

NEW ISSUES

Moody's: Aaa
Fitch: AAA
(See "Ratings" herein)

Book Entry Only



\$87,235,000
BATTERY PARK CITY AUTHORITY
Senior Revenue Bonds
\$56,600,000 Senior Revenue Bonds, Series 2009A
(Federally Taxable—Build America Bonds)
\$30,635,000 Senior Revenue Bonds, Series 2009B
(Tax-Exempt Bonds)

Dated: Date of Delivery

**Due: As set forth on
the inside cover**

The \$56,600,000 aggregate principal amount Battery Park City Authority Senior Revenue Bonds, Series 2009A (Federally Taxable—Build America Bonds) (the “Series 2009A Bonds”) and the \$30,635,000 aggregate principal amount Battery Park City Authority Senior Revenue Bonds, Series 2009B (Tax-Exempt Bonds) (the “Series 2009B Bonds” and, together with the Series 2009A Bonds, the “Series 2009 Bonds”) are issuable only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), to which payments of principal and interest will be made. The Series 2009 Bonds are being issued by the Battery Park City Authority doing business as Hugh L. Carey Battery Park City Authority (the “Authority”). The Series 2009 Bonds will constitute Senior Bonds (as defined in the General Bond Resolution, adopted by the Authority on September 9, 2003 (the “General Resolution”) and as described in Appendix C to this Official Statement), and will be secured by the Collateral on a basis senior to all Junior Bonds and Subordinate Payments, and on a parity with all other Senior Bonds, now or hereafter secured under the General Resolution (each, as defined in the General Resolution).

Purchasers will receive beneficial interests in the Series 2009 Bonds in principal amounts described on the inside cover, in book-entry form only in the denomination of \$5,000 or any integral multiple thereof. So long as Cede & Co. is the registered owner of the Series 2009 Bonds, the principal of (due November 1, 2010 and each November 1 thereafter as shown herein) and interest on (due on May 1, 2010 and on each November 1 and May 1 thereafter) the Series 2009 Bonds are payable to Cede & Co., as nominee for DTC, by The Bank of New York Mellon, New York, New York, as Trustee and Paying Agent. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the DTC Participants, as more fully described herein. The Series 2009 Bonds will be dated their date of delivery and will bear interest from such date until payment of principal has been made.

The Series 2009 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The proceeds of the Series 2009 Bonds, together with other moneys of the Authority, will be used for the following purposes: (1) to provide for ongoing infrastructure and other capital improvements at Battery Park City; (2) to fund any required debt service reserves; and (3) to pay costs of issuance of the Series 2009 Bonds. Payments of principal of and interest on the Series 2009 Bonds will be payable from and secured by a pledge of certain revenues of the Authority described herein.

In the opinion of Bond Counsel to the Authority, interest on the Series 2009A Bonds is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2009B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) such interest is not treated as a preference item in calculating the alternative minimum tax on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2009 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See “TAX MATTERS – The Series 2009A Bonds” and “TAX MATTERS – The Series 2009B Bonds” herein.

THE SERIES 2009 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, WHICH HAS NO TAXING POWER, AND ARE NOT A DEBT OR LIABILITY OF THE STATE OF NEW YORK OR THE CITY OF NEW YORK. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NEW YORK OR THE CITY OF NEW YORK IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009 BONDS, NOR ARE THE SERIES 2009 BONDS “MORAL OBLIGATION” BONDS SECURED BY A DEBT SERVICE OR OTHER RESERVE FUND FOR WHICH STATUTORY PROVISION FOR THE APPROPRIATION OF FUNDS HAS BEEN MADE.

The Series 2009 Bonds are offered for delivery when, as and if issued and delivered to the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Authority by its General Counsel. It is expected that the Series 2009 Bonds will be available for delivery to DTC on or about December 22, 2009.

Siebert Brandford Shank & Co., LLC

Citi

Dated: December 15, 2009

\$87,235,000
BATTERY PARK CITY AUTHORITY
SENIOR REVENUE BONDS

\$56,600,000 SENIOR REVENUE BONDS, SERIES 2009A
(Federally Taxable—Build America Bonds)

Maturities, Amounts, Interest Rates And Price

\$56,600,000 6³/₈% Series 2009A Term Bonds Due November 1, 2039—Price 100% CUSIP¹: 07133AGA4

\$30,635,000 SENIOR REVENUE BONDS, SERIES 2009B
(Tax-Exempt Bonds)

Maturities, Amounts, Interest Rates And Price Or Yields

November 1	Principal	Coupon	Yield	CUSIP¹	November 1	Principal	Coupon	Yield	CUSIP¹
2010	\$245,000	2 %	0.33%	07133AFF4	2017	\$340,000	3 %	2.71%	07133AFN7
2011	255,000	2	0.66	07133AFG2	2018	355,000	3½	2.94	07133AFP2
2012	115,000	2	0.95	07133AFH0	2019	335,000	3½	3.11	07133AFQ0
2013	310,000	2	1.26	07133AFJ6	2020 ²	30,000	3½	3.26	07133AFR8
2014	310,000	2½	1.66	07133AFK3	2021 ²	20,000	3½	3.34	07133AFT4
2015	315,000	2½	2.13	07133AFL1	2023	45,000	3½	3.51	07133AFV9
2016	335,000	3	2.45	07133AFM9	2024	10,000	3½	3.59	07133AFW7

\$1,085,000 5% Series 2009B Term Bonds Due November 1, 2022²—Yield 3.35% CUSIP¹: 07133AFY3

\$1,135,000 5% Series 2009B Term Bonds Due November 1, 2025²—Yield 3.56% CUSIP¹: 07133AFZ0

\$1,720,000 4% Series 2009B Term Bonds Due November 1, 2029—Price 100% CUSIP¹: 07133AFX5

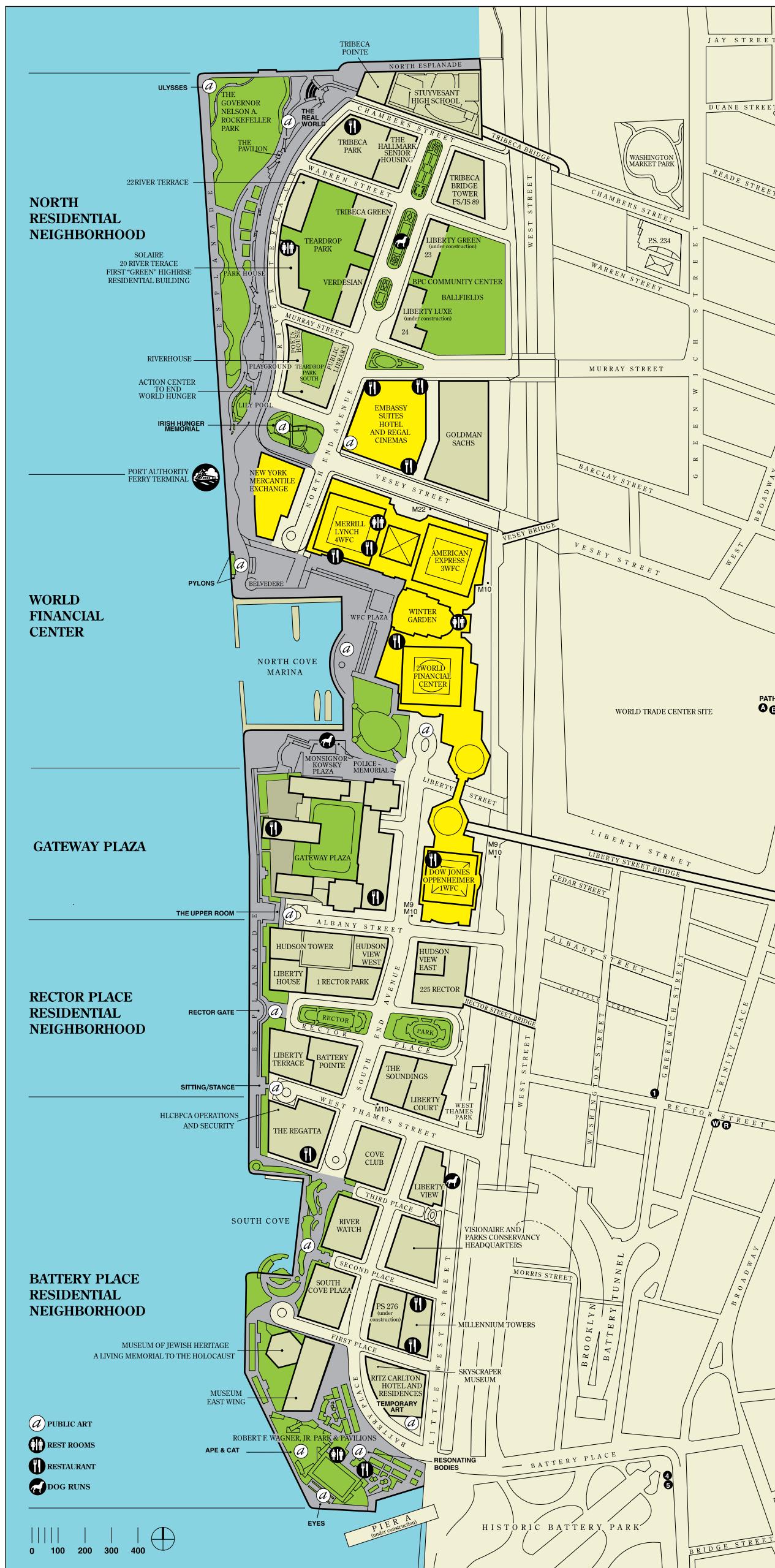
\$1,005,000 4¹/₈ % Series 2009B Term Bonds Due November 1, 2031—Yield 4.19% CUSIP¹: 07133AFU1

\$22,670,000 5% Series 2009B Term Bonds Due November 1, 2034²—Yield 4.20% CUSIP¹: 07133AFS6

¹ CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2009 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2009 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2009 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2009 Bonds.

² Priced to first optional call on November 1, 2019.

BATTERY PARK CITY



This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2009 Bonds to any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement has been prepared by the Authority and provides certain information relating to the Authority in connection with the sale of the Series 2009 Bonds.

The information set forth herein has been obtained from the Authority, CB Richard Ellis, the Real Estate Consultant, and other sources, which are believed by the Authority to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by any of such sources as to information from any other source. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or CB Richard Ellis since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representation must not be relied upon as having been authorized by either of the foregoing.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including the appendices, must be considered in its entirety.

The contents of this Official Statement are not to be construed as legal, business or tax advice. Prospective investors should consult their own attorneys and business and tax advisors as to legal, business and tax advice. In making an investment decision, prospective investors must rely on their own examination of the terms of the offering of the Series 2009 Bonds, including the merits and risks involved. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2009 Bonds.

This Official Statement contains forecasts, projections and estimates that are based on expectations and assumptions that existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions of the State of New York, The City of New York and the Authority, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority and the Underwriters disclaim any obligation or undertaking to release publicly any updates or revisions to any

forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2009 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE SERIES 2009 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT
\$87,235,000
BATTERY PARK CITY AUTHORITY
SENIOR REVENUE BONDS

\$56,600,000 SENIOR REVENUE BONDS, SERIES 2009A
(Federally Taxable—Build America Bonds)
\$30,635,000 SENIOR REVENUE BONDS, SERIES 2009B
(Tax-Exempt Bonds)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to set forth information concerning the Battery Park City Authority, doing business as the Hugh L. Carey Battery Park City Authority (the “Authority”), and the issuance of the Authority’s \$56,600,000 aggregate principal amount Senior Revenue Bonds, Series 2009A (Federally Taxable—Build America Bonds) (the “Series 2009A Bonds”) and \$30,635,000 aggregate principal amount Senior Revenue Bonds, Series 2009B (Tax-Exempt Bonds) (the “Series 2009B Bonds” and, together with the Series 2009A Bonds, the “Series 2009 Bonds”).

All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings ascribed to them in the Authority’s Series 2009 Resolution or the Authority’s General Resolution (each as defined below), as applicable, and as defined in “APPENDIX C - Definitions and Summary of Certain Provisions of the General Resolution” of this Official Statement. Information set forth on the cover and inside cover pages hereof and in the Appendices hereto is part of this Official Statement. Unless otherwise specified herein, references to square footage mean assessor’s square footage.

Authorization

The Series 2009 Bonds are being issued under the authority conferred by the Battery Park City Authority Act, Title 12 of Article 8 of the Public Authorities Law (constituting Chapter 43-a of the Consolidated Laws of New York) as added by Chapter 343 of Laws of New York, 1968, as amended (the “Act”). The Series 2009 Bonds are being issued under and pursuant to the General Bond Resolution, adopted by the Authority on September 9, 2003 (the “General Resolution”), as supplemented by the 2009 Bonds Series Resolution, adopted by the Authority on September 10, 2009 (the “Series 2009 Resolution”; the General Resolution and the Series 2009 Resolution are collectively defined as the “Resolution”).

Battery Park City

The Authority manages and supervises the infrastructure and site development for a mixed commercial and residential planned community, known as Battery Park City (“Battery Park City”). Battery Park City is located in The City of New York (the “City”), State of New

York (the “State”), on an approximately 92-acre site owned by the Authority and situated on the southwest tip of Manhattan fronting the Hudson River (the “Battery Park City Site”). A portion of the eastern boundary of the Battery Park City Site is adjacent to the World Trade Center construction site. A map of Battery Park City containing building site locations is included on the inside cover page of this Official Statement. For a more detailed description of Battery Park City and for a description of certain infrastructure thereto, see “BATTERY PARK CITY.”

Security

The Series 2009 Bonds will constitute Senior Bonds (as defined in the General Resolution and as described in Appendix C to this Official Statement), and will be secured by the Collateral (herein defined) on a basis senior to all Junior Bonds and Subordinate Payments (each as defined in the General Resolution), and on a parity with all other Senior Bonds now or hereafter secured under the General Resolution. For a further description of the security for the Series 2009 Bonds under the Resolution, see “SECURITY FOR THE SERIES 2009 BONDS.”

The Series 2009 Bonds are special obligations of the Authority and are payable from Pledged Sublease Revenues, Swap Receipts, Series 2009A Cash Subsidy Payments, Gross Condemnation Proceeds, all monies in the Pledged Funds, the investments thereof and the proceeds of such investments thereby pledged (collectively, the “Collateral”) (see “SECURITY FOR THE SERIES 2009 BONDS” and “REVENUES FROM SPECIFIED SUBLICENSES”). The Authority has no obligation to supplement such amounts or to provide additional security in the event that the Collateral is inadequate to pay debt service on the Series 2009 Bonds. The Authority has no taxing power. The Series 2009 Bonds are not debts or liabilities of the State or the City, and neither the State nor the City is liable thereon. Neither the faith and credit nor the taxing power of the State or the City is pledged to the payment of the principal of or interest on the Series 2009 Bonds, nor are the Series 2009 Bonds “moral obligation” bonds secured by a debt service or other reserve fund for which statutory provision for the appropriation of funds has been made.

Revenues

The Authority obtains its revenues principally from the leasing and subleasing of parcels in Battery Park City pursuant to long-term net ground leases and subleases (collectively, the “Subleases”). A portion of the rent (“Pledged Sublease Revenues”) payable to the Authority from certain Subleases (“Specified Subleases”) relating to parcels in Battery Park City has been pledged by the Authority to the payment of the Series 2009 Bonds. Specified Subleases relate to: (i) six office buildings containing approximately 10.7 million square feet of office and related retail space including the World Financial Center, the New York Mercantile Exchange and the headquarters of The Goldman Sachs Group, Inc., (ii) 30 residential buildings containing approximately 8,800 residential units totaling approximately 10.2 million square feet and (iii) two hotels. All of the Specified Subleases expire after the final maturity of the Series 2009 Bonds. For a discussion of the Pledged Sublease Revenues that comprise a portion of the Collateral, see “SECURITY FOR THE SERIES 2009 BONDS.”

A substantial component of rental payments comprising a portion of Pledged Sublease Revenues consists of payments in lieu of real property taxes (“PILOT”). The amount of PILOT

is generally based upon (i) the assessed value of the leased premises as determined by the City, (ii) any tax abatement provided for the leased premises and (iii) the tax rate levied by the City. PILOT received under Specified Subleases is subject to change from year to year due to changes in the foregoing components of PILOT. For the period from 2009 to 2039, PILOT payments payable under Specified Subleases relating to executed leases as of the date of this Official Statement are projected by CB Richard Ellis, Inc. (“CB Richard Ellis”), the Authority’s real estate consultant, to comprise approximately 81.4% of the total revenues available to the Authority. PILOT constitutes the largest component of the revenues available to the Authority. See “AUTHORITY FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS,” “CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLEASES - PILOT” and “APPENDIX A - Real Estate Consultant’s Report.”

The ability of each ground lessee to make payments under Specified Subleases is dependent on a number of factors including the ability of the ground lessee to sublet space to office, residential or hotel tenants. No assurance can be given that any current tenants will continue to occupy space in Battery Park City throughout the term of the Series 2009 Bonds. See “CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLEASES - “WFC Lease Expirations” and “Other Factors.”

Plan of Finance

The proceeds of the Series 2009 Bonds, together with other moneys of the Authority will be used for the following purposes: (1) to provide for ongoing infrastructure and other capital improvements at Battery Park City; (2) to fund any required debt service reserves; and (3) to pay costs of issuance of the Series 2009 Bonds.

Description of the Real Estate Consultant’s Report

The Authority has engaged CB Richard Ellis as its real estate consultant to prepare a report (the “Real Estate Consultant’s Report”) for the fiscal years ended October 31, 2009 through 2039, on certain revenues to be derived from the Specified Subleases, which report is attached as “APPENDIX A - Real Estate Consultant’s Report.” The opinions and professional judgments of CB Richard Ellis set forth in the report, which should be read in its entirety, include forecasts that are based upon assumptions and conditions concerning future events and circumstances. Such assumptions and conditions are based upon present circumstances and currently available information and may be affected favorably or unfavorably by future events (including, for example, changes in the assessed values of the respective parcels subject to the Specified Subleases or in the City or State laws or practices with respect to real property tax rates or assessments that would directly affect the amount of PILOT received under the Specified Subleases, the bankruptcy of or defaults by tenants under the Specified Subleases and changes in general economic conditions). Therefore, the actual results achieved during the forecast period may vary from the forecasts. The scope of engagement of CB Richard Ellis did not include a valuation of the realty or the present value of the cash flows available to the Authority. In addition, neither CB Richard Ellis nor the Authority has reviewed the financial position or analyzed the creditworthiness of any tenant under any Specified Sublease or any sublessee of any tenant under any Specified Sublease.

Additional Information

Descriptions of the Authority, the Act and other laws, the Series 2009 Bonds and sources of payment therefor, the Resolution, the Battery Park City Site, the Master Lease, the Specified Subleases and certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”), are included in this Official Statement. All summaries or descriptions herein of particular documents, laws and agreements do not purport to be complete and are qualified in their entirety by reference to such particular documents, laws and agreements (and the provisions with respect thereto included in the aforesaid documents and agreements), copies of which are available for inspection at the offices of the Authority.

BATTERY PARK CITY

The Site

Battery Park City, consisting of an approximately 92-acre site, is located at the southwest tip of Manhattan. A map of Battery Park City containing building site locations is included on the inside cover page of this Official Statement. Battery Park City overlooks New York Harbor and the Statue of Liberty to the south, the Hudson River and the New York and New Jersey shorelines to the west and north, and the skyline of lower Manhattan to the east.

Battery Park City is part of New York City’s financial district. Within a reasonable distance from Battery Park City are many of New York City’s well-known neighborhoods, including Greenwich Village, Chinatown, Little Italy, SoHo, Tribeca, Wall Street and the South Street Seaport. City Hall and a large concentration of state and federal offices and courthouses are several blocks to the northeast of Battery Park City.

The Master Lease and Development Plan

The Battery Park City Site was originally leased to the Authority by the City pursuant to a lease, dated November 24, 1969 (as supplemented, restated and amended, the “Master Lease”), which expires June 18, 2069. In December 1982, the Authority acquired a fee interest in the Battery Park City Site for a nominal consideration; notwithstanding this, the Master Lease remains in effect and the Authority is the landlord and tenant thereunder.

The Master Lease provides for the development of the Battery Park City Site substantially in accordance with the Master Development Plan (the “Master Development Plan”) which is annexed to the Master Lease. The Master Development Plan originally contemplated a build-out of the Battery Park City Site, which included a commercial center, residential housing and public parks, plazas and a riverfront esplanade. The Authority has modified these projected development plans to provide for increased public open space and more commercial development. With construction completed or in progress on the (i) six office buildings containing approximately 10.7 million square feet of office and related retail space (including the 2.2 million square foot headquarters of The Goldman Sachs Group, Inc.), (ii) 30 residential buildings containing approximately 8,800 residential units totaling approximately 10.2 million square feet and (iii) two hotels, the development of Battery Park City is substantially complete. See “SPECIFIED SUBLICENSES” herein.

Ongoing Development of the Battery Park City Site

There are three parcels where construction has begun but is not yet substantially completed. These parcels include two residential parcels on which condominium buildings are being developed and a parcel on which a grades K-8 public school is being built by the New York City School Construction Authority.

Recent Financial Difficulties Experienced by Tenants

The worldwide financial crisis and current economic downturn have adversely impacted the real estate industry in the City and throughout the nation. Certain ground lessees under Specified Subleases have experienced significant financial difficulties as a result of the financial crisis and economic downturn and have approached or may approach the Authority in an effort to restructure their lease obligations. See “CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLICENSES – Economic Circumstances.”

Future Financing Plans of the Authority

The Authority may from time to time borrow or issue additional Bonds pursuant to the General Resolution secured by the Collateral to pay for infrastructure improvements, repairs and continued development of the Battery Park City Site. In addition, the Authority may from time to time issue additional Bonds pursuant to the General Resolution to refund outstanding Bonds of the Authority, including refunding all or part of the Authority’s auction rate Junior Revenue Bonds, Series 2003B and auction rate Junior Revenue Bonds, Series 2003C.

During the past year the New York State Governor has made a number of proposals to use resources of the Authority to address the State’s financial needs. Last spring, legislation was enacted by the State authorizing the Authority (i) to issue bonds to finance costs of the State in an amount of up to \$250 million plus required reserves, capitalized interest and costs of issuance and (ii) to contribute up to \$20 million of funds of the Authority to the State General Fund. Recent proposals by the Governor include authorizing the Authority to issue an additional \$100 million of bonds to finance affordable housing programs of the City and increasing the Authority’s authorization to contribute funds to the State General Fund from \$20 million to \$200 million. The proposal authorizing the increased contribution to the State General Fund has been enacted by the Legislature. Further proposals may be made by the Governor and others from time to time with respect to using Authority resources to address the financial needs of the State and City. Although the Authority has not authorized any such payments or contributions, such payments or contributions could be funded in part by the issuance of additional Bonds of the Authority or from other obligations to be issued by the Authority. Issuance of additional Bonds or obligations would require (i) approvals by both the Authority and the City, neither of which has been obtained to date, and (ii) satisfaction of the requirements for the issuance of additional Bonds set forth in the General Resolution, if applicable. For a summary of certain provisions of the General Resolution regarding additional Bonds and related matters, see “SECURITY FOR THE SERIES 2009 BONDS Additional Bonds” and “REVENUES FROM SPECIFIED SUBLICENSES.”

SPECIFIED SUBLEASES

Office Leases			
<u>Site Number</u>	<u>Development</u>	<u>Address</u>	<u>Square Feet</u> ¹
WFC 1	One World Financial Center	200 Liberty Street	1,501,878
WFC 2	Two World Financial Center	225 Liberty Street	2,267,925
WFC 3	Three World Financial Center	200 Vesey Street	2,149,866
WFC 4	Four World Financial Center	250 Vesey Street	2,084,079
15	New York Mercantile Exchange	One North End Avenue	502,000
26	Goldman Sachs Headquarters	200 West Street	<u>2,152,863</u>
			Total: 10,658,611

Residential Leases			
<u>Site Number</u>	<u>Development</u>	<u>Address</u>	<u>Square Feet</u> ¹
South Residential Neighborhood			
POD III	Gateway Plaza ²	345-95 South End Avenue	1,881,621
A	The Soundings ³	280 Rector Place	106,631
B	Liberty Court ³	200 Rector Place	590,974
C	Hudson View East ³	250 South End Avenue	106,052
D	Rector Square/Parc Place ³	225 Rector Place	281,049
E/F	Hudson Tower ³	350 Albany Street	150,855
G	Hudson View West ³	300 Albany Street	91,774
H/I	River Rose ²	333 Rector Place	219,703
J	Liberty House ³	377 Rector Place	220,821
K	Liberty Terrace ³	380 Rector Place	257,092
L	Battery Pointe ³	300 Rector Place	129,176
1	Millennium/Ritz Carlton ³	25 Battery Place	229,060
2A	Millennium Pointe ³	30 West Street	416,200
3	The Visionaire ³	70 Little West Street	505,000
4	Liberty View ³	99 Battery Place	348,953
10	Regatta ³	21 South End Avenue	237,270
11	Cove Club ³	2 South End Avenue	189,273
12	River Watch ²	70 Battery Place	230,765
13	South Cove Plaza ²	50 Battery Place	239,165
North Residential Neighborhood			
16/17	Riverhouse ³	1 River Terrace	531,665
18A	The Solaire ²	20 River Terrace	356,786
18B	The Verdesian ²	211 North End Avenue	278,141
19A	Rockrose ²	22 River Terrace	331,500
19B	Tribeca Green ²	325 North End Avenue	356,483
20A/C	Tribeca Park ²	400 Chambers Street	484,000
20B	The Hallmark - Senior Living ²	455 North End Avenue	239,508
21A	Tribeca Pointe ²	41 River Terrace	357,000
22	Tribeca Bridge Tower ²	450 North End Avenue	244,617
23	MP Freedom LLC ³	300 North End Avenue	225,000 ⁴
24	MP Liberty LLC ³	200 North End Avenue	<u>345,000⁴</u>
			Total: 10,181,134

¹ Assessor's square footage

² Rental

³ Condominium

⁴ Estimated

Hotel Leases			
<u>Site Number</u>	<u>Development</u>	<u>Address</u>	<u>Number of Rooms</u>
25	Embassy Suites Hotel/Cinema	102 North End Avenue	463
1	Ritz-Carlton Hotel	25 Battery Place	<u>298</u>
			Total: 761

Office Leases

World Financial Center. The World Financial Center (“WFC”) consists of 8,003,748 square feet of first-class office and related retail space in four towers, ranging in height from 33 to 51 stories, and two nine-story buildings. The Authority leases the World Financial Center pursuant to four separate leases (the “WFC Leases”), each executed on June 15, 1983, and each of which respectively relate to One World Financial Center (“One WFC”), Two World Financial Center (“Two WFC”), Three World Financial Center (“Three WFC”) and Four World Financial Center (“Four WFC”). One WFC, Two WFC and Four WFC are leased by the Authority to various entities (the “Brookfield WFC Entities”) affiliated with Brookfield Financial Properties (“Brookfield”). Three WFC is leased by the Authority to an entity comprised of (i) affiliates of American Express Bank Ltd. (“American Express”) and (ii) an affiliate of Brookfield. All of the WFC Leases have terms that expire in 2069. The approximate gross square footage of office area subject to the respective WFC Leases is as set forth in the foregoing table.

One WFC; Two WFC; Four WFC. According to information furnished to the Authority from Brookfield, the major space tenants of One WFC currently include Cadwalader Wickersham & Taft LLP (“CWT”), Willis of New York, Inc. (“Willis”), Dow Jones & Company, Inc./The Wall Street Journal (“Dow Jones”), National Financial Services LLC and Deloitte & Touche LLP (“Deloitte & Touche”); the major space tenants of Two WFC currently include Merrill Lynch & Co., Inc. (“Merrill Lynch”), Deloitte & Touche, Nomura Holding America, Inc., Mass Mutual Life Insurance and Commerzbank AG; and the major space tenant of Four WFC is currently Merrill Lynch. The Dow Jones space lease at One WFC is scheduled to expire in 2020, the CWT space lease at One WFC is scheduled to expire in 2025 and the Willis space lease in One WFC is scheduled to expire in 2026; the majority of space leases at Two WFC and all of the space leases at Four WFC are scheduled to expire in 2013.

Three WFC. American Express and certain of its affiliates are major space tenants of Three WFC. Currently, American Express and an affiliate of Brookfield are joint tenants under the Three WFC lease. American Express and Brookfield have proposed the conversion of the building to a commercial condominium in which each of American Express and Brookfield will separately lease its respective portion of the building from the Authority (the “Three WFC Condominium Proposal”). According to information furnished to the Authority from Brookfield, the other major space tenants of Three WFC currently include the U.S. Securities and Exchange Commission (the “SEC”), Royal Bank of Canada and Lock Lord Bissell & Liddell LLP (“LLBL”). The American Express and Royal Bank of Canada space leases are scheduled to expire in 2022, the SEC space lease is scheduled to expire in 2021 and the LLBL space lease is scheduled to expire in 2024.

There can be no assurance that the current space tenants of the WFC will continue in the future to lease, sublease or occupy any portion of the WFC.

New York Mercantile Exchange. In May 1995, the Authority signed a sublease with the New York Mercantile Exchange and its wholly-owned subsidiary, Commodity Exchange Inc. (collectively, “NYMEX”), for the development of a new 502,000 square-foot commodities and futures trading facility and office building complex located on Site 15. The NYMEX building was completed and occupied in July 1997. Although NYMEX occupies a majority of the space at the NYMEX building, NYMEX has subleased a portion of the NYMEX building to the New York Board of Trade.

Goldman Sachs Headquarters. In August 2005, the Authority signed a lease with Goldman Sachs Headquarters LLC for the development of a 2,152,863 square-foot office building on Site 26, to be used primarily for the international headquarters of The Goldman Sachs Group, Inc. Occupancy of the lower floors of the building commenced in late 2009.

Residential Leases

There are 30 residential subleases relating to the Battery Park City Site, including the Ritz-Carlton residential condominium sublease for residential condominiums at Site 1 (the “Hotel/Residential Sublease”). Gateway Plaza is the first and largest residential development undertaken at Battery Park City, containing 1,712 residential units totaling approximately 1.9 million square feet. The other 29 residential subleases relate to 3,969 condominium units totaling approximately 4.7 million square feet and 3,203 units of predominantly market-rate rental units totaling approximately 3.6 million square feet, which are all located in multi-storied buildings throughout the Battery Park City Site. The allocation of residential space between condominiums and rental units and aggregate square footage relating to such categories of residential space are subject to change to the extent that condominium projects are converted to rental projects and vice versa. In addition, the number of condominium units may vary to the extent that individual condominium units are combined into larger units. Each of the residential subleases has a final expiration date of 2069.

Hotel Leases

In 1998, a sublease was executed for the 463-room Embassy Suites Hotel on Site 25. In 2000, the Hotel/Residential Sublease was executed for a 298-room Ritz-Carlton Hotel and the residential condominium units at Site 1. Construction of both hotels is complete, and both hotels are currently in operation.

Additional Information

For a further description of the Specified Subleases, the Master Lease, the Ancillary Agreements and certain other agreements, see “APPENDIX D - Summary of Certain Provisions of the Master Lease, the Specified Subleases and Other Documents.”

REVENUES FROM SPECIFIED SUBLEASES

Table 1

**Summary of Pledged Sublease Revenues and Operating Expenses ⁽¹⁾⁽²⁾
(cash basis) (unaudited) (dollars rounded in thousands)**

	Fiscal Year Ended October 31,					
	2004	2005	2006	2007	2008	2009
<u>Office</u>						
PILOT ⁽³⁾	\$73,810	\$79,931	\$78,310	\$73,117	\$71,641	\$79,288
Non-PILOT ⁽⁴⁾	26,059	27,168	27,168	27,168	27,168	26,650
<u>Residential</u>						
PILOT ⁽⁵⁾	43,358	38,085	46,982	51,899	54,869	58,874
Non-PILOT ⁽⁶⁾	12,655	14,485	15,915	16,030	19,367	20,142
<u>Hotel</u>						
PILOT ⁽⁷⁾	3,275	4,082	4,653	5,524	5,600	8,276
Non-PILOT ⁽⁸⁾	971	945	958	982	986	1,001
Total Pledged Sublease Revenues	<u>160,128</u>	<u>164,696</u>	<u>173,986</u>	<u>174,720</u>	<u>179,631</u>	<u>194,231</u>
Actual Operating and Administrative Expenses ⁽⁹⁾	29,601	30,140	29,567	27,741	29,000	28,000

(1) The amounts set forth in this table are unaudited and were derived from the Authority's accounting records and board minutes. Pledged Sublease Revenues are determined on a cash basis pursuant to the General Resolution. Amounts set forth in this table are determined on a cash basis and may not agree with amounts set forth in the financial statements of the Authority contained in "APPENDIX B – Authority Financial Statements and Supplementary Schedules", which are determined on an accrual basis.

(2) See "APPENDIX D - Summary of Certain Provisions of the Master Lease, the Specified Subleases and Other Documents" for the definition of certain terms used in this table, the related footnotes and the discussion of revenues and expenses below.

(3) Includes all PILOT rental payments with respect to the WFC, NYMEX and Goldman Sachs Leases.

(4) Includes all non-PILOT Pledged Sublease Revenues with respect to the WFC and NYMEX Leases. As of the fiscal year ended October 31, 2009, the Authority has not collected non-PILOT Revenues from Goldman Sachs.

(5) Includes all PILOT rental payments with respect to all Residential Leases, which includes PILOT rental payments for the residential portion of the Hotel/Residential Lease. In addition to the amounts reflected in Table 1, the Authority received pre-lease escrow PILOT payments of (i) \$4.3 million from Site 16/17 during the fiscal year ended October 31, 2006 and (ii) \$328 thousand and \$494 thousand from Sites 23 and 24, respectively, during the fiscal year ended October 31, 2008. The Real Estate Consultant's Report shows PILOT revenues net of abatements available under Section 462-a of New York Real Property Law.

(6) Includes all non-PILOT Pledged Sublease Revenues with respect to all Residential Leases, which includes non-PILOT rental payments for the residential portion of the Hotel/Residential Lease. In addition to the amounts reflected in Table 1, the Authority received: (A) upfront lease payments of (i) \$60 million and \$11.5 million from Sites 16/17 and 3, respectively, during the fiscal year ended October 31, 2006, (ii) \$2.6 million from Site 2A during the fiscal year ended October 31, 2007, (iii) \$22.5 million, \$33.9 million and \$14 million from Sites 23, 24 and 3, respectively, during the fiscal year ended October 31, 2008 and (iv) \$16 million from Site 3 during the fiscal year ended October 31, 2009; and (B) pre-lease escrow payments of (i) \$1.1 million from Site 16/17 during the fiscal year ended October 31, 2006 and (ii) \$543 thousand and \$819 thousand from Sites 23 and 24, respectively, during the fiscal year ended October 31, 2008.

(7) Includes all PILOT rental payments with respect to all Hotel Leases

(8) Includes all non-PILOT Pledged Sublease Revenues with respect to all Hotel Leases

(9) Operating and Administrative Expenses include amounts required to be set aside under the General Bond Resolution for budgeted operating expenses during the respective fiscal year end rather than the total actual operating expenses of the Authority for such fiscal year.

Pledged Sublease Revenues

Table 1 contains certain historical information regarding Pledged Sublease Revenues during the five years ended October 31, 2004 through October 31, 2008 and for the six month period commencing November 1, 2008 through April 30, 2009. The foregoing table is not included herein to illustrate trends or projections of revenues to be realized in future years. For projections by CB Richard Ellis of Pledged Sublease Revenues for the years ended October 31, 2009 through 2039, see “APPENDIX A - Real Estate Consultant’s Report.” See also “APPENDIX B - Authority Financial Statement and Supplemental Schedules.”

As shown in Table 1 above, the principal components of Pledged Sublease Revenues derive from PILOT and non-PILOT base rent payments. PILOT payable to the Authority is generally calculated based upon three variables: (i) the billable assessed value of the premises, as determined by the City, (ii) tax abatements, if any, provided under the applicable Specified Sublease, and (iii) the applicable City real property tax rate, as described below.

During the five fiscal years ended October 31, 2008, Pledged Sublease Revenues increased primarily due to increases in residential and hotel PILOT and non-PILOT revenues under the terms of Specified Subleases and the addition of new Subleases. See “CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLEASES - Defaults and Terminations – *Residential Condominium Projects*.”

Non-PILOT-based Pledged Sublease Revenues includes with respect to office leases, Base Rent and Additional Base Rent. Non-PILOT based Pledged Sublease Revenues includes with respect to hotel projects Base Rent and, for the Ritz-Carlton project, Supplemental Hotel Base Rent. Non-PILOT based Pledged Sublease Revenues with respect to residential properties includes (i) for sites A, B, C, D, E/F, G, H/I, J, K and L, Base Rent and Supplemental Rent, (ii) for the Gateway Sublease, Land Rent, and (iii) for all other residential parcels, Base Rent. As to residential properties containing retail space, Percentage Rent is payable, and for condominium developments, Transaction Payments, based on the sales price of condominium units, are also payable. For additional information relating to PILOT and non-PILOT based Pledged Sublease Revenues see “APPENDIX D - Summary of Certain Provisions of the Master Lease, the Specified Subleases and Other Documents.”

Assessed Values, Tax Abatements and Tax Rates

PILOT is primarily dependent upon assessed values, tax abatements and tax rates of the properties located in the Battery Park City Site. The respective aggregate billable assessed values of the WFC, NYMEX and Goldman Sachs Headquarters buildings, the residential buildings (other than Gateway Plaza) and hotel buildings for each tax year (ended June 30) during the period 2006 through 2010 were as follows:

Table 2

**Summary of Billable Assessed Values
of WFC Buildings, NYMEX Building, Residential and Hotel Buildings
For Tax Year Ending June 30
(dollars rounded in thousands)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Office					
One WFC	\$157,880	\$148,000	\$145,000	\$150,000	\$142,200
Two WFC	180,120	177,100	184,390	197,310	206,320
Three WFC	165,980	163,610	162,000	174,390	181,030
Four WFC	164,790	161,730	173,030	185,780	192,930
NYMEX	<u>46,350</u>	<u>45,210</u>	<u>43,155</u>	<u>46,121</u>	<u>45,450</u>
Total	<u>\$715,120</u>	<u>\$695,650</u>	<u>\$706,575</u>	<u>\$753,601</u>	<u>\$767,930</u>
Residential	\$567,103	\$606,427	\$663,253	\$694,361	\$723,780
Hotel	84,316	82,153	90,466	90,508	91,919

Source: City of New York Department of Finance.

Assessed Value. The assessed valuation for any parcel located in Battery Park City may be reduced as a result of administrative appeals and court challenges, which its ground lessees or, in certain cases, major space tenants may prosecute. An administrative appeal regarding the assessment on Three WFC has resulted in a reduction in actual assessed valuation from \$209.7 million to \$197.0 million for the 2009-2010 tax year. Court challenges relating to the assessments of One WFC, Two WFC, Four WFC and NYMEX are pending with respect to the following respective tax years: One WFC: 2009/10; Two WFC: 2007/08 to 2009/10; Four WFC: 2009/10 and NYMEX: 2007/08 to 2009/10. The Authority expects that for future tax years there will be administrative appeals and court challenges resulting in reductions in assessed valuation of the aforementioned buildings. Such reduced assessments may result in prospective reductions in assessed valuations. Any such reductions would result in decreased PILOT payments under Specified Subleases. For a discussion of certain factors underlying recent assessment reductions and recent settlements of court challenges, see “APPENDIX A - Real Estate Consultant’s Report.” Also, see “APPENDIX A - Real Estate Consultant’s Report” for a discussion of prior reductions of assessed valuations of the WFC, the NYMEX building and residential buildings as a result of administrative appeals or court challenges and for assumed reductions in assessed valuations underlying CB Richard Ellis’ projections contained in such Report.

Tax Abatements. During the five fiscal years ended October 31, 2008, the respective rates of annual change in PILOT were affected by tax abatements granted pursuant to Specified Subleases. Abatements for non-residential properties vary from parcel to parcel and are negotiated on a case by case basis. Abatements for residential properties are consistent with City as-of-right abatements provided to residential properties located in lower Manhattan, except in the case of Gateway Plaza, for which PILOT payments are an annual amount in lieu of real estate taxes, which as of February 16, 2016 increases by 20% per year from the pre-refinancing payments in lieu of real estate taxes to an equivalency payment equal to full PILOT starting on

February 16, 2020. For a further discussion of the tax abatements applicable to the Specified Subleases, see “APPENDIX A - Real Estate Consultant’s Report.”

Tax Rate. Another factor affecting PILOT over the five-year period described in Table 1 hereto was the City real property tax rate. The respective City real property tax rates for each tax year (ended June 30) during the period 2006 through 2010 are set forth in Table 3 below.

Table 3

**City Real Property Tax Rates
For Tax Year Beginning July 1/Ending June 30,**

	<u>2005/06⁽³⁾</u>	<u>2006/07⁽⁴⁾</u>	<u>2007/08⁽⁵⁾</u>	<u>2008/09⁽⁶⁾</u>	<u>2008/09⁽⁷⁾</u>	<u>2009/10⁽⁸⁾</u>
Commercial ⁽¹⁾	11.306%	10.997%	10.059%	9.870%	10.612%	10.426%
Residential ⁽²⁾	12.396%	12.737%	11.928%	12.139%	13.053%	13.241%

(1) Class 4 property.

(2) Class 2 property.

(3) Effective July 1, 2005 through June 30, 2006.

(4) Effective July 1, 2006 through June 30, 2007.

(5) Effective July 1, 2007 through June 30, 2008.

(6) Effective July 1, 2008 through December 31, 2008.

(7) Effective January 1, 2009 through June 30, 2009.

(8) Effective July 1, 2009 through June 30, 2010.

Source: City of New York Department of Finance.

Expenses

Table 1 contains certain historical information on the Operating Expenses (as defined in the General Resolution) of the Authority and is not meant to illustrate trends or projections of the Authority’s Operating Expenses in future years.

Amounts deposited into the Project Operating Fund in a fiscal year, together with money, retained in such fund from the prior fiscal year, are applied to the payment of actual Operating Expenses in accordance with the General Resolution. For a description of deposits to and disbursements from the Project Operating Fund, see “SECURITY FOR THE SERIES 2009 BONDS - Application of Revenues” and “APPENDIX C - Definitions and Summary of Certain Provisions of the General Resolution - Establishment of Funds and Accounts, and Application Thereof.”

During the five-year period ended October 31, 2008, the Authority consistently achieved Operating Expenses commensurate with or below its annual budgeted amounts. The Authority has budgeted approximately \$29.4 million for Operating Expenses for its fiscal year ended October 31, 2008. The Authority currently anticipates that budgeted amounts for Operating Expenses in future fiscal years will increase on average by 2% per annum, compounded annually. However, the Authority gives no assurance that its actual Operating Expenses will not increase at a substantially greater rate or that its Operating Expenses will not have an adverse effect on its ability to pay debt service on any Bonds.

CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLEASES

Economic Circumstances

General economic circumstances, which cannot be predicted, may adversely affect the financial condition of occupants of Battery Park City and, consequently, the ability of a ground lessee under a Specified Sublease to make required payments to the Authority. Neither the Authority nor CB Richard Ellis has reviewed the financial position or analyzed the creditworthiness of any ground lessee under the Specified Subleases, any space tenants of any such ground lessees or, in the case of the residential condominium units, the individual unit owners.

The Authority is unable to predict how a ground lessee, a space tenant or any residential condominium unit owner will be affected by the current economic downturn. Certain ground lessees under Specified Subleases have experienced significant financial difficulties as a result of the current economic downturn and have approached the Authority in an effort to restructure their future lease obligations. While such tenants have remained current on their lease obligations, the Authority can give no assurance that such tenants will continue to pay rent at the rates and subject to the increases set forth in the respective leases or subleases. Moreover, the Authority cannot predict whether other ground lessees under Specified Subleases will seek modification of their future lease obligations.

The amounts of Pledged Sublease Revenues described herein reflect the terms of Specified Subleases as currently in effect. Except for restrictions relating to the Authority's disposition of parcels in the Battery Park City Site, there are no restrictions in the Resolution with respect to the ability of the Authority to amend the Specified Subleases, and all such amendments are solely within the operational discretion of the Authority. Pursuant to the foregoing, the Authority has in the past modified and may in the future modify the terms of Specified Subleases. Such modifications could affect Pledged Sublease Revenues.

In addition, general economic circumstances could have an effect on City tax policy and assessments as they relate to Specified Subleases, which could adversely affect the amounts of Pledged Sublease Revenues to be received by the Authority. The Authority is under no obligation to supplement Pledged Sublease Revenues in the event that such revenues are not sufficient to provide amounts adequate to pay debt service on the Series 2009 Bonds.

PILOT

A substantial component of Pledged Sublease Revenues consists of payments in lieu of real property taxes or PILOT. The calculation of PILOT is generally based upon the (i) billable assessed value of the premises as determined by the City, (ii) tax abatements, if any, and (iii) the tax rate levied by the City. Each of the foregoing components are subject to change, and accordingly the amount of PILOT payable under Specified Subleases is subject to change. In addition, the assessed valuation for any building in Battery Park City may be reduced as a result of administrative appeals or court challenges prosecuted or appealed by ground lessees or major space tenants. Increased tax abatements, and/or reduction in City tax rates, and/or reductions in assessed valuation due to legal proceedings or administrative proceedings or otherwise may

reduce PILOT payments paid under Specified Subleases and accordingly reduce Pledged Sublease Revenues available to pay debt service on the Series 2009 Bonds. See “APPENDIX A - Real Estate Consultant’s Report” for CB Richard Ellis’s projections of the future assessed values of the parcels subject to the Specified Subleases.

For a discussion of certain factors underlying recent assessment reductions, see “APPENDIX A - Real Estate Consultant’s Report.”

WFC Lease Expirations

A significant portion of the revenues available to pay debt service on the Series 2009 Bonds will depend on the ability of the ground lessees under the WFC Leases to sublease space to office tenants at the WFC on economically favorable terms. Upon expiration or earlier termination of space leases at the WFC, the ground lessee may be unable to renew such space lease, the ground lessee may be unable to re-let such premises or the terms of renewal or re-letting (including the cost of leasing commissions, required renovations or concessions to subtenants) may be less favorable to the ground lessee than current space lease terms.

A majority of space leases at Two WFC will expire in 2013 and all of the space leases with respect to space currently occupied or sublet by Merrill Lynch at Four WFC will expire in 2013. If a ground lessee under a WFC Lease were unable to promptly renew a space lease or re-let office space for a substantial portion of a WFC building or if the rental rates upon such renewal or re-letting were significantly lower than expected, there could be an adverse impact on the financial condition of such ground lessee, which could, in turn, adversely affect (i) such ground lessee’s ability to pay rent under such WFC Lease and (ii) Pledged Sublease Revenues available to pay debt service on the Series 2009 Bonds. Furthermore, the inability of a ground lessee to lease or re-let office space or renew an existing space lease at a WFC building on favorable terms could result in a reduction in the assessed value of such WFC building. Such reduction could adversely affect PILOT payable under such WFC Lease.

Ground Lessees may be affected by various circumstances over which the Authority has no control, such as general economic conditions, increases in operating expenses, a change in demand for office space at the WFC and the possibility of economic or physical decline of the area surrounding the WFC or physical damage to the WFC that would make such buildings less attractive to new subtenants. See “APPENDIX A - Real Estate Consultant’s Report” for a more detailed discussion of the New York City economy, the Manhattan office market and other factors affecting PILOT and the impact of the foregoing on the revenues expected to be derived by the Authority from the Specified Subleases.

Defaults and Terminations

Office Projects. Each of the WFC Leases and the NYMEX and Goldman Sachs leases provide that upon an event of default by the ground lessee thereunder, the Authority shall have the right to terminate said lease. This termination right is subject to notice and cure rights of leasehold mortgagees secured by such leases. In addition, upon termination of any such lease the Authority is required, upon request of a leasehold mortgagee and upon payment by such leasehold mortgagee of all unpaid amounts due under the defaulted lease, to enter into a new

lease with such leasehold mortgagee. If the Authority terminates a Specified Sublease and no mortgagee requests a new lease, the lien of such leasehold mortgagee's mortgage may be extinguished, whereupon the Authority would have the right to recover possession of the premises demised under such Specified Sublease.

No assurance can be given that the termination by the Authority of a Specified Sublease will occur expeditiously. A defaulting ground lessee may commence proceedings to enjoin such termination or may assert affirmative defenses to delay the termination. Furthermore no assurance can be given that a leasehold mortgagee will cure a ground lessee's default or execute a replacement lease with the Authority or, if a leasehold mortgagee does cure or execute a replacement lease, that such cure or execution will be undertaken in a timely manner. In the event of a significant delay between a default, termination and reletting, loss of Pledged Sublease Revenues to the Authority could be significant and could adversely affect the Authority's ability to pay debt service on the Series 2009 Bonds.

Proposed Commercial Condominium Project. If the Three WFC Condominium Proposal is effected, remedies available to the Authority with respect to a default under the Three WFC lease may be adversely affected.

Residential Condominium Projects. Seventeen of the residential Specified Subleases have been submitted to residential condominium regimes and a condominium offering plan for one other Specified Sublease has been accepted for filing by the New York State Attorney General. If, by reason of a residential condominium unit owner's default, the board of managers of the condominium fails to pay the rental in full under a Specified Sublease, the Authority has agreed to give up its right to terminate the whole of such Specified Sublease. In such event the condominium board is only obligated to pay to the Authority rentals collected from the non-defaulting unit owners, and generally the Authority's redress is limited to the defaulting residential condominium unit owner. Accordingly, the Authority's rights and remedies are limited with respect to residential Specified Sublease defaults resulting from defaulting residential condominium unit owners. As to twelve of the Specified Subleases, these limited rights have been further constrained by a 1999 New York State Court of Appeals decision that held that when a first mortgagee of a residential condominium unit owner forecloses its lien on the owner's unit, such foreclosure extinguishes the Authority's lien, which is established in the Specified Sublease for accrued rental arrears. Finally, in the event the Authority were to become the owner of a condominium unit by reason of a unit owner's default, the Authority would be required to pay to the condominium board accrued and unpaid common charges relating to such unit (other than the portion which relates to unpaid rent due the Authority) as well as paying the common charges on such unit during the period of the Authority's ownership of such unit. The Authority has revised its ground lease provisions concerning residential condominiums in an effort to remedy the foregoing problems with the prior ground lease provisions. Such revised provisions affect the seven other residential condominiums and have not been the subject of litigation. Therefore, no assurance can be given that a court would find that such revised terms establish a first priority for payments due to the Authority with respect to residential condominiums.

Pledged Sublease Revenues could be substantially reduced and the Authority's ability to pay debt service on the Series 2009 Bonds could be adversely affected in the event a significant

percentage of residential condominium owners fail to pay rent under residential Specified Subleases. Generally, enforcement of remedies under residential leases is difficult and time-consuming. Furthermore, the Authority's right with respect to defaulting condominium unit owners with respect to twelve Specified Subleases has been limited as noted above. Finally, in the case of these twelve Specified Subleases, any rights of the Authority to receive defaulted lease payments is subordinate to the rights, if any, of condominium mortgagees. For a more detailed description of provisions related to condominiums under the Specified Subleases, see "APPENDIX D - Summary of Certain Provisions of the Master Lease, the Specified Subleases and Other Documents."

During the past 15 years, the Authority has experienced two rent strikes by some condominium owners. One of the strikes, involving one building, was settled in 1999. The other strike, which followed the September 11, 2001 World Trade Center attack and involved ten buildings, was settled in 2003. The Authority cannot predict whether rent strikes will occur in the future.

Other Factors

Aside from the foregoing, the Authority's receipt of Pledged Sublease Revenues may be affected by the following additional factors:

Bankruptcy. No inquiry has been made as to the financial condition of any of the ground lessees under the Specified Subleases or any space tenants or residential condominium unit owners. Generally under the Federal Bankruptcy Code (the "Bankruptcy Code"), individuals and business entities in financial distress may settle debts through a liquidation of assets or may provide for the settlement of claims through either a plan of reorganization or a plan of adjustment of the debtor's financial affairs. Bankruptcy Courts are courts of equitable jurisdiction and, as such, have the judicial discretion to examine a broad range of issues affecting the debtor. If the debtor/tenant under a Specified Sublease asserts or prevails in obtaining relief from Bankruptcy Court, the timing of receipt or the amount of revenues derived by the Authority from the Specified Subleases or both and the ability of the Authority to pay debt service on the Series 2009 Bonds could be adversely affected.

Condemnation. In the event of a condemnation of all or substantially all of the premises demised under a WFC Specified Sublease, such Sublease would be terminated and the Authority would be entitled to receive condemnation proceeds regarding the same. The Authority is required to apply such condemnation proceeds to the redemption of the outstanding Bonds of the Authority. If the premises demised under all of the Specified Subleases were condemned, there would be no revenues available to pay debt service on outstanding Bonds of the Authority and there is no assurance that condemnation proceeds will be sufficient to redeem all outstanding Bonds.

Possible Liability Relating to Environmental Matters. Under various federal, state, and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air and third parties may seek recovery from

owners or operators of real properties for personal injury associated with ACMs. In connection with its ownership of the Battery Park City Site, the Authority may be potentially liable for such costs. The Authority has not been notified by any governmental authority of any non-compliance, liability or other claim in connection with any of the parcels and the Authority is not aware of any other environmental condition with respect to any of the parcels that could be material. No assurance, however, can be given that no tenant has created any material environmental condition not known to the Authority or that future uses or conditions (including, without limitation, changes in applicable environmental laws and regulations) will not result in imposition of environmental liability.

PLAN OF FINANCE

General

The proceeds of the Series 2009 Bonds, together with other moneys of the Authority will be used for the following purposes: (1) to provide for ongoing infrastructure and other capital improvements at Battery Park City; (2) to fund any required debt service reserves; and (3) to pay the costs of issuance of the Series 2009 Bonds.

Capital Program

The Authority expects to use the proceeds of the Series 2009 Bonds to fund certain infrastructure and other capital expenditures at Battery Park City, including the following: the new Parks Conservancy headquarters at Site 3; seawall reconstruction; street modifications required for the Goldman Sachs headquarters building; and various other projects. The proceeds of the Series 2009B Bonds will be used to finance an approximately 55,000 zoning square foot community center and maintenance facility at Sites 23 and 24.

APPLICATION OF PROCEEDS

Estimated sources and uses of the Series 2009A Bonds and other funds are as follows:

Sources of Funds

Par Amount of the Series 2009A Bonds.....	\$56,600,000.00
Available Money of the Authority	123,921.24
Total Sources	\$56,723,921.24

Uses of Funds

Infrastructure and Other Capital Improvements.....	\$55,000,000.00
Costs of Issuance	1,182,777.38
Underwriters' Discount.....	541,143.86
Total Uses	\$56,723,921.24

Estimated sources and uses of the Series 2009B Bonds and other funds are as follows:

Sources of Funds

Par Amount of the Series 2009B Bonds.....	\$30,635,000.00
Net Original Issue Premium	1,811,007.55
Available Money of the Authority	12,231.04
Total Sources	\$32,458,238.59
Uses of Funds	
Infrastructure and Other Capital Improvements.....	\$30,000,000.00
Deposit to Reserve Fund	1,544,848.00
Costs of Issuance	665,046.39
Underwriters' Discount	248,344.20
Total Uses	\$32,458,238.59

DESCRIPTION OF THE SERIES 2009 BONDS

General

The Series 2009 Bonds will be issued in fully-registered form without coupons and shall be dated, shall mature on the dates and in the principal amounts, and bear interest payable on the dates and at the annual rates as set forth on the inside cover page hereof.

Interest on the Series 2009 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The principal or Redemption Price of the Series 2009 Bonds shall be payable at the principal corporate trust office of the Trustee in New York, New York. Interest on the Series 2009 Bonds shall be payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof on the Record Date (as defined in the Resolution) next preceding the Interest Payment Date by check or draft mailed on the Interest Payment Date to the registered owner; except that if and to the extent there shall be a default in the payment of the interest due on any Interest Payment Date, the defaulted interest shall be paid to the owners in whose names the Series 2009 Bonds are registered at the close of business on a special record date to be fixed by the Trustee, which date shall be an Interest Payment Date unless the Trustee shall deem another date more suitable. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date.

Designation of the Series 2009A Bonds as "Build America Bonds"

The Authority has made or will make irrevocable elections to treat the Series 2009A Bonds as "Build America Bonds" under Section 54AA of the Code for which it expects to receive, pursuant to Sections 54AA(g) and 6431 of the Code, a cash subsidy payment from the United States Treasury equal to thirty-five percent (35%) of the interest payable by the Authority

on the Series 2009A Bonds. The cash subsidy payments will be deposited in the Pledged Revenue Fund of the Authority, and accordingly, will be pledged as security for the Series 2009 Bonds and all other outstanding obligations of the Authority secured by the pledge of monies in such account. **The Authority can give no assurances about future changes in legislation or U.S. Treasury Department regulations or the offsetting of other tax liabilities of the Authority against the expected subsidy payments, which may affect the availability, amount or receipt of such payments.**

Book-Entry-Only System

Purchasers will acquire beneficial interests in the Series 2009 Bonds in book-entry form only and will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the Series 2009 Bonds, the principal of and interest on the Series 2009 Bonds will be payable to Cede & Co. as nominee for DTC, by the Trustee. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the DTC Participants. For more information relating to the Book-Entry-Only System see “APPENDIX G - Book-Entry-Only System” herein.

Redemption

Mandatory Sinking Fund Redemption

The Series 2009A Bonds

The Series 2009A Bonds are subject to redemption in part at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments that are required to be made in amounts sufficient to redeem, on such redemption date, the principal amount of such Series 2009A Bonds shown below:

Series 2009A Term Bonds Maturing November 1, 2039

<u>Redemption Date (November 1,)</u>	<u>Sinking Fund Installment</u>
2032	\$ 65,000
2033	25,000
2034	4,020,000
2035	9,180,000
2036	9,795,000
2037	10,460,000
2038	11,155,000
2039	11,900,000*

* Stated maturity.

Satisfaction of a Sinking Fund Installment for Series 2009A Bonds may be made by purchase or redemption (at a purchase price or redemption price not in excess of the principal amount thereof) of the Series 2009A Bonds for which such Sinking Fund Payment was

established and deposit of such Series 2009A Bonds with the Trustee, if the Authority so directs the Trustee prior to 45 days preceding the due date of such Sinking Fund Installment.

See “Selection of Series 2009 Bonds for Redemption” below.

The Series 2009B Bonds

The Series 2009B Bonds maturing November 1, 2022, 2025, 2029, 2031 and 2034, are subject to redemption in part at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments that are required to be made in amounts sufficient to redeem, on such redemption date, the principal amount of such Series 2009B Bonds shown below:

Series 2009B Term Bonds Maturing November 1, 2022

<u>Redemption Date (November 1,)</u>	<u>Sinking Fund Installment</u>
2020	\$340,000
2021	355,000
2022	390,000*

Series 2009B Term Bonds Maturing November 1, 2025

<u>Redemption Date (November 1,)</u>	<u>Sinking Fund Installment</u>
2023	\$345,000
2024	385,000
2025	405,000*

Series 2009B Term Bonds Maturing November 1, 2029

<u>Redemption Date (November 1,)</u>	<u>Sinking Fund Installment</u>
2026	\$ 425,000
2027	410,000
2028	450,000
2029	435,000*

Series 2009B Term Bonds Maturing November 1, 2031

<u>Redemption Date (November 1,)</u>	<u>Sinking Fund Installment</u>
2030	\$525,000
2031	480,000*

Series 2009B Term Bonds Maturing November 1, 2034

<u>Redemption Date (November 1,)</u>	<u>Sinking Fund Installment</u>
2032	\$8,535,000
2033	8,830,000
2034	5,305,000*

* Stated maturity.

Satisfaction of a Sinking Fund Installment for Series 2009B Bonds may be made by purchase or redemption (at a purchase price or redemption price not in excess of the principal amount thereof) of the Series 2009B Bonds for which such Sinking Fund Payment was established and deposit of such Series 2009B Bonds with the Trustee, if the Authority so directs the Trustee prior to 45 days preceding the due date of such Sinking Fund Installment.

See “Selection of Series 2009 Bonds for Redemption” below.

Optional Redemption

The Series 2009A Bonds

Make-Whole Optional Redemption

The Series 2009A Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part, on any Business Day prior to November 1, 2019, at the make-whole redemption price (the “Make-Whole Redemption Price”) equal to the greater of:

(i) 100% of the principal amount of the Series 2009A Bonds to be redeemed; or

(ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2009A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009A Bonds are to be redeemed, discounted to the date on which the Series 2009A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined below) plus 30 basis points,

plus, in each case, accrued and unpaid interest on the Series 2009A Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2009A Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least 2 Business Days, but no more than 45 calendar days, prior to the redemption date, excluding inflation indexed securities, or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Series 2009A Bonds to be redeemed; provided, however, that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

See “Selection of Series 2009 Bonds for Redemption” below.

Par Optional Redemption

In addition to being subject to redemption as described above, the Series 2009A Bonds are subject to redemption, in whole or in part, on any Business Day on or after November 1,

2019, at the option of the Authority, at a redemption price of par plus accrued interest to the redemption date. See “Selection of Series 2009 Bonds for Redemption” below.

The Series 2009B Bonds

Par Optional Redemption

The Series 2009B Bonds maturing after November 1, 2019 are subject to redemption, in whole or in part, on any Business Day on or after November 1, 2019 at the option of the Authority, from maturities and interest rates and in amounts within maturities and interest rates selected by the Authority, at a redemption price of par plus accrued interest to the redemption date. See “Selection of Series 2009 Bonds for Redemption” below.

Extraordinary Optional Redemption of the Series 2009A Bonds

The Series 2009A Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part, on any Business Day, upon the occurrence of an Extraordinary Event, at a redemption price (the “Extraordinary Optional Redemption Price”) equal to the greater of:

(i) 100% of the principal amount of the Series 2009A Bonds to be redeemed; or

(ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2009A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009A Bonds are to be redeemed, discounted to the date on which the Series 2009A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points,

plus, in each case, accrued and unpaid interest on the Series 2009A Bonds to be redeemed on the redemption date.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009, pertaining to “Build America Bonds”) or there is a guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which Authority’s 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

For purposes of determining the Extraordinary Optional Redemption Price, “Treasury Rate” shall have the meaning described above under the caption “Redemption – Optional Redemption – The Series 2009A Bonds – Make-Whole Optional Redemption.”

See “Selection of Series 2009 Bonds for Redemption” below.

Notwithstanding the foregoing, the Series 2009A Bonds are subject to optional redemption at par as described above on any Business Day on or after November 1, 2019. See “—Optional Redemption – The Series 2009A Bonds – Par Optional Redemption.”

Redemption from Condemnation Proceeds

The Series 2009 Bonds are also subject to mandatory redemption, in whole or in part (and by lot if less than all of a maturity within a series is to be redeemed), at any time prior to maturity, from amounts, if any, received by the Authority due to condemnation proceedings or exercise of the right of eminent domain with respect to any WFC Parcel (or portion thereof) in the Battery Park City Site, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption. In redeeming Bonds from Condemnation Proceeds, Senior Bonds, including the Series 2009 Bonds, will be redeemed prior to the redemption of Junior Bonds. Subject to the foregoing restriction, the particular bonds to be redeemed from condemnation proceeds shall be determined by the Authority in its discretion. See “CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLEASES - Other Factors - *Condemnation*” and “APPENDIX C - Definitions and Summary of Certain Provisions of the General Resolution - Covenants of the Authority - Proceeds of Condemnation.” See, also, “Selection of Series 2009 Bonds for Redemption” below.

Selection of Series 2009 Bonds for Redemption

The Series 2009A Bonds

In the event less than all of the Series 2009A Bonds are to be redeemed at any time prior to maturity, the particular Series 2009A Bonds or portions thereof to be redeemed will be selected by the Trustee *pro rata* as nearly as practicable in proportion to the principal amounts of the Series 2009A Bonds, as the case may be, owned by each registered owner, subject to the authorized denominations applicable to the Series 2009A Bonds, calculated based on the formula: (principal amount to be redeemed) x (principal amount owned by owner) / (principal amount outstanding). The particular Series 2009A Bonds to be redeemed shall be determined by the Trustee in such manner as the Trustee deems fair.

The Series 2009B Bonds

In the event less than all of the Series 2009B Bonds of like maturity and tenor are to be redeemed at any time prior to maturity, the Trustee shall select the particular Series 2009B Bonds or portions thereof to be redeemed by lot, using such method of selection as it shall deem proper in its sole discretion.

Notice of Redemption

So long as Cede & Co., as nominee of DTC, or any replacement nominee appointed by DTC, is the registered owner of the Series 2009 Bonds, the Trustee will send any notice of redemption of Bonds only to DTC not less than thirty (30) days prior to the redemption date. Any failure of DTC to advise any Participant, or of a Participant to notify the Beneficial Owner, of any such notice and its contents or effect will not affect the validity or sufficiency of the

proceedings relating to the redemption of the Series 2009 Bonds called for redemption. See “Book-Entry-Only System” above.

Interest on the Series 2009 Bonds will cease to accrue on the date of redemption thereof, assuming the satisfaction of certain notification and other requirements of the Resolution pertaining to such redemption.

City Repurchase Right

Certain agreements entered into by the Authority provide that the City has the right to acquire, at any time, the Battery Park City Site (the “City Repurchase Right”) for a nominal consideration after (a) substantially all notes, bonds and other indebtedness incurred by the Authority (including the Series 2009 Bonds), or for which the Authority’s revenues have been pledged, have been repaid or defeased; and (b) satisfaction or provision for payment of its contractual obligations and other contingent liabilities. Subject to the foregoing, the City may, whenever funds are available therefor or upon furnishing such funds, require the Authority to redeem at any time all Outstanding Bonds in accordance with the terms described under “Redemption - *Optional Redemption*,” above. To date, the City has not expressed its intent regarding its right to exercise the City Repurchase Right. However, no assurances can be given that the City will not choose to exercise the City Repurchase Right.

DEBT SERVICE REQUIREMENTS

(in thousands)

Senior Revenue Bonds										Junior Revenue Bonds									
Existing Senior Revenue Bonds					Additional Senior Revenue Bonds					Existing Junior Lien Bonds									
Series 2003A Bonds			Series 2009A Bonds		Series 2009B Bonds			Total Senior Revenue Bonds		Series 2003B Bonds			Series 2003C Bonds		Total Junior Service	Total Revenue Service			
Principal	Interest	Total	Principal	Interest ⁽²⁾	Total	Principal	Interest	Total	Service	Principal	Interest ⁽³⁾	Total	Principal	Interest ⁽⁴⁾	Total	Service	Revenue Bonds	Revenue Bonds	
\$13,645	\$19,086	\$32,731	\$3,097	\$3,097	\$245	\$1,233	\$1,478	\$37,306	Revenue	\$9,400	\$9,400	\$5,450	\$13,699	\$19,149	\$28,549	Revenue	\$65,855		
14,375	18,556	32,931	3,608	3,608	255	1,432	1,687	38,227	Bonds	9,400	9,400	5,450	13,508	18,958	28,358	Bonds	66,585		
15,205	17,916	33,121	3,608	3,608	115	1,427	1,542	38,271	Debt	9,400	9,400	5,450	13,317	18,767	28,167	Debt	66,438		
16,140	17,148	33,288	3,608	3,608	310	1,425	1,735	38,631	Service	9,400	9,400	5,450	13,126	18,576	27,976	Service	66,607		
17,165	16,323	33,488	3,608	3,608	310	1,418	1,728	38,824	Revenue	9,400	9,400	5,450	12,936	18,386	27,786	Revenue	66,610		
18,255	15,438	33,693	3,608	3,608	315	1,411	1,726	39,027	Bonds	9,400	9,400	5,450	12,745	18,195	27,595	Bonds	66,621		
19,400	14,491	33,891	3,608	3,608	335	1,403	1,738	39,237	Debt	9,400	9,400	5,450	12,554	18,004	27,404	Debt	66,641		
20,620	13,479	34,099	3,608	3,608	340	1,393	1,733	39,440	Service	9,400	9,400	5,450	12,363	17,813	27,213	Service	66,653		
21,895	12,400	34,295	3,608	3,608	355	1,383	1,738	39,640	Revenue	9,400	9,400	5,450	12,172	17,622	27,022	Revenue	66,662		
23,140	11,315	34,455	3,608	3,608	335	1,370	1,705	39,768	Bonds	9,400	9,400	5,500	11,981	17,481	26,881	Bonds	66,650		
24,315	10,108	34,423	3,608	3,608	370	1,358	1,728	39,760	Debt	9,400	9,400	5,725	11,789	17,514	26,914	Debt	66,674		
25,580	8,837	34,417	3,608	3,608	375	1,340	1,715	39,741	Service	9,400	9,400	5,950	11,588	17,538	26,938	Service	66,679		
26,945	7,496	34,441	3,608	3,608	390	1,322	1,712	39,761	Revenue	9,400	9,400	6,150	11,380	17,530	26,930	Revenue	66,691		
28,325	6,089	34,414	3,608	3,608	390	1,302	1,692	39,715	Bonds	9,400	9,400	6,400	11,164	17,564	26,964	Bonds	66,679		
29,770	4,680	34,450	3,608	3,608	395	1,284	1,679	39,737	Debt	9,400	9,400	6,600	10,940	17,540	26,940	Debt	66,678		
31,235	3,193	34,428	3,608	3,608	405	1,264	1,669	39,705	Service	9,400	9,400	6,875	10,709	17,584	26,984	Service	66,689		
32,790	1,636	34,426	3,608	3,608	425	1,244	1,669	39,703	Revenue	9,400	9,400	7,125	10,468	17,593	26,993	Revenue	66,696		
			3,608	3,608	410	1,227	1,637	5,245	Bonds	9,400	9,400	41,850	10,219	52,069	61,469	Bonds	66,714		
			3,608	3,608	450	1,210	1,660	5,269	Debt	9,400	9,400	43,375	8,753	52,128	61,528	Debt	66,797		
			3,608	3,608	435	1,192	1,627	5,236	Service	9,400	9,400	45,000	7,234	52,234	61,634	Service	66,870		
			3,608	3,608	525	1,175	1,700	5,308	Revenue	9,400	9,400	46,675	5,658	52,333	61,733	Revenue	67,042		
			3,608	3,608	480	1,153	1,633	5,242	Bonds	9,400	9,400	48,400	4,024	52,424	61,824	Bonds	67,065		
\$ 65	3,608	3,673	8,535	1,134	9,669	13,342			Debt	9,400	9,400	32,875	2,329	35,204	44,604	Debt	57,946		
25	3,604	3,629	8,830	707	9,537	13,166	\$ 600	9,400	Service	10,000	33,625	1,178	34,803	44,803	57,968	Service			
4,020	3,603	7,623	5,305	265	5,570	13,193	35,325	9,376	Revenue	44,701					44,701	57,894			
9,180	3,346	12,526				12,526	36,750	7,963	Bonds	44,713					44,713	57,239			
9,795	2,761	12,556				12,556	38,225	6,493	Debt	44,718					44,718	57,274			
10,460	2,137	12,597				12,597	39,750	4,964	Service	44,714					44,714	57,311			
11,155	1,470	12,625				12,625	41,350	3,374	Revenue	44,724					44,724	57,349			
11,900	759	12,659				12,659	43,000	1,720	Bonds	44,720					44,720	57,379			

(1) Includes accrued debt service due on each November 1.

(2) Does not reflect the Series 2009A Cash Subsidy Payments to be received by the Authority relating to the Series 2009A Bonds.

(3) Reflects an assumed annual interest rate of 4.00%, inclusive of expenses relating to the auction rate securities.

(4) Reflects interest rate exchange agreements that provide for the Authority to pay a rate of 3.452% to the counterparties, plus other expenses relating to the auction rate securities of 0.05% per annum. Does not reflect any differences between the actual interest rate paid and that received by the Authority.

SECURITY FOR THE SERIES 2009 BONDS

The Authority has no taxing power. Neither the City nor the State shall be liable on the Series 2009 Bonds, and the Series 2009 Bonds shall not be a debt or liability of the City or the State. Neither the faith and credit nor the taxing power of the City or the State are pledged to payment of the principal of or interest on the Series 2009 Bonds nor are the Series 2009 Bonds “moral obligation” bonds secured by a debt service or other reserve fund for which statutory provision for the appropriation of funds has been made. Furthermore, the Series 2009 Bonds are not secured by a mortgage or any other interest in real property of the Authority.

Pledge of the General Resolution

The Pledged Sublease Revenues, Swap Receipts, Series 2009A Cash Subsidy Payments, Gross Condemnation Proceeds, all monies in the Pledged Funds, the investments thereof and the proceeds of such investments, are pledged under the General Resolution for the payment of the principal and Redemption Price of and interest on the Series 2009 Bonds, Senior Reimbursement Obligations, Junior Reimbursement Obligations, Senior Swap Payments, Junior Swap Payments and Subordinated Payments, all in accordance with the terms and provisions of the General Resolution, subject only to the provisions of the General Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the General Resolution. The pledge of the General Resolution shall be valid and binding from and after the date of adoption of the General Resolution, and the Pledged Sublease Revenues, Swap Receipts, Gross Condemnation Proceeds, all monies in the Pledged Funds, the investments thereof and the proceeds of such investments thereby pledged (collectively, the “Collateral”) shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Pledged Sublease Revenues. “Pledged Sublease Revenues” are defined under the General Resolution as all Sublease Rentals (together, to the extent provided in any Supplemental Resolution, with all or any portion of any money, due and payable to the Authority by or for the account of a Sublessee pursuant to a Sublease, that does not constitute Sublease Rentals).

“Sublease Rentals” are defined under the General Resolution as the money due and payable to the Authority by or for account of a Sublessee pursuant to a Sublease, exclusive of: (i) Civic Facilities Payments and Transaction Payments (each as defined in such Sublease), (ii) payments in lieu of sales taxes thereunder, (iii) (A) in the case of a Sublease of a Non-WFC Parcel, rentals thereunder that are not (1) base rent or land rent payments, (2) supplemental rent payments (which include payments sometimes referred to as incremental rent, supplemental hotel base rent or additional rent), (3) real property tax equivalency payments or (4) payments in lieu of real property taxes and (B) in the case of a Sublease of the World Financial Center, rentals thereunder that are not (1) base rent payments, (2) additional base rent payments, or (3) payments in lieu of real property taxes, and (iv) to the extent that the Authority elects to make any payment required to be made by any Sublessee under a Sublease, sums of money reimbursed to the Authority for such payments.

See “CERTAIN FACTORS AFFECTING REVENUES FROM SPECIFIED SUBLEASES” for a discussion of the circumstances under which Pledged Sublease Revenues may be insufficient to pay debt service on the Series 2009 Bonds.

Application of Revenues

Under the General Resolution there is created and established a “Pledged Revenue Fund”, which shall be held by the Trustee. Pursuant to the General Resolution, the Authority obligates and binds itself irrevocably to pay, or cause to be paid, to the Trustee all Pledged Sublease Revenues, Swap Receipts and Build America Bonds subsidy payments as and when actually received by or for the account of the Authority. Monies, including interest earned or other sums received on obligations purchased as an investment of such monies and any profit realized from the sale of such obligations, from time to time in the Pledged Revenue Fund (including monies or the proceeds of any property other than the Pledged Sublease Revenues that may be pledged pursuant to the Resolution and that may be deposited to the credit of the Pledged Revenue Fund) shall be paid out and applied for the uses and purposes for which the same are pledged by the provisions of the Resolution, in the manner provided in the Resolution. Subject to payments to be made from the Pledged Revenue Fund as described below, once a month on any day within the first five Business Days of each calendar month, monies in the Pledged Revenue Fund shall be disbursed and applied by the Trustee as directed in writing by the Authority, in the following order, subject to the provisions of the Resolution:

- (a) FIRST, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Project Operating Fund the sum, if any, necessary to increase the amount in the Project Operating Fund so that it equals the Project Operating Fund Requirement;
- (b) SECOND, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Senior Payments Account of the Debt Service Fund the sum, if any, necessary to increase the amount in the Senior Payments Account so that it equals the Senior Payments Requirement;
- (c) THIRD, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Junior Payments Account of the Debt Service Fund the sum, if any, necessary to increase the amount in the Junior Payments Account so that it equals the Junior Payments Requirement;
- (d) FOURTH, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Reserve Fund the sum, if any, necessary to increase the amount in the Reserve Fund so that it equals the Reserve Fund Requirement; and
- (e) FIFTH, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Subordinated Payments Fund the sum, if any, necessary to increase the amount in the Subordinated Payments Fund so that it equals the Subordinated Payments Requirement.

As of each November 1, prior to any disbursement from the Pledged Revenue Fund to be made during such calendar month pursuant to the preceding paragraph: (i) *first*, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Senior Payments

Account of the Debt Service Fund the sum, if any, designated in writing to the Trustee by an Authorized Officer of the Authority as being necessary, together with other amounts expected to be available pursuant to subparagraph (b) above, to make all payments scheduled to be made from the Senior Payments Account during the next three calendar months; (ii) second, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Junior Payments Account of the Debt Service Fund the sum, if any, designated in writing to the Trustee by an Authorized Officer of the Authority as being necessary, together with other amounts expected to be available pursuant to subparagraph (c) above, to make all payments scheduled to be made from the Junior Payments Account during the next five calendar months; (iii) third, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Subordinated Payments Fund the sum, if any, designated in writing to the Trustee by an Authorized Officer of the Authority as being necessary, together with other amounts expected to be available pursuant to subparagraph (e) above, to make all payments scheduled to be made from the Subordinated Payments Fund pursuant to the General Resolution during the next five calendar months; and (iv) fourth, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Residual Fund the balance of funds on deposit in the Pledged Revenue Fund.

Reserve Fund

The General Resolution establishes the Reserve Fund for the benefit of the holders of the Series 2009 Bonds and other Beneficiaries. The General Resolution requires that the amount on deposit in the Reserve Fund be at least equal to the Reserve Fund Requirement upon the issuance of any Series of Bonds. The “Reserve Fund Requirement”, as of any date of calculation, is the sum of the amounts specified for each Series of Outstanding Bonds, in the applicable Series Resolution for each Series of Outstanding Bonds, as the “Series Reserve Requirement” (which may be zero). As of November 30, 2009, the amount on deposit in the Reserve Fund was \$65,253,537.98. The Series Reserve Requirement for the Series 2009A Bonds is zero and the Series Reserve Requirement for the Series 2009B Bonds is \$1,544,848.00. The Authority has agreed to set aside and deposit into the Reserve Fund, on the date of original issuance of the Series 2009 Bonds, a portion of the proceeds from the sale of the Series 2009 Bonds in the amount of \$1,544,848.00 equal to the aggregate Reserve Fund Requirement for the Series 2009 Bonds on and as of such date.

As more fully described in “APPENDIX C - Definitions and Summary of Certain Provisions of the General Resolution,” the General Resolution permits withdrawals from the Reserve Fund for certain purposes, including payment of debt service on the Series 2009 Bonds in the event that, on any debt service payment date for the Series 2009 Bonds, there is a deficiency of funds available therefor in the Senior Payments Account of the Debt Service Fund.

