BROOKLYN BRIDGE
PARK

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Re: Recent Analyses Concerning Pier 6 Development

Brooklyn Bridge Park (BBP) operates under a mandate to be financially self-sustaining. Revenues from approved development sites fund the Park's maintenance and operation expenses. In order to ensure that the development revenue appropriately funds expenses, BBP has created a financial model that projects future revenues and expenses. To date, BBP has successfully leased all of the approved development sites except for the Pier 6 site, which is currently the subject of a Request for Proposals issued in 2014. BBP's model shows that revenues from the Pier 6 site are essential in order to ensure that the Park's operations are fully funded.

Recently released reports by Rosin & Associates (RA), Goldenrod Blue (GB), and others commissioned by People For Green Space Foundation (PFGSF), Brooklyn Heights Association (BHA) and the Brooklyn Bridge Park Defense Fund (BBPDF) claim that BBP will run an excess of $800 million over the next 50 years before even accounting for revenue from the Pier 6 site. They therefore conclude that developing the Pier 6 site is unnecessary for the financial health of the Park.

This conclusion is primarily based on RA's assertion that BBP's financial model does not follow NYC Department of Finance (DOF) methodology and understates the unabated revenue from the BBP development sites' Payments in Lieu of Taxes (PILOTs) by approximately $9 million annually.

RA's assertion is false, as its analysis relies on methodology that is not consistent with that of DOF. Approximately $5.5 million of the $9 million RA identifies as "extra" PILOT payments results from overstating the PILOTs from residential properties. While almost all of the condo properties in DUMBO, Brooklyn Heights and the surrounding neighborhoods are currently paying between $7/SF and $9/SF in taxes, RA asserts that the unabated tax revenue from the BBP developments sites should be over $15.50/SF, approximately double the typical amount. BBP's model is based on the assumption that the unabated revenue would be just over $8/SF, which is entirely consistent with current DOF calculations for similar properties.

RA's projection ascertained rent levels per net square foot from individual condominium units and applied them to the Park development sites. The use of rent per net square foot from individual units is inconsistent with DOF's policy of using revenues per gross square foot from entire rental apartment buildings. By conflating net and gross square footage, RA vastly overstates potential PILOTs. BBP's analysis is far more consistent with DOF procedures than those proposed by RA.

Additionally, RA does not apply its methodology consistently- relying on DOF procedures to project taxes from One Brooklyn Bridge Park (360 Furman) at approximately $8/SF and, without explanation, projecting taxes at the other BBP properties at double that rate.

RA also neglects to account for the as-of-right NYC Coop/Condo Property Tax Abatement, which reduces taxes from these residential properties by 17.5 %. This abatement reduces the projected taxes from BBP residential properties to about $6.50/SF.

The remaining $3.5 million in "extra" revenues comes from three overly aggressive assumptions regarding the Empire Stores development:

- RA ignores the fact that over 1 million SF of new office space will be added in DUMBO over the next few years, doubling the existing inventory, and assumes that Empire Stores will not have any vacancies, both over the short-term and indefinitely.

- RA selectively picks certain retail leases to imply that retail rents on Empire Stores rentals will be 20% higher than the average retail rates Empire Stores is charging in the five retail leases that have been signed to date (comprising more than 70% of the total retail space). RA also uses incorrect information for the two leases they present from Empire Stores, showing rents that are higher than actual rates.

- RA uses a cap rate that is nearly 20% higher than the rate used by DOF in converting operating income to market value. This greatly distorts their projected value.

The reports also oppose the recommendations made by the Park's maritime engineers, CH2M, regarding the maintenance of the Park's maritime structures. The author of this critique, GB, asserts that an alternative, phased epoxy repair approach would be superior because it would have a lower net present value (NPV) and because the remaining useful life of the timber piles supporting the piers is much longer than CH2M's model projects. This analysis fails to take into account both the high rate of cost escalations (avg. 10% annually) associated with maritime repair work over the last five years and the low yield available to BBP under its investment policy, which is geared towards preservation of capital. Additionally, GB does not account for the cost savings associated with economies of scale. When accounting for these factors, the preventative maintenance approach instituted by the Park has a lower NPV. In addition, GB's more optimistic projection of deterioration rates of the timber piles is not supported by the actual experience of experts in the NY Harbor over the last several decades, who instead support CH2M's projections.

Finally, the author is a maritime engineer whose area of expertise is submarine engine repair. By his own admission, he has no experience with timber pile maintenance, no firsthand experience with maritime structures in the NY Harbor, and has never served as an advisor on this topic. CH2M is an acknowledged expert in this field and has advised clients around the globe. BBP has also sought the input of other entities charged with stewardship of large swaths of the NY waterfront who also agree with the recommendations made by CH2M.