine the presence or absence of such substances or for loss as a result of the presence of such substances. Appraisers are not qualified to detect such substances. The client is urged to retain an expert in this field.

21. We are not experts in determining the habitat for protected or endangered species, including, but not limited to, animal or plant life (such as bald eagles, gophers, tortoises, etc.) that may be present on the property. We assume no responsibility for the studies or analyses which would be required to determine the presence or absence of such species or for loss as a result of the presence of such species. The appraiser hereby reserves the right to alter, amend, revise, or rescind any of the value opinions based upon any subsequent endangered species impact studies, research, and investigation that may be provided.
22. No environmental impact studies were either requested or made in conjunction with this analysis. The appraiser hereby reserves the right to alter, amend, revise, or rescind any of the value opinions based upon any subsequent environmental impact studies, research, and investigation that may be provided.
23. The appraisal is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.
24. Neither all nor any part of the contents of this report or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales, or any other media, without the prior written consent and approval of the appraisers. This limitation pertains to any valuation conclusions, the identity of the analyst or the firm and any reference to the professional organization of which the appraiser is affiliated or to the designations thereof.
25. Although the appraiser has made, insofar as is practical, every effort to verify as factual and true all information and data set forth in this report, no responsibility is assumed for the accuracy of any information furnished the appraiser either by the client or others. If for any reason, future investigations should prove any data to be in substantial variance with that presented in this report, the appraiser reserves the right to alter or change any or all analyses, opinions, or conclusions and/or estimates of value.
26. If this report has been prepared in a so-called “public non-disclosure” state, real estate sales prices and other data, such as rents, prices, and financing, are not a matter of public record. If this is such a “non-disclosure” state, although extensive effort has been expended to verify pertinent data with buyers, sellers, brokers, lenders, lessors, lessees, and other sources considered reliable, it has not always been possible to independently verify all significant facts. In these instances, the appraiser may have relied on verification obtained and reported by appraisers outside of our office. Also, as necessary, assumptions and adjustments have been made based on comparisons and analyses using data in the report and on interviews with market participants. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

27. The American Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey or analysis of the property to determine whether or not it is in conformity with the various detailed requirements of ADA. It is possible that a compliance survey of the property and a detailed analysis of the requirements of the ADA would reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative impact upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible noncompliance with the requirements of ADA was not considered in estimating the value of the property.
28. This appraisal report has been prepared for the exclusive benefit of the client. It may not be used or relied upon by any other party. Any other party who is not the identified client within this report who uses or relies upon any information in this report does so at their own risk.
29. The dollar amount of any value opinion herein rendered is based upon the purchasing power and price of the United States Dollar as of the effective date of value. This appraisal is based on market conditions existing as of the date of this appraisal.
30. The right is reserved by the appraiser to make adjustments to the analyses, opinions, and conclusions set forth in this report as may be required by consideration of additional or more reliable data that may become available. No change of this report shall be made by anyone other than the appraiser or appraisers. The appraiser(s) shall have no responsibility for any unauthorized change(s) to the report.
31. If the client instructions to the appraiser were to inspect only the exterior of the improvements in the appraisal process, the physical attributes of the property were observed from the street(s) as of the inspection date of the appraisal. Physical characteristics of the property were obtained from tax assessment records, available plans, if any, descriptive information, and interviewing the client and other knowledgeable persons. It is assumed the interior of the subject property is consistent with the exterior conditions as observed and that other information relied upon is accurate.
32. The submission of this report constitutes completion of the services authorized. It is submitted on the condition the client will provide reasonable notice and customary compensation, including expert witness fees, relating to any subsequent required attendance at conferences, depositions, and judicial or administrative proceedings. In the event the appraiser is subpoenaed for either an appearance or a request to produce documents, a best effort will be made to notify the client immediately. The client has the sole responsibility for obtaining a protective order, providing legal instruction not to appear with the appraisal report and related work files and will answer all questions pertaining to the assignment, the preparation of the report, and the reasoning used to formulate the estimate of value. Unless paid in whole or in part by the party issuing the subpoena or by another party of interest in the matter, the client is responsible for all unpaid fees resulting from the appearance or production of documents regardless of who orders the work.
33. Use of this appraisal report constitutes acknowledgement and acceptance of the general assumptions and limiting conditions, special assumptions (if any), extraordinary assumptions (if any), and hypothetical conditions (if any) on which this estimate of fair value is based.
34. If provided, the estimated insurable value is included at the request of the client and has not been performed by a qualified insurance agent or risk management underwriter. This cost estimate should not be solely relied upon for insurable value purposes. The appraisers are not

familiar with the definition of insurable value from the insurance provider, the local governmental underwriting regulations, or the types of insurance coverage available. These factors can impact cost estimates and are beyond the scope of the intended use of this appraisal. The appraisers are not cost experts in cost estimating for insurance purposes.