Additional Bonds

The Authority may issue additional Bonds so long as before or simultaneously with each and any such issuance there is delivered to or filed with the Trustee either (i) a Ratings Confirmation or (ii) a certificate signed by an Authorized Officer stating that the sum of:

- (x) the Pledged Sublease Revenues obtained by the Authority during the Historical Test Period (net of Operating Expenses incurred by the Authority during the Historical Test Period), and

(y) income and earnings received by the Authority during the Historical Test Period from the investment of monies held or to be held in trust for the payment of Bonds (other than monies held in trust for, upon and after the defeasance of any Bonds),

for the Historical Test Period, in the current Fiscal Year and in each future Fiscal Year, to and including the Fiscal Year in which the latest final stated maturity of Bonds then or thereupon to be outstanding shall be scheduled to occur, was or will be a sum at least equal to (i) two hundred per centum (200%) of the sum of Aggregate Debt Service payable from the Senior Payments Account of the Debt Service Fund and (ii) one hundred fifty-five per centum (155%) of the sum of Aggregate Debt Service. The “Historical Test Period” is defined under the General Resolution to mean, as of any date of calculation, at the option of the Authority, either (i) the most recently completed Fiscal Year for which audited financial statements of the Authority shall have been published, or (ii) the most recently completed period of twelve (12) full calendar months for which the Authority has sufficient data to make the calculations required above.

The Authority may issue Refunding Bonds so long as before or simultaneously with each and any such issuance there is delivered to or filed with the Trustee either (i) Ratings Confirmation or (ii) a certificate signed by an Authorized Officer confirming that for the then current and each future Fiscal Year, to and including the Fiscal Year in which the date of the latest final maturity of outstanding Bonds (including such Refunding Bonds) then or thereupon to be outstanding shall be scheduled to occur, the amount by which the sum of:

(x) the Pledged Sublease Revenues obtained (net of Operating Expenses actually incurred by the Authority) or estimated by the Authority (based upon a report of a Real Estate Consultant, which report shall be dated within 60 days prior to the date of such pledge, assignment or other encumbrance) to be obtainable (net of Operating Expenses estimated by the Authority to be incurred), and

(y) income and earnings estimated by the Authority to be received (such estimate to be certified in writing by an Authorized Officer and a duly authorized officer of each other issuer, respectively) from the investment of monies held or to be held in trust for the payment of Bonds (other than monies held in trust for, upon and after the defeasance of any Bonds),

shall exceed Aggregate Debt Service, will not be reduced (or, in case the sum of items (x) and (y) is less than Aggregate Debt Service, that the amount of such deficit will not be increased) as a result of the issuance of such Refunding Bonds.

Other Security Provisions

Beneficiaries of General Resolution; Amendments. The General Resolution inures to the benefit of the Authority, the Trustee, the Paying Agent and the Beneficiaries and only the Authority, the Trustee and such fiduciaries are entitled to enforce the provisions of the General Resolution. Under certain conditions, the Authority may modify the General Resolution without the consent of any Beneficiaries. See “APPENDIX C - Definitions and Summary of Certain Provisions of the General Resolution - Supplemental General Resolutions” and “Amendments of General Resolution.”

Operation of Battery Park City. Under the General Resolution, the Authority covenants that it will maintain and operate Battery Park City, or cause Battery Park City to be operated and maintained, including the enforcement of the Authority's rights under each Sublease of a parcel from which the Authority derives Pledged Sublease Revenues, under the same standard of care as would be applied by an owner or operator of similar property in like circumstances.

Amendment of Master Lease and Specified Subleases. Except for restrictions relating to the Authority's disposition of parcels in the Battery Park City Site, there are no restrictions in the Resolution with respect to the ability of the Authority to amend the Master Lease or the Specified Subleases, and all such amendments are solely within the operational discretion of the Authority. There can be no assurance that such amendments, if implemented, will not have an adverse effect on Pledged Sublease Revenues.

No Acceleration of the Series 2009 Bonds. Neither the Trustee nor any holder of the Series 2009 Bonds may declare or has any right to declare any of the Series 2009 Bonds due and payable in advance of stated maturity. For a description of remedies under the General Resolution and limitations thereon following the occurrence of an event of default under the General Resolution, see "APPENDIX C - Definitions and Summary of Certain Provisions of the General Resolution - Defaults and Remedies."

THE AUTHORITY

The Authority is a body corporate and politic constituting a public benefit corporation created in 1968 for the purpose of financing, developing, constructing, maintaining, and operating a planned community development of the Battery Park City Site as a mixed commercial and residential community.

Under the Act, the Authority has the following powers, among others: to borrow money and to issue negotiable bonds, notes or other obligations and to provide for the rights of the holders thereof; to acquire, lease, hold, mortgage and dispose of real property and personal property or any interest therein for its corporate purposes; to construct, improve, enlarge, operate and maintain Battery Park City; to make bylaws for the management and regulation of its affairs, and, subject to agreements with bondholders, for the regulation of Battery Park City; to make contracts and to execute all necessary or convenient instruments, including leases and subleases; to accept grants, loans or contributions from the United States, or the State or the City, or any agency or instrumentality of any of them, or from any other source and to expend the proceeds for any corporate purpose; to fix, establish and collect rates, rentals, fees and other charges for the use of Battery Park City, subject to and in accordance with agreements with bondholders and noteholders; to make loans from the proceeds of bonds or temporary loans or advances for the purpose of developing a commodities and futures exchange in Battery Park City; and to do all things necessary or convenient to carry out the powers expressly granted by the Act. The Authority has no taxing power.

Certain activities of the Authority are subject to the jurisdiction of the New York State Public Authorities Control Board.

Members

The membership of the Authority consists of three members appointed by the Governor with the advice and consent of the State Senate. The members, who serve for terms of six years each, elect the Chairman of the Authority from among their number. A majority of the members of the Authority constitutes a quorum for the transaction of any business or the exercise of any power or function of the Authority.

The members of the Authority are:

James F. Gill, Chairman: Chairman: term expired December 31, 2008; continues to serve until reappointed or a successor is appointed and qualified. Mr. Gill is a senior partner of the law firm of Bryan Cave LLP. He served as Chairman of the Long Island Power Authority from September 1995 to April 1996 and as Acting Director of the Governor's Office of Employee Relations from January to April 1995. From 1988 to 1991, Mr. Gill served as Chairman of the Joint Commission on Integrity in the Public Schools. He also serves as General Counsel to the Board of Trustees of St. Patrick's Cathedral, and served as Chairman of the Governor's Judicial Screening Panel for the First Department. He was the founding Chairman of the Doris Duke Charitable Foundation and remains a member of that board. He is Chairman of the Board of Directors of Group Health Insurance and the author of two books "For James and Gillian: Jim Gill's New York," and "Speaking of Gill."

Charles J. Urstadt, Vice Chairman: term expires December 31, 2009. Mr. Urstadt is Chairman and Chief Executive Officer of Urstadt Biddle Properties Inc., a real estate investment trust listed on the New York Stock Exchange. From September 1979 to March 1989, Mr. Urstadt was Chief Executive Officer of Pearce, Urstadt, Mayer & Greer Realty Corp., a real estate brokerage and management firm. Previously, from July 1968 to December 1978, Mr. Urstadt served as the first Chairman and as the Chief Executive Officer of the Battery Park City Authority. Mr. Urstadt was Commissioner of the New York State Division of Housing and Community Renewal from January 1967 to April 1973. In addition, Mr. Urstadt serves as a Trustee of the Historic Hudson Valley and Chairman Emeritus of the Realty Foundation of New York. He is a retired Director of Putnam Trust Company and of TIAA-CREF.

David B. Cornstein, Member: term expires December 31, 2010. Mr. Cornstein is Chairman of Pinnacle Advisors, Ltd. a consulting and advisory firm, and Chairman Emeritus, Finlay Enterprises Inc. He served as Chairman of the New York State Olympic Games Commission from 2002 through 2006 and served as Chairman of New York City Off-Track Betting from 1994 through 2009, a board member of the Jacob Javits Development Corporation, a Member of the Advisory Council for the Lower Manhattan Development Corporation and has served as Chairman of the New York State Senate Advisory Commission on the Future of Lower Manhattan. He has served as the Vice Chairman for the New York City Economic Development Corporation; on the boards of directors of New York Law School and the Jewish Community Relations Council, and as a member of the New York State Council on State Productivity.

Lynn K. Rollins, Member: term expires February 7, 2010. Ms. Rollins served as Deputy Director of the New York State Division for Women from 1995 until 2003 and Senior Advisor on Women's Issues from 2003 until 2006. She was the Executive Director of the Governor's Commission Honoring the Achievements of Women in 1998 and Chair of the Women's Heritage Trail Committee. She is past board president of the New York City Audubon Society, a board member of The Women's Institute for a Secure Retirement and a trustee of the Marble Cemetery. Ms. Rollins is a Certified Financial Planner and a Real Estate Broker.

Andy Keshav Shenoy, Member: term expires February 7, 2010. Mr. Shenoy is the President of Trivision Group Inc, a software company. He was recently appointed to serve on the Tourism Advisory Board of the Empire State Development Corporation by Governor David Paterson. He has also served as President of Indo-American Promotion, a nonprofit organization promoting greater understanding and economic development locally between India and with the South Asian communities. He served as special advisor for South-Asian Affairs to Governor George Pataki and in 2006 led the New York state delegation and accompanied Frank Levin, the then Federal Under Secretary of Commerce for International Trade on a mission to India. Mr. Shenoy received the Governor's Award of Excellence for his significant contribution to the social, economic and cultural development of the state and the nation in 2005.

Frank J. Branchini, Member: term expires June 22, 2014. Mr. Branchini is president and COO of EmblemHealth Inc., the parent company of Group Health Inc. (GHI) and HIP Health Plan of New York (HIP). Mr. Branchini also continues to serve as CEO of GHI and chairman and CEO of GHI's wholly owned subsidiary, GHI HMO. Mr. Branchini is a member of the boards of directors of the Starlight Children's Foundation, the American Arbitration Association and the New York City Partnership. He also served as a member of the Cabrini Medical Center Board of Trustees for ten years and was elected Chair of the Board in 2000.

Robert J. Mueller, Member: term expires June 22, 2014. Mr. Mueller retired in 2004 from The Bank of New York, where he served as Senior Executive Vice President from 1989. He was a member of the bank's Senior Planning Committee. Previously, Mr. Mueller served as President of Carteret Savings Bank in Morristown, New Jersey; as Executive Vice President of Fidelity Union Bank in Newark, New Jersey; and as Vice President of The Bank of New York. Mr. Mueller currently serves on the Boards of Urstadt Biddle Properties, Inc., Danita Container, Inc., the Community Preservation Corp., the Borough of Manhattan Community College Fund, and the Greenwich South Board Committee. He is an Advisory Board Member of Neighborhood Housing Services of New York, Inc. Principal Officers and Executive Staff.

The principal officers and executive staff of the Authority include:

James E. Cavanaugh, President and Chief Executive Officer. Mr. Cavanaugh joined the Authority in January 2004 as Chief Operating Officer, and was named President in September 2005. Prior to joining the Authority, he served ten years as Supervisor for the Town of Eastchester, a community of 32,000 people located in Westchester County, New York. Prior to being named President & CEO, Mr. Cavanaugh served as the Authority's Chief Operating Officer. Mr. Cavanaugh also serves as a member of Governor Paterson's Minority and Women Owned Business Executive Leadership Council, which is charged with reformulating New York State's approach to providing opportunity in public contracts for minority- and women-owned business enterprises. Mr. Cavanaugh previously served as President of the Westchester Municipal Officials Association. In that capacity he was responsible for coordinating policy initiatives and intergovernmental relations among Westchester's various city, town and village governments. Mr. Cavanaugh also served as Treasurer, and later President, of the Westchester Putnam Association of Town Supervisors.

Alexandra Altman, Executive Vice President and General Counsel. Ms. Altman has served as the Authority's Executive Vice President, Chief Operating Officer and General Counsel since December 1993. Prior to joining the Authority she held various positions with The City of New York, serving in the Law Department as Senior Assistant Corporation Counsel; in the Office of Management and Budget as Director of Finance and as General Counsel; and as Counsel to the Deputy Mayor for Finance.

Robert M. Serpico, Senior Vice President, Finance and Treasurer/CFO. Mr. Serpico has been with the Authority since June 1986 and has been Treasurer since December 1987. In addition, Mr. Serpico has served as President and Chief Executive Officer of the Battery Park City Parks Conservancy, an Authority affiliate responsible for care of the parks in Battery Park City for 17 years and is now Treasurer. He was formerly Regional Controller for Continental Telecom, Inc. from 1983 through 1986 and prior to that was in the Controllership Division of American Express Company.

Karl Koenig, Controller. Mr. Koenig has fifteen years of diverse financial experience, including work as an auditor for the Office of the Comptroller of The City of New York, as a senior auditor for a mid-size firm of Certified Public Accountants and as the director of finance for a non-profit organization. He is a New York State Certified Public Accountant.

Carl Jaffee, Senior Development Counsel. Mr. Jaffee has served as the Senior Development Counsel for the Authority since June 1990. Previously, he was in private legal

practice and served in legal capacities with The City of New York and the New York State Urban Development Corporation.

AGREEMENT OF THE STATE

In Section 1978 of the Act, the State has pledged to and agreed with the holders of obligations of the Authority (including the Series 2009 Bonds) that it will not limit or alter the rights vested by the Act in the Authority to acquire, lease, mortgage or dispose of real or personal property or any interest therein or construct, improve, enlarge, operate and maintain Battery Park City, to fix, establish and collect the rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with holders of such obligations, or in any way impair the rights and remedies of such holders until such obligations, together with interest thereon, interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the provisions of Section 1980 of the Act, the obligations of the Authority (including the Series 2009 Bonds) are made securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, and all other persons whatsoever, who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital in their control or belonging to them. Under the provisions of such Section, the Series 2009 Bonds are also made securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

TAX MATTERS

The Series 2009A Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, interest on the Series 2009A Bonds (the “Build America Bonds”) (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) is exempt, under existing statutes, from all present New York State or any political subdivision thereof (including The City of New York) personal income taxes.

The Build America Bonds are expected to be designated as such by the Authority pursuant to applicable provisions of the Code; the Authority will elect to receive cash subsidy payments equal to 35% of the interest payable on the Build America Bonds from the United States Treasury. As a result of such election, holders of the Build America Bonds will not be eligible to receive the tax credit otherwise permitted under Section 54AA(a) of the Code. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and

delivery of the Build America Bonds in order for the Authority to continue to receive said subsidy payments. These requirements include, but are not limited to, requirements relating to use and expenditure of the available project proceeds of the Build America Bonds, yield and other restrictions on investments of available project proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance may cause the Build America Bonds to fail to qualify for the receipt of the interest subsidy payments. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the receipt of the interest subsidy payments in respect of the Build America Bonds.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Build America Bonds by original purchasers of the Build America Bonds who are “U.S. Holders”, as defined herein. This summary (i) is based on certain relevant provisions of the Code under existing law and are subject to change at any time, possibly with retroactive effect; (ii) assumes that the Build America Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Build America Bonds as a position in a “hedge” or “straddle”, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or holders who acquire Build America Bonds in the secondary market.

Holders of Build America Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Build America Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Build America Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Build America Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Build America Bonds to be deemed to be no longer outstanding under the Resolution (a “defeasance”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Build America Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a Build America Bond and the proceeds of the sale of a Build America Bond before maturity within the

United States. Backup withholding may apply to holders of Build America Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Service.

U.S. Holders

The term "U.S. Holder" means a beneficial owner of a Build America Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure

The advice under the caption, "Build America Bonds", concerning certain income tax consequences of the acquisition, ownership and disposition of the Build America Bonds, was written to support the marketing of the Build America Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the Authority informs you that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder particular circumstances from an independent tax advisor.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the status of the Build America Bonds under Federal or state law and could affect the market price or marketability of the Build America Bonds.

Prospective purchasers of the Build America Bonds should consult their own tax advisors regarding the foregoing matters.

The Series 2009B Bonds

Opinion of Bond Counsel

In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2009B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2009B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering its opinion,

Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and Asphalt Green, Inc. (the “Community Center Manager”) in connection with the Series 2009B Bonds; has assumed compliance by the Authority and the Community Center Manager with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2009B Bonds from gross income under Section 103 of the Code; and has relied on the opinion of counsel to the Community Center Manager regarding, among other things, the current qualifications of the Community Center Manager as an organization described in Section 501(c)(3) of the Code. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest on certain tax-exempt bonds apply to the Series 2009B Bonds.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2009B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2009B Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2009B Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2009B Bonds in order that interest on the Series 2009B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2009B Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2009B Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is ascertained. The Authority and the Community Center Manager have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2009B Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2009B Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2009B Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2009B Bonds.

The Series 2009B Bonds are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the pro rata interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Series 2009B Bonds, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Series 2009B Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2009B Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2009B Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2009B Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2009B Bonds is expected to be the initial public offering price set forth on the inside cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2009B Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2009B Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2009B Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2009B Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2009B Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2009B Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2009B Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2009B Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2009B Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2009B Bonds under Federal or state law and could affect the market price or marketability of the Series 2009B Bonds.

Prospective purchasers of the Series 2009B Bonds should consult their own tax advisors regarding the foregoing matters.

AUTHORITY LITIGATION

The Authority believes that there is no litigation of any nature now pending or threatened against the Authority contesting or affecting the validity of the Master Lease or the Specified Subleases. The Authority believes that there is no litigation of any nature now pending or threatened restraining or enjoining or seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2009 Bonds, or in any way contesting or affecting the validity of the Series 2009 Bonds, the Resolution or any proceeding of the Authority taken with respect to the authorization, issuance or sale of the Series 2009 Bonds or the pledge or application of any monies under the Resolution or the existence of the Authority or its powers under the Act relating to the adoption of the Resolution.

The Authority experiences routine litigation and claims in connection with its operation of Battery Park City and ownership of the Battery Park City Site, the conduct of its affairs and the ownership of its properties, which seek to recover damages for alleged personal injuries, loss of service or medical expenses. Except as set forth below, the anticipated cost of any recovery, and the estimated costs and expenses in the defense of such pending or threatened actions or matters are, in the opinion of the Authority, not expected to materially and adversely affect the Authority's financial condition or are covered by insurance of the Authority and/or other parties.

Several claims have been asserted against the Authority arising out of design and construction of the Authority's combined school/residential facility located on Site 22 in Battery Park City (the Site 22 Project). To date, contractors and subcontractors that performed work on the Site 22 Project have asserted a total of approximately \$12.1 million of such claims. The school portion of the Site 22 Project was constructed by the Authority pursuant to an agreement with the City, the New York City Educational Construction Fund and the Board of Education of the City of New York. Pursuant to the terms of that agreement, the City agreed to indemnify the Authority *inter alia* for any liability, loss, cost, damage or claim arising from the design or construction of the school portion of the Site 22 Project. The amount of Site 22 Project claims allocable to the school portion has not yet been determined, and the amount of the Authority's liability for claims relating to the Site 22 Project is not predictable at present.

Numerous claims have been asserted against the Authority and others in state and federal court by individuals who worked in and around the World Trade Center site after the September 11th attack (such individuals and their representatives are hereinafter referred to as Plaintiffs). Some of the Plaintiffs were undertaking clean-up activities for ground lessees of the Authority and tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. The majority of these claims have been dismissed or discontinued

with prejudice with respect to the Authority on account of the Plaintiffs' failure to file a notice of claim. However, State legislation was enacted on September 16, 2009 amending General Municipal Law § 50-I to revive for one year certain claims related to the World Trade Center rescue, recovery and clean-up effort that were barred for failure to timely file a notice of claim. The court has been notified of the new legislation, and the Authority anticipates that the cases that were previously dismissed will be restored shortly. Once restored, the Authority will have approximately 650 claims pending against it in Federal court. The Authority's ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, Brookfield, Merrill Lynch and the lessee under the Gateway Plaza Sublease have agreed to assume the defense of the claims related to the premises that they control. The Authority is pursuing the tender of the remaining claims to its other ground lessees. Certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not provide coverage to the Authority for these claims.

AUTHORITY FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS

The financial statements of the Authority as of and for the fiscal years ended October 31, 2008 and 2007 included in Appendix B, have been audited by KPMG LLP, independent accountants, as stated in their report appearing therein. Also included in Appendix B are the unaudited financial statements of the Authority for the six months ended April 30, 2009 and the report thereon of independent accountants KPMG LLP.

No projections contained in this Official Statement or in any of the appendices to this Official Statement, including but not limited to the Real Estate Consultant's Report included as Appendix A, were prepared with a view towards complying with the guidelines established by the American Institute of Certified Public Accountants with respect to projected financial information. Neither KPMG LLP nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the projected financial information contained in this Official Statement or in any of the appendices to this Official Statement, including but not limited to the Real Estate Consultant's Report included as Appendix A, nor have they expressed any opinion or other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the projected financial information.

CONTINUING DISCLOSURE UNDER RULE 15c2-12

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the Authority and the Trustee will enter into a written agreement (the "Series 2009 Continuing Disclosure Agreement") for the benefit of the owners of the Series 2009 Bonds pursuant to which the Authority will undertake to provide continuing disclosure of certain financial information and operating data and certain events, if material. A copy of the Series 2009 Continuing Disclosure Agreement, in substantially the form which the Authority expects to execute and deliver as a condition to the issuance and sale of the Series 2009 Bonds, is contained as "Appendix E - Form of Continuing Disclosure Agreements" to this Official Statement.

The Continuing Disclosure Agreement (the "Series 2003 Continuing Disclosure Agreement"), executed by the Authority with respect to the Authority's Senior Revenue Bonds,

Series 2003A, Junior Revenue Bonds, Series 2003B and Junior Revenue Bonds, Series 2003C (collectively the “Series 2003 Bonds”) requires the Authority to annually file with each Nationally Recognized Municipal Securities Information Depository (“NRMSIR”) audited financial statements and updates to Tables 1, 2 and 3 contained in the Official Statement relating to the Series 2003 Bonds. Although the Authority filed its audited financial statements with the NRMSIRs in a timely manner in compliance with the Series 2003 Continuing Disclosure Agreement, the Authority failed to file updates to Tables 1, 2 or 3 in a timely manner. The Authority has established procedures to ensure that future filings of continuing disclosure information will be in compliance with existing continuing disclosure obligations, including transmitting such filings to the MSRB through EMMA. Aside from the foregoing, the Authority is in compliance with all existing continuing disclosure agreements.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase from the Authority the Series 2009A Bonds at a discount equal to \$541,143.86 and to purchase from the Authority the Series 2009B Bonds at a discount equal to \$248,344.20. The Underwriters have agreed to reoffer the Series 2009 Bonds at the public offering price or prices set forth on the inside cover page hereof. The Series 2009 Bonds may be offered and sold to certain dealers (including dealers depositing such bonds into investment trusts) at prices lower than such public offering prices, and prices may be changed, from time to time, by the Underwriters. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Series 2009 Bonds if any of the Series 2009 Bonds are purchased.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

FINANCIAL ADVISORS

Public Resources Advisory Group (“PRAG”) and A.C. Advisory, Inc. (“A.C. Advisory”) have been retained to act as financial advisors for the Authority in connection with the issuance of the Series 2009 Bonds.

Although PRAG and A.C. Advisory have assisted in the preparation of this Official Statement, PRAG and A.C. Advisory are not obligated to undertake, and have not undertaken, to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

RATINGS

Moody’s Investors Service, has assigned a long-term rating of “Aaa” to the Series 2009 Bonds, noting a stable rating outlook. Fitch Ratings has assigned long-term ratings of “AAA” to the Series 2009 Bonds, noting a negative rating outlook. The ratings by each rating agency are subject to withdrawal, qualification, or downgrade. The ratings reflect only the views of the

respective rating agencies at the time the ratings were issued, and an explanation of the significance of such ratings may be obtained from such rating agencies. The ratings are not a recommendation to buy the Series 2009 Bonds. There is no assurance that the ratings given by any rating agency will continue for any given period or that such ratings will not be withdrawn, qualified, or downgraded by such rating agency if, in its judgment, circumstances so warrant. Any withdrawal, qualification, or downgrade of ratings can be expected to have an adverse effect on the market price of the Series 2009 Bonds.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization of the Series 2009 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, whose final approving opinion (in substantially the form attached to this Official Statement as "APPENDIX F - Form of Opinion of Bond Counsel") will be delivered with the Series 2009 Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Authority by its General Counsel.

MISCELLANEOUS

Descriptions of the Authority, the Act and other laws, the Series 2009 Bonds and sources of payment therefor, the Resolution, Battery Park City, the Master Lease, the Specified Subleases, and certain provisions of the Internal Revenue Code of 1986, as amended, are included in this Official Statement. All summaries or descriptions herein of particular documents, laws and agreements do not purport to be complete and are qualified in their entirety by reference to such particular documents and agreements (and the provisions with respect thereto included in the aforesaid documents and agreements), copies of which (other than the Specified Subleases) are available for inspection at the offices of the Authority.

Pursuant to the General Resolution, the Authority has covenanted to keep proper books of record and account in which complete and correct entries will be made of all its transactions under the General Resolution. Such books are to be open to inspection by the Trustee and the registered owners of not less than 5% of the Series 2009 Bonds during regular business hours of the Authority.

Any statement in this Official Statement involving a matter of estimate or opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact and no assurance can be given that facts will materialize as so estimated or opined. This Official Statement is not to be construed as an agreement or contract between the Authority and the purchaser, registered owner or Beneficial Owner of any Bond.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the sale of the Series 2009 Bonds that there has been no change in the affairs of the Authority after the date hereof.

This Official Statement is submitted in connection with the sale of the Series 2009 Bonds. This Official Statement and the distribution thereof have been duly authorized and approved by the Authority and duly executed and delivered on behalf of the Authority by an Authorized Officer of the Authority.

BATTERY PARK CITY AUTHORITY

By: /s/ James E. Cavanaugh
James E. Cavanaugh
President and Chief Executive Officer

APPENDIX A

Real Estate Consultant's Report

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CB Richard Ellis, Inc.

200 Park Avenue
New York, NY 10166
T 212 984 8000
F 212 984 8092
www.cbre.com

December 15, 2009

Hugh L. Carey Battery Park City Authority
One World Financial Center, 24th Floor
New York, NY 10281

Attn: Mr. James E. Cavanaugh
President and Chief Executive Officer

To The Hugh L. Carey Battery Park City Authority:

In accordance with your request, we have prepared the enclosed report dated September 30, 2009 containing a 30-year forecast of certain lease revenues emanating from the Battery Park City Authority's ownership of the underlying land at Battery Park City for the prospective December 2009 bond issuance.

These lease revenues are unusual, in that revenues flow from both contractual rent payments as well as from Payments in Lieu of Taxes (PILOT). The PILOT is an income stream that, although collected by the Authority, is set by a variable method of calculation formulated and quantified by the City of New York.

While we have relied upon our real estate experience in the marketplace to assist in this forecast, there remain aspects of the New York City Assessor's approach that are imprecise. In addition, there are a number of variables that may affect the forecast results, but that cannot be quantified here. These include, but are not limited to, risks from the economic, political and fiscal policy arenas, as well as risks pertaining to the impact of technological change and to sudden, unforeseen events. While CBRE makes no guarantee or warranty with respect to the forecast, we do believe that we have reasonably accounted for these variables in our analyses, and that, as of the date hereof, the assumptions used are reasonably sound and prudent.

Subsequent to the date of our report, the City of New York posted final tax rates for the 2009-2010 tax year which differ from the interim tax rates for that year used in the forecast. We have estimated that this change in tax rates would result in a reduction of revenues of less than 0.5% in the 2010 tax year and in progressively lesser amounts annually over the forecast period. We have not observed changes in real estate market conditions since the date of the report that would have a material adverse effect on the assumptions underlying the forecast.

We have not been asked to value the Authority's interest in any property; nor to give an opinion as to the creditworthiness of its tenants or their subtenants. We have performed a comprehensive study in order to support the methodology required to project the revenues, and to forecast a conservative revenue stream that may be used as the basis of a financing by the Authority. This report was prepared to be used in conjunction with the Official Statement regarding such financing.

Very truly yours,

CB RICHARD ELLIS, INC.

REAL ESTATE CONSULTANT'S REPORT

Pro Forma Revenue Forecast Study

Prepared For:

**HUGH L. CAREY
BATTERY PARK CITY AUTHORITY**

Prepared By:



As of

September 30, 2009

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I. INTRODUCTION

SCOPE OF REPORT

CB Richard Ellis ("CBRE") has been retained by the Hugh L. Carey Battery Park City Authority (the "Authority") to forecast certain lease revenues paid to the Authority through the fiscal year 2039 by the tenants under leases for the four World Financial Center ("WFC") buildings, the under-construction Goldman Sachs headquarters, and the New York Mercantile Exchange ("NYMEX") building, two hotel projects (the Embassy Suites/retail/movie theater project, and the Ritz-Carlton Hotel), and 30 residential leases, including the Ritz-Carlton residential condominium. The Authority has directed CBRE to include certain revenues for projects built and completed as of the date of this report as well as for the commercial and residential properties under construction. No other revenues to the Authority have been included in this forecast.

CBRE performed a similar forecast in conjunction with the Authority's 2003 bond offering. The Authority has made available to CBRE the subject leases, which are summarized in the Official Statement, and which summaries are consistent with CBRE's understanding.

The Authority has further requested CBRE to project only certain selected revenue components of each of the subject leases. The selected lease revenues components included in the scope of this report are:

- | | |
|-----------------------|-----------------------------------------------------------------------|
| Office Leases: | 1. Base and Additional Rent
2. Payments in Lieu of Taxes ("PILOT") |
| Residential Leases: | 1. Base and Supplemental Rent
2. PILOT |
| Hotel Project Leases: | 1. Base Rent
2. PILOT |

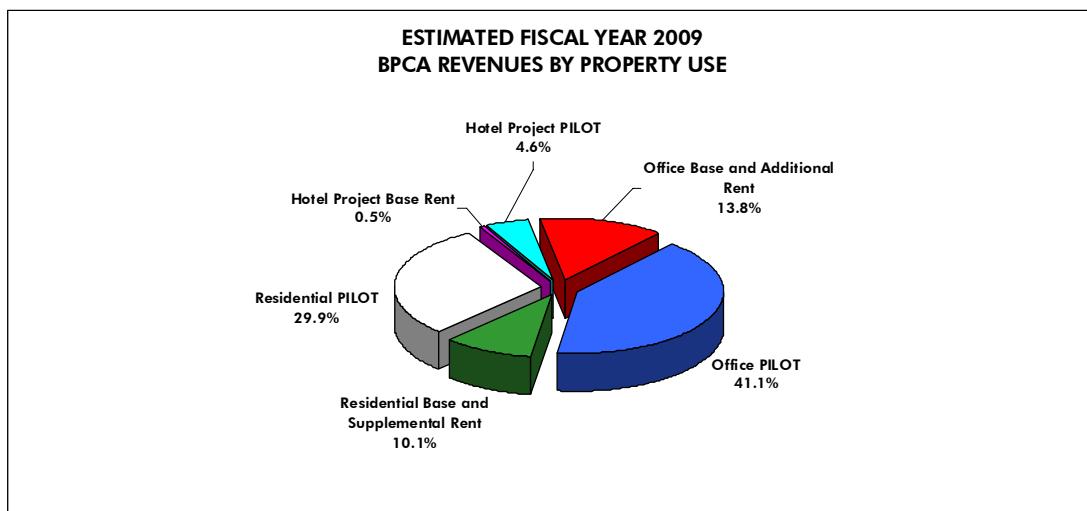
Any other revenues to the Authority derived from these leases are not included in the scope of this report.

Our forecast of these lease revenues should neither be construed as an indication of market value of any property nor used in a determination of such value.

OVERVIEW OF REPORT

Total revenues paid to the Authority from the selected lease components are assumed to be received on a cash basis and in accordance with the Authority's fiscal year ending October 31. For the fiscal year ending October 31, 2009, total lease revenues are estimated to be \$193.3 million (based on 10 months' collections and 2 months' estimated billings).

For this analysis, we have grouped the properties by use type, including office, residential and hotel project components. The office component includes the four WFC buildings, Goldman Sachs new headquarters at 200 West Street and the NYMEX building. The residential component consists of a total of 30 rental and condominium apartment developments, including the residential portion of the Ritz-Carlton. Finally, the hotel project component includes the Ritz-Carlton Hotel and the Embassy Suites Hotel and its retail portion and movie theater. The composition of these revenues is illustrated graphically below.



In order to forecast these revenues CBRE has analyzed each of the components of the leases individually. Below is a brief description of the analyses undertaken by CBRE as well as some of our conclusions. All components and issues will be described and analyzed in each of the chapters relating to the individual revenue components and in greater detail in the Addendum.

Each chapter of the report will discuss the factors and issues associated with any attempt to make projections over a long-term horizon. In making the projections of the revenue components mentioned above, CBRE has identified and considered a number of factors, which directly, indirectly or in conjunction with other variables could affect such projections. Such factors include, without limitation:

- demand for office space;
- national and local economic conditions and trends;
- regional employment trends and their impact on rent levels and occupancy at the World Financial Center;
- implementation of and changes to budgetary and fiscal policy by New York City and their impact on future tax assessment policy;
- various aspects of national, state and local public policy as well as population trends in New York City and the Metropolitan New York region; and

- public and private actions affecting the planned redevelopment of Lower Manhattan.

As the forecast period is extended, such factors tend to increase the variability of the projections for such period and the probability of deviation of actual outcomes from forecasts becomes greater.

Accordingly, on the basis of an assessment of the variables involved in the predictions made for the forecast period subject to this report and the degree of uncertainty caused by them, CBRE has made various assumptions regarding those variables. The main assumptions driving the revenue forecasts are summarized in the section entitled Revenue Forecast Assumptions.

CBRE has also made certain underlying assumptions regarding the management, maintenance, and legal status of the properties, the reliability of the information provided to CBRE, and the extent of CBRE's duties as real estate consultant in evaluating the properties. These assumptions are contained in Exhibit A. **All assumptions should be read in their entirety and in conjunction with the text of this report, the tables contained in this report and the other information presented in this report.**

Throughout the term of our projections we have applied conservative assumptions and adjusted for the potentially adverse affects of events such as economic downturns and major office lease expirations. However, despite all of the uncertainties in the market, two considerations must be taken into account in evaluating the overall reliability of the revenue projections. Despite the delays in the redevelopment of the World Trade Center site, the World Financial Center remains the premier Downtown development and should continue to be one of the more desirable properties in the Downtown market during the next several decades. Some of the largest tenants in New York City occupy space in the complex, including:

- | | | |
|------------------------|---------------------------------|--------------------------|
| • American Express | • Cadwalader, Wickersham & Taft | • Merrill Lynch (B of A) |
| • Deloitte & Touche | • CommerzBank AG | • Oppenheimer & Co |
| • Royal Bank of Canada | • Nomura Holding America, Inc. | • Willis |

Battery Park City has established itself as a desirable residential community with high occupancy rates that will continue to be enhanced in coming years by public and private development initiatives in the Downtown area and by the ongoing development by the Authority. Battery Park City illustrated its resilience as a residential neighborhood after September 11th and has maintained strong occupancy in rental buildings and demand for condominium units during the recent economic downturn.

The Battery Park City residential component is comprised of 8,884 units of residential development (including 591 units currently under construction) within 30 buildings (including the under-construction Milstein Liberty and Milstein Freedom properties) that have been constructed since 1980. Including the two under-construction properties, the overall residential component will include 15 rental buildings and 15 condominium projects with 5,506 and 3,378 units respectively. Some of the more recent residential completions at the property include The Visionaire, and Riverhouse. The headquarters for Goldman Sachs at 200 West Street is nearing completion and will represent the largest commercial addition to Lower Manhattan in recent years with 2.15 million square feet developed.

Other developments within Battery Park City include the PS/IS 89 elementary/intermediate school, Stuyvesant High School, the Skyscraper Museum, and the Museum of Jewish Heritage. In addition, there are roughly 35 acres of parks, playgrounds, playing fields, and various artworks displayed throughout.

Lower Manhattan has gained wider acceptance by city dwellers as a neighborhood to reside in, with Battery Park City leading this marketplace as the neighborhood of choice for families. The conversion of older office buildings has resulted in the removal of approximately 7 million square feet of office space from the Downtown market inventory and has helped to change the character of downtown so that it includes more residences. This phenomenon has helped to create a “critical mass” of residential development and is a positive factor affecting the appeal of the residential buildings within Battery Park City.

According to the Manhattan Community District 1, which represents the area below Canal Street, the population for lower Manhattan increased by 35.7% during the last decade. In 1990, the population totaled 25,366, while in 2000 census it was 34,420. This reflects an annual compounded growth rate of 3.1% .

Battery Park City comprises Census Tract 317.01 within the Borough of Manhattan. According to Claritas Demographics, this area had a 2000 population of 7,951, which increased to 10,497 through 2009, an increase of 2,546 or an annual rate of 2.68%. Claritas projects population growth to be moderate over the near term future but remain positive with annual increases of 2.23% through 2013, for a total addition to the local population of 1,225 people.

It is our view that our projections incorporate these positive considerations and the possibility of adverse economic events in the future to provide a conservative basis upon which the Authority can plan its financing options.

OFFICE BASE RENT AND ADDITIONAL BASE RENT

Office Base Rent and Additional Rent represented 15.1% of the 2008 revenues and are projected to represent 13.8% of 2009 revenues. Base Rent is contractually fixed in each lease throughout the lease term, including the entire forecast period. The four WFC leases provide for the tenants to pay Additional Base Rent from the period beginning September 1999 until 2014, with the exception of 3WFC, for which Additional Base Rent ends in 2009. CBRE has analyzed and calculated these lease obligations along with the NYMEX lease obligation (Goldman Sachs Base Rent is not included in this analysis). Our calculations of Base Rent and Additional Base Rent show these revenue components at \$26.7 million in 2009, decreasing gradually to \$19.0 million by 2015 before stepping back up and leveling off at \$21 million in 2018..

OFFICE PILOT

Office PILOT payments represented 39.9% of 2008 revenues and are estimated at 41.1% of 2009 revenues. PILOT is a lease payment by the tenants of each lease to the Authority in lieu of paying real property taxes to the City.

PILOT payments are based on three variables and can be generally calculated as follows:

	Billable Assessed Value
Multiplied by:	Tax Rate
Less:	Abatement
Equals:	PILOT Payment

The determination of the billable assessed value and tax rate by the New York City Assessor is a central part of the PILOT calculation and, consequently, of the overall revenues to the Authority. Abatements are no longer applied to the WFC buildings. The NYMEX building has a defined abatement schedule and a portion of its PILOT payment is based on the average assessment of the WFC buildings. As will be discussed in the body of this report, upon completion, the Goldman Sachs headquarters will pay PILOT based on the lowest of the actual assessment, a capped assessment at 115% of the average assessment of the four WFC buildings, or the land assessment plus abated building assessment.

As will be described in detail later, the City's current assessment policy for office properties is based on an income approach to value, which depends upon the establishment of Net Operating Income and capitalization rates. We have assumed that this policy will continue.

The income approach varies depending on the nature of the property's occupancy. For example, 1WFC is considered a multi-tenant building and its Net Operating Income is based upon reported income and expenses. However, 2WFC, 3WFC and 4WFC are considered owner-occupied (or partially owner-occupied in the case of 2WFC and 3WFC) buildings by the Assessor, whereby reported income is not reflective of market and thus is estimated by the Assessor. In such cases, the Assessor estimates market income and expenses in order to calculate a Net Operating Income for the property. Although NYMEX is primarily owner-occupied, partial income information is provided to the Assessor for the sublease tenants. The Assessor uses that reported income to estimate income and expenses for NYMEX.

In order to project the variables used in the assessment process over the long term, an understanding of the underlying economic conditions and the current state of, and trends in, the New York City office market is necessary. A summary office market analysis is provided in the body of this report with additional supportive documentation in Exhibit C. Due to the risks associated with forecasting these variables and the unique nature and relationship of these variables to the revenues of the Authority, CBRE has taken a conservative outlook, which we believe reasonably reflects unquantifiable or unpredictable risk including the City fiscal policy, public policy regarding planned and future development and retention of tenants in Manhattan.

Our methodology is reflective of the current condition and historical trends within the New York real estate market, with additional consideration related to the financial crisis and its immediate impact on large Downtown tenants such as AIG, Goldman Sachs and Merrill Lynch (now part of Bank of America). In addition, our analysis considers the rebuilding of the World Trade Center site and the stabilization of the Downtown market.

In 2008 the office PILOT payments totaled \$71.6 million, while our current year projections (10 months actual, 2 months estimated) total \$79.4 million. We have modeled flat or declining PILOT projections to the individual properties in the near term to reflect the impact of the national economic recession as well as the impact of the credit crisis on investment properties. The addition of the Goldman Sachs headquarters building to Battery Park City results in significant increases in PILOT revenue, although, as discussed later, with payment offsets, there is no material contribution from Goldman Sachs through 2011. Given the historic increases in market rental rates and property tax rates over time, there is long-term upside potential within the commercial component and thus revenue from this component is projected to increase to approximately \$140.0 million by 2039.

RESIDENTIAL BASE RENT AND SUPPLEMENTAL/INCREMENTAL RENT

Residential Base Rent and Supplemental or Incremental Rent represent 10.8% of 2008 revenues and are projected at 10.1% of 2009 revenues. All residential leases contractually stipulate Base Rent, which is to be paid throughout the forecast period. Many of the leases also obligate the tenants to pay Supplemental Rent or Incremental Rent as a part of base rent, only to the extent that PILOT payments are below certain minimum levels. CBRE has analyzed and calculated these contractual obligations. In this analysis, the term Supplemental Rent will also refer to the term Incremental Rent. Our calculations of future Base Rent and Supplemental Rent show these revenue components increasing gradually to \$40.2 million in 2039 from a base of \$19.5 million in 2009.

RESIDENTIAL PILOT

Residential PILOT represents 30.6% of the 2008 revenues and is projected at 29.9% of the 2009 revenue. This component is a payment by the tenant of each lease to the Authority in lieu of paying real property taxes to the City, on a basis conceptually similar to that of the office PILOT. The projections have been adjusted to take into account reductions due to Section 467a of the New York Real Property Tax Law. CBRE has analyzed the City's current assessment policy, which relies on the income approach to value, and has assumed its continuation. Analysis of the current residential market conditions and trends was undertaken to estimate the percentage change in the assessed values during the forecast period.

Gateway Plaza's lease obligates the tenant to make a PILOT payment equal to 10% of the total rents less the net costs of providing utilities to dwelling units therein. The lease was modified earlier this year, allowing the 10% structure to continue through February 15, 2016. Thereafter, the PILOT payments are phased-in to the equivalent of full taxes at 20% per year and are fully phased in on February 16, 2020.

Due to the projected growth in assessments and tax rates as well as the phase-out of tax abatements for some of the newer properties, the residential PILOT payments are projected to increase at a compounded average growth of 3.29% between 2009 and 2039. By 2039, the residential PILOT revenue is projected to increase to \$166.7 million from the 2009 total of \$57.8 million.

HOTEL PROJECT BASE RENT

Hotel Project Base Rent includes rent from the Ritz-Carlton Hotel, the Embassy Suites Hotel, and the retail component of the Embassy Suites project. These rents represent less than 1.0% of the estimated 2009 revenues. The leases feature a fixed rent schedule. Our calculations of future Base Rent show hotel project revenue components increasing gradually from a base of \$1.0 million in 2009 to \$1.95 million in 2039.

HOTEL PROJECT PILOT

The hotel project PILOT represents approximately 3.1% of both 2008 actual and the 2009 projected revenues. This component is a payment by the tenant of each lease to the Authority in lieu of paying real property taxes to the City, in a manner conceptually similar to that of the office properties. The Embassy Suites Hotel has scheduled PILOT payments subject to an abatement program set forth in the lease for the first ten years, with a recapture for the next ten years. The recapture amount represents the difference between the total taxes paid within the first ten years and the actual unabated taxes that are applicable for that property. The retail component has scheduled PILOT payments for the first twenty years. The Ritz-Carlton Hotel lease stipulates that the tenant will pay the full, unabated PILOT payment, but provides that the non-PILOT payments for the first ten years for the hotel and residential portion are credited to the hotel PILOT in declining amounts during that period to simulate an abatement program. The total credits given are recaptured over the next ten years, beginning in the 2010 tax year. After the first twenty years, all of the hotel project tenants make unabated PILOT payments. It should be noted that the re-capture provision for the Embassy Suites Hotel went into effect in 2009 and is responsible for the majority of the increase from prior year figures.

MANHATTAN OVERVIEW

The total population of Manhattan grew modestly during the 1990's, rising from 1,487,530 in 1990 to a 2000 level of 1,537,195 residents, reflecting a 0.33% annual growth rate. According to Claritas, Inc., projections for 2009 indicate that the population for Manhattan increased by approximately 6.3% during the past nine years to 1,634,248 residents. The median household income for Manhattan of \$48,471 in 2000 represented a 44.8% increase over the prior decade. The 2009 median household income for Manhattan is projected to be 33.7% higher than in 2000 at \$63,472. Income growth is projected to continue with annual growth of 2.4% over the next five years.

Since mid-2008, labor market conditions in New York City have been adversely impacted by the first truly global recession since the Second World War, and the worst national recession since at least the early 1980's. Since the last quarter of 2007 – when payroll employment in New York City peaked at just over 3.8 million – the City has lost approximately 97,500 payroll jobs – a decline of 2.6 percent. While the loss of jobs and the accompanying increase in unemployment has been painful, New York City has to date not been hit as hard as many other parts of the U.S. Nationwide, the U.S. has lost 6.3 million payroll jobs since the last quarter of 2007 – a decline of 4.6 percent.

BATTERY PARK CITY OVERVIEW

Battery Park City consists of a 92-acre mixed-use development that will contain approximately 21 million square feet (inclusive of under construction development) and includes more than 35 acres of open space/recreational areas.

Battery Park City is subdivided into three major areas including the North Residential Neighborhood, the World Financial Center area, and the South Residential Neighborhood. [Over the past 21 years, there have been over 17.0 million square feet developed. This has resulted in five, Class A office buildings, two hotels, a multi-plex movie theater and retail uses, and twenty-three apartment buildings containing approximately 6,800 units.] Battery Park City neighborhood continues to experience new construction in residential and commercial developments. The breakdown is as follows:

- 8,505,748 square feet of office use has been completed; 2.15 million under construction.
- 9,611,134 square feet of residential use has been completed; and 570,000 square feet is in construction.
- 944,084 square feet of hotel related use has been completed.

Projects under construction are:

- Milstein Properties Liberty (Site 23) – 246 residential units - 345,000 square feet
- Milstein Properties Freedom (Site 24) – 345 residential units - 225,000 square feet
- Goldman Sachs (Site 26) – a 2.15 million square feet office building (Goldman Sachs new Headquarters)

Some of the projects completed since 2003 include:

- The Solaire (Site 18A) - a 293-unit, high-rise luxury rental apartment building.
- 22 River Terrace (Site 19A) - consists of a high-rise rental building totaling 319 units;
- The Verdesian (Site 18B) - a 194-unit luxury high-rise rental apartment building
- Tribeca Green (Site 19B) - a 274-unit luxury high-rise rental apartment building
- Millennium Pointe (Site 2A) – a 37-story, 282-unit high-rise luxury condominium apartment building
- Riverhouse (Site 16/17) - a 32-Story, 264-unit luxury high-rise condominium apartment building

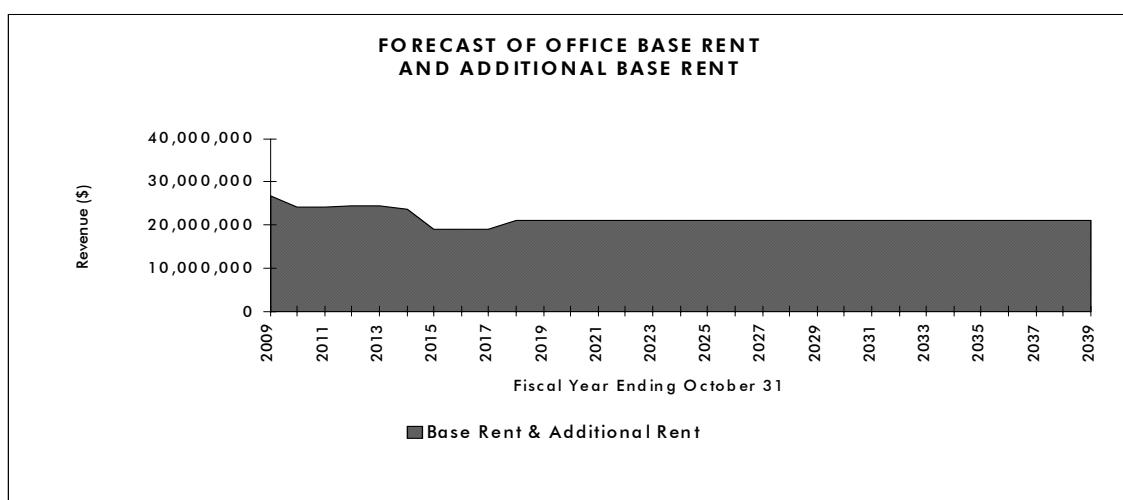
The new buildings and development projects reflect a diversity of uses that enhance the quality of life for Battery Park City residents. Battery Park City also includes numerous public facilities including recreational and cultural amenities such as the Robert F. Wagner, Jr. Park, Rector Park, the Esplanade, South Cove, Stuyvesant High School, playing fields, the Police Memorial, Governor Nelson A. Rockefeller Park, the Belvedere at North Cove Park, the Museum of Jewish Heritage, The Irish Hunger Memorial and the Skyscraper Museum. There are several displays of public art throughout Battery Park.

II. OFFICE BASE RENT AND ADDITIONAL BASE RENT

There are five existing office buildings including the four World Financial Center buildings and the New York Mercantile Exchange building. All of the office leases require the tenants to make fixed annual Base Rent payments on a monthly basis. The WFC leases also include Additional Base Rent for the WFC buildings. Additional Base Rent commenced in the lease year beginning September 1, 1999 and continues through August 31, 2014, with the exception of 3WFC, for which payment ended on August 31, 2009. There are no Additional Base Rent payments for the NYMEX lease. The NYMEX lease indicates that a base rent of \$1.00 is payable for the trading floor area (113,625 square feet) for the first twenty years, while stipulated fixed rents are payable for the office areas.

Our cash flow tables indicate that the fixed annual payments total \$27.2 million in fiscal year ending October 31, 2008. The cash flow fluctuates in the near term as the 3WFC's Additional Rent phases out in 2009, the NYMEX lease includes steps in 2012 and 2018 and the remainder of the WFC buildings phase out their Additional Rent in 2014. It should be noted that the Goldman Sachs building has a prepayment agreement whereby a one time payment in lieu of Base Rent is made during our analysis period; this non-recurring payment has not been included in our projections. Further, Goldman Sachs is entitled to a \$6 million credit that is applied to PILOT in the initial years of our analysis and effectively eliminates PILOT collections through 2011.

Both Base Rent and Additional Base Rent payments are stipulated in the lease documents and are not contingent upon any event or formula. Pursuant to the terms of the relevant leases as currently in effect, these rents are not subject to adjustment in any event other than default of a lease. CBRE has assumed the continuation and observance of the existing leases throughout the forecast period. The possibility of default has been disregarded for purposes of our projections as a lender would likely continue payments due to low base rent relative to property value.



III. OFFICE PILOT

OVERVIEW

The WFC, NYMEX and Goldman Sachs buildings are situated on land owned by the Authority, an entity established by the State Legislature, which is tax exempt under New York State Law. The land and buildings in Battery Park City are therefore exempt from New York City real property taxes. However, under the WFC, NYMEX and Goldman Sachs leases, tenants are obligated to make PILOT payments to the Authority in lieu of these real property taxes.

Each parcel is assessed under prevailing New York City assessment procedures applicable to office buildings, with some modification to NYMEX as described below. The assessed value of each site forms the basis for the PILOT payment. Two other components comprise the total PILOT payment: the tax rate and any applicable abatement schedule, which are discussed in later chapters. Together, the relationship between these variables can be generally characterized as:

	Billable Assessed Value
Multiplied by:	Tax Rate
Less:	Abatement
Equals:	PILOT Payment

However, the NYMEX PILOT is based upon the types of occupancy in the building: (i) for portions of the building designated as the trading area, PILOT is zero for the first twenty years of occupancy, (ii) for portions of the building used by NYMEX for administrative, office, retail, and accessory space, PILOT is based upon the average assessment per square foot for the World Financial Center subject to a declining abatement schedule stated in the lease, and (iii) for office space leased to other parties, PILOT is based upon the actual assessment for the building without an abatement.

The forecasted revenue from Goldman Sachs' PILOT is based on land value in the initial years following construction. Full PILOT is phased in through 2016 as the abatement on the physical improvement phase out at 20% per year. The PILOT payment is structured whereby it may not exceed 115% of the average PILOT payable by the four World Financial Center properties. Goldman Sachs has a \$6 million credit that offsets PILOT collections through 2011.

The following pages discuss the rationale for the forecast of PILOT revenues, which are a function of the three components of the above equation. To forecast the assessed value of each site, we have reviewed the New York City Assessor's current methodology of estimating market value and calculating assessed value, ascertained the variables that are employed in the Assessor's calculation, and then projected the buildings' assessed values from these variables. A brief overview of the New York City economy and office market has been incorporated within this chapter (with additional detail provided in Appendix C) to provide a framework from which these variables have been determined over the period of our analysis. Tax rates were then analyzed and projected over the period of our analysis to calculate future PILOT payments. The abatement schedule for the four WFC buildings has been completed and is no longer a factor in the projections.

NEW YORK CITY COMMERCIAL ASSESSMENT POLICY

The current system of assessment in New York City dates back to tax year 1982/83 when the New York State Legislature overhauled the Real Property Tax Law and established four separate real property classes. Prior to this period, there was no classification system for real property. Based upon building type and use, the four classes are as follows: Class I - one-, two-, and three-family homes; Class II - all other residential property; Class III - utility property; Class IV - all other commercial property and vacant land. The New York City Council each year sets a separate tax rate for each class of property.

The office buildings at Battery Park City all have Class IV property designations. Under the current four-class system of assessment, Class IV properties are required to have "actual" and "transitional" assessments assigned to them each year. The "billable" assessed value is the lower of the actual or transitional assessment. The actual assessment, sometimes referred to as the "target" assessment, reflects the Assessor's estimate of the property's market value multiplied by 45%, which represents the Assessor's equalization ratio for Class IV properties. When a property's actual assessment in any tax year is changed by an increase or decrease in its value, the law requires that the transitional assessment be established which phases in 20 percent of the total change each year for the next five years. This system also applies to the Class II properties in Battery Park City.

However, changes in the actual assessments that are attributable solely to physical change are not phased in over five years. Rather, they are fully added to or subtracted from the transitional assessment in the year in which they occur. The billable assessment, upon which the tax rate is applied to calculate real property taxes payable, is the lesser of the total actual or transitional assessment set forth in a given tax year. This has the effect of phasing in any market value increases in assessed value (land and building), while permitting a prompt reduction of taxes in the case of a decline in a property's actual assessed value (below transitional levels). Thus, instances where a decline in market value causes the actual assessment to fall below the transitional assessment, the billable assessment may reflect the full impact of the decline.

Currently, the assessment process is based primarily on the income approach. For the purpose of this analysis, CBRE has assumed that the current assessment policy primarily utilizing the income approach will remain in effect for the duration of the forecast period.

CURRENT AND HISTORICAL ASSESSED VALUES

The following tables provide a history of the assessed values for the five existing office buildings, including the final assessment roll for the 2009/10 tax year. For ease of presentation, we have included only the total of each year's assessment, although the land and the building each have a separate allocation.

ASSESSED VALUES - 1WFC (Block 16, Lot 120)				
Tax Year	Actual Assessment	Transitional Assessment	Billable Assessed Value	% Change From Previous Year
1987/88	\$152,000,000	\$135,900,000	\$135,900,000	N/A
1988/89	\$160,000,000	\$150,800,000	\$150,800,000	10.96%
1989/90	\$164,000,000	\$160,100,000	\$160,100,000	6.17%
1990/91	\$164,250,000	\$163,450,000	\$163,450,000	2.09%
1991/92	\$157,500,000	\$162,350,000	\$157,500,000	-3.64%
1992/93	\$151,200,000	\$159,990,000	\$151,200,000	-4.00%
1993/94	\$124,655,580	\$152,321,116	\$124,655,580	-17.56%
1994/95	\$133,000,000	\$146,121,116	\$133,000,000	6.69%
1995/96	\$133,000,000	\$139,871,116	\$133,000,000	0.00%
1996/97	\$148,050,000	\$137,981,116	\$137,981,116	3.75%
1997/98	\$143,550,000	\$136,451,116	\$136,451,116	-1.11%
1998/99	\$143,550,000	\$140,230,000	\$140,230,000	2.77%
1999/00	\$147,600,000	\$143,150,000	\$143,150,000	2.08%
2000/01	\$155,250,000	\$147,600,000	\$147,600,000	3.11%
2001/02	\$159,750,000	\$149,940,000	\$149,940,000	1.59%
2002/03	\$143,100,000	\$149,850,000	\$143,100,000	-4.56%
2003/04	\$152,100,000	\$151,560,000	\$151,560,000	5.91%
2004/05	\$169,750,000	\$155,990,000	\$155,990,000	2.92%
2005/06	\$164,700,000	\$157,880,000	\$157,880,000	1.21%
2006/07	\$148,000,000	\$155,530,000	\$148,000,000	-6.26%
2007/08	\$145,000,000	\$155,910,000	\$145,000,000	-2.03%
2008/09	\$150,000,000	\$155,490,000	\$150,000,000	3.45%
2009/10	\$142,200,000	\$149,980,000	\$142,200,000	-5.20%

Source: NYC Department of Finance & Tax Commission

ASSESSED VALUES - 2WFC (Block 16, Lot 125)				
Tax Year	Actual Assessment	Transitional Assessment	Billable Assessed Value	% Change From Previous Year
1987/88 ¹	\$157,000,000	\$137,600,000	\$137,600,000	N/A
1988/89	\$225,000,000	\$213,800,000	\$213,800,000	55.38%
1989/90	\$246,000,000	\$246,600,000	\$246,000,000	15.06%
1990/91	\$254,750,000	\$251,550,000	\$251,550,000	2.26%
1991/92	\$244,600,000	\$251,690,000	\$244,600,000	-2.76%
1992/93	\$235,000,000	\$247,885,000	\$235,000,000	-3.92%
1993/94	\$195,000,000	\$236,080,000	\$195,000,000	-17.02%
1994/95	\$200,000,000	\$226,275,000	\$200,000,000	2.56%
1995/96	\$200,000,000	\$214,920,000	\$200,000,000	0.00%
1996/97	\$195,000,000	\$205,000,000	\$195,000,000	-2.50%
1997/98	\$185,000,000	\$195,000,000	\$185,000,000	-5.13%
1998/99	\$195,000,000	\$195,000,000	\$195,000,000	5.41%
1999/00	\$203,400,000	\$195,680,000	\$195,680,000	0.35%
2000/01	\$211,050,000	\$197,890,000	\$197,890,000	1.13%
2001/02	\$215,100,000	\$201,910,000	\$201,910,000	2.03%
2002/03	\$146,250,000	\$177,998,710	\$146,250,000	-27.57%
2003/04	\$155,000,000	\$188,322,903	\$155,000,000	5.98%
2004/05	\$175,000,000	\$183,238,064	\$175,000,000	12.90%
2005/06	\$191,250,000	\$180,120,000	\$180,120,000	2.93%
2006/07	\$200,000,000	\$177,100,000	\$177,100,000	-1.68%
2007/08	\$200,700,000	\$184,390,000	\$184,390,000	4.12%
2008/09	\$219,600,000	\$197,310,000	\$197,310,000	7.01%
2009/10	\$220,050,000	\$206,320,000	\$206,320,000	4.57%

¹ 2WFC was not substantially completed until tax year 1988/89, therefore 1987/88 assessed values reflect partial completion

Source: NYC Department of Finance & Tax Commission

ASSESSED VALUES - 3WFC (Block 16, Lot 140)				
Tax Year	Actual Assessment	Transitional Assessment	Billable Assessed Value	% Change From Previous Year
1987/88	\$210,000,000	\$189,800,000	\$189,800,000	N/A
1988/89	\$210,000,000	\$198,200,000	\$198,200,000	4.43%
1989/90	\$226,000,000	\$208,800,000	\$208,800,000	5.35%
1990/91	\$229,950,000	\$216,190,000	\$216,190,000	3.54%
1991/92	\$214,800,000	\$218,150,000	\$214,800,000	-0.64%
1992/93	\$205,000,000	\$217,150,000	\$205,000,000	-4.56%
1993/94	\$170,000,000	\$209,150,000	\$170,000,000	-17.07%
1994/95	\$170,000,000	\$197,950,000	\$170,000,000	0.00%
1995/96	\$174,000,000	\$186,760,000	\$174,000,000	2.35%
1996/97	\$175,000,000	\$178,800,000	\$175,000,000	0.57%
1997/98	\$175,000,000	\$172,800,000	\$172,800,000	-1.26%
1998/99	\$185,850,000	\$175,970,000	\$175,970,000	1.83%
1999/00	\$187,000,000	\$179,370,000	\$179,370,000	1.93%
2000/01	\$188,500,000	\$182,270,000	\$182,270,000	1.62%
2001/02	\$190,350,000	\$185,340,000	\$185,340,000	1.68%
2002/03	\$129,150,000	\$153,569,177	\$129,150,000	-30.32%
2003/04	\$145,000,000	\$169,380,657	\$145,000,000	12.27%
2004/05	\$163,800,000	\$166,269,463	\$163,800,000	12.97%
2005/06	\$179,100,000	\$165,979,998	\$165,979,998	1.33%
2006/07	\$178,500,000	\$163,609,998	\$163,609,998	-1.43%
2007/08	\$162,000,000	\$165,679,998	\$162,000,000	-0.98%
2008/09	\$188,550,000	\$174,389,998	\$174,389,998	7.65%
2009/10	\$197,000,000	\$181,029,998	\$181,029,998	3.81%

Source: NYC Department of Finance & Tax Commission

ASSESSED VALUES - 4WFC (Block 16, Lot 150)

Tax Year	Actual Assessment	Transitional Assessment	Billable Assessed Value	% Change From Previous Year
1987/88	\$180,000,000	\$162,700,000	\$162,700,000	N/A
1988/89	\$195,000,000	\$185,000,000	\$185,000,000	13.71%
1989/90	\$207,000,000	\$200,000,000	\$200,000,000	8.11%
1990/91	\$211,800,000	\$204,960,000	\$204,960,000	2.48%
1991/92	\$202,000,000	\$204,960,000	\$202,000,000	-1.44%
1992/93	\$195,000,000	\$203,560,000	\$195,000,000	-3.47%
1993/94	\$165,000,000	\$196,160,000	\$165,000,000	-15.38%
1994/95	\$163,500,000	\$187,460,000	\$163,500,000	-0.91%
1995/96	\$163,500,000	\$177,800,000	\$163,500,000	0.00%
1996/97	\$160,000,000	\$166,600,000	\$160,000,000	-2.14%
1997/98	\$150,000,000	\$150,300,000	\$150,000,000	-6.25%
1998/99	\$162,600,000	\$152,520,000	\$152,520,000	1.68%
1999/00	\$175,500,000	\$157,620,000	\$157,620,000	3.34%
2000/01	\$184,950,000	\$164,610,000	\$164,610,000	4.43%
2001/02	\$195,300,000	\$173,670,000	\$173,670,000	5.50%
2002/03	\$150,000,000	\$173,670,000	\$150,000,000	-13.63%
2003/04	\$140,000,000	\$169,150,000	\$140,000,000	-6.67%
2004/05	\$160,000,000	\$166,050,000	\$160,000,000	14.29%
2005/06	\$178,650,000	\$164,790,000	\$164,790,000	2.99%
2006/07	\$180,000,000	\$161,730,000	\$161,730,000	-1.86%
2007/08	\$201,500,000	\$172,030,000	\$172,030,000	6.37%
2008/09	\$208,750,000	\$185,780,000	\$185,780,000	7.99%
2009/10	\$195,750,000	\$192,930,000	\$192,930,000	3.85%

Source: NYC Department of Finance & Tax Commission

ASSESSED VALUES - NYMEX (Block 16, Lot 225)

Tax Year	Actual Assessment	Transitional Assessment	Billable Assessed Value	% Change From Previous Year
1987/88	\$9,692,093	\$7,305,677	\$7,305,677	N/A
1988/89	\$11,454,179	\$8,513,755	\$8,513,755	16.54%
1989/90	\$11,454,179	\$9,505,307	\$9,505,307	11.65%
1990/91	\$18,684,291	\$11,849,135	\$11,849,135	24.66%
1991/92	\$18,700,109	\$14,119,941	\$14,119,941	19.16%
1992/93	\$14,645,251	\$15,150,656	\$14,645,251	3.72%
1993/94	\$14,663,007	\$15,753,549	\$14,663,007	0.12%
1994/95	\$14,663,007	\$16,343,870	\$14,663,007	0.00%
1995/96	\$14,663,007	\$15,489,710	\$14,663,007	0.00%
1996/97	\$16,918,877	\$15,113,136	\$15,113,136	3.07%
1997/98 *	\$48,194,183	\$46,840,654	\$46,840,654	209.93%
1998/99	\$61,850,001	\$60,809,106	\$60,809,106	29.82%
1999/00	\$62,100,000	\$61,344,916	\$61,344,916	0.88%
2000/01	\$57,000,000	\$60,860,730	\$57,000,000	-7.08%
2001/02	\$58,500,000	\$60,255,358	\$58,500,000	2.63%
2002/03	\$44,800,000	\$56,849,994	\$44,800,000	-23.42%
2003/04	\$42,400,000	\$52,659,997	\$42,400,000	-5.36%
2004/05	\$43,500,000	\$49,239,997	\$43,500,000	2.59%
2005/06	\$46,350,000	\$47,109,997	\$46,350,000	6.55%
2006/07	\$49,000,000	\$45,209,997	\$45,209,997	-2.46%
2007/08	\$43,155,000	\$44,880,997	\$43,155,000	-4.55%
2008/09	\$46,800,000	\$46,121,000	\$46,121,000	6.87%
2009/10	\$45,450,000	\$46,511,000	\$45,450,000	-1.45%

Source: NYC Department of Finance & Tax Commission

* NYMEX completed in 1997

The table below summarizes the aggregate tax year assessments for the four WFC buildings and the NYMEX building.

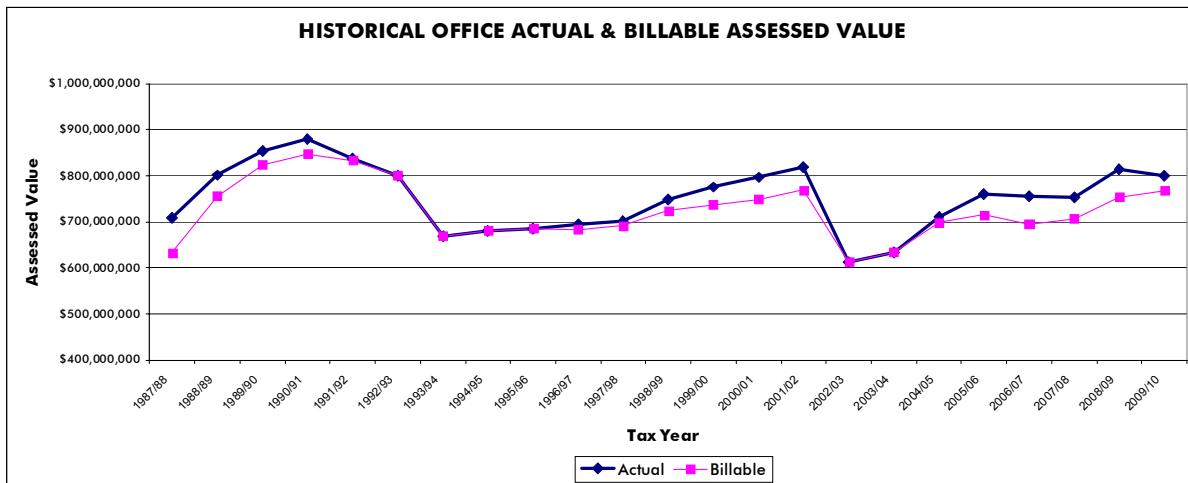
ASSESSED VALUES				
Total WFC & NYMEX - Block 16, Lots 120, 125, 140, 150, and 225				
Tax Year	Actual Assessment	Transitional Assessment	Billable Assessed Value	% Change From Previous Year
1987/88*	\$708,692,093	\$633,305,677	\$633,305,677	N/A
1988/89	\$801,454,179	\$756,313,755	\$756,313,755	19.42%
1989/90	\$854,454,179	\$825,005,307	\$824,405,307	9.00%
1990/91	\$879,434,291	\$847,999,135	\$847,999,135	2.86%
1991/92	\$837,600,109	\$851,269,941	\$833,019,941	-1.77%
1992/93	\$800,845,251	\$843,735,656	\$800,845,251	-3.86%
1993/94	\$669,318,587	\$809,464,665	\$669,318,587	-16.42%
1994/95	\$681,163,007	\$774,149,986	\$681,163,007	1.77%
1995/96	\$685,163,007	\$734,840,826	\$685,163,007	0.59%
1996/97	\$694,968,877	\$703,494,252	\$683,094,252	-0.30%
1997/98 **	\$701,744,183	\$701,391,770	\$691,091,770	1.17%
1998/99	\$748,850,001	\$724,529,106	\$724,529,106	4.84%
1999/00	\$775,600,000	\$737,164,916	\$737,164,916	1.74%
2000/01	\$796,750,000	\$753,230,730	\$749,370,000	1.66%
2001/02	\$819,000,000	\$771,115,358	\$769,360,000	2.67%
2002/03	\$613,300,000	\$711,937,881	\$613,300,000	-20.28%
2003/04	\$634,500,000	\$731,073,557	\$633,960,000	3.37%
2004/05	\$712,050,000	\$720,787,524	\$698,290,000	10.15%
2005/06	\$760,050,000	\$715,879,995	\$715,119,998	2.41%
2006/07	\$755,500,000	\$703,179,995	\$695,649,995	-2.72%
2007/08	\$752,355,000	\$722,890,995	\$706,575,000	1.57%
2008/09	\$813,700,000	\$759,090,998	\$753,600,998	6.66%
2009/10	\$800,450,000	\$776,770,998	\$767,929,998	1.90%

* Assessed Value for 87/88 tax year reflects partial completion of 2WFC

** NYMEX was completed.

Source: NYC Department of Finance & Tax Commission

The previous chart illustrates the significant decline in aggregate actual assessments from 1992/93 to 1993/94 tax years reflecting the settlements with the City's Tax Commission, as well as declining market rents as applied by the "mark to market" approach. This is graphically illustrated below. Between the 1993/94 and 1997/98 tax years, values were stable, while from 1997/98 to 2001/02 assessment increases reflected the improving real estate market conditions. Following the September 11th attack and the economic recession, the assessments declined substantially in 2002/2003. The subsequent increases over the period thereafter indicated an improving economy and property values. Currently the values observed have increased at a somewhat slower rate, again reflecting settlements with the City's Tax Commission.



Overall, the previous graph illustrates the relationship of the Actual and Billable assessments and how they respond to economic changes and unforeseen events. Further, the assessments reflect the lag in the assessment process between the applicable tax year and the year for which income and expenses are reported.

Using the actual assessed value per square foot of gross building area (per the Department of Finance) as the denominator, we have compared the current assessed values of the subject office buildings to Downtown office buildings that are considered the best comparables, though the other Downtown buildings do not possess the same appeal as the WFC buildings. The high quality of construction, tenancy, and amenities of the WFC buildings places them at the forefront of the Downtown office market

Historically, due to the WFC development's unique characteristics, which are not often found in other Downtown developments, the buildings had been more comparable to Midtown office buildings. However, in current market conditions, the WFC assessments fall more in line with other downtown buildings.

COMPARISON OF 2009/10 ACTUAL ASSESSED VALUES				
	Year Built	Square Feet	2009/10 Actual Assessment	Assessed Value Per Sq. Ft.
SUBJECT				
1WFC	1986	1,501,878	\$142,200,000	\$94.68
2WFC	1987	2,267,925	\$220,050,000	\$97.03
3WFC	1984	2,149,866	\$197,000,000	\$91.63
4WFC	1986	2,084,079	\$195,750,000	\$93.93
NYMEX	1997	502,000	\$45,450,000	\$90.54
Low				\$90.54
High				\$97.03
Average				\$93.56
DOWNTOWN COMPARABLE BUILDINGS				
60 Wall Street	1988	1,617,206	\$167,000,000	\$103.26
7 World Trade Center	2006	2,121,437	\$196,650,000	\$92.70
59 Maiden Lane	1965	1,073,000	\$83,650,000	\$77.96
1 Chase Manhattan Plaza	1963	2,239,000	\$173,700,000	\$77.58
388 Greenwich Street	1989	1,594,289	\$113,000,000	\$70.88
101 Barclay Street	1983	1,218,000	\$71,100,000	\$58.37
32 Old Slip (Financial Square)	1987	973,587	\$71,100,000	\$73.03
180 Maiden Lane	1984	1,079,361	\$115,200,000	\$106.73
17 State Street	1988	483,251	\$58,950,000	\$121.99
Low				\$58.37
High				\$121.99
Average				\$86.94
MIDTOWN COMPARABLE BUILDINGS				
550 Madison Avenue (Sony)	1982	827,686	\$135,450,000	\$163.65
590 Madison Avenue (IBM)	1982	999,636	\$196,200,000	\$196.27
1301 Avenue of the Americas	1963(1990)	1,482,208	\$288,450,000	\$194.61
Equitable Tower	1985	1,638,637	\$234,450,000	\$143.08
Low				\$143.08
High				\$196.27
Average				\$174.40

Source: The City of New York Department of Finance; Compiled by CB Richard Ellis, Inc.

Buildings 1WFC and 4WFC, which have similar appeal, indicate a range of assessed values from \$93.93 to \$94.68 per square foot. 2WFC and 3WFC indicate assessed values of \$92.66 to \$97.03 per square foot, which reflects their different market rents and percentage of owner occupied area (20% for building 2WFC and 57% for building three). The assessed value for the NYMEX building is currently \$90.54 per square foot, which reflects that although the building is newer, the property has lower rents compared to the WFC buildings.

THE INCOME APPROACH TO VALUE

In using the income approach to value, the Assessor capitalizes the net operating income of a building to estimate market value. Once this market value has been determined, the assessed value is then determined by multiplying the market value by the 45 percent Equalization Ratio. This calculation can be summarized as follows:

	Estimate of Actual or Market Rental Income
Less:	Operating Expenses (excluding real estate tax)
Equals:	Net Operating Income
Divided by:	Adjusted Capitalization Rate (loaded for real estate taxes)
Equals:	Market Value
Multiplied by:	45 percent Equalization Ratio
Equals:	Assessed Value

Owners of income-producing properties having assessed values greater than \$40,000 are required to file an annual Real Property Income and Expense Statement ("RPIE") with the City of New York Department of Finance. These records are directly used in the Assessor's calculation of value. For owner-occupied or single-tenant properties where no statement is filed, the assessment is based on market rents and expenses assigned to the property by the Assessor based on market evidence from comparable buildings and guidelines described later in this analysis. 2WFC and 3WFC as well as the NYMEX building contain some owner occupied areas, although all submit RPIE statements. Because the income and expense statements are submitted based on a building's prior year operations and guidelines used by the Assessor are compiled early in the assessment process, a lag of up to two years can be created between market conditions at the time of assessment and the data reported to the Department of Finance.

The guidelines issued by The City of New York Department of Finance for the 2009/10 tax year for use by the Assessor contain information regarding market rents, expenses and capitalization rates associated with various rent and expense levels. The guidelines for Class IV properties in Manhattan are segmented by location (Downtown vs. Midtown), building type (office, retail, garage, or factory), and building class (Trophy, Class A, Class B, or Other).

The Assessor considers both reported actual operating expenses and comparable operating expenses contained in the guidelines. The expense amount does not include real estate taxes. For owner-occupied buildings (or portions of buildings), operating expenses are estimated from comparable buildings and are adjusted based upon the amenities of the subject building, location, and classification.

The Assessor derives a building's pre-tax capitalization rate utilizing the Ellwood formula, a mortgage-equity procedure that provides basic capitalization rates for many combinations of equity yield requirements and mortgage terms. Such rates can be adjusted for anticipated changes in income over a prescribed holding period. This capitalization rate is further adjusted to compensate for the exclusion of real estate taxes from expenses by multiplying the prior year's tax rate by the 45 percent equalization rate and adding this amount to the pre-tax capitalization rate.

If the Assessor believes the contractual rents of a building exceed current market rents, a higher-than-market capitalization rate is applied to bring the assessment in line with market levels. Based on our discussions with the assessors, when contract rents are above market based on newly signed leases in the building or essentially similar ones, a higher than market capitalization rate is utilized to appropriately reflect the market value.

THE APPEAL PROCESS

All real property in New York City is assessed annually using a taxable status date of January 5. The tentative assessments are made public on January 15, prior to the tax year beginning the following July 1. Property assessments are completed by the Department of Finance on an annual basis. The actual assessed value is the product of the Assessor's opinion of market value multiplied by the Assessor's 45 percent equalization ratio.

Property owners have the right to appeal these assessed values. Assessed values may be appealed in two administrative procedures. A property owner may file an Application for Informal Review within the Department of Finance. The second procedure, which is typically utilized by commercial and multi-family property owners, involves filing an Application for Correction with the New York City Tax Commission. This agency operates independently and is authorized to order changes in assessed values.

Property owners of buildings possessing the size, quality, appeal, and market value similar to the WFC properties historically have gone through the process of hiring tax attorneys and/or real estate appraisers to assist them in the tax appeal process. It is not unusual to have applications filed on an annual basis, as the savings in real property taxes associated with modest reductions in assessed values typically justify the time and effort involved in the appeal process. The WFC and NYMEX leases provide that the tenants and some major subtenants thereunder have the same right to institute tax certiorari proceedings to contest the tentative assessed value of the premises covered by their respective lease.

The last day to file an administrative appeal with the New York City Tax Commission with respect to the tentative assessments is generally March 1. A taxpayer who qualifies for a hearing before the Tax Commission for a tax year is eligible to receive a settlement offer for that tax year and the prior tax year, provided a legal proceeding is pending for the prior year and the taxpayer qualifies for a hearing for that tax year. To accept a Tax Commission offer for a tax year(s), the taxpayer must discontinue any prior pending tax certiorari proceedings filed by that taxpayer or a related entity and agree not to institute a proceeding for a current tax year.

Final assessments, which are published on May 25, may be challenged in New York State Supreme Court provided that the Tax Commission has not previously reduced them. This appeal process may last over several years and incorporate multiple tax years.

Listed in the following table are charts illustrating the history of assessed value reductions for the four WFC buildings and the NYMEX building.

INDIVIDUAL-ASSESSMENT REDUCTION HISTORY											
	1 WFC		2 WFC		3 WFC		4 WFC		NYMEX		
Tax Year	Reduction from Actual Assessment	% Difference									
1991/92	\$0	0.00%	\$15,500,000	5.96%	\$7,500,000	3.37%	\$9,500,000	4.49%	\$0	0.00%	
1992/93	\$0	0.00%	\$12,500,000	5.05%	\$6,500,000	3.07%	\$7,500,000	3.70%	\$0	0.00%	
1993/94	\$0	0.00%	\$21,000,000	9.72%	\$4,384,945	2.51%	\$21,300,000	11.43%	\$0	0.00%	
1994/95	\$21,800,000	14.08%	\$12,850,000	6.04%	\$20,800,000	10.90%	\$13,440,000	7.60%	\$0	0.00%	
1995/96	\$22,700,000	14.58%	\$21,850,000	9.85%	\$19,050,000	9.87%	\$13,800,000	7.78%	\$0	0.00%	
1996/97	\$0	0.00%	\$20,100,000	9.34%	\$18,050,000	10.31%	\$12,800,000	7.41%	\$0	0.00%	
1997/98	\$0	0.00%	\$19,750,000	9.65%	\$10,850,000	5.84%	\$15,600,000	9.42%	\$0	0.00%	
1998/99	\$0	0.00%	\$9,750,000	4.76%	\$0	0.00%	\$3,000,000	1.81%	\$0	0.00%	
1999/00	\$0	0.00%	\$0	0.00%	\$5,150,000	2.68%	\$0	0.00%	\$0	0.00%	
2000/01	\$0	0.00%	\$0	0.00%	\$7,250,000	3.70%	\$0	0.00%	\$5,100,000	8.21%	
2001/02	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	
2002/03	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$7,950,000	5.03%	\$2,000,000	4.27%	
2003/04	\$0	0.00%	\$21,850,000	12.36%	\$21,050,000	12.68%	\$21,100,000	13.10%	\$7,100,000	8.18%	
2004/05	\$30,950,000	15.42%	\$72,500,000	29.29%	\$13,050,000	7.38%	\$67,250,000	29.59%	\$2,400,000	5.23%	
2005/06	\$56,250,000	25.46%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	
2006/07	\$65,300,000	30.61%	\$9,700,000	4.63%	\$4,650,000	2.54%	\$3,150,000	1.72%	\$2,300,000	4.48%	
2007/08	\$39,050,000	21.22%	\$0	0.00%	\$0	0.00%	\$25,750,000	11.33%			
2008/09	\$6,150,000	3.94%	\$0	0.00%	\$0	0.00%	\$2,750,000	1.30%			
2009/10					\$10,485,000	5.00%					

Source: NYC Department of Finance & Tax Commission

The large settlement amounts listed for the 2004/2005 tax year involve a combination of policy changes related to looking at the four WFC appeals as a group as well as a struggling retail environment and Lehman's relocation out of the complex. The subsequent reductions at 1WFC were the result of the releasing of the former Lehman space at lower rents. The Tax Commission hearing schedule enables the consideration of more current market and property specific information.

The following table summarizes the combined settlement figures for the four WFC properties and the NYMEX building.

COMBINED ASSESSMENT SETTLEMENTS 1WFC, 2WCF, 3WFC, 4WFC & NYMEX				
Tax Year	Original Assessment	Settled Assessment	\$ Amount Difference	% Difference
1991/92	\$870,100,109	\$837,600,109	\$32,500,000	3.74%
1992/93	\$827,345,251	\$800,845,251	\$26,500,000	3.20%
1993/94	\$716,003,532	\$669,318,587	\$46,684,945	6.52%
1994/95	\$750,053,007	\$681,163,007	\$68,890,000	9.18%
1995/96	\$762,563,007	\$685,163,007	\$77,400,000	10.15%
1996/97	\$745,918,877	\$694,968,877	\$50,950,000	6.83%
1997/98	\$747,944,183	\$701,744,183	\$46,200,000	6.18%
1998/99	\$761,600,001	\$748,850,001	\$12,750,000	1.67%
1999/00	\$780,750,000	\$775,600,000	\$5,150,000	0.66%
2000/01	\$809,100,000	\$796,750,000	\$12,350,000	1.53%
2001/02	\$819,000,000	\$819,000,000	\$0	0.00%
2002/03	\$623,250,000	\$613,300,000	\$9,950,000	1.60%
2003/04	\$705,600,000	\$634,500,000	\$71,100,000	10.08%
2004/05	\$898,200,000	\$712,050,000	\$186,150,000	20.72%
2005/06	\$816,300,000	\$760,050,000	\$56,250,000	6.89%
2006/07	\$840,600,000	\$755,500,000	\$85,100,000	10.12%
2007/08	n/a	n/a	n/a	n/a
2008/09	n/a	n/a	n/a	n/a
2009/10	n/a	n/a	n/a	n/a
Total	\$12,474,327,967	\$11,686,403,022	\$787,924,945	6.32%

Source: NYC Department of Finance & Tax Commission

The chart shown below illustrates the settled assessment for the individual WFC properties. Amounts shown in bold represent settled figures.

CURRENT ASSESSMENT SETTLEMENTS							
Property	Settled Through	Actual Assessments					
		2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
1 WFC	2008/09	142,200,000	150,000,000	145,000,000	148,000,000	164,700,000	169,750,000
2WFC	2006/07	220,050,000	219,600,000	200,700,000	200,000,000	191,250,000	175,000,000
3 WFC	2009/10	197,000,000	188,550,000	162,000,000	178,500,000	179,100,000	163,800,000
4 WFC	2008/09	195,750,000	208,750,000	201,500,000	180,000,000	178,650,000	160,000,000
NYMEX	2006/07	45,450,000	48,600,000	43,155,000	49,000,000	46,350,000	43,500,000

The appeals process may reduce revenue, particularly after a market downturn, and thus diminish PILOT revenue in varying degrees from year to year. To maintain the conservative nature of our projections, we have anticipated appeals and reductions of assessed values for all of the subject buildings for each year of the projections through our selection of conservative capitalization rates and net income growth.

In the appeal of an assessment, the taxpayer must establish the market value of the property and may challenge the Assessor's 45 percent equalization ratio ("ratio"), i.e. the relationship between the assessed value and the market value. To prove a ratio, a taxpayer must demonstrate the relationship between the assessed values and the market values of all property in the same tax class as the taxpayer's property for the tax year of the assessment. Prior to 1997, the then applicable laws prevented use of sales to establish ratio in tax appeals. However, in 1997 the New York Real Property Tax Law was amended to permit proof of ratio by actual sales of real property. This change was first applicable for the 1998/99 tax year.

As we have previously described, the Assessor has come to exclusively rely on the income valuation rather than on the sales comparison approach in the determination of market value. To the extent that proof of ratio by the way of sales would suggest market values greater than the income valuation method, a sales ratio might be less than the 45 percent utilized by the Assessor.

Assessments are presumptively correct. The taxpayer has the burden of proof in challenging the Commission's assessment. The taxpayer must establish both market value and ratio. The City in defending the assessment may use the sales comparison approach, the income approach or the cost approach or a combination to establish market value.

CALCULATION OF TAX YEAR 2009/10 OFFICE ACTUAL ASSESSED VALUES

The following table shows the calculations used by the Assessor to reach pre-appeal actual assessments for tax year 2009/10 for all of the subject office buildings. In addition, the post-appeal assessment for 3WFC is illustrated below.

SUMMARY OF 2009/10 ASSESSED VALUES CALCULATION					
	<i>Per Square Foot</i>				
	<i>IWFC</i>	<i>2WFC</i>	<i>3WFC</i>	<i>4WFC</i>	<i>NYMEX</i>
Effective Gross Income	\$47.00	\$48.05	\$49.02	\$42.92	\$47.00
Operating Expenses	<u>\$19.07</u>	<u>\$19.22</u>	<u>\$20.00</u>	<u>\$14.98</u>	<u>\$20.00</u>
Net Operating Income	\$27.93	\$28.84	\$29.02	\$27.94	\$27.00
Base Capitalization Rate	8.500%	8.600%	8.600%	8.600%	8.600%
Effective Tax Rate (45% of prior year tax rate)	4.775%	4.775%	4.775%	4.775%	4.775%
Total Adjusted Capitalization Rate	13.275%	13.375%	13.375%	13.375%	13.375%
Indicated Market Value	\$221.94	\$215.60	\$216.94	\$208.92	\$201.87
Assessed Value (45% of MV)	\$99.87	\$97.02	\$97.62	\$94.01	\$90.84
Tax Commission Market Value	NA	NA	\$203.63	NA	NA
Assessed Value (45% of MV)	NA	NA	\$91.63	NA	NA

Source: NYC Department of Finance

As illustrated in the above table, the Department of Finance had arrived at assessed values of \$94.01 to \$99.87 per square foot for the four World Financial Center properties, while the NYMEX is assessed at \$90.84 per square foot. Later, with a review of updated income and expense information and in consideration of market factors, the Tax Commission reduced the market value for 3 World Financial Center by 6.14 percent or by \$13.31 per square foot.

RENTAL INCOME

Although not all of the WFC buildings are required to report income and expenses to the Assessor's office, all of the properties currently file RPIE statements with the City. The 2009/2010 tax year filings were submitted in 2008 and represent 2007 income and expenses for the properties. The structure of the occupancy within the buildings has resulted in the department of finance categorizing the properties as a mix of owner and non-owner occupied properties, with income and expenses based on actual collections and outflows of income for multi-tenant components.

For the multi-tenanted/non owner-occupancy portions of the buildings, rent and operating expenses are drawn directly from the RPIE statements submitted to the Assessor. The income reflects contract rents from tenants and subtenants, and includes recovery of some of the expenses. Although NYMEX is essentially owner-occupied, rent and operating expenses for the subleased portion of the building are drawn directly from the income statement submitted to the Assessor.

For the owner-occupied buildings or portions of buildings the Assessor estimates income and expense based on market rent and market operating costs.

The Assessor considers the WFC properties to be trophy properties. The rents that the Assessor has assigned to trophy buildings in the Downtown market for the 2009/2010 tax year ranged between \$42 and \$67 per square foot, with the WFC properties at the upper end of the range. The effective gross incomes (EGI's) shown in the prior table reflect the Assessors application of a vacancy rate and other income factors.

OPERATING EXPENSES

The operating expenses per the Assessor's 2009/2010 assessments for the WFC and NYMEX property are shown below:

OPERATING EXPENSES - 2009/10 ASSESSMENT	
Building	Operating Expense
1 WFC	\$19.07
2WFC	\$19.22
3WFC	\$20.00
4WFC	\$14.98
NYMEX	\$20.00
Min	\$14.98
Max	\$20.00
Average	\$18.65

Source: NYC Assessor

The reported operating expenses for the subject properties ranged between \$14.98 and \$20.00 per square foot, with an average of \$18.65 per square foot. This is far in excess of typical levels of \$10.00 to \$13.00 per square foot, at which CBRE estimates downtown office buildings should operate. This is reasonable given the large amount of common area within the complex, the high end tenancy and the amenities offered within the Battery Park City complex.

HISTORICAL FACTORS AFFECTING ASSESSMENT

The Winter Garden Atrium and Power Plant were historically assessed under a different cost methodology calculation. The Winter Garden Atrium had been included in the assessed value calculation for 2WFC due to its location, and the Power Plant was included within the total assessed value of 4WFC, in which it is physically located. Effective in the 2003/04 assessments, the values of these structures were implicitly reflected in the assessed value of all of the buildings, reflecting their utility to each building. We believe this methodology, which is more appropriate and consistent with other similar office complexes, will remain in effect.

FORECAST OF OFFICE ASSESSED VALUES

The projection of future assessments entails the estimation of each property's net operating income and the application of an appropriate capitalization rate. This chapter will provide these estimates and a brief discussion of the rationale behind the choice of each. Additional detail on economic and market conditions and trends affecting these estimated values are provided in Exhibit C.

OVERVIEW OF MANHATTAN OFFICE MARKET

New York City is by far the largest and most concentrated office market in the country. In fact, the Downtown Manhattan submarket, if viewed separately, rank as the nation's 5th largest office market behind Midtown Manhattan, Downtown Chicago, Greater Los Angeles and Washington DC. The World Financial Center, which is widely regarded as one of the premier office complexes in Manhattan, has held a position at the top of the Downtown market since its completion. The World Financial Center's quality of design and construction, large, efficient floorplates, elegant finishes and public spaces, waterfront location and reputable management provide its distinguished character and contribute to its high market position.

The later half of 2008 was a tumultuous time for the Downtown marketplace as two of its largest tenants, American International Group and Merrill Lynch, entered into rapid downward spirals that ultimately required rescues from outside sources, the federal Treasury and Bank of America, respectively. These firms occupied over 7 million square feet of space within the City, with the majority of that space within the Downtown market. Merrill Lynch leases two of the World Financial Center buildings. Both companies have viable business divisions that have remained operational and will likely have future space needs. However what is not yet clear is what space they will ultimately continue to occupy or return to the market. AIG has sold two buildings – 72 Wall Street and 70 Pine Street - containing approximately 1.2 million square feet to a buyer who has indicated that it will convert the buildings to non-office use. The impact that any reduction or relocation of jobs by these firms will have on other firms and the Downtown real estate market is also not clear.

The overall office market as tracked by CB Richard Ellis, Inc. contains approximately 366.6 million square feet of rentable area within 724 buildings. As of mid-year 2009 overall average asking rent in Manhattan is \$53.35 per square foot with a current availability rate of 14.20% and a vacancy rate of 9.4%. Availability and vacancy differ in that availability involves all space that is being actively marketed and is available for tenant build-out within 12 months, while vacancy involves only unoccupied space that is available for lease.

The Downtown office market contains 119 buildings, or approximately 78.6 million square feet, prior to the removal of the two AIG buildings. The following chart provides a summary of the Manhattan office market as of mid-year 2009.

NEW YORK CITY OFFICE MARKET OVERVIEW - 2nd QUARTER 2009							
Submarket	# of Bldg's	Inventory (mil/SF)	Avg Ask Rent/SF	Availabilty Rate	Vacancy Rate	YTD Annual Absorption	YTD Annual Lease Activity
MIDTOWN							
Park Avenue	38	28.9	\$65.75	15.9%	8.7%	(1,855,867)	641,531
5th/Madison Ave	28	11.3	\$70.88	16.9%	11.7%	(279,339)	253,875
East Side	42	19.8	\$54.68	18.0%	8.1%	(1,606,808)	735,802
6th/Rock Cntr.	44	43.8	\$68.51	13.1%	8.5%	(1,303,032)	624,547
TimesSquare/West Side	45	31.3	\$58.53	15.8%	10.6%	(450,550)	138,894
Times Square South	45	17.5	\$43.85	17.1%	11.1%	(947,286)	395,277
Grand Central	86	41.6	\$57.44	15.2%	10.4%	(581,025)	799,285
Plaza District	29	12.3	\$70.44	18.7%	13.6%	(471,020)	153,269
Penn Station	26	<u>17.2</u>	<u>\$47.25</u>	<u>11.5%</u>	<u>8.2%</u>	<u>(331,901)</u>	<u>267,094</u>
Total Midtown Market	383	223.6	\$60.45	15.3%	9.8%	(7,826,828)	4,009,574
MIDTOWN-SOUTH							
Chelsea	29	11.2	\$47.73	11.5%	8.0%	(312,777)	108,163
Flatiron	50	10.4	\$44.78	19.0%	12.4%	(683,181)	97,189
Park South/Madison Sq.	49	16.8	\$43.66	11.7%	7.0%	(728,742)	270,245
Union Square	22	4.0	\$46.22	8.6%	5.8%	(244,755)	78,192
Noho/Soho	37	6.2	\$47.01	13.8%	9.3%	(317,982)	79,608
Hudson Square/TriBeCa	35	<u>15.7</u>	<u>\$43.59</u>	<u>16.9%</u>	<u>13.7%</u>	<u>(115,021)</u>	<u>142,855</u>
Total Midtown South	222	64.4	\$44.79	14.1%	9.9%	(2,402,458)	776,252
DOWNTOWN							
Financial	85	56.7	\$41.32	10.6%	7.1%	(943,927)	781,756
City Hall	29	11.8	\$36.86	15.4%	12.6%	(254,486)	58,990
WFC	5	<u>10.1</u>	<u>\$55.91</u>	<u>9.1%</u>	<u>8.7%</u>	<u>170,198</u>	<u>270,576</u>
Total Downtown	119	78.6	\$41.91	11.1%	8.1%	(1,028,215)	1,111,322
OVERALL MANHATTAN	724	366.6	\$53.35	14.20%	9.4%	(11,257,501)	5,897,148



- The Downtown marketplace had been on a sustained run of increasing rents and moderating availability; however with the onset of the financial crisis that favorable trend came to an abrupt halt. The availability in the marketplace increased from 9.11% at mid-year 2008 to 11.13% at mid year 2009 and has continued to increase through the summer. Rents had a more robust decline from their 3Q2008 peak of \$50.35 to the August figure of \$40.20 , a 20.1% decline

DOWNTOWN HISTORICAL OFFICE MARKET OVERVIEW - 2Q 2009				
Period	Average Asking Rent	Availability Rate	Net Absorption YTD	Leasing Activity YTD
2Q 2009	\$41.91	11.13%	(1,028,215)	1,111,322
1Q 2009	\$43.17	10.49%	---	---
2008	\$47.68	9.72%	(1,586,986)	3,108,669
3Q 2008	\$50.32	9.66%	---	---
2Q 2008	\$49.53	9.11%	---	---
1Q 2008	\$49.00	8.52%	---	---
2007	\$47.26	7.58%	1,331,558	4,509,024
3Q 2007	\$45.98	8.71%	---	---
2Q 2007	\$46.79	9.23%	---	---
1Q 2007	\$42.76	10.07%	---	---
2006	\$39.99	9.04%	4,313,458	6,926,550
2005	\$35.41	14.25%	504,000	5,492,202
2004	\$29.94	15.02%	316,011	5,446,929
2003	\$32.92	15.28%	(719,593)	4,545,788
2002	\$35.59	14.41%	(1,839,691)	5,558,610
2001	\$41.55	11.94%	(18,700,587)	6,244,840
2000	\$44.70	4.37%	4,400,512	8,760,219
1999	\$33.76	8.92%	2,595,080	6,846,224

Compiled by CB Richard Ellis

The chart above illustrates the declining trend in average asking rents and the increasing availability in the marketplace. Figures through August of this year indicate that the rate of the decline has slowed, as availability rose only 30 basis points since mid-year. Rents fell to \$40.20 per square foot, however leasing activity over the period was strong and outperformed its five-year monthly average for the first time since June 2008.

MARKET RENTAL ESTIMATE

The New York City Assessor collects income and expense information from property owners, as required by state law. There has historically been up to a two-year lag in property information as a result of this process. Therefore, the net operating income that the Assessor utilized for the 2009/2010 tax year was based on reported income and expense data from the 2007 RPIE. For the 2010/2011 tax year the Assessor is considering adjusting the income and expenses submitted on the 2008 RPIE statements to account for the deteriorating market conditions.

In order to establish market rents for the 2010/2011 tax year for the owner occupied buildings or portions thereof, it is necessary to examine completed lease transactions, which may be considered comparable to the WFC, NYMEX and the Goldman Sachs headquarters. CBRE has used its extensive knowledge of the Downtown market and made a selection of comparable lease transactions. A summary of these transactions may be found in Exhibit B.

Based upon our analysis, CBRE estimates the market rental rates for the 2010/2011 assessments for space in the WFC submarket range from \$44 to \$48 per square foot. It is our opinion that the four World Financial Center properties merit a rent of \$46 per square foot, while the under constructions Goldman Sachs headquarters would have a \$2 per square foot premium at \$48 per square foot and the NYMEX would warrant a \$2 per square feet reduction at \$44 per square foot. We have assumed a higher market rental rate for the Goldman Sachs headquarters as this under construction property will be state-of-the-art upon completion, will have good access to mass transit, while maintaining very good views and light.

CBRE ESTIMATE OF MARKET RENTS	
on a per square foot basis	
	<u>2010/2011</u>
1WFC	\$44.00
2WFC	\$44.00
3WFC	\$44.00
4WFC	\$44.00
NYMEX	\$42.00
Goldman	\$46.00

CBRE

NEW YORK ECONOMIC AND EMPLOYMENT OUTLOOK

NEW YORK'S ECONOMY

The Manhattan office market serves the needs of an economy that is more concentrated in the financial and business services sectors than the nation as a whole. New York's economy has become more driven by these office-using sectors in part as a consequence of the rapid and steady decline in manufacturing jobs since the 1960s. Over the last 40 years, however, as a result of its strengthening position as a global commercial and cultural center, the City has developed an increasingly diverse economy. Although New York remains subject to economic volatility emanating from Wall Street and the securities industry, the City is buttressed by the presence of leading companies across a broad array of industries, including media and entertainment, business and professional services, health care and pharmaceuticals, information technology and telecommunications, manufacturing and diversified service companies, and higher education. New York attracts such businesses because it offers a highly educated and talented workforce, a large and relatively affluent consumer base, a concentration of suppliers and service companies, and a global transportation gateway. The City's established position as an international cultural center has also enhanced to its position as a premier travel destination and business location.

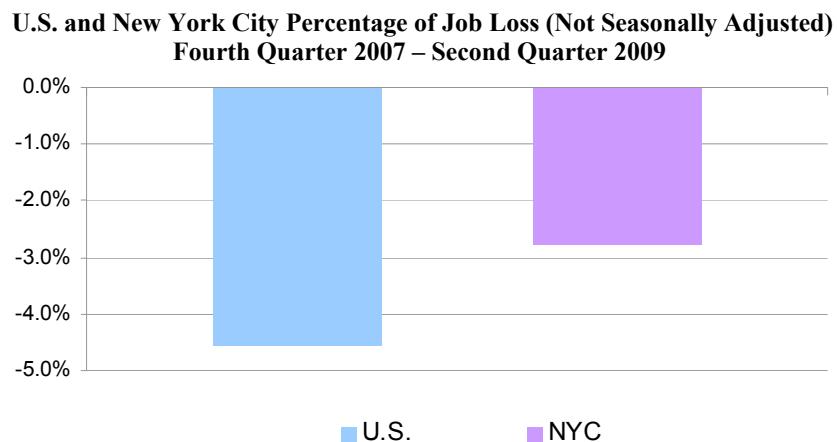
The number of workers who occupy office space is the primary determinant of demand for office real estate. CBRE has analyzed those industries that are the primary users of office space to determine an aggregate level of office employment. As of 2Q 2009 New York had approximately 1.182 million office workers. A discussion of the impact of the current conditions in the financial services industry and in the larger economy on the employment outlook for Manhattan follows.

NEW YORK CITY EMPLOYMENT OUTLOOK

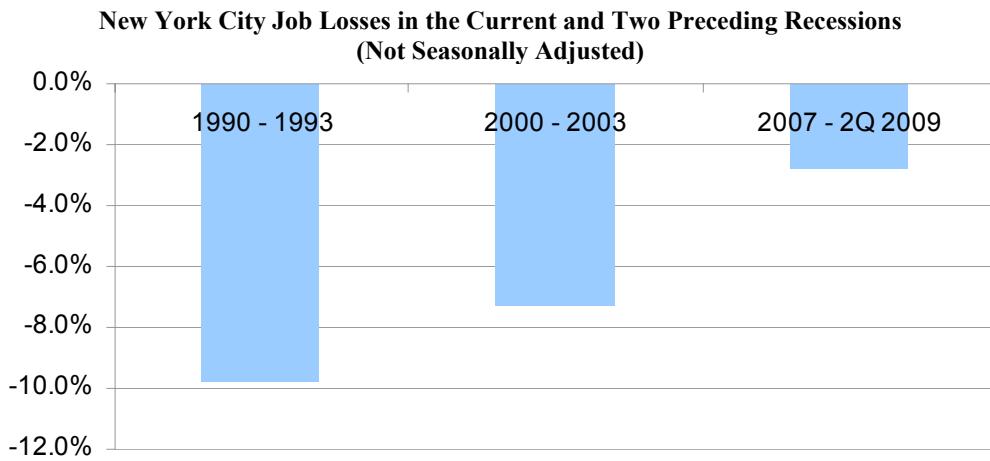
Since mid-2008, labor market conditions in New York City have been adversely impacted by the first truly global recession since the Second World War, and the worst national recession since at least the early 1980's. Since the last quarter of 2007 – when payroll employment in New York City peaked at just over 3.8 million – the City has lost approximately 97,500 payroll jobs – a decline of 2.6 percent.

THE RECESSION IN PERSPECTIVE: NYC VS. THE US, AND 2008-09 VS. PREVIOUS RECESSIONS

While the loss of jobs and the accompanying increase in unemployment has been painful, New York City has to date not been hit as hard as many other parts of the U.S. Nationwide. Through the first half of 2009 the U.S. has lost 6.3 million payroll jobs since the last quarter of 2007 – a decline of 4.6 percent.



Employment in New York City has been holding up relatively well not only when compared to the U.S. as a whole – but also when compared to the City's experience during other recent recessions. As the figure below shows, between the second quarter of 1990 and the first quarter of 1993, New York City suffered a net loss of 351,000 payroll jobs – a decline of 9.8 percent. In addition, between the last quarter of 2000 and the first quarter of 2003, the City suffered a net loss of 275,000 jobs – a loss of 7.3 percent.



Source: Current Employment Statistics

During both of the preceding recessions, job losses were greater in New York City (in percentage terms) than at the national level. In the recession of 2009 – at least to date – the opposite has been true: job losses have been greater at the national level.

TRENDS IN OFFICE-BASED EMPLOYMENT

Since the end of 2007, office-based employment in New York City has declined somewhat more rapidly than total payroll employment. Since reaching a peak of 1.233 million jobs in the last quarter of 2007, employment in office-based industries fell through the second quarter of 2009 by 4.1 percent, to 1.182 million – a loss of 50,800 jobs.

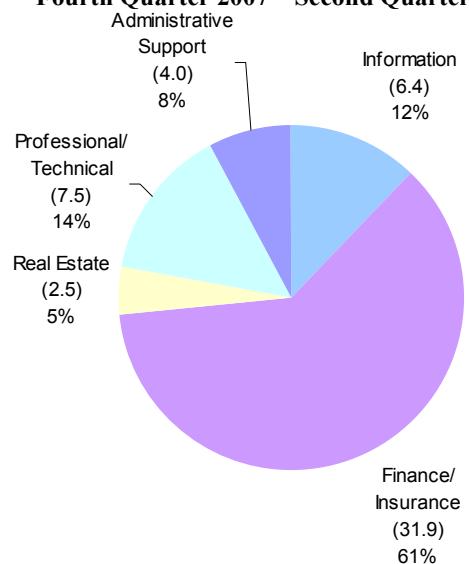
**New York City Office-based Employment by Industry (Not Seasonally Adjusted)
Fourth Quarter 2007 – Second Quarter 2009**

Industry	4Q 2007	2Q 2009	Change
Total Employment	3,804.3	3,706.8	(97.5)
Total Private Employment	3,242.1	3,145.3	(96.8)
Information	168.9	162.5	(6.4)
Finance/Insurance	348.4	316.5	(31.9)
Credit Intermediation and Related	95.3	87.4	(8.0)
Securities Industry	187.0	163.1	(23.9)
Insurance Carriers and Related	56.5	56.4	(0.2)
Funds, Trusts, and Other	7.2	6.7	(0.5)
Real Estate	122.8	120.3	(2.5)
Professional/Technical	338.0	330.5	(7.5)
Legal Services	85.1	82.7	(2.4)
Accounting	51.6	50.0	(1.6)
Architectural, Engineering & Related	29.1	30.6	1.5
Computer Systems Design & Related	43.8	43.6	(0.2)
Management, Scientific & Tech Consult	31.9	30.5	(1.4)
Scientific Research & Develop Services	14.5	13.7	(0.8)
Advertising & Related	55.3	54.5	(0.7)
Management of Companies	59.3	60.9	1.6
Administrative Support	195.6	191.6	(4.0)
Total Office-based Employment	1,233.0	1,182.3	(50.8)

Source: Current Employment Statistics

Figure 1 shows the loss of office-based employment has been concentrated primarily in finance and insurance. Payroll employment in this sector fell by 8.4 percent between the last quarter of 2007 and the second quarter of 2009 – a loss of 31,900 jobs. Other office-based sectors that have sustained significant losses include information services and administrative support services. Professional, technical and business services, in contrast, appear to have held up relatively well; payroll employment in this sector fell during the same period by 2.2% – a loss of 7,500 jobs. Because employment in this sector grew well into 2008, however, job losses since September 2008 have been deeper – almost on par with losses in financial services.

Figure 1: New York City Office-based Job Loss by Industry (Not Seasonally Adjusted)
Fourth Quarter 2007 – Second Quarter 2009



Source: Current Employment Statistics

EMPLOYMENT OUTLOOK – 2009 AND BEYOND

During the second quarter of 2009 and into July, both overall payroll employment and employment in office-based industries in New York City showed signs of stabilizing. The data for the last four months suggest that the City could enter 2010 with a cumulative job loss far smaller than most forecasters were predicting just a few months ago. In May The City's Independent Budget Office had forecasted a cumulative loss of 254,000 jobs through the second quarter of 2010 – a decline of about 6.7 percent from the pre-recession peak¹; The City's Office of Management and Budget (OMB), even more pessimistically, had projected a cumulative loss of 328,000 through the third quarter of 2010 – a decline of 8.6 percent²;

¹ Independent Budget Office, *Analysis of the Mayor's Executive Budget for 2010*, May 20 2009.

² Office of Management and Budget, *Financial Plan Summary, Fiscal Years 2009-13*, May 1 2009.

Using a larger “New York market area” definition, Moody’s Economy.com projected a 3.7 percent decline in average annual employment in 2009, followed by an additional 2.0 percent decline in 2010.³ More recently, OMB reported that monthly private sector job losses had slowed from 14,500 from September 2008 to January 2009, to 7,000 from February 2009 to June 2009; and that over the 10 month period private sector employment had declined 3.3%.

Nevertheless, despite the moderating losses of the past few months, the City could still see further job losses through the remainder of 2009 and into 2010. While job losses in financial services have to date been much less severe than most observers had predicted, there is still a significant risk of further losses in the months ahead. Because some of those who lost jobs in finance have been receiving extended severance benefits, the full impact of reductions in this sector may not yet be evident in the monthly employment numbers. Although there appears to be little evidence available about how widespread this pattern might be, it could lead to a further decline in financial service employment in the months ahead.

Even though the financial markets appear to have stabilized, the crisis of 2008-09 has left a number of major New York City financial services companies in far weaker condition than they were (or at least had appeared to be) prior to 2008. Further job losses at these companies – whether due to cost-control efforts, industry consolidation or outright failure – remain a real possibility.

Any further direct loss of jobs in securities, banking and insurance would also lead indirectly to the loss of jobs in other sectors of New York’s economy – including its office-based industries. Economic analysis provided to CBRE by Appleseed estimates that the loss of 20,000 additional jobs in finance would lead to the loss of 28,600 additional jobs throughout the City’s economy.

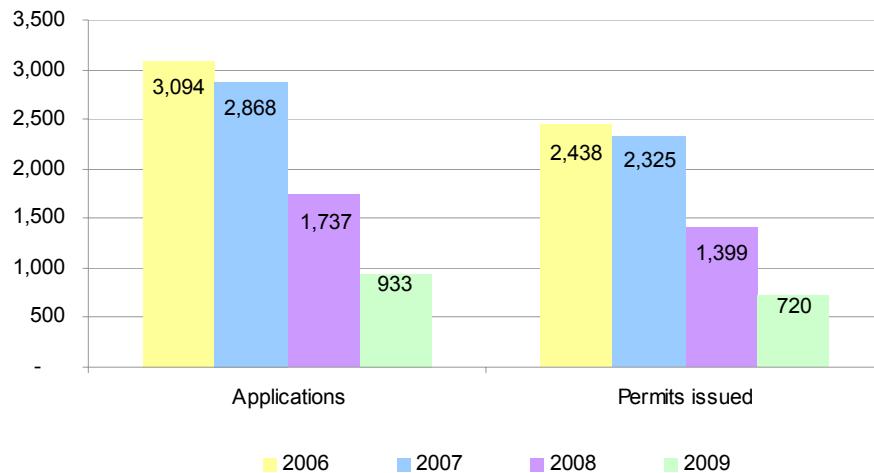
In a forecast released in mid-October 2008, the New York Building Congress predicted a 23 percent decline in total construction spending in New York City between 2008 and 2010, and a loss of nearly 30,000 construction jobs.⁴ To date, the City has lost fewer than 10,000. But as major projects initiated prior to the fall of 2008 are completed (or in many cases, simply suspended), the lack of new construction projects (both residential and commercial) could lead to a significant further decline in construction employment in the City.

Data on applications for construction permits provide a rough indicator of likely trends in construction during the next several years. Between the first five months of 2006 and the first five months of 2009, the number of applications filed for construction of new buildings in New York City, and the number of new-construction permits issued, both declined by 70 percent.

³ Moody’s Economy.com, May 2009.

⁴ New York Building Congress, *Outlook: Construction Forecast, 2008-2010*, October 2008.

**New York City Year-to-Date (May) New Building Permits
2006 - 2009**



Source: New York City Department of Buildings

The decline in City and State revenues resulting from the recession (and in particular, from losses in the financial services sector) will likely require further cutbacks in City and State spending. New York City's budget is in balance for fiscal year 2010; but the City Office of Management and Budget is forecasting a deficit of \$4.9 billion in FY 2011. The State Division of the Budget expects the State to end the current fiscal year with a deficit of \$2.1 billion and is projecting a deficit of \$4.6 billion in FY 2011. Cutbacks are likely to entail reductions in City and State employment. Job losses could also occur in industries that depend heavily on City and State funding, such as health care and social services.

Given continuing uncertainty about the financial services sector, and about the pace of recovery at the national level, the outlook for employment in New York City in 2009 and into 2010 is probably best stated in terms of a broader range of possible outcomes. The decline in total employment from the last quarter of 2007 through mid-2010 could range between 120,000 and 160,000 jobs – a loss of 3.2 to 4.2 percent. The decline in office-based employment could range between 70,000 and 100,000 jobs – a loss of 5.7% to 8.1%.

IMPLICATIONS FOR LOWER MANHATTAN

The loss of financial services jobs is likely to have a disproportionate impact on Lower Manhattan. In the first quarter of 2008, finance, insurance and real estate accounted for 34.3 percent of all private-sector payroll jobs in Manhattan below Chambers Street, versus 18.3 percent of all payroll employment in Manhattan as a whole.⁵ Moreover, several of the firms most directly affected by the 2008-09 turmoil in finance – notably Merrill Lynch and AIG – are among the largest employers in the area.

⁵ New York State Department of Labor, Quarterly Census of Employment and Wages; Appleseed calculations.

Nevertheless, the impact of reductions in financial services employment on market conditions in Lower Manhattan may be less severe in 2009-2010 than it was during previous recessions. Employment in Lower Manhattan is now less concentrated in financial services than it had been in years past. In the first quarter of 1993, the FIRE sector accounted for 47 percent of all private-sector payroll jobs in Lower Manhattan; and as recently as the first quarter of 2000, 42 percent.⁶

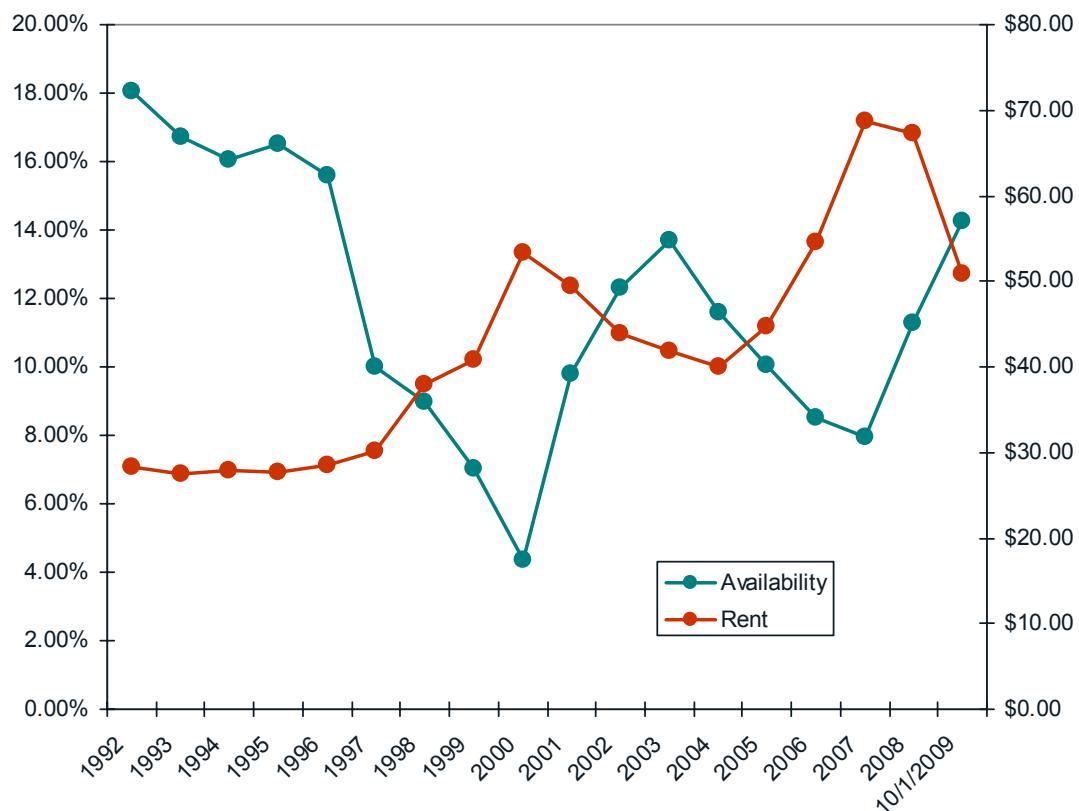
FUTURE MARKET RENTAL GROWTH FORECAST

The changes in employment discussed above that will drive demand for office space are not the only factor that impacts availability and pricing. Market rent and vacancy rates are also affected by changes in the supply of office space through additions to inventory due to new construction or conversions and subtractions due to residential or institutional conversions or demolition. Relatively few new office buildings have been built in Manhattan over the past 15 years. New development planned or in construction may add 7.3 million square feet over the next four years, including the Goldman Sachs headquarters in Battery Park City which will be ready for partial occupancy by the end of 2009. The credit crisis and recession has delayed indefinitely several of the planned projects. If all were completed, it would add about 2.0%, or 0.5% per annum to Manhattan's office supply, a modest increment compared with prior periods. The City's economy was in a relatively strong position entering this downturn in comparison to the recessions since the 1980s. Similarly, the large additions to supply – through speculative new construction and over-leasing - that coincided with the last two previous recessions are absent from the current real estate market. Given the barriers to new office development in Manhattan it is likely that increases in supply due to new construction will remain at relatively low levels during the forecast period. The construction of the planned office towers on the World Trade Center site remains mired in uncertainty. At this moment construction has started on only two of the buildings, Towers 1 and 4, both of which are projected to be occupied primarily by government agencies. If and when the remaining office buildings will be built remains a matter of dispute between the Port Authority and the developer, Silverstein Properties, with completion dates ranging from 2014 to 2037.

⁶ Alliance for Downtown New York, *Lower Manhattan Market Year in Review 2007*, p.4.

The correlation between vacancy rate and asking rent is not simply linear. In tight markets with low vacancy rates, asking rent may increase despite a rise in vacancy. Similarly in weak markets with high vacancy rate, asking rent may decrease even when vacancy rate declines. However, the correlation between vacancy rate and asking rent is evident when observed over several market cycles. As previously noted, high levels of speculative office construction coming to market during the recessionary period from 1987-1993 resulted in peak vacancy rates in those years. Strong job growth sustained over several years was required to absorb the excess space and return the market to relative equilibrium and support rising rents. The less pronounced rise in vacancy rate in the most recent downturn from 2000-2003 is due in part to the moderating effect of reductions in supply due to the loss of the World Trade Center and low levels of new construction. Job growth, led initially by professional business services, pushed vacancy rates down and business expansion in tightening market conditions drove asking rents to historic highs in Manhattan.

HISTORICAL AVAILABILITY RATE AND ASKING RENT (1992-2009)



The additional effect on vacancy and rent of the current economic downturn will depend on the extent of additional job losses and duration of the downturn before significant hiring resumes. Layoffs due to the downsizing, acquisition or closing of businesses weaken demand and ultimately result in an increase in vacancy rate as firms decide to consolidate offices and sublease or vacate space. Job growth through new hiring or new business establishments will be needed to absorb the additional vacant space as well as any additions to supply from new construction. Manhattan's economy and office market have recovered from severe recessions in the past and can be expected to recover from the present downturn. As discussed previously, CBRE thinks that the outlook for employment in New York City in 2009 and into 2010 is probably best stated in terms of a range of possible outcomes that is estimated to span between 70,000 and 100,000 office-using jobs.

In order to estimate the future rate of growth in market rent, CBRE divided the forecast period into two segments. For the first three years of the period CBRE based its forecast on a consideration of the mid- and high-range job loss scenarios. Forecasts for Manhattan covering the period from 2009 through 2012 were made for office employment, vacancy and market rent. For Manhattan, CBRE Economic Advisors (formerly Torto Wheaton Research) projects market rents to decline by an additional 13% from the Q3 2009 to mid-2010, when job losses are expected to cease. As employment starts to recover, rents are projected to rise slowly in the second half of 2010 and then rise more sharply in 2011 and 2012, by 19% and 18% respectively. We have assumed slower market rental growth over the recovery period in consideration of several factors that may delay the recovery Downtown, including the disproportionate concentration of financial and insurance employment and large employers, (including AIG and Merrill Lynch) impacted by the financial crisis, prospective new office construction, and the uncertainty about progress of the transportation hub and public redevelopment of the WTC site. Accordingly, we have projected market rent to continue to decline into 2011 before returning to 2% growth in 2012 when employment growth is expected to improve.

For the remainder of the forecast period we have made assumptions about a long-term growth rate based on historic trends. Average long-term rental growth may be calculated from available data for various time periods that would be appropriate for comparison to the current period. For the period from 1990 through 2008 covered by data compiled by CBRE, annual growth in asking rent has averaged approximately 4.4 percent. Based on other sources, New York City OMB puts the average annual growth rate at 3.3% for the 1987 – 2007 period. There is, however, considerable variance from that average from year to year due to the cyclical nature of the real estate market and other fluctuations. In general, historic data on average annual rental growth closely parallels, or slightly exceeds, the historic inflation rate.

Because the growth in market rents is a primary factor in determining assessed value over the long term, we have adjusted the growth rate to accommodate the assessment risk, which could not be calculated in another manner. These risks include, but are not limited to, economic risk, public policy changes, sudden-impact-event risk, and the risk of technological change, which may adversely affect the market and these specific building's rent and occupancy. Our long-term income growth estimate is estimated at a conservative 2.0% per annum through 2020 and 1% per annum thereafter.

ESTABLISHING EXPENSES AND EXPENSE GROWTH RATES

As previously presented, the operating expenses per the Assessor's 2009/2010 assessments for the WFC and NYMEX property are shown below:

OPERATING EXPENSES - 2009/10 ASSESSMENT	
Building	Operating Expense
1 WFC	\$19.07
2WFC	\$19.22
3WFC	\$20.00
4WFC	\$14.98
NYMEX	\$20.00
Min	\$14.98
Max	\$20.00
Average	\$18.65

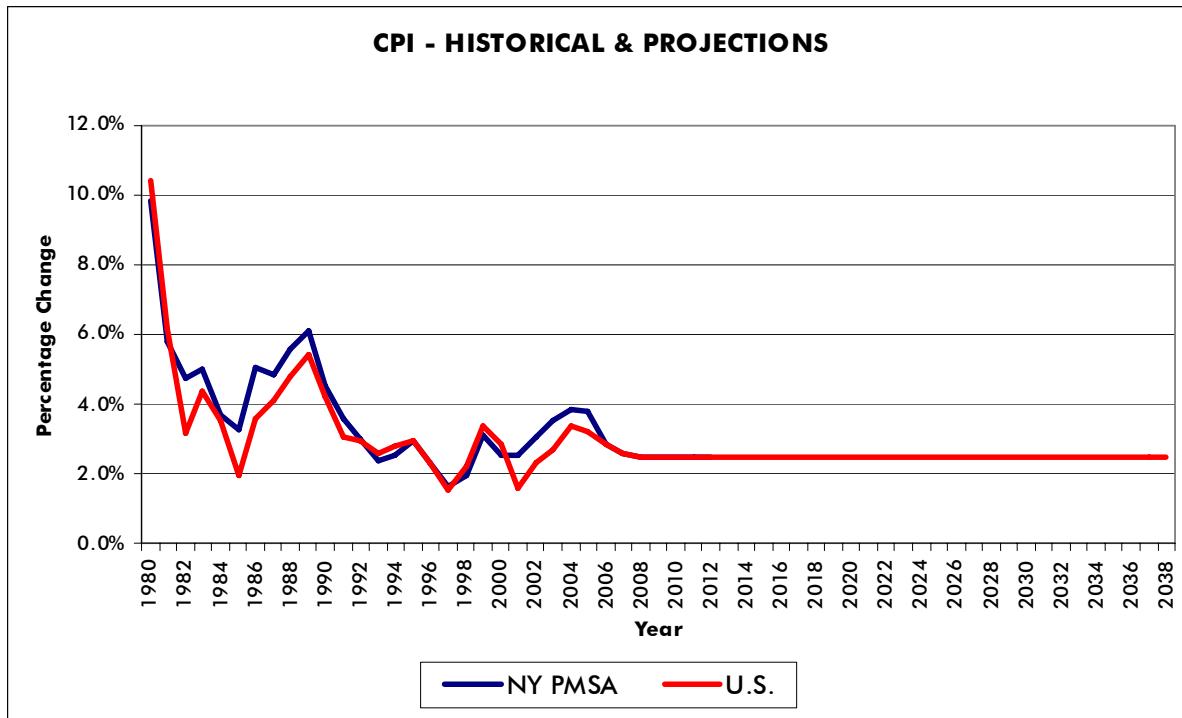
Source: NYC Assessor

The reported operating expenses for the subject properties ranged between \$14.98 and \$20.00 per square foot, with an average of \$18.65 per square foot. As previously noted, this is higher than the typical levels of \$10.00 to \$13.00 per square foot at which downtown office buildings operate. But the higher expense is reasonable given the large amount of common area, the high end tenancy and the amenities offered within the Battery Park City complex. We have modeled operating consistent with the Assessor's prior year figures.

Expenses have generally increased since 2001 due to the substantial increase in security and insurance costs for properties, specifically those in Manhattan. Based on information provided to the Authority by the tenants, all of the properties in Battery Park City are covered by terrorism insurance policies. The WFC and NYMEX buildings have historically had a high level of security given their size and tenancy.

Increases in operating expenses generally follow inflationary patterns. We have elected to use the Economy.com forecast for New York Primary Metropolitan Statistical Area ("PMSA"), and United States inflation rates. The New York PMSA includes the following counties: Bronx, Kings, New York, Queens, Richmond, Putnam, Rockland, and Westchester.

From 1980 to 1993, the New York PMSA, with a few exceptions, consistently registered a higher annual Consumer Price Index ("CPI") than the nation, as displayed in the following graph. Since 1994, the New York PMSA has generally shown movements similar to the United States CPI index.



The Economy.com forecasts for annual average CPI change to the year 2039 for the United States indicate a relatively tight range from 1.9 to 2.5 percent, averaging at 2.2 percent. The long-term projected rate for the U.S. is 2.2 percent. Forecasts for the NY PMSA are only available through to 2013.

CPI - ALL URBAN CONSUMERS - HISTORICAL					
	NY PMSA		U.S.		
	CPI	% Change	CPI	% Change	
1980	82.1	n/a	82.4	n/a	
1981	90.1	9.7%	90.9	10.3%	
1982	95.3	5.8%	96.5	6.2%	
1983	99.8	4.7%	99.6	3.2%	
1984	104.8	5.0%	103.9	4.3%	
1985	108.7	3.7%	107.6	3.6%	
1986	112.3	3.3%	109.6	1.9%	
1987	118.0	5.1%	113.6	3.6%	
1988	123.7	4.8%	118.3	4.1%	
1989	130.6	5.6%	124.0	4.8%	
1990	138.5	6.0%	130.7	5.4%	
1991	144.8	4.5%	136.2	4.2%	
1992	150.0	3.6%	140.3	3.0%	
1993	154.5	3.0%	144.5	3.0%	
1994	158.2	2.4%	148.2	2.6%	
1995	162.2	2.5%	152.4	2.8%	
1996	166.9	2.9%	156.9	3.0%	
1997	170.8	2.3%	160.5	2.3%	
1998	173.6	1.6%	163.0	1.6%	
1999	177.0	2.0%	166.6	2.2%	
2000	182.5	3.1%	172.2	3.4%	
2001	187.1	2.5%	177.1	2.8%	
2002	191.9	2.6%	179.9	1.6%	
2003	197.8	3.1%	184.0	2.3%	
2004	204.8	3.5%	188.9	2.7%	
2005	212.7	3.9%	195.3	3.4%	
2006	220.7	3.8%	201.6	3.2%	
2007	226.9	2.8%	207.3	2.8%	
2008	235.8	3.9%	215.3	3.8%	
Average Compounded Growth:					
1980-2008	3.8%		3.5%		
1998-2008	3.1%		2.8%		
1993-2008	3.6%		3.2%		

Source: Bureau of Labor Statistics

As illustrated in the above table, the average annual compound growth over the past 28 years for the PMSA was 3.8%, while for the U.S. it was 3.5%. However, more recently the annual percent change in CPI has decreased. During the past decade, the average annual compound growth rate was 3.1% for the PMSA and 2.8% for the U.S. Similarly, over the past fifteen years, the average annual compound growth rate was 3.6% and 3.2%, respectively. These historical increases in the CPI are similar to the rate of increases in market asking rent over a comparable period. We have assumed that this pattern will hold throughout the forecast period.

ESTABLISHING CAPITALIZATION RATES

From the Assessor's estimates of income and expenses, a net operating income is derived for each building. This income is then capitalized into an estimate of market value. Suggested pre-tax capitalization rates are provided in the Assessor's guidelines and vary according to rent levels. The relationship between market rents and pre-tax capitalization rates suggests an upward or downward adjustment depending upon the relationship of a building's contractual rent or assigned market rent compared to the market rents in the Assessor's guideline. The current methodology favored by the Assessors office for calculating capitalization rates is the Band of Investment, which blends equity returns and mortgage interest rates. The resulting range utilized by the Department of Finance for Downtown trophy office buildings is reported to be 8.6% to 8.8%. That rate is adjusted by to account for the real estate taxes which the Assessor has excluded from operating expenses. The adjustment based on the current real estate tax rate is an incremental rate of 4.775%, which when added to the pre-tax cap rates results in a range of 13.375% to 13.575%. It should be noted that the current pre-tax capitalization rate for 1 WFC is 8.5%, which results in a rate 13.275% after adjustment for Real Estate Tax, is outside the stated ranges of the Department of Finance. The other office properties utilize rates of 8.6% (13.375% with Real Estate Tax adjustment), which is the low end of the stated range.

The general relationship between rents and capitalization rates is significant in that: 1) higher market rents are linked with higher capitalization rates, reflecting the adage that "the risk is the rate"; in other words, the risk of continuing to achieve contract rents in the range of historical highs in a long-term projection is quite high; and 2) as long as the building is rented at "market" rent levels, a market capitalization rate is applied. This process serves to equalize the assessments of the five buildings, despite the discrepancy in rents between the WFC buildings.

In terms of formulation, the Assessor uses a base capitalization rate, which is further adjusted to compensate for the exclusion of real property taxes from expenses. The capitalization rates used by the Assessor to establish the 2009/10 assessments of the World Financial Center and NYMEX buildings are summarized in the table below:

COMPONENTS OF CAPITALIZATION RATE - 2009/10				
	1 WFC	2 WFC	3 WFC	4 WFC
Pre-Tax Cap Rate	8.500%	8.600%	8.600%	8.600%
Adjustment for Real Property Tax	<u>4.775%</u>	<u>4.775%</u>	<u>4.775%</u>	<u>4.775%</u>
Assessor's Capitalization Rate	13.275%	13.375%	13.375%	13.375%

Source: NYC Department of Finance

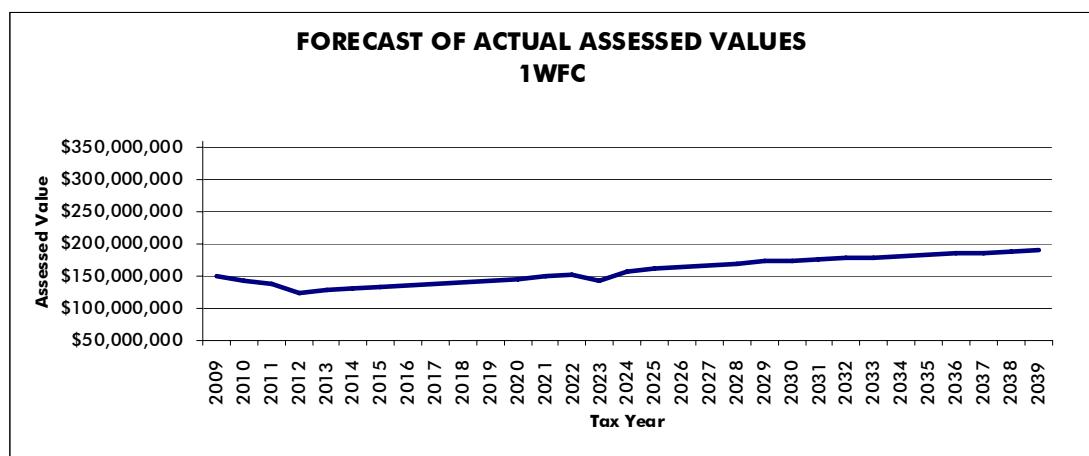
We anticipate that capitalization rates will increase in response to the declining market conditions within the City of New York. The lack of liquidity in the marketplace makes borrowing difficult, and banks are less willing to provide high levels of leverage on buildings. The result is upward pressure on capitalization rates and subsequent declining trend in values. Some of the changes in market conditions have been reflected in the current capitalization rate selections, as evidenced by the increases from previous historical figures shown below:

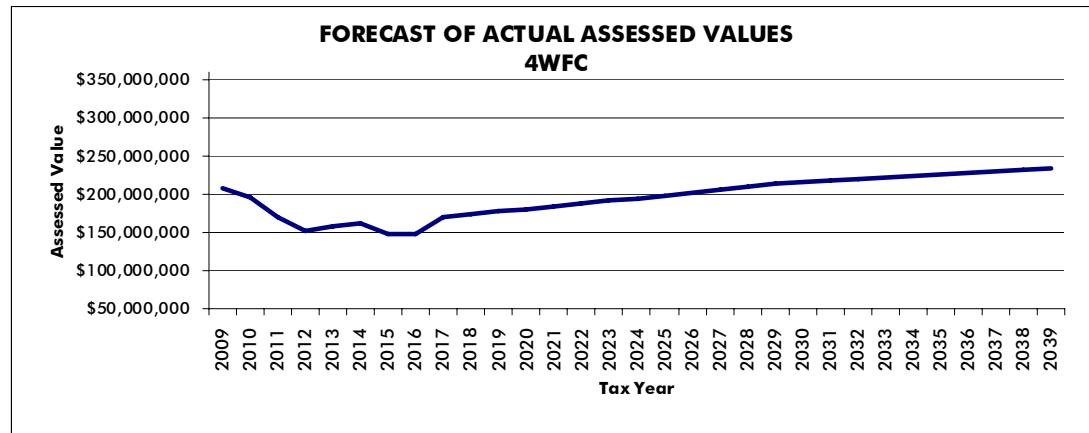
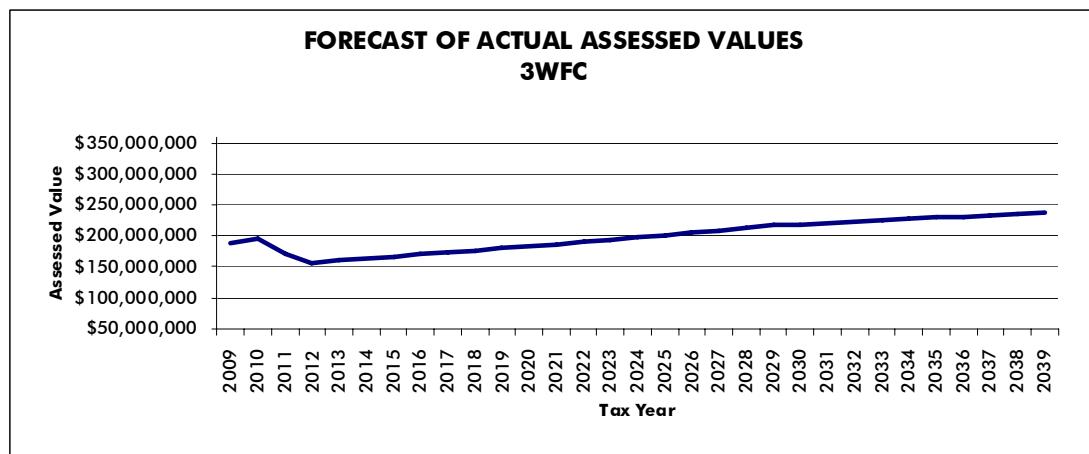
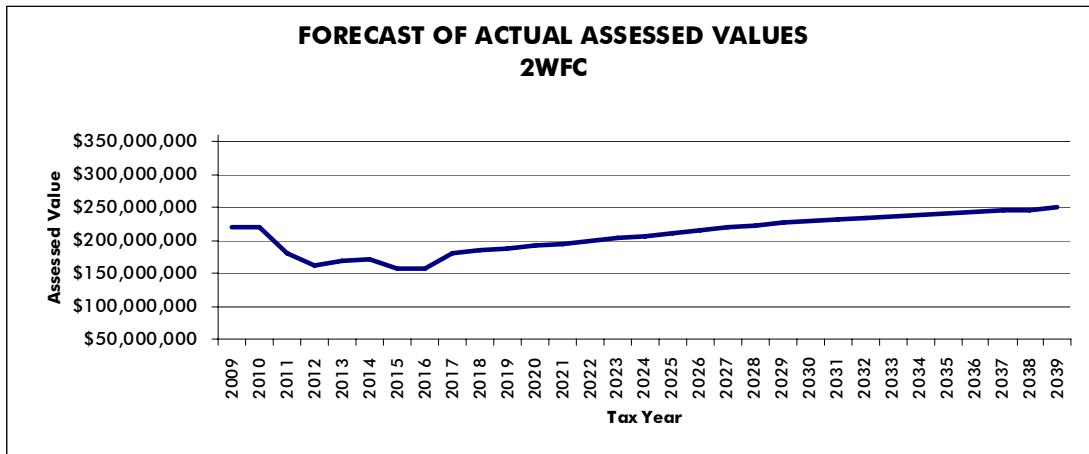
HISTORICAL PRE-TAX CAPITALIZATION RATES					
	2005/06	2006/07	2007/08	2008/09	2009/10
1 WFC	9.00%	8.55%	7.80%	8.30%	8.50%
2 WFC	8.25%	8.00%	7.80%	8.30%	8.60%
3 WFC	8.25%	8.40%	7.60%	8.30%	8.60%
4 WFC	8.25%	8.40%	7.80%	8.10%	8.60%
NYMEX	n/a	n/a	8.60%	9.30%	8.60%

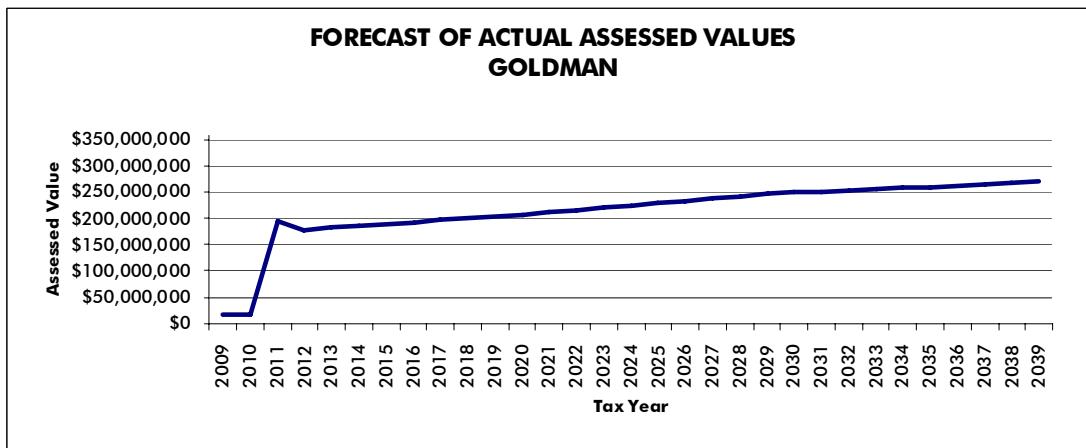
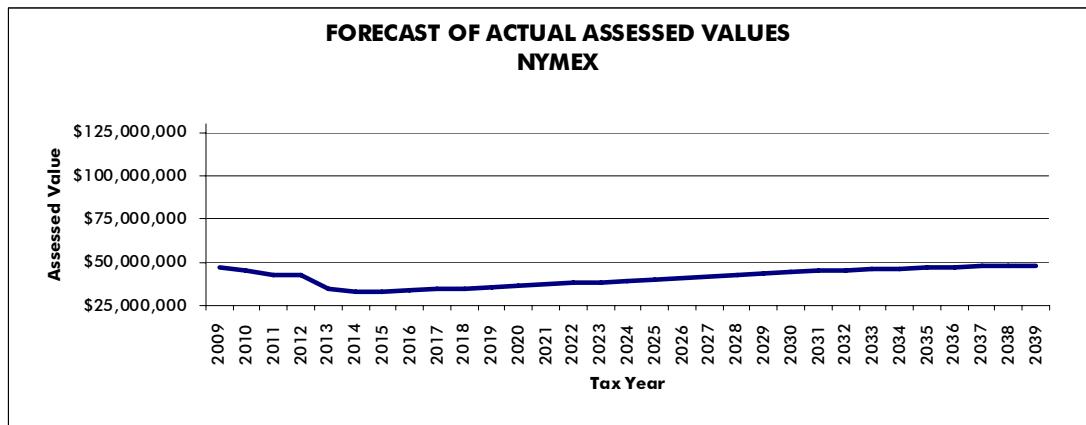
Within our analysis we have modeled upward trending capitalization rates of 0.5% for 2010/2011 and 1.0% for 2011/2012, with a decline of 0.25% to a stabilized figure in 2012/2013 tax year. For 1WFC this equates to a stabilized pre-tax capitalization rate of 9.75%, while the remaining WFC properties and Goldman Sachs stabilize at 9.85%. For NYMEX we have maintained increases of 0.5% per year through the 2013/2014 tax year to account for potential technological changes effecting the trading operation. These stabilized Pre-Tax rates are adjusted annually by the projected tax rate for the particular tax year.

OFFICE ASSESSED VALUE CONCLUSION

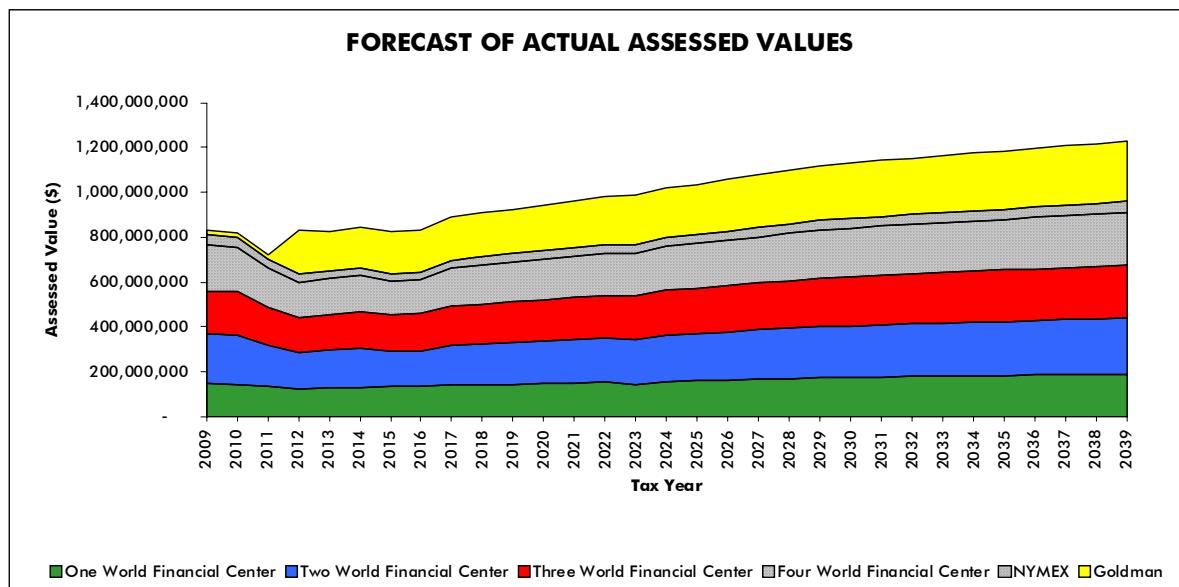
CBRE has graphed below the forecast assessed values that result from the assumptions of rent, expenses and capitalization rates as described in the preceding chapter.







The following graph illustrates the projected actual assessed values for all of the office buildings.



As the preceding graph indicates, the aggregate assessed values of the WFC, NYMEX and Goldman Sachs HQ buildings in 2009/10 are projected at \$830.3 million. Over the 30-year period (Year 2039) the assessment increase to \$1,230.5 million, indicating an annual increase of 1.55%. It should be noted that although the Goldman Sachs building's assessment becomes finalized in 2010/2011, the PILOT payments are structured at a discount and have initial year credits and thus actual collections do not increase in-line with the assessment increase.

With the exception of the Goldman Sachs building, all of the WFC properties have potential major tenant rollovers during the 30-year period, including the Cadwalader lease at 1WFC, Merrill Lynch (now BofA) at 2WFC and 4WFC and Merrill Lynch subtenants Nomura and Deloitte & Touche also at 2WFC. As was previously noted, Brookfield Financial Properties purchased a controlling partial interest ownership of the lower level floors in 3WFC, while American Express has retained the remaining interest in the upper level floors. Thus, this building is partially multi-tenanted. As such, we have accounted for the rollover of a multi-tenanted building. It should be noted that due to the lag in assessment process the negative effects of these lease rollovers on assessed values may lag the lease expiration by up to two years, although as previously discussed, the appeals process may result in reducing or eliminating that lag particularly in a declining market.

While assessed value is the main component of PILOT for a specific property, the tax rate and, in some instances, abatements also affect the PILOT amount. Assessments are multiplied by the appropriate tax rate to arrive at the tax equivalent amount. The abatement schedules for the WFC buildings have been completed and are no longer a factor in the forecast of PILOT revenue for these buildings.

TAX RATES

The effective tax rate for Class IV properties for the first half of 2008/2009 tax year was set at \$9.87 per \$100 of assessed value, while the second half figure has been increased to 10.612%, for a 2008/2009 average of 10.241%. The 2009/2010 tax rate is expected to remain the same, but was not final as of the date of our analysis. The increase that took effect in the second half of the 2009/10 tax year was made in response to the rapidly contracting economy and the City's need to offset declining tax revenues from other sources. In order to forecast changes in the tax rate over the next 30 years, it is important to understand the historical trend of New York City real estate tax rates and their use by the City as a tool to generate revenue.

Prior to the 1982/83 tax year, as described earlier, a single tax rate was applicable to all property types. Following the revision of the tax policy in the 1981/82 tax year, separate tax rates were assigned to each tax class. A summary of the Class IV tax rates applicable to the commercial component of Battery Park City is shown below:

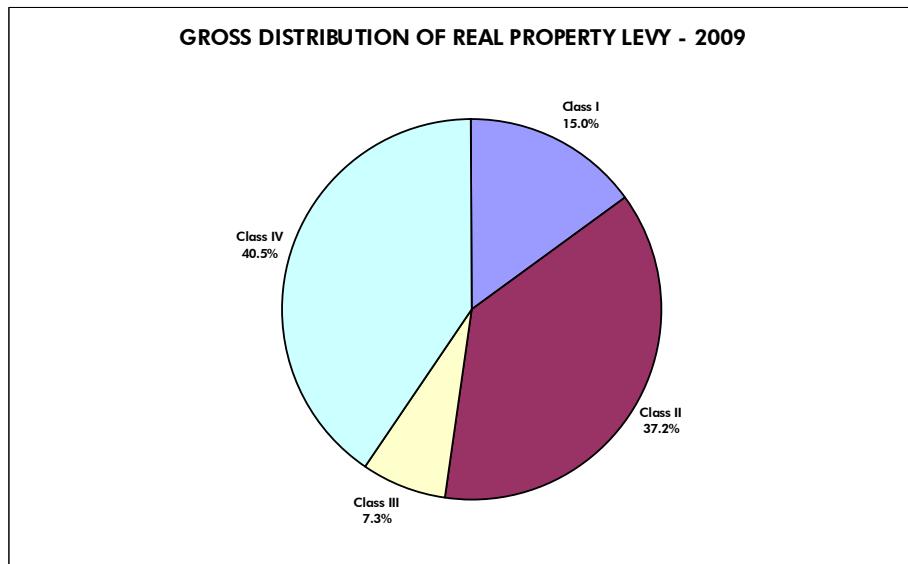
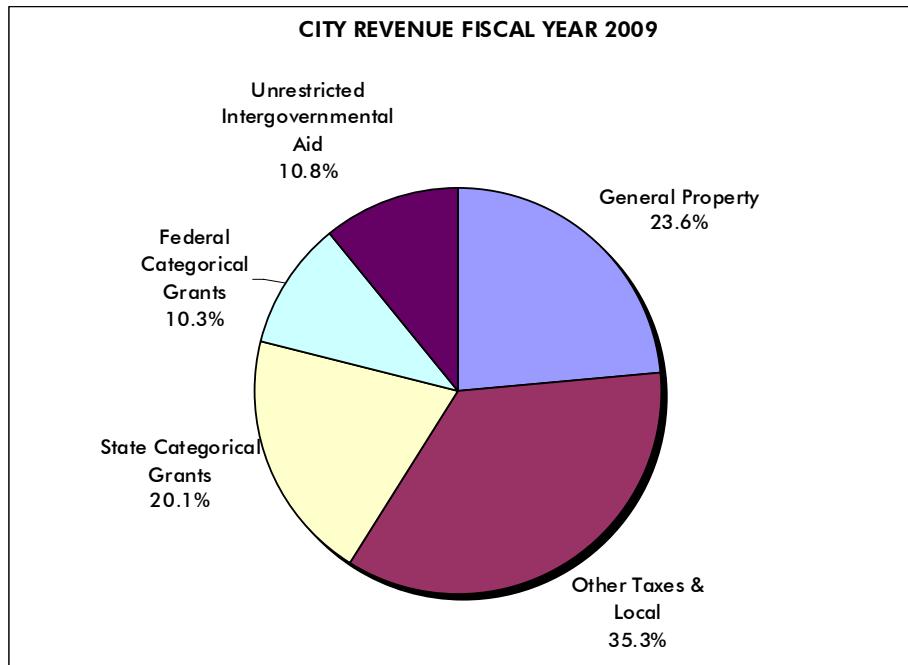
NYC TAX RATES						
Tax Class 4						
YEAR	Rate	% Change	Compounded Annual Growth Rate			
08/09 - 2nd half	10.612%	7.52%				
08/09 - 1st half	9.870%	-1.88%				
07/08	10.059%	-8.53%	Total Survey	81/82 to 08/09	0.63%	
06/07	10.997%	-2.73%	Last 20 Years	88/89 to 08/09	0.51%	
05/06	11.306%	-2.18%	Last 10 Years	98/99 to 08/09	0.36%	
04/05	11.558%	1.11%	Last 5 Years	04/05 to 08/09	-0.77%	
03/04	11.431%	-1.29%				
02/03 - 2nd half	11.580%	18.45%				
02/03 - 1st half	9.776%	0.66%				
01/02	9.712%	-0.57%				
00/01	9.768%	-2.21%				
99/00	9.989%	-2.41%				
98/99	10.236%	0.71%				
97/98	10.164%	-0.86%				
96/97	10.252%	-1.44%				
95/96	10.402%	-1.94%				
94/95	10.608%	-1.08%				
93/94	10.724%	0.24%				
92/93	10.698%	0.63%				
91/92	10.631%	6.27%				
90/91	10.004%	4.87%				
89/90	9.54%	-0.45%				
88/89	9.58%	1.29%				
87/88	9.46%	0.00%				
86/87	9.46%	0.00%				
85/86	9.46%	0.00%				
84/85	9.46%	1.47%				
83/84	9.32%	0.31%				
82/83	9.29%	3.84%				
81/82	8.95%	n/a				

Source: New York City Department of Finance

As illustrated in the previous table, over the period since the 1982/83 revisions of the tax policy and assignment of separate tax rates, the Class IV property tax has evidenced a compound average annual growth rate of 0.63%. The positive compound average annual growth was primarily a result of the significant increase made in the latter half of 2003 when the City increased the rate by 18.45% to \$11.580 per \$100 of assessed value and this year's 7.52% increase in the rate. The declining trend in tax rates had resulted from significant increases in assessment and the City's strong financial position over the past five years, however with the onset on the national economic recession, this trend has reversed and the rate has once again increased.

The trend in tax rates tends to have a somewhat inverse relationship with changes in assessment and strength of the overall economy. During economic recessions declines in revenue from sales and income taxes results in the City of New York turning to property tax for a steady or increasing revenue stream. So, when other tax revenues and assessed values increase in times of economic prosperity the property tax rate typically declines, while the opposite can be said of recessionary periods when rates are increased to keep City programs funded. With the deep recession and the concurrent global financial crisis, the City anticipates budget deficits due to shortfalls in tax receipts. Accordingly, we anticipate a near term declining trend in property values, and thus a steady increase in tax rates is likely.

It should also be noted that since the City Council lost discretionary control over the levy distribution among tax classes, the tax rate for Class IV properties has for the most part declined over the last five years. These changes in the tax rate are related to the City's need to generate revenue. Below are two graphs, the first showing the City's projected fiscal year 2009 revenues (from July 2009 reforecast) broken out by revenue source, and the second illustrating the share of the overall property tax revenue derived from each property class. General Property Tax Revenue represents 23.6% of the City's total revenues. Of the total \$14.37 billion in property tax levy, 40.5% is derived from Class IV properties, which continues to be among one of the highest sources of City revenue.



The City's Five Year Financial Plan dated June 24, 2009 did account for the changes in the financial sector of New York City. The plan projects increased general property tax revenue as shown on the following chart:

NYC OFFICE OF MANAGEMENT AND BUDGET FIVE YEAR PLAN (FY 2009 to FY 2013)		
Year	General Property Tax Projections	% Change
FY 2009	\$14,371,000,000	n/a
FY 2010	\$16,072,000,000	11.84%
FY 2011	\$17,148,000,000	6.69%
FY 2012	\$17,737,000,000	3.43%
FY 2013	\$18,125,000,000	2.19%

Source: NYC OMB

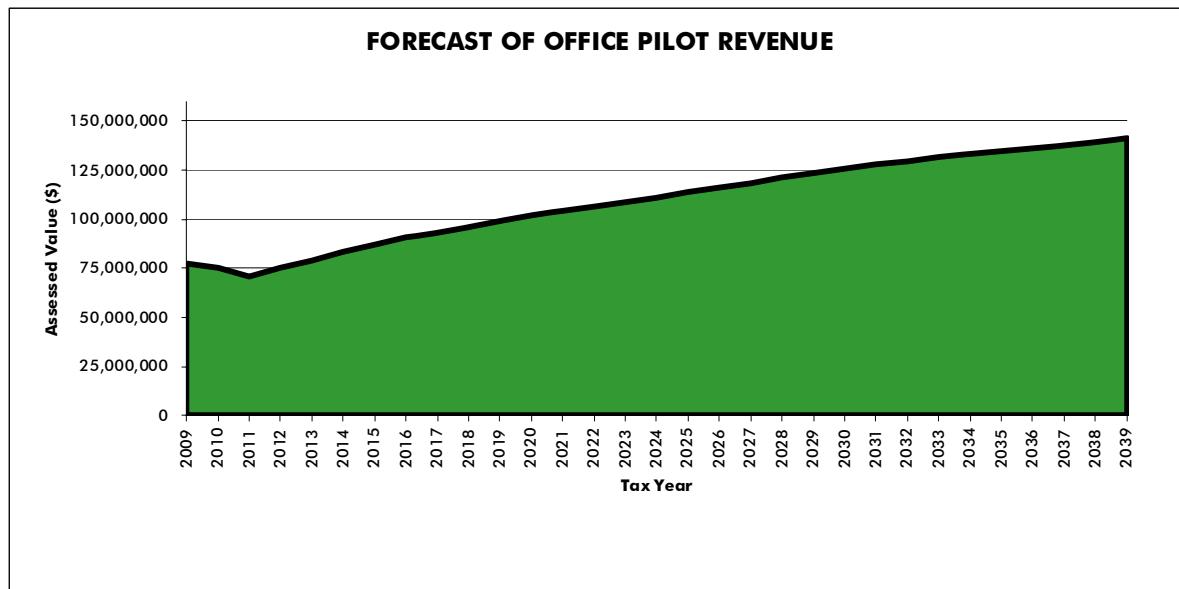
The compounded annual growth over the five year projection period totals 5.97% which is above our projected figures for Office PILOT growth. Given New York City's historical performance and our near term declines in the assessments of the properties, we have taken a conservative view of tax rates in the short and long term. We have assumed that the tax rate will increase at an annual rate of 1% in the initial two years of our analysis, followed by long term average annual increase of 0.25% throughout the analysis.

OFFICE PILOT FORECAST

The NYMEX lease provides that PILOT payments associated with the trading floor area shall be zero for the first twenty years. In addition, the lease stipulates that the tenant is required to pay an unabated PILOT payment for the subleased portion of the building (approximately 55%), while the PILOT payment liability is phased in over a twelve-year period for the office area occupied by the NYMEX. Further, the PILOT payment for the NYMEX-occupied office area is based on the average assessed value per square foot of the four WFC buildings.

The Goldman Sachs building is currently taxed based on the property's land value and phases into a structure whereby until 2027 the PILOT payment is set based on the lower of the property's actual assessment or 115% the average assessment per square foot of the World Financial Center properties. The PILOT agreement for Goldman Sachs also has \$6 million of credit that offsets PILOT collections through 2011.