**CERTIFICATION**

The appraisers certify that:

- Michelle Zell, MAI has personally inspected and prepared the analysis concerning the real estate that is the subject of this appraisal report.
- Joel Leitner, MAI, CRE, has personally inspected the property and reviewed the analyses, opinions and conclusions concerning the real estate contained in this appraisal report and fully concurs with the final fair value conclusion.
- The statements of fact contained in this report are true and correct.
- The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- The reported analysis, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions.
- The undersigned have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- We have performed appraisal related services pertaining to the subject within the past 3 years.
- Our compensation is not contingent on an action or event resulting from the analysis, opinions or conclusions in, or the use of, this report.
- Our analyses, opinions and conclusions were developed and this report has been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
- No one provided significant professional assistance to the persons signing this appraisal report.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- The undersigned's engagement in this assignment was not contingent upon developing or reporting pre-determined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a pre-determined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- Joel Leitner, MAI, CRE, and Michelle Zell, MAI are currently certified under the continuing education program of the Appraisal Institute. They are also certified by the State of New York as a General Real Estate Appraiser.



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Michelle Zell, MAI  
Senior Appraiser  
State Certified General Appraiser #46-49921



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Joel Leitner, MAI, CRE  
Managing Director  
State Certified General Appraiser #46-3011

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## QUALIFICATIONS



Joel Leitner, MAI, CRE  
Managing Director  
Work: 212.682.0400  
jleitner@bbgres.com

### PROFILE

Joel is a Managing Director at BBG. He has over 27 years of experience in real estate valuation, investment analysis, and consultation. Mr. Leitner's experience includes a diversified background in the valuation of real estate on a national basis for a wide range of applications including market value appraisals, property portfolio consulting and management, investment advisory service, valuations and consulting studies for securitization-equity based and mortgage-backed transactions, purchase price allocations, liquidation sale valuations, condemnation, tax reduction, estates, and expert witness testimony for litigation. These activities have been conducted on behalf of foreign and domestic investment firms including major industrial corporations, leading foreign and domestic financial institutions, individual investors, leading law firms, and government agencies.

Mr. Leitner's areas of specialization include preparation of market value appraisals for all types of real estate with a full range of valuation objectives; investment analysis via computer based lease to lease models and discounted cash flow projections before and after taxes; Ad valorem property appraisals; litigation support; consultation in the negotiations of equity investment acquisitions; market and economic feasibility studies for existing property or proposed development projects; and purchase price allocations.

Mr. Leitner's experience in real estate valuation and consulting has encompassed an extremely diverse range of real estate. This experience includes researching and analyzing various real estate markets within the Tristate area along with testifying as an expert witness in several local and federal courts. Mr. Leitner has recently been appointed to the panel of neutral arbitrators by the American Arbitration Association. Appraisal assignments include industrial facilities, shopping centers and malls, office and medical centers, hotel and motel facilities, and apartment complexes.

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### PROFESSIONAL AFFILIATIONS

MAI designation  
CRE designation

New York University, Adjunct Professor, Masters of Real Estate  
Executive Committee of the Board of Directors of the New York Chapter  
2003 Person of the Year - Appraisal Institute  
2008 President of the Metropolitan New York Chapter  
Member, Real Estate Board of New York - Real Estate Appraisal Committee  
Member, Counselors of Real Estate  
Member, Mortgage Bankers Association of New York

#### **General Certified Appraiser:**

State of New York (License # 46-3011)  
State of New Jersey (License # RG01545)  
State of Connecticut (License # RCG0001050)  
State of Pennsylvania (License # GA003488)  
State of Maryland (License # 28730)

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### EDUCATION

Master Degree in Real Estate Investment, Finance and Valuation, New York University