As a result of the projected assessed values and estimated tax rates, the total PILOT payments for the subject office buildings to the Authority over the next 30 years are forecasted as follows:

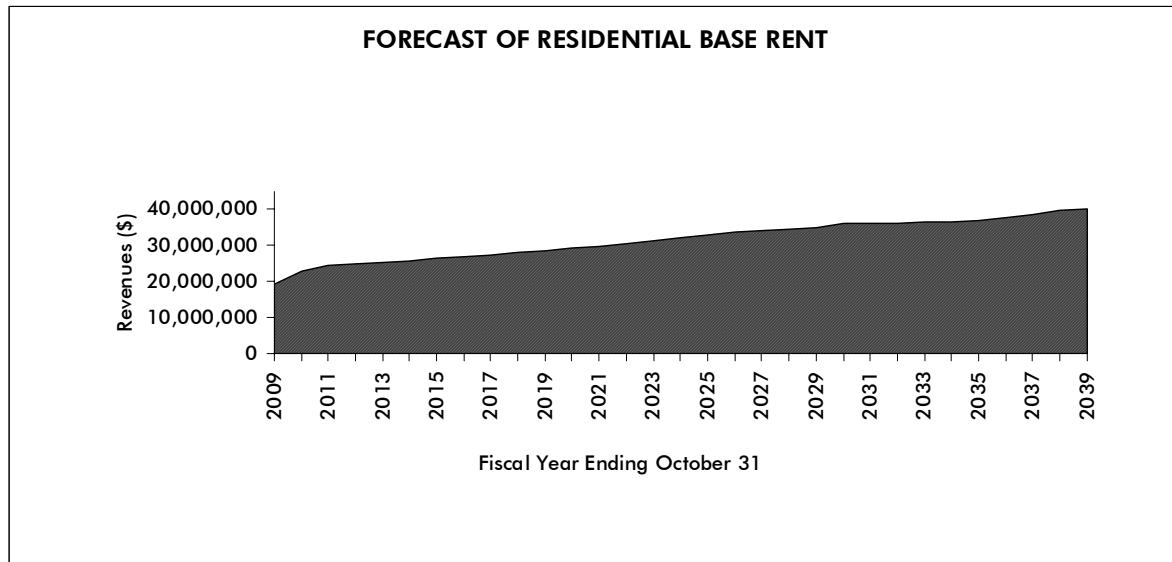


Over the course of the forecast period, the PILOT payments fluctuate as we have incorporated major WFC tenant rollovers into the assessment, however the stable nature of the Goldman Sachs and American Express leases, in conjunction with the 5-year phase-in of changes effectively smoothes out the growth in PILOT over the term. The office PILOT payments are projected to equal \$140.0 million in 2039, from a starting level of \$79.4 million in 2009. This indicates a compound annual growth rate of 1.91%.

IV. RESIDENTIAL BASE RENT AND SUPPLEMENTAL RENT

Each residential tenant is obligated under its lease to pay Base Rent on a monthly basis commencing on the date of execution. For the period beginning on the commencement date and ending on the day prior to the twenty-fifth or twentieth anniversary of the date on which a temporary certificate of occupancy was issued ("First Appraisal Date"), the Base Rent is equal to an amount specified in each lease. Thereafter, Base Rent is adjusted every fifteen years based upon an appraisal of the land underlying each lease. Furthermore, the leases stipulate that Base Rent payable after any reappraisal shall not be less than the Base Rent payable prior to such reappraisal. Instead of undertaking a study of land values ten or more years from now, we have assumed payment of Base Rent at the minimum amount contractually set. It should be noted that the Authority has advised CBRE that residents of 10 condominium buildings have requested modifications to their leases that would limit their exposure to increases in Base Rent related to higher land values. The Authority has made no decision to modify the leases. CBRE's forecast of revenues would not be negatively affected as our inclusion of the contractual minimum rents is not dependent on future land values.

Many of the tenants are required to pay to the Authority Supplemental Rent. As previously discussed, Supplemental Rent also includes Incremental Rent revenue. Payments of Supplemental Rent generally expire on the day prior to the First Appraisal Date. The exceptions are for Parcel H/I, which expire on the 15th anniversary of the issuance of the certificate of occupancy, Site 20B, which is on the 22nd anniversary, and Site 21A, which is on the 23rd anniversary. In addition, Supplemental Rent for Site 22 is applied for the entire term of the lease. Supplemental Rent is equal to the difference, if any, between the amounts specified in the lease and PILOT for the applicable lease year. Our forecast recognizes these instances in which PILOT falls below the specified amount and sets Supplemental Rent equal to the difference. As noted the Supplemental Payments for Site 22 continue until lease expiration in 2069. Supplemental Rent payments for this site are projected to be minimal in the initial years of our analysis and do not become substantial until 2014 when our conservative projections for PILOT result in shortfalls compared to the required minimum PILOT in the lease. Therefore, for the most part, the Supplemental Rent Payments are minimal totaling approximately \$460,000 in 2009 and declining through 2014 before gradually increasing over the remainder of the forecast period. Overall, Base and Supplemental Rent will increase gradually from a 2009 base of \$19.5 million to \$40.2 million in 2039.



V. RESIDENTIAL PILOT

All of the residential leases require tenants to make payments to the Authority in lieu of taxes (PILOT) since the properties are exempt from paying New York City property taxes. Except for Gateway Plaza, these payments are equal to the property taxes that would be payable for each site if it were privately owned, plus a land tax equivalent specified in each lease. In addition, thirteen of the sites had a tax abatement that reduced the PILOT payment on the building by 100 percent for the first two years. The abatement schedule provided for full taxes to be phased in through 20 percent step reductions every two years for the subsequent eight years. Of the remaining sites, five currently have a tax abatement that is for a total of 20 years with 100 percent abatement for the first twelve years and then a reduction of 20 percent every two years for the subsequent eight years. Gateway Plaza has a special PILOT program, which is described below. The remaining four sites do not have any form of tax abatements.

GATEWAY PLAZA

The Gateway Plaza site was leased by the Authority in 1980 to a limited-profit housing company and developed as Mitchell Lama housing. Since HUD insured the Authority's financing of the project, and the finances of the project were subject to Federal rules related to that financing, the normal Mitchell Lama rent limits did not apply. In 2005 the project was refinanced with a new HUD-insured loan and is no longer in the Mitchell Lama program. The Authority has recently reached an agreement with the Gateway lessee that obligates it to lease individual apartments within the complex at rents that are subject to Rent Guidelines Board (RGB) increases for rent-stabilized apartments through June 30, 2020.

The PILOT payments reflected in our analysis for Gateway Plaza are based on the contractual obligation to pay PILOT in an amount equal to ten percent of the difference between the total rents from the buildings and the cost of utilities. The Authority has provided CBRE with documentation of the annual PILOT payment by Gateway Plaza of approximately \$5.22 million for fiscal year 2009. Due to the historically high level of occupancy at this project and the strong demand for its apartments, we do not believe this income will decline. We have projected that the Gateway Plaza PILOT to remain flat at the 2009 level through February 15, 2016 at which point full PILOT payments based on the assessment of the property are set to be phased in at 20% per year until fully phased-in during 2020 at \$17.1 million. Although there is potential at that point for the property to shift to market rent leases, we have taken a conservative approach and assumed that rental income will remain consistent with historic stabilized levels. Accordingly, we have modeled future increases based on the Rent Guidelines Board increases for rent-stabilized apartments which have averaged approximately 3.0% per year over the last 20 years.

NEW YORK CITY RESIDENTIAL ASSESSMENT POLICY

Residential property is also assessed with predominant reliance on the income approach. Section 581 of the Real Property Tax Law requires that residential condominiums and cooperative be assessed as if they were rental buildings, and that rental buildings be assessed without consideration of potential value as condominiums or cooperatives.

Income-producing properties such as the rental buildings submit actual income and pre-tax operating expenses to the Assessor. For condominiums and cooperatives, where there are no income statements, the Assessor ascribes rents and expenses from the guidelines and comparable rental building information. A building is assessed in its entirety, with a pro-rata share of the assessment assigned to each unit. After estimating a building's effective gross income, the market value is calculated by multiplying the operating income by a gross income multiplier. The Actual Assessment is arrived by applying the 45 percent equalization ratio to the market value. As in the case of Class IV office properties, real estate taxes are paid on the lower of the Actual and Transitional assessed values, termed the "billable" assessed value. The "billable" assessed value is then multiplied by the applicable tax rate to calculate property taxes payable.

According to the Assessor's guidelines, the residential buildings in Battery Park City are categorized as "good quality, high-rise Elevator and Luxury Apartments Constructed after 1974".

APPEAL PROCESS

The appeal process for residential properties is the same as described for the commercial properties in Section III of the report.

HISTORICAL ASSESSED VALUES

The tables on the following pages show aggregate assessments for the residential buildings over the past 15 tax years. Please note that the newer residential buildings are illustrated in separate tables, since the historical information for these buildings is more limited.

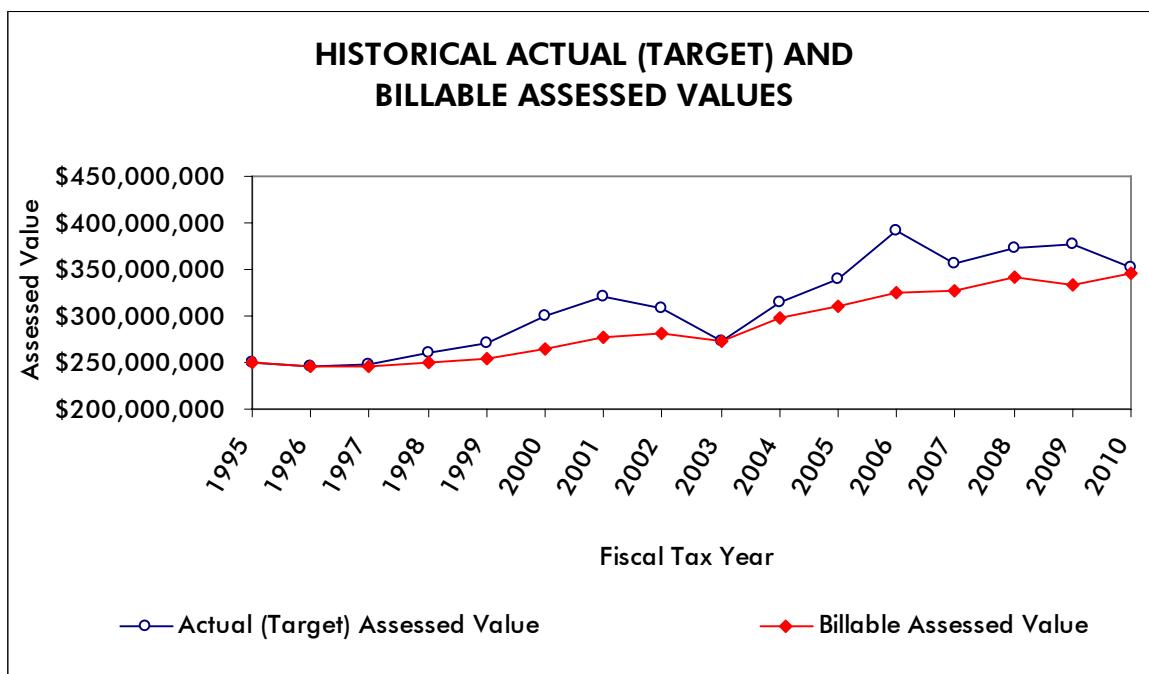
RESIDENTIAL - TARGET ASSESSMENT (45% of Market Value)																		
	GIA (SF)	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	% Growth	
Site A The Soundings	106,631	5,799,452	5,924,249	6,190,205	6,405,316	7,533,008	7,533,008	6,547,043	6,812,999	8,145,002	8,904,504	9,787,511	9,001,354	8,817,313	7,297,301	8,107,211	2.26%	
Assessment per Square Foot		54.36	55.56	58.05	60.07	70.65	61.40	63.89	76.38	83.51	91.79	84.42	82.69	68.34	76.03			
% Growth		0.45%	2.0%	4.49%	3.48%	17.61%	0.00%	-1.30%	4.06%	19.55%	9.33%	9.91%	-8.03%	-2.04%	-17.35%	11.25%		
Site B Liberty Court	590,974	35,751,583	35,693,403	37,532,738	36,829,518	41,656,508	41,656,508	35,338,921	36,938,256	45,270,010	42,506,888	58,288,483	52,290,494	51,012,026	52,290,146	44,625,164		
Assessment per Square Foot		60.50	60.80	63.51	65.87	70.49	70.49	59.80	62.50	74.60	83.78	98.63	88.49	84.92	88.99	75.51	1.49%	
% Growth		-0.21%	0.51%	4.45%	3.72%	7.00%	0.00%	-15.17%	4.53%	22.50%	9.36%	17.73%	-10.29%	-2.44%	3.09%	-15.15%		
Site C Hudson View East	106,052	5,584,833	5,597,644	6,231,149	6,462,458	7,365,167	7,365,167	6,603,780	6,860,271	8,063,995	9,013,228	9,535,052	9,535,052	8,142,302	7,435,802	8,123,408		
Assessment per Square Foot		52.66	52.78	58.76	60.94	69.45	69.45	62.27	64.69	76.04	84.99	89.91	89.91	76.78	70.11	76.60	2.53%	
% Growth		-6.16%	0.23%	11.32%	3.71%	13.97%	0.00%	-10.34%	3.88%	17.55%	11.77%	5.79%	0.00%	-14.61%	-8.68%	9.25%		
Site D Park Plaza	281,049	13,860,000	14,985,000	16,065,000	16,675,000	18,630,000	20,500,000	21,870,000	16,920,000	19,575,000	20,133,000	18,000,000	27,900,000	15,640,167	20,852,958			
Assessment per Square Foot		49.32	53.32	57.16	60.04	66.29	73.01	77.82	60.20	69.65	64.45	75.89	64.05	99.27	55.72	74.20	2.76%	
% Growth		0.65%	8.12%	7.21%	5.04%	10.40%	10.14%	6.58%	-22.63%	15.69%	-4.60%	14.22%	15.61%	55.00%	-43.87%	33.16%		
Site E/F Hudson Tower	150,855	8,037,901	8,218,812	8,573,856	8,605,251	10,329,445	10,329,445	8,671,712	9,326,256	10,944,254	12,233,071	12,627,451	12,515,858	12,487,501	11,020,501	11,135,705		
Assessment per Square Foot		53.15	54.44	56.64	58.53	68.54	68.54	54.47	61.82	72.58	81.00	83.71	82.97	82.78	73.05	73.78	2.19%	
% Growth		0.38%	2.59%	4.32%	2.93%	17.18%	0.00%	-13.23%	3.98%	17.37%	11.76%	3.22%	0.88%	-0.23%	-11.73%	1.00%		
Site G Hudson View West	91,774	4,964,860	5,063,849	5,282,105	5,500,504	6,596,997	6,596,997	5,777,792	5,996,248	7,200,003	7,426,528	8,527,499	8,374,949	8,649,001	7,335,004	7,408,354		
Assessment per Square Foot		54.10	55.18	57.56	60.26	71.88	71.88	62.96	65.34	78.45	80.92	92.92	91.26	94.73	79.92	80.72	2.70%	
% Growth		-2.04%	1.9%	4.31%	4.70%	19.28%	0.00%	-12.41%	3.78%	20.08%	3.15%	-1.79%	3.81%	-15.63%	1.00%			
Site H/I River Rose	232,000	14,580,000	14,940,000	16,110,000	17,415,000	18,135,000	20,105,000	18,450,000	17,820,000	17,910,000	20,025,000	18,540,000	19,035,000	18,600,000	20,160,000			
Assessment per Square Foot		62.84	64.40	69.44	68.97	75.04	78.17	90.58	64.01	76.81	77.20	84.31	79.71	82.05	84.57	86.90	2.18%	
% Growth		1.89%	2.47%	7.83%	-0.68%	8.84%	4.13%	15.88%	-29.34%	20.00%	0.51%	11.81%	-7.42%	2.67%	3.07%	2.75%		
Site J Liberty House	220,821	11,853,910	12,115,556	12,895,203	13,537,814	15,611,405	15,611,405	13,176,249	13,894,196	16,721,199	18,699,585	16,951,502	17,408,715	18,928,364	17,944,401	16,647,752		
Assessment per Square Foot		52.68	54.86	58.40	61.31	70.70	70.70	62.92	75.73	84.68	76.77	87.74	85.72	78.92	75.39	2.29%		
% Growth		-0.30%	2.1%	8.45%	4.98%	15.32%	0.00%	-1.24%	5.84%	20.35%	11.83%	-9.35%	8.73%	-8.63%	-3.74%			
Site K Liberty Terrace	257,092	15,644,959	15,736,053	16,441,651	17,226,443	18,109,958	18,109,958	15,471,897	16,177,495	19,602,013	21,923,563	20,461,969	20,905,261	21,093,293	20,128,555	19,406,257		
Assessment per Square Foot		60.93	61.21	63.95	67.00	70.52	70.52	60.18	62.92	76.25	85.28	79.59	81.33	82.05	78.29	75.48	1.44%	
% Growth		1.47%	0.45%	4.48%	4.77%	5.25%	0.00%	-14.67%	4.56%	21.17%	11.84%	-6.67%	2.19%	-4.57%	-3.59%			
Site L Battery Pointe	129,176	7,116,758	7,278,761	7,278,761	7,838,105	9,244,809	9,244,809	8,100,018	9,100,018	9,945,009	10,859,225	12,721,064	11,043,003	10,684,005	9,315,017	10,115,993		
Assessment per Square Foot		55.09	56.35	56.35	60.88	71.57	71.57	62.71	76.99	84.07	98.48	85.49	83.89	72.11	78.31	2.37%		
% Growth		-0.52%	2.8%	0.00%	7.68%	17.95%	0.00%	-22.88%	0.00%	17.15%	9.19%	-13.19%	-1.87%	-14.04%	8.60%			
Site M Liberty View	348,953	19,985,248	19,907,028	20,674,671	21,886,051	24,662,521	22,000,333	21,371,408	26,130,155	26,964,216	28,767,240	29,091,598	28,459,997	27,170,506	26,196,088			
Assessment per Square Foot		57.01	57.05	59.55	61.86	70.68	63.06	61.24	74.88	77.27	82.44	83.37	81.56	77.86	81.50	85.07	1.85%	
% Growth		-6.52%	0.6%	3.86%	4.41%	14.25%	0.00%	-2.87%	2.22%	3.19%	6.49%	1.31%	-2.17%	-4.53%	-3.59%			
Site N The Regatta	237,270	12,466,801	12,555,910	13,073,401	13,999,112	16,324,998	16,324,998	13,476,611	13,995,002	18,616,498	20,205,271	20,400,994	21,587,580	20,455,204	18,842,001	19,512,005		
Assessment per Square Foot		63.39	59.92	55.10	59.00	68.85	68.85	58.80	58.98	78.46	85.14	84.83	90.98	87.43	73.30	82.34	2.92%	
% Growth		-7.31%	-0.88%	4.12%	7.08%	16.69%	0.00%	-17.50%	3.85%	33.02%	8.53%	1.26%	-2.75%	-3.90%	-11.58%	6.38%		
Site O Cove Club	189,273	9,918,426	9,984,407	10,431,452	10,823,846	12,766,500	12,613,500	10,424,709	10,869,754	13,430,253	14,601,517	14,219,552	15,575,849	15,178,501	14,242,504	14,944,504		
Assessment per Square Foot		52.40	52.76	55.11	57.19	67.45	66.44	55.08	57.43	70.96	77.15	75.13	82.29	83.05	75.25	78.96	2.77%	
% Growth		-10.46%	0.48%	4.46%	3.76%	12.95%	0.00%	-1.20%	7.35%	23.56%	8.72%	-2.62%	9.54%	0.92%	-9.39%	4.93%		
Site P/G Gateway Plaza	1,881,421	80,100,000	80,550,000	84,150,000	87,300,000	94,500,000	112,950,000	120,150,000	90,900,000	93,400,000	101,700,000	136,800,000	112,950,000	120,150,000	148,500,000	125,100,000		
Assessment per Square Foot		42.57	42.81	44.72	46.40	50.22	60.03	63.85	48.31	49.44	54.05	72.70	60.03	63.85	79.16	64.49	3.02%	
% Growth		-1.11%	0.56%	4.47%	3.74%	8.25%	19.52%	6.37%	-24.34%	2.75%	7.89%	34.51%	-17.43%	6.37%	23.97%	-16.01%		
TOTAL RESIDENTIAL	4,823,541	245,791,931	248,790,673	260,930,192	271,339,418	300,767,516	321,694,521	308,476,665	273,011,903	314,866,191	338,624,966	390,643,317	321,823,713	372,019,307	376,392,705	352,330,392		
Assessment per Square Foot		50.96	51.58	54.10	56.25	62.36	66.69	64.04	56.60	65.28	70.20	80.99	73.98	77.13	78.03	73.04	2.43%	
% Growth		-1.73%	1.22%	4.88%	3.99%	10.85%	6.95%	-11.61%	15.33%	7.55%	15.36%	-8.66%	4.26%	1.18%	-6.39%			

(1) Represents the compounded growth from the 1994/95 tax year.

RESIDENTIAL - BILLABLE ASSESSED VALUE																		
	GIA (SF)	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	% Growth (1)	
Site A The Soundings	106,631	5,799,452	5,924,249	6,190,205	6,405,316	7,533,008	7,533,008	6,547,043	6,812,999	8,145,002	8,904,504	9,787,511	9,001,354	8,817,313	7,297,301	8,107,211	2.45%	
Assessment per Square Foot		54.36	55.56	58.05	60.07	70.65	61.40	63.89	76.38	83.51	91.79	84.42	82.69	68.34	76.03			
% Growth		0.45%	2.0%	4.49%	3.48%	17.61%	0.00%	-1.30%	4.06%	19.55%	9.33%	9.91%	-8.03%	-2.04%	-17.35%	11.25%		
Site B Liberty Court	590,974	35,751,583	35,693,403	37,532,738	36,829,518	41,656,508	41,656,508	35,338,921	36,938,256	45,270,010	42,506,888	58,288,483	52,290,494	51,012,026	52,290,146	44,625,164		
Assessment per Square Foot		60.50	60.80	63.51	65.87													

For the older buildings in the period from the 1995/96 tax year to the 2009/10 tax year, actual or target assessments on a building-by-building basis have witnessed compound annual average growth rates between 1.4% to 3.0%, averaging 2.43%. Growth was strongest in the period following the reductions after September 11, 2001, with annual growth rates ranging between 7.55% and 15.36%, producing an average of 12.75% over a three year period. Assessments appear to have stabilized between 2006/07 and 2007/08, before the declines from the current recession were factored into the 2009/10 assessments. The billable assessments on a building-by-building basis have witnessed compound annual average growth rates of between 1.5% to 3.0%, averaging approximately 2.44% in the period 1995/96 to 2009/10.

The trends in Actual and Billable assessment since 1994/95 witnessed both positive and negative growth and are displayed graphically in the following chart.



The tables on the following pages show aggregate assessments for the more recently constructed residential buildings in the past two tax years plus the 2003/04 assessments.

RECENTLY CONSTRUCTED RESIDENTIAL - TARGET ASSESSMENT (45% of Market Value)							
	GBA (SF)	2005/06	2006/07	2007/08	2008/09	2009/10	Annual % Growth
Site 20B The Hallmark - Senior Housing	239,508	21,240,000 88.68 32.58%	20,025,000 83.61 -5.72%	23,760,000 99.20 18.65%	30,645,000 127.95 28.98%	33,120,000 138.28 8.08%	11.75%
Assessment per Square Foot							
% Growth							
Site 21A Tribeca Pointe	357,000	29,070,000 81.43 18.32%	30,510,000 85.46 4.95%	31,680,000 88.74 3.83%	26,370,000 73.87 -16.76%	30,150,000 84.45 14.33%	0.92%
Assessment per Square Foot							
% Growth							
Site 20 A/C Tribeca Park	484,000	36,585,000 75.59 -4.35%	36,180,000 74.75 -1.11%	36,225,000 74.85 0.12%	34,785,000 71.87 -3.98%	36,495,000 75.40 4.92%	-0.06%
Assessment per Square Foot							
% Growth							
Site 12 River Watch	230,765	14,850,000 64.35 0.92%	11,925,000 51.68 -19.70%	12,510,000 54.21 4.91%	13,770,000 59.67 10.07%	14,310,000 62.01 3.92%	-0.92%
Assessment per Square Foot							
% Growth							
Site 13 South Cove Plaza	239,165	14,985,000 62.66 1.83%	14,400,000 60.21 -3.90%	13,770,000 57.58 -4.38%	14,130,000 59.08 2.61%	14,490,000 60.59 2.55%	-0.84%
Assessment per Square Foot							
% Growth							
Site 1 Ritz-Carlton Apartments	229,060	21,645,017 94.49 -6.15%	21,645,018 94.49 0.00%	22,680,011 99.01 4.78%	20,745,000 90.57 -8.53%	20,205,005 88.21 -2.60%	-1.71%
Assessment per Square Foot							
% Growth							
Site 22 Tribeca Bridge Tower	244,617	15,300,000 62.55 -21.30%	16,155,000 66.04 5.59%	16,335,000 66.78 1.11%	19,035,000 77.82 16.53%	17,910,000 73.22 -5.91%	4.02%
Assessment per Square Foot							
% Growth							
Site 19A 22 River Terrace	331,500	31,860,000 96.11 12.74%	34,560,000 104.25 8.47%	33,615,000 101.40 -2.73%	30,285,000 91.36 -9.91%	32,985,000 99.50 8.92%	0.87%
Assessment per Square Foot							
% Growth							
Site 18A The Solaire	356,786	32,715,000 91.69 0.06%	35,235,000 98.76 7.70%	32,085,000 89.93 -8.94%	36,450,000 102.16 13.60%	39,555,000 110.86 8.52%	4.86%
Assessment per Square Foot							
% Growth							
Site 18B The Verdesian	278,141	32,715,000 91.69 NA	28,728,000 80.52 -12.19%	31,680,000 88.79 10.28%	17,910,000 50.20 -43.47%	30,870,000 86.52 72.36%	-1.44%
Assessment per Square Foot							
% Growth							
Site 19B TriBeCa Green	356,483	NA NA NA	44,775,000 125.50 NA	45,450,000 127.39 1.51%	33,840,000 94.85 -25.54%	34,830,000 97.62 2.93%	NA
Assessment per Square Foot							
% Growth							
Site 2a Millenium	416,200	NA NA NA	NA NA NA	36,827,206 103.22 NA	38,663,563 108.37 4.99%	35,401,505 99.22 -8.44%	NA
Assessment per Square Foot							
% Growth							
Site 3 The Visionnaire	505,000	NA NA NA	NA NA NA	NA NA NA	23,625,000 66.22 NA	24,640,659 69.06 4.30%	NA
Assessment per Square Foot							
% Growth							
Site 16 & 17 Riverhouse	531,665	NA NA NA	NA NA NA	NA NA NA	32,850,000 92.07 NA	32,850,217 92.07 0.00%	NA
Assessment per Square Foot							
% Growth							
TOTAL (excluding Site 2a, 3, 16, & 17)	2,990,542	250,965,017 83.92 18.53%	249,363,018 83.38 -0.64%	254,340,011 85.05 2.00%	244,125,000 81.63 -4.02%	270,090,005 90.31 10.64%	1.85%

RECENTLY CONSTRUCTED RESIDENTIAL - BILLABLE ASSESSED VALUE							
	GBA (SF)	2005/06	2006/07	2007/08	2008/09	2009/10	Annual % Growth
Site 20B The Hallmark - Senior Housing	239,508	18,396,000 76.81 14.83%	18,441,000 77.00 0.24%	19,233,000 80.30 4.29%	22,338,000 93.27 16.14%	25,758,000 107.55 15.31%	8.78%
Assessment per Square Foot							
% Growth							
Site 21A Tribeca Pointe	357,000	29,070,000 81.43 18.32%	28,142,997 78.83 -3.19%	28,583,997 80.07 1.57%	26,370,000 73.87 -7.75%	29,556,000 82.79 12.08%	0.42%
Assessment per Square Foot							
% Growth							
Site 20 A/C Tribeca Park	484,000	36,585,000 75.59 -4.35%	35,951,998 74.28 -1.73%	35,744,998 73.85 -0.58%	34,785,000 71.87 -2.69%	35,697,000 73.75 2.62%	-0.61%
Assessment per Square Foot							
% Growth							
Site 12 River Watch	230,765	14,850,000 64.35 0.92%	11,925,000 51.68 -19.70%	12,510,000 54.21 4.91%	13,770,000 59.67 10.07%	14,120,000 61.19 2.54%	-1.25%
Assessment per Square Foot							
% Growth							
Site 13 South Cove Plaza	239,165	14,437,000 60.36 -1.89%	14,030,000 58.66 -2.82%	13,770,000 57.58 -1.85%	14,024,000 58.64 1.84%	13,331,000 55.74 -4.94%	-1.97%
Assessment per Square Foot							
% Growth							
Site 1 Ritz-Carlton Apartments	229,060	21,645,017 94.49 -2.14%	21,645,018 94.49 0.00%	22,258,012 97.17 2.83%	20,745,000 90.57 -6.80%	20,205,005 88.21 -2.60%	-1.71%
Assessment per Square Foot							
% Growth							
Site 22 Tribeca Bridge Tower	244,617	15,300,000 62.55 -21.30%	16,155,000 66.04 5.59%	16,335,000 66.78 1.11%	17,253,000 70.53 5.62%	16,947,000 69.28 -1.77%	2.59%
Assessment per Square Foot							
% Growth							
Site 19A 22 River Terrace	331,500	26,883,000 81.10 5.59%	28,845,000 87.01 7.30%	30,618,000 92.36 6.15%	30,285,000 91.36 -1.09%	32,661,000 98.52 7.85%	4.99%
Assessment per Square Foot							
% Growth							
Site 18A The Solaire	356,786	32,009,399 89.72 1.10%	32,862,148 92.11 2.66%	32,085,000 89.93 -2.36%	33,835,950 94.84 5.46%	35,208,000 98.68 4.06%	2.41%
Assessment per Square Foot							
% Growth							
Site 18B The Verdesian	278,141	32,009,399 89.72 NA	27,326,328 76.59 -14.63%	30,670,402 85.96 12.24%	17,910,000 50.20 -41.60%	28,543,050 80.00 59.37%	-2.82%
Assessment per Square Foot							
% Growth							
Site 19B TriBeCa Green	356,483	NA NA NA	44,325,000 124.23 NA	44,610,000 125.03 0.64%	33,840,000 94.85 -24.14%	34,830,000 97.62 2.93%	NA
Assessment per Square Foot							
% Growth							
Site 2a Millennium	416,200	NA NA NA	NA 102.35 NA	36,515,783 103.92 1.54%	37,077,979 103.92 -4.52%	35,401,505 99.22 NA	NA
Assessment per Square Foot							
% Growth							
Site 3 The Visionnaire	505,000	NA NA NA	NA NA NA	NA 66.22 NA	23,625,000 66.22 NA	24,640,659 69.06 4.30%	NA
Assessment per Square Foot							
% Growth							
Site 16 & 17 Riverhouse	531,665	NA NA NA	NA NA NA	NA 91.03 NA	32,479,199 91.03 0.29%	32,571,914 91.29 NA	NA
Assessment per Square Foot							
% Growth							
TOTAL (excluding Site 2a, 3, 16, & 17)	2,990,542	241,184,815 80.65 16.54%	235,324,489 78.69 -2.43%	241,808,409 80.86 2.76%	231,315,950 77.35 -4.34%	252,026,055 84.27 8.95%	1.11%

Since many of these properties were recently completed, limited historical information is available. For instance the Verdesian (Site 18b) was fully assessed in 2004, while the Riverhouse (Site 16/18) and the Visionnaire (Site 3) were completed in 2006. Although many of the individual properties indicated negative growth, in aggregate the overall trend was positive growth of 1.1% per annum. The billable assessments indicated an overall average compounded annual growth of 9.3 percent. Again this reflects the addition of the newly constructed properties.

Actual 2009/10 assessed values are presented in the following table for Battery Park City properties and comparable residential buildings in Downtown Manhattan. We have selected comparable buildings based on their age, market position, Downtown location and market rents.

COMPARISON OF 2009/10 ACTUAL ASSESSED VALUES				
	Ownership	Building Area (SF)	2009/10 Actual Assessment	Assessment Per SF
BATTERY PARK RESIDENTIAL				
Battery Pointe	Condominium	129,176	\$10,115,993	\$78.31
Cove Club	Condominium	189,273	\$14,944,504	\$78.96
Hudson Tower	Condominium	150,855	\$11,130,706	\$73.78
Hudson View East	Condominium	106,052	\$8,123,408	\$76.60
Hudson View West	Condominium	91,774	\$7,408,354	\$80.72
Liberty Court	Condominium	590,974	\$44,625,164	\$75.51
Liberty House	Condominium	220,821	\$16,647,752	\$75.39
Liberty Terrace	Condominium	257,092	\$19,406,257	\$75.48
Liberty View	Condominium	348,953	\$26,196,080	\$75.07
Millennium Ritz Carlton Apts	Condominium	229,060	\$20,205,005	\$88.21
Millenium Pointe	Condominium	416,200	\$35,401,505	\$85.06
Regatta	Condominium	237,270	\$19,512,005	\$82.24
The Soundings	Condominium	106,631	\$8,107,211	\$76.03
Riverhouse (Sheldrake)	Condominium	531,665	\$32,850,217	\$61.79
The Visionnaire (Albanese)	Condominium	505,000	\$24,640,659	\$48.79
22 River Terrace	Rental	331,500	\$32,985,000	\$99.50
Tribeca Green (Related Cos)	Rental	356,483	\$34,830,000	\$97.70
Gateway Plaza	Rental	1,881,621	\$125,100,000	\$66.49
Hallmark Sr Living (Brookdale)	Rental	239,508	\$22,389,075	\$93.48
The Verdesian (Albanese)	Rental	278,141	\$30,870,000	\$110.99
Rector Square/Parc Place	Rental	281,049	\$20,852,958	\$74.20
RiverWatch	Rental	230,765	\$14,310,000	\$62.01
River Rose	Rental	219,703	\$20,160,000	\$91.76
The Solaire	Rental	356,786	\$39,555,000	\$110.86
South Cove	Rental	239,165	\$14,490,000	\$60.59
Tribeca Bridge Tower	Rental	244,617	\$17,910,000	\$73.22
Tribeca Park	Rental	484,000	\$36,495,000	\$75.40
Tribeca Pointe (Rockrose)	Rental	357,000	\$30,150,000	\$84.45
Minimum				\$48.79
Maximum				\$110.99
Average				\$79.74
COMPARABLE BUILDINGS				
69 Broadway	Rental	303,086	\$21,330,000	\$70.38
100 William St	Rental	377,120	\$25,740,000	\$68.25
45 Wall Street	Rental	493,187	\$35,685,000	\$72.36
21 West Street	Rental	335,746	\$21,555,000	\$64.20
127 John Street	Rental	541,000	\$54,900,000	\$101.48
25 Broad Street	Rental	521,767	\$30,375,000	\$58.22
71 Broadway	Rental	303,086	\$21,330,000	\$70.38
Minimum				\$58.22
Maximum				\$101.48
Average				\$72.18

Source: NYC Department of Finance and REBNY; Compiled by CB Richard Ellis, Inc.

The actual assessments of the Battery Park City residential properties range from \$48.79 to \$110.99 per square foot, with an average of \$79.74 per square foot. The low end of the range is skewed as the square footage includes the Parks Conservancy Headquarters. Removing this narrows the range to \$60.59 to \$110.99 per square foot. The comparables indicate a range of \$58.22 to \$101.48 per square foot, with an average of \$72.18 per square foot. The comparables generally feature lower assessment compared to the Battery Park City buildings as they represent conversions of office buildings. Therefore, as the Battery Park City properties are of superior condition and quality, their assessments tend to fall at the upper end of the comparable range.

FORECASTS OF RESIDENTIAL ASSESSED VALUES

Rental buildings in New York City are assessed utilizing a Effective Gross Income Multiplier (EGIM). First the Department of Finance (DOF) devises income band ranges based on income information that they receive from owners of rental properties. The ranges reflect income information at ten different levels—10th, 20th, 30th, 40th, Median, 60th, 70th, 80th, 90th percentiles, and above the 90th percentile. The deciles range stated for the 2009/2010 tax year are as follows:

INCOME DECILES FROM DEPT. OF FINANCE		
Deciles	Income Range Per Square Foot	
10th	Less Than	\$7.60
20th	\$7.60	\$9.03
30th	\$9.03	\$10.16
40th	\$10.16	\$11.36
median	\$11.36	\$12.86
60th	\$12.86	\$15.04
70th	\$15.04	\$19.02
80th	\$19.02	\$26.92
90th	\$26.92	\$35.94
over 90th	Greater than	\$35.94

New York City Department of Finance

Next, DOF personnel develop gross income multipliers by estimating the market value for a sample of rental properties in each decile range. Finance uses the income and expenses for the sample properties, develops a capitalization rate using the band of investment approach described above, and estimated a market value. Once it estimates the market values, it divides by the income for those properties to set the gross income multiplier for each income band.

GROSS INCOME MULTIPLIERS (APT's CO-OP's & CONDO's over 10 units)								
Deciles	Income Range Per Square Foot	Income Multiplier	Market Value Range	Taxes Per Square Foot	Tax as % of Income	Base Cap Rate	Effective Tax Rate	Total Cap Rate
10th	Less Than - \$7.60	2.3410	n/a - \$17.79	n/a - \$1.05	13.75%	11.2%	5.874%	17.074%
20th	\$7.60 - \$9.03	2.5800	\$19.61 - \$23.30	\$1.15 - \$1.37	15.15%	9.6%	5.874%	15.474%
30th	\$9.03 - \$10.16	2.8520	\$25.75 - \$28.98	\$1.51 - \$1.70	16.75%	9.2%	5.874%	15.074%
40th	\$10.16 - \$11.36	3.1070	\$31.57 - \$35.30	\$1.85 - \$2.07	18.25%	8.6%	5.874%	14.474%
median	\$11.36 - \$12.86	3.4500	\$39.19 - \$44.37	\$2.30 - \$2.61	20.26%	8.3%	5.874%	14.174%
60th	\$12.86 - \$15.04	3.6500	\$46.94 - \$54.90	\$2.76 - \$3.22	21.44%	7.8%	5.874%	13.674%
70th	\$15.04 - \$19.02	3.9580	\$59.53 - \$75.28	\$3.50 - \$4.42	23.25%	7.8%	5.874%	13.674%
80th	\$19.02 - \$26.92	4.3420	\$82.58 - \$116.89	\$4.85 - \$6.87	25.50%	7.7%	5.874%	13.574%
90th	\$26.92 - \$35.94	4.7900	\$128.95 - \$172.15	\$7.57 - \$10.11	28.14%	7.7%	5.874%	13.574%
over 90th	Greater than - \$35.94	5.0150	n/a - \$180.24	n/a - \$10.59	29.46%	7.7%	5.874%	13.574%

NYC Department of Finance

The Income Ranges Per Square Foot from the rental buildings in Battery Park City fall within the 90th and Over 90th Deciles as illustrated above and as such the properties have EGIM's of 4.79 to 5.015. The condominium building utilize comparable properties to arrive at an implied income levels and feature the same 90th and Over 90th Deciles and as such the properties have EGIM's of 4.79 to 5.015. We have modeled that the residential properties within Battery Bark City will remain within their Decile range and have modeled income fluctuations through increases/decreases directly based on the existing assessment. In that regard, we have tried to describe the dynamic of Battery Park City's residential market and then forecast changes based on those factors.

RESIDENTIAL RENTAL MARKET

New York City has one of the nation's largest and most diverse residential markets. Despite the current national economic recession, the New York City residential rental market continues to maintain positive operating levels. Although rents have declined and vacancy rates have increased, the supply and demand fundamentals remain healthy. Unlike during the recession of the late 1980s and early 1990s, the current market is not as inundated with an oversupply of new apartment construction that would cause the market to drop drastically.

Overall, as indicated by REIS, Inc., asking rents in Manhattan have exhibited a long term upward trend in rental rates, with a small correction in response to the events of September 11, 2001. Over the past year average asking rents have declined from \$2,909 per month to the current figure of \$2,771, a 4.7% reduction. REIS, Inc. projects that the overall decline for 2009 will be in-line with the trailing 12 months figure at 4.7%, with vacancy rates increasing over the near term but remaining below 4%. A summary of the New York Apartment market is presented below:



New York Apartment 2Q 2009

Year	Quarter	Inventory (SF/Units)	Completions	Conversions	% Vacant	Net Absorption	Asking Rent \$/Mo.	Asking Rent % Chg
1995	Annual	106,551	2,032	N/A	1.1	2,715	\$1,294	3.8
1996	Annual	108,993	2,341	N/A	1.3	2,248	\$1,381	6.7
1997	Annual	114,824	3,308	N/A	1.3	5,751	\$1,554	12.5
1998	Annual	121,568	5,398	N/A	1.5	6,460	\$1,714	10.3
1999	Annual	127,707	6,139	N/A	2.0	5,351	\$1,903	11.0
2000	Annual	132,163	4,456	N/A	1.3	5,320	\$2,163	13.7
2001	Annual	138,456	6,293	N/A	2.8	4,090	\$2,214	2.4
2002	Annual	141,720	3,264	N/A	3.9	1,634	\$2,165	-2.2
2003	Annual	145,614	4,360	-466	4.0	3,603	\$2,196	1.4
2004	Annual	147,941	2,481	-154	3.3	3,234	\$2,320	5.6
2005	Annual	149,794	3,916	-2,063	2.9	2,480	\$2,433	4.9
2006	Annual	149,225	1,726	-2,295	2.2	372	\$2,623	7.8
2007	Annual	151,241	2,735	-719	2.1	2,127	\$2,851	8.7
2008	1st Qtr	152,345	1,104	0	2.3	884	\$2,872	0.7
2008	2nd Qtr	152,761	328	88	2.3	344	\$2,909	1.3
2008	3rd Qtr	153,059	425	-127	2.1	577	\$2,931	0.8
2008	4th Qtr	153,199	140	0	2.3	-116	\$2,880	-1.7
2008	Annual	153,199	1,997	-39	2.3	1,689	\$2,880	1.0
2009	1st Qtr	153,438	239	0	3.4	-1,417	\$2,826	-1.9
2009	2nd Qtr	153,438	0	0	2.9	656	\$2,771	-1.9
(forecast)								
2009	Annual	155,580	2,381	N/A	3.4	600	\$2,745	-4.7
2010	Annual	158,484	2,904	N/A	3.9	2,077	\$2,755	0.4
2011	Annual	160,149	1,665	N/A	3.9	1,492	\$2,794	1.4
2012	Annual	161,235	1,086	N/A	3.4	1,969	\$2,870	2.7
2013	Annual	162,888	1,653	N/A	3.3	1,770	\$2,969	3.4

Note: The Reis database includes competitive, rental apartment properties in complexes with 40 or more units. Although the database also may contain selected condominium, co-operative, student, senior, rent stabilized, and subsidized properties, these are excluded from inventory, completions, and all other Reis rental apartment statistics.

Note: The Reis New York metro apartment market includes: Bronx, Kings, New York, and Queens counties. The following Census Bureau MSA counties are excluded: (NJ) Bergen, Hudson, Passaic, and (NY) Putnam, Richmond, Rockland.

Battery Park City is situated in the West Village/Downtown Manhattan submarket as tracked by REIS, Inc. As of the second quarter of 2009 rental rates for the West Village/Downtown Manhattan, which includes all neighborhoods south of 14th Street, average \$3,796 per month, which is the second highest of the Markets tracked by REIS, with only the Upper West Side have a higher average rent. A submarket by submarket summary of the New York Apartment Market is shown below:



New York Apartment 2Q 2009						
Submarket	Inventory (Buildings)	Inventory (SF/Units)	Asking Rent \$/Mo.	Vac %	Free Rent (mos)	Expenses % (Apartment)
Manhattan						
W Village/Downtown	111	21,836	\$3,796	3.4	0.3	57.0
Stuyvesant	79	21,772	\$3,492	3.0	0.3	61.1
Midtown West	81	17,576	\$3,451	3.5	0.4	56.8
Upper East Side	63	16,302	\$3,496	2.6	0.3	58.3
Upper West Side	64	14,791	\$4,183	2.0	0.5	57.8
Morningside Hts	64	6,880	\$2,109	10.1	0.8	61.1
Outer Boroughs						
Kings County	148	19,873	\$1,411	2.4	0.3	61.9
Queens County	97	22,103	\$1,377	2.1	0.6	61.4
Bronx County	78	12,305	\$1,120	1.2	0.3	62.6

Similar to the trends indicated for the entire borough, the West Village/Downtown submarket indicated overall positive annual rent growth between 1995 and mid-year 2008 (with the exception of the period immediately after September 11, 2001). Asking rents in the submarket have declined since 3Q 2008 and are expected to continue to fall through year-end 2009 before stabilizing in 2010. Rent growth is project to resume in 2011.



West Village/Downtown Submarket Apartment 2Q 2009

Year	Quarter	Inventory (SF/Units)	Completions	Conversions	Vac %	Net Absorption	Asking Rent \$	Asking Rent % Chg
1995	Annual	9,551	195	n/a	0.4	541	\$1,933	4.8
1996	Annual	9,770	219	n/a	0.7	189	\$2,111	9.2
1997	Annual	11,106	1,031	n/a	0.5	1,348	\$2,435	15.3
1998	Annual	12,915	1,685	n/a	0.5	1,800	\$2,568	5.5
1999	Annual	14,954	2,039	n/a	3.2	1,625	\$2,759	7.4
2000	Annual	15,819	865	n/a	1.5	1,107	\$3,043	10.3
2001	Annual	16,853	1,034	n/a	3.7	647	\$2,940	-3.4
2002	Annual	17,052	199	n/a	6.2	-234	\$2,815	-4.3
2003	Annual	18,395	1,391	-48	5.0	1,480	\$2,827	0.4
2004	Annual	19,225	908	-78	5.1	770	\$3,031	7.2
2005	Annual	20,998	2,433	-660	4.1	1,892	\$3,210	5.9
2006	Annual	20,721	753	-1030	2.7	25	\$3,465	7.9
2007	Annual	21,345	1,343	-719	2.5	649	\$3,808	9.9
2008	1st Qtr	21,345	0	0	2.2	64	\$3,844	0.9
2008	2nd Qtr	21,673	328	0	3.5	39	\$3,984	3.6
2008	3rd Qtr	21,836	163	0	2.9	289	\$3,976	-0.2
2008	4th Qtr	21,836	0	0	3.1	-44	\$3,929	-1.2
2008	Annual	21,836	491	0	3.1	348	\$3,929	3.2
2009	1st Qtr	21,836	0	0	3.7	-131	\$3,851	-2.0
2009	2nd Qtr	21,836	0	0	3.4	66	\$3,796	-1.4
(forecast)								
2009	Annual	21,836	0	n/a	3.5	-92	\$3,665	-6.7
2010	Annual	23,292	1,456	n/a	5.2	1,014	\$3,672	0.2
2011	Annual	23,422	130	n/a	4.3	329	\$3,727	1.5
2012	Annual	23,597	175	n/a	3.9	262	\$3,833	2.8
2013	Annual	23,922	325	n/a	3.2	473	\$3,964	3.4

A survey of asking rental rates completed within Battery Park City and in nearby residential neighborhoods revealed one-bedroom units asking rent range from \$2,550 to \$4,000 per month, with two-bedroom apartments in the \$3,600 to \$6,300 per month range (see tables in Residential Market Analysis in Exhibit D). The newest completed residential projects in Battery Park City typically had the highest rents, while the lower rents tend to be within some of the converted buildings outside the neighborhood and in Gateway Plaza. Although buildings report increased vacancies and availabilities, the overall market appears to be maintaining healthy occupancy with all properties surveyed having an average of 1.7% vacancy. Rental rates have declined in recent months as concessions have increased, although rents in the immediate Battery Park City neighborhood remain above \$50 per square foot. We anticipate that there will be further declines in market rent as the recession lingers, however a return to the long term trend of positive growth is likely once the economy improves.

CONDOMINIUM MARKET

In the recently released *Manhattan Market Overview Second Quarter 2009*, Prudential Douglas Elliman reports that the Manhattan market residential real estate market was characterized by a sharp decline in contract activity and a downward correction in contract price levels.

The pricing index on a per bedroom basis for condominiums and cooperatives is shown on the following table:

Condominium Apartment Sales Mix - 2Q09		
	% of Total	Median Price
Studio	14%	\$ 550,000
1 Bedroom	34%	\$ 785,000
2 Bedroom	32%	\$ 1,370,000
3 Bedroom	14%	\$ 2,500,000
4+ Bedroom	6%	\$ 3,920,000

Prudential Douglas Elliman/Miller Samuel Inc.

Cooperative Apartment Sales Mix - 2Q09		
	% of Total	Median Price
Studio	20%	\$ 365,000
1 Bedroom	41%	\$ 580,000
2 Bedroom	26%	\$ 1,075,000
3 Bedroom	9%	\$ 1,995,000
4+ Bedroom	4%	\$ 4,200,000

Prudential Douglas Elliman/Miller Samuel Inc.

As illustrated in the below chart, the condominium market has declined over the past year and quarter as indicated by the average sales price. The median sales price also shows a drop from the prior year and quarter. The days on market, listing discount and listing inventory have all increased substantially over the past twelve months.

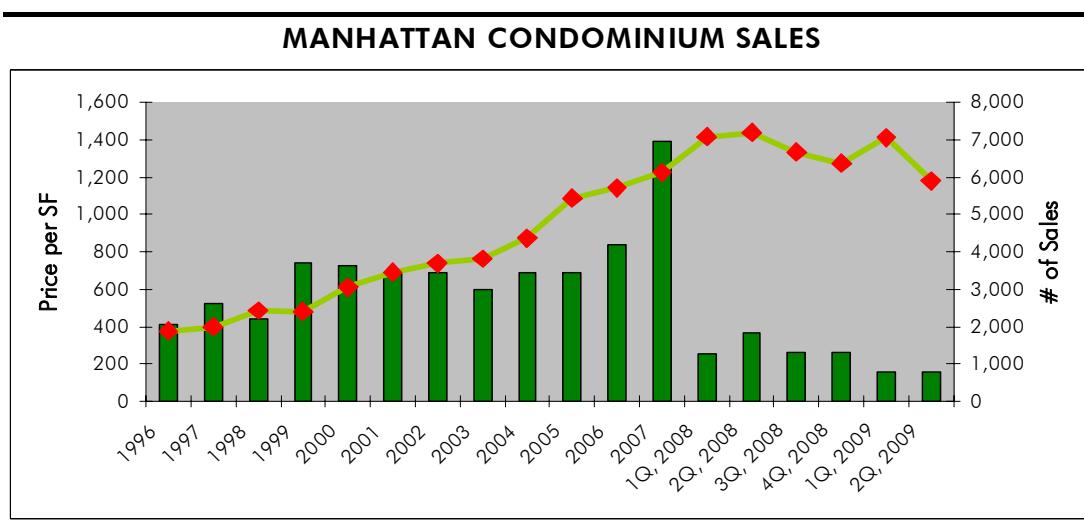
MANHATTAN CONDOMINIUM OVERVIEW				
SECOND QUARTER 2009				
	Current Quarter	% Change	Prior Qrt.	% Change
Average Sale Price	\$1,534,031	-29.02%	\$2,161,237	-20.81%
Average Price Per SF	\$1,181	-16.42%	\$1,413	-18.10%
Median Sale Price	\$999,000	-18.60%	\$1,227,200	-21.15%
Number of Sales	804	2.94%	781	-55.99%
Average Days on Market	181	1.69%	178	34.07%
Average Discount from List Price	7.00%		14.10%	3.40%
Listing Inventory	4,979	-11.69%	5,638	12.19%

Prudential Douglas Elliman/Miller Samuel Inc.

For the first time since the first quarter of 2007, the median price for apartments in Manhattan fell below the \$1 million threshold, down 18.60% since the prior quarter and 21.15% on a year-to-year basis. This is mainly due to the declining market share of new development closing, down to 48.6% of all closing during this quarter. It should be noted that the higher average price and price per square foot reported during 1Q09 was reflective of the larger unit sales negotiated 12-18 months before, during a different market environment. The average size of new apartments sold during this quarter was 1,349 square feet, similar to the 1,395 square feet of the prior year quarter, versus the 1,680 square feet of the first quarter of 2009. The listing inventory increased 12.19% from the same quarter of 2008, although signaling a decline from 5,638 units to 4,979 units in the last quarter. Approximately 42% of the inventory is considered new developments, while the remaining 58% are re-sales. Absorption rate at the end of 2Q09 was 18.6 months, showing a steep increase compared to the 5.8 months absorption rate of the prior year quarter. The Manhattan average days in the market has exceeded the 6-month mark for the first time in 10 years, largely because of the increased marketing time of new developments. Accordingly, the average discount at 7% is roughly double the 3.40% of prior year quarter, although half the 14.10% reported during the 1Q09. This latest unusually high average discount is believed to have contributed in the slight increase in number sales and declining inventory as compared to prior quarter.

It should be noted that these last statistics do account for the “shadow inventory”, including all those units which are not currently offered on the market but held by developers, banks or private owners, all waiting for conditions to improve before listing them. Miller Samuel Inc. estimates the New York shadow inventory at approximately 7,000 units. The two areas which appear to suffer the most are Williamsburg (Brooklyn) and the Financial District (Manhattan). Although an exact estimate is difficult to produce, market participants agree in saying that the shadow inventory is putting additional pressure on selling prices and will contribute on increasing the already significant market stock.

Overall, the discussed statistics and the sharp increase of all primary indicators of supply and demand in the market, reflect the current weakness of the residential market and the effect of the economic recession affecting New York City. The steep decrease in price per square foot in the last quarter is clearly illustrated in the following chart as provided by Miller Samuel, Inc.



Source: Miller Samuel Inc.

The average sale price as of 2Q09 was \$1,534,031, representing a 29.08% increase from the 1Q09, when the larger size of the units sold in new developments and the overall reduction in re-sale volume skewed the data. Both the average price per square foot and the median sale price also increased in same period by 16.42% and 18.60% respectively. The number of sales, on the contrary, indicated a slight increase from last quarter to 804 units, which is most likely explained by the unusually high average discount from listing price of 1Q09 as previously discussed. On a year-to-year basis, the number of sales plummeted by 55.99%.

In addition to a declining market, new guidelines from Fannie Mae for condominium loans are likely to further dampen sales activity. The government-controlled mortgage finance company has changed its mortgage guarantee guidelines for new condominiums and conversion projects. It has increased the minimum percentage of pre-sold or in-contract units in a building before it will purchase the loans to 70% from 51%. The change, which went into effect on March 1, is part of Fannie Mae's efforts to lessen its own risk from bad condo loans. Local real estate executives said, however, that the stricter rule will further discourage banks from lending money to the few homebuyers who are still willing to make a purchase. "The requirement makes it more difficult for condo developers and buyers alike in New York City, creating uncertainty for both," said Steven Spinola, president of the Real Estate Board of New York.

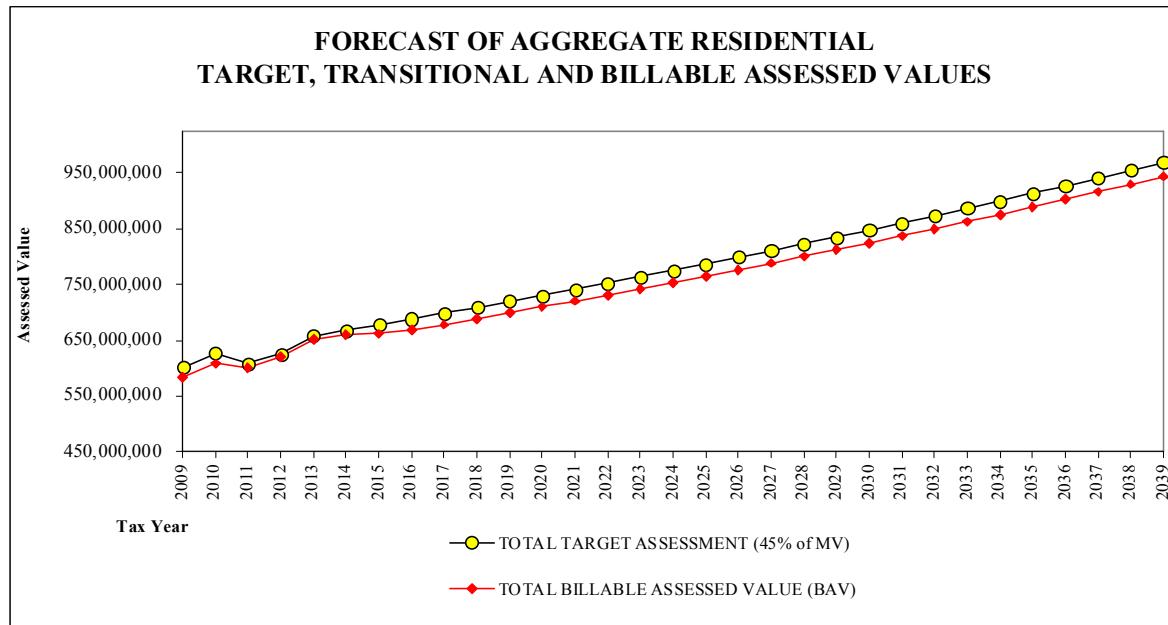
Additionally, on April 1, both Fannie Mae and Freddie Mac imposed new mandatory fees and down-payment rules on loans that they buy. Buyers will have to make a down payment of at least 30% if they don't want to get hit with extra fees at closing. Buyers who put down only 25% will be hit with a quarter-point add-on penalty. For those who put down less than 20%, a three-quarter point charge will be added. Furthermore, if buyers are purchasing condos as an investment, instead of as a primary residence, there will be a 1.75% fee for loans greater than 70% loan-to-value.

RESIDENTIAL ASSESSED VALUES CONCLUSIONS

The impact of the Downtown Revitalization Plan has driven increased activity in lower Manhattan. The significant growth in residential rental conversions over the past several years has had a positive affect on population levels. However, Battery Park City's unique location and amenities have minimized any direct competition from conversions of older properties in other parts of Downtown.

The Battery Park City residential buildings should remain in a strong competitive position due to the amenities offered, the design of the structures and the project's location. We believe, especially in the context of a robust Manhattan luxury residential market, and the substantial residential community downtown, that the Battery Park City residential buildings will continue to perform well in the future.

As the graph provided below indicates, the aggregate assessed values projected in our analysis result in the transitional assessment converging with the actual or target assessment before growing evenly from 2016 to the end of the projection period.



The total residential PILOT incorporates Gateway Plaza's PILOT payment, which is calculated differently from the others until the discharge of the HUD mortgage in 2023, when although it could follow typical assessment methodology, we have grown it at a more conservative rate in line with the Rent Guidelines Board increases previously discussed. Furthermore, we have deducted from the total PILOT revenue stream a collection loss. Our projections, when considering the most recent historical assessment data for the Battery Park City residential properties, reflect a conservative projection of assessed values.

During our 30-year projection period, the residential billable assessments are projected to grow at an average annual compound rate of 1.27% (excluding the addition of the Sites 23 & 24). This is well below the historical trend for these properties and also the 5.2 percent indicated by OMB for all New York City Class II properties between 1983 and 2004. Again, our assumptions are conservative in comparison with actual trends for all of New York City.

TAX RATE

For the purpose of real property taxes, the apartment buildings are designated Class II properties. The applicable tax rate for this property class is currently \$13.053 per \$100 of Assessed Value. The second half 2008/09 rate reflects an increase of 7.53% over the first half 2008/09 rate and a 9.43% increase over the 2007/08 tax rate. This major increase was in response to the effect of the financial crisis on the City following the national economic recession's intensification in the 3rd and 4th quarters of 2008.

Over the period since the revision of tax policy for the 1982/83 tax year and assignment of separate tax rates, the Class II property tax rate has evidenced a compound average annual growth rate of 1.41%, while between 1989/90 and 2008/09, the compound average annual growth rate was 1.84%. The following chart illustrates the historical trend in Class II tax rates.

NEW YORK CITY REAL PROPERTY TAX RATES PER \$100 OF ASSESSED VALUE CLASS II PROPERTY				Percentage Change
Tax Year			Tax Rate	
2008	2009	2nd Half	13.053	7.53%
2008	2009	1st Half	12.139	1.77%
2007	2008		11.928	-6.35%
2006	2007		12.737	2.75%
2005	2006		12.396	1.47%
2004	2005		12.216	-3.20%
(1)	2003	- 2004	12.620	0.82%
(2)	2002	- 2003	12.517	18.49%
(3)	2002	- 2003	10.564	-2.11%
	2001	- 2002	10.792	-0.51%
	2000	- 2001	10.847	-0.04%
	1999	- 2000	10.851	1.04%
	1998	- 1999	10.739	-2.78%
	1997	- 1998	11.046	-0.09%
	1996	- 1997	11.056	2.30%
	1995	- 1996	10.807	2.42%
	1994	- 1995	10.552	1.76%
	1993	- 1994	10.369	4.63%
	1992	- 1993	9.910	0.25%
	1991	- 1992	9.885	7.12%
	1990	- 1991	9.228	-0.01%
	1989	- 1990	9.229	-0.46%
	1988	- 1989	9.272	1.33%
	1987	- 1988	9.150	0.00%
	1986	- 1987	9.150	0.00%
	1985	- 1986	9.150	0.00%
	1984	- 1985	9.150	1.03%
	1983	- 1984	9.057	1.20%
	1982	- 1983	8.950	0.00%
	1981	- 1982	8.950	NA
Compounded Annual Growth:				
1982	-	2009	(1)	1.41%
1990	-	2009	(1)	1.84%
2000	-	2009	(1)	2.07%

(1) Utilizes second half 2009 rate

Compiled by: CB Richard Ellis, Inc.

Source: New York City Department of Finance

We have assumed that the Class II tax rate will increase by one percent per annum throughout the forecast period.

COLLECTION LOSS

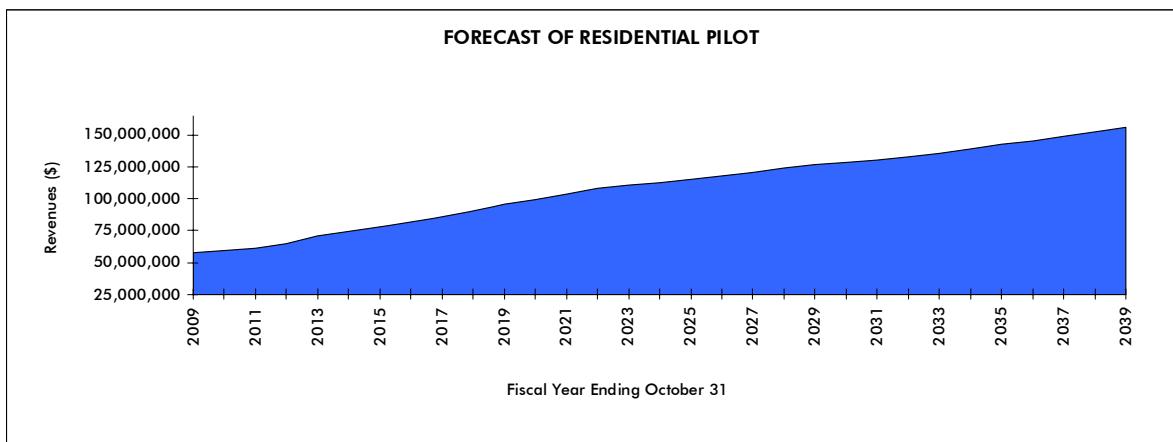
We have been advised that on an annual basis a portion of the residential condominium lease payments to the Authority are treated as delinquent, and as a result have incorporated an annual collection loss into our projections of the residential payments. We have incorporated a provision for the potential risk of default on residential condominium payments because the Authority is collecting payments from various individual occupants of these buildings, as opposed to a single large entity.

We anticipate management of the deficiency balance as the Authority maintains an aggressive collection policy and the residential neighborhood continues to perform well. Our annually accounted collection loss takes a long-term perspective and theoretically would accrue to outweigh any deficiency issue currently foreseen. We have provided for a collection loss factor equal to 0.5% of the annual PILOT payments throughout the forecast period.

RESIDENTIAL PILOT FORECAST

Due to the projected assessment growth, PILOT payments register steady increases over the forecast period. Total residential PILOT payments increase from an initial amount of \$57.8 million in 2009 to \$156.3 million in 2039. In this analysis, we have reflected the impact of the growth experienced in actual assessed values through the inclusion of the phasing utilized for transitional assessed values.

The growth displayed below is a result of the combination of an assessment growth of one percent per annum and a tax rate growth of one percent per annum.

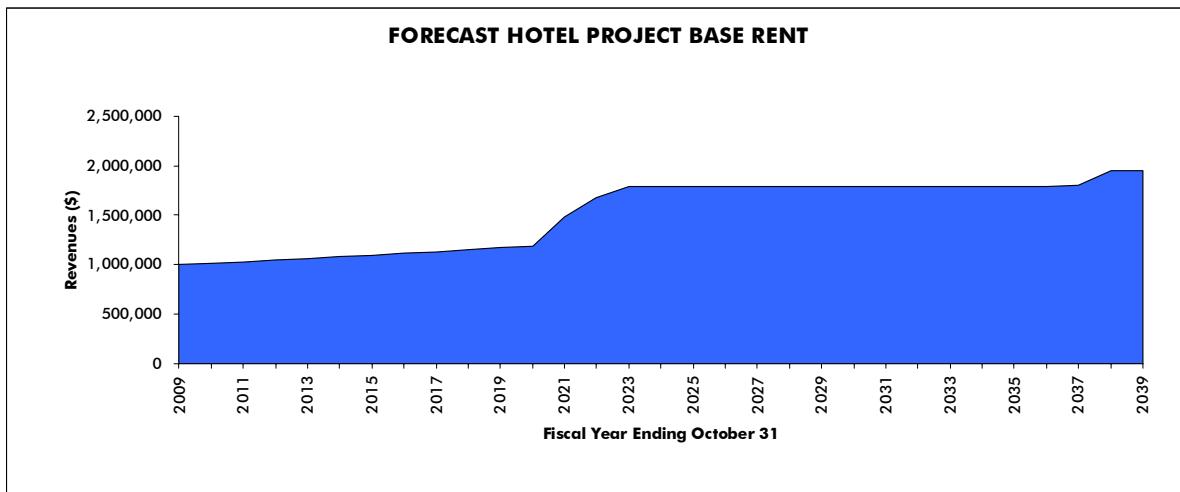


VI. HOTEL PROJECT BASE RENT

There are two hotels, the Ritz-Carlton and the Embassy Suites. The Embassy Suites site contains a multiplex movie theater and ground level retail uses as well. The Embassy Suites Hotel and retail/theater component are each obligated under its lease to pay Base Rent on a monthly basis commencing on the date of execution.

Although base rent and other payments are set forth in the Ritz-Carlton lease, non-PILOT payments (hotel and residential components) are to be applied for the first ten years to hotel PILOT payments due, in declining amounts over that period. After the first ten years, no further credits are given. To the extent these payments have not all been deducted from the hotel PILOT at the end of the first ten years, the remaining balance will be reflected as base rent payments in the Authority's financial statements.

For the period beginning on the commencement date and expiring on the day prior to the twenty-fourth anniversary of the date on which a temporary certificate of occupancy was issued ("First Appraisal Date"), the Base Rent is equal to annual amounts specified in each lease. Thereafter, Base Rent is adjusted every fifteen years based upon an appraisal of the land underlying each lease. Furthermore, the leases stipulate that Base Rent payable after any reappraisal shall not be less than the Base Rent payable prior to such reappraisal. We have conservatively assumed payment of the minimum amount contractually set. The revenues from these elements remain minor in relation to the hotel revenues pledged.



As illustrated in the graph, the base rent for the hotel project component remains relatively stable until 2021, when step-ups in rent for all three tenants occur (between 2021 and 2023). Between 2020 and 2023, the base rent increases from \$1.2 million to \$1.8 million. The Hotel Base Rent remains stable through the majority of the remaining forecast period, with the next round of 15-year rent increases beginning at the end of our cash flow period.

VII. HOTEL PROJECT PILOT

Both of the hotel project leases require tenants to make payments to the Authority in lieu of taxes (PILOT) since the properties are exempt from paying New York City property taxes. The PILOT payment for the Embassy Suites is based on a schedule as stipulated in the lease for the first ten years. In addition, the retail/theater component of Site 25 has fixed contractual PILOT payments for years one through twenty, with the hotel portion paying the difference between PILOT payments (plus recapture payments described below) due for the entire building and the scheduled retail amount.

As previously discussed, the Ritz-Carlton project is required to pay the full PILOT payment, but is permitted to use non-PILOT payments in declining amounts to pay a portion of the hotel PILOT over a base PILOT set forth in the lease during the first ten years, such credits being designed to simulate a declining abatement program. To the extent the credits are not sufficient to cover the target “abatement” amount over the base, the tenant must make additional payments. To the extent there are remaining unapplied credits such amount will be reflected as base rent for the first ten years.

During lease years eleven through twenty, the Embassy Suites hotel and the Ritz-Carlton Hotel pay PILOT as calculated by the City using standard methodology, plus a recapture amount, which represents for each year 1/10th of the amount which (i) for Embassy Suites is the difference of the total prescribed PILOT paid within the first ten years and the actual PILOT that is applicable for that property and (ii) for the Ritz-Carlton, the aggregate amount of the non-PILOT payments credited to hotel PILOT due. Thereafter, the PILOT payment for these hotel projects will follow typical assessment methodology. The retail/theater component’s PILOT payment will follow typical assessment methodology subsequent to the twentieth year of the lease.

HISTORICAL ASSESSED VALUES

HOTEL PROJECT - TARGET ASSESSMENT (45% of Market Value)												
	GBA (SF)	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Compound % Growth	
Site 1 Ritz-Carlton Hotel	277,725	26,631,468	26,631,468	28,694,456	26,432,100	28,125,000	29,835,001	43,605,000	45,666,000	47,799,000	7.59%	
Assessment per Square Foot	95.89	95.89	103.32	95.17	101.27	107.43	157.01	164.43	172.11			
% Growth	NA	NA	7.75%	-7.88%	6.40%	6.08%	46.15%	4.73%	4.67%			
Site 25 Embassy Suites	412,316	37,134,000	39,600,000	42,075,000	48,001,500	50,375,250	45,900,000	59,220,000	56,281,500	53,802,000	4.74%	
Assessment per Square Foot	90.06	96.04	102.05	116.42	122.18	111.32	143.63	136.50	130.49			
% Growth	NA	6.64%	6.25%	14.09%	4.95%	-8.88%	29.02%	-4.96%	-4.41%			
Site 25 Embassy Ret./Thir.	215,884	19,116,000	16,650,000	14,400,000	14,400,000	14,375,000	14,985,000	15,030,000	18,563,000	16,110,000	-2.12%	
Assessment per Square Foot	88.55	77.12	66.70	66.70	66.59	69.41	69.62	85.99	74.62			
% Growth	NA	-12.90%	-13.51%	0.00%	-0.17%	4.24%	0.30%	23.51%	-13.21%			
TOTAL	905,925	82,881,468	82,881,468	85,169,456	88,833,600	92,875,250	90,720,001	117,855,000	120,510,500	117,711,000	4.48%	
Assessment per Square Foot	91.49	91.49	94.01	98.06	102.52	100.14	130.09	133.02	129.93			
% Growth	0.00%	2.76%	4.30%	4.55%	-2.32%	29.91%	2.25%	2.25%	-2.32%			

The Target Assessments for the hotel components of the subject property indicated growth of 4.74% and 7.59% during the period between the 2001/02 and 2009/10 tax years. The retail component indicated declines in value following the events of September 11, 2001 and remains below the 2001/2002 Assessment, although there had been some upward growth prior to the decline for the 2009/10 tax year. Overall, the hotel and commercial component indicated Target Assessment growth of 4.48% per annum since 2001/02.

HOTEL PROJECT - BILLABLE ASSESSED VALUE												
	GBA (SF)	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Compound % Growth	
Site 1 Ritz-Carlton Hotel	277,725	26,631,468	26,631,468	27,427,630	25,199,564	25,896,277	26,934,990	30,727,702	34,732,618	39,005,996	4.89%	
Assessment per Square Foot	95.89	95.89	98.76	90.74	93.24	96.98	110.64	125.06	140.45			
% Growth		0.00%	2.99%	-8.12%	2.76%	4.01%	14.08%	13.03%	12.30%			
Site 25 Embassy Suites	412,316	36,066,182	39,600,000	42,075,000	46,977,096	44,044,846	40,837,999	45,431,999	37,212,300	42,802,700	2.16%	
Assessment per Square Foot	87.47	96.04	102.05	113.93	106.82	99.05	110.19	90.25	103.81			
% Growth		9.80%	6.25%	11.65%	-6.24%	-7.28%	11.25%	-18.09%	15.02%			
Site 25 Embassy Ret./Thr.	215,884	18,565,907	16,650,000	14,400,000	14,400,000	14,375,000	14,380,000	14,306,000	18,563,000	16,110,000	-1.76%	
Assessment per Square Foot	86.00	77.12	66.70	66.70	66.59	66.61	66.27	85.99	74.62			
% Growth		-10.32%	-13.51%	0.00%	-0.17%	0.03%	-0.51%	29.76%	-13.21%			
TOTAL	905,925	81,263,557	82,881,468	83,902,630	86,576,660	84,316,123	82,152,989	90,465,701	90,507,918	97,918,696	2.36%	
Assessment per Square Foot	89.70	91.49	92.62	95.57	93.07	90.68	99.86	99.91	108.09			
% Growth		1.99%	1.23%	3.19%	-2.61%	-2.57%	10.12%	0.05%	8.19%			

The billable assessment increased at a lower compound rate of 2.36% as the major increases in Target Assessment for 2007/08 are phased into the billable amounts.

The following table summarizes comparable hotel buildings in the downtown area.

COMPARISON OF ACTUAL ASSESSED VALUES				
Property	Size (SF)	2008/09	2009/10	
Embassy Suites Hotel - Subject	412,316	56,281,500	53,802,000	
102 North End Avenue		\$136.50	\$130.49	
		-5.0%	-4.4%	
Ritz-Carlton Hotel - Subject	315,884	34,732,618	39,005,996	
25 Battery Place		\$84.24	\$94.60	
		13.0%	12.3%	
Best Western Seaport Inn	39,747	4,900,000	5,908,500	
29 Peck Slip		\$123.28	\$148.65	
Block 107, Lot 38		53.4%	20.6%	
Holiday Inn Wall Street	112,900	19,365,000	23,107,500	
138 Lafayette Street		\$171.52	\$204.67	
Block 209, Lot 19		150.2%	19.3%	
Manhattan Seaport Suites	34,613	3,145,500	5,022,000	
129 Front Street		\$90.88	\$145.09	
Block 37, Lot 13		9.2%	59.7%	
New York Marriott Financial	420,322	46,494,000	53,685,000	
85 West Street		\$110.62	\$127.72	
Block 55, Lot 16		16.2%	15.5%	
Hilton Millennium	383,166	62,230,500	66,915,000	
55 Church Street		\$162.41	\$174.64	
Block 80, Lot 4		178.2%	7.5%	

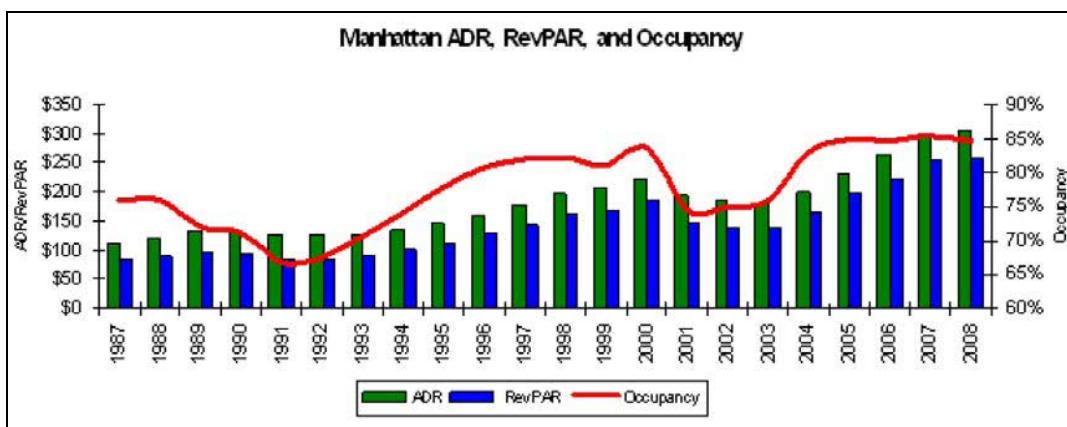
Source: REBNY; compiled by CB Richard Ellis, Inc.

The subject hotel components are in the lower portion and below the range as compared to the comparables. This is due to the lack of connectivity for the neighborhood resulting from the events of September 11, 2001, and it is anticipated that as the World Trade Center site is re-built, the subject components would have assessment increases. However, as our report utilizes conservative assumptions, we have not modeled for any market oriented increase and have modeled our revenue to fluctuate in line with the commercial properties of the World Financial Center.

HOTEL MARKET OVERVIEW

The New York City hotel market had a total inventory of approximately 66,438 hotel rooms as of 2008. Although negatively impacted by the recessions, New York City has maintained relatively strong demand from the corporate, group, and leisure sectors, and has the highest average daily rate (ADR), occupancy and RevPAR (revenue per available room) levels in the US. Smith Travel Research and UBS Research are currently reporting RevPAR over 32% lower than the same period one year earlier. The graph below shows a 20-year trend line for occupancy and ADR levels in New York. While New York City is expected to maintain its competitive advantages over other cities in the US, its demand, like those of most US markets is expected to decline and future occupancy and ADR increases are uncertain.

It is important to note that as New York City is heavily reliant on the corporate travel sector, and more specifically, the currently embattled Financial Services sector, RevPAR in the City has declined precipitously throughout 2009. We anticipate these high levels of decline to continue, and are in line with industry forecasts that the City will likely experience overall RevPAR declines for 2009 of over 20%. In this vein, a combined STR and Wells Fargo Securities, LLC research report project Q32009 RevPAR YTD to decline 31.8% year over year, with 27.7% of that decline directly attributable to ADR.



Source: Smith Travel Research

New York's hotel market has had an average occupancy level of 77% during the last 20 years, finishing 2008 at 84.6%, below the record set in 2007. New York's lowest occupancy level was experienced in 1991, when the market dropped to 66.9%, precipitated by the confluence of an economic recession, the first Gulf War in Iraq, perceptions of high crime and a temporary increase in hotel room taxes. The market recovered quickly with uninterrupted growth for the following six years.

Over the last ten years, average daily rates for New York's hotels increased from \$113.05 to \$305.50, indicating a compound growth rate of over 4.75% per year. Average rates increased steadily at an average rate of 5.9% through 2000, before experiencing three years of declining rate due to the terrorist attacks of 9-11 and the ensuing wars in Afghanistan and Iraq. Average rates grew by 11.1% in 2004, by 15.6% in 2005, by 13.2% in 2006, by 12.9% in 2007 and by a mere 2.5% in 2008 still surpassing the high-water ADR mark set in 2007. In 2008 and more predominantly in 2009, the prior trend was largely reversed and thus 2009's RevPAR is expected to be lower by upwards of 20% given the continued decline in travel and New York City's reliance on the corporate traveler.

Overall NYC performance, according to TWR, is shown below. It is important to note that since the report, from Winter 2009, the TWR forecast for 2009 for Full Service Hotels has decreased dramatically from occupancy and ADR of 82.1% and \$285.65 to Fall's forecast of 75.4% and \$219.93, respectively, reflecting an approximate 15% decline in the 2009 forecast in just two quarters indicating a additional 29% RevPAR decline for 2009.

NEW YORK AREA HOTEL OUTLOOK - All Full & Limited Service Properties -					NEW YORK AREA HOTEL OUTLOOK - All Full Service Properties -				
Year	Occupancy	ADR	RevPAR		Year	Occupancy	ADR	RevPAR	
			\$ Amount	% Change				\$ Amount	% Change
2003	73.4%	\$163.50	\$120.01	-1.7%	2003	73.6%	\$177.88	\$130.92	-1.4%
2004	78.8%	\$179.59	\$141.52	17.9%	2004	79.4%	\$196.29	\$155.85	19.0%
2005	81.1%	\$205.56	\$166.71	17.8%	2005	82.1%	\$225.84	\$185.41	19.0%
2006	80.8%	\$229.71	\$185.61	11.3%	2006	81.7%	\$252.09	\$205.96	11.1%
2007	82.0%	\$255.87	\$209.81	13.0%	2007	83.1%	\$280.10	\$232.76	13.0%
2008	80.2%	\$262.73	\$210.71	0.4%	2008	81.2%	\$287.18	\$233.19	0.2%
Forecast 2009	74.3%	\$200.68	\$149.11	-29.2%	Forecast 2009	75.4%	\$219.93	\$165.83	-28.9%
Forecast 2010	75.7%	\$207.72	\$157.24	5.5%	Forecast 2010	77.1%	\$230.64	\$177.82	7.2%
Forecast 2011	76.6%	\$216.28	\$165.67	5.4%	Forecast 2011	78.0%	\$241.54	\$188.40	5.9%
Forecast 2012	78.0%	\$227.02	\$177.08	6.9%	Forecast 2012	79.2%	\$253.11	\$200.46	6.4%
Forecast 2013	79.0%	\$238.48	\$188.40	6.4%	Forecast 2013	80.2%	\$265.26	\$212.74	6.1%
Forecast 2014	79.3%	\$246.88	\$195.78	3.9%	Forecast 2014	80.4%	\$274.21	\$220.46	3.6%

Source: Torto Wheaton Research - Fall 2009

Source: Torto Wheaton Research - Fall 2009

Considering the current negative situation revolving around Wall Street, the credit markets, the global economy and the housing markets, the New York City hotel market has held up quite well until recently. Market experts and hotel operators are predicting double digit declines in excess of 20% in RevPAR for 2009 in comparison to 2008. Major hotel firms such as owner HOST Hotels & Resorts and operator Marriott International have been forecasting declining RevPAR for the remainder of the year through 2009, and the City is waiting to see what effect all of this will have on the immediate market for the near and long term.

Given the recent volatility in all markets, and specifically their direct affect on hotel rates and occupancies, we have displayed a chart below with month by month numbers for June 2009, as provided by PKF Consulting. October was the first month on record for 2008 to exhibit actual RevPAR declines over the same period in 2007. The month of January 2009, which exhibited declining occupancy of 16.3% and a decline in ADR of 11.5%, and overall RevPAR declines of an astounding 25.9% has given way to significant deterioration in the hotel space brought on by the economy and the continued uncertainty in the capital markets and on Wall Street, as well as a negative perception surrounding travel, particularly for businesses. According to Smith Travel Research and UBS, RevPAR for New York was 31.4% lower in Q109 than Q108, with a 4.5% increase in supply contributing to the already dismal performance. Through mid-year 2009 RevPAR is down 32% for the city, 24.8% of which is attributable to ADR, a trend which is growing increasingly worse, with most sectors and locations throughout the city performing on par with each other. The recent trends are troubling, and the coming months will continue to erode the gains of 2007 and 2008.

MANHATTAN HOTEL TRENDS									
Month	Average Daily Rate			Occupancy			RevPAR		
	2006 - YE	\$270.44		85.6%			\$231.50		
2007 - YE		\$304.52		86.5%			\$263.41		
2008 - YE		\$310.65		85.9%			\$266.85		
	2007	2008	% Change	2007	2008	Overall Change	2007	2008	% Change
January	\$239.42	\$262.33	9.6%	74.8%	75.9%	1.1%	\$179.09	\$199.11	11.2%
February	\$243.10	\$264.50	8.8%	77.9%	80.8%	2.9%	\$189.37	\$213.72	12.9%
March	\$265.07	\$287.85	8.6%	85.4%	86.2%	0.8%	\$226.37	\$248.13	9.6%
April	\$284.54	\$306.18	7.6%	88.4%	87.0%	-1.4%	\$251.53	\$266.38	5.9%
May	\$301.36	\$318.62	5.7%	89.3%	90.2%	0.9%	\$269.11	\$287.40	6.8%
June	\$304.55	\$325.94	7.0%	89.2%	89.7%	0.5%	\$271.66	\$292.37	7.6%
July	\$260.23	\$284.51	9.3%	86.6%	88.2%	1.6%	\$225.36	\$250.94	11.4%
August	\$264.89	\$285.84	7.9%	90.0%	92.4%	2.4%	\$238.40	\$264.12	10.8%
September	\$350.80	\$380.83	8.6%	86.7%	85.7%	-1.0%	\$304.14	\$326.37	7.3%
October	\$368.26	\$357.71	-2.9%	91.0%	86.4%	-4.6%	\$335.12	\$309.06	-7.8%
November	\$385.31	\$346.98	-9.9%	88.7%	80.8%	-7.9%	\$341.77	\$280.36	-18.0%
December	\$369.90	\$338.55	-8.5%	85.4%	81.8%	-3.6%	\$315.89	\$276.93	-12.3%
	2008	2009		2008	2009		2008	2009	
January	\$262.33	\$222.92	-15.0%	75.9%	62.7%	-13.2%	\$199.11	\$139.77	-29.8%
February	\$262.54	\$216.35	-17.6%	81.2%	65.8%	-15.4%	\$213.18	\$142.36	-33.2%
March	\$285.13	\$218.46	-23.4%	86.3%	72.7%	-13.6%	\$246.07	\$158.82	-35.5%
April	\$302.36	\$224.05	-25.9%	87.2%	85.4%	-1.8%	\$263.66	\$191.34	-27.4%
May	\$313.61	\$218.99	-30.2%	89.5%	84.0%	-5.5%	\$280.68	\$183.95	-34.5%
June	\$318.79	\$215.01	-32.6%	89.5%	86.9%	-2.6%	\$285.32	\$186.84	-34.5%
July	\$275.66	\$198.13	-28.1%	89.3%	84.8%	-4.5%	\$246.16	\$168.01	-31.7%

Source: PKF

Given the current difficulties in the economy, the recession, and specifically the tremendous pressure on commercial real estate and on the real estate and capital markets, the continuing declining trends do not bode well for real estate in Manhattan and the boroughs.

Overall, hotels in NYC are now experiencing their first RevPAR declines in several years, a trend that is likely to continue into 2010. Market participants are predicting greater than 30% declines in the full year 2009, and further declines in 2010, with the hotel market not expected to recover prior to 2011, as the lodging industry has historically lagged the overall economy's recovery.

RETAIL MARKET OVERVIEW

Manhattan continued to see a change in the retail landscape in the first half of 2009. Across nearly all neighborhoods, average rents declined, and tenants are receiving greater concessions than in previous years. The retail sector has seen a fair amount of store closings over the past year, with national and local retailers such as Ann Taylor, Circuit City, Kira Plastinina, Gap, Linens-n-Things, Starbucks and Steve & Barry's either filing for bankruptcy or announcing store closings. Many additional tenants have been affected by the dragging recession as well.

Average asking rents continued to decline in the majority of Manhattan's prominent retail corridors, reflecting ongoing weakness in the retail sector. The chart below provides a snapshot of how pricing in 10 of Manhattan's most popular shopping destinations has fluctuated over the last six months.

Neighborhood	Parameters	Q4 2008	Q2 2009	% Change
Upper West Side	Broadway 72nd to 86th Streets	\$307	\$292	-5.17%
Upper East Side	Third Avenue 60th to 72nd Streets	\$289	\$280	-3.16%
Upper East Side	Upper Madison Avenue 57th to 72nd Streets	\$1,087	\$829	-31.12%
Midtown	Fifth Avenue 49th to 59th Streets	\$1,874	\$1,711	-9.53%
Midtown	Fifth Avenue 42nd to 49th Streets	\$692	\$574	-20.56%
Times Square	Broadway and 7th Avenue 42nd to 47th Streets	\$775	\$733	-5.68%
Herald Square	34th Street Fifth and Seventh Avenues	\$522	\$438	-19.27%
Flatiron	Fifth Avenue 14th to 23rd Streets	\$276	\$285	3.23%
Soho	Broadway Houston to Broome Streets	\$510	\$481	-6.03%
Downtown	Broadway Battery Park to Chambers Street	\$251	\$209	-20.34%

* Based on ground floor only
Source: CBRE Retail Research Group

Of the neighborhoods listed, Flatiron on Fifth Avenue was the only segment with an increase in its average asking rent since the beginning of the year, inching up 3.23% to \$285 per sq. ft. All other neighborhoods saw a decrease in pricing over the same period. Pricing in the Upper East Side on Third Avenue and the Upper West Side on Broadway remained steady compared to those neighborhoods that experienced more significant rent declines, falling just 3.16% to \$280 per sq. ft. and 5.17% to \$292 per sq. ft., respectively. In Midtown, the Fifth Avenue corridor from 42nd to 49th Streets—which at the height of the market was considered an extension of Fifth Avenue’s 49th to 59th Street corridor, historically the city’s most expensive stretch—continued to see a substantial drop in its average asking rent, falling 20.56% to \$574 per sq. ft.

Meanwhile, Downtown on Broadway, rents also fell significantly, plummeting 20.34% to \$209 per sq. ft.—the least expensive average asking rent of the neighborhoods listed. Upper Madison Avenue on the Upper East Side saw the greatest decline in pricing, falling 31.12% to \$829 per sq. ft. over the last six months. Notably, as of the first half of 2009, Midtown’s Fifth Avenue corridor between 49th and 59th Streets remained the only neighborhood commanding rents of more than \$1,000 per sq. ft.

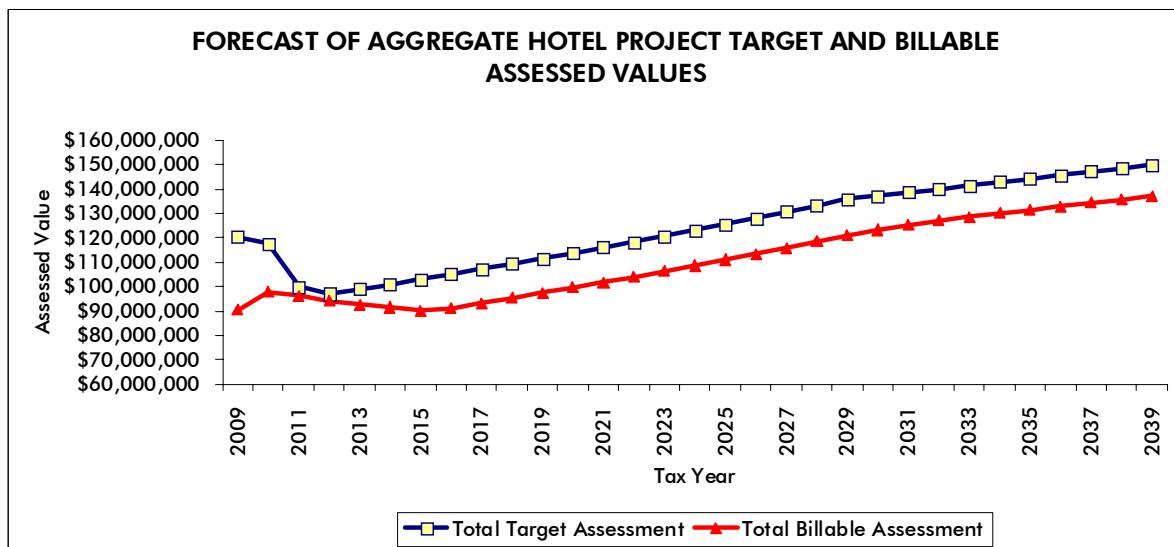
Although the near term prospects for retail within the subject neighborhood are tempered by the recession, with the redevelopment of the World Trade Center and a return to more stabilized retail operations in the marketplace, we anticipate a long term upward trend for the subject’s retail component.

RETAIL AVAILABILITY SUMMARY												
SUBMARKET	SPRING 2003				FALL 2002				SPRING 2002			
	No. of Stores	Square Feet	Avg. Asking Rent PSF	Avg. Store Size (SF)	No. of Stores	Square Feet	Avg. Asking Rent PSF	Avg. Store Size (SF)	No. of Stores	Square Feet	Avg. Asking Rent PSF	Avg. Store Size (SF)
EAST SIDE	169	521,572	\$128.00	3,086	155	494,084	\$111.00	3,188	173	502,173	\$113.00	2,906
WEST SIDE	104	458,669	\$104.00	4,410	107	552,649	\$100.00	5,165	88	379,187	\$91.00	4,309
MIDTOWN	755	5,654,983	\$112.00	7,490	691	5,441,938	\$110.00	7,875	721	3,873,069	\$109.00	5,372
MIDTOWN SOUTH	791	5,091,709	\$70.00	6,437	780	5,172,809	\$71.00	6,632	748	4,281,769	\$74.00	5,724
DOWNTOWN	358	2,288,655	\$58.00	6,393	369	2,389,302	\$59.00	6,475	321	1,712,603	\$58.00	5,335
UPPER MANHATTAN	76	534,352	\$53.00	7,031	81	577,818	\$50.00	7,134	67	409,542	\$53.00	6,113
OVERALL MANHATTAN	2,253	14,549,940	\$88.00	6,458	2,183	14,628,600	\$85.00	6,701	2,118	11,158,883	\$87.00	5,269

Source: REBNY - Spring 2003 Report; Compiled by CB Richard Ellis, Inc.

HOTEL PROJECT ASSESSED VALUES CONCLUSIONS

These properties are assessed similar to the office properties in that the Assessor utilizes the actual income as provided by ownership to calculate value. As illustrated in the following graph, the aggregate assessed values in our analysis reflect the declines through 2011, with gradual and stable growth throughout the remainder of the analysis period.

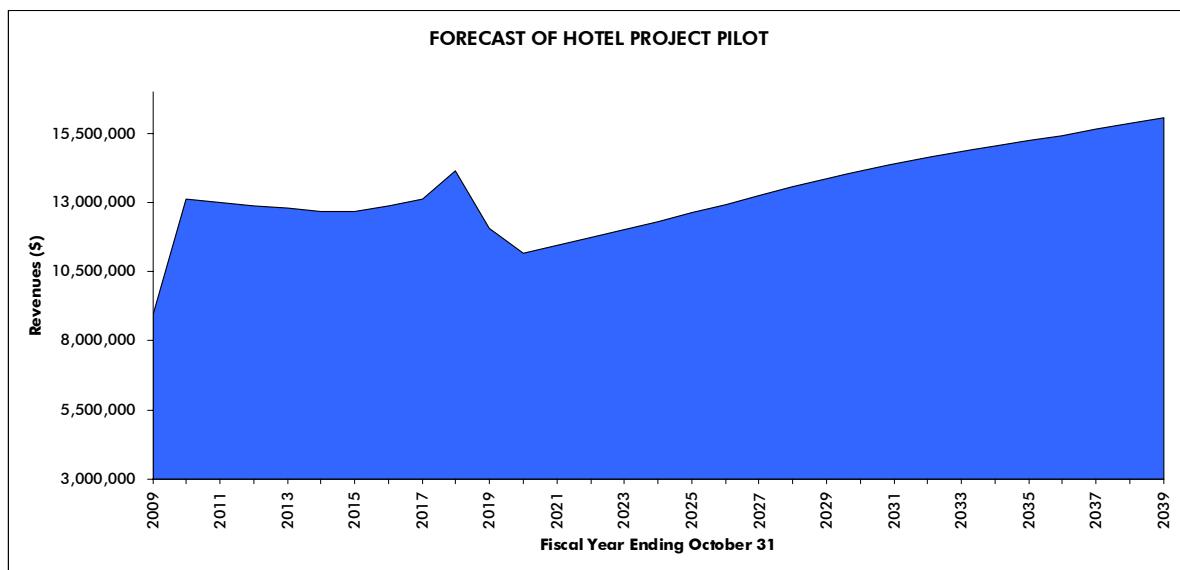


TAX RATE

As previously discussed in detail, the effective tax rate for Class IV properties for the first half of 2008/2009 tax year was set at \$9.87 per \$100 of assessed value, while the second half figure has been increased to 10.612%, for a 2008/2009 average of 10.241%. We have assumed that the tax rate will increase at an annual rate of 1% in the initial two years of our analysis, followed by long term average annual increase of 0.25% percent throughout the analysis.

HOTEL PROJECT PILOT FORECAST

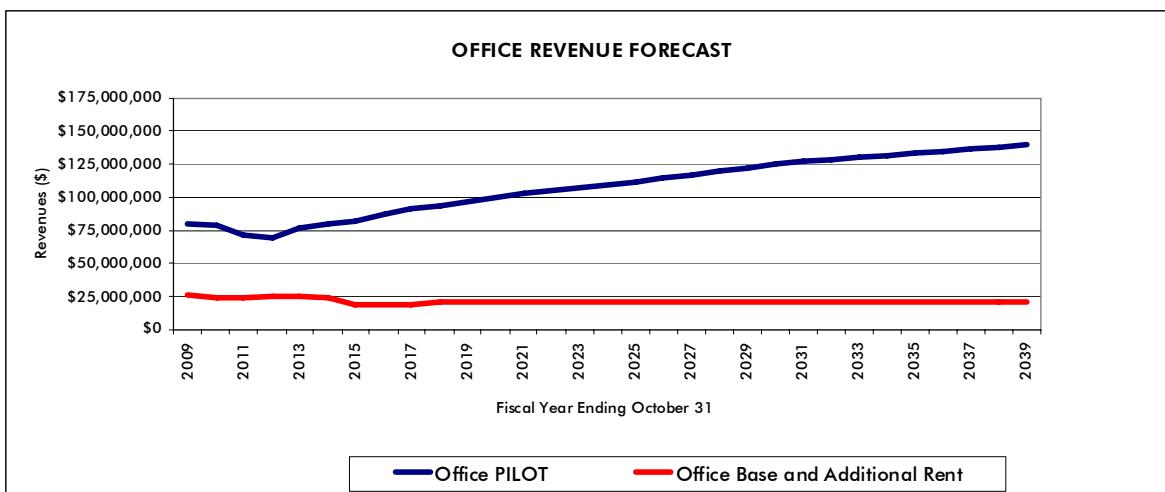
As illustrated in the following graph, the PILOT payments are projected to increase as the hotels are now required to pay the previously discussed recapture amount,. However after 10-years the amount declines. As the recapture payment terminates after ten years, the payment stabilizes to actual PILOT as calculated via typical assessment methodology.



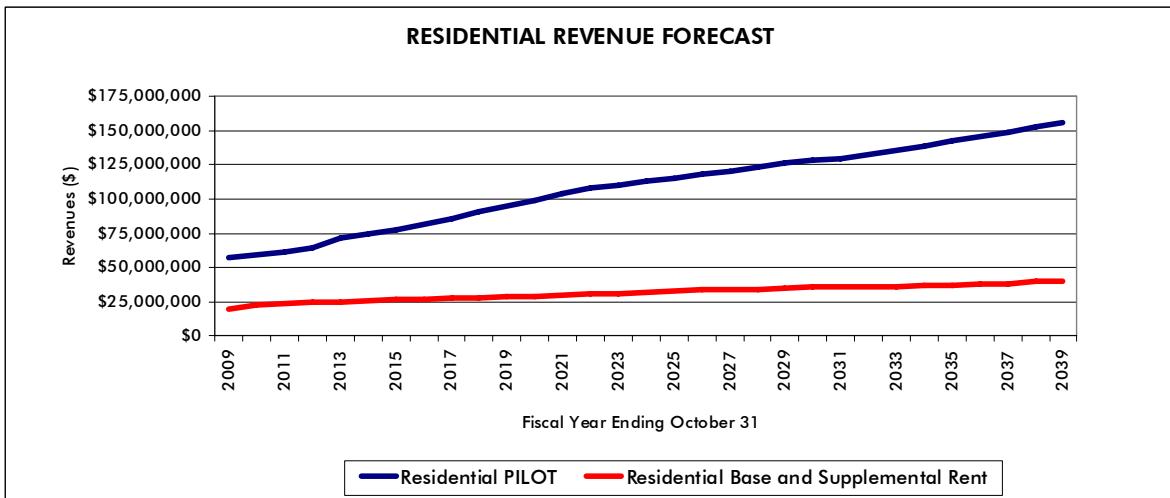
VIII. SUMMARY OF REVENUE FORECASTS

CBRE's aggregate lease revenue forecast is based on the assumptions summarized in Section IX and subject to the Assumptions and Limiting Conditions described in Exhibit A and earlier in this report. The Revenue Forecast Summary can be found in Section X.

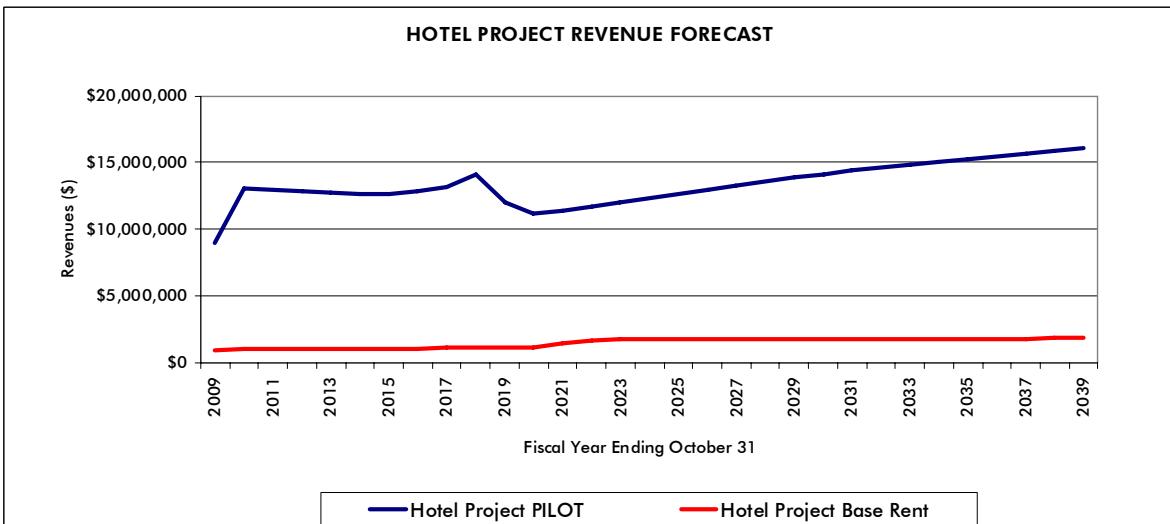
The following graphs illustrate the PILOT and the Base Rent and Additional, or Supplemental, Rent for each component (office, residential and hotel project).



Our graph highlights the decrease in office PILOT revenues through 2012, reflecting the declines in value related to the current recessionary environment as well as the potential rollover related to Merrill Lynch's lease at 2WFC and 4WFC. While PILOT revenue will grow over the forecast period, the Base Rent income after a slight drop following the phase-out of Additional Base Rent at 1WFC in 2014, will remain relatively flat.

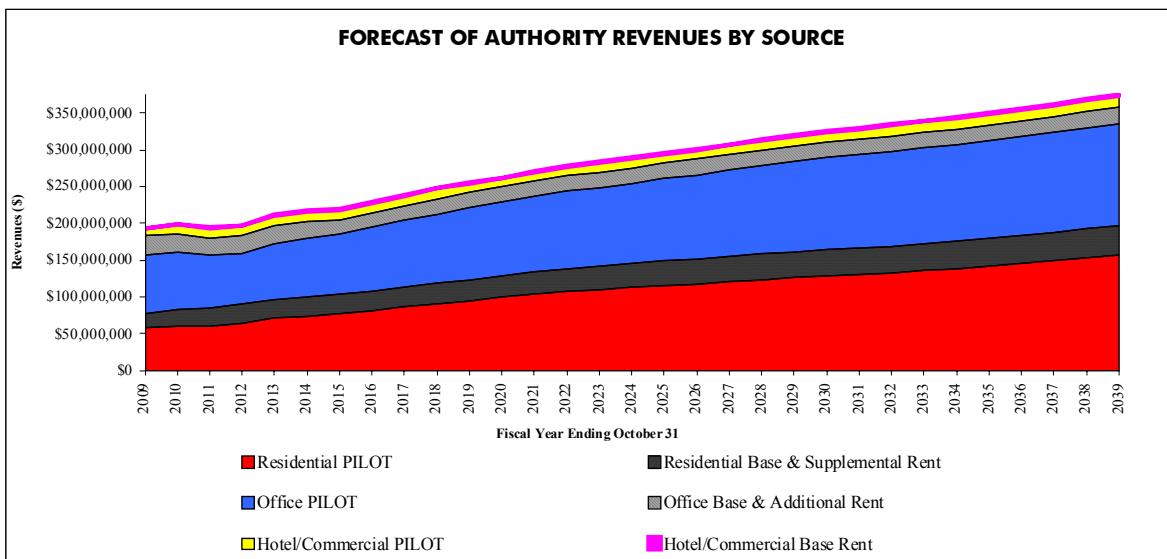


Residential Base Rent and PILOT is projected to grow at a steady rate over the forecast period. Although there is potential for incremental growth in revenue due to increases in Base Rent at scheduled re-sets under the leases , we have taken a conservative stance and assumed only the contractual minimum increases which .yields the stable growth depicted in the chart. .

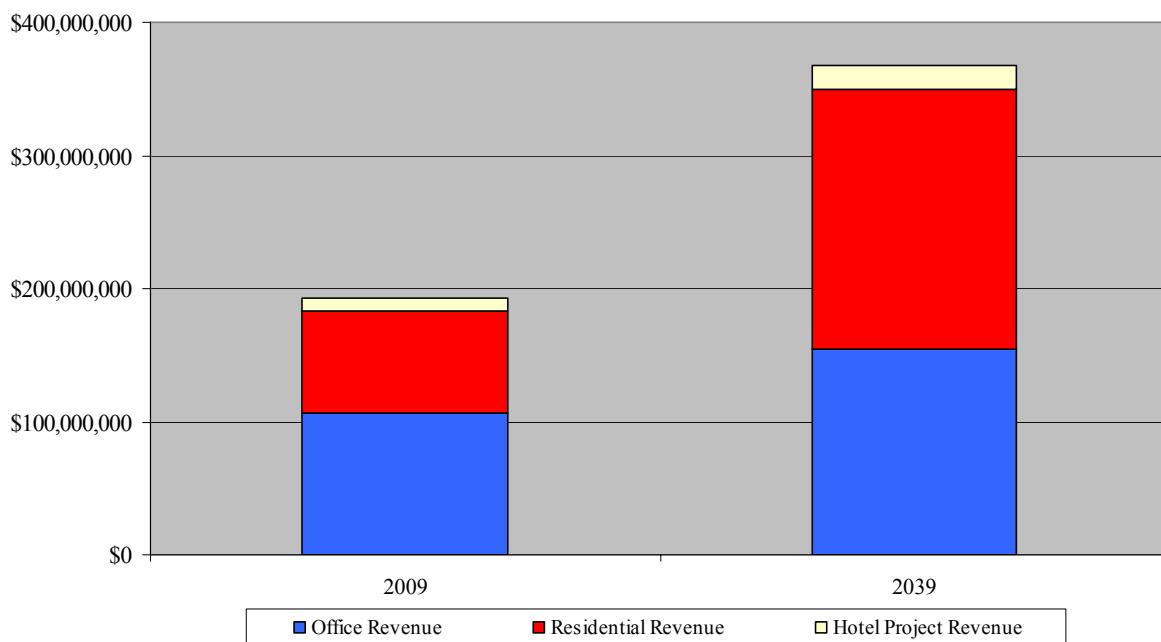


As illustrated, the hotel project PILOT payment is projected to increase rapidly as a result of the recapture payments previously discussed in the Hotel section. As the recapture payments terminate after ten years, the PILOT stabilizes at the actual PILOT determined by the Assessor's typical assessment method. Base Rent will also remain relatively stable with small increases reflecting the step-ups in Base Rent stipulated in the leases.

The revenues from all of the components are illustrated in the following graph.



Overall, revenues to the Authority increase from their current estimated 2009 level of \$193.3 million to \$367.8 million in 2039. As shown in the following chart, the majority of the growth is attributed to the residential component of the Pledged Revenue, which increased from 40.0% to 53.2% over the analysis period.



While some revenues to the Authority are contractual obligations, the majority of revenues, comprising the office, residential, and hotel PILOT payments are dependent upon economic and market variables and public policy. Predictions of these variables over the forecast period cannot be made with certainty. Each of the different property types, including office, residential, retail and hotel, may be more, or less, affected by particular market trends, government policies and other variables . In 2009, the office component accounts for approximately 54.9% of the total revenue, while the residential component comprises 40.0% of the total revenue and the hotel/retail component is the smallest at 5.2% of the total revenue. Over the 30-year forecast period, the residential component becomes increasingly important ultimately contributing 53.2% of total revenue, while the office component share declines to 41.9% and the hotel remains relatively stable at 4.9% of total revenue. This revenue diversity reduces the risk profile of the forecast and results in less reliance on a single component.

Although the short-term outlook for Downtown office space features much uncertainty, we anticipate a long term forecast of stability and slow growth. The Assessor's use of the income approach to value is expected to result in a downward trend of assessments in the near term as lower market rental rates filter through to reduce net operating income and increasing capitalization rates yield lower market value. However, despite lower actual assessed values, the overall change in the pledged office revenue is minimal because the phase-in of transitional assessed values reduces the impact on billable assessed values and projected increases in tax rate result in higher PILOTs. Residential and hotel project assessed values are projected to show steady, modest growth through the forecast. Total PILOT payments for all property types continue to increase over the long term and remain the largest source of revenues to the Authority.

CBRE believes that Battery Park City will continue as one of the nation's most successful urban mixed-used developments over the long term. We have employed reasonably conservative assumptions for the variables that determine PILOT and Base Rent to compensate for some of the risks inherent in any long-term forecast.

An outline of key assumptions used to forecast lease revenues to the Authority is included in the following section.

IX. REVENUE FORECAST ASSUMPTIONS

Office Base Rent & Additional Base Rent

Office PILOT	1WFC	2WFC	3WFC	4WFC	NYMEX	Goldman
2009 Office Rents - CBRE Market	\$44.00	\$44.00	\$44.00	\$44.00	\$42.00	\$46.00

	2010/2011	2011/2012	2012/2013	thru 2020	thereafter
Net Income (Market Growth)	-15.0%	-3.0%	2.0%	2.0%	1.0%

(Building Specific changes)

- 1 WFC - Flat year one (multi-tenant fully leased)
5.0% decline in 2023/2024 (1 year duration - Cadwalader rollover)
- 2 WFC - 5.0% decline in 2014/2015, flat in 2015/2016
(2 year duration - Merrill Lynch rollover)
- 3 WFC - None

- 4 WFC - 5.0% decline in 2014/2015, flat in 2015/2016
(2 year duration - Merrill Lynch rollover)

	2010/2011	2011/2012	2012/2013	threafte
Cap Rate (Market Growth)	+0.5%	+1.0%	-0.25%	0.0%

(Building Specific changes)

- 1 WFC - Plus 25 basis points in 2023/2024
(1 year duration - Cadwalader rollover)
- 2 WFC - Plus 25 basis points in 2014/15
(2 year duration - Merrill Lynch rollover)
- 3 WFC - None

- 4 WFC - Plus 50 basis points in 2014/15
(2 year duration - Merrill Lynch rollover)

	2010/2011	2011/2012	2012/2013	threafte
Tax Rate Growth	1.00%	1.00%	0.25%	0.25%

Residential Base Rent & Supplemental

	2010/2011	2011/2012	2012/2013	threafte
Tax Rate Growth	1.00%	1.00%	1.00%	0.50%

Assessment Growth	-3.00%	0.00%	1.00%	1.50%
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Gateway Growth	Flat through 2023, Phases to market thereafter
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Residential Collection Loss	0.5%
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467a Exemption	Based on 2009 figures with 3% annual increases.
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Hotel/Retail Base Rent

	2010/2011	2011/2012	2012/2013	threafte
Tax Rate Growth	1.00%	1.00%	0.25%	0.25%

	2010/2011	2011/2012	2012/2013	thru 2020	threafte
Assessment Growth	-15.0%	-3.0%	-3.0%	2.0%	1.0%

X. REVENUE FORECAST

**Hugh L. Carey Battery Park City Authority
2004-2008 Actual Revenue and 2009-2039 Forecasted Total Revenues**

	Historical Actuals (Pledged Receipts)						Forecasted Revenue (1 of 4)			
	FYE Oct. 31	2004	2005	2006	2007	2008	2009	1	2	3
							2010	2011	2012	
Office Leases										
Total Base and Additional Rent	26,059,000	27,168,000	27,167,895	27,167,895	27,168,000	26,650,115	24,061,221	24,061,221	24,561,221	
Pilot Payments	73,810,000	79,931,000	78,310,000	73,117,000	71,641,000	79,423,095	77,489,456	71,094,238	69,186,810	
Total Office Severance Leases	\$99,869,000	\$107,099,000	\$105,477,895	\$100,284,895	\$98,809,000	106,073,210	101,550,677	95,155,459	93,748,031	
Residential Leases										
Base Rent and Supplemental Rent	12,678,000	14,444,000	14,415,000	18,715,000	19,339,200	19,510,102	22,910,609	24,379,509	25,037,881	
Pilot Payments	43,358,000	38,085,000	51,261,000	51,889,000	58,114,425	62,074,351	63,874,135	65,719,834	69,453,094	
Less: 467a Tax Exemption	(894,874)	(5,895,262)	(3,268,996)	(2,796,253)	(3,218,925)	(4,294,876)	(4,423,722)	(4,556,434)	(4,693,127)	
Pilot Payments Receivable	42,463,126	32,189,738	47,992,004	49,092,747	54,895,500	57,779,475	59,450,413	61,163,400	64,759,967	
Collection Loss	- - - - -	Pmts Shown Net of Collection Loss					(297,252)	(305,817)	(323,800)	
Total Residential Leases	\$55,141,126	\$46,633,738	\$62,407,004	\$67,807,747	\$74,234,700	\$77,289,576	\$82,063,770	\$85,237,092	\$89,474,049	
Sub-total Office & Residential	\$155,010,126	\$153,732,738	\$167,884,899	\$168,092,642	\$173,043,700	\$183,362,786	\$183,614,447	\$180,392,551	\$183,222,080	
Hotel Projects Leases (including theater retail)										
Base Rent	971,000	945,000	958,000	982,000	985,800	1,001,036	1,012,994	1,028,892	1,044,909	
Pilot Payments	3,275,000	4,082,000	4,653,000	5,524,000	5,600,000	8,961,879	13,103,484	13,008,880	12,889,196	
Total Hotel Project Leases	\$4,246,000	\$5,027,000	\$5,611,000	\$6,506,000	\$6,585,800	\$9,962,915	\$14,116,478	\$14,037,772	\$13,934,105	
TOTAL PLEDGED REVENUE	\$159,256,126	\$158,759,738	\$173,495,899	\$174,598,642	\$179,629,500	\$193,325,701	\$197,730,925	\$194,430,323	\$197,156,184	

	Forecasted Revenue (2 of 4)							
FYE Oct. 31 (continued)	5 2013	6 2014	7 2015	8 2016	9 2017	10 2018	11 2019	12 2020
Office Leases								
Total Base and Additional Rent	24,561,221	23,634,351	19,000,001	19,000,001	19,000,001	21,000,000	21,000,000	21,000,000
Pilot Payments	76,499,603	79,371,425	81,873,971	87,147,821	91,805,218	93,824,808	97,063,327	100,349,844
Total Office Severance Leases	101,060,824	103,005,776	100,873,972	106,147,822	110,805,219	114,824,808	118,063,327	121,349,844
Residential Leases								
Base Rent and Supplemental Rent	25,236,123	25,926,124	26,503,667	26,923,416	27,460,266	28,031,558	28,696,906	29,313,839
Pilot Payments	76,017,824	79,252,693	82,986,183	89,035,205	95,809,700	102,673,691	110,226,087	117,236,974
Less: 467a Tax Exemption	(4,833,921)	(4,978,938)	(5,128,306)	(5,282,156)	(5,440,620)	(5,603,839)	(5,771,954)	(5,945,113)
Pilot Payments Receivable	71,183,903	74,273,754	77,857,877	83,753,049	90,369,080	97,069,852	104,454,134	111,291,861
Collection Loss	(355,920)	(371,369)	(389,289)	(418,765)	(451,845)	(485,349)	(522,271)	(556,459)
Total Residential Leases	\$96,064,107	\$99,828,509	\$103,972,254	\$110,257,700	\$117,377,501	\$124,616,061	\$132,628,769	\$140,049,241
Sub-total Office & Residential	\$197,124,932	\$202,834,286	\$204,846,226	\$216,405,521	\$228,182,720	\$239,440,869	\$250,692,096	\$261,399,084
Hotel Projects Leases (including theater retail)								
Base Rent	1,060,911	1,077,827	1,095,327	1,113,327	1,132,244	1,151,244	1,171,161	1,190,744
Pilot Payments	12,783,999	12,676,931	12,683,725	12,881,891	13,131,952	14,139,993	12,071,833	11,174,907
Total Hotel Project Leases	\$13,844,910	\$13,754,758	\$13,779,052	\$13,995,218	\$14,264,196	\$15,291,237	\$13,242,994	\$12,365,651
TOTAL PLEDGED REVENUE	\$210,969,842	\$216,589,044	\$218,625,278	\$230,400,739	\$242,446,916	\$254,732,105	\$263,935,090	\$273,764,736

	Forecasted Revenue (3 of 4)							
FYE Oct. 31 (continued)	14 2022	15 2023	16 2024	17 2025	18 2026	19 2027	20 2028	21 2029
Office Leases								
Total Base and Additional Rent	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000
Pilot Payments	104,845,846	106,992,625	109,605,411	112,005,986	114,460,795	117,114,373	119,820,603	122,341,033
Total Office Severance Leases	125,845,846	127,992,625	130,605,411	133,005,986	135,460,795	138,114,373	140,820,603	143,341,033
Residential Leases								
Base Rent and Supplemental Rent	30,696,522	31,350,478	32,219,244	33,165,367	33,594,937	34,061,744	34,555,160	35,173,435
Pilot Payments	126,922,501	129,782,000	132,711,422	135,723,206	138,823,608	141,971,950	145,227,041	148,590,843
Less: 467a Tax Exemption	(6,307,170)	(6,496,385)	(6,691,277)	(6,892,015)	(7,098,775)	(7,311,739)	(7,531,091)	(7,757,023)
Pilot Payments Receivable	120,615,331	123,285,615	126,020,146	128,831,191	131,724,833	134,660,212	137,695,950	140,833,819
Collection Loss	(603,077)	(616,428)	(630,101)	(644,156)	(658,624)	(673,301)	(688,480)	(704,169)
Total Residential Leases	\$150,708,777	\$154,019,665	\$157,609,289	\$161,352,402	\$164,661,145	\$168,048,655	\$171,562,630	\$175,303,085
Sub-total Office & Residential	\$276,554,623	\$282,012,291	\$288,214,701	\$294,358,388	\$300,121,940	\$306,163,028	\$312,383,234	\$318,644,119
Hotel Projects Leases (including theater retail)								
Base Rent	1,678,051	1,791,430	1,791,430	1,791,430	1,791,430	1,791,430	1,791,430	1,791,430
Pilot Payments	11,730,879	12,018,390	12,312,440	12,613,180	12,920,759	13,235,331	13,557,056	13,862,235
Total Hotel Project Leases	\$13,408,931	\$13,809,820	\$14,103,870	\$14,404,610	\$14,712,189	\$15,026,761	\$15,348,486	\$15,653,665
TOTAL PLEDGED REVENUE	\$289,963,553	\$295,822,110	\$302,318,571	\$308,762,998	\$314,834,128	\$321,189,789	\$327,731,719	\$334,297,784

	Forecasted Revenue (4 of 4)								
FYE Oct. 31(continued)	23 2031	24 2032	25 2033	26 2034	27 2035	28 2036	29 2037	30 2038	31 2039
Office Leases									
Total Base and Additional Rent	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000	21,000,000
Pilot Payments	126,826,522	128,753,737	130,464,690	132,035,247	133,588,530	135,161,032	136,745,087	138,338,485	139,955,574
Total Office Severance Leases	147,826,522	149,753,737	151,464,690	153,035,247	154,588,530	156,161,032	157,745,087	159,338,485	160,955,574
Residential Leases									
Base Rent and Supplemental Rent	36,328,920	36,298,025	36,443,916	36,774,227	37,114,129	37,862,173	38,472,946	39,687,485	40,235,614
Pilot Payments	153,001,998	156,204,083	159,717,396	163,437,046	167,243,627	171,139,191	175,125,836	179,205,711	183,381,016
Less: 467a Tax Exemption	(8,229,426)	(8,476,309)	(8,730,598)	(8,992,516)	(9,262,292)	(9,540,160)	(9,826,365)	(10,121,156)	(10,424,791)
Pilot Payments Receivable	144,772,572	147,727,774	150,986,798	154,444,529	157,981,336	161,599,031	165,299,471	169,084,555	172,956,225
Collection Loss	(723,863)	(738,639)	(754,934)	(772,223)	(789,907)	(807,995)	(826,497)	(845,423)	(864,781)
Total Residential Leases	\$180,377,629	\$183,287,161	\$186,675,780	\$190,446,534	\$194,305,558	\$198,653,208	\$202,945,920	\$207,926,618	\$212,327,058
Sub-total Office & Residential	\$328,204,151	\$333,040,898	\$338,140,470	\$343,481,780	\$348,894,088	\$354,814,240	\$360,691,007	\$367,265,103	\$373,282,632
Hotel Projects Leases (including theater retail)									
Base Rent	1,791,430	1,791,430	1,791,430	1,791,430	1,791,430	1,791,430	1,804,314	1,946,038	1,946,038
Pilot Payments	14,390,161	14,621,321	14,829,398	15,026,946	15,226,997	15,429,584	15,634,738	15,842,491	16,052,876
Total Hotel Project Leases	\$16,181,591	\$16,412,751	\$16,620,828	\$16,818,376	\$17,018,427	\$17,221,014	\$17,439,052	\$17,788,528	\$17,998,913
TOTAL PLEDGED REVENUE	\$344,385,743	\$349,453,649	\$354,761,298	\$360,300,156	\$365,912,515	\$372,035,254	\$378,130,059	\$385,053,631	\$391,281,545

FORECAST TOTALS

FYE Oct. 31 (Total Forecast)	2009-2039 Revenue Totals	% of Total
Office Leases		
Total Base and Additional Rent	666,529,353	7.3%
Pilot Payments	3,341,885,581	36.7%
Total Office Severance Leases	4,008,414,934	44.1%
Residential Leases		
Base Rent and Supplemental Rent	980,033,181	10.8%
Pilot Payments	3,895,505,703	42.8%
Less: 467a Tax Exemption	(214,755,292)	-2.4%
Pilot Payments Receivable	3,680,750,411	40.5%
Collection Loss	(18,114,855)	-0.2%
Total Residential Leases	4,642,668,738	51.0%
Sub-total Office & Residential	\$8,651,083,671	95.1%
Hotel Projects Leases (including theater retail)		
Base Rent	45,066,616	0.5%
Pilot Payments	398,347,178	4.4%
Total Hotel Project Leases	443,413,794	4.9%
TOTAL PLEDGED REVENUE	\$9,094,497,465	100.0%

EXHIBIT A

Assumptions and Limiting Conditions

ASSUMPTIONS AND LIMITING CONDITIONS

This consultant's report has been made with the general assumptions and limiting conditions listed below. These assumptions are in addition to the financial assumptions used in the revenue forecasts, which are presented in Section IX of this report.

- The financial analyses are based on estimates and assumptions developed in connection with this report. Some assumptions, however, inevitably will not materialize, and unanticipated events and circumstances will occur; therefore, actual results achieved during the period covered by our forecast will vary from our estimates and the variations may be material. Forecasts contained in this report represent the consultant's view of reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that they will occur.
- In this report, we have not been requested, nor did we undertake, to value the realty or the present worth of the cash flows to the Authority.
- The information furnished by others is believed to be reliable, but no warranty is given for its accuracy. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless nonconformity has been identified, described and considered in the consultant's report.
- It is assumed that the property is in full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, described, and considered in the consultant's report.
- It is assumed that all required licenses, Certificates of Occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the revenue forecast contained in this report is based.
- Responsible ownership and competent property management are assumed.
- CBRE has made no physical survey of the property and assumes no responsibility for such matters.
- Unless otherwise noted, estimated building sizes and rentable areas were provided by others and are assumed to be true and accurate. The reader should be aware that the estimated rentable areas are often subject to re-measurement by either the Authority or lessees on rollover of office space.
- We have read all existing leases between the Authority and tenants of the properties pledged. Our cash flow estimates are based on our reading. We are not, however, rendering a legal opinion as to the contractual obligations of the parties at interest, nor do we accept responsibility for matters pertaining to legal title considerations. All quotations, unless otherwise cited, are from the leases.
- The Authority's expenses were not deducted from our projections of gross revenues. Expenses excluded here include debt service and the Authority's administrative, operating and maintenance costs.
- Our estimates of Payments in Lieu of Taxes (PILOT) payments come from a familiarity with New York City's historic policies and practices of taxing commercial and residential properties. Our analysis assumes

continuation of these policies in the future. Our cash flow forecasts are sensitive to shifts in market conditions, which affect the assessment of each building and the applicable tax rates.

- Our projections include a collection loss for the residential PILOT.
- Many of the sites have filed tax protests for the past tax years. Our projected tax assessments reflect a reasonable estimate of tax assessments from comparable data and analysis of the previous years of World Financial Center's and NYMEX's assessments. We assume a consistency in assessment among similar "comparable" tax parcels will continue to be New York City's tax policy.

EXHIBIT B

Lower Manhattan Office Rent Comparables

Market Data as of 10/06/2009

Building Name Address City, State Market, Submarket	Tenant Type Sublessor	SF Leased Date Closed LXD	Effective Rent Base Rent Status	Lease Ter LL Work Free Rent	Floor Occ.	Rental Adjustments Tenant Rep Agency Rep
The Trump Building 40 Wall Street New York, NY Downtown, Financial	Rosen Greenberg Blaha Direct Lease	3,450 07/23/2009 02/28/2015	\$36.51 \$38.00 Verified	5y 2m \$ 0.00 2 Months	P5	\$38.00/5.17; No Tenant Rep Broker CB Richard Ellis
7 World Trade Center New York, NY Downtown, WFC	Broadcast Music, Inc. (BMI) Sublet Lease ABN Amro, Inc.	57,414 07/16/2009 11/30/2022	\$34.50 \$43.00 Not Verified	13y \$ 55.00 12 Months	P31, E30	\$43.00/4; \$47.00/4; \$51.00/5; Cushman & Wakefield Inc. Grubb & Ellis
17 State Street New York, NY Downtown, Financial	Vestis Insurance Agency, Inc. Direct Lease	5,481 06/16/2009	\$46.19 \$48.00 Not Verified	10y \$ 0.00 6 Months	P5	\$48.00/5; \$52.00/5; RFR Realty, LLC
2 New York Plaza 125 Broad Street New York, NY Downtown, Financial	Herzfeld & Rubin, P.C. Direct Lease	56,322 05/28/2009 01/01/2030	\$35.43 \$38.00 Verified	20y \$ 25.00 12 Months	P13, E12	\$38.00/5; \$41.50/5; \$45.00/5; \$48.50/5; Studley, Julien J Inc Mack-Cali Realty Corporation
Wall Street Plaza 88 Pine Street New York, NY Downtown, Financial	Canam Enterprises Sublet Lease Clearing Corp.	4,149 05/22/2009 01/31/2014	- \$43.00 Not Verified	5y \$ 12.00 3 Months	P31	\$43.00/2.5; \$45.00/2.5; Cushman & Wakefield Cushman & Wakefield
Wall Street Plaza 88 Pine Street New York, NY Downtown, Financial	Royal & Sun Alliance Insurance Agency, Inc. Direct Lease	8,437 04/09/2009 11/30/2019	\$39.36 \$45.00 Verified	10y 4m \$ 25.00 4 Months	P17	\$45.00/10.33; CB Richard Ellis Cushman & Wakefield Inc.
100 Wall Street New York, NY Downtown, Financial	American Union Securities, Inc. Direct Lease	3,755 04/06/2009 06/30/2014	\$38.44 \$40.00 Verified	5y 2m \$ 0.00 2 Months	P15	\$40.00/5.17; CB Richard Ellis Cushman & Wakefield Inc.

Market Data as of 10/06/2009

Building Name Address City, State Market, Submarket	Tenant Type Sublessor	SF Leased Date Closed LxD	Effective Rent Base Rent Status	Lease Ter LL Work Free Rent	Floor Occ.	Rental Adjustments Tenant Rep Agency Rep
61 Broadway New York, NY Downtown, Financial	DeOrchis & Partners, LLP Direct Lease	8,022 03/06/2009	- \$43.00 Not Verified	10y 8 Months	P19	\$43.00/10; Broad Street Development, LLC Broad Street Development, LLC
100 Broadway New York, NY Downtown, Financial	Phoenix Constructors Direct Lease	55,547 02/27/2009 12/31/2015	\$35.86 \$42.25 Verified	6y 10m \$ 3.00 11 Months	E3, E4, E5	\$42.25/2.08; \$44.25/4.75; Jones Lang LaSalle; UGL Equis Corporation CB Richard Ellis
Wall Street Plaza 88 Pine Street New York, NY Downtown, Financial	Power Merchants Group Direct Lease	16,229 02/24/2009	\$43.46 \$44.50 Verified	10y \$ 40.00 5 Months	P15	\$44.50/5; \$48.00/5; NAI Global New York City Cushman & Wakefield Inc.
Comment: Expansion rights for balance of floor. Landlord to turnkey space based on building standard materials.						
The Topps Company Building 1 Whitehall Street New York, NY Downtown, Financial	Nationwide Insurance Enterprise Direct Lease	11,722 02/11/2009	\$33.51 \$40.00 Verified	5y 3m \$ 18.00 3 Months	P13	\$40.00/5.25; CB Richard Ellis; CB Richard Ellis Rudin Management Company, Inc.
100 William Street New York, NY Downtown, City Hall	GJL Holdings LLC Direct Lease	3,426 02/05/2009 04/30/2014	\$32.65 \$45.00 Verified	5y 2m \$ 45.00 3 Months	P18	\$45.00/5.17; Capstone Realty Advisors CB Richard Ellis
55 Broadway 1 Exchange Plaza New York, NY Downtown, Financial	Bank of Communications Co., Ltd. Direct Lease	21,580 01/22/2009	\$53.75 \$58.00 Not Verified	10y \$ 15.00 3 Months	E32, E31	\$58.00/10; Project Vision Broad Street Development, LLC
Wall Street Plaza West 2 Rector Street New York, NY Downtown, Financial	State Farm Insurance Direct Lease	3,979 01/13/2009	\$31.29 \$41.00 Verified	5y \$ 30.00 3 Months	P13	\$41.00/5; Paragon Group, LLC Cushman & Wakefield Inc.

Market Data as of 10/06/2009

Building Name Address City, State Market, Submarket	Tenant Type Sublessor	SF Leased Date Closed LXD	Effective Rent Base Rent Status	Lease Ter LL Work Free Rent	Floor Occ.	Rental Adjustments Tenant Rep Agency Rep
14 Wall Street New York, NY Downtown, Financial	Rawle & Henderson Direct Lease	7,926 01/12/2009	\$43.23 \$46.00 Verified	5y \$ 0.00 4 Months	E27	\$46.00/2.5; \$48.00/2.5; Cushman & Wakefield Inc.; Cushman & Wakefield Inc. CB Richard Ellis

Comment: Turnkey

EXHIBIT C

The Downtown Manhattan Office Market and Rent Forecast

DOWNTOWN OFFICE MARKET

The Downtown office market defined by CBRE contains 119 buildings comprising approximately 78.6 million square feet, roughly 22.5% of the total Manhattan marketplace. The following chart provides an historical summary of the Downtown Manhattan office market.

DOWNTOWN HISTORICAL OFFICE MARKET OVERVIEW - 3Q 2009

Period	Average Asking Rent	Availability Rate	Net Absorption YTD	Leasing Activity YTD
3Q 2009	\$39.54	11.81%	(1,562,824)	2,043,016
2Q 2009	\$41.91	11.13%	---	---
1Q 2009	\$43.17	10.49%	---	---
2008	\$47.68	9.72%	(1,586,986)	3,108,669
3Q 2008	\$50.32	9.66%	---	---
2Q 2008	\$49.53	9.11%	---	---
1Q 2008	\$49.00	8.52%	---	---
2007	\$47.26	7.58%	1,331,558	4,509,024
3Q 2007	\$45.98	8.71%	---	---
2Q 2007	\$46.79	9.23%	---	---
1Q 2007	\$42.76	10.07%	---	---
2006	\$39.99	9.04%	4,313,458	6,926,550
2005	\$35.41	14.25%	504,000	5,492,202
2004	\$29.94	15.02%	316,011	5,446,929
2003	\$32.92	15.28%	(719,593)	4,545,788
2002	\$35.59	14.41%	(1,839,691)	5,558,610
2001	\$41.55	11.94%	(18,700,587)	6,244,840
2000	\$44.70	4.37%	4,400,512	8,760,219
1999	\$33.76	8.92%	2,595,080	6,846,224

Compiled by CB Richard Ellis

The average asking rent in the market, which had increased steadily since year end 2004, has declined by about 21% over the 12 months since September 2008. Availability rate, which is a measure of space that is on the market and can be delivered for occupancy within 12 months, has risen over two points during the same period.

The following chart shows the current conditions in the Downtown office market broken down by submarket.

DOWNTOWN OFFICE MARKET OVERVIEW - 3Q 2009								
	# of Bldgs	Inventory (mil/SF)	Avg Ask Rent/ SF	Avail. Rate	Vacancy Rate	Annual Absorption	Available SF	Ann. Leasing Activity
DOWNTOWN								
Financial	87	57.5	\$38.83	11.30%	6.72%	-1,341,676	9,603,581	1,338,931
City Hall	29	11.8	\$35.92	16.82%	12.00%	-424,311	4,878,781	360,407
WFC	5	10.1	\$52.29	8.82%	8.15%	203,163	440,926	343,678
Total Downtown Market	121	79.4	\$39.54	11.81%	7.70%	-1,562,824	14,054,782	2,043,016

CB Richard Ellis, Inc.

Downtown's average asking rent fell \$0.66 to \$39.54 per sq. ft. in September—the first month Downtown's average asking rent was below \$40 since December 2006—as lower priced space was brought to market and landlords continued to drop prices for space already on the market.

In the past 12 months, the overall average asking rent has fallen 21% from September 2008's, \$50.35 per sq. ft. Since the beginning of the year, landlords reduced asking rents on 592 units totaling 8.18 million sq. ft. have been lowered by an average of 9%. Meanwhile, several new availabilities were brought to market in September. The addition of new availabilities to the market fueled negative net absorption of 300,000 sq. ft. in September, bringing year-to-date net absorption to negative 1.56 million sq. ft. This was on par with the year-earlier's 1.54 million sq. ft. of negative net absorption through September. The month's new space offerings also drove a 40 basis point increase in the availability rate to 11.8%. At the same time last year, the availability rate was 9.7%. Downtown's overall sublease availability rate remained stable, edging up 10 basis points to 3.5% in September—still the lowest of Manhattan's three markets.

The following chart illustrates the top downtown leasing transactions over the past month of September.

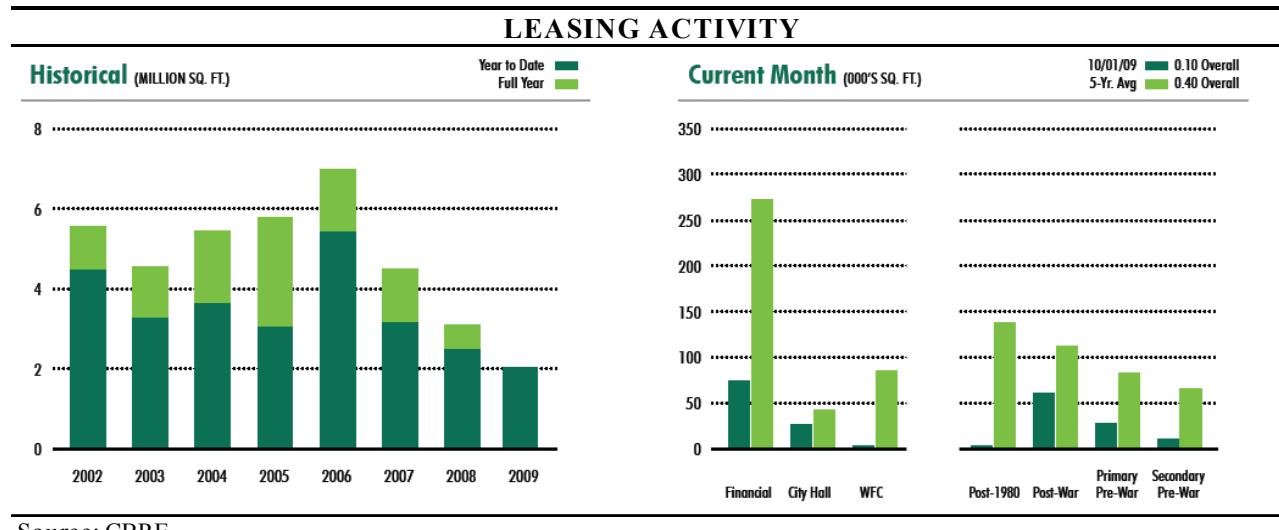
TOP DOWNTOWN LEASE TRANSACTIONS

Size (Sq. Ft.)	Tenant	Address
108,241 *	Country-Wide Insurance	40 Wall Street
40,950 *	Rockefeller Group Business Centers	48 Wall Street
33,025	MetTel, Inc.	55 Water Street
16,580 *	Townsend Analytics Ltd.	65 Broadway
13,000 *	Sprint Nextel Corporation	59 Maiden Lane

*Renewal

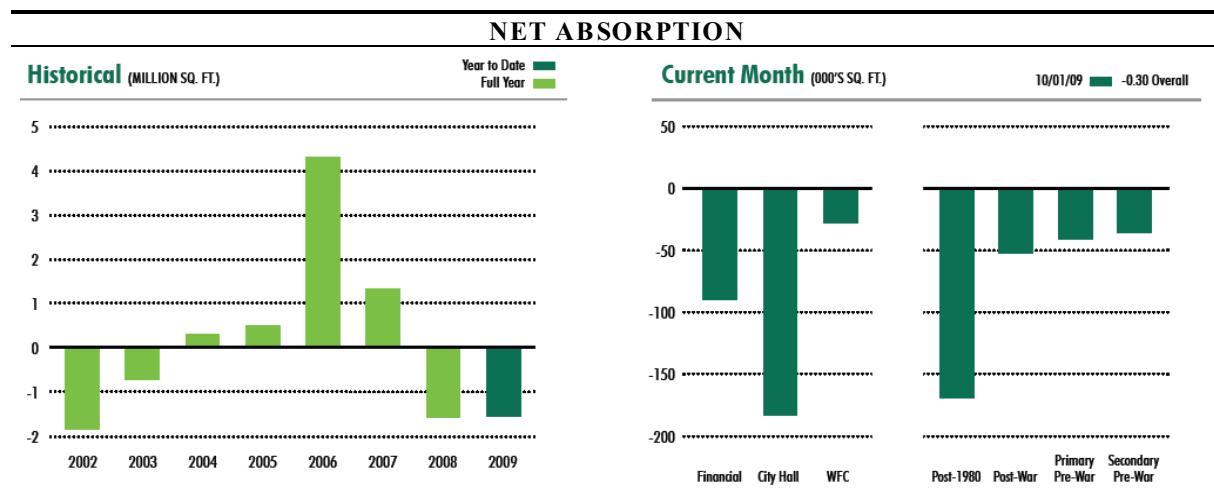
Source: CBRE

Leasing Activity



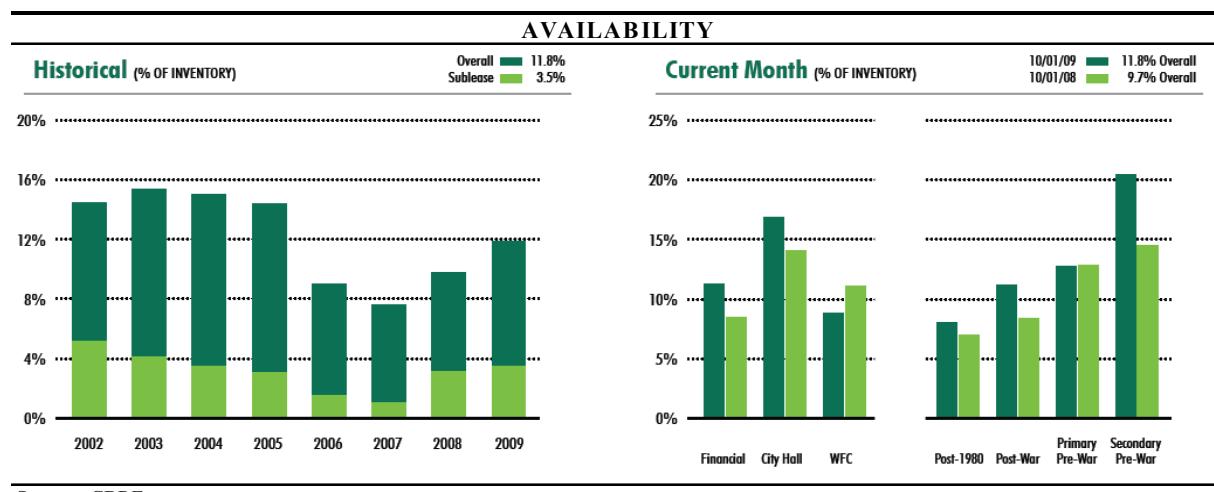
Leasing activity totaled 100,000 sq. ft. in September, one-quarter of Downtown's five-year monthly average of 400,000 sq. ft. Four of the month's top five deals were renewals. Most of the month's activity took place in the Financial District, which posted 75,000 sq. ft. of leasing. Year-to-date leasing totaled 2.04 million sq. ft., 18% behind 2008's 2.50 million sq. ft. The lion's share of activity so far this year has taken place in the Financial District, where 1.34 million sq. ft. has been leased year to date. In terms of age category, Primary and Secondary Pre-War properties have seen the majority of activity, with a combined 1.11 million sq. ft. of leasing so far this year. The World Financial Center registered no leasing in September.

Net Absorption



The addition of new availabilities fueled negative net absorption of 300,000 sq. ft. in September. All segments were in negative territory for the month, led by City Hall, where new availabilities—including 118,000 sq. ft. at 123 William Street and a total of 71,000 sq. ft. at 40 Fulton Street—fueled negative absorption of 180,000 sq. ft. The Financial District registered 90,000 sq. ft. of negative absorption, following the addition of several new availabilities. In the World Financial Center, 24,000 sq. ft. of newly available sublease space at 2 World Financial Center translated into negative absorption in that segment. Through the first nine months of the year, overall net absorption totaled negative 1.56 million sq. ft., on par with the year-earlier's negative 1.54 million sq. ft. The Financial District accounted for the majority of year-to-date negative absorption, at 1.34 million sq. ft. The World Financial Center remained in positive territory year to date, at 200,000 sq. ft.

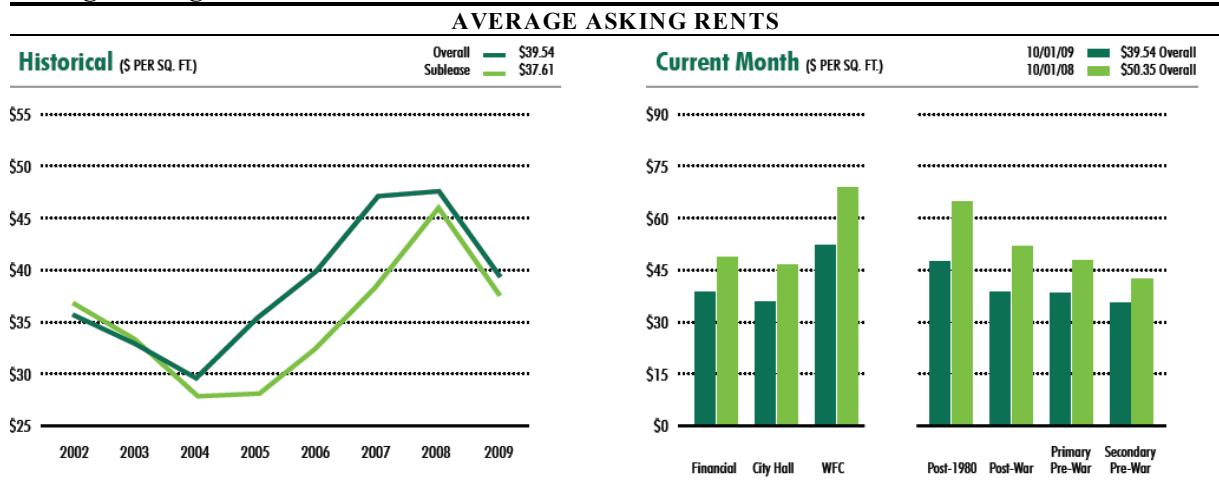
Availability



Source: CBRE

New availabilities added to the market in September fueled a 40 basis point increase in the availability rate to 11.8%. At the same time last year, the availability rate was 9.7%. City Hall, home to the largest new space offering in September—118,000 sq. ft. of former New York State Liquidation Bureau space at 123 William Street—recorded a 1.5-point increase in availability to 16.8%. Increases in the Financial District and World Financial Center were modest, at 0.2 points to 11.3% and 30 basis points to 8.8%, respectively. In terms of age category, Post-1980 product remained the tightest by far, with an availability rate of 8.0%, an increase of 80 basis points over August's rate. Secondary Pre-War retained the market-high rate of 20.4%. Downtown's overall sublease availability rate remained stable, edging up 10 basis points to 3.5% in September—still the lowest of Manhattan's three markets.

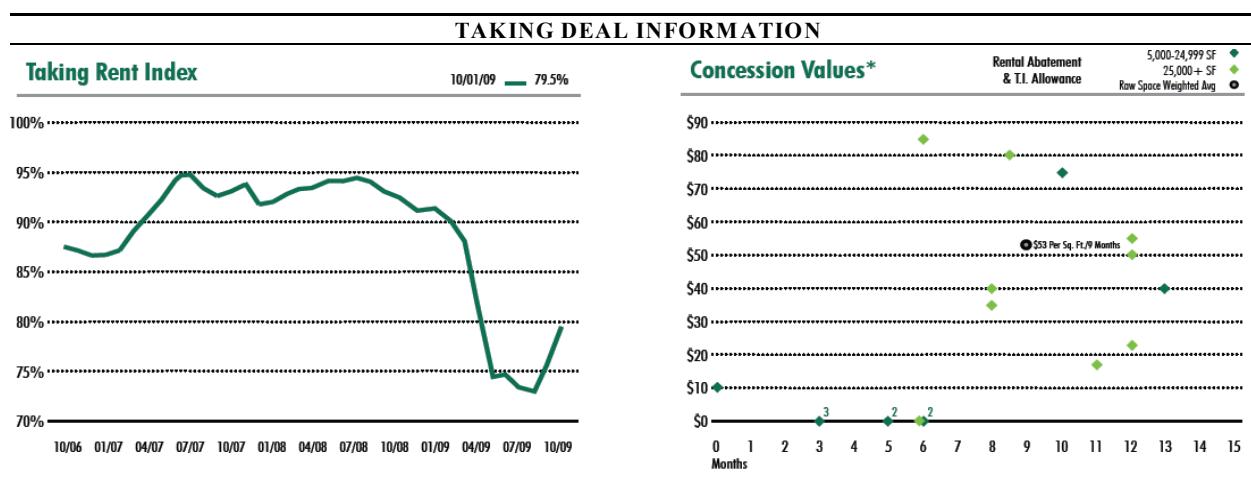
Average Asking Rents



Source: CBRE

The average asking rent fell \$0.66 to \$39.54 per sq. ft. in September—the first month Downtown's average asking rent fell below \$40 since December 2006—as lower-priced space came online and landlords continued to drop prices for space already on the market. The Financial District posted the biggest drop in average asking rent in September, falling \$0.84 to \$38.83 per sq. ft. The average asking rent in City Hall fell \$0.12 to \$35.92 per sq. ft., while the World Financial Center held at a market-high \$52.29 per sq. ft. for the month. In terms of age category, Post-1980 product retained its premium over all other segments, with an average asking rent of \$47.57 per sq. ft. The second-highest average was in Post-War properties, at \$38.95 per sq. ft. Over the past year, the overall average asking rent has fallen 21% from September 2008's \$50.35 per sq. ft.

Taking Deal Information



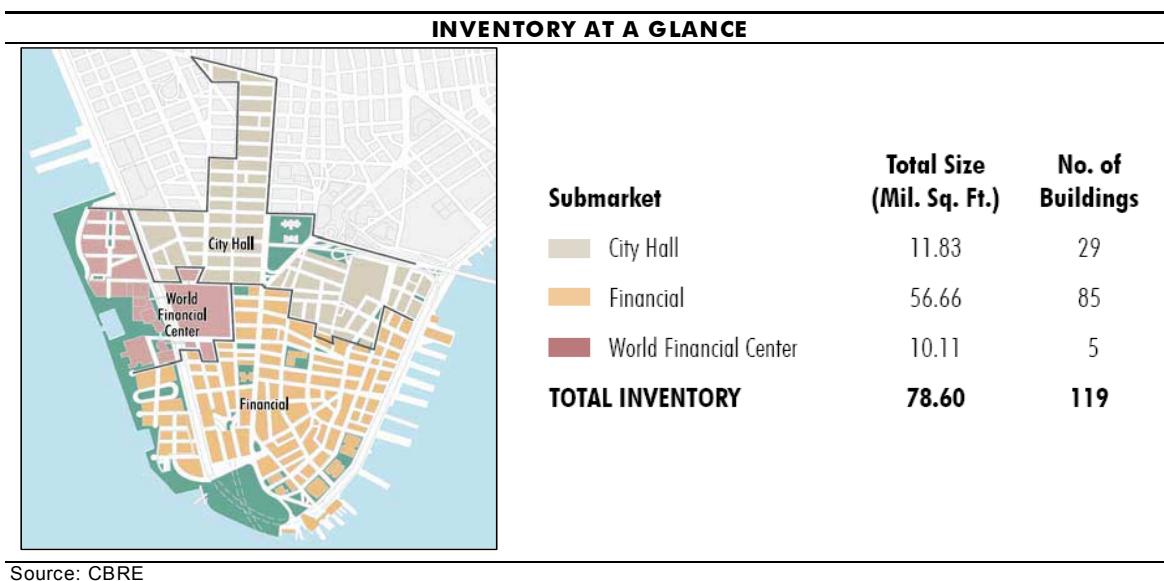
Source: CBRE

The Taking Rent Index rose 4.0 percentage points to 79.5% in September, based on a six-month rolling average. Concession packages for new leases for raw space completed in the past three months included

an average of \$53 in T.I. allowance and 9 months of rent abatement, both on par with the previous month's averages.

SUBDISTRICT ANALYSIS

The following shows the boundaries of each of Downtown Manhattan's office submarkets.



WORLD FINANCIAL CENTER DISTRICT

The World Financial Center District submarket contains some 10.1 million rentable square feet (RSF) of office space in 5 buildings – 1, 2, 3, and 4 World Financial Center and 7 World Trade Center. The Goldman Sachs will be added to the submarket upon completion and so is not included in the current description. World Financial Center District is the premiere Downtown submarket. It comprises only 12.9% of the Downtown marketplace but contains 50% of Downtown's 20.2 million square foot Post-1980 building inventory. A historical summary of key indicators for the World Financial Center District office market is presented on the following table:

WORLD FINANCIAL CENTER SUBMARKET					
Period	Vacancy	Availability	Rent	Absorption	Leasing Activity
3Q 2009	8.10%	8.80%	\$52.29	32,965	73,102
2Q 2009	8.75%	9.14%	\$55.91	(30,082)	205,686
1Q 2009	8.20%	8.85%	\$59.02	200,280	64,890
4Q 2008	6.83%	10.83%	\$62.43	29,244	136,825
3Q 2008	7.76%	11.12%	\$68.97	(250,497)	18,164
2Q 2008	6.76%	8.64%	\$70.99	(115,727)	3,823
1Q 2008	6.41%	7.50%	\$72.82	(293,452)	0
4Q 2007	4.59%	4.59%	\$74.48	51,057	39,913
3Q 2007	5.10%	5.10%	\$73.95	115,481	91,282
2Q 2007	6.16%	6.24%	\$73.08	60,553	74,956
1Q 2007	6.41%	6.84%	\$70.89	140,032	140,975
4Q 2006	19.97%	8.22%	\$63.24	360,576	361,835
3Q 2006	11.53%	11.79%	\$62.97	1,064,613	1,130,062
2Q 2006	22.20%	22.32%	\$54.65	159,866	87,231
1Q 2006	22.74%	23.90%	\$53.37	44,664	58,082
4Q 2005	20.31%	24.34%	\$52.51	270,496	2,170,496
3Q 2005	24.44%	27.02%	\$52.56	(7,630)	15,000
2Q 2005	24.35%	26.94%	\$52.56	41,393	31,905
1Q 2005	26.17%	27.35%	\$52.16	(1,381,541)	330,161
4Q 2004	14.99%	16.40%	\$37.85	116,295	170,156
3Q 2004	16.37%	17.78%	\$35.65	160,729	79,445
2Q 2004	15.25%	19.69%	\$37.84	(75,164)	12,909
1Q 2004		18.80%	\$38.24	660,558	459,824
4Q 2003		26.63%	\$41.33	72,602	115,151
3Q 2003		27.49%	\$44.58	(249,382)	120,510
2Q 2003		24.53%	\$47.13	215,931	241,942
1Q 2003		27.09%	\$48.51	(51,093)	31,591
4Q 2002		26.49%	\$49.72	171,406	174,945
3Q 2002		28.52%	\$52.53	(363,232)	101,640
2Q 2002		24.21%	\$53.88	(997,968)	40,000
1Q 2002		12.38%	\$53.99	(275,230)	0
CBRE					

The World Financial Center District has seen significant declines in average asking rents from year-end 2007 to present. The construction of 7 World Trade Center which added 1.67 million square feet to the submarket inventory in 2005 has had a significant affect on the market figures for absorption, asking rent and availability rate. The lease up of 7 World Trade Center to reach its current occupancy level of 80% is evident in the decline of the submarket's availability rate from 27.35% in 1st Quarter 2005 to 4.59% in 4th Quarter 2007; and in the rise of asking rents as the more expensive space on the building's higher floors comprised more of the space remaining available at 7 World Trade Center. The subsequent decline in asking rent and increase in availability rate reflects both the general deterioration of market conditions in Manhattan and Downtown and the relatively high proportion of sublease space of the available space in this submarket which has come on the market at lower rents. These factors have driven asking rents downward to \$52.29 per square foot, a drop of 30% since they peaked in the 4th Quarter 2007, and 24% over the last year. After rising by 6.5 percentage points to 11.18% in 3rd Quarter 2008, the availability rate has since fallen 2.3 percentage points to 8.8% in S\3rd Quarter 2009 and has been fairly stable since the start of the year. The submarket has the highest asking rent and the lowest availability rate of any submarket Downtown; and the lowest availability rate in Manhattan.

CONCLUSION

Amid signs that the Midtown office market is beginning to stabilize, the Manhattan market still faces continued downside risk in the near term. The expectations of market participants are generally less

pessimistic for the market than they were earlier in the year in part because leasing activity has risen and the gap between asking and taking rents has narrowed. The pace of job losses has ebbed and the final tally of job losses in New York City is now expected to be well under the more pessimistic projections made last quarter. But some layoffs persist and, despite a small gain in securities employment in September, signs of significant new hiring by employers are scarce. Our projections and consensus economic opinion expects employment gains to lag the recovery in economic activity and points to a slow recovery of employment levels beginning in mid 2010. The long-term consequences of consolidation and government intervention on the financial sector are not yet fully understood, but the recent return to profitability of Goldman Sachs and other major banks and broker-dealers may indicate that those consequences may not be as pronounced as speculated. However, the contraction associated with the acquisition of Merrill Lynch and government rescue of AIG will effect the Downtown market and the World Financial Center. Taken together AIG, Merrill Lynch and Goldman Sachs occupy over 7 million square feet in Manhattan, the great majority of which is Downtown. Goldman Sachs' move into its new headquarters in Battery Park City combined with anticipated relocations and downsizing by Merrill Lynch and AIG could add up to 4 million square feet, or 2% of the inventory, to the Downtown market and increase availability rate significantly. Accordingly we project that market rents Downtown and in the World Financial Center submarket will continue to decline through 2010. As rents in Midtown stabilize this year and begin to rebound, the difference in rent between Midtown and Downtown which has fluctuated around 35% over the last decade and fallen in the last year will grow again and revive the movement of price-sensitive tenants from Midtown to Downtown. The trend of increasing diversity in the composition of tenants in the Downtown market will continue and the share represented by financial services will diminish.

We expect the World Financial Center to maintain its superior competitive position in the Downtown market through the current downturn and subsequent recovery. The World Financial Center will not be immune to Downtown's changing tenant composition. However, the addition of the Goldman Sachs headquarters reinforces the World Financial Center submarket's position as the location of choice Downtown for stronger tenants in the financial and professional services sectors. Brookfield is expected to sustain its track record of maintaining the quality of the buildings and of the tenant roster as the financial resources and stability of building owners and managers have gained in importance to tenants. In a market where tenants have capital constraints and the credit markets are closed to many landlords, Brookfield's ability to access the capital markets can provide a distinct advantage in making improvements to attract and retain tenants. Brookfield's agreement with the Port Authority to take over construction of the connector from the World Financial Center to the transportation hub at the World Trade Center is indicative of the importance of the completion of that project to the World Financial Center's competitive position. Conversely, delay in the completion of the public improvements at the World Trade Center beyond 2014 would have an adverse effect on Brookfield's ability to attract and retain tenants as Merrill Lynch's lease expires.