**Michelle Zell, MAI**  
Senior Appraiser  
Work: 212.682.8293  
mzell@bbgres.com

#### PROFILE

Michelle is a Senior Appraiser at BBG in New York City (formerly Leitner Group). She has extensive experience analyzing all asset types. Appraisal assignments have included a range of property types including rental apartment buildings, condominium and cooperative residential properties, retail properties, hotels, office buildings, restaurants, industrial properties, and vacant land valuation. Michelle specializes in managing large portfolios, and valuing large scale existing and proposed developments. Prior to joining Leitner Group, Michelle received a Masters degree from Emory University and conducted health research for the City of New York. Notable assignments include:

- Valuation of multiple International Bond offerings with total appraised values of \$1B.
- Valuation of Peter Cooper Village and Stuyvesant Town, a rental apartment complex in New York City with 12,000 units.
- The condominium conversion of the Apthorp, a rent stabilized pre-war building.
- Valuation of 701 7th Avenue- a proposed hotel and retail development in Times Square valued at \$2B.

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#### PROFESSIONAL AFFILIATIONS


General Certified Appraiser:  
MAI Designated Member of the Appraisal Institute  
State of New York (License # 46-49921)


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#### EDUCATION

Cornell University, Ithaca, NY, B.S. 1997  
Emory University, Atlanta, GA, M.P.H. 2000

**APPRAISER'S STATE CERTIFICATION**

|                                                                                                  |                                                                                   |                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| UNIQUE ID NUMBER<br>46000003011                                                                  | State of New York<br>Department of State<br><b>DIVISION OF LICENSING SERVICES</b> | FOR OFFICE USE ONLY<br>Control No. <b>89698</b>                                                                                                                 |
| PURSUANT TO THE PROVISIONS OF ARTICLE 6E OF THE EXECUTIVE LAW AS IT RELATES TO R. E. APPRAISERS. |                                                                                   | EFFECTIVE DATE<br>MO   DAY   YR<br>03   28   16                                                                                                                 |
| LEITNER JOEL<br>C/O LEITNER GROUP INC<br>79 MADISON AVE 8TH FL<br>NEW YORK, NY 10016             |                                                                                   | EXPIRATION DATE<br>MO   DAY   YR<br>03   27   18                                                                                                                |
|                 |                                                                                   |                                                                                                                                                                 |
| HAS BEEN DULY CERTIFIED TO TRANSACT BUSINESS AS A<br>R. E. GENERAL APPRAISER                     |                                                                                   |                                                                                                                                                                 |
|                                                                                                  |                                                                                   | <small>In Witness Whereof, The Department of State has caused its official seal to be hereunto affixed</small><br><b>CESAR A. PERALES</b><br>SECRETARY OF STATE |
| <small>DOS-1090 (Rev. 3/01)</small>                                                              |                                                                                   |                                                                                                                                                                 |

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|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| UNIQUE ID NUMBER<br>46000049921                                                                  | State of New York<br>Department of State<br><b>DIVISION OF LICENSING SERVICES</b> | FOR OFFICE USE ONLY<br>Control No. <b>84318</b>                                                                                                                 |
| PURSUANT TO THE PROVISIONS OF ARTICLE 6E OF THE EXECUTIVE LAW AS IT RELATES TO R. E. APPRAISERS. |                                                                                   | EFFECTIVE DATE<br>MO   DAY   YR<br>05   09   15                                                                                                                 |
| ZELL MICHELLE R<br>C/O LEITNER GROUP INC<br>79 MADISON AVE 8TH FL<br>NEW YORK, NY 10016          |                                                                                   | EXPIRATION DATE<br>MO   DAY   YR<br>05   08   17                                                                                                                |
|               |                                                                                   |                                                                                                                                                                 |
| HAS BEEN DULY CERTIFIED TO TRANSACT BUSINESS AS A<br>R. E. GENERAL APPRAISER                     |                                                                                   |                                                                                                                                                                 |
|                                                                                                  |                                                                                   | <small>In Witness Whereof, The Department of State has caused its official seal to be hereunto affixed</small><br><b>CESAR A. PERALES</b><br>SECRETARY OF STATE |
| <small>DOS-1090 (Rev. 3/01)</small>                                                              |                                                                                   |                                                                                                                                                                 |