EXHIBIT D

Lower Manhattan Residential Rental & Sale Comps

BATTERY PARK CITY CONDOMINIUM SALES

Block	Lot	Address	SquareFeet	Neighborhood	SaleDate	Sale Price	Price/SqFt
16	1634	WEST STREET # PH3F	n/a	Battery Park City	20-Feb-09	\$3,400,000	n/a
16	9110	10 WEST STREET # PH1B	3,991	Battery Park City	25-Mar-09	\$5,918,000	\$1,483
16	9094	10 WEST STREET # 34G	3,748	Battery Park City	30-Oct-08	\$5,400,000	\$1,441
16	9055	10 WEST STREET # 25E	1,914	Battery Park City	31-Aug-09	\$2,550,000	\$1,332
16	9054	10 WEST STREET # 25D	807	Battery Park City	31-Aug-09	\$898,000	\$1,113
16	9048	10 WEST STREET # 24D	807	Battery Park City	25-Feb-09	\$860,000	\$1,066
16	9024	10 WEST STREET # 19D	807	Battery Park City	4-Aug-09	\$750,000	\$929
16	9023	10 WEST STREET # 19C	1,690	Battery Park City	27-Aug-09	\$1,430,000	\$846
16	8138	2 SOUTH END AVENUE # 8H	578	Battery Park City	14-Sep-09	\$419,000	\$725
16	8080	2 SOUTH END AVENUE # 5P	1,000	Battery Park City	17-Dec-08	\$847,000	\$847
16	8024	2 SOUTH END AVENUE # 3E	634	Battery Park City	23-Oct-08	\$440,000	\$694
16	8023	2 SOUTH END AVENUE # 3D	1,022	Battery Park City	12-Mar-09	\$699,000	\$684
16	8010	2 SOUTH END AVENUE # TH7	1,429	Battery Park City	25-Jun-09	\$860,000	\$602
16	6182	21 SOUTH END AVENUE # PH2BB	561	Battery Park City	6-Nov-08	\$440,000	\$784
16	6129	21 SOUTH END AVENUE # 722	1,241	Battery Park City	21-Jul-09	\$980,000	\$790
16	6076	21 SOUTH END AVENUE # 438	703	Battery Park City	15-May-09	\$467,000	\$664
16	5486	200 RECTOR PLACE # 3P	664	Battery Park City	17-Oct-08	\$502,500	\$757
16	5281	200 RECTOR PLACE # 36G	638	Battery Park City	20-Aug-09	\$600,000	\$940
16	5105	200 RECTOR PLACE # 22C	604	Battery Park City	24-Oct-08	\$270,000	\$447
16	4100	300 RECTOR PLACE # 7B	625	Battery Park City	31-Oct-08	\$550,000	\$880
16	4089	300 RECTOR PLACE # 6K	1,010	Battery Park City	4-Dec-08	\$880,000	\$871
16	4050	300 RECTOR PLACE # 4L	645	Battery Park City	13-Feb-09	\$450,000	\$698
16	4019	300 RECTOR PLACE # 3A	614	Battery Park City	17-Dec-08	\$430,000	\$700
16	3120	280 RECTOR PLACE # 9L	564	Battery Park City	31-Oct-08	\$406,000	\$720
16	3081	280 RECTOR PLACE # 7C	832	Battery Park City	7-Nov-08	\$289,034	\$347
16	3040	280 RECTOR PLACE # 4J	625	Battery Park City	8-Jan-09	\$548,500	\$878
16	2756	380 RECTOR PLACE # 23G	1,075	Battery Park City	7-Nov-08	\$1,700,000	\$1,581
16	2468	300 ALBANY STREET # 7E	537	Battery Park City	27-Feb-09	\$435,000	\$810
16	2448	300 ALBANY STREET # 5O	534	Battery Park City	4-Dec-08	\$315,000	\$590
16	2432	300 ALBANY STREET # 4N	648	Battery Park City	21-Jul-09	\$415,000	\$640
16	2423	300 ALBANY STREET # 4E	537	Battery Park City	28-Aug-09	\$330,000	\$615
16	2291	250 SOUTH END AVENUE # 15B	1,157	Battery Park City	3-Jul-09	\$875,000	\$756
16	2107	320 ALBANY STREET # 15D	1,174	Battery Park City	6-Jul-09	\$985,000	\$839
16	1604	WEST STREET # 32D	n/a	Battery Park City	8-Jun-09	\$699,000	n/a
16	1569	WEST STREET # 27C	n/a	Battery Park City	29-Jul-09	\$987,000	n/a
16	1567	WEST STREET # 27A	n/a	Battery Park City	13-Mar-09	\$2,200,000	n/a
16	1478	WEST STREET # 14B	n/a	Battery Park City	13-Aug-09	\$999,900	n/a
16	1462	30 WEST STREET # 10G	n/a	Battery Park City	12-Aug-09	\$900,000	n/a
16	1417	WEST STREET # 4D	n/a	Battery Park City	4-Dec-08	\$849,000	n/a
16	1043	377 RECTOR PLACE # 18B	821	Battery Park City	23-Jan-09	\$850,000	\$1,035
16	1040	377 RECTOR PLACE # 15B	821	Battery Park City	23-Jan-09	\$890,969	\$1,085
16	1037	377 RECTOR PLACE # 11B	665	Battery Park City	9-Apr-09	\$672,000	\$1,011
16	1031	377 RECTOR PLACE # 5B	665	Battery Park City	30-Apr-09	\$565,000	\$850
16	1025	377 RECTOR PLACE # 25A	645	Battery Park City	30-Jul-09	\$1,000,000	\$1,550
16	1302	102 NORTH END AVENUE # RETL	n/a	Battery Park City	21-Jul-09	\$1,000,000	n/a
16	1302	102 NORTH END AVENUE # RETL	n/a	Battery Park City	21-Jul-09	\$1,000,000	n/a

Source: REBNY

RESIDENTIAL RENT COMPARABLE SUMMARY - 2Q2009								
Property Name	Size (units)/ Floors	Yr Blt/ Bldg Class	Avg Rent/ Bldg Vac.	Vacancy Rate	Studio Rent/Sq Ft Rent Per SF	1BR Rent/Sq Ft Rent Per SF	2BR Rent/Sq Ft Rent Per SF	3BR Rent/Sq Ft Rent Per SF
The Solaire 20 River Terrace	290 30	2003 A	\$3,586 1.7%	1.7%	\$1,995 565 \$42.37	\$3,100 834 \$44.60	\$5,800 1442 \$48.27	\$7,400 1442 \$61.58
22 River Terrace 22 River Terrace	324 28	2001 A	\$3,421 2.5%	2.5%	\$2,350 550 \$51.27	\$3,050 680 \$53.82	\$4,600 1100 \$50.18	\$5,600 1400 \$48.00
The Verdesian 211 North End Ave	253 24	2005 A	\$4,115 4.3%	4.3%	n/a n/a n/a	\$3,100 750 \$49.60	\$5,800 1100 \$63.27	\$7,400 1300 \$68.31
Tribeca Green 325 N End Ave	261 24	2005 A	\$3,889 0.8%	0.8%	\$2,952 600 \$59.04	\$3,484 750 \$55.74	\$5,197 1200 \$51.97	\$8,506 1442 \$70.79
Tribeca Park 400 Chambers St	314 29	1999 A	\$3,810 2.2%	2.2%	\$2,926 600 \$58.52	\$3,738 800 \$56.07	\$5,410 1450 \$44.77	n/a n/a n/a
Tribeca Bridge Tower 450 N End Ave	151 26	1998 A	\$5,440 2.0%	2.0%	n/a n/a n/a	\$3,245 675 \$57.69	\$4,745 1125 \$50.61	\$7,845 1500 \$62.76
50 Murray St 50 Murray St	390 22	2003 A	\$4,326 0.0%	0.0%	\$2,634 500 \$63.22	\$3,992 600 \$79.84	\$6,341 800 \$95.12	n/a n/a n/a
90 West 90 West	410 23	2005 A	\$3,050 1.5%	1.5%	\$2,075 350 \$71.14	\$2,875 750 \$46.00	\$4,250 1100 \$46.36	\$5,500 1400 \$47.14
53 Park Place 53 Park Place	120 12	2000 BC	\$2,661 1.7%	1.7%	\$2,281 565 \$48.45	\$2,889 1995 \$17.38	n/a n/a n/a	n/a n/a n/a
121 Reed St Apts 121 Reed St Apts	123 11	1997 A	\$3,491 0.8%	0.8%	\$2,216 500 \$53.18	\$2,923 600 \$58.46	\$4,835 1000 \$58.02	n/a n/a n/a
Riverwatch 70 Battery Pl	209 9	1998 BC	\$2,746 2.4%	2.4%	\$2,050 \$565 \$43.54	\$2,550 \$834 \$36.69	\$3,600 \$1,442 \$29.96	n/a n/a n/a
South Cove Plaza 50 Battery Pl	208 9	1999 A	\$3,103.00 1.0%	1.0%	n/a n/a n/a	\$2,700 740 \$43.78	\$3,864 1028 \$45.11	n/a n/a n/a

EXHIBIT E

Lower Manhattan Residential Market

THE MANHATTAN RESIDENTIAL MARKET

Demand in the current New York City apartment market has been weakened by job cuts throughout the City. While layoffs have not been as severe as originally predicted, employers are likely to continue to thin payrolls. In anticipation of declining residential demand, developers have begun to alter plans. Multi-family permitting activity, an indicator of future supply, has dropped dramatically. However, because of long planning and construction timetables a continuing number of new projects are still coming online and not expected to wane until 2010. Manhattan's market-rate apartment rate inventory will expand by 3,180 units this year, the greatest supply increase since 2005. In 2008, 1,225 units were completed. As a result, rent reductions are expected for market rate housing going forward for the short-term. Conversely rent stabilized units, because of recent increases authorized by the Rent Guidelines Board, will see rent increases. Investment demand has diminished considerably, as investors are trying to gauge how falling revenues will affect values.

Heightened turmoil in the financial markets beginning in September 2008 led to a significant downturn in the New York City for-sale housing market. A sharp decline in contract activity coupled with a substantial increase in listing inventory, as well as a decline in price level summarizes the sales market for 2009 year-to-date as the severe economic recession, widespread layoffs and the tightening of financial requirements from lenders limited the pool of potential buyers. According to the Miller-Samuel, Inc.'s 3rd quarter 2009 Manhattan Market Report (issued in conjunction with Prudential Douglas Elliman), the median sale price of re-sale apartments, fell 25.6% as compared to the same period last year. The overall number of sales was 50.3% below the same period last year. Market share of new development unit sales fell to 27% of all sales, their lowest level in 18 months.

In both the for-sale and rental apartment market, supply will exceed demand for several years. Equilibrium in the rental market will return sooner than in the for-sale market.

EXISTING INVENTORY

New York City is one of the nation's largest and most diverse residential markets. The New York City housing market comprises a significant number of regulated and non-regulated rental apartments as well as owner-occupied apartments. The following chart depicts the total inventory of residential units within the five boroughs. The information was compiled from the *2008 New York City Housing and Vacancy Survey*. The United States Bureau of the Census conducts the *Housing and Vacancy Survey* every three years on behalf of the City of New York. A summary of the results is presented on the following table:

NEW YORK CITY HOUSING SURVEY						
	Bronx	Brooklyn	Manhattan	Queens	Staten Island	New York City Total
Rental Units						
Occupied	373,701	648,145	580,557	428,275	(a)	2,082,890
Vacant/Available	11,836	15,530	16,110	14,707	(a)	61,762
Total Rental Units (Vacancy Rate)	385,537 3.07%	663,675 2.34%	596,667 2.70%	442,982 3.32%	(a) 6.37% (a)	2,144,652 2.88%
Owner Units						
Occupied	106,699	255,629	182,824	362,211	112,002	1,019,365
Ownership Rate	22.20%	28.30%	24.00%	45.80%	68.00%	32.90%
Vacant/Available						26,588
Total Owner Units (Vacancy Rate)						1,045,953 2.54%
Vacant Units not available for sale/rent						138,043
Total Housing Units	509,632	962,741	839,134	838,670	178,471	3,328,648

(a) Too few units to report.

Source: Selected Initial Findings of the 2008 New York City Housing and Vacancy Survey

Some initial findings of the survey indicate that:

Housing Inventory

- The vacancy rate for units available for rent in the City during the period between February and June of 2008 was 2.88 percent, down from 3.09 percent during the same period in 2005. The 2008 rental vacancy rate is lower than 5.0 percent and, thus, meets the legal threshold mandated by State and City laws to justify the continuation of rent control and rent stabilization.
- The number of housing units in New York City was 3.33 million in 2008, the largest housing stock in the 43-year period since the first survey was conducted in 1965. Between 2005 and 2008, the housing inventory increased by 68,000 units or 2.1 percent, the largest increase since the survey was initiated.
- Every borough saw an increase in housing inventory: The Bronx grew by 11,000 units (2.1 percent); Brooklyn by 18,000 units (1.9 percent); Manhattan by 24,000 units (2.9 percent); Queens by 11,000 units (1.3 percent); and Staten Island by 5,000 units (2.7 percent).

Neighborhood and Housing Conditions

- Neighborhood conditions were the best in the 30-year period since the survey began to address this issue. The proportion of renter households near buildings with broken or boarded-up windows on the same street fell to 5.1 percent in 2008 from 6.3 percent in 2005 and 8.7 percent in 2002.
- Neighborhood satisfaction was the best in the 30-year period since the survey began measuring perceptions of neighborhood quality in 1978. In the survey, 71.8 percent of renter households rated the quality of their neighborhood buildings as “good” or “excellent,” up from 63.1 percent in 1987 and 56.2 percent and in 1978.

- In 2008, building conditions remained among the best since the survey started covering them. For all occupied units, the dilapidation rate was 0.5 percent, remaining at an all-time low since the survey began in 1965. The dilapidation rate for rental units was 0.6 percent in 2008, still the best ever recorded.
- The proportion of renter-occupied units with five or more of the seven maintenance deficiencies measured by the 2008 Survey was 4.4, one of the lowest ever recorded since these conditions were first measured in 1991.

Rental and Ownership Rates

- The number of rent controlled units remained relatively stable from 2005 to 2008, from 43,000 in 2005 to 40,000 in 2008. During the same period, the number of rent stabilized units in buildings constructed before 1947 fell by 22,000, or 2.9 percent. This loss was offset by an increase of 5,000 units in buildings constructed after 1947, for a net loss in rent stabilized units of 17,000 or 1.6 percent.
- The number of owner units, occupied and vacant, was 1,046,000, up by 14,000 between 2005 and 2008.

New York City and New York State Rent Control and Stabilization statutes create a condition where the forces of supply and demand are not solely responsible for the actions that take place in the market. The effects of rent control and stabilization on the residential market in New York City make it one of the most complex in the nation.

New York City Residential Market

The 2nd Quarter 2009 survey and forecast for the New York City rental market is shown on the following table:



New York Apartment Market 2Q 2009 Futures

Year	Quarter	Inventory (SF/Units)	Completions	Conversions	Vac %	Vacant Stock	Occupied Stock	Net Absorption	Asking Rent \$	Asking Rent % Chg
1990	Y	97,747	2,624	N/A	2.3	2,265	95,482	2,452	\$1,105	5.6
1991	Y	99,788	2,041	N/A	2.8	2,781	97,007	1,525	\$1,129	2.2
1992	Y	101,237	1,449	N/A	1.5	1,485	99,752	2,745	\$1,159	2.7
1993	Y	102,760	1,523	N/A	1.4	1,449	101,311	1,559	\$1,178	1.6
1994	Y	104,437	1,677	N/A	1.7	1,826	102,611	1,300	\$1,247	5.9
1995	Y	106,551	2,032	N/A	1.1	1,225	105,326	2,715	\$1,294	3.8
1996	Y	108,993	2,341	N/A	1.3	1,419	107,574	2,248	\$1,381	6.7
1997	Y	114,824	3,308	N/A	1.3	1,499	113,325	5,751	\$1,554	12.5
1998	Y	121,568	5,398	N/A	1.5	1,783	119,785	6,460	\$1,714	10.3
1999	Y	127,707	6,139	N/A	2.0	2,571	125,136	5,351	\$1,903	11.0
2000	Y	132,163	4,456	N/A	1.3	1,707	130,456	5,320	\$2,163	13.7
2001	Y	138,456	6,293	N/A	2.8	3,910	134,546	4,090	\$2,214	2.4
2002	Y	141,720	3,264	N/A	3.9	5,540	136,180	1,634	\$2,165	-2.2
2003	Y	145,614	4,360	-466	4.0	5,831	139,783	3,603	\$2,196	1.4
2004	Y	147,941	2,481	-154	3.3	4,924	143,017	3,234	\$2,320	5.6
2005	Y	149,794	3,916	-2,063	2.9	4,297	145,497	2,480	\$2,433	4.9
2006	Y	149,225	1,726	-2,295	2.2	3,356	145,869	372	\$2,623	7.8
2007	Y	151,241	2,735	-719	2.1	3,245	147,996	2,127	\$2,851	8.7
2008	1	152,345	1,104	0	2.3	3,465	148,880	884	\$2,872	0.7
2008	2	152,761	328	88	2.3	3,537	149,224	344	\$2,909	1.3
2008	3	153,059	425	-127	2.1	3,258	149,801	577	\$2,931	0.8
2008	4	153,199	140	0	2.3	3,514	149,685	-116	\$2,880	-1.7
2008	Y	153,199	1,997	-39	2.3	3,514	149,685	1,689	\$2,880	1.0
2009	1	153,438	239	0	3.4	5,170	148,268	-1,417	\$2,826	-1.9
2009	2	153,438	0	0	2.9	4,514	148,924	656	\$2,771	-1.9
<i>(FORECAST)</i>										
2009	Y	155,580	2,381	N/A	3.4	5,295	150,285	600	\$2,745	-4.7
2010	Y	158,484	2,904	N/A	3.9	6,122	152,362	2,077	\$2,755	0.4
2011	Y	160,149	1,665	N/A	4	6,295	153,854	1,492	\$2,794	1.4
2012	Y	161,235	1,086	N/A	3	5,412	155,823	1,969	\$2,870	2.7
2013	Y	162,888	1,653	N/A	3	5,295	157,593	1,770	\$2,969	3.4

Source: Reis

Compiled by CB Richard Ellis

As previously mentioned, this survey is only a representative sample of buildings whose management or owners were willing to participate. The inventory does not represent the overall size of the market, but is representative of its trends. Also, the survey does not distinguish among the prices of studio, one-, two-, and three-bedroom apartments.

As of the second quarter of 2009, the vacancy rate in the overall New York marketplace was approximately 2.9%. This figure represents a significant increase as compared to the vacancy rate at the same period of the previous year (2.3%), although showing a 0.5% decrease compared to first quarter of 2009. REIS anticipates that the overall vacancy rate for the New York City residential marketplace will continue increasing over the next two-three years, and will stabilize in the near term future in the vicinity of 3.3%. REIS forecasts rents to decrease by 4.7% over 2009. Thereafter they will remain stable for one year and then increase again steadily over the next three years.

The overall New York City residential marketplace is broken down into nine different sub-markets as tracked by REIS Reports. A summary of the various sub-markets is presented on the following table:

New York Apartment 2Q 2009 Submarket Snapshot

Submarket	Inventory (Buildings)	Inventory (SF/Units)	Asking Rent \$	Vac %	Free Rent (mos)	Expenses % (Apartment)
W Village/Downtown	111	21,836	\$3,796	3.4	0.3	57.0
Stuyvesant	79	21,772	\$3,492	3.0	0.3	61.1
Midtown West	81	17,576	\$3,451	3.5	0.4	56.8
Upper East Side	63	16,302	\$3,496	2.6	0.3	58.3
Upper West Side	64	14,791	\$4,183	2.0	0.5	57.8
Morningside Hts	64	6,880	\$2,109	10.1	0.8	61.1
Kings County	148	19,873	\$1,411	2.4	0.3	61.9
Queens County	97	22,103	\$1,377	2.1	0.6	61.4
Bronx County	78	12,305	\$1,120	1.2	0.3	62.6

Compiled by CB Richard Ellis

WEST VILLAGE/DOWNTOWN RESIDENTIAL MARKET

Battery Park City is located within the West Village/Downtown sub-market as defined by REIS. REIS defines the neighborhood as the area south of W. 13th Street, west of East River and east of the Hudson as shown in the picture below.



Within the West Village/Downtown sub-market REIS Reports tracks 111 properties, with a total of 21,836 units, which results in an average complex size of 196 units for the neighborhood. The W. Village/Downtown submarket is an average neighborhood based upon the survey presented in terms of number of residential buildings and number of units. The average rent, though, is slightly higher than the city average and in line with most of the remaining Manhattan neighborhoods. The West Village/Downtown sub-market features a vacancy rate of 3.4% which is considered high for Manhattan but typical of current market conditions. An historical summary of the West Village/Downtown submarket is presented on the following table:



New York Apartment 2Q 2009 SubTrend Futures

Year	Quarter	Inventory (SF/Units)	Completions	Conversions	Vac %	Net Absorption	Asking Rent \$	Asking Rent % Chg
1995	annual	9,551	195	n/a	0.4	541	\$1,933	4.8
1996	annual	9,770	219	n/a	0.7	189	\$2,111	9.2
1997	annual	11,106	1,031	n/a	0.5	1,348	\$2,435	15.3
1998	annual	12,915	1,685	n/a	0.5	1,800	\$2,568	5.5
1999	annual	14,954	2,039	n/a	3.2	1,625	\$2,759	7.4
2000	annual	15,819	865	n/a	1.5	1,107	\$3,043	10.3
2001	annual	16,853	1,034	n/a	3.7	647	\$2,940	-3.4
2002	annual	17,052	199	n/a	6.2	-234	\$2,815	-4.3
2003	annual	18,395	1,391	-48	5.0	1,480	\$2,827	0.4
2004	annual	19,225	908	-78	5.1	770	\$3,031	7.2
2005	annual	20,998	2,433	-660	4.1	1,892	\$3,210	5.9
2006	annual	20,721	753	-1030	2.7	25	\$3,465	7.9
2007	annual	21,345	1,343	-719	2.5	649	\$3,808	9.9
2008	1	21,345	0	0	2.2	64	\$3,844	0.9
2008	2	21,673	328	0	3.5	39	\$3,984	3.6
2008	3	21,836	163	0	2.9	289	\$3,976	-0.2
2008	4	21,836	0	0	3.1	-44	\$3,929	-1.2
2008	annual	21,836	491	0	3.1	348	\$3,929	3.2
2009	1	21,836	0	0	3.7	-131	\$3,851	-2.0
2009	2	21,836	0	0	3.4	66	\$3,796	-1.4
Forecast								
2009	Y	21,836	0	n/a	3.5	-92	\$3,665	-6.7
2010	Y	23,292	1,456	n/a	5.2	1,014	\$3,672	0.2
2011	Y	23,422	130	n/a	4.3	329	\$3,727	1.5
2012	Y	23,597	175	n/a	3.9	262	\$3,833	2.8
2013	Y	23,922	325	n/a	3.2	473	\$3,964	3.4
REIS								

The W. Village/Downtown sub-market has historically enjoyed a relatively low vacancy rate, with steady increases in the average asking rent (approximately 3.7% per year over the past decade). In 2001 the vacancy rate began to increase topping 6.2% on annual basis in 2002 due to the 9/11 catastrophe, however; the resilient Downtown market bounced back in 2003 with vacancy decreasing to 5.0% and continued to decrease until Q1 2008 where it reached a vacancy rate of 2.1%. To date the market vacancy for the W. Village/Downtown submarket is reported at 3.4% with a slight change compared to same period of 2008(3.5%). REIS projects the vacancy rate to slightly increase during 2009 and reach 5.2% in 2010, after which a slow decline from this level through the next several years is expected as the economy improve. Average asking rents have decreased slightly and as per REIS, they are projected to decline through 2009 and stabilize through 2011.

RESIDENTIAL CONSTRUCTION

A review of the market reveals that there are approximately 6,778 apartment units currently under construction or proposed in the West Village/Downtown submarket. Although for the majority of the projects, the secondary type indicates condominium, there is a strong possibility that the condominium units will enter the market as rental units, thereby creating some additional downward pressure on the rental market. The following table includes under construction, recently completed, and proposed residential rental developments throughout the W. Village/Downtown submarket.



W.Village/Downtown - NEW CONSTRUCTION 2Q 2009

Property Name	Secondary Type	Street Address	Submarket	Est. Comp Month	Est. Comp Year	Size SF/Units	Status
N/A	Apartment	270 GREENWICH ST	West Village/Downtown	09	2008	390	Complete
BEEKMAN TOWER	Apartment	BEEKMAN ST @ WILLIAM ST	West Village/Downtown	08	2010	903	Under Constr.
GOLD STREET APARTMENTS	Apartment	40 GOLD ST @ FULTON ST	West Village/Downtown	06	2010	56	Under Constr.
THE LUDLOW	Apartment	188 LUDLOW ST	West Village/Downtown	05	2008	243	Complete
N/A	Apartment	37 E 4TH ST @ 4TH AVE	West Village/Downtown	10	2010	147	Under Constr.
N/A	Apartment	250 WATER ST	West Village/Downtown	N/A	N/A	489	Proposed
N/A	Apartment	20 EXCHANGE PL @ WILLIAM ST	West Village/Downtown	12	2009	350	Under Constr.
N/A	Apartment	89 MURRAY ST @ GREENWICH ST	West Village/Downtown	04	2008	85	Complete
ONE ROCKEFELLER PARK	Condominiums	2 RIVER TERRACE @ N END AVE/VESEY ST	West Village/Downtown	01	2009	262	Complete
TRIBECCA SUMMIT	Condominiums	415 GREENWICH ST	West Village/Downtown	02	2008	66	Complete
WILLIAM BEAVER HOUSE	Condominiums	15 WILLIAM ST @ BEAVER ST	West Village/Downtown	12	2008	320	Complete
N/A	Condominiums	157 CHAMBERS ST @ HUDSON ST	West Village/Downtown	04	2008	37	Complete
N/A	Condominiums	101 WARREN ST @ GREENWICH ST	West Village/Downtown	10	2008	220	Complete
5 FRANKLIN PLACE	Condominiums	5 FRANKLIN PL @ BROADWAY	West Village/Downtown	03	2010	50	Under Constr.
A BUILDING	Condominiums	425 E 13TH ST @ 1ST AVE	West Village/Downtown	03	2008	96	Complete
ARTISAN LOFTS	Condominiums	143 READE ST @ GREENWICH ST/W BROADWY	West Village/Downtown	09	2009	38	Under Constr.
BE @ 90	Condominiums	90 WILLIAM ST	West Village/Downtown	03	2008	128	Complete
FOUR SEASONS CONDOS	Condominiums	99 CHURCH ST @ BARCLAY ST	West Village/Downtown	05	2011	143	Under Constr.
RECTOR SQUARE	Condominiums	225 RECTOR PL @ S END AVE	West Village/Downtown	N/A	N/A	305	Under Constr.
SOHO MEWS	Condominiums	311 W BROADWAY @ GRAND ST/CANAL ST	West Village/Downtown	11	2008	68	Complete
SUPERIOR INK CONDOS	Condominiums	400 W 12TH ST @ 10TH AVE	West Village/Downtown	08	2009	68	Under Constr.
THE RENWICK	Condominiums	15 RENWICK ST @ CANAL ST	West Village/Downtown	N/A	N/A	44	Under Constr.
THE SETAI CONDOS	Condominiums	40 BROAD ST @ EXCHANGE PL	West Village/Downtown	08	2009	167	Under Constr.
THE VISIONAIRE	Condominiums	70 LITTLE WEST ST @ BATTERY PL/1ST PL	West Village/Downtown	03	2009	247	Complete
THE ZINC BUILDING	Condominiums	475 GREENWICH ST @ CANAL ST	West Village/Downtown	06	2008	21	Complete
W YORK-DOWNTOWN HOTEL+RESIDE	Condominiums	123 WASHINGTON ST @ CARLISLE ST	West Village/Downtown	12	2009	159	Under Constr.
N/A	Condominiums	59 FRANKLIN ST @ BROADWAY	West Village/Downtown	N/A	N/A	56	Planned
N/A	Condominiums	56 LEONARD ST @ CHURCH ST	West Village/Downtown	N/A	N/A	145	Planned
N/A	Condominiums	11 BROADWAY @ WHITEHALL ST	West Village/Downtown	N/A	N/A	98	Proposed
N/A	Condominiums	45 JOHN ST @ DUTCH ST	West Village/Downtown	N/A	N/A	84	Under Constr.
N/A	Condominiums	50 FRANKLIN ST @ BENSON PL	West Village/Downtown	08	2009	72	Under Constr.
N/A	Condominiums	75 WALL ST @ PEARL ST	West Village/Downtown	06	2009	349	Complete
N/A	Condominiums	122 GREENWICH AVE	West Village/Downtown	09	2009	29	Under Constr.
N/A	Condominiums	50 WEST ST @ RECTOR ST	West Village/Downtown	N/A	N/A	280	Under Constr.
N/A	Condominiums	111 WASHINGTON ST	West Village/Downtown	N/A	N/A	300	Planned
THE LEE	Subsidized/Low Income	133 PITT ST @ E HOUSTON ST	West Village/Downtown	12	2009	263	Under Constr.

Source: REIS; compiled by CBRE

MANHATTAN CONDOMINIUM AND COOPERATIVE SALES

The financial crisis and the collapse of prominent Wall Street firms have had a direct negative affect on residential sales in New York City. After the implosion of the financial markets last September, the New York real estate market "stopped dead," commented Dottie Herman, CEO of broker Prudential Douglas Elliman. While pricing began to bear this out, the impact on the marketplace became more notable in listing inventory. Although the Manhattan market had continued to rise earlier in 2008, when most American housing markets were in decline, after September 2008 the market froze up as credit dried up and buyers lost confidence.

In the *Manhattan Market Overview Third Quarter 2009*, Prudential Douglas Elliman reports that the Manhattan market residential real estate market was characterized by a sharp decline in contract activity and a downward correction in contract price levels. The pricing index on a per bedroom basis for condominiums and cooperatives is shown below.

Condo Apartment Sales Mix - 3Q09			Co-op Apartment Sales Mix - 3Q09		
	% of Total	Median Price		% of Total	Median Price
Studio	12%	\$ 435,000	Studio	24%	\$ 364,500
1 Bedroom	33%	\$ 710,000	1 Bedroom	36%	\$ 575,000
2 Bedroom	34%	\$ 1,265,000	2 Bedroom	26%	\$ 1,045,000
3 Bedroom	15%	\$ 2,350,000	3 Bedroom	11%	\$ 1,950,000
4+ Bedroom	6%	\$ 5,845,937	4+ Bedroom	3%	\$ 4,200,000

Prudential Douglas Elliman/Miller Samuel Inc.

Prudential Douglas Elliman/Miller Samuel Inc.

Overall Manhattan Market

As illustrated in the below chart, the condominium market has declined over the past year and the past quarter as indicated by the average sales price. The median sales price also shows a drop from the prior year and quarter. The days on market, listing discount and listing inventory have all increased substantially over the past twelve months.

MANHATTAN CONDO OVERVIEW					
	3Q 2009	% Change	2Q 2009	% Change	3Q 2008
Average Sale Price	\$1,579,438	2.96%	\$1,534,031	-15.23%	\$1,809,684
Average Sale Price Per SF	\$1,101	-6.77%	\$1,181	-11.47%	\$1,334
Median Sale Price	\$1,015,124	1.51%	\$999,999	-18.03%	\$1,220,000
Number of Sales	1,235	229.33%	375	-71.29%	1,306
Days on Market	194	7.18%	181	26.57%	143

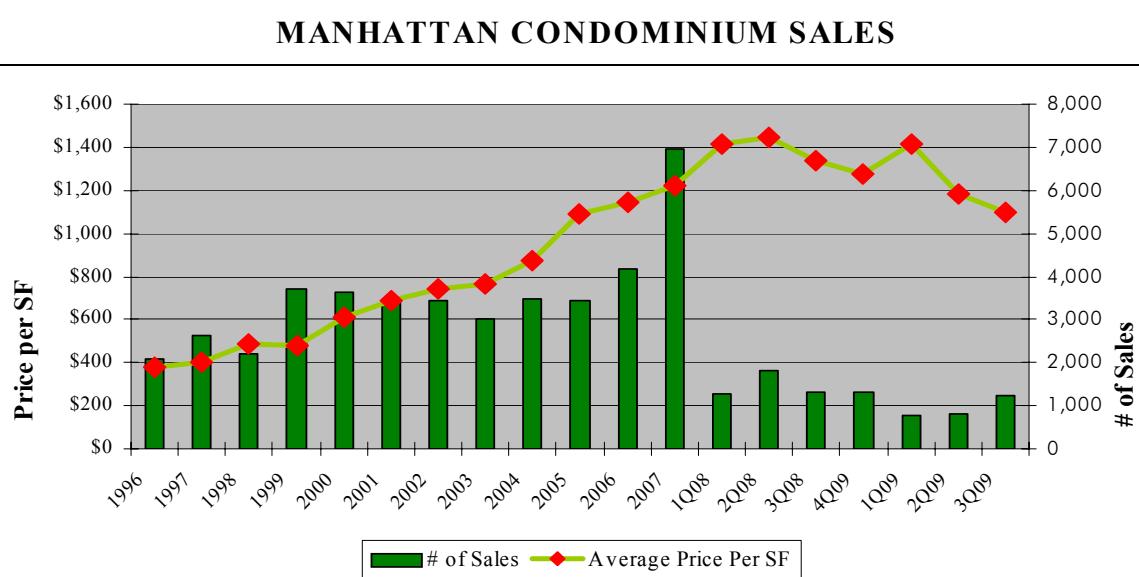
Source: Miller Samuel Inc.

Although for the first time since the first quarter of 2007, the median price for apartment in Manhattan fell below the \$1 million threshold during the second quarter of 2009, the market has recovered by 1.51% to \$1,015,124 in the third quarter (although it still remains well below prior peaks). The declines on pricing over the past year is mainly due to the lower market share of new development as a percentage of the overall market. It should be noted that the higher average price and price per square foot reported during 1Q09 was reflective of the larger unit sales negotiated 12-18 months before, during a different market environment. The average size of new apartments sold during this quarter was 1,349 square feet,

similar to the 1,395 square feet of the prior year quarter, versus the 1,680 square feet of the first quarter of 2009. Over 40% of the inventory is considered new developments, while the remaining portion represents re-sales. The Manhattan average days in the market has exceeded the 6 month mark for the first time in 10 years, largely because of the increased marketing time of new developments. Accordingly, the average discount at 7% is roughly double the 3.40% of prior year quarter, although half the 14.10% reported during the 1Q09. This high average discount is believed to have contributed in the slightly increase in number of sales and declining inventory as compared to prior quarter.

It should be noted that these last market statistics do not fully account for the “shadow inventory”, including units which are not currently offered on the market but held by developers, banks or private owners, who are waiting for conditions to improve before listing them. Miller Samuel Inc. estimates the New York shadow inventory at approximately 7,000 units. The two areas which appear to suffer the most are Williamsburg (Brooklyn) and the Financial District (Manhattan). Although an exact estimate is difficult to produce, market participants agree in saying that the shadow inventory is putting additional pressure on selling prices and will contribute on increasing the already significant market stock.

Overall, the discussed statistics reflect the current weakness of the residential market and the effect of the economic recession on New York City. The steep decrease in price per square foot during the last quarter is clearly illustrated in the following chart as provided by Miller Samuel, Inc.



As shown above the number of sales remained relatively flat over the last quarter, while price per square foot declined. The overall average sale price as of 3rd Quarter 2009 was \$1,579,438, representing a 2.96% increase from the 2nd Quarter 2009, however the current figure remains well below the same period of 2008 at \$1,809,684.

In addition to declining market fundamental, new guidelines from Fannie Mae for condominium loans are likely to further dampen sales activity. The government-controlled mortgage finance company has changed its mortgage guarantee guidelines for new condominiums and conversion projects. It has

increased the minimum percentage of pre-sold or in-contract units in a building before it will purchase the loans to 70% from 51%. The change, which went into effect on March 1, is part of Fannie's efforts to lessen its own risk from bad condo loans. Local real estate executives said, however, that the stricter rule will further discourage banks from lending money to the few homebuyers who are still willing to make a purchase. "The requirement makes it more difficult for condo developers and buyers alike in New York City, creating uncertainty for both," said Steven Spinola, president of the Real Estate Board of New York.

Additionally, both Fannie Mae and Freddie Mac have imposed new mandatory fees and down-payment rules on loans that they buy. Buyers will have to make a down payment of at least 30% if they don't want to get hit with extra fees at closing. Buyers who put down only 25% will be hit with a quarter-point add-on penalty. Those who put down less than 20% a three-quarter point charge will be added. Furthermore, if buyers are purchasing condos as an investment, instead of as a primary residence, there will be a 1.75% fee for loans greater than 70% loan-to-value.

Downtown Marketplace

Battery Park City is situated within the Downtown Manhattan submarket as defined by Prudential Douglas Elliman. A summary of the historical sale price per square foot and the annual number of transactions for the Downtown Manhattan submarket is presented on the following table.

DOWNTOWN MANHATTAN CONDO SALES



Source: Miller Samuel Inc.

The Downtown Manhattan submarket has indicated a decreasing trend in number of sales and somewhat stable average price per square foot, with a peak during the middle of 2008. However, this trend has come to a stop over the last several quarters, with a slowdown in number of sales reported. A summary of the current statistics for the Downtown Market is presented below:

DOWNTOWN CONDO OVERVIEW					
	3Q 2009	% Change	2Q 2009	% Change	3Q 2008
Average Sale Price	\$1,458,163	-7.33%	\$1,573,548	-0.19%	\$1,576,596
Average Sale Price Per SF	\$1,085	-9.73%	\$1,202	-1.31%	\$1,218
Median Sale Price	\$1,110,000	-0.90%	\$1,120,075	-17.18%	\$1,352,500
Number of Sales	537	40.94%	381	-40.00%	635

Source: Miller Samuel Inc.

Recent statistics show that the Downtown Manhattan submarket is still reeling from the impact of the economic downturn together with the overall residential marketplace within Manhattan. Although the indicators are beginning to show stabilization, there has still been a decrease in all the above categories from the previous quarter. Given the current economic conditions and their impact on the national and local residential market, in addition to shadow inventory, a slowdown of the New York City condominium sector is expected to continue through 2010.

Battery Park City

Battery Park City has a diverse population base with numerous residential buildings that cater to wide variety of income levels. The neighborhood has 30 condominium and rental properties. A summary of the historical sale price per square foot and the annual number of transactions for the Battery Park City submarket is presented on the following table:

BATTERY PARK CITY CONDO SALES



Source: Miller Samuel Inc.

The average price per square foot increased through mid-year 2009 as most sales represent new construction. The number of sales per period has varied considerably as this small sample changes dramatically in quarters when new properties are introduced to the marketplace.

BATTERY PARK CITY CONDOMINIUMS				
Period	Average Price Per Sq Ft	Average Sales Price	Median Sales Price	Number of Sales
3Q09	\$1,131	\$1,446,497	\$1,242,265	33
2Q09	\$1,441	\$2,625,728	\$2,280,000	32
1Q09	\$1,398	\$1,820,105	\$1,485,000	38
4Q08	\$1,253	\$1,543,984	\$1,045,000	61
3Q08	\$1,005	\$1,045,930	\$605,859	30
2Q08	\$1,188	\$1,211,386	\$875,695	58
1Q08	\$929	\$907,584	\$660,000	18
4Q07	\$860	\$717,067	\$534,500	15
3Q07	\$915	\$823,129	\$569,000	31
2Q07	\$866	\$926,611	\$573,000	27
1Q07	\$836	\$700,369	\$620,000	19
4Q06	\$853	\$862,514	\$630,000	21
3Q06	\$796	\$610,380	\$590,000	25
2Q06	\$852	\$662,039	\$649,000	13
1Q06	\$818	\$752,205	\$579,000	21
4Q05	\$817	\$745,528	\$490,000	18
3Q05	\$806	\$655,976	\$565,000	21
2Q05	\$802	\$958,477	\$589,000	44
1Q05	\$700	\$696,692	\$505,000	24
4Q04	\$688	\$650,980	\$550,000	25
3Q04	\$652	\$621,486	\$410,000	43
2Q04	\$730	\$893,967	\$652,500	20
1Q04	\$668	\$821,621	\$607,500	24
4Q03	\$698	\$945,100	\$610,000	15
3Q03	\$514	\$373,889	\$279,000	9
2Q03	\$555	\$564,250	\$383,000	12
1Q03	\$482	\$313,919	\$300,000	22
4Q02	\$505	\$385,152	\$325,000	17
3Q02	\$628	\$734,387	\$734,387	61
2Q02	\$552	\$586,732	\$350,000	88
1Q02	\$410	\$294,375	\$259,000	8
4Q01	\$617	\$1,099,722	\$1,180,000	24
3Q01	\$500	\$300,921	\$230,000	38
2Q01	\$540	\$388,457	\$355,000	47
1Q01	\$490	\$338,000	\$245,000	25
4Q00	\$520	\$441,667	\$320,000	4
3Q00	\$359	\$263,963	\$239,000	54
2Q00	\$415	\$349,962	\$265,000	57
1Q00	\$412	\$291,450	\$265,200	34

Source: Miller Samuel Inc.

The turmoil that has entered into the overall marketplace is highly evident in the Battery Park City neighborhood. The recent spike in pricing is directly attributed to new construction coming on line and is not indicative of an Improving local marketplace. We anticipate that although the neighborhood will witness near term declines in demand, as the market stabilizes it will return to its former status as a prominent family oriented neighborhood within Lower Manhattan.

CONCLUSION

Unprecedented turmoil in the financial markets beginning September 2008 has led to a significant decline in the New York City for-sale housing market. A sharp decline in contract activity coupled with a substantial increase in listing inventory, as well as a decline in price level summarizes the sales market through the third quarter of 2009. It is anticipated that the rest of 2009 will see continued declines,

although at a moderate pace. It is likely that many of the permits for construction of new units will be put on hold given the downturn in the economy. The rental market has remained fairly stable, but with increasing unemployment, an upward trend in vacancy is seen. Long term, given the depth of the market, New York City is expected to recover.

APPENDIX B

Authority Financial Statements And Supplementary Schedules

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HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Basic Financial Statements

October 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Basic Financial Statements

October 31, 2008 and 2007

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KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

The Members

Hugh L. Carey Battery Park City Authority:

We have audited the accompanying basic financial statements of the Hugh L. Carey Battery Park City Authority (the Authority), a component unit of the State of New York, as of and for the years ended October 31, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of October 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 18 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied by us in the audits of the basic financial statements and, in our opinion, based on our audits and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

January 29, 2009

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis

October 31, 2008 and 2007

(Unaudited)

Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) and the Battery Park City Parks Conservancy (the Conservancy), a blended component unit of the Authority, collectively referred to as "the Organization" for the fiscal years ended October 31, 2008, 2007 and 2006. The basic financial statements, which include the balance sheets, the statements of revenues, expenses, and changes in net deficit, and the statements of cash flows, and the notes to the financial statements, provide information about the Organization in accordance with U.S. generally accepted accounting principles. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Comparison of 2008 to 2007 and 2007 to 2006

Financial Highlights – 2008

- On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments in November 2007 totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$4.5 million of base rent, \$896 thousand of Payment in Lieu of Taxes (PILOT), and \$881 thousand in other revenue and interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2008. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds from the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facility, which will be owned by the Authority as condominium units. Construction of the buildings began in the spring of 2008.
- At October 31, 2008 in accordance with GASB Statement No. 45, the Authority's accrued liability representing postretirement medical benefits for all eligible current and retired employees is \$14.9 million (see note 16).

During the fiscal year ended October 31, 2007, the Conservancy began participation in the Cultural Institutions Retirement System Pension Plan (CIRS Pension Plan), an employer funded defined benefit plan and the 401(k) Savings Plan (CIRS Savings Plan), a defined contribution plan (see note 15).

- The fiscal year ended October 31, 2008 yielded a total of \$211.6 million in operating revenues, representing an increase of approximately \$5.1 million or 2.4% over the prior fiscal year. Total operating expenses decreased \$14.2 million to \$39.4 million at October 31, 2008.
- A \$92.7 million liability was recorded for the fiscal year ended October 31, 2008 representing the transfer of fiscal 2008 excess revenues to the City of New York (the City) (see note 11). Generally, the Authority's net assets decrease with increases in the amount of excess revenues provided to the City, which has an adverse effect on the Authority's net asset position.

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- At October 31, 2008, the Authority retained approximately \$215.4 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide (see note 11). In addition, at October 31, 2008, the Authority held approximately \$10.2 million in the Project Costs Fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 8).
- The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation (see note 18) and is a blended component unit of the Authority. Effective for the fiscal year ended October 31, 2007, financial activity for the Conservancy is combined with the Authority's basic financial statements. Such activity is reflected in the accompanying financial statements for the fiscal years ended October 31, 2008 and 2007 (see Other Supplementary Information).
- In February 2008, auctions for Auction Rate Securities (ARS) in the secondary market began to fail intermittently and continued to fail through the fiscal year ended October 31, 2008 due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (LIBOR) based on the prevailing rating for the bond series. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid February 2008 through October 31, 2008 ranged from a low of 2.5% to a high of 7.898% on the 2003 Series B Bonds and from a low of 4.18% to a high of 8.718% on the 2003 Series C Bonds (see note 10).

Financial Highlights – 2007

- On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City became effective. Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$1.3 million of base rent, \$787 thousand of PILOT, and \$899 thousand in interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2007.
- Effective for the fiscal year beginning November 1, 2006, the Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and financial statement presentation of other postemployment benefits (OPEB), including plan expenditures and related liabilities (assets), and note disclosures. At October 31, 2007 in accordance with GASB Statement No. 45, the Authority's accrued liability representing postretirement medical benefits for all eligible current and retired employees is \$13.9 million. Additionally, the Authority's Board of Directors designated \$14.2 million from existing corporate reserves for the exclusive purpose of paying future OPEB obligations.
- The fiscal year ended October 31, 2007 yielded a total of \$206.5 million in operating revenues, representing an increase of approximately \$14.1 million or 7.3% over the prior fiscal year. Total operating expenses increased \$15.7 million from \$37.9 million at October 31, 2006 to \$53.6 million at October 31, 2007.

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- An \$83.1 million liability was recorded for the fiscal year ended October 31, 2007 representing the transfer of fiscal 2007 excess revenues to the City.
- At October 31, 2007, the Authority retained approximately \$113.4 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. Approximately \$36.7 million was transferred to the New York City Housing Trust Fund in February 2007, satisfying the Authority's \$130 million commitment (see note 17(f)). In addition, at October 31, 2007, the Authority held approximately \$39.2 million in the Project Costs Fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures.

Summary Schedule of Net Assets

The summary schedule of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets (deficit) are the difference between total assets and total liabilities. A summarized comparison of the Organization's assets, liabilities, and net deficit at October 31, 2008, 2007 and 2006 is as follows:

	October 31			2008 vs 2007	2007 vs 2006
	2008	2007	2006	Increase (decrease)	Increase (decrease)
Assets:					
Bank deposits, investments, and rents and other receivables	\$ 21,172,802	18,595,807	8,314,257	2,576,995	10,281,550
Bond resolution restricted assets (current and noncurrent)	340,387,509	294,712,467	377,479,417	45,675,042	(82,766,950)
Battery Park City project assets, net	449,568,884	394,607,108	385,016,482	54,961,776	9,590,626
Other current and noncurrent assets	305,053,797	246,775,935	181,969,337	58,277,862	64,806,598
Total assets	\$ 1,116,182,992	954,691,317	952,779,493	161,491,675	1,911,824
Liabilities:					
Current liabilities	\$ 188,726,988	153,463,943	217,446,129	35,263,045	(63,982,186)
Long-term liabilities	1,230,182,894	1,153,689,483	1,140,546,643	76,493,411	13,142,840
Total liabilities	1,418,909,882	1,307,153,426	1,357,992,772	111,756,456	(50,839,346)
Net assets (deficit):					
Invested in capital assets, net of related debt	(280,135)	248,751	5,028,460	(528,886)	(4,779,709)
Restricted	397,655,270	283,000,945	205,561,263	114,654,325	77,439,682
Unrestricted	(700,102,025)	(635,711,805)	(615,803,002)	(64,390,220)	(19,908,803)
Total net deficit	(302,726,890)	(352,462,109)	(405,213,279)	49,735,219	52,751,170
Total liabilities and net deficit	\$ 1,116,182,992	954,691,317	952,779,493	161,491,675	1,911,824

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Assets

2008 vs 2007

At October 31, 2008, the Organization maintained total assets of approximately \$1.1 billion, approximately \$161.5 million greater than total assets at October 31, 2007.

Bank deposits, investments, and rents and other receivables increased approximately \$2.6 million to \$21.2 million at October 31, 2008 and is primarily due to a \$3.2 million increase in investments offset by a \$693 thousand decrease in rents and other receivables (see note 12). The increase in investments primarily relates to the collection of transaction and administrative payments, approximately \$7.1 million, received on the sale of residential units and held in unrestricted funds at October 31, 2008, offset by transfers of fiscal 2007 collections into the 2003 bond resolution restricted accounts prior to October 31, 2008.

The Authority's bond resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond Resolutions, approximately \$340.4 million at October 31, 2008, approximately \$45.7 million higher than the October 31, 2007 balance of \$294.7 million. At October 31, 2008 funds held under the 2003 Revenue Bond Resolutions for the designated purposes of paying debt service were approximately \$14.7 million higher than October 31, 2007 primarily due to funding requirements and interest payments. Other 2003 Revenue Bond Resolution assets designated for the purposes of funding operations and debt service reserves decreased \$1.1 million. Approximately \$4.3 million less in excess revenues was held at October 31, 2008 in the Residual Fund for the benefit of the City compared to October 31, 2007. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2008 were approximately \$65.3 million higher than funds held at October 31, 2007. The increase is primarily attributable to deposits of approximately \$282.3 million relating to ground lease payments, interest rate exchange agreement (Swap) receipts from the three counterparties, and interest earnings offset by transfers of approximately \$217.6 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses and, transferring funds to the City and retaining funds in the Joint Purpose Fund. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately \$29 million lower as compared to October 31, 2007 due to investments in infrastructure and other assets.

2007 vs 2006

At October 31, 2007, the Authority maintained total assets of approximately \$954.7 million, approximately \$1.9 million greater than total assets at October 31, 2006.

Bank deposits, investments, and rents and other receivables increased approximately \$10.3 million to \$18.6 million at October 31, 2007 and is primarily due to the collection of approximately \$3.5 million of transaction and administrative payments received on the sale of residential units in Site 2A and held in unrestricted funds at October 31, 2007. All assets accumulated in the unrestricted fund during fiscal 2006 were deposited into the 2003 Revenue Bond Resolution funds before October 31, 2006. Additionally, rent receivables increased approximately \$5.9 million and is primarily attributable to base, PILOT, and other rents recognized in accordance with the Sites 23 and 24 leases.

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The 2003 Revenue Bond Resolution assets, approximately \$294.7 million at October 31, 2007 decreased \$82.8 million from \$377.5 million at October 31, 2006 (see note 8). At October 31, 2007 funds held under the 2003 Revenue Bond Resolutions for the designated purposes of paying debt service were approximately \$14.3 million higher than October 31, 2006 primarily due to increased funding requirements. Other 2003 Revenue Bond Resolution reserves designated for the purposes of funding operations and debt service reserves increased \$5.1 million compared to October 31, 2006. An additional \$6.4 million was held as excess revenues at October 31, 2007 in the Residual Fund for the benefit of the City. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2007 were approximately \$95.8 million less than funds held at October 31, 2006. The decrease is primarily attributable to transfers of approximately \$310 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses, transferring funds to the City, and retaining funds in the Joint Purpose Fund. These transfers were offset by deposits of approximately \$214.7 million relating to ground lease payments, Swap receipts from the three counterparties, and interest earnings. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately \$12.6 million lower as compared to October 31, 2006 due to investments in infrastructure and other assets.

Project Assets

At October 31, 2008, the Authority's investment in project assets, net of accumulated depreciation was approximately \$449.6 million, an increase of \$55 million over October 31, 2007.

The Battery Park City project (Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction by private developers of approximately 9.3 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units and approximately 8,900 residential units. Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space representing the Goldman Sachs headquarters located on Site 26, 1,321 residential units, and a public school on Site 2B. Construction is underway for a 462-unit residential condo on Site 3, a 268-unit residential condo on Sites 16/17, 2 residential buildings on Site 23 and 24 comprising 591 units, the Goldman Sachs headquarters and the public school.

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The Authority's project assets include land, site improvements, and a residential building constructed by the Authority on Site 22. Additionally, condo units owned by the Authority on Sites 1, 16/17, 3, 23 and 24 and related infrastructure improvements are included in project assets. The balances at October 31, 2008, 2007 and 2006 are as follows:

	October 31			2008 vs 2007	2007 vs 2006
	2008	2007	2006		
Land	\$ 83,015,653	83,015,653	83,015,653	—	—
Site improvements	350,918,498	334,671,507	320,540,142	16,246,991	14,131,365
Residential building and condominium units	87,006,292	43,268,009	43,080,997	43,738,283	187,012
	520,940,443	460,955,169	446,636,792	59,985,274	14,318,377
Less accumulated depreciation	(71,371,559)	(66,348,061)	(61,620,310)	(5,023,498)	(4,727,751)
Total Battery Park City project assets	\$ 449,568,884	394,607,108	385,016,482	54,961,776	9,590,626

For the fiscal year ended October 31, 2008, the increase in Site Improvements of approximately \$16 million, relates to improvements to the Esplanade, park improvements in the north and south neighborhoods and as well as other minor capital improvements. Additionally, the Authority acquired \$7.6 million in marina assets associated with a defaulted lessee during the fiscal year. Offsetting these additions, the Authority retired \$3.2 million in infrastructure assets primarily related to the transfer of a portion of the north neighborhood streets to the City (see note 3(c)).

The \$43.7 million increase in residential building and condominium units during fiscal year ended October 31, 2008 principally relates to \$26.7 million for the build out of a community center and ballfield maintenance facility at Sites 23 and 24; coupled with costs relating to the build out of a maintenance facility to be used by the Conservancy at Site 3 of approximately \$13.5 million.

For the fiscal year ended October 31, 2007, the increase in Project assets results from expenditures of approximately \$14.3 million, principally for new parks in the north neighborhood, security infrastructure, utility installation for new Site development, the build out of a parks maintenance facility to be used by the Conservancy, as well as other minor capital improvements.

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Other Current and Noncurrent Assets

Other current and noncurrent assets at October 31, 2008 and 2007 are as follows:

	October 31			2008 vs 2007	2007 vs 2006
	2008	2007	2006		
Residential lease required funds	\$ 15,589,335	7,620,015	7,231,822	7,969,320	388,193
Corporate-designated, escrowed and OPEB funds	241,295,331	190,181,449	123,663,543	51,113,882	66,517,906
Deferred costs:					
Bond issuance costs, net	37,907,248	39,345,722	40,784,197	(1,438,474)	(1,438,475)
Costs of leases, net	3,862,220	2,569,715	2,611,841	1,292,505	(42,126)
Total deferred costs, net	41,769,468	41,915,437	43,396,038	(145,969)	(1,480,601)
Other assets	<u>6,399,663</u>	<u>7,059,034</u>	<u>7,677,934</u>	<u>(659,371)</u>	<u>(618,900)</u>
Total other current and noncurrent assets	<u>\$ 305,053,797</u>	<u>246,775,935</u>	<u>181,969,337</u>	<u>58,277,862</u>	<u>64,806,598</u>

Total other current and noncurrent assets increased approximately \$58.3 million from \$246.8 million at October 31, 2007 to \$305.1 million at October 31, 2008.

Residential lease required funds increased approximately \$8 million from \$7.6 million at October 31, 2007 to \$15.6 million at October 31, 2008 and relates to security deposits received from Site 2A; \$2.8 million, Site 16/17; \$4.6 million and Site 3; \$139 thousand coupled with interest earnings on all funds held.

Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$51.1 million from the prior fiscal year. The increase is primarily attributable to a \$43.9 million transfer of 2003 Revenue Bond Funds in 2008 to the Joint Purpose Fund (see note 11), which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2007. Additionally, deposits to the Conservancy's reserves and interest earnings on all funds held increased the overall balance.

Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Costs of leases increased \$1.3 million and relates to costs incurred in connection with the preparation of Site 2B for development by the New York City School Construction Authority (SCA) offset by amortization for the period. Other assets decreased by \$659 thousand primarily due to annual depreciation offset by minor fixed asset purchases.

2007 vs 2006

Other current and noncurrent assets increased approximately \$64.8 million from \$182 million at October 31, 2006 to \$246.8 million at October 31, 2007.

Residential lease required funds increased marginally by approximately \$388 thousand primarily from interest earnings.

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Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$66.5 million from the prior fiscal year. The increase is primarily attributable to a \$103.5 million transfer of 2003 Revenue Bond Funds in January 2007 to the Joint Purpose Fund, which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2006 and interest earned on a higher balance held during the fiscal year ended October 31, 2007. These increases were offset by a \$36.7 million disbursement from the Joint Purpose Fund to the New York City Housing Trust Fund in February 2007. The net impact to the Joint Purpose Fund was an increase of approximately \$69.4 million.

Additionally, \$4.8 million was transferred from the corporate designated funds, including approximately \$3.5 million to the 2003 Revenue Bond Funds (Residual Fund) held for the benefit of the City, approximately \$1.3 million from Authority reserves held on behalf of the Conservancy (see note 15) for the payment of retroactive pension plan benefits for Conservancy employees, and \$222 thousand for the construction of a public library. Additionally, deposits to the Conservancy's operating reserve and interest earnings on all funds held increased the balance. Approximately \$14.2 million in corporate reserves were transferred to establish a new OPEB asset account for the exclusive purpose of paying postemployment medical benefits, resulting in no change in the total corporate designated funds.

Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Additionally, amortization of legal costs incurred resulted in a decrease to cost of leases of approximately \$42 thousand. Other assets decreased by \$619 thousand primarily due a reduction of the gross asset values due to annual depreciation offset by minor fixed asset purchases.

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Liabilities

Total liabilities at October 31, 2008, 2007 and 2006 are as follows:

	October 31			2008 vs 2007	2007 vs 2006
	2008	2007	2006		
Current liabilities:					
Accrued interest on bonds	\$ 18,301,915	17,822,091	17,722,584	479,824	99,507
Accounts payable and other liabilities	7,087,189	5,776,476	7,871,657	1,310,713	(2,095,181)
Due to the City of New York	92,736,000	83,100,000	111,395,000	9,636,000	(28,295,000)
Due to the NYC Housing Trust Fund	—	—	36,651,610	—	(36,651,610)
Deferred revenue	35,047,311	29,672,501	27,368,442	5,374,810	2,304,059
Security and other deposits	17,609,573	17,092,875	16,436,836	516,698	656,039
2003 Revenue Bonds	17,945,000	—	—	17,945,000	—
Total current liabilities	188,726,988	153,463,943	217,446,129	35,263,045	(63,982,186)
Noncurrent liabilities:					
Deferred revenue	184,382,843	99,656,028	101,356,221	84,726,815	(1,700,193)
Security and other deposits	16,442,500	8,425,288	8,037,095	8,017,212	388,193
Other Post Employment Benefits	14,943,967	13,852,211	—	1,091,756	13,852,211
Bonds outstanding:					
2003 Revenue Bonds	1,044,484,046	1,063,602,784	1,064,776,522	(19,118,738)	(1,173,738)
Unamortized loss on extinguishment	(30,070,462)	(31,846,828)	(33,623,195)	1,776,366	1,776,367
Total noncurrent liabilities	1,230,182,894	1,153,689,483	1,140,546,643	76,493,411	13,142,840
Total liabilities	\$ 1,418,909,882	1,307,153,426	1,357,992,772	111,756,456	(50,839,346)

The Organization's total liabilities increased approximately \$111.8 million from \$1.31 billion to \$1.42 billion at October 31, 2008.

Total liabilities comprise amounts due to the City, accrued interest on bonds, deferred revenue, security and other deposit, postemployment benefits, outstanding bonds, and accounts payable and accrued expenses.

The \$111.8 million increase in total liabilities is primarily due to a \$9.6 million increase in the provision to the City, a \$90.1 million increase in total deferred revenue, and an \$8.5 million increase in security and other deposits.

The increase in the provision for amounts due to the City of \$9.6 million relates to excess revenues of \$83.1 million accrued at October 31, 2007, which was paid in June 2008, compared to a \$92.7 million provision accrued at October 31, 2008.

Total deferred revenue increased \$90.1 million from \$129.3 million at October 31, 2007 to \$219.4 million at October 31, 2008 and primarily relates to residential lease upfront payments received from Sites 23 and 24, \$56.5 million and \$14 million received from Site 3, coupled with a \$25.7 million increase relating to the Site 23 and 24 valuation of foregone revenue for the community center and ballfield maintenance facility. The above

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factors are offset by revenue recognized on these and other upfront lease payments received during prior periods (see note 3).

Total security and other deposits increased \$8.5 million to \$34.1 million at October 31, 2008 and relates to security deposits received from Site 2A, \$2.8 million, Site 16/17, \$4.6 million and Site 3, \$139 thousand together with interest earnings on tenant deposits and other escrowed funds held by the Authority.

Additionally, accrued interest on bonds increased \$480 thousand from \$17.8 million at October 31, 2007 to \$18.3 million at October 31, 2008 and is primarily due to higher interest rates paid on variable rate debt (see note 10).

Accounts payable and other liabilities increased \$1.3 million to \$7.1 million at October 31, 2008 primarily due to the timing of vendor payments (see note 13) offset by credits provided to certain condominium tenants as part of a prior period rent agreement.

On October 16, 2003, the Authority issued \$1.068 billion for the 2003 Revenue Bonds. Principal payments on these debt obligations begin November 2008. The \$1.2 million decrease in the total 2003 Revenue Bonds balance is due to amortization of the net bond premium. A \$17.9 million principal payment on the 2003 Series A and Series C Bonds, due November 2008, is recorded as a current liability at October 31, 2008. The loss related to the extinguishment of debt is being amortized ratably over the maturity period of the retired debt resulting in an increase to total liabilities of approximately \$1.8 million at October 31, 2008.

In accordance with GASB Statement No. 45, a \$13.8 million accrued postretirement medical benefit liability for all eligible current and retired employees was recorded during the fiscal period ended October 31, 2007. The annual required OPEB obligation was increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the fiscal year ended October 31, 2008 (see note 16) resulting in an accrued liability balance of \$14.9 million at October 31, 2008.

2007 vs 2006

The Organization's total liabilities decreased approximately \$50.8 million from \$1.358 billion at October 31, 2006 to \$1.307 billion at October 31, 2007.

The \$50.8 million decrease in total liabilities is primarily due to a \$28.3 million decrease in the provision to the City, a \$36.7 million decrease in the provision to the NYC Housing Trust Fund offset by a \$13.9 million increase in other postemployment benefits.

The decrease in the provision for amounts due to the City of \$28.3 million relates to excess revenues of \$111.4 million accrued at October 31, 2006, which was paid in June 2007, compared to an \$83.1 million provision accrued at October 31, 2007.

The \$36.7 million provision for the NYC Housing Fund at October 31, 2006 was paid in February 2007.

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In accordance with GASB Statement No. 45, a \$14 million accrued postretirement medical benefit liability for all eligible current and retired employees was recorded. The annual required OPEB obligation was offset by the actual cost of retiree benefits paid during the fiscal year ended October 31, 2007.

Additionally, accounts payable and other liabilities decreased \$2.1 million to \$5.8 million at October 31, 2007 primarily due to the timing of vendor payments and the funding of the Authority's operating account to support checks issued, offset by credits issued to certain condominium tenants as part of a legal settlement.

Security and other deposits increased \$1 million to \$25.5 million at October 31, 2007 and relates to interest earnings on tenant deposits and other escrowed funds held by the Authority.

Net Assets (Deficit)

2008 vs 2007

The net deficits at October 31, 2008 and 2007 were \$302.7 million and \$352.5 million, respectively. The net (deficit) assets invested in capital assets, net of related debt was (\$280) thousand and \$249 thousand at October 31, 2008 and 2007, respectively. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Organization's \$397.7 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under Bond Resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling approximately \$700.1 million resulting primarily from debt issued for noncapital purposes totaling approximately \$580 million and upfront lease payments and deferred PILOT revenue received in advance, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

The overall change in total net assets from October 31, 2007 represents a positive change in the deficit position of approximately \$49.7 million to \$302.7 million at October 31, 2008.

2007 vs 2006

The net deficits at October 31, 2007 and 2006 were \$352.5 million and \$405.2 million, respectively. The net (deficit) assets invested in capital assets, net of related debt was \$249 thousand at October 31, 2007 and \$5 million at October 31, 2006. The Organization's \$283 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Organization. The remaining balance is classified as an unrestricted deficit totaling approximately \$635.7 million.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Management's Discussion and Analysis

October 31, 2008 and 2007

(Unaudited)

Summary Schedule of Revenues, Expenses, and Changes in Net Deficit

Below is a summary of the Organization's revenues, expenses, and changes in net deficit for the fiscal years ended October 31, 2008, 2007 and 2006:

	October 31			2008 vs 2007	2007 vs 2006
	2008	2007	2006		
Operating revenues:					
Revenues from ground leases:					
Base rent	\$ 57,374,979	52,718,959	54,458,404	4,656,020	(1,739,445)
Supplemental rent	715,188	604,069	670,875	111,119	(66,806)
Payments in lieu of real estate taxes	131,884,420	131,903,617	130,727,937	(19,197)	1,175,680
Civic facilities payments and others	21,600,614	21,292,003	6,560,860	308,611	14,731,143
Total operating revenues	211,575,201	206,518,648	192,418,076	5,056,553	14,100,572
Operating expenses:					
Wages and related benefits	13,225,261	13,960,397	6,412,543	(735,136)	7,547,854
OPEB	1,304,346	14,019,165	—	(12,714,819)	14,019,165
Other operating and administrative	16,333,034	17,609,049	23,555,617	(1,276,015)	(5,946,568)
Depreciation and amortization	8,494,364	7,997,894	7,948,784	496,470	49,110
Total operating expenses	39,357,005	53,586,505	37,916,944	(14,229,500)	15,669,561
Operating income	172,218,196	152,932,143	154,501,132	19,286,053	(1,568,989)
Nonoperating revenues (expenses):					
Interest and other income	21,254,895	25,886,969	23,884,018	(4,632,074)	2,002,951
Other revenue	5,390,357	340,150	—	5,050,207	340,150
Interest expense, net	(56,392,229)	(43,308,092)	(42,625,329)	(13,084,137)	(682,763)
Provision for transfer to the City of New York	(92,736,000)	(83,100,000)	(111,395,000)	(9,636,000)	28,295,000
Provision for transfer to the NYC Housing Trust Fund	—	—	(130,000,000)	—	130,000,000
Total nonoperating expenses, net	(122,482,977)	(100,180,973)	(260,136,311)	(22,302,004)	159,955,338
Change in net assets	49,735,219	52,751,170	(105,635,179)	(3,015,951)	158,386,349
Net deficit, beginning of year	(352,462,109)	(405,213,279)	(299,578,100)	52,751,170	(105,635,179)
Net deficit, end of year	\$ (302,726,890)	(352,462,109)	(405,213,279)	49,735,219	52,751,170

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Operating Revenues

2008 vs 2007

Overall operating revenues for the fiscal years ended October 31, 2008 and 2007 totaled \$211.6 million and \$206.5 million, respectively, representing a \$5.1 million increase. Base rent revenue of \$57.4 million for the fiscal year ended October 31, 2008 increased \$4.7 million from October 31, 2007 due to the recognition of a pro-rata share of upfront lease payments received from Sites 23 and 24 in November 2007, approximately \$2.2 million, recognition of a pro-rata share of deferred revenue related to the Sites 23 and 24 Community Center, \$856 thousand, base rents received from newly leased sites, approximately \$2 million and scheduled increases in base rents on other leases. The above increases are offset by pre-lease escrow payments recognized during the fiscal period ended October 31, 2007 on Sites 23 and 24, approximately \$1.8 million. PILOT revenues (which account for approximately 62.3% of the Organization's operating revenues) decreased marginally as a result of a decrease in City property tax rates offset by PILOT collections from new leased parcels. Civic facility and other revenues increased approximately \$309 thousand to \$21.6 million for the fiscal year ended October 31, 2008.

2007 vs 2006

Overall operating revenues for the fiscal years ended October 31, 2007 and 2006 totaled \$206.5 million and \$192.4 million, respectively. Base rent revenue of \$52.7 million for the fiscal year ended October 31, 2007 decreased \$1.7 million from October 31, 2006 primarily due to a one-time adjustment to the recognition period of revenues received in advance, which resulted in an additional \$4.3 million recognized during the fiscal year ended October 31, 2006. The adjustment recorded in the prior year offset increases in scheduled lease payments and other base rent recognized during the fiscal year ended October 31, 2007. In addition, PILOT revenues (which account for approximately 63.8% of operating revenues) increased marginally by \$1.2 million, as a result of additions in assessments and collections on new leased parcels offset by a decrease in tax rates by the City. Civic facility and other revenues increased approximately \$14.7 million from \$6.56 million for the fiscal year ended October 31, 2006 to approximately \$21.3 million for the fiscal year ended October 31, 2007. The increase was primarily due to a \$6.8 million arbitration award for retail rents due to the Authority from the World Financial Center commercial buildings, Towers B and D, \$3.5 million from transaction and administrative payments received on the sale of residential units in Site 2A, approximately \$900 thousand recognized for pre-lease and interest earnings from newly leased Sites 23 and 24, and increases in civic facility and other payments received during the fiscal year ended October 31, 2007.

Operating Expenses

2008 vs 2007

Operating expenses totaled approximately \$39.4 million for the fiscal year ended October 31, 2008, representing a \$14.2 million decrease compared to the fiscal year ended October 31, 2007. The expenses include wages and related benefits; other postretirement benefits; operating and administrative expenses such as site security and maintenance, insurance, rent, legal, and planning/design expenditures; and depreciation and amortization.

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Wages and related benefits decreased \$735 thousand and primarily relates to a \$1.3 million one-time payment issued by the Authority in fiscal 2007 representing retroactive pension plan benefits for Conservancy employees offset by normal increases to wage and benefit expenses in fiscal 2008.

OPEB expenses decreased \$12.7 million from \$14 million for the fiscal year ended October 31, 2007. In connection with the adoption of GASB Statement No. 45, the Authority expensed the actuarially derived retroactive OPEB liability for eligible current and retired employees and recorded a charge of \$14 million for the fiscal year ended October 31, 2007. The decrease is offset by normal costs and interest expense for the fiscal year ended October 31, 2008, approximately \$1.3 million (see note 16).

Other operating and administrative expenses decreased \$1.3 million and primarily relates to a decrease in costs associated with outside legal counsel, external real estate advisors and planning and design fees offset by costs incurred in fiscal 2008 for the preparation of Site 2B for the SCA.

Amortization and depreciation expenses increased marginally by \$496 thousand resulting from increased project and other asset costs.

2007 vs 2006

Operating expenses totaled approximately \$53.6 million for the fiscal year ended October 31, 2007, approximately \$15.7 million higher than the fiscal year ended October 31, 2006.

Wages and related benefits increased \$7.5 million from \$6.4 million at October 31, 2006 to \$14 million at October 31, 2007. Other operating and administrative expenses decreased by approximately \$5.9 million from \$23.6 million at October 31, 2006 to \$17.6 million at October 31, 2007. The primary factor causing these fluctuations is a reclassification of \$6.1 million from other operating and administrative expenses to wages and related benefits for fiscal 2007 made to conform to the 2008 presentation of the Authority's consolidation of the Conservancy (see note 18).

In connection with the adoption of GASB Statement No. 45, the Authority expensed the actuarially derived OPEB obligation for eligible current and retired employees and recorded a charge of \$14 million for the fiscal year ended October 31, 2007 (see note 16).

The decrease in amortization and depreciation expense is due to a lesser cost basis of assets held during fiscal year 2007 resulting from the full depreciation of certain assets during the prior fiscal year.

Nonoperating Revenues (Expenses)

2008 vs 2007

Total nonoperating expenses increased \$22.3 million to \$122.5 million during the fiscal year ended October 31, 2008. The increase was due to a \$92.7 million expense incurred during the fiscal year ended October 31, 2008 representing the provision for a transfer to the City in excess revenues; an increase of approximately \$9.6 million from the fiscal year ended October 31, 2007. Additionally, net interest expense increased approximately \$13.1 million for the fiscal year ended October 31, 2008; \$7.8 million resulting from higher interest rates paid on the variable-rate 2003 Revenue Bonds and \$5.3 million from lower interest rates earned on the six interest-rate

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exchange agreements entered into in 2003. Investment and other income decreased \$4.6 million over the prior fiscal year due to a \$5.2 million decrease in the net realized and unrealized gains on investments held during 2008 as compared to 2007 offset by higher interest earnings on assets held. Additionally, other revenue increased \$5.1 million and primarily relates to the transfer of North Cove Marina assets to the Authority associated with a defaulted lessee, approximately \$7.6 million, offset by a \$1.2 million transfer of north neighborhood streets to the City during fiscal 2008.

2007 vs 2006

Total net nonoperating expenses decreased \$160 million from \$260.1 million for the fiscal year ended October 31, 2006 to \$100.2 million during the fiscal year ended October 31, 2007. The decrease was primarily due to a \$130 million expense incurred during the fiscal year ended October 31, 2006 representing amounts due to the New York City Housing Trust Fund. In addition, a provision for a transfer to the City of \$83.1 million in excess revenues was charged for the fiscal year ended October 31, 2007, a decrease of approximately \$28.3 million from the fiscal year ended October 31, 2006. Offsetting the decreases to net nonoperating expenses, net interest expense increased approximately \$683 thousand for the fiscal year ended October 31, 2007 and is due to higher interest rates paid on the variable rate 2003 Revenue Bonds offset by higher interest rates earned on the interest rate exchange agreements entered into in 2003. Investment and other income increased \$2 million over the prior fiscal year due to an increase in the fair market value of investments held at October 31, 2007 as compared to October 31, 2006, as well as greater realized gains on investments which offset lower market interest rates available on investments for the fiscal year ended October 31, 2007.

Change in Net Assets

The total net deficits at October 31, 2008 and 2007 were \$302.7 million and \$352.5 million, respectively.

The total net deficits at October 31, 2007 and 2006 were \$352.5 million and \$405.2 million, respectively.

Other Information

Debt Administration – At October 31, 2008, the Authority was responsible for debt service on \$1.062 billion of 2003 Revenue Bonds issued in October 2003. The 2003 Revenue Bonds include: \$427 million (including a net premium) of senior lien obligations and \$635 million of junior lien debt obligations:

2003 Revenue Bonds	Outstanding debt	Fitch	Moody's	Standard & Poor's (S&P)
2003 Series Senior A Bonds	\$ 427,429,046	AAA	Aaa	AAA
2003 Series Junior B Bonds*	235,000,000	AAA	Aa+	AAA
2003 Series Junior C Bonds*	400,000,000	AAA	Aa+	AAA

* The junior lien debt obligations are insured and also carry underlying Fitch, S&P and Moody's ratings of AA, AA+, and Aa3, respectively.

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Management's Discussion and Analysis

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(Unaudited)

Requests for Information – This financial report is designed to provide a general overview of the Authority's finances to all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Vice President, Community Relations/Press, One World Financial Center, 24th Floor, New York, NY 10281. The Authority's website is: www.batteryparkcity.org.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Balance Sheets

October 31, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Bank deposits (note 3)	\$ 298,339	227,598
Investments (note 3)	7,133,857	3,934,864
Corporate-designated, escrowed and OPEB funds (notes 3 and 16)	17,609,573	17,090,801
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of \$80,980 in 2008 and \$113,667 in 2007) (note 12)	13,740,606	14,433,345
2003 Revenue Bond Resolution Funds (notes 3, 8, 9, and 10)	<u>161,190,959</u>	<u>124,446,606</u>
Total current assets	<u>199,973,334</u>	<u>160,133,214</u>
Noncurrent assets:		
Restricted assets:		
2003 Revenue Bond Resolution Funds (notes 3, 8, 9, and 10)	179,196,550	170,265,861
Residential lease required funds (note 3)	15,589,335	7,620,015
Corporate-designated, escrowed and OPEB funds (notes 3 and 16)	223,685,758	173,090,648
Deferred costs (note 3):		
Bond issuance costs, less accumulated amortization of \$12,855,800 in 2008 and \$11,417,325 in 2007	37,907,248	39,345,722
Costs of leases, less accumulated amortization of \$817,307 in 2008 and \$767,580 in 2007	3,862,220	2,569,715
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, 4, and 9)	449,568,884	394,607,108
Other assets	<u>6,399,663</u>	<u>7,059,034</u>
Total noncurrent assets	<u>916,209,658</u>	<u>794,558,103</u>
Total assets	<u>\$ 1,116,182,992</u>	<u>954,691,317</u>

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(A Component Unit of the State of New York)

Balance Sheets

October 31, 2008 and 2007

Liabilities and Net Deficit	2008	2007
Current liabilities:		
Accrued interest on bonds	\$ 18,301,915	17,822,091
Accounts payable and other liabilities (note 13)	7,087,189	5,776,476
Due to the City of New York (note 11)	92,736,000	83,100,000
Deferred revenue (note 3):		
PILOT revenue	22,422,288	21,766,569
Base rent revenue and other revenue	12,625,023	7,905,932
Security and other deposits	17,609,573	17,092,875
2003 Revenue Bonds (note 8)	17,945,000	—
Total current liabilities	188,726,988	153,463,943
Noncurrent liabilities:		
Deferred revenue (note 3):		
Base rent revenue and other revenue	184,382,843	99,656,028
Security and other deposits	16,442,500	8,425,288
OPEB (note 16)	14,943,967	13,852,211
Bonds outstanding (notes 8, 9 and 10):		
2003 Revenue Bonds, less accumulated amortization of \$5,916,925 in 2008 and \$4,743,187 in 2007	1,044,484,046	1,063,602,784
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(30,070,462)	(31,846,828)
Total noncurrent liabilities	1,230,182,894	1,153,689,483
Total liabilities	1,418,909,882	1,307,153,426
Net assets (deficit) (note 3):		
Invested in capital assets, net of related debt	(280,135)	248,751
Restricted:		
Debt service	112,955,906	103,218,708
Under bond resolutions and other agreements	284,699,364	179,782,237
Unrestricted deficit	(700,102,025)	(635,711,805)
Total net deficit	(302,726,890)	(352,462,109)
Total liabilities and net deficit	\$ 1,116,182,992	954,691,317

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses, and Changes in Net Deficit

Years ended October 31, 2008 and 2007

	2008	2007
Operating revenues:		
Revenues from ground leases (notes 5, 6, and 7):		
Base rent	\$ 57,374,979	52,718,959
Supplemental rent	715,188	604,069
Payments in lieu of real estate taxes	131,884,420	131,903,617
Civic facilities payments and other	21,600,614	21,292,003
Total operating revenues	<u>211,575,201</u>	<u>206,518,648</u>
Operating expenses:		
Wages and related benefits	13,225,261	13,960,397
OPEB (note 16)	1,304,346	14,019,165
Other operating and administrative	16,333,034	17,609,049
Depreciation of project assets	5,463,430	4,727,751
Other depreciation and amortization	3,030,934	3,270,143
Total operating expenses	<u>39,357,005</u>	<u>53,586,505</u>
Operating income	<u>172,218,196</u>	<u>152,932,143</u>
Nonoperating revenues (expenses):		
Interest income on funds relating to:		
2003 Revenue Bonds (note 10)	4,535,858	3,933,196
Corporate-designated, escrowed and OPEB funds	4,493,680	4,521,576
Realized and unrealized gains and losses	12,225,357	17,432,197
Other revenue	5,390,357	340,150
Interest expense relating to:		
2003 Swap Agreements – net interest (expense) income	(4,972,036)	266,957
2003 Revenue Bonds (note 10)	(49,643,827)	(41,798,683)
Loss from extinguishment	(1,776,366)	(1,776,366)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 11)	<u>(92,736,000)</u>	<u>(83,100,000)</u>
Total nonoperating expenses	<u>(122,482,977)</u>	<u>(100,180,973)</u>
Change in net assets	<u>49,735,219</u>	<u>52,751,170</u>
Net deficit, beginning of year (as restated, note 18)	<u>(352,462,109)</u>	<u>(405,213,279)</u>
Net deficit, end of year	<u>\$ (302,726,890)</u>	<u>(352,462,109)</u>

See accompanying notes to basic financial statements.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Statements of Cash Flows
 Years ended October 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 275,776,961	199,058,301
Miscellaneous receipts	1,386,326	808,697
Total cash receipts from operating activities	<u>277,163,287</u>	<u>199,866,998</u>
Cash payments for:		
Salaries and benefits	(13,397,554)	(14,057,116)
Services and supplies	(17,343,322)	(18,096,056)
Total cash payments from operating activities	<u>(30,740,876)</u>	<u>(32,153,172)</u>
Net cash provided by operating activities	<u>246,422,411</u>	<u>167,713,826</u>
Cash flows from noncapital financing activities:		
Goldman Sachs payments for Battery Park City Library	(101,101)	(221,780)
Payment from lessees – site security deposits	7,592,601	—
Payment to Irish Hunger Memorial Foundation	(298,285)	—
NYC School Construction Authority receipt	1,640,829	—
NYC School Construction Authority payments	(2,858,060)	—
Payment to NYC Housing Trust Fund	—	(36,651,610)
Payment to New York City	(83,100,000)	(111,395,000)
Net cash used in noncapital financing activities	<u>(77,124,016)</u>	<u>(148,268,390)</u>
Cash flows from capital and related financing activities:		
Development costs – site improvements and construction	(28,549,820)	(15,417,353)
Fixed asset costs	(827,420)	(848,613)
Reimbursements for development/fixed asset costs	—	762,295
Defeasance Escrow Funds	—	343,492
Auction fees paid for variable debt	(1,634,791)	(1,606,875)
Payment made on the 2003 Swap Agreement	(13,808,000)	(13,808,000)
Swap interest payments received	9,086,301	14,118,335
Interest paid on 2003 Junior Revenue Bonds	(28,806,818)	(21,369,907)
Interest paid on 2003 Senior Revenue Bonds	(19,855,799)	(19,855,799)
Net cash used in capital and related financing activities	<u>(84,396,347)</u>	<u>(57,682,425)</u>
Cash flows from investing activities:		
Interest and realized gains received on investment securities	21,018,744	25,492,849
Fair value adjustment – short term securities	(209,308)	201,859
Redemption and sale of investment securities	668,450,126	381,669,770
Purchase of investment securities	(693,534,021)	(381,004,680)
Net cash (used in) provided by investing activities	<u>(4,274,459)</u>	<u>26,359,798</u>
Increase (decrease) in cash and cash equivalents	80,627,589	(11,877,191)
Cash and cash equivalents, beginning of year	<u>249,496,947</u>	<u>261,374,138</u>
Cash and cash equivalents, end of year	<u>\$ 330,124,536</u>	<u>249,496,947</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 172,218,196	152,932,143
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	8,494,364	7,997,894
Bad debt expense	(87,244)	(13,337)
Other	(1,303,364)	(226,655)
Changes in operating assets and liabilities:		
Decrease (increase) in rents and other receivables	215,565	(6,658,093)
Decrease in other assets	10,217	46,077
Increase (decrease) in accounts payable and other liabilities	411,339	(875,434)
Increase in OPEB	1,091,756	13,852,211
Increase in deferred revenue	65,371,582	659,020
Net cash provided by operating activities	<u>\$ 246,422,411</u>	<u>167,713,826</u>
Reconciliation to cash and cash equivalents, end of period:		
Bank deposits	\$ 298,339	227,598
Cash and cash equivalents (note 3)	15,660,627	4,389,105
Investments with less than 91-day maturities at purchase (note 3)	314,165,570	244,880,244
Cash and cash equivalents, end of period	<u>\$ 330,124,536</u>	<u>249,496,947</u>

See accompanying notes to basic financial statements.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Notes to Basic Financial Statements

October 31, 2008 and 2007

(1) General

Hugh L. Carey Battery Park City Authority (the Authority) is a public benefit corporation created in 1968 under the laws of the State of New York (the State) pursuant to the Battery Park City Authority Act (the Act) and is a legally separate entity from the State. The Authority has been doing business as the Hugh L. Carey Battery Park City Authority since 1999. For financial reporting purposes, the Authority is a component unit of the State and is included in the State's comprehensive annual financial report.

The Authority's reporting entity is comprised of itself and the Battery Park City Parks Conservancy (the Conservancy). The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation and is a blended component unit of the Authority under the guidance included in Governmental Accounting Standards Board (GASB) Statement Nos. 14 and 39 and the Conservancy's assets, liabilities and results of operations are consolidated with the operations of the Authority for financial reporting purposes.

The Authority and its blended component unit, the Conservancy, are referred to collectively as "the Organization" in the financial statements. All significant transactions between the Authority and the Conservancy have been eliminated.

The Act sets forth the purposes of the Authority, including: the improvement of the Battery Park City project (the Project) area; the creation in such area, in cooperation with the City of New York (the City) and the private sector, of a mixed commercial and residential community; and the making of loans secured by first mortgages to any housing company organized to provide housing within the project area pursuant to the New York State Private Housing Finance Law. The Act also authorizes the Authority to pledge and assign revenues to secure financing for low- and moderate-income housing developments outside the project area, as well as issue bonds for the purposes of furthering the development of a commodities and futures exchange facility in Battery Park City, repaying certain State appropriations, and making a payment to the City (see note 9).

The Act provides that the Authority and its corporate existence shall continue until terminated by law, provided, however, that no such law shall take effect so long as the Authority shall have bonds, notes, and other obligations outstanding, unless adequate provision has been made for the payment of those obligations.

(2) Status of Project

The Project consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 9.3 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units and approximately 8,900 residential units (see notes 5, 6, and 7). Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26, 1,321 residential units, and a public school on Site 2B. Construction is underway for a 462-unit residential condo on Site 3, a 268-unit residential condo on Sites 16/17, 2 residential buildings on Site 23 and 24 comprising 591 units, as well as the Goldman Sachs headquarters

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Notes to Basic Financial Statements

October 31, 2008 and 2007

and the public school. In addition, the Authority also owns condominium units and controls significant air rights throughout the Project. Ground rents, payments in lieu of real estate taxes (PILOT), and other lease payments are received under ground leases, all expiring in 2069. All sites on the Project have been formerly designated for development.

(3) Summary of Significant Accounting Policies

(a) *Financial Reporting*

The Organization follows U.S. generally accepted accounting principles as promulgated by GASB.

The Organization's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides proprietary activities with the option of implementing the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with GASB pronouncements. The Organization has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

(b) *Use of Estimates*

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Estimates include reserves for doubtful accounts, depreciation and other postemployment benefits. Actual results could differ from those estimates.

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 (A Component Unit of the State of New York)

Notes to Basic Financial Statements

October 31, 2008 and 2007

(c) Project Assets

Costs incurred by the Authority in developing the Project as of October 31, 2008 and 2007 are capitalized as project assets and classified as follows:

	Balance at October 31, 2007	Additions	Deletions	Balance at October 31, 2008
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	334,671,507	19,501,138	3,254,147	350,918,498
Residential building and condominiums	<u>43,268,009</u>	<u>43,738,283</u>	<u>—</u>	<u>87,006,292</u>
Total project assets	<u>460,955,169</u>	<u>63,239,421</u>	<u>3,254,147</u>	<u>520,940,443</u>
Less accumulated depreciation:				
Site improvements	58,780,470	4,244,080	439,932	62,584,618
Residential building and condominiums	<u>7,567,591</u>	<u>1,219,350</u>	<u>—</u>	<u>8,786,941</u>
Total accumulated depreciation	<u>66,348,061</u>	<u>5,463,430</u>	<u>439,932</u>	<u>71,371,559</u>
Net project assets	<u>\$ 394,607,108</u>	<u>57,775,991</u>	<u>2,814,215</u>	<u>449,568,884</u>
	Balance at October 31, 2006	Additions	Deletions	Balance at October 31, 2007
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	320,540,142	14,131,365	—	334,671,507
Residential building and condominiums	<u>43,080,997</u>	<u>187,012</u>	<u>—</u>	<u>43,268,009</u>
Total project assets	<u>446,636,792</u>	<u>14,318,377</u>	<u>—</u>	<u>460,955,169</u>
Less accumulated depreciation:				
Site improvements	54,895,362	3,885,108	—	58,780,470
Residential building and condominiums	<u>6,724,948</u>	<u>842,643</u>	<u>—</u>	<u>7,567,591</u>
Total accumulated depreciation	<u>61,620,310</u>	<u>4,727,751</u>	<u>—</u>	<u>66,348,061</u>
Net project assets	<u>\$ 385,016,482</u>	<u>9,590,626</u>	<u>—</u>	<u>394,607,108</u>

The Authority records project assets at historical cost. The costs of normal maintenance of the Project that do not add to the value of the Project or extend its useful life are not capitalized. Upon completion, site improvement costs, which consist principally of infrastructure, streets, and civic and

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public facilities, are being depreciated by the straight-line method over the remaining lease years (to 2069). Interest costs, net of investment income, incurred during construction related to cost of infrastructure and facilities for phases being developed, were capitalized until such phases were substantially completed and ready for construction of buildings. The residential building is being depreciated over a useful life of 50 years and the condominium units through the first appraisal date of each lease.

(d) Revenue from Ground Leases

Revenue from ground leases is recognized as income, as such amounts become receivable under the provisions of each lease, except that PILOT payments received in advance of the period to which they relate are deferred and recognized as income during future periods. Given the nature of the Authority's operations, revenue from ground leases and related fees and agreements is considered operating revenue. All other revenues are considered nonoperating. In accordance with the lease terms, the Authority received upfront lease payments in fiscal periods prior to 2008 of \$42 million, \$60 million, \$11.5 million and \$4.75 million from residential buildings on Site 22, Site 16/17, Site 3, and Site 2A, respectively. Additionally, the Authority received \$22.5 million, \$33.9 million, and \$14 million from Sites 23, 24, and 3, respectively during fiscal 2008. With the exception of Site 2A, the Authority is recognizing revenue for these payments on a straight-line basis over the first 25-year lease period. Upfront payments received from Site 2A will be recognized through May 2011 in accordance with the lease terms. In August 2005, the Site 26 commercial ground lease was signed, providing for a one time lump-sum base rent payment of approximately \$161 million to be deposited with an escrow agent. The deposit was made in June 2007 and is due to be paid to the Authority in December 2009 subject to the fulfillment of certain conditions to be performed by the City. Base rent revenue relating to the one-time payment is being recognized on a pro-rata basis over the lease term. Amounts not recognized in the current fiscal year are reported as deferred revenue in current and noncurrent liabilities.

(e) Investments and Deposits

The Organization carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Organization's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority's investments in U.S. Treasury Securities are backed by the full faith and credit of the U.S. government; investments in commercial paper maintain a credit rating no lower than 'A-1' grade; investments in federal agency and mortgage backed securities have the highest credit rating of 'AAA' and are supported by the U.S. government or its agencies; investments in municipal bonds are supported by Fannie Mae and rated 'AAA'. All other deposits or investments are fully collateralized or backed by the Federal Deposit Insurance Corporation (FDIC) or letters of credit. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority's name.

Total investments and deposits held by the Organization at October 31, 2008 and 2007 included within the balance sheet accounts: investments, corporate-designated, escrowed, and

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postemployment benefit funds, bond resolution funds (see note 8), and residential lease required funds are as follows:

	2008			2007		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	\$ 31,736,868	35,883,316	5.52	\$ 43,700,486	46,427,766	4.29
Commercial paper	156,690,912	157,257,220	0.07	91,987,254	92,376,392	0.11
Federal agency securities	352,187,646	353,467,636	0.70	302,538,581	303,740,235	0.73
Federal agency mortgage-backed securities	38,981,557	38,182,427	3.52	44,975,563	44,175,293	2.87
Municipal bonds	3,280,000	3,280,000	0.02	4,930,000	4,930,000	0.02
Total investments	582,876,983	588,070,599	1.00	488,131,884	491,649,686	1.13
Cash and cash equivalents	16,334,920	16,335,433		4,799,109	4,799,109	
Total investments and deposits	\$ 599,211,903	604,406,032		\$ 492,930,993	496,448,795	

(a) Portfolio weighted average effective duration.

The Organization's investment objectives for the portfolio are to generate a rate of return in excess of selected benchmarks, provide diversification of the total portfolio, and provide an appropriate level of liquidity for operations.

The Organization's permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, GNMA securities); (ii) notes, bonds, debentures, and mortgages of U.S. government-sponsored agencies, provided that their obligations receive the highest credit rating (Fannie Mae, Freddie Mac); (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days (commercial paper), provided that such obligations receive the highest rating of two independent rating services which as of October 31, 2008 were A1/P1; and (iv) municipal bonds issued by New York authorities that currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

Investments of amounts in funds and accounts established under the various 2003 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. Government and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Interest rate risk is the probability of loss on investments from future changes in interest rates that can adversely affect the fair value of such investments. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration takes into account the change in cash flow expectations of securities with embedded options such as

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callable bonds and mortgage-backed securities. The interest rate risk of the Organization's portfolio is measured according to effective duration.

Corporate-designated, escrowed, and OPEB funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund (see note 10), project contingency reserves, restoration reserves, insurance reserves, arbitrage reserves, and funds designated for the payment of medical benefits to the Authority's retirees.

Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds largely comprise security and escrow deposits held by the Authority for the residential buildings.

The Conservancy maintains its cash in Certificates of Deposits and bank deposits, which are guaranteed by the FDIC up to \$250,000 through December 31, 2009. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$250,000. All cash balances are placed into overnight interest bearing accounts.

(f) Net Assets

The Organization's net assets are classified in the following categories: invested in capital assets, net of related debt, consisting of project assets, net of accumulated depreciation and deferred costs reduced by the outstanding balance of debt attributable to the acquisition, construction, or improvement of those assets; restricted net assets, consisting of net assets restricted for specific purposes by law or parties external to the Organization; and unrestricted net assets, consisting of net assets that are not classified as investment in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, and then unrestricted resources as they are needed.

(g) Deferred Costs

Bond issuance costs are amortized over the related bonds remaining period to maturity using the straight-line method. Unamortized bond issuance costs relating to refunded debt are accounted for as part of the carrying amount of such debt. Unreimbursed costs incurred by the Authority in entering into leases have been deferred and are being amortized by the straight-line method over the terms of the leases.

(h) Statements of Cash Flows

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Noncash transactions relating to capital include \$7.6 million representing North Cove Marina assets acquired from a defaulted lessee, \$25.7 million representing condominium units that will serve as a community center and ball field maintenance facility, and other miscellaneous items.

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(i) Defined Postemployment Benefits

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement establishes standards for the measurement, recognition, and financial statement presentation of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

In accordance with GASB Statement No. 45, effective for the fiscal year beginning November 1, 2006, the Authority (a) implemented a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employees' years of service, and (b) provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan (see note 16).

(j) Reclassifications

Certain fiscal 2007 amounts were reclassified to conform to the fiscal 2008 presentation.

(4) Rights of City to Reacquire Project Site

The fee interest in the Project site formerly owned by the City was conveyed to the Authority in the early 1980s for a nominal consideration. The City has the right to reacquire the Project site at any time, subject to the then-existing leases, for a nominal consideration after: (a) all notes, bonds (other than bonds issued to finance mortgage loans for the Gateway Plaza project), and other indebtedness incurred by the Authority, or for which the Authority's revenues have been pledged, have been repaid or defeased; and (b) satisfaction or provision for payment of its contractual obligations and other contingent liabilities. The City may provide for repayment or defeasance of indebtedness incurred by the Authority under its various bond resolutions. As of October 31, 2008, the City had not expressed its intent regarding its right to reacquire the Project site.

(5) Commercial Development

In 1981, the Authority and Olympia & York Battery Park Company (O&Y), an affiliate of Olympia & York Development Limited, entered into a lease pursuant to which O&Y constructed four buildings, consisting principally of approximately 7,500,000 (6,000,000 net rentable) square feet of office space and a maximum of 280,000 square feet of commercial and retail space. These buildings are collectively known as the World Financial Center (WFC). In 1983, the lease was replaced with four separate severance leases, one of which was assigned by O&Y to the American Express Company and certain of its affiliates (American Express). O&Y has been reorganized as a result of bankruptcy proceedings and has changed its name to Brookfield Financial Properties (BFP). In September 2002, BFP acquired an interest in approximately 50% of Three World Financial Center from American Express.

As of October 31, 2008, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$1.066 billion over the remaining lease terms in the following annual amounts: (i) base rent of \$17,000,000 per annum from 2009 through 2069 and (ii) additional base rent of \$5,561,220 per annum payable by the BFP-affiliated lessees (2000 to 2014), and an additional \$3,106,674 per annum payable by American Express (2000 to 2009) (see note 7). In addition, the leases provide for rent relating

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to retail and other space and, with respect to each building, percentage rent based on cash flow, as defined, which commenced in 1997 and continues to 2016. Annual PILOT is also required to be paid to the Authority based on the assessed value of each building and the tax rate then applicable to real property located in the borough of Manhattan, unless alternative PILOT arrangements are set forth in the ground lease. The City determines the assessed value of each building. Each lessee, or certain authorized tenants of the lessee, has the right to appeal the assessment to the City Tax Commission and bring tax certiorari proceedings in State court to seek reductions in the amounts of such assessments. A number of administrative and judicial appeals on some of the parcels are currently pending for the current and prior tax years. While any such proceedings are pending, the lessee is required to pay PILOT based upon the assessments established by the City. If a lessee is successful in any such proceedings, subsequent rental payments to the Authority will be reduced to the extent necessary to offset the prior overpayment of PILOT as a result of the revised assessment.

In 1995, the Authority signed a lease with the New York Mercantile Exchange and its wholly owned subsidiary, Commodity Exchange Inc. (collectively, NYMEX), and other agreements along with New York City Economic Development Corporation, the City, and the New York State Urban Development Corporation (currently doing business as the Empire State Development Corporation) for the development of a 500,000 square feet trading facility and office building complex on Site 15. The Authority has constructed and paid for certain utility connections to the Project. The lease provides that, commencing on the occupancy date and continuing for a period of 20 years, the rent per annum shall be \$1 for the trading portion of the building and \$1,000,000 for the office portion for the first 7 years of occupancy, \$1,500,000 for years 8 through 13, and \$2,000,000 for the remainder of the 20-year period. The building was completed and occupied in July 1997. The NYMEX lease provides for an abatement program for PILOT payments for portions of the exchange project.

In 1998, a lease was signed for the development of a 463-room luxury hotel and cinema complex (approximately 600,000 square feet) north of the WFC (the north neighborhood) on Site 25. The Site 25 ground lease provides for an abatement program for the hotel and cinema complex. In addition, in January 2001, a lease was signed for the development of a luxury hotel (approximately 278,000 square feet) and residential complex on Site 1 south of the WFC (the south neighborhood).

In August 2005, a lease was signed by Goldman Sachs for the development of approximately 1.8 million square feet of trading and office headquarter space on Site 26 in the north neighborhood. The Site 26 ground lease requires that a \$161 million lump sum rent payment be deposited with an escrow agent, which was made in June 2007 and is due to be paid to the Authority in December 2009, subject to the fulfillment of certain conditions to be performed by the City. PILOT payments under the lease are made subject to credits for transfer taxes paid to the City and incentive exemptions to Goldman Sachs, which are contingent on Goldman Sachs' employment and headquarter commitments to the City. In addition, in December 2005, Goldman Sachs made a \$3.5 million lease payment to the Authority which is held in escrow for the benefit of the local community board to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. For the fiscal year ended October 31, 2008, approximately \$101 thousand was disbursed to the NYC Public Library by the Authority.

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(6) Residential and Other Development

In 1980, the Authority entered into a lease with a limited-profit housing company (the Housing Company), which constructed an apartment complex consisting of 1,712 rental apartment units (the Gateway Project). In addition to the Gateway Project, the Authority entered into leases in the south neighborhood, pursuant to which developers constructed 17 buildings consisting of approximately 3,605 condominium and rental units, including 114 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. The final site on the Project was designated as a public school. In the north neighborhood, 8 buildings consisting of approximately 2,237 units have been constructed. All the leases expire in 2069.

Future base rent payments are fixed through the first lease appraisal date, which varies among the projects, but is generally the first day of the calendar month next succeeding the twentieth or twenty-fifth anniversary of the date on which a temporary certificate of occupancy is issued. The first lease appraisal date is April 2009. For lease years subsequent to the first appraisal date, the leases provide for base rent payments, subject to limitations, based upon a percentage of the fair market value of the land, but generally not less than an amount in excess of the highest base rent payable for any lease year ending prior to the first appraisal date. With respect to lease years subsequent to any other reappraisal dates, base rent may not be less than an amount in excess of base rent payable for the lease year immediately prior thereto. Reappraisal dates occur every 15 years, commencing on the fifteenth anniversary of the first appraisal date.

Annual PILOT is also required to be paid to the Authority during the term of these leases in lieu of paying real property taxes to the City. PILOT is based on the assessed value of the premises as established by the City and the tax rate then applicable to similar classes of real property located in the borough of Manhattan. Many leases provide for an abatement equivalent to the real estate tax abatements provided for in the State's Real Property Tax Law, and are either 10 or 20 years in duration. Abatements for two recent developments in the south neighborhood will end in 2020 and abatements for the north neighborhood will end in 2020 or thereafter.

Certain residential leases also provide for supplemental rental payments, generally through the first appraisal date, which are to be paid if the PILOT payments are less than the minimum specified in each lease (see note 7).

The residential leases also provide for payments to the Authority for the operation and maintenance of civic facilities installed by the Authority and, in some cases, of percentage rent based on rentals from commercial facilities.

Certain leases also provide, among other matters, for the lessees to make payments to the Authority in the event of a conversion to a cooperative or condominium form of ownership.

Under the terms of the Gateway Project lease, as amended, the tenant has agreed to pay: (i) a net annual rent of \$305,440 in 1998 and; thereafter, subject to renegotiation or reappraisal as provided in the lease upon the earlier of June 1, 2023 or repayment of the new FHA insured loan; (ii) an annual amount in lieu of real estate taxes, which as of February 16, 2016 increases by 20% per year from the pre-refinancing payments in lieu of real estate taxes to an equivalency payment equal to full taxes starting on February 16, 2020; and (iii) amounts for the operation and maintenance of the civic facilities. The lease, as amended, expires in 2040 and may be extended at the option of the tenant through 2069.

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On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$4.5 million of base rent, \$896 thousand of PILOT, and \$881 thousand in other revenue and interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2008. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds from the sale of condominium units will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facility, which will be owned by the Authority as condominium units. Construction of the buildings began in the spring of 2008.

(7) Future Minimum Lease Revenue

The future minimum base rent and other minimum lease payments (including supplemental rent, as applicable, through the first appraisal date (see note 6) to be received under the ground leases during each of the Authority's five fiscal years ending from October 31, 2009 through 2013 and thereafter are as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>	<u>Total</u>
	(In thousands)						
Commercial development:							
Base rent	\$ 27,155	24,743	25,098	25,114	25,130	1,245,266	1,372,506
Residential developments:							
Gateway Project base rent	305	305	305	305	305	8,145	9,670 (a)
South residential:							
Base rent	13,129	13,466	14,490	17,218	17,754	1,340,080	1,416,137
Other minimum payments	12,620	8,242	7,373	2,049	—	—	30,284
Subtotal South residential	25,749	21,708	21,863	19,267	17,754	1,340,080	1,446,421
North residential:							
Base rent	3,466	3,546	3,654	3,706	3,760	374,817	392,949
Other minimum payments	4,092	4,148	4,203	4,457	4,810	41,903	63,613
Subtotal North residential	7,558	7,694	7,857	8,163	8,570	416,720	456,562
Total	\$ 60,767	54,450	55,123	52,849	51,759	3,010,211	3,285,159

(a) Does not include extension period (see note 6).

Amounts in the above tabulation do not include PILOT (other than minimum supplemental rent payments under the second phase residential leases) and other payments to be received under ground leases. The minimum payments will be recorded as revenues (supplemental rents) only to the extent that minimum amounts exceed PILOT revenues due. In addition, future minimum lease revenues in connection with leases for which the buildings have not been built by developers and are not fully occupied are not included. Revenues to be paid on a percentage basis and other like contingent payments are also excluded.

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(8) 2003 Revenue Bond Resolution Funds

The current and noncurrent balance in the funds and accounts established in accordance with the Authority's 2003 Revenue Bond Resolutions and held by trustees are as follows at October 31, 2008 and 2007:

	October 31, 2008			
	2003 Revenue Bonds			
	General Bond Resolution	Senior Bond	Junior Bond	Total
Debt Service Funds	\$ —	27,730,863	33,342,700	61,073,563
Reserve Fund	68,647,319	—	—	68,647,319
Project Costs Fund	10,163,406	—	—	10,163,406
Project Operating Fund	12,080,691	—	—	12,080,691
Residual Fund	5,469,822	—	—	5,469,822
Pledged Revenue Fund	<u>182,952,708</u>	<u>—</u>	<u>—</u>	<u>182,952,708</u>
	<u>\$ 279,313,946</u>	<u>27,730,863</u>	<u>33,342,700</u>	<u>340,387,509</u>

	October 31, 2007			
	2003 Revenue Bonds			
	General Bond Resolution	Senior Bond	Junior Bond	Total
Debt Service Funds	\$ —	12,306,381	34,088,373	46,394,754
Reserve Fund	72,765,545	—	—	72,765,545
Project Costs Fund	39,154,120	—	—	39,154,120
Project Operating Fund	9,035,283	—	—	9,035,283
Residual Fund	9,720,062	—	—	9,720,062
Pledged Revenue Fund	<u>117,642,703</u>	<u>—</u>	<u>—</u>	<u>117,642,703</u>
	<u>\$ 248,317,713</u>	<u>12,306,381</u>	<u>34,088,373</u>	<u>294,712,467</u>

Investments of amounts in funds and accounts established under the various 2003 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. Government and its agencies, and in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Amounts in the Debt Service Reserve Funds and dedicated funds established under the 2003 Revenue Bond Resolutions are used to pay debt service on the respective bonds.

Debt Service Reserve Funds and dedicated revenue funds, to the extent not utilized to fund any future debt service deficiencies, will be available to retire bonds issued thereunder in the last year of bond maturity.

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Amounts in the Project Costs Fund may be used to pay for costs of certain park, street, other infrastructure improvements, and other capital expenditures.

Amounts in the Project Operating Fund established under the 2003 General Bond Resolution are not pledged to pay debt service and may be used by the Authority for and on certain additional indebtedness, which may be issued by the Authority for the funding of maintenance, repair, and restoration of the public open areas and civic facilities, and administrative and other expenditures, as defined.

Amounts held in the 2003 Pledged Revenue Fund (PRF) are pledged and assigned for the payment of the debt service on the 2003 Revenue Bonds and on certain additional indebtedness, which may be issued by the Authority and secured by the Authority's revenue.

Each November, after meeting funding requirements, the entire balance of funds remaining on deposit in the PRF is transferred to the Residual Fund. These balances become general assets for lawful corporate purposes. From time to time, revenues not pledged to the bondholders are deposited to the PRF.

(9) Authority Bonds Authorized

The Act, as amended, authorizes the Authority to issue bonds and notes in amounts not to exceed: (a) \$300 million outstanding at any one time for the development of the Project; (b) another \$150 million for the purpose of financing capital costs in connection with development of the Project area, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (c) \$400 million outstanding at any one time for the making of loans to housing companies organized to provide housing within the Project area pursuant to the New York State Private Housing Finance Law; (d) \$100 million for the purpose of repaying State appropriations, including accrued interest thereon and funding the infrastructure of the Project, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; and (e) \$150 million for the purpose of making a payment to the City plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Such authorized amounts exclude bonds and notes issued to refund outstanding bonds and notes.

The Act, as amended, also authorizes the Authority to pledge and assign excess revenues, as defined, to Housing New York Corporation (HNYC), a State public benefit corporation and subsidiary of the New York City Housing Development Corporation, in such amounts as are necessary to secure the issuance of bonds or notes by HNYC, in amounts not to exceed \$400 million, to finance low- and moderate-income housing developments outside the Authority's Project area, plus a principal amount of bonds or notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Pursuant to the Housing New York Act, only those bond or note proceeds of HNYC that are available on or before June 30, 1995 are permitted to be used to finance the housing program. Consequently, unless the Housing New York Act is amended, the Authority cannot pledge or assign any additional revenues in the future for the HNYC housing program.

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The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed \$110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of October 31, 2008, no bonds have been issued for this purpose.

The Act, as amended, authorizes the Authority to enter into interest rate exchange agreements through December 31, 2003, in connection with the issuance of Authority debt or in connection with Authority debt already outstanding, to provide for an exchange of payments based upon fixed and/or variable interest rates. In October 2003, the Authority entered into \$400 million of interest rate exchange agreements (see note 10).

Issuance of additional bonds by the Authority is subject to meeting certain conditions, including projected debt service coverage tests, and approval by the State Public Authorities Control Board.

(10) 2003 Revenue Bonds

On October 16, 2003, the Authority issued \$406,350,000 (\$433,345,972 inclusive of net premium) of fixed-rate Senior Revenue Bonds, Series A (the 2003 Series A Bonds) and \$635,000,000 variable-rate Junior Revenue Bonds, comprising \$235,000,000 of Series B (the 2003 Series B Bonds) and \$400,000,000 of Series C (the 2003 Series C Bonds), for a total of \$1,068,345,972. The bonds were issued for the following purposes:

- A total of \$564,891,773 of bonds (including \$343,017,495 of the 2003 Series A Bonds, \$50,871,502 of the 2003 Series B Bonds, and \$171,002,776 of the 2003 Series C Bonds) was issued to refund all the outstanding 1993 Revenue Refunding Bonds, including \$324,045,000 of the 1993 Series A Senior Bonds, \$115,420,000 of the 1993 Series A Junior Bonds, and \$53,075,000 of the Junior Revenue Bonds, Series 2000.
- \$95,755,874 of the 2003 Series C Bonds was issued to advance refund \$74,385,000 of outstanding Junior Revenue Bonds, Series 1996A.
- \$115,160,363 of the 2003 Series B Bonds was issued to finance certain infrastructure and other capital improvements.

In conjunction with the refunding of all of the outstanding revenue bonds, the Authority issued \$292,537,963 of bonds (including \$90,328,477 of the 2003 Series A Bonds, \$68,968,136 of the 2003 Series B Bonds, and \$133,241,350 of the 2003 Series C Bonds) to current refund \$250,390,000 of outstanding 1993 HNYC Senior Bonds (see note 9).

Funds aggregating \$860,037,332, representing the net proceeds of the bond issues after payment of underwriting fees and other issuance cost and deposits to debt service reserve and other funds and accounts held under the various Resolutions for the refund bonds, were used to purchase U.S. government securities to retire the bonds. In addition, approximately \$90.4 million of bond proceeds was made available to the Authority to facilitate development and maintenance of the Project.

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The refundings resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by approximately \$39 million. The difference between the reacquisition price and the net carrying amount of the refunded debt was reflected on the Authority's balance sheet as an unamortized loss on extinguishment of debt and is being deferred over the life of the old debt with a pro rata charge to interest expense for the fiscal years ended October 31, 2008 and 2007.

At October 31, 2008, the 2003 Series A Bonds consist of the following serial bonds:

	Coupon rates	Principal amounts	Interest
Fiscal year ended October 31:			
2009	2.10%	\$ 14,570,000	19,702,814
2010	2.375 – 5.00	12,980,000	19,317,879
2011	2.625 – 5.00	13,645,000	18,821,184
2012	3.00 – 5.50	14,375,000	18,236,211
2013	3.40 – 5.50	15,205,000	17,531,970
2014 – 2018	3.50 – 5.50	91,580,000	74,504,545
2019 – 2023	4.00 – 5.25	121,875,000	47,000,941
2024 – 2027	4.60 – 5.00	<u>122,120,000</u>	<u>12,553,078</u>
		<u>\$ 406,350,000</u>	<u>227,668,622</u>

The Authority issued certain of the 2003 Series A Bonds at a discount and others at a premium, resulting in an overall net premium of approximately \$27 million, which is being amortized using the straight-line basis over the lives of the 2003 Series A Bonds. At October 31, 2008 and 2007, the unamortized net bond premium was approximately \$21.1 million and \$22.3 million, respectively.

The 2003 Series A Bonds maturing after November 1, 2013 are subject to redemption, in whole or in part, at any time on or after November 1, 2013 at the option of the Authority, at a redemption price of par plus interest through the redemption date.

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At October 31, 2008, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

	Junior B		Junior C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year ended October 31:						
2009	\$ —	21,116,112	3,375,000	29,741,013	3,375,000	50,857,125
2010	—	21,116,112	5,450,000	29,383,118	5,450,000	50,499,230
2011	—	21,116,112	5,450,000	28,940,844	5,450,000	50,056,956
2012	—	21,116,112	5,450,000	28,498,570	5,450,000	49,614,682
2013	—	21,116,112	5,450,000	28,056,296	5,450,000	49,172,408
2014 – 2018	—	105,580,559	27,250,000	133,647,373	27,250,000	239,227,932
2019 – 2023	—	105,580,559	28,775,000	122,429,978	28,775,000	228,010,537
2024 – 2028	—	105,580,559	68,850,000	108,270,668	68,850,000	213,851,227
2029 – 2033	—	105,580,559	216,325,000	44,913,674	216,325,000	150,494,233
2034 – 2038	150,650,000	76,376,009	33,625,000	930,201	184,275,000	77,306,210
2039 – 2040	84,350,000	6,163,622	—	—	84,350,000	6,163,622
Total	\$ 235,000,000	610,442,427	400,000,000	554,811,735	635,000,000	1,165,254,162

The 2003 variable-rate Junior Revenue Bonds were issued as Auction Rate Securities (ARS) and the principal and interest are insured by municipal bond insurance policies. Interest rates on these bonds are reset periodically through an auction process in the secondary market. The 2003 Series B Bonds reset on a 7-day auction cycle and the 2003 Series C Bonds reset on a 35-day auction cycle.

Interest in the above table is based on actual auction rates closest to October 31, 2008, which were 5.549%, 5.457%, and 4.988% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 5.457%, 8.006%, 8.5880%, 8.7180%, and 6.55% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

The 2003 Series B Bonds in entirety and \$100 million of the 2003 Series C Bonds are insured by Financial Security Assurance, Inc. (FSA). The remaining \$300 million of the 2003 Series C Bonds are insured by AMBAC Assurance Corporation (AMBAC).

In February 2008, auctions for the Authority's ARS in the secondary market began to fail intermittently due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (LIBOR) based on the prevailing rating for the bond series. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid February 2008 through October 31, 2008 ranged from a low of 2.5% to a high of 7.898% on the 2003 Series B Bonds and from a low of 4.18% to a high of 8.718% on the 2003 Series C Bonds.

On October 2, 2003, the Authority executed six interest-rate exchange agreements (Swaps) with three counterparties. The Swaps were executed in conjunction with the Authority's issuance of \$400 million of its 2003 Series C Bonds. The total notional amount of the Swaps was \$400,000,000. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds. The Authority

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executed the Swaps in order to effectively convert the variable-rate Bonds to a net fixed rate. Based on the Swap agreements, the Authority owes interest to the Swap counterparties calculated at a fixed rate of 3.452% and paid semiannually. In return, on a monthly basis, the counterparties pay the Authority floating-rate interest equal to 65% of the 1-month LIBOR.

	2003 Series C principal	Interest rate swaps		
		Payment	Receipts	Net payment
Fiscal year ended October 31:				
2009	\$ 3,375,000	(13,749,748)	6,688,976	(7,060,772)
2010	5,450,000	(13,597,428)	6,596,887	(7,000,541)
2011	5,450,000	(13,409,294)	6,504,833	(6,904,461)
2012	5,450,000	(13,221,160)	6,412,743	(6,808,417)
2013	5,450,000	(13,033,026)	6,320,689	(6,712,337)
2014 – 2018	27,250,000	(62,343,120)	30,222,316	(32,120,804)
2019 – 2023	28,775,000	(57,572,025)	27,874,529	(29,697,496)
2024 – 2028	68,885,000	(51,548,716)	24,588,233	(26,960,483)
2029 – 2033	216,325,000	(23,864,971)	9,805,759	(14,059,212)
2034	33,625,000	(580,368)	—	(580,368)
	\$ 400,035,000	(262,919,856)	125,014,965	(137,904,891)

The above table includes payments based on the Authority's Swap payment obligation fixed at 3.452% of bond principal outstanding while receipts are based on 65% of the 30-day LIBOR on October 31, 2008 (65% of 2.58125% or 1.6778%). Receipts are projected based on the latest interest rate at October 31, 2008, but will vary monthly.

The Swaps had a negative fair market value of approximately \$33.3 million at October 31, 2008. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each Swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the Swaps.

The Authority is exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "A" category from at least one of the nationally recognized credit rating agencies. The counterparties are required to post collateral to the extent that they experience an appreciable decline in credit rating and the Swaps have positive fair value for the Authority.

The Swaps expose the Authority to basis risk should its interest payments on the variable-rate bonds significantly exceed the 65% of LIBOR receipts.

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Debt service on the Senior Bonds (including the 2003 Series A Bonds) and on the Junior Bonds (including the 2003 Series B Bonds and the 2003 Series C Bonds) is secured by and payable, after satisfaction of certain administrative, operating, and maintenance obligations of the Authority, solely from certain pledged lease revenues and Swap receipts, which are required to be deposited and maintained in the PRF established under the 2003 General Bond Resolution. The PRF, including income and earnings on investments thereof, has been pledged and assigned to a trustee for the benefit of the owners of Senior Bonds or Junior Bonds and certain other beneficiaries, as their respective interest may appear. In addition, the Bonds, and certain Swap payments and reimbursement obligations, are secured by the Reserve Fund established under the 2003 General Bond Resolution. The rights to payment of Senior Bonds, senior Swap payments, and senior reimbursement obligations from amounts in the PRF and the Reserve Fund are senior to the rights to payment of Junior Bonds, junior Swap payments, and junior reimbursement obligations from such amounts. As of each November 1, amounts in the PRF in excess of funding requirements for project operating expenses and certain other amounts will be transferred into an unpledged Residual Fund and may be used by the Authority for other purposes (see note 8).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement, to provide for the custody of the Special Fund. In order to assure the ability of the Authority to develop and operate the Project, the Authority established a Special Fund to the credit of which shall be deposited approximately \$46 million. The Special Fund was funded from the proceeds of the former special fund created pursuant to the 1993 Master Revenue Resolution upon the dissolution of such existing special fund in connection with the 2003 refunding of outstanding Authority bonds and the issuance of the additional bonds. The Special Fund may only be used by the Authority, as necessary, (i) to pay debt service obligations of the Authority on its bonds or (ii) for purposes that are jointly agreed upon between the City and the Authority, as the same may be amended from time to time. Neither the Special Fund nor the moneys on deposit from time to time therein may be pledged to secure any obligation pursuant to any Resolutions authorizing additional bonds or other bonds or debt obligations of the Authority. Income and earnings actually received by or for the account of the Authority from investments of moneys on deposit from time to time in the Special Fund shall be treated as revenues.

(11) Agreements with the City of New York Relating to the Disposition of Revenue

The Authority entered into a settlement agreement (the Settlement Agreement) with the City, which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 Revenue Bonds, and on any bonds issued to finance the HNYC housing program (see notes 9 and 10), certain site development costs, and any agreed-upon commitments, will be remitted to the City; and (ii) all other rent payments and other revenue received by the Authority, remaining after payment of a proportionate part of the aforementioned items, will be retained by the Authority and spent in such manner and for such purposes as the Authority and the City shall jointly determine (see note 17(f)).

The \$83.1 million provided for the transfer to the City at fiscal year ended October 31, 2007 was paid in June 2008. A provision in the amount of \$92.7 million was charged to operations for the fiscal year ended October 31, 2008. The Authority retained approximately \$98.7 million of fiscal year 2008 and \$43.9 million of fiscal year 2007 excess revenues to be spent in a manner and for such purposes as the Authority and the City shall jointly decide.

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In January 2007, the City and the Authority signed an agreement to increase the amount of bonds or other debt obligations the Authority may issue for infrastructure and other capital expenditures by an additional \$74.6 million.

(12) Rents and Other Receivables

Rents and other receivables comprise the following at October 31, 2008 and 2007:

	2008	2007
Swap interest receivable	\$ 896,116	1,146,452
Miscellaneous receivables	1,942,847	1,342,464
Interest receivable	1,620,365	1,934,516
Rents receivable	<u>9,362,258</u>	<u>10,123,580</u>
Total receivables	13,821,586	14,547,012
Less allowance for doubtful accounts	<u>(80,980)</u>	<u>(113,667)</u>
Net receivables	<u>\$ 13,740,606</u>	<u>14,433,345</u>

Rents receivable include accumulated amounts recognized relating to the Goldman Sachs escrow deposit due to be paid to the Authority in December 2009, approximately \$8 million through October 31, 2008 and \$5.5 million through October 31, 2007.

(13) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at October 31, 2008 and 2007 comprise the following:

	2008	2007
Amounts due to vendors	\$ 3,557,429	1,996,303
Contract retention costs	2,961,194	2,852,471
Due to developers	27,500	27,500
Accrued payroll and benefits	541,066	494,005
Accrued legal settlement	—	406,197
Total	<u>\$ 7,087,189</u>	<u>5,776,476</u>

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(14) Long-Term Liabilities

The Organization's bonds and other long-term liabilities as of October 31, 2008 and 2007 are comprised of the following obligations:

	October 31, 2007	Additions	Deletions	October 31, 2008	Due within one year
Authority Bonds Outstanding:					
2003 Revenue Bonds:					
Series 2003A	\$ 406,350,000	—	—	406,350,000	14,570,000
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	400,000,000	—	—	400,000,000	3,375,000
Subtotal	1,041,350,000	—	—	1,041,350,000	17,945,000
Unamortized net premiums	<u>22,252,784</u>	<u>—</u>	<u>1,173,738</u>	<u>21,079,046</u>	<u>—</u>
Total bonds outstanding	<u>1,063,602,784</u>	<u>—</u>	<u>1,173,738</u>	<u>1,062,429,046</u>	<u>17,945,000</u>
Other long-term liabilities:					
Unamortized loss on extinguishment	(31,846,828)	—	(1,776,366)	(30,070,462)	—
Other postemployment benefits	13,852,211	1,304,346	212,590	14,943,967	—
Deferred revenue	129,328,529	127,313,048	37,211,423	219,430,154	35,047,311
Security and other deposits	25,518,163	8,533,910	—	34,052,073	17,609,573
Total other long-term liabilities	<u>136,852,075</u>	<u>137,151,304</u>	<u>35,647,647</u>	<u>238,355,732</u>	<u>52,656,884</u>
Total long-term liabilities	<u>\$ 1,200,454,859</u>	<u>137,151,304</u>	<u>36,821,385</u>	<u>1,300,784,778</u>	<u>70,601,884</u>

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	<u>October 31, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2007</u>	<u>Due within one year</u>
Authority Bonds Outstanding:					
2003 Revenue Bonds:					
Series 2003A	\$ 406,350,000	—	—	406,350,000	—
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	400,000,000	—	—	400,000,000	—
Subtotal	1,041,350,000	—	—	1,041,350,000	—
Unamortized net premiums	<u>23,426,522</u>	<u>—</u>	<u>1,173,738</u>	<u>22,252,784</u>	<u>—</u>
Total bonds outstanding	<u>1,064,776,522</u>	<u>—</u>	<u>1,173,738</u>	<u>1,063,602,784</u>	<u>—</u>
Other long-term liabilities:					
Unamortized loss on extinguishment	(33,623,195)	—	(1,776,367)	(31,846,828)	—
Other postemployment benefits	—	14,019,165	166,954	13,852,211	—
Deferred revenue	128,724,663	34,220,533	33,616,667	129,328,529	29,672,501
Security and other deposits	24,473,931	1,044,232	—	25,518,163	17,092,875
Total other long-term liabilities	<u>119,575,399</u>	<u>49,283,930</u>	<u>32,007,254</u>	<u>136,852,075</u>	<u>46,765,376</u>
Total long-term liabilities	<u>\$ 1,184,351,921</u>	<u>49,283,930</u>	<u>33,180,992</u>	<u>1,200,454,859</u>	<u>46,765,376</u>

Security and other deposits classified as due within one year represent amounts held on behalf of others and are callable on demand.

(15) Retirement Plans

The Authority – The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer defined benefit retirement systems. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12236.

The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than 10 years of service and, therefore, contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which

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shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The required contributions for the current fiscal year and two preceding fiscal years were:

2008	\$ 454,632
2007	392,719
2006	<u>498,294</u>
 Total	 <u>\$ 1,345,645</u>

The Authority's contributions made to the ERS were equal to 100% of the contributions required for each year.

The Conservancy – The Conservancy sponsored a Tax Deferred Savings Annuity (TDSA), a 403(b) retirement plan, through December 2007 covering all its employees upon attainment of regular status. Eligible employees contributed up to 16.67% of their annual salary, but were limited to amounts necessary to meet nondiscrimination tests. The Conservancy contributed an amount equal to 25% of each employee's contribution up to a maximum of 6% of annual salary. In addition, the Conservancy contributed an amount equal to 2% of each employee's salary each pay period. After three years of employment, the Conservancy contributed an additional 1% of each employee's annual earnings up to \$40,000. Employees' contributions with accrued interest are fully vested at all times. Contributions by the Conservancy were subject to a five-year vesting using a cumulative 20% vesting schedule and amounted to \$98,014 for the fiscal year ended October 31, 2007, while employee contributions were \$222,703 for the fiscal year ended October 31, 2007. No contributions were made by the Conservancy or their employees for the fiscal year ended October 31, 2008.

In March 2007, the Conservancy replaced the TDSA by entering into a retirement benefits plan administered by Cultural Institutions Retirement System (CIRS) for all eligible employees. CIRS' retirement benefit plan is a cost-sharing multiple-employer sponsored plan consisting of a defined benefit plan (CIRS Pension Plan) and a Section 401(k) defined contribution plan (CIRS Savings Plan). CIRS is responsible for administering all aspects of the CIRS Pension Plan, including the investment of CIRS Plan assets that are held in trust for beneficiaries of the CIRS Pension Plan. The CIRS Savings Plan allows participants to select their own investments from a range of options. CIRS issues an annual financial summary report for the Plans. The report can be obtained by contacting Cultural Institutions Retirement System or on their website at www.cirsplans.org.

To be eligible under the CIRS Pension Plan, employees must be over the age of 21 and be employed for a minimum of one year at regular status. Benefits paid to retirees are based on age at retirement, years of credited service, and average compensation. The CIRS Pension Plan is a private pension plan governed by ERISA, and is characterized as a Multiemployer Plan by the U.S. Department of Labor. In the event of CIRS Pension Plan insolvency, the CIRS Pension Plan is covered under the Pension Benefit Guaranty Corporation. The total CIRS Pension Plan costs for eligible employees, exclusive of payments made directly by the Authority for retroactive service credit, amounted to \$265,902 and \$248,967 for the fiscal

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years ended October 31, 2008 and 2007, respectively. The cost for retroactive service credit amounted to \$1,289,969 and was fully and directly funded by the Authority in June 2007 using funds held by the Authority on behalf of the Conservancy in the Operating Reserve Fund.

Under the CIRS Savings Plan, participants are required to contribute at least 2% of their base salary and direct the investment of their funds based on the investment options offered by the Savings Plan. To be eligible under this plan, employees must be over the age of 21 and be employed for a minimum of 3 months. Total contributions made by participants for the fiscal years ended October 31, 2008 and 2007 are \$222,984 and \$40,805, respectively.

(16) Postemployment Healthcare Plan

(a) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the State as a single multiple employer defined benefit plan. Under the plan the Authority provides certain healthcare benefits for eligible retired employees and their dependents under a single employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns NYSHIP the authority to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Authority's Board is authorized to establish contribution rates for employees and retirees below those set by Civil Service Law. The Authority's Plan states that employees and/or their dependents become eligible for these benefits at 55 years of age and when the employee has 10 years of State service. In calculating the 10 year service requirement, all of the employee's service need not be with the Authority, but may be a composite of other New York State service with a minimum of 3 years with the Authority. Employees with no prior State service must work a minimum of 10 years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees hired on or after November 1, 2001 contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. The Authority covers 100% of the cost of single and dependent coverage for employees hired before November 1, 2001. A vestee is an Authority employee vested as a member of the retirement system administered by the State, has withdrawn from State service after meeting the Authority's minimum service requirement, but has not met the age requirement for continuing health insurance. Approximately 95 participants, including 60 current employees, 4 vestees, and 31 retired and/or spouses of retired employees were eligible to receive these benefits at October 31, 2008. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

Effective November 1, 2006, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. Through the fiscal year ended October 31, 2006, OPEB provisions were financed on a pay-as-you-go basis. The first actuarial valuation date is November 1, 2006. Actuarial valuations involve estimates of the value of reported amounts, assumptions about the probability of events in the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about employment mortality and the healthcare cost trend.

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The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Since the Authority used a one year amortization period, the ARC in future years represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any interest on the unfunded actuarial accrued liability. The Authority's current year ARC is approximately \$1.3 million as detailed in the chart in the OPEB Status and Funding Progress Section of this footnote.

(b) Funding

The contribution requirements (funding) of the Authority's net OPEB obligation are at the discretion of management as approved by the members of the Board. The Authority's net OPEB obligation continues to be financed on a pay-as-you-go basis from assets segregated for the exclusive purpose of paying OPEB obligations.

(c) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2006, actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% (net of administrative expenses) including inflation, declining 1% each year to an ultimate trend rate of 5%. Both rates include a 3% inflation assumption.

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(d) OPEB Status and Funding Progress

The Authority's OPEB obligation and the funded status of the plan as of October 31, 2008 and 2007 are as follows:

	2008	2007
Actuarial Accrued Liability (AAL):		
Net OPEB obligation beginning of year	\$ 13,852,211	—
Annual required contribution (ARC):		
Normal cost	722,719	688,304
Amortization of unfunded AAL	—	12,791,662
Interest to year-end	581,627	539,199
Payments for retirees during year	(212,590)	(166,954)
Net OPEB obligation end of year	<u>\$ 14,943,967</u>	<u>13,852,211</u>
Actuarial Accrued Liability (AAL) November 1, 2007 and 2006	\$ 13,852,211	12,791,662
Funded OPEB plan assets	—	—
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2007 and 2006	<u>\$ 13,852,211</u>	<u>12,791,662</u>
Funded ratio (actuarial value of plan assets/AAL)	—%	—%
Covered payroll	\$ 5,001,187	5,001,187
UAAL as percentage of covered payroll	277%	256%

Corporate assets held at October 31, 2008 and 2007 in a separate Corporate OPEB account for the exclusive purpose of paying OPEB obligations were approximately \$15.2 million and \$14.2 million, respectively. The OPEB assets are included on the balance sheet within the other corporate designated, escrowed fund and postemployment benefit financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(17) Commitments and Other Matters

- (a) The Authority has entered into construction and other related contracts having unexpended balances aggregating approximately \$31.4 million as of October 31, 2008.
- (b) The Authority rents office space in One World Financial Center, as well as community meeting space, field offices, and maintenance space in condominium buildings in Battery Park City. Total rent expense amounted to approximately \$2 million and \$2.1 million for the fiscal years ended October 31, 2008 and 2007, respectively.
- (c) The terrorist attack on the World Trade Center on September 11, 2001 (9/11) destroyed the North Bridge and severely damaged the South Bridge owned by the Authority. After commencing suit

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against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, the insurance monies were deposited into a fund jointly controlled by the Authority and the management team of the World Financial Center (BFP, American Express Company, and Merrill Lynch & Co.) in May 2006 for the purpose of ensuring access into Battery Park City from the connection that will be built from the World Trade Center site and for the purpose of restoring the South Bridge. These funds are not recorded as assets of the Authority in the accompanying balance sheets.

- (d) In November 2007, the Authority designated The New York City School Construction Authority (SCA) as the ground lessee and developer of Site 2B for the purpose of constructing a public school for elementary and intermediate school students. Site 2B, in the south neighborhood is the last parcel available for development. The project will be funded by the New York City Department of Education. Construction commenced in September 2008. The Authority is expected to receive nominal rent for the Site.
- (e) The City owns Pier A (a three-story historic landmark building), and a contiguous upland area (together, the Pier), which are located adjacent to the Project at its southern tip. In December 2007, the Authority and the City executed a nonbinding Term Sheet, providing for their negotiation in good faith of a long-term lease of the Pier based on the major terms described in the Term Sheet. Under the lease, the Authority will redevelop the Pier with funding provided by the City, which would then be used for recreational, maritime and ancillary uses, including retail purposes.
- (f) On July 31, 2006, the members of the Authority approved the payment of \$130 million of Joint Purpose Funds to the New York City Housing Trust Fund in accordance with a proposal by the Governor, the Mayor, and City Comptroller. The funds will be used for affordable housing programs by the City's Department of Housing Preservation and Development (HPD). Progress reports will be delivered by HPD annually and all investments and expenditures of the funds will be subject to audit by the City Comptroller. The HPD programs are projected to use the \$130 million to provide an additional 4,300 of affordable housing units in the City by June 30, 2009. Approximately \$93.4 million held in the Joint Purpose Fund was transferred to HPD in September 2006 and the \$36.7 million balance was transferred in February 2007 in accordance with the agreement.
- (g) On October 23, 2007, the members of the Authority approved a proposal by the Governor to pay up to \$40 million of Special Fund monies (see note 10) to the Port Authority of New York for the construction of a planned pedestrian concourse running under Route 9A. The concourse would connect the Winter Garden, (on the west at the edge of Battery Park City) and the World Trade Center site on the east. The proposal is subject to approval by the Mayor and City Comptroller.
- (h) Pursuant to its ground lease with Goldman Sachs Headquarters LLC (Goldman) providing for construction by Goldman of a new world headquarters building in Battery Park City, the Authority entered into an arrangement as of July 18, 2007 under which Goldman may make purchases related to construction, furnishing and equipping the building without liability for New York State and City sales tax, for an aggregate sales tax exemption of up \$60 million. To qualify for the exemption, the Authority is liable for payment of Goldman's purchases in connection with the building, in an

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amount not to exceed \$100 million (in addition to the value of goods delivered to the building), which purchases Goldman is to make as agent of the Authority, but which Goldman is obligated to pay pursuant to its ground lease. The Goldman Sachs Group, Inc (the corporate parent of Goldman) is executing a guaranty to assure reimbursement of any amounts paid by the Authority as a consequence of this arrangement. The likelihood of any payments made directly by the Authority resulting from this arrangement is considered remote.

(18) Battery Park City Parks Conservancy

The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation. The Authority, as sole member of the Conservancy, designated the Authority's members to serve as the Conservancy's board of directors. By modification of the bylaws, the Conservancy added the Authority's President as an additional director. The Conservancy was formed by the Authority to comply with certain requirements of agreements between the Authority and the City pursuant to which the Authority is obligated to maintain and repair the parks and open spaces in and around Battery Park City's residential areas. In March 1988, the Authority entered into a management agreement with the Conservancy, which authorized the Conservancy to undertake all responsibilities, related to the operation, maintenance, and repair of such parks and open spaces. For fiscal years ended October 31, 2008 and 2007, the Authority paid the Conservancy approximately \$7.6 million and \$7.3 million, respectively, for services, which are included in the Authority's operating expenses. Approximately \$16 thousand and \$22 thousand is payable by the Authority to the Conservancy for the fiscal years ended October 31, 2008 and 2007, respectively, and are eliminated in the blending of the Conservancy's financial statements into the Authority's financial statements.

During fiscal year 2008 management of the Authority elected to report the Conservancy as a blended component unit of the Authority. The cumulative effect of this accounting change has resulted in an increase to ending net assets as of October 31, 2007 of \$407,621.

(19) Litigation

- (a) Several claims have been asserted against the Authority arising out of design and construction work performed on the Authority's combined school/residential facility located on Site 22 in Battery Park City (the Site 22 Project). The general contractor, the plumbing contractor, and a subcontractor that performed work on the Site 22 Project have asserted a total of approximately \$12.1 million in claims. The school portion of the Site 22 Project was constructed by the Authority pursuant to an agreement with the City of New York, the New York City Educational Construction Fund, and the Board of Education of the City of New York. Pursuant to the terms of that agreement, the City agreed to indemnify the Authority *inter alia* for any liability, loss, cost, damage, or claim arising from the design or construction of the school portion of the Site 22 Project. The amount of Site 22 Project claims allocable to the school portion has not yet been determined, and the amount of the Authority's liability for claims relating to the Site 22 Project, if any, is not predictable at present. Any amount the Authority may pay to settle claims relating to such school portion must be approved by the City of New York.

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- (b) Numerous claims have been asserted against the Authority and others in State and Federal courts by cleaning contractor employees who worked in and around the World Trade Center site after the September 11th attack (such employees and their representatives hereinafter referred to as Plaintiffs, and such claims hereinafter referred to as 9/11 Claims), some of whom were undertaking clean-up activities for ground lessees of the Authority and tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. Certain 9/11 Claims have been dismissed or discontinued with prejudice with respect to the Authority on account of procedural defects. The remaining approximately 600 9/11 Claims are currently pending in Federal court.

The Authority's ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, BFP, Merrill Lynch and Marina Towers have generally assumed responsibility for the defense of 9/11 Claims with respect to injuries sustained on property leased from the Authority by such entities or their affiliates. In addition, a number of 9/11 Claims have been tendered to the City, and claims may be tendered in the future to other ground lessees of the Authority.

Certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not cover the 9/11 Claims.

- (c) Metrotech Contracting Corporation (Metrotech), a contractor of the Authority that has filed for bankruptcy, has asserted a number of claims against the Authority, totaling approximately \$693,000, relating to work allegedly performed and not paid for by the Authority.

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Other Supplementary Information – Combining Balance Sheet

October 31, 2008

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	\$ 13,843	284,496	—	298,339
Investments	7,133,857	—	—	7,133,857
Corporate-designated, escrowed and OPEB funds	17,609,573	—	—	17,609,573
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of \$80,980)	13,720,069	36,563	(16,026)	13,740,606
2003 Revenue Bond Resolution Funds	161,190,959	—	—	161,190,959
Total current assets	199,668,301	321,059	(16,026)	199,973,334
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	179,196,550	—	—	179,196,550
Residential lease required funds	15,589,335	—	—	15,589,335
Corporate-designated, escrowed and OPEB funds	223,685,758	—	—	223,685,758
Deferred costs:				
Bond issuance costs, less accumulated amortization of \$12,855,800	37,907,248	—	—	37,907,248
Costs of leases, less accumulated amortization of \$817,307	3,862,220	—	—	3,862,220
Battery Park City project assets – at cost, less accumulated depreciation	449,568,884	—	—	449,568,884
Other assets	6,149,889	249,774	—	6,399,663
Total noncurrent assets	915,959,884	249,774	—	916,209,658
Total assets	\$ 1,115,628,185	570,833	(16,026)	1,116,182,992

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Other Supplementary Information – Combining Balance Sheet

October 31, 2008

Liabilities and Net Deficit	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 18,301,915	—	—	18,301,915
Accounts payable and other liabilities	6,718,759	384,456	(16,026)	7,087,189
Due to the City of New York	92,736,000	—	—	92,736,000
Deferred revenue:				
PILOT revenue	22,422,288	—	—	22,422,288
Base rent and other revenue	12,625,023	—	—	12,625,023
Security and other deposits	17,609,573	—	—	17,609,573
2003 Revenue Bonds	17,945,000	—	—	17,945,000
Total current liabilities	188,358,558	384,456	(16,026)	188,726,988
Noncurrent liabilities:				
Deferred revenue:				
Base rent and other revenue	184,382,843	—	—	184,382,843
Security and other deposits	16,442,500	—	—	16,442,500
OPEB	14,943,967	—	—	14,943,967
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$5,916,925	1,044,484,046	—	—	1,044,484,046
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(30,070,462)	—	—	(30,070,462)
Total noncurrent liabilities	1,230,182,894	—	—	1,230,182,894
Total liabilities	1,418,541,452	384,456	(16,026)	1,418,909,882
Net assets (deficit):				
Invested in capital assets, net of related debt	(280,135)	—	—	(280,135)
Restricted:				
Debt service	112,955,906	—	—	112,955,906
Under bond resolutions and other agreements	284,699,364	—	—	284,699,364
Unrestricted (deficit) assets	(700,288,402)	186,377	—	(700,102,025)
Total net (deficit) assets	(302,913,267)	186,377	—	(302,726,890)
Total liabilities and net (deficit) assets	\$ 1,115,628,185	570,833	(16,026)	1,116,182,992

See accompanying independent auditors' report.

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Other Supplementary Information – Combining Balance Sheet

October 31, 2007

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	\$ 14,359	213,239	—	227,598
Investments	3,659,502	275,362	—	3,934,864
Corporate-designated, escrowed and OPEB funds	17,090,801	—	—	17,090,801
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of \$113,667)	14,425,609	29,754	(22,018)	14,433,345
2003 Revenue Bond Resolution Funds	124,446,606	—	—	124,446,606
Total current assets	<u>159,636,877</u>	<u>518,355</u>	<u>(22,018)</u>	<u>160,133,214</u>
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	170,265,861	—	—	170,265,861
Residential lease required funds	7,620,015	—	—	7,620,015
Corporate-designated, escrowed and OPEB funds	173,090,648	—	—	173,090,648
Deferred costs:				
Bond issuance costs, less accumulated amortization of \$11,417,325	39,345,722	—	—	39,345,722
Costs of leases, less accumulated amortization of \$767,580	2,569,715	—	—	2,569,715
Battery Park City project assets – at cost, less accumulated depreciation	394,607,108	—	—	394,607,108
Other assets	6,779,850	279,184	—	7,059,034
Total noncurrent assets	<u>794,278,919</u>	<u>279,184</u>	<u>—</u>	<u>794,558,103</u>
Total assets	<u>\$ 953,915,796</u>	<u>797,539</u>	<u>(22,018)</u>	<u>954,691,317</u>

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Other Supplementary Information – Combining Balance Sheet

October 31, 2007

Liabilities and Net Deficit	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 17,822,091	—	—	17,822,091
Accounts payable and other liabilities	5,408,576	389,918	(22,018)	5,776,476
Due to the City of New York	83,100,000	—	—	83,100,000
Deferred revenue:				
PILOT revenue	21,766,569	—	—	21,766,569
Base rent and other revenue	7,905,932	—	—	7,905,932
Security and other deposits	17,092,875	—	—	17,092,875
Total current liabilities	153,096,043	389,918	(22,018)	153,463,943
Noncurrent liabilities:				
Deferred revenue:				
Base rent and other revenue	99,656,028	—	—	99,656,028
Security and other deposits	8,425,288	—	—	8,425,288
OPEB	13,852,211	—	—	13,852,211
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$4,743,187	1,063,602,784	—	—	1,063,602,784
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(31,846,828)	—	—	(31,846,828)
Total noncurrent liabilities	1,153,689,483	—	—	1,153,689,483
Total liabilities	1,306,785,526	389,918	(22,018)	1,307,153,426
Net assets (deficit):				
Invested in capital assets, net of related debt	248,751	—	—	248,751
Restricted:				
Debt service	103,218,708	—	—	103,218,708
Under bond resolutions and other agreements	179,498,440	283,797	—	179,782,237
Unrestricted (deficit) assets	(635,835,629)	123,824	—	(635,711,805)
Total net (deficit) assets	(352,869,730)	407,621	—	(352,462,109)
Total liabilities and net (deficit) assets	\$ 953,915,796	797,539	(22,018)	954,691,317

See accompanying independent auditors' report.

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Other Supplementary Information – Combining Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended October 31, 2008

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 57,374,979	—	—	57,374,979
Supplemental rent	715,188	—	—	715,188
Payments in lieu of real estate taxes	131,884,420	—	—	131,884,420
Civic facilities payments and other	21,142,956	9,026,186	(8,568,528)	21,600,614
Total operating revenues	<u>211,117,543</u>	<u>9,026,186</u>	<u>(8,568,528)</u>	<u>211,575,201</u>
Operating expenses:				
Wages and related benefits	6,819,135	6,406,126	—	13,225,261
OPEB	1,304,346	—	—	1,304,346
Other operating and administrative expenses	22,444,716	2,515,064	(8,626,746)	16,333,034
Depreciation of project assets	5,463,430	—	—	5,463,430
Other depreciation and amortization	2,944,761	86,173	—	3,030,934
Total operating expenses	<u>38,976,388</u>	<u>9,007,363</u>	<u>(8,626,746)</u>	<u>39,357,005</u>
Operating income	<u>172,141,155</u>	<u>18,823</u>	<u>58,218</u>	<u>172,218,196</u>
Nonoperating revenues (expenses):				
Interest income on funds relating to:				
2003 Revenue Bonds	4,535,858	—	—	4,535,858
Corporate-designated, escrowed and OPEB funds	4,493,680	—	—	4,493,680
Realized and unrealized gains and losses	12,225,357	—	—	12,225,357
Other revenue (expenses)	5,688,642	(240,067)	(58,218)	5,390,357
Interest expense relating to:				
2003 Swap agreements – net expense	(4,972,036)	—	—	(4,972,036)
2003 Revenue Bonds	(49,643,827)	—	—	(49,643,827)
Loss from extinguishment	(1,776,366)	—	—	(1,776,366)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	(92,736,000)	—	—	(92,736,000)
Total nonoperating expenses	<u>(122,184,692)</u>	<u>(240,067)</u>	<u>(58,218)</u>	<u>(122,482,977)</u>
Change in net assets	<u>49,956,463</u>	<u>(221,244)</u>	<u>—</u>	<u>49,735,219</u>
Net (deficit) assets, beginning of period	<u>(352,869,730)</u>	<u>407,621</u>	<u>—</u>	<u>(352,462,109)</u>
Net (deficit) assets, end of period	<u>\$ (302,913,267)</u>	<u>186,377</u>	<u>—</u>	<u>(302,726,890)</u>

See accompanying independent auditors' report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Other Supplementary Information – Combining Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended October 31, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 52,718,959	—	—	52,718,959
Supplemental rent	604,069	—	—	604,069
Payments in lieu of real estate taxes	131,903,617	—	—	131,903,617
Civic facilities payments and other	20,839,234	9,884,586	(9,431,817)	21,292,003
Total operating revenues	<u>206,065,879</u>	<u>9,884,586</u>	<u>(9,431,817)</u>	<u>206,518,648</u>
Operating expenses:				
Wages and related benefits	7,833,515	7,416,851	(1,289,969)	13,960,397
OPEB	14,019,165	—	—	14,019,165
Other operating and administrative expenses	23,461,540	2,383,860	(8,236,351)	17,609,049
Depreciation of project assets	4,727,751	—	—	4,727,751
Other depreciation and amortization	3,159,236	110,907	—	3,270,143
Total operating expenses	<u>53,201,207</u>	<u>9,911,618</u>	<u>(9,526,320)</u>	<u>53,586,505</u>
Operating income (expense)	<u>152,864,672</u>	<u>(27,032)</u>	<u>94,503</u>	<u>152,932,143</u>
Nonoperating revenues (expenses):				
Interest income on funds relating to:				
2003 Revenue Bonds	3,933,196	—	—	3,933,196
Corporate-designated, escrowed, and OPEB funds	4,521,576	—	—	4,521,576
Realized and unrealized gains and losses	17,432,197	—	—	17,432,197
Other revenue	—	94,503	245,647	340,150
Interest expense relating to:				
2003 Swap agreements – net interest income	266,957	—	—	266,957
2003 Revenue Bonds	(41,798,683)	—	—	(41,798,683)
Loss from extinguishment	(1,776,366)	—	—	(1,776,366)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	(83,100,000)	—	—	(83,100,000)
Total nonoperating (expenses) revenue	<u>(100,521,123)</u>	<u>94,503</u>	<u>245,647</u>	<u>(100,180,973)</u>
Change in net assets	<u>52,343,549</u>	<u>67,471</u>	<u>340,150</u>	<u>52,751,170</u>
Net (deficit) assets, beginning of period	<u>(405,213,279)</u>	<u>340,150</u>	<u>(340,150)</u>	<u>(405,213,279)</u>
Net (deficit) assets, end of period	<u>\$ (352,869,730)</u>	<u>407,621</u>	—	<u>(352,462,109)</u>

See accompanying independent auditors' report.

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Other Supplementary Information – Combining Statements of Cash Flows
 Year ended October 31, 2008

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 275,776,961	—	—	275,776,961
Receipts from the Authority	—	7,581,910	(7,581,910)	—
Miscellaneous receipts	944,273	442,053	—	1,386,326
Total cash receipts from operating activities	<u>276,721,234</u>	<u>8,023,963</u>	<u>(7,581,910)</u>	<u>277,163,287</u>
Cash payments for:				
Salaries and benefits	(7,089,974)	(6,307,580)	—	(13,397,554)
Services and supplies	(23,361,247)	(1,622,203)	7,640,128	(17,343,322)
Total cash payments from operating activities	<u>(30,451,221)</u>	<u>(7,929,783)</u>	<u>7,640,128</u>	<u>(30,740,876)</u>
Net cash provided by operating activities	<u>246,270,013</u>	<u>94,180</u>	<u>58,218</u>	<u>246,422,411</u>
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(101,101)	—	—	(101,101)
Payment from lessees- site security deposits	7,592,601	—	—	7,592,601
Payment to Irish Hunger Memorial Foundation	—	(298,285)	—	(298,285)
NYC School Construction Authority receipt	1,640,829	—	—	1,640,829
NYC School Construction Authority payments	(2,858,060)	—	—	(2,858,060)
Payment to New York City	(83,100,000)	—	—	(83,100,000)
Net cash used in noncapital financing activities	<u>(76,825,731)</u>	<u>(298,285)</u>	<u>—</u>	<u>(77,124,016)</u>
Cash flows from capital and related financing activities:				
Development costs – site improvements and construction	(28,549,820)	—	—	(28,549,820)
Capital asset expenditures	(769,202)	(58,218)	—	(827,420)
Cash receipts for development/capital asset expenditures	—	58,218	(58,218)	—
Auction fees for variable debt	(1,634,791)	—	—	(1,634,791)
Swap payment made on the 2003 Swap agreement	(13,808,000)	—	—	(13,808,000)
Swap interest payments received on the 2003 Swap agreement	9,086,301	—	—	9,086,301
Interest paid on 2003 Senior Revenue Bonds	(28,806,818)	—	—	(28,806,818)
Interest paid on 2003 Junior Revenue Bonds	(19,855,799)	—	—	(19,855,799)
Net cash used in capital and related financing activities	<u>(84,338,129)</u>	<u>—</u>	<u>(58,218)</u>	<u>(84,396,347)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	21,018,744	—	—	21,018,744
Fair value adjustment short-term investments	(209,308)	—	—	(209,308)
Redemptions and sales of investment securities	668,174,764	275,362	—	668,450,126
Purchases of investment securities	(693,534,021)	—	—	(693,534,021)
Net cash (used in) provided by investing activities	<u>(4,549,821)</u>	<u>275,362</u>	<u>—</u>	<u>(4,274,459)</u>
Increase in cash and cash equivalents	80,556,332	71,257	—	80,627,589
Cash and cash equivalents, beginning of period	<u>249,283,708</u>	<u>213,239</u>	<u>—</u>	<u>249,496,947</u>
Cash and cash equivalents, end of period	<u>\$ 329,840,040</u>	<u>284,496</u>	<u>—</u>	<u>330,124,536</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statements of Cash Flows

Year ended October 31, 2008

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 172,141,155	18,823	58,218	172,218,196
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	8,408,191	86,173	—	8,494,364
Bad debt expense	(87,244)	—	—	(87,244)
Other	(1,303,364)			(1,303,364)
Changes in operating assets and liabilities:				
Decrease (increase) in rents and other receivables	228,296	(6,809)	(5,922)	215,565
Decrease in other assets	8,762	1,455	—	10,217
Increase (decrease) in accounts payable and other liabilities	410,879	(5,462)	5,922	411,339
Increase in OPEB	1,091,756	—	—	1,091,756
Increase in deferred revenue	65,371,582	—	—	65,371,582
Net cash provided by operating activities	<u>\$ 246,270,013</u>	<u>94,180</u>	<u>58,218</u>	<u>246,422,411</u>
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 13,843	284,496	—	298,339
Cash and cash equivalents	15,660,627	—	—	15,660,627
Investments with less than 91 day maturities	314,165,570	—	—	314,165,570
Cash and cash equivalents, end of period	<u>\$ 329,840,040</u>	<u>284,496</u>	<u>—</u>	<u>330,124,536</u>

See accompanying independent auditors' report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Other Supplementary Information – Combining Statements of Cash Flows

Year ended October 31, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 199,058,301	—	—	199,058,301
Receipts from the Authority	—	7,211,962	(7,211,962)	—
Miscellaneous receipts	335,670	473,027	—	808,697
Total cash receipts from operating activities	<u>199,393,971</u>	<u>7,684,989</u>	<u>(7,211,962)</u>	<u>199,866,998</u>
Cash payments for:				
Salaries and benefits	(7,920,334)	(6,136,782)	—	(14,057,116)
Services and supplies	(23,939,046)	(1,463,475)	7,306,465	(18,096,056)
Total cash payments from operating activities	<u>(31,859,380)</u>	<u>(7,600,257)</u>	<u>7,306,465</u>	<u>(32,153,172)</u>
Net cash provided by operating activities	<u>167,534,591</u>	<u>84,732</u>	<u>94,503</u>	<u>167,713,826</u>
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(221,780)	—	—	(221,780)
Payment to the NYC Housing Trust Fund	(36,651,610)	—	—	(36,651,610)
Payment to New York City	(111,395,000)	—	—	(111,395,000)
Net cash used in noncapital financing activities	<u>(148,268,390)</u>	<u>—</u>	<u>—</u>	<u>(148,268,390)</u>
Cash flows from capital and related financing activities:				
Development costs – site improvements and construction	(15,417,353)	—	—	(15,417,353)
Capital asset expenditures	(754,110)	(94,503)	—	(848,613)
Cash receipts for development/capital asset expenditures	762,295	94,503	(94,503)	762,295
Defeasance escrow funds	343,492	—	—	343,492
Auction fees for variable debt	(1,606,875)	—	—	(1,606,875)
Swap payment made on the 2003 Swap agreement	(13,808,000)	—	—	(13,808,000)
Swap interest payments received on the 2003 Swap agreement	14,118,335	—	—	14,118,335
Interest paid on 2003 Senior Revenue Bonds	(21,369,907)	—	—	(21,369,907)
Interest paid on 2003 Junior Revenue Bonds	(19,855,799)	—	—	(19,855,799)
Net cash used in capital and related financing activities	<u>(57,587,922)</u>	<u>—</u>	<u>(94,503)</u>	<u>(57,682,425)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	25,492,849	—	—	25,492,849
Fair value adjustment short-term investments	201,859	—	—	201,859
Redemptions and sales of investment securities	381,669,770	—	—	381,669,770
Purchases of investment securities	(380,729,318)	(275,362)	—	(381,004,680)
Net cash provided by (used in) investing activities	<u>26,635,160</u>	<u>(275,362)</u>	<u>—</u>	<u>26,359,798</u>
Decrease in cash and cash equivalents	<u>(11,686,561)</u>	<u>(190,630)</u>	<u>—</u>	<u>(11,877,191)</u>
Cash and cash equivalents, beginning of period	<u>260,970,269</u>	<u>403,869</u>	<u>—</u>	<u>261,374,138</u>
Cash and cash equivalents, end of period	<u>\$ 249,283,708</u>	<u>213,239</u>	<u>—</u>	<u>249,496,947</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statements of Cash Flows

Year ended October 31, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income (expense) to net cash provided by operating activities:				
Operating income (expense)	\$ 152,864,672	(27,032)	94,503	152,932,143
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:				
Depreciation and amortization	7,886,987	110,907	—	7,997,894
Bad debt expense	(13,337)	—	—	(13,337)
Other	(226,655)	—	—	(226,655)
Changes in operating assets and liabilities:				
(Increase) decrease in rents and other receivables	(6,673,934)	19,340	(3,499)	(6,658,093)
(Increase) decrease in other assets	(7,589)	53,666	—	46,077
Decrease in accounts payable and other liabilities	(806,784)	(72,149)	3,499	(875,434)
Increase in OPEB	13,852,211	—	—	13,852,211
Increase in deferred revenue	659,020	—	—	659,020
Net cash provided by operating activities	<u>\$ 167,534,591</u>	<u>84,732</u>	<u>94,503</u>	<u>167,713,826</u>
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 14,359	213,239	—	227,598
Cash and cash equivalents	4,389,105	—	—	4,389,105
Investments with less than 91 day maturities	244,880,244	—	—	244,880,244
Cash and cash equivalents, end of period	<u>\$ 249,283,708</u>	<u>213,239</u>	<u>—</u>	<u>249,496,947</u>

See accompanying independent auditors' report.

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HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Financial Statements

April 30, 2009 and 2008

(With Independent Accountants' Review Report Thereon)

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

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KPMG LLP
515 Broadway
Albany, NY 12207

Independent Accountants' Review Report

The Members

Hugh L. Carey Battery Park City Authority:

We have reviewed the accompanying financial statements of Hugh L. Carey Battery Park City Authority (the Authority), a component unit of the State of New York, as of and for the six-month periods ended April 30, 2009 and 2008 as listed in the accompanying table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Authority.

A review consists principally of inquiries of Authority personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 2 through 17 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our review of the financial statements was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the accompanying financial statements in order for them to be in conformity with U.S. generally accepted accounting principles. The other supplementary information is presented only for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the financial statements, but was compiled from information that is the representation of management, without audit or review, and accordingly, we do not express an opinion or any other form of assurance on such information.

KPMG LLP

October 22, 2009

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) and the Battery Park City Parks Conservancy (the Conservancy), a blended component unit of the Authority, collectively referred to as “the Organization”, as of and for the six-month periods ended April 30, 2009, 2008 and 2007. The basic financial statements, which include the balance sheets, the statements of revenues, expenses, and changes in net assets (deficit), the statements of cash flows, and the notes to the financial statements, provide information about the Organization in accordance with U.S. generally accepted accounting principles. All transactions between the Authority and Conservancy have been eliminated. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Comparison of 2009 to 2008 and 2008 to 2007

Financial Highlights – 2009

- The six-month period ended April 30, 2009 yielded total operating revenues of \$111.6 million, an increase of approximately \$11.8 million or 11.8% compared to the six-month period ended April 30, 2008. Payment in Lieu of Taxes (PILOT) revenue totaling approximately \$71.3 million (approximately 63.9% of the Authority’s operating revenues for the six-month period ended April 30, 2009), increased \$5 million or 7.5% compared to the six-month period ended April 30, 2008. Base rent increased \$1.3 million or 4.6% to \$29.4 million for the six-month period ended April 30, 2009. Civic facilities and other operating revenues increased \$5.5 million or 108% from \$5.1 million for the six-month period ended April 30, 2008. Total operating expenses increased \$6.6 million or 33% to \$26.3 million for the six-month period April 30, 2009 due to a one-time charge relating to a lease credit.
- A provision for the transfer to the City of New York (City) of \$31.2 million in excess revenues was charged for the six-month period ended April 30, 2009 (see note 11). Generally, the Authority’s net assets decrease with increases in the amount of excess revenues to be provided to the City, which has an adverse effect on the Authority’s net asset position.
- At April 30, 2009, the Authority retained approximately \$216.4 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. In addition, \$181.6 thousand is remaining in the Project Cost fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 8).
- The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation (see note 18) and is a blended component unit of the Authority. Effective for the six-month period ended April 30, 2008, financial activity for the Conservancy is combined with the Authority’s basic financial statements. Such activity is reflected in the accompanying financial statements for the six-month periods ended April 30, 2009, 2008 and 2007 (see Other Supplementary Information).
- The Authority’s 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt) continued to fail in secondary markets. On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (LIBOR) based on the prevailing rating for the bond series. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200%, or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 1, 2008 through April 30, 2009

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

ranged from a low of 0.658% to a high of 5.549% on the 2003 Series B Bonds and from a low of 0.658% to a high of 8.718% on the 2003 Series C Bonds (see note 10).

Financial Highlights – 2008

- On November 15, 2007, ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments in November 2007 totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$1.8 million of base rent, \$447 thousand of PILOT, and \$147 thousand in interest payments were recorded as revenues during the six-month period ended April 30, 2008. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which will be owned by the Authority as condominium units. Construction of the buildings began in the spring of 2008.
- Effective for the fiscal year beginning November 1, 2006, the Authority adopted Government Accounting Standard Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and financial statement presentation of other postemployment benefits (OPEB), including plan expenditures and related liabilities (assets), and note disclosures. At April 30, 2008 in accordance with GASB Statement No. 45, the Authority's accrued liability representing postretirement medical benefits for all eligible current and retired employees is \$14.4 million.
- During the fiscal year ended October 31, 2007, the Conservancy began participation in the Cultural Institutions Retirement System Pension Plan (CIRS Pension Plan), an employer funded defined benefit plan and the 401(k) Savings Plan (CIRS Savings Plan), a defined contribution plan (see note 15).
- The six-month period ended April 30, 2008 yielded a decrease of approximately \$5.8 million or 5.5% in total operating revenues compared to the six-month period ended April 30, 2007. PILOT revenue totaling approximately \$66.3 million (approximately 66.6% of the Authority's operating revenues for the six-month period ended April 30, 2008), remained relatively stable compared to the six-month period ended April 30, 2007. Base rent increased \$2.6 million primarily due to the recognition of a pro-rata share of upfront lease payments received from Sites 23 and 24, approximately \$1 million, base rents from newly leased sites, approximately \$740 thousand, and scheduled increases in base rents on older leases. Civic facilities and other revenues decreased by \$8.6 million primarily due to transaction and administrative payments received on the sale of Site 16/17 residential units of approximately \$2.1 million and an arbitration award received on a lease dispute regarding retroactive commercial retail rents of approximately \$6.6 million during the six-month period ended April 30, 2007. These decreasing factors were offset by normal increases to civic facilities maintenance payments.
- A provision for the transfer to the City of \$41.6 million in excess revenues was charged for the six-month period ended April 30, 2008. Generally, the Authority's net assets decrease with increases in the amount of excess revenues to be provided to the City, which has an adverse effect on the Authority's net asset position.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

- At April 30, 2008, the Authority retains approximately \$115 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. In addition, the Authority holds approximately \$27.7 million in the Project Costs Fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 8).
- In February 2008, auctions for Auction Rate Securities (ARS) in the secondary market began to fail intermittently due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day LIBOR based on the prevailing rating for the bond series. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200%, or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid-February 2008 through April 30, 2008 ranged from a low of 4.438% to a high of 5.486% on the 2003 Series B Bonds and from a low of 4.743% to a high of 6.2360% on the 2003 Series C Bonds.

Summary Schedule of Net Assets

The summary schedule of net assets presents the financial position of the Organization. Net assets (deficit) are the difference between total assets and total liabilities. A summarized comparison of the Organization's assets, liabilities, and net assets (deficit) at April 30, 2009, 2008 and 2007 is as follows:

	April 30			2009 vs 2008	2008 vs 2007
	2009	2008	2007		
Assets:					
Bank deposits, investments and rents and other receivables	\$ 34,365,990	12,843,627	11,633,223	21,522,363	1,210,404
Bond resolution restricted assets (current and noncurrent)	294,394,851	369,252,470	348,885,321	(74,857,619)	20,367,149
Battery Park City project assets, net	458,037,151	410,746,608	388,941,600	47,290,543	21,805,008
Other current and noncurrent assets	413,979,744	301,174,868	250,034,662	112,804,876	51,140,206
Total assets	\$ 1,200,777,736	1,094,017,573	999,494,806	106,760,163	94,522,767
Liabilities:					
Current liabilities	\$ 231,426,888	221,564,293	230,553,757	9,862,595	(8,989,464)
Long-term liabilities	1,226,911,380	1,190,782,200	1,141,399,342	36,129,180	49,382,858
Total liabilities	1,458,338,268	1,412,346,493	1,371,953,099	45,991,775	40,393,394
Net assets (deficit):					
Invested in capital assets, net of related debt	6,059,832	4,132,425	6,013,544	1,927,407	(1,881,119)
Restricted	374,884,321	303,773,164	195,951,950	71,111,157	107,821,214
Unrestricted	(638,504,685)	(626,234,509)	(574,423,787)	(12,270,176)	(51,810,722)
Total net deficit	(257,560,532)	(318,328,920)	(372,458,293)	60,768,388	54,129,373
Total liabilities and net deficit	\$ 1,200,777,736	1,094,017,573	999,494,806	106,760,163	94,522,767

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

Assets

2009 vs 2008

At April 30, 2009, the Organization maintained total assets of approximately \$1.2 billion, approximately \$106.8 million higher than total assets of \$1.09 billion at April 30, 2008.

Bank deposits, investments, and rents and other receivables held at April 30, 2009 increased approximately \$21.5 million due to a \$2.9 million increase in investments and an \$18.2 million increase in rents and other receivables (see note 12). The increase in investments primarily relates to the collection of transaction and administrative payments received on the sale of residential units and held in unrestricted funds at April 30, 2009. The increase in rents and other receivables primarily relates to a \$17 million upfront lease payment due from Site 3 representing the last of a series of upfront lease payments and a \$2.4 million increase relating to rent due on a lease with Goldman Sachs Headquarters LLC (Goldman). These increases are offset by a \$740 thousand decrease representing amounts owed as a result of an arbitration settlement on rental space leased for the Conservancy at April 30, 2008 and a \$479 thousand decrease in Swap receivables due to a decrease in the 30-day LIBOR.

Bond Resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond resolutions, approximately \$294.4 million at April 30, 2009, \$74.9 million lower than the investment fair value of assets held at April 30, 2008, \$369.3 million (see note 8). At April 30, 2009, funds held under the 2003 Revenue Bond resolutions for the designated purposes of paying debt service were approximately \$14.5 million higher than April 30, 2008 primarily due to increased funding requirements for the payment of principal. In addition, funds held in the Pledged Revenue Fund (PRF) at April 30, 2009 were approximately \$55.6 million less than funds held at April 30, 2008 and is primarily attributable to deposits of approximately \$245 million from ground lease tenants, interest rate exchange agreements (Swap) from the three counterparties, a \$10 million deposit transferred into the PRF instead of the Residual Fund, and interest earnings. Deposits were offset by transfers of approximately \$297 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses, transferring funds to the City, and retaining funds in the Joint Purpose Fund.

Approximately \$3.9 million less was held as excess revenues at April 30, 2009 in the Residual Fund for the benefit of the City due to a \$10 million transfer deposited into the PRF instead of the Residual Fund prior to April 30, 2009 (these funds were transferred to the Residual Fund after April 30, 2009) and, an increase in amounts payable to NYC resulting from additional excess revenues for the fiscal period ended October 31, 2008 compared to 2007 coupled with interest earned on funds held.

Lastly, assets held under the resolution for project infrastructure and certain other asset costs, \$181.6 thousand, were approximately \$26.6 million lower compared to April 30, 2008 primarily due to investments in infrastructure and other assets. The Authority is currently utilizing corporate reserves to support infrastructure needs until a financing for new capital funds is implemented and approved.

2008 vs 2007

As of April 30, 2008, the Organization maintained total assets of approximately \$1.09 billion, approximately \$94.5 million higher than total assets of \$999.5 billion at April 30, 2007.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

Bank deposits, investments, and rents and other receivables held at April 30, 2008 increased approximately \$1.2 million due to a \$245 thousand increase in rental receivables due to the timing of tenant payments, a \$318 thousand increase in investment interest receivable, and increases in amounts due on other agreements; a \$2.4 million increase relating to rent due from Goldman Sachs; a \$740 thousand increase relating to an arbitration settlement on rental space leased for the Conservancy; and a \$341 thousand increase on amounts due from the Port Authority of New York and New Jersey. These increases were offset by certain rental income totaling \$2.1 million held in unrestricted investment accounts at April 30, 2007 as opposed to deposited in the 2003 Revenue Bond Resolutions restricted asset accounts at April 30, 2008, a \$567 thousand decrease in accrued Swap receipts due to a decrease in the 30-day LIBOR and a decrease in bank deposits held by the Conservancy due to the timing of disbursements and deposits.

Bond Resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond resolutions, approximately \$369.3 million at April 30, 2008, approximately \$20.4 million higher than the investment fair value of assets held at April 30, 2007, of \$348.9 million (see note 8). At April 30, 2008, funds held under the 2003 Revenue Bond resolutions for the designated purposes of paying debt service were approximately \$18.3 million higher than April 30, 2007 primarily due to increased funding requirements. In addition, funds held in the PRF at April 30, 2008 were approximately \$52.2 million more than funds held at April 30, 2007 and is primarily attributable to transfers of approximately \$213.5 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses, transferring funds to the City and retaining funds in the Joint Purpose Fund. These transfers were offset by deposits of approximately \$265.6 million relating to lease rental collections, Swap transaction receipts from the three counterparties, interest earned on assets held in this fund, and interest transferred from a corporate-designated fund to a restricted bond resolution account. Approximately \$28.1 million less was held as excess revenues at April 30, 2008 in the Residual Fund for the benefit of the City. Lastly, assets held under the resolution for project infrastructure and certain other asset costs were approximately \$21.9 million lower as compared to April 30, 2007 primarily due to investments in infrastructure and other assets.

Project Assets

At April 30, 2009, the Authority's investment in project assets, net of accumulated depreciation was approximately \$458 million, an increase of \$47.3 million over the period ended April 30, 2008. The Battery Park City project (Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 10.2 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, three public schools, a public library, and approximately 8,900 residential units (see notes 2, 5, and 6). Each of these elements has been completed except for approximately 2.2 million square feet of commercial space representing the Goldman Sachs headquarters located on Site 26, a total of 591 residential units in two residential buildings on Sites 23 and 24, and a public school on Site 2B. All are currently under construction.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

The Authority's project assets include land, site improvements, and a residential building constructed by the Authority on Site 22. Additionally, condominium units owned by the Authority in Sites 1, 3, 16/17 and a community center on Sites 23 and 24, and related infrastructure improvements are included in project assets. The balances at April 30, 2009, 2008, and 2007 are as follows:

	April 30			2009 vs 2008	2008 vs 2007
	2009	2008	2007		
Land	\$ 83,015,653	83,015,653	83,015,653	—	—
Site improvements	355,008,123	342,291,287	325,191,759	12,716,836	17,099,528
Residential building and condominium units	<u>94,344,926</u> <u>532,368,702</u>	<u>53,930,029</u> <u>479,236,969</u>	<u>44,671,407</u> <u>452,878,819</u>	<u>40,414,897</u> <u>53,131,733</u>	<u>9,258,622</u> <u>26,358,150</u>
Less accumulated depreciation	<u>74,331,551</u>	<u>68,490,361</u>	<u>63,937,219</u>	<u>(5,841,190)</u>	<u>(4,553,142)</u>
Total Battery Park City project assets	<u>\$ 458,037,151</u>	<u>410,746,608</u>	<u>388,941,600</u>	<u>47,290,543</u>	<u>21,805,008</u>

2009 vs 2008

At April 30, 2009, the increase to Site Improvements over April 30, 2008 of approximately \$12.7 million, relates to improvements to the Esplanade, park improvements in the north and south neighborhoods, restoration of piles, as well as other minor capital improvements.

The \$40.4 million increase in residential building and condominium units over April 30, 2008 principally relates to \$27.3 million for the build out of a community center and ballfield maintenance facility at Sites 23 and 24; coupled with costs relating to the build out of a maintenance facility to be used by the Conservancy at Site 3, of approximately \$12.2 million.

2008 vs 2007

At April 30, 2008, the increase to Project assets over April 30, 2007 is primarily a result of site improvement expenditures of approximately \$12.4 million principally for improvements to the North Cove Marina, park improvements in the north and south neighborhoods, bridge work, as well as other minor capital improvements to infrastructure. Additionally, the Authority acquired \$7.6 million in assets associated with a defaulted lessee during the six-month period ended April 30, 2008. Offsetting these additions, the Authority retired \$2.9 million in infrastructure assets primarily related to the transfer of a portion of the north neighborhood streets to the City.

Residential building and condominium units increased \$9.3 million from \$44.7 million at April 30, 2007 and principally relate to costs associated with the build out of a maintenance facility to be used by the Conservancy at Site 3.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

April 30, 2009 and 2008

Other Current and Noncurrent Assets

Other current and noncurrent assets at April 30, 2009, 2008, and 2007 are as follows:

	April 30			2009 vs 2008	2008 vs 2007
	2009	2008	2007		
Residential lease required funds	\$ 18,076,106	10,637,652	7,420,465	7,438,454	3,217,187
Corporate-designated, escrowed, and OPEB funds	348,478,915	241,879,560	191,820,866	106,599,355	50,058,694
Deferred costs, net:					
Bond issuance costs	37,188,011	38,626,485	40,064,960	(1,438,474)	(1,438,475)
Costs of leases	<u>3,830,149</u>	<u>2,990,901</u>	<u>2,611,841</u>	<u>839,248</u>	<u>379,060</u>
Total deferred costs, net	<u>41,018,160</u>	<u>41,617,386</u>	<u>42,676,801</u>	<u>(599,226)</u>	<u>(1,059,415)</u>
Other assets	<u>6,406,563</u>	<u>7,040,270</u>	<u>8,116,530</u>	<u>(633,707)</u>	<u>(1,076,260)</u>
Total other current and noncurrent assets	<u><u>\$ 413,979,744</u></u>	<u><u>301,174,868</u></u>	<u><u>250,034,662</u></u>	<u><u>112,804,876</u></u>	<u><u>51,140,206</u></u>

2009 vs 2008

Total other current and noncurrent assets increased approximately \$112.8 million from \$301.2 million at April 30, 2008 to \$414 million at April 30, 2009.

Residential lease required funds increased \$7.4 million from \$10.6 million at April 30, 2008 to \$18 million at April 30, 2009 and relate to security deposits received from ground lease tenants; \$6 million from Site 16/17 and \$972 thousand from Site 3 coupled with interest earned on all residential funds held.

Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$106.6 million from April 30, 2008. The increase is attributable to a transfer of approximately \$98.7 million from the 2003 Revenue Bond Funds into the Joint Purpose Fund in January 2009, which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2008. Additionally, deposits into the Conservancy's reserve accounts, deposits received from the City for the refurbishment of Pier A, and interest earnings on all funds held increased the overall balance.

Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Costs of leases increased \$839 thousand and relate to additional lease costs incurred in connection with the preparation of Site 2B for development by the New York City School Construction Authority (SCA) offset by amortization for the period. Other assets decreased by \$634 thousand primarily due to depreciation and amortization offset by purchases of office improvements and computer equipment for the new Site 3 maintenance facility.

2008 vs 2007

Total other current and noncurrent assets increased approximately \$51.1 million from \$250 million at April 30, 2007 to \$301.2 million at April 30, 2008.

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Residential lease required funds increased \$3.2 million from \$7.4 million at April 30, 2008 to \$10.6 million at April 30, 2008 and primarily relate to a \$2.8 million security deposit received from Site 2A in April 2008, coupled with interest earned on all funds held.

Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$50.1 million from April 30, 2007. The increase is attributable to additional holdings of approximately \$47.5 million in the Joint Purpose Fund at April 30, 2008 and interest earned on higher balances. A total of approximately \$43.9 million was transferred from the 2003 Revenue Bond Funds in January and February 2008 to the Joint Purpose Fund. Additionally, approximately \$4.8 million was transferred from the corporate fund accounts including \$3.5 million to the 2003 Revenue Bond Funds (Residual Fund) held for the benefit of the City and approximately \$1.3 million from Authority reserves held on behalf of the Conservancy for the payment of retroactive pension plan benefits for Conservancy employees.

Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Costs of leases increased \$379 thousand primarily due to lease related costs of \$442 thousand incurred in connection with the preparation of Site 2B for SCA offset by amortization for the period. Other assets decreased by \$1.1 million primarily due to depreciation and amortization offset by purchases of scanning software and disaster recovery and emergency facility costs.

Liabilities

Total liabilities at April 30, 2009, 2008 and 2007 are as follows:

	April 30			2009 vs 2008	2008 vs 2007
	2009	2008	2007		
Current liabilities:					
Accrued interest on bonds	\$ 16,935,977	18,277,860	17,658,351	(1,341,883)	619,509
Accounts payable and other liabilities	16,641,431	10,610,927	10,776,478	6,030,504	(165,551)
Due to the City of New York	123,921,222	124,671,746	156,895,000	(750,524)	(32,223,254)
Deferred revenue	36,753,623	31,623,677	28,477,553	5,129,946	3,146,124
Security and other deposits	18,844,635	18,435,083	16,746,375	409,552	1,688,708
2003 Revenue Bonds	18,430,000	17,945,000	—	485,000	17,945,000
Total current liabilities	231,526,888	221,564,293	230,553,757	9,962,595	(8,989,464)
Noncurrent liabilities:					
Deferred revenue	196,194,094	150,828,079	101,718,929	45,366,015	49,109,150
Security and other deposits	18,948,217	11,442,923	8,225,772	7,505,294	3,217,151
Other post employment benefits	15,484,171	14,398,928	—	1,085,243	14,398,928
Bonds outstanding:					
2003 Revenue Bonds	1,025,467,177	1,045,070,915	1,064,189,653	(19,603,738)	(19,118,738)
Unamortized loss on extinguishment	(29,182,279)	(30,958,645)	(32,735,012)	1,776,366	1,776,367
Total noncurrent liabilities	1,226,911,380	1,190,782,200	1,141,399,342	36,129,180	49,382,858
Total liabilities	\$ 1,458,438,268	1,412,346,493	1,371,953,099	46,091,775	40,393,394

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2009 vs 2008

The Organization's total liabilities increased approximately \$46.1 million from \$1.41 billion at April 30, 2008 to \$1.46 billion at April 30, 2009.

Total liabilities comprise amounts due to the City, accrued interest on bonds, deferred revenue, security and other deposits, post employment benefits, outstanding debt, and accounts payable and accrued expenses.

The \$46.1 million increase in total liabilities is due to:

- a \$1.3 million decrease in accrued interest payable on bonds from \$18.3 million at April 30, 2008 to \$16.9 million at April 30, 2009 resulting from lower interest rates paid on the Authority's variable debt (see note 10). The reset rate for failed auction rate securities is based on a percentage of 30-day LIBOR which averaged 4% during the six-month period ended April 30, 2008, but averaged 1% during the six-month period ended April 30, 2009.
- a \$6 million increase in accounts payable and other liabilities from \$10.6 million at April 30, 2008 to \$16.6 million at April 30, 2009 primarily due to a PILOT credit due on the Goldman Sachs lease. The terms of the lease requires the Authority to provide Goldman Sachs with up to \$6 million in credits against future PILOT. A \$6 million liability was recorded at April 30, 2009 and is offset by PILOT revenue earned during the period. Additionally, the lease provides for interest earnings on the unused credit at a rate of 7.75% to be paid by the Authority; \$445 thousand was recorded for the six-month period ended April 30, 2009.
- a \$50.5 million increase in deferred revenue from \$182.5 million at April 30, 2008 primarily due to a \$14 million upfront payment received from Site 3 in October 2008, an additional \$17 million accrued from Site 3 at April 30, 2009, and a \$25.7 million increase relating to the Site 23 and 24 valuation of the community center and ballfield maintenance facility representing foregone revenue. The above increases are offset by revenue recognized on these and other upfront lease payments received during prior periods (see note 3(d)).
- a \$7.9 million increase in security and other deposits to \$37.8 million at April 30, 2009 from security deposits received from Sites 16/17 and 3, \$6 million and \$971 thousand, respectively, interest earnings on these deposits and deposits received in prior periods, and \$1 million held by the Authority at April 30, 2009 on behalf of the City for the rehabilitation of Pier A in excess of amounts spent. The above increases are offset by a \$1.1 million decrease relating to payments issued to a contractor for the construction of a school at Site 2B since April 30, 2008.
- a \$1.1 million increase in other post employment benefits relating to the annual normal cost incurred for current employees and interest expense, offset by actual costs for retiree benefits paid. In accordance with GASB Statement No. 45 (see note 3(i)), a \$13.8 million net accrued postretirement medical benefit liability for all eligible current and retired employees was recorded during the fiscal period ended October 31, 2007. The annual required OPEB obligation is increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the period (see note 16).
- a \$17.3 million decrease in bonds outstanding relating to \$17.9 million in principal payments on the 2003 Series A and Series C bonds in November 2008, \$14.6 million and \$3.38 million, respectively, and a \$1.2 million decrease due to the amortization of the net bond premium offset by a \$1.8 million decrease

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relating to the amortization of the loss on extinguishment of debt. The loss is being amortized over the maturity period of the retired debt. On October 16, 2003, the Authority issued \$1.068 billion for the 2003 Revenue Bonds. Principal payments on these debt obligations began November 2008.

2008 vs 2007

The Organization's total liabilities increased approximately \$40.4 million from \$1.37 billion at April 30, 2007 to \$1.41 billion at April 30, 2008 and relate to:

- a \$620 thousand increase in accrued interest payable on bonds from \$17.7 million at April 30, 2007 to \$18.3 million at April 30, 2008 primarily due to higher interest rates paid on variable debt.
- a \$166 thousand decrease in accounts payable and other liabilities from \$10.8 million at April 30, 2007 to \$10.6 million at April 30, 2008 primarily due to the timing of vendor payments and paybacks to certain condominium tenants as part of a legal settlement.
- a \$32.2 million decrease in amounts due to the City over April 30, 2007, \$156.9 million. The balance at April 30, 2008 includes \$83.1 million in excess revenues relating to the fiscal year ended October 31, 2007, which was paid in June 2008, and an accrual for the six-month period ended April 30, 2008, \$41.6 million. Excess revenues for the fiscal period ended October 31, 2006, \$111.4 million, were significantly higher resulting in the overall decrease.
- a \$52.7 million increase in deferred revenue over April 30, 2007, primarily due to residential lease upfront payments received from Sites 23 and 24, \$56.5 million and Site 2A, \$1.4 million, offset by revenue recognition on these and other upfront lease payments received during prior periods.
- a \$4.9 million increase in security and other deposits to \$29.9 million at April 30, 2008 relating to a \$2.8 million security deposit received from Site 2A in April 2008 in accordance with the lease terms, \$1.6 million received from the SCA to supplement costs incurred by the Authority to prepare Site 2B for the construction of a school, and interest earnings on these deposits and other escrowed funds held by the Authority, offset by \$442 thousand in payments for the Site 2B relocation.
- In accordance with GASB Statement No. 45, a \$13.8 million net accrued postretirement medical benefit liability for all eligible current and retired employees was recorded during the fiscal period ended October 31, 2007. The annual required OPEB obligation was increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the six-month period ended April 30, 2008 resulting in an accrued liability balance of \$14.4 million as of April 30, 2008.
- The \$1.2 million decrease in the 2003 Revenue Bonds outstanding is due to amortization of the net bond premium. A \$17.9 million principal payment on the 2003 Series A and Series C Bonds, due November 1, 2008, is recorded as a current liability at April 30, 2008. The loss related to the extinguishment of debt is being amortized ratably over the maturity period of the retired debt resulting in an increase to net noncurrent liabilities of approximately \$1.8 million at April 30, 2008.

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Net Assets (Deficit)

2009 vs 2008

The net deficits at April 30, 2009 and 2008 were \$257.6 million and \$318.3 million, respectively. Net assets invested in capital assets, net of related debt, was \$6.1 million and \$4.1 million at April 30, 2009 and 2008, respectively. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Organization's \$374.9 million and \$303.8 million of restricted net assets at April 30, 2009 and 2008, respectively, represent resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under bond resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling approximately \$638.5 million at April 30, 2009 resulting primarily from debt issued for noncapital purposes, approximately \$580 million, and upfront lease payments and deferred PILOT revenue, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

The change in total net assets from April 30, 2008 represents a positive change in the deficit position of approximately \$60.8 million from \$318.3 million at April 30, 2008 to \$257.5 million at April 30, 2009.

2008 vs 2007

The net deficits at April 30, 2008 and 2007 were \$318.3 million and \$372.5 million, respectively. Net assets invested in capital assets, net of related debt, was \$4.1 million and \$6 million at April 30, 2008 and 2007, respectively. The Organization's \$303.8 million and \$196 million of restricted net assets at April 30, 2008 and 2007, respectively, represent resources that are subject to various external restrictions on how they may be used. The remaining balance is classified as an unrestricted deficit totaling approximately \$626.2 million at April 30, 2008.

The change in total net assets from April 30, 2007 represents a positive change in the deficit position of approximately \$54.1 million from \$372.5 million at April 30, 2007 to \$318.3 million at April 30, 2008.

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Summary Schedule of Revenues, Expenses, and Changes in Net Deficit

Below is a summary of the Organization's revenues, expenses, and changes in net deficit for the six-month periods ended April 30, 2009, 2008, and 2007:

	April 30			2009 vs 2008	2008 vs 2007
	2009	2008	2007		
Operating revenues:					
Revenues from ground leases:					
Base rent	\$ 29,397,291	28,098,041	25,544,822	1,299,250	2,553,219
Supplemental rent	268,107	281,273	264,631	(13,166)	16,642
Payments in lieu of real estate taxes (PILOT)	71,263,469	66,307,613	66,070,365	4,955,856	237,248
Civic facilities payments and other	<u>10,622,435</u>	<u>5,105,908</u>	<u>13,638,913</u>	<u>5,516,527</u>	<u>(8,533,005)</u>
Total operating revenues	<u>111,551,302</u>	<u>99,792,835</u>	<u>105,518,731</u>	<u>11,758,467</u>	<u>(5,725,896)</u>
Operating expenses:					
Wages and related benefits	7,001,640	6,562,025	6,561,409	439,615	616
OPEB	652,173	652,173	—	—	652,173
Other operating and administrative expenses	<u>14,191,868</u>	<u>8,424,801</u>	<u>8,517,341</u>	<u>5,767,067</u>	<u>(92,540)</u>
Depreciation and amortization	<u>4,476,003</u>	<u>4,105,527</u>	<u>4,042,482</u>	<u>370,476</u>	<u>63,045</u>
Total operating expenses	<u>26,321,684</u>	<u>19,744,526</u>	<u>19,121,232</u>	<u>6,577,158</u>	<u>623,294</u>
Operating income	<u>85,229,618</u>	<u>80,048,309</u>	<u>86,397,499</u>	<u>5,181,309</u>	<u>(6,349,190)</u>
Nonoperating revenues (expenses):					
Investment and other income	13,038,585	15,534,259	12,789,815	(2,495,674)	2,744,444
Other revenue	486,168	6,298,394	340,150	(5,812,226)	5,958,244
Interest expense, net	(22,402,791)	(26,176,027)	(21,272,478)	3,773,236	(4,903,549)
Provision for transfer to the City of New York	<u>(31,185,222)</u>	<u>(41,571,746)</u>	<u>(45,500,000)</u>	<u>10,386,524</u>	<u>3,928,254</u>
Total nonoperating expenses, net	<u>(40,063,260)</u>	<u>(45,915,120)</u>	<u>(53,642,513)</u>	<u>5,851,860</u>	<u>7,727,393</u>
Change in net assets	45,166,358	34,133,189	32,754,986	11,033,169	1,378,203
Net deficit, beginning of period	<u>(302,726,890)</u>	<u>(352,462,109)</u>	<u>(405,213,279)</u>	<u>49,735,219</u>	<u>52,751,170</u>
Net deficit, ending of period	<u>\$ (257,560,532)</u>	<u>(318,328,920)</u>	<u>(372,458,293)</u>	<u>60,768,388</u>	<u>54,129,373</u>

Operating Revenue

2009 vs 2008

Overall operating revenues for the six-month period ended April 30, 2009 totaled \$111.6 million, approximately \$11.8 million higher than the six-month period ended April 30, 2008, \$99.8 million. Lease revenues consist primarily of base (land) rent and PILOT from long-term leaseholds.

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The increase in overall operating revenues is primarily due to a \$5.5 million increase in civic facilities payments and other revenues from \$5.1 million for the six-month period ended April 30, 2008 relating to \$3.5 million in transaction payments received on the sale of Site 16/17 residential units during the six-month period ended April 30, 2009, \$369 thousand recognized on a portion of the \$38 million insurance proceeds held in escrow for costs associated with the South Bridge extension and other improvements, and a \$1.8 million increase relating to net fixed rent (percentage rent) received from the World Financial Center Tower buildings during the six-month period ended April 30, 2009. Additionally, base rent increased \$1.3 million from \$28.1 million and relates to the recognition of a pro-rata share of deferred revenue on the Sites 23 and 24 Community Center, approximately \$513 thousand, base rents and upfront lease payments recognized for newly leased sites, approximately \$457 thousand, and scheduled increases in base rents on older leases. PILOT revenue totaling approximately \$71.3 million (approximately 64% and 66.4% of the total operating revenues for the six-month periods ended April 30, 2009 and 2008, respectively), increased by \$5 million over the six-month period ended April 30, 2008 and relates to increased PILOT revenue recognized in the current period on sites recently completed coupled with interim tax rate increases for commercial and residential sites effective January 2009.

2008 vs 2007

Overall operating revenues for the six-month period ended April 30, 2008 totaled \$99.8 million, approximately \$5.7 million lower than the six-month period ended April 30, 2007, \$105.5 million. The \$5.7 million decrease in overall operating revenues is primarily due to a \$8.5 million decrease in civic facilities and other revenues; due to transaction and administrative payments received on the sale of residential units of approximately \$2.2 million and the receipt of a \$6.6 million arbitration award on a lease dispute relating to retroactive commercial retail rents during the six-month period April 30, 2007; offset by normal annual increases to civic facilities maintenance payments and Conservancy fees. The overall decrease is offset by a \$2.6 million increase in base rent revenues primarily due to the recognition of a pro-rata share of upfront lease payments received from Sites 23 and 24, approximately \$1 million, base rents from newly leased sites of approximately \$1 million, and scheduled increases in base rents on other leases. PILOT revenue totaling approximately \$66.3 million (approximately 66.5% and 62.6% of the total operating revenues for the six-month periods ended April 30, 2008 and 2007, respectively), remained relatively stable compared to the six-month period ended April 30, 2007.

Operating Expenses

2009 vs 2008

Operating expenses totaled approximately \$26.3 million for the six-month period ended April 30, 2009, representing a \$6.6 million increase compared to the six-month period ended April 30, 2008. The expenses include: wages and related benefits; other postemployment benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, and promotional; planning/design expenditures; and depreciation and amortization.

Wages and related benefits totaling \$7 million were commensurate with the prior six-month period ended April 30, 2008.

OPEB expenses remained constant period over period and represent a pro-rata share of annual interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45 (see note 16).

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Other operating and administrative expenses increased approximately \$5.8 million and primarily relate to a \$6 million PILOT credit due on the Goldman Sachs lease. The terms of the lease require that the Authority provide Goldman Sachs with up to \$6 million in PILOT credits against future PILOT. A \$6 million expense was recorded at April 30, 2009. Additionally, the lease provides for interest earnings on the unused credit at a rate of 7.75% to be paid by the Authority; \$445 thousand was recorded for the six-month period ended April 30, 2009. Additionally, the annual administrative fee to New York State increased \$1.4 million resulting in a pro-rata increase of \$694 thousand for the six-month period ended April 30, 2009.

Depreciation and amortization expenses recorded for the six-month period ended April 30, 2009 of approximately \$4.5 million remained relatively stable.

2008 vs 2007

Operating expenses totaled approximately \$19.7 million for the six-month period ended April 30, 2008, representing a \$623 thousand increase compared to the six-month period ended April 30, 2007.

Wages and related benefits totaling \$6.6 million were commensurate with the prior six-month period ended April 30, 2007.

OPEB expenses increased approximately \$652 thousand and represent a pro-rata share of interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45.

Other operating and administrative expenses decreased approximately \$93 thousand and primarily relate to a decrease in rental space costs resulting from an August 2007 arbitration settlement, the timing of payments for Authority sponsorships, and a decrease in costs associated with outside legal counsel. These decreases were offset by additional funding requirements for the Conservancy and an increase in costs for contractual agreements, specifically the Port Authority Ferry Terminal.

Depreciation and amortization expenses recorded for the six-month period ended April 30, 2008 of approximately \$4.1 million remained relatively stable.

Nonoperating Revenues (Expenses)

2009 vs 2008

Total nonoperating expenses, net, of approximately \$40.1 million for the six-month period ended April 30, 2009 were approximately \$5.9 million lower than the six-month period ended April 30, 2008, \$45.9 million. A provision for a transfer to the City of \$31.2 million in excess revenues was charged for the six-month period ended April 30, 2009, a decrease of approximately \$10.4 million from the six-month period ended April 30, 2008 (see note 11). Investment and other income decreased by \$2.5 million primarily due to the composition of assets held during the six-month period ended April 30, 2009 compared to 2008. Other revenue decreased \$5.8 million and primarily relates to the transfer of assets to the Authority associated with a defaulted lessee for the north cove marina, \$7.6 million, offset by a \$1.2 million transfer of north neighborhood streets to the City during the six-month period ended April 2008. Net interest expense related to outstanding bonds decreased \$3.8 million compared to the six-month period ended April 30, 2008 and relates to significantly lower interest rates paid on the 2003 variable-rate Revenue Bonds, approximately \$7.4 million, as a result of failed auctions and a continuous

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decrease in the 30-day LIBOR. LIBOR averaged 4% for the six-month period ended April 30, 2008, while the current period experienced a 1% average. This decrease is offset by a \$3.8 million decrease in monthly earnings on the six interest-rate swap agreements entered into in 2003. The counterparties pay the Authority 65% of LIBOR.

2008 vs 2007

Total nonoperating expenses, net, of approximately \$45.5 million for the six-month period ended April 30, 2008 were approximately \$8.1 million lower than the six-month period ended April 30, 2007, \$53.6 million. A provision for a transfer to the City of \$41.6 million in excess revenues was charged for the six-month period ended April 30, 2008, a decrease of approximately \$3.9 million from the six-month period ended April 30, 2007. Interest earnings and other income increased by \$2.7 million primarily due to positive adjustments on the market value of investments, approximately \$3.3 million. Other revenue increased \$6.4 million and primarily relates to the transfer of assets to the Authority associated with a defaulted lessee for the north cove marina, \$7.6 million, offset by a \$1.2 million net transfer of north neighborhood streets to the City during the six-month period ended April 30, 2008. Net interest expense related to outstanding bonds increased \$4.9 million compared to the six-month period ended April 30, 2008; \$3.1 million resulting from higher interest rates paid on the 2003 variable-rate Revenue Bonds; and \$1.8 million from lower interest rates earned on the six interest rate exchange agreements entered into in 2003.

Change in Net Assets

The total net deficit at April 30, 2009 was \$257.6 million representing a positive change in the deficit position of approximately \$60.8 million over April 30, 2008, \$318.3 million, as a result of the changes in revenues and expenses.

The total net deficit at April 30, 2008 was \$318.3 million representing a positive change in the net deficit position of approximately \$54.1 million over April 30, 2007, \$372.5 million, as a result of the changes in revenues and expenses.

Other Information

Debt Administration – The 2003 Revenue Bonds, issued in October 2003, \$1.068 billion, included \$433 million (including a net premium) of senior lien and \$635 million of junior lien debt obligations. At April 30, 2009, the Authority was responsible for debt service on the 2003 Revenue Bonds of \$1.044 billion:

	Outstanding debt	Fitch	Moody's	Standard & Poor's (S&P)
2003 Series Senior A Bonds	\$ 412,272,177	AAA	Aaa	AAA
2003 Series Junior B Bonds	235,000,000	AA	Aa3	AA+
2003 Series Junior C Bonds	396,625,000	AA	Aa3	AA+

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Requests for Information – This financial report is designed to provide a general overview of the Organization's finances for all persons with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Vice President, Community Relations/Press, One World Financial Center, 24th Floor, New York, NY 10281. The Authority's Web site is: www.batteryparkcity.org.

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Balance Sheets

April 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Bank deposits	\$ 572,990	154,258
Investments (note 3(e))	3,233,372	364,778
Corporate-designated, escrowed, and OPEB funds (note 3(e))	19,086,381	17,361,263
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of \$55,000 in 2009 and \$117,643 in 2008) (note 12)	30,559,628	12,324,591
2003 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 10)	<u>201,535,113</u>	<u>154,570,541</u>
Total current assets	<u>254,987,484</u>	<u>184,775,431</u>
Noncurrent assets:		
 Restricted assets:		
2003 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 10)	92,859,738	214,681,929
Residential lease required funds (note 3(e))	18,076,106	10,637,652
Corporate-designated, escrowed, and OPEB funds (note 3(e))	329,392,534	224,518,297
 Deferred costs (note 3(g)):		
Bond issuance costs, less accumulated amortization of \$13,575,037 in 2009 and \$12,136,562 in 2008	37,188,011	38,626,485
Costs of leases, less accumulated amortization of \$849,379 in 2009 and \$788,643 in 2008	3,830,149	2,990,901
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3(c), and 4)	<u>458,037,151</u>	<u>410,746,608</u>
Other assets	<u>6,406,563</u>	<u>7,040,270</u>
Total noncurrent assets	<u>945,790,252</u>	<u>909,242,142</u>
Total assets	\$ 1,200,777,736	<u>1,094,017,573</u>

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Balance Sheets

April 30, 2009 and 2008

Liabilities and Net Deficit	2009	2008
Current liabilities:		
Accrued interest on bonds	\$ 16,835,977	18,277,860
Accounts payable and other liabilities (note 13)	16,641,431	10,610,927
Due to the City of New York (note 11)	123,921,222	124,671,746
Deferred revenue (note 3(d)):		
PILOT revenue	23,774,773	21,633,342
Base rent and other revenue	12,978,850	9,990,335
Security and other deposits	18,844,635	18,435,083
2003 Revenue Bonds (notes 8, 9, and 10)	<u>18,430,000</u>	<u>17,945,000</u>
Total current liabilities	<u>231,426,888</u>	<u>221,564,293</u>
Noncurrent liabilities:		
Deferred revenue (note 3(d)):		
Base rent and other revenue	196,194,094	150,828,079
Security and other deposits	18,948,217	11,442,923
OPEB (note 16)	15,484,171	14,398,928
Bonds outstanding (notes 8, 9, and 10):		
2003 Revenue Bonds, less accumulated amortization of \$6,503,794 in 2009 and \$5,330,056 in 2008	1,025,467,177	1,045,070,915
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	<u>(29,182,279)</u>	<u>(30,958,645)</u>
Total noncurrent liabilities	<u>1,226,911,380</u>	<u>1,190,782,200</u>
Total liabilities	<u>1,458,338,268</u>	<u>1,412,346,493</u>
Net assets (deficit) (note 3(f)):		
Invested in capital assets, net of related debt	6,059,832	4,132,425
Restricted:		
Debt service	96,173,053	83,919,311
Under bond resolutions and other agreements	278,711,268	219,853,853
Unrestricted deficit	<u>(638,504,685)</u>	<u>(626,234,509)</u>
Total net deficit	<u>(257,560,532)</u>	<u>(318,328,920)</u>
Total liabilities and net deficit	<u>\$ 1,200,777,736</u>	<u>1,094,017,573</u>

See accompanying notes to financial statements and independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)
 Six-month periods ended April 30, 2009 and 2008

	2009	2008
Operating revenues:		
Revenues from ground leases (notes 5, 6, and 7):		
Base rent	\$ 29,397,291	28,098,041
Supplemental rent	268,107	281,273
Payments in lieu of real estate taxes	71,263,469	66,307,613
Civic facilities payments and other	<u>10,622,435</u>	<u>5,105,908</u>
Total operating revenues	<u>111,551,302</u>	<u>99,792,835</u>
Operating expenses:		
Wages and related benefits	7,001,640	6,562,025
OPEB (note 16)	652,173	652,173
Other operating and administrative expenses	14,191,868	8,424,801
Depreciation of project assets	2,959,992	2,571,300
Other depreciation and amortization	<u>1,516,011</u>	<u>1,534,227</u>
Total operating expenses	<u>26,321,684</u>	<u>19,744,526</u>
Operating income	<u>85,229,618</u>	<u>80,048,309</u>
Nonoperating revenues (expenses):		
Investment income on funds relating to:		
2003 Revenue Bonds (note 10)	1,813,997	2,192,829
Corporate-designated, escrowed, and OPEB funds	2,067,587	2,282,271
Realized and unrealized gains and losses	9,157,001	11,059,159
Other revenue	486,168	6,298,394
Interest expense relating to:		
2003 Swap agreements – net interest expense	(5,469,447)	(1,746,795)
2003 Revenue Bonds (note 10)	(16,045,161)	(23,541,049)
Loss from extinguishment	(888,183)	(888,183)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 11)	<u>(31,185,222)</u>	<u>(41,571,746)</u>
Total nonoperating expenses	<u>(40,063,260)</u>	<u>(45,915,120)</u>
Change in net assets	45,166,358	34,133,189
Net deficit, beginning of period	<u>(302,726,890)</u>	<u>(352,462,109)</u>
Net deficit, end of period	<u>\$ (257,560,532)</u>	<u>(318,328,920)</u>

See accompanying notes to financial statements and independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Statements of Cash Flows

Six-month periods ended April 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 105,825,699	154,398,627
Miscellaneous receipts	877,985	639,394
Total cash receipts from operating activities	<u>106,703,684</u>	<u>155,038,021</u>
Cash payments for:		
Salaries and benefits	(7,243,696)	(6,572,809)
Services and supplies	(5,094,096)	(6,242,031)
Total cash payments from operating activities	<u>(12,337,792)</u>	<u>(12,814,840)</u>
Net cash provided by operating activities	<u>94,365,892</u>	<u>142,223,181</u>
Cash flows from noncapital financing activities:		
Goldman Sachs payment for Battery Park City Library	(23,064)	(83,381)
NYC School Construction Authority receipt	—	1,640,829
Payment to the NYC School Construction Authority	—	(884,500)
Payment from NYC for Pier A	3,175,535	—
Payments to Contractors for Pier A	(1,087,849)	—
Payments from lessees – Site security deposits	2,265,934	2,832,476
Net cash provided by noncapital financing activities	<u>4,330,556</u>	<u>3,505,424</u>
Cash flows from capital and related financing activities:		
Capital asset expenditures	(370,924)	(102,378)
Development costs – site improvements and construction	(10,194,079)	(12,973,758)
Receipts for the purchase of capital assets/development costs	117,427	—
Payments for bond issuance costs	(271,529)	—
Auction fees for variable debt	(793,733)	(801,354)
Swap payment made on the 2003 Swap agreement	(6,904,000)	(6,904,000)
Swap interest payments received on the 2003 Swap agreement	2,166,071	5,718,657
Principle payments on 2003 Revenue Bonds	(17,945,000)	—
Interest paid on 2003 Senior Revenue Bonds	(9,927,899)	(9,927,899)
Interest paid on 2003 Junior Revenue Bonds	(7,312,138)	(12,937,017)
Net cash used in capital and related financing activities	<u>(51,435,804)</u>	<u>(37,927,749)</u>
Cash flows from investing activities:		
Interest and realized gains received on investment securities	6,905,617	10,935,109
Fair value adjustment short-term investments	(46,123)	136,764
Redemptions and sales of investment securities	178,123,135	247,514,880
Purchases of investment securities	(511,022,539)	(471,001,969)
Net cash used in investing activities	<u>(326,039,910)</u>	<u>(212,415,216)</u>
Decrease in cash and cash equivalents	<u>(278,779,266)</u>	<u>(104,614,360)</u>
Cash and cash equivalents, beginning of period	<u>330,124,536</u>	<u>249,772,309</u>
Cash and cash equivalents, end of period	<u>\$ 51,345,270</u>	<u>145,157,949</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Statements of Cash Flows

Six-month periods ended April 30, 2009 and 2008

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 85,229,618	80,048,309
Adjustments to reconcile operating income to net cash provided by operating activities:		
Bad debt expense	(25,865)	3,975
Depreciation and amortization	4,476,003	4,105,527
Changes in operating assets and liabilities:		
(Increase) decrease in rents and other receivables	(16,978,409)	1,555,015
Increase in other assets	(357,106)	(500,595)
Increase in accounts payable and other liabilities	7,963,884	2,874,901
Increase in deferred revenue	13,517,563	53,589,332
Increase in OPEB	540,204	546,717
Net cash provided by operating activities	<u>\$ 94,365,892</u>	<u>142,223,181</u>
Reconciliation to cash and cash equivalents, end of period:		
Bank deposits	\$ 572,990	154,258
Cash and cash equivalents (note 3(e))	32,411,819	6,347,218
Investments with less than 91-day maturities (note 3(e))	<u>18,360,461</u>	<u>138,656,473</u>
Cash and cash equivalents, end of period	<u>\$ 51,345,270</u>	<u>145,157,949</u>

See accompanying notes to financial statements and independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2009 and 2008

(1) General

Hugh L. Carey Battery Park City Authority (the Authority) is a public benefit corporation created in 1968 under the laws of the State of New York (the State) pursuant to the Battery Park City Authority Act (the Act) and is a legally separate entity from the State. The Authority has been doing business as the Hugh L. Carey Battery Park City Authority since 1999. For financial reporting purposes, the Authority is a component unit of the State and is included in the State's comprehensive annual financial report.

The Authority's reporting entity comprises itself and the Battery Park City Parks Conservancy (the Conservancy). The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation and is a blended component unit of the Authority under the guidance included in Governmental Accounting Standards Board (GASB) Statement Nos. 14 and 39, and the Conservancy's assets, liabilities, and results of operations are consolidated with the operations of the Authority for financial reporting purposes.

The Authority and its blended component unit, the Conservancy, are referred to collectively as "the Organization" in the financial statements. All significant transactions between the Authority and the Conservancy have been eliminated.

The Act sets forth the purposes of the Authority, including: the improvement of the Battery Park City project (the Project) area; the creation in such area, in cooperation with the City of New York (the City) and the private sector, of a mixed commercial and residential community; and the making of loans secured by first mortgages to any housing company organized to provide housing within the project area pursuant to the New York State Private Housing Finance Law. The Act also authorizes the Authority to pledge and assign revenues to secure financing for low- and moderate-income housing developments outside the project area, as well as issue bonds for the purposes of furthering the development of a commodities and futures exchange facility in Battery Park City, repaying certain State appropriations, and making a payment to the City (see note 9).

The Act provides that the Authority and its corporate existence shall continue until terminated by law, provided, however, that no such law shall take effect so long as the Authority shall have bonds, notes, and other obligations outstanding, unless adequate provision has been made for the payment of those obligations.

(2) Status of Project

The Project consists of approximately 92 acres of landfill created, owned, and operated by the Authority (see note 4). The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 10.2 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, three public schools, a public library, and approximately 8,900 residential units (see notes 5, 6, and 7).

Each of these elements has been completed, except for approximately 2.2 million square feet of commercial space representing the Goldman Sachs headquarters located on Site 26, 591 residential units located on Sites 23 and 24, and a public school on Site 2B. Construction is currently underway for each.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2009 and 2008

The Authority also owns and controls significant air rights throughout the Project. Ground rents, payments in lieu of real estate taxes (PILOT), and other lease payments are received under the ground leases, all expiring in 2069. All sites on the Project have been designated for development.

(3) Summary of Significant Accounting Policies

(a) *Financial Reporting*

The Organization follows U.S. generally accepted accounting principles as promulgated by GASB.

The Organization's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, provides proprietary activities with the option of implementing the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Organization has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

(b) *Use of Estimates*

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Estimates include reserves for doubtful accounts, depreciation, and other post employment benefits. Actual results could differ from those estimates.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2009 and 2008

(c) Project Assets

Costs incurred by the Authority in developing the Project as of April 30, 2009 and 2008 are capitalized as project assets and classified as follows:

	Balance at October 31, 2008	Additions	Retirements	Balance at April 30, 2009
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	350,918,498	4,089,625	—	355,008,123
Residential building and condominiums	<u>87,006,292</u>	<u>7,338,634</u>	<u>—</u>	<u>94,344,926</u>
Total project assets	<u>520,940,443</u>	<u>11,428,259</u>	<u>—</u>	<u>532,368,702</u>
Less accumulated depreciation:				
Site improvements	62,584,618	2,348,472	—	64,933,090
Residential building and condominiums	<u>8,786,941</u>	<u>611,520</u>	<u>—</u>	<u>9,398,461</u>
Total accumulated depreciation	<u>71,371,559</u>	<u>2,959,992</u>	<u>—</u>	<u>74,331,551</u>
Net project assets	<u>\$ 449,568,884</u>	<u>8,468,267</u>	<u>—</u>	<u>458,037,151</u>
	Balance at October 31, 2007	Additions	Retirements	Balance at April 30, 2008
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	330,472,757	14,339,708	(2,521,178)	342,291,287
Residential building and condominiums	<u>47,466,759</u>	<u>6,463,270</u>	<u>—</u>	<u>53,930,029</u>
Total project assets	<u>460,955,169</u>	<u>20,802,978</u>	<u>(2,521,178)</u>	<u>479,236,969</u>
Less accumulated depreciation:				
Site improvements	58,734,702	2,112,891	(429,000)	60,418,593
Residential building and condominiums	<u>7,613,359</u>	<u>458,409</u>	<u>—</u>	<u>8,071,768</u>
Total accumulated depreciation	<u>66,348,061</u>	<u>2,571,300</u>	<u>(429,000)</u>	<u>68,490,361</u>
Net project assets	<u>\$ 394,607,108</u>	<u>18,231,678</u>	<u>(2,092,178)</u>	<u>410,746,608</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Notes to Financial Statements

April 30, 2009 and 2008

The Authority records project assets at historical cost. The costs of normal maintenance of the Project that do not add to the value of the Project or extend its useful life are not capitalized. Upon completion, site improvement costs, which consist principally of infrastructure, streets, and civic and public facilities, are being depreciated by the straight-line method over the remaining lease years (to 2069). Interest costs incurred during construction related to cost of infrastructure and facilities for phases being developed were capitalized until such phases were substantially completed and ready for construction of buildings. The residential building is being depreciated over a useful life of 50 years and the condominium units through the first appraisal date of each lease.

(d) Revenue from Ground Leases

Revenue from ground leases is recognized as income as such amounts become receivable under the provisions of each lease, except that PILOT and upfront lease payments received in advance of the period to which they apply are deferred and recognized as income during future periods. Given the nature of the Organization's operations, revenue from ground leases and related fees and agreements is considered operating revenue. All other revenues are considered nonoperating. In accordance with the lease terms, the Authority received upfront lease payments in fiscal periods prior to 2009 of \$42 million, \$60 million, \$25.5 million, \$22.5 million, \$33.9 million, and \$4.75 million from residential buildings on Site 22, Site 16/17, Site 3, Site 23, Site 24, and Site 2A, respectively. With the exception of Site 2A, the Authority is recognizing revenue for these payments on a straight-line basis over the first 25-year lease period. Upfront payments received from Site 2A will be recognized through May 2011 in accordance with the lease terms. Amounts not recognized are reported as deferred revenue in current and noncurrent liabilities.

In August 2005, the Site 26 commercial ground lease was signed providing for a one-time lump sum base rent payment of approximately \$161 million to be deposited with an escrow agent, which was paid in June 2007 and is due to be paid to the Authority in December 2009 subject to the fulfillment of certain conditions to be performed by the City. Base rent revenue relating to the one-time payment is being recognized on a pro-rata basis over the lease term.

(e) Investments and Deposits

The Organization carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Organization's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority's investments in securities are held by the Authority's financial institutions in the Authority's name. The Authority's investments in U.S. Treasury Securities are backed by the full faith and credit of the U.S. government; investments in commercial paper maintain a credit rating no lower than 'A-1' grade; investments in federal agency and mortgage backed securities have the highest credit rating of 'AAA' and are supported by the U.S. government or its agencies; investments in municipal bonds are supported by Fannie Mae and rated 'AAA'. All other deposits or investments are fully collateralized or backed by the Federal Deposit Insurance Corporation (FDIC) or letters of credit. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority's name.

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Notes to Financial Statements

April 30, 2009 and 2008

Total investments and deposits held by the Organization at April 30, 2009 and 2008 included within the balance sheet accounts: investments, corporate-designated, escrowed and postemployment benefit funds, bond resolution funds (see note 8), and residential lease required funds are as follows:

	April 30, 2009			April 30, 2008		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities:						
Treasury Bills	\$ 23,374,929	23,410,291	0.58	\$ 1,592,322	1,594,201	0.38
Treasury Bonds	21,428,964	24,854,950	6.18	27,572,794	30,724,581	6.04
Treasury Strips	1,597,217	2,861,654	5.71	1,597,217	2,626,839	6.66
Total U.S. Treasury securities	46,401,110	51,126,895		30,762,333	34,945,621	
Commercial paper	61,704,748	61,883,382	0.09	133,947,485	134,411,110	0.14
Federal agency securities	481,453,498	487,456,870	0.75	394,658,359	398,641,033	0.83
Federal agency mortgage backed securities	29,187,793	30,104,278	2.29	43,693,525	43,759,478	3.09
Municipal bonds	1,200,000	1,200,000	0.02	4,030,000	4,030,000	0.02
Total investments	619,947,149	631,771,425	0.99	607,091,702	615,787,242	1.12
Cash and cash equivalents	32,411,819	32,411,819		6,347,218	6,347,218	
Total investments and deposits	\$ 652,358,968	664,183,244		613,438,920	622,134,460	

(a) Portfolio weighted average effective duration

The Organization's investment objectives for the portfolio are to generate a rate of return in excess of selected benchmarks, provide diversification to the total portfolio, and provide an appropriate level of liquidity for the Authority's operations.

The Organization's permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, Ginnie Mae securities); (ii) notes, bonds, debentures, and mortgages of U.S. government-sponsored agencies provided that its obligations receive the highest credit rating; (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days provided that such obligations receive the highest rating of two independent rating services (commercial paper) which as of April 30, 2009 were A1/P1; (iv) municipal bonds issued by New York authorities and currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

Interest rate risk is the probability of loss on investments from future changes in interest rates, which can adversely affect their fair value. Duration is a measure of a debt investment's exposure to fair

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Notes to Financial Statements

April 30, 2009 and 2008

value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration takes into account the change in cash flow expectations of securities with embedded options such as callable bonds and mortgage-backed securities. The interest rate risk of the Organization's portfolio is measured according to effective duration.

Investments of amounts in funds and accounts established under the various 2003 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. government and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Corporate-designated, escrowed, and OPEB funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund (see note 10), project contingency reserves, restoration reserves, insurance reserves, and arbitrage reserve and funds designated for the payment of medical benefits to the Authority's retirees.

Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds are largely comprised of security and escrow deposits held by the Authority for the residential buildings.

The Conservancy maintains its cash in bank deposits and Certificates of Deposits, which are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through December 31, 2009. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$250,000. All cash balances are placed into overnight interest-bearing accounts.

(f) Net Assets

The Organization's net assets are classified in the following categories: invested in capital assets, net of related debt, consisting of project assets, net of accumulated depreciation and deferred costs reduced by the outstanding balance of debt attributable to the acquisition, construction, or improvement of those assets; restricted net assets, consisting of net assets restricted for specific purposes by law or parties external to the Organization; and unrestricted net assets, consisting of net assets that are not classified as invested in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

(g) Deferred Costs

Bond issuance costs are amortized using the straight-line method over the remaining period to maturity of the bonds. Unamortized bond issuance costs relating to refunded debt are accounted for as part of the carrying amount of such debt. Unreimbursed costs, primarily legal, incurred by the Authority in entering into leases have been deferred and are being amortized by the straight-line method over the term of the leases.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2009 and 2008

(h) *Statements of Cash Flows*

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

(i) *Defined Postemployment Benefits*

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement establishes standards for the measurement, recognition, and financial statement presentation of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Authority implemented GASB Statement No. 45 to coincide with the State's requirement to do the same for their fiscal year ended March 31, 2008.

In accordance with GASB Statement No. 45, effective for the fiscal year beginning November 1, 2006, the Authority (a) implemented a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employees' years of service, and (b) provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan (see note 16).

(j) *Reclassifications*

Certain 2008 restricted net asset amounts have been reclassified to the unrestricted deficit.

(4) Rights of City to Reacquire Project Site

The fee interest in the Project site formerly owned by the City was conveyed to the Authority in the early 1980s for a nominal consideration. The City has the right to reacquire the Project site at any time, subject to the then existing leases, for a nominal consideration after: (a) all notes, bonds, and other indebtedness incurred by the Authority, or for which the Authority's revenues have been pledged, have been repaid or defeased; and (b) satisfaction or provision for payment of its contractual obligations and other contingent liabilities. The City may provide for repayment or defeasance of indebtedness incurred by the Authority under its various bond resolutions. As of April 30, 2009, the City had not expressed its intent regarding its right to reacquire the Project site.

(5) Commercial Development

In 1981, the Authority and Olympia & York Battery Park Company (O&Y), an affiliate of Olympia & York Development Limited, entered into a lease pursuant to which O&Y constructed four buildings, consisting of approximately 8,000,000 square feet of office space and a maximum of 280,000 square feet of commercial and retail space. These buildings are collectively known as the World Financial Center (WFC). In 1983, the lease was replaced with four separate severance leases, one of which was assigned by O&Y to the American Express Company and certain of its affiliates (American Express). O&Y has been reorganized as a result of bankruptcy proceedings and has changed its name to Brookfield Financial Properties (BFP). In September 2002, BFP acquired an interest in approximately 50% of Three World Financial Center from American Express.

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As of April 30, 2009, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$1.041 billion over the lease terms in the following annual amounts: (i) base rent of \$17,000,000 per annum from 2009 through 2069 and (ii) additional base rent of \$5,561,220 payable by the BFP-affiliated lessees (2000 to 2014), and an additional \$3,106,674 payable by American Express (2000 to 2009) (see note 7). In addition, the leases provide for rent relating to retail and other space and, with respect to each building, percentage rent based on cash flow, as defined, which commenced in 1997 and continues to 2016. Annual PILOT is also required to be paid to the Authority based on the assessed value of each building and the tax rate then applicable to real property located in the borough of Manhattan, unless alternative PILOT arrangements are set forth in the ground lease. The City determines the assessed value of each building. Each lessee, or certain authorized tenants of the lessee, has the right to appeal the assessment to the City Tax Commission and bring tax certiorari proceedings in State court to seek reductions in the amounts of such assessments. A number of administrative and judicial appeals on some of the parcels are currently pending for the current and prior tax years. While any such proceedings are pending, the lessee is required to pay PILOT based upon the assessments established by the City. If a lessee is successful in any such proceedings, subsequent rental payments to the Authority will be reduced to the extent necessary to offset the prior overpayment of PILOT as a result of the revised assessment.

In 1995, the Authority signed a lease with the New York Mercantile Exchange and its wholly owned subsidiary, Commodity Exchange Inc. (collectively, NYMEX), and other agreements along with the New York City Economic Development Corporation, the City, and the New York State Urban Development Corporation (doing business as the Empire State Development Corporation) for the development of a 500,000 square feet trading facility and office building complex to be located on Site 15. The Authority has constructed and paid for certain utility connections to the Project. The lease provides that, commencing on the occupancy date and continuing for a period of 20 years, the rent per annum shall be \$1 for the trading portion of the building and \$1,000,000 for the office portion for the first 7 years of occupancy, \$1,500,000 for years 8 through 13, and \$2,000,000 for the remainder of the 20-year period. The building was completed and occupied in July 1997. The NYMEX lease provides for an abatement program for PILOT payments for portions of the exchange project.

In 1998, a lease was signed for the development of a 463-room luxury hotel and cinema complex (approximately 600,000 square feet) north of the WFC (the north neighborhood). In addition, in January 2001, a lease was signed for the development of a luxury hotel (approximately 278,000 square feet) and residential complex on Site 1 south of the WFC (the south neighborhood).

In August 2005, a lease was signed by Goldman Sachs Headquarters LLC (Goldman) for the development of approximately 2.2 million square feet of trading and office headquarter space on Site 26 in the north neighborhood. The Site 26 ground lease requires that a \$161 million lump-sum rent payment be deposited with an escrow agent, which was paid in June 2007 and is due to be paid to the Authority in December 2009, subject to the fulfillment of certain conditions to be performed by the City. PILOT payments under the lease are made subject to certain caps and exemptions to Goldman. In addition, in December 2005, Goldman made a \$3.5 million lease payment to the Authority which is held in escrow for the benefit of the local community to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. Approximately \$346 thousand was disbursed to the NYC Public Library by the Authority through April 30, 2009.

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(6) Residential and Other Development

In 1980, the Authority entered into a lease with a limited-profit housing company (the Housing Company), which constructed an apartment complex consisting of 1,712 rental apartment units (the Gateway Project). In addition to the Gateway Project, the Authority entered into leases in the south neighborhood, pursuant to which developers constructed 17 buildings consisting of approximately 3,605 condominium and rental units, including 114 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. The final site on the Project in the south neighborhood was designated as a public school. In the north neighborhood, 9 buildings consisting of 2,505 units have been constructed. All the leases expire in 2069.

Future base rent payments are fixed through the first lease appraisal date, which varies among the projects, but is generally the first day of the calendar month next succeeding the twentieth or twenty-fifth anniversary of the date on which a temporary certificate of occupancy is issued. For lease years subsequent to the first appraisal date, the leases provide for base rent payments, subject to limitations, based upon a percentage of the fair market value of the land, but generally not less than an amount in excess of the highest base rent payable for any lease year ending prior to the first appraisal date. Two leases were modified to provide for a 25% increase in ground rent spread over 25 years. This modification reduced the ground rent from the original terms at 6% of fair market value. With respect to lease years subsequent to any other reappraisal dates, base rent may not be less than an amount in excess of base rent payable for the lease year immediately prior thereto. Reappraisal dates occur every 15 years, commencing on the fifteenth anniversary of the first appraisal date.

Annual PILOT is also required to be paid to the Authority during the term of these leases. PILOT is a lease payment by the tenants of each lease to the Authority in lieu of paying real property taxes to the City. PILOT is based on the assessed value of the premises as established by the City and the tax rate then applicable to similar classes of real property located in the borough of Manhattan. Many leases provide for an abatement equivalent to the real estate tax abatements provided for in the State's Real Property Tax Law, and are either 10 or 20 years in duration. Abatements for two recent developments in the south neighborhood will end in 2020 and abatements for the north neighborhood will end in 2020 or thereafter.

Certain residential leases also provide for supplemental rental payments, generally through the first appraisal date, which are to be paid if, and only to the extent, the PILOT payments are less than the minimum specified in each lease (see note 7).

The residential leases also provide for payments to the Authority for the operation and maintenance of civic facilities installed by the Authority and, in some cases, of percentage rent based on rentals from commercial facilities.

Certain leases also provide, among other matters, for the lessees to make payments to the Authority in the event of a conversion to a cooperative or condominium form of ownership.

Under the terms of the Gateway project lease, as amended, the tenant has agreed to pay: (i) a net annual rent of \$305,440 in 1998 and thereafter, subject to renegotiation or reappraisal as provided in the lease upon the earlier of June 1, 2023 or repayment of the new FHA insured loan; (ii) an annual amount in lieu of real estate taxes which as of February 16, 2016, increases by 20% per year from the pre-refinancing payments in lieu of real estate taxes to an equivalency payment equal to full PILOT starting on

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February 16, 2020; and (iii) amounts for the operation and maintenance of the civic facilities. The lease, as amended, expires in 2040 and may be extended at the option of the tenant through 2069. In July 2009, the Gateway lease was amended to set the amount of land rent at 8.125% of the aggregate amount of rent collected by the lessee less certain allowances, pass-throughs, and other municipal charges in excess of land rent.

On November 15, 2007, ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which is owned by the Authority as condominium units. Construction of the buildings began in the spring of 2008.

(7) Future Minimum Lease Revenue

The future minimum base rent and other minimum lease payments (including supplemental rent, as applicable, through the first appraisal date (see note 6)) to be received under the ground leases during each of the Authority's five fiscal years ending from October 31, 2010 through 2014 and through the end of the lease term (thereafter), are as follows (in 000s):

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>
Commercial development:							
Base rent	\$ 24,743	25,098	25,114	25,130	24,218	1,221,048	1,345,351
Residential developments:							
Gateway project base rent	305	305	305	305	305	7,839	9,364 (a)
S. Res. Neighborhood:							
Base rent	13,466	14,490	17,218	17,754	17,901	1,322,179	1,403,008
Other minimum payments	8,242	7,373	2,049	—	—	—	17,664
Subtotal S. Res.	21,708	21,863	19,267	17,754	17,901	1,322,179	1,420,672
N. Res. Neighborhood:							
Base rent	3,546	3,654	3,706	3,760	3,814	371,003	389,483
Other minimum payments	4,148	4,203	4,457	4,810	5,414	36,489	59,521
Subtotal N. Res.	7,694	7,857	8,163	8,570	9,228	407,492	449,004
Total	\$ 54,450	55,123	52,849	51,759	51,652	2,958,558	3,224,391

(a) Does not include extension period (see note 6).

Amounts in the above tabulation do not include PILOT (other than minimum supplemental rent payments under the second phase residential leases) and other payments to be received under the ground leases. The minimum payments will be recorded as revenues (supplemental rents) only to the extent that minimum

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amounts exceed PILOT revenues due. In addition, future minimum lease revenues in connection with leases for which the buildings have not been built by developers and fully occupied are not included. Revenues to be paid on a percentage basis and other like contingent payments are also excluded from the above tabulation.

(8) 2003 Revenue Bond Resolution Funds

The current and noncurrent balance in the funds and accounts established in accordance with the Authority's 2003 Revenue Bond resolutions and held by trustees is as follows at April 30, 2009 and 2008:

	2003 Revenue Bonds			Total 2003 Bonds
	General Bond Resolution	Senior Bonds	Junior Bonds	
April 30, 2009				
Reserve Fund	\$ 73,266,000	—	—	73,266,000
Project Operating Fund	7,037,131	—	—	7,037,131
Debt Service Funds	—	34,757,471	65,642,131	100,399,602
Residual Fund	84,362,427	—	—	84,362,427
Project Costs Fund	181,564	—	—	181,564
Pledged Revenue Fund	29,148,127	—	—	29,148,127
	\$ 193,995,249	34,757,471	65,642,131	294,394,851

	2003 Revenue Bonds			Total 2003 Bonds
	General Bond Resolution	Senior Bonds	Junior Bonds	
April 30, 2008				
Reserve Fund	\$ 77,028,435	—	—	77,028,435
Project Operating Fund	8,469,600	—	—	8,469,600
Debt Service Funds	—	37,386,055	47,427,519	84,813,574
Residual Fund	88,236,406	—	—	88,236,406
Project Costs Fund	27,749,667	—	—	27,749,667
Pledged Revenue Fund	82,954,788	—	—	82,954,788
	\$ 284,438,896	37,386,055	47,427,519	369,252,470

Investments of amounts in funds and accounts established under the various 2003 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. government, and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Amounts in the Project Costs Fund may be used to pay for costs of certain park, street, and other infrastructure improvements, and other capital expenditures.

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Amounts in the Debt Service Reserve Funds and dedicated funds established under the 2003 Revenue Bond Resolutions are used to pay debt service on the respective bonds. To the extent not utilized to fund any future debt service deficiencies, the funds will be available to retire bonds issued thereunder in the last year of bond maturity.

Amounts in the Project Operating Fund established under the 2003 General Bond Resolution are not pledged to pay debt service and may be used by the Authority for and on certain additional indebtedness, which may be issued by the Authority for the funding of maintenance, repair, and restoration of the public open areas and civic facilities, and administrative and other expenditures, as defined.

Amounts held in the Pledged Revenue Fund (PRF) are pledged and assigned for the payment of the debt service on the 2003 Revenue Bonds and on certain additional indebtedness, which may be issued by the Authority and secured by the Authority's revenue.

Each November, after meeting funding requirements, the entire balance of funds remaining on deposit in the PRF is transferred to the Residual Fund. These balances become general assets for lawful corporate purposes. From time to time, revenues not pledged to the bondholders are deposited to the PRF.

(9) Authority Bonds Authorized and Assignment of Revenue for Housing New York Corporation Bonds

The Act, as amended, authorizes the Authority to issue bonds and notes in amounts not to exceed: (a) \$300 million outstanding at any one time for the development of the Project; (b) another \$150 million for the purpose of financing capital costs in connection with development of the Project area, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (c) \$400 million outstanding at any one time for the making of loans to housing companies organized to provide housing within the Project area pursuant to the New York State Private Housing Finance Law; (d) \$100 million for the purpose of repaying State appropriations including accrued interest thereon and funding the infrastructure of the Project, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (e) \$150 million for the purpose of making a payment to the City, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; and (f) \$250 million for the purpose of making a payment to the State of New York. Such authorized amounts exclude bonds and notes issued to refund outstanding bonds and notes.

The Act, as amended, also authorizes the Authority to pledge and assign excess revenues, as defined, to the Housing New York Corporation (HNYC), a State public benefit corporation and subsidiary of the New York City Housing Development Corporation, in such amounts as are necessary to secure the issuance of bonds or notes by HNYC, in amounts not to exceed \$400 million, to finance low- and moderate-income housing developments outside the Authority's Project area, plus a principal amount of bonds or notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Pursuant to the Housing New York Act, only those bond or note proceeds of HNYC that are available on or before June 30, 1995 are permitted to be used to finance the housing program. Consequently, unless the Housing New York Act is amended, the Authority cannot pledge or assign any additional revenues in the future for the HNYC housing program.

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The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed \$110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of April 30, 2009, no bonds were issued for this purpose.

The Act, as amended, authorized the Authority to enter into interest rate exchange agreements through December 31, 2003 in connection with the issuance of Authority debt or in connection with Authority debt already outstanding, to provide for an exchange of payments based upon fixed and/or variable interest rates. In October 2003, the Authority entered into \$400 million of interest rate exchange agreements (see note 10).

Issuance of additional bonds by the Authority is subject to meeting certain conditions, including projected debt service coverage tests, and approval by the City and the State Public Authorities Control Board.

(10) 2003 Revenue Bonds

On October 16, 2003, the Authority issued \$406,350,000 (\$433,345,972 inclusive of net premium) of fixed-rate Senior Revenue Bonds, Series A (the 2003 Series A Bonds) and \$635,000,000 variable-rate Junior Revenue Bonds, comprising \$235,000,000 of Series B (the 2003 Series B Bonds) and \$400,000,000 of Series C (the 2003 Series C Bonds), for a total of \$1,068,345,972. The bonds were issued for the following purposes:

- A total of \$564,891,733 of bonds (including \$343,017,495 of the 2003 Series A Bonds, \$50,871,502 of the 2003 Series B Bonds, and \$171,002,776 of the 2003 Series C Bonds) were issued to currently refund all the outstanding 1993 Revenue Refunding Bonds, including \$324,045,000 of the 1993 Series A Senior Bonds, \$115,420,000 of the 1993 Series A Junior Bonds, and \$53,075,000 of the Junior Revenue Bonds, Series 2000.
- \$95,755,874 of the 2003 Series C Bonds were issued to advance refund \$74,385,000 of outstanding Junior Revenue Bonds, Series 1996 A.
- \$115,160,363 of the 2003 Series B Bonds was issued to finance certain infrastructure and other capital improvements.

In conjunction with the refunding of all of the outstanding revenue bonds, the Authority issued \$292,537,963 of bonds (including \$90,328,477 of the 2003 Series A Bonds, \$68,968,136 of the 2003 Series B Bonds, and \$133,241,350 of the 2003 Series C Bonds) to current refund \$250,390,000 of outstanding 1993 HNYC Senior Bonds (see note 9).

Funds aggregating \$860,037,332, representing the net proceeds of the bond issues after payment of underwriting fees and other issuance cost and deposits to debt service reserve and other funds and accounts held under the various Resolutions for the refund bonds, were used to purchase U.S. government securities. In addition, approximately \$90.4 million of the bond proceeds was made available to the Authority to facilitate development and maintenance of the Project.

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The refundings resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by \$39 million. The difference between the reacquisition price and the net carrying amount of the refunded debt is reflected on the Authority's balance sheet as an unamortized loss on extinguishment of debt and is being deferred over the life of the old debt with a pro-rata charge to interest expense for the six-month periods ended April 30, 2009 and 2008.

The payment of principal commenced in November 2008 on the 2003 Series A and 2003 Series C Bonds, while payment on the 2003 Series B Bonds commences in 2033.

At April 30, 2009, the 2003 Series A Bonds consist of the following serial bonds:

	Coupon rates	Principal amounts	Interest
Year ended April 30:			
2010	2.375% – 5.00%	\$ 12,980,000	19,549,829
2011	2.625% – 5.00%	13,645,000	19,085,929
2012	3.00% – 5.50%	14,375,000	18,556,439
2013	3.40% – 5.50%	15,205,000	17,915,983
2014	3.50% – 5.50%	16,140,000	17,147,958
2015 – 2019	3.65% – 5.25%	97,335,000	72,130,353
2020 – 2024	4.00% – 5.25%	128,305,000	43,845,663
2025 – 2027	4.60% – 5.00%	93,795,000	9,508,570
Totals		\$ 391,780,000	217,740,724

The Authority issued certain of the 2003 Series A Bonds at a discount and others at a premium, resulting in an overall net premium of approximately \$27 million, which is being amortized on a straight-line basis, over the lives of the 2003 Series A Bonds. At April 30, 2009 and 2008, the unamortized net bond premium was approximately \$20.5 million and \$21.7 million, respectively.

The 2003 Series A Bonds maturing after November 1, 2013 are subject to redemption, in whole or in part, at any time on or after November 1, 2013 at the option of the Authority, at a redemption price of par plus interest to the redemption date.

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As of April 30, 2009, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

	Junior B		Junior C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ended April 30:						
2010	\$ —	2,010,238	5,450,000	3,645,536	5,450,000	5,655,774
2011	—	2,010,238	5,450,000	3,594,958	5,450,000	5,605,196
2012	—	2,010,238	5,450,000	3,544,360	5,450,000	5,554,598
2013	—	2,010,238	5,450,000	3,493,783	5,450,000	5,504,021
2014	—	2,010,238	5,450,000	3,443,185	5,450,000	5,453,423
2015 – 2019	—	10,051,188	27,250,000	16,457,138	27,250,000	26,508,326
2020 – 2024	—	10,051,188	29,725,000	15,167,126	29,725,000	25,218,314
2025 – 2029	—	10,051,188	105,825,000	13,361,521	105,825,000	23,412,709
2030 – 2034	600,000	10,051,188	206,575,000	5,269,112	207,175,000	15,320,300
2035 – 2039	191,400,000	6,879,699	—	—	191,400,000	6,879,699
2040	43,000,000	367,832	—	—	43,000,000	367,832
Total	\$ 235,000,000	57,503,473	396,625,000	67,976,719	631,625,000	125,480,192

The 2003 variable-rate Junior Revenue Bonds were issued as Auction Rate Securities (ARS) and the principal and interest are insured by municipal bond insurance policies. Interest rates on these bonds are reset periodically through an auction process in the secondary market. The 2003 Series B Bonds reset on a 7-day auction cycle and the 2003 Series C Bonds reset on a 35-day auction cycle.

Interest in the above table is based on actual auction rates in effect closest to April 30, 2009, which were 0.856%, 0.856%, and 0.822% for Series B1, B2, and B3 of the 2003 Series B Bonds, respectively; and 0.880%, 0.856%, 0.990%, 0.920%, and 0.896% for Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

The 2003 Series B Bonds in entirety and \$100 million of the 2003 Series C Bonds are insured by Financial Security Assurance, Inc. (FSA). The remaining \$300 million of the 2003 Series C Bonds are insured by AMBAC Assurance Corporation (AMBAC).

In February 2008, the auctions for the Authority's ARS in the secondary market began to fail intermittently due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London Interbank Offered Rate (LIBOR) based on the prevailing rating of the series bonds. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200%, or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 1, 2008 through April 30, 2009 ranged from a low of 0.658% to a high of 5.549% on the 2003 Series B Bonds and from a low of 0.658% to a high of 8.718% on the 2003 Series C Bonds.

On October 2, 2003, the Authority executed six interest-rate exchange agreements (Swaps) with three counterparties. The Swaps were executed in conjunction with the Authority's issuance of \$400 million of its 2003 Series C Bonds (the Bonds). The total notional amount of the Swaps was \$400 million. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds.

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The Authority executed the Swaps in order to effectively convert the variable-rate Bonds to a net fixed rate. Based on the Swaps, the Authority owes interest calculated at a fixed rate of 3.452% to the counterparties that is paid semiannually. In return, the counterparties owe the Authority floating-rate interest equal to 65% of 30-day LIBOR, which is paid to the Authority on a monthly basis. The amortization schedules of the total amount of the Swaps and the Bonds are identical, with each having a final amortization of November 1, 2033.

	2003			
	Series C Bonds	Interest-rate swaps		
	Principal	Payment	Receipts	Net payment
Year ended April 30:				
2010	\$ 5,450,000	(13,597,428)	1,045,024	(12,552,404)
2011	5,450,000	(13,409,294)	1,030,464	(12,378,830)
2012	5,450,000	(13,221,160)	1,015,905	(12,205,255)
2013	5,450,000	(13,033,026)	1,001,345	(12,031,681)
2014	5,450,000	(12,844,892)	986,785	(11,858,107)
2015 – 2019	27,250,000	(61,402,450)	4,715,531	(56,686,919)
2020 – 2024	29,725,000	(56,562,315)	4,337,648	(52,224,667)
2025 – 2029	105,825,000	(48,533,826)	3,614,673	(44,919,153)
2030 – 2034	206,575,000	(16,565,717)	1,006,087	(15,559,630)
Totals	\$ 396,625,000	(249,170,108)	18,753,462	(230,416,646)

The above table includes payments based on the Authority's fixed-rate Swap payment obligation at an interest rate of 3.452% while the receipts are based on the floating rate equal to 65% of 30-day LIBOR on April 30, 2009 (65% of 0.411% or 0.26715%), which the counterparties are obligated to pay the Authority on a monthly basis. Receipts are projected based on the latest interest rate at April 30, 2009, but will vary monthly.

The Swaps had a negative fair market value of approximately \$68.5 million at April 30, 2009. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each Swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the Swaps.

The Authority is exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "A" or higher category from at least one of the nationally recognized credit rating agencies. The counterparties are required to post collateral to the extent that they experience an appreciable decline in credit rating and the Swaps have positive fair value for the Authority.

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The Swaps expose the Authority to basis risk should its interest payments on the variable-rate Bonds significantly exceed the 65% of LIBOR receipts.

Debt service on the Senior and Junior Bonds is secured by and payable, after satisfaction of certain administrative, operating, and maintenance obligations of the Authority, solely from certain pledged lease revenues and Swap receipts which are required to be deposited and maintained in the PRF established under the 2003 General Bond Resolution. The PRF, including income and earnings on investments thereof, has been pledged and assigned to a trustee for the benefit of the owners of Senior Bonds or Junior Bonds and certain other beneficiaries, as their respective interest may appear. In addition, the Bonds, and certain swap payments and reimbursement obligations, are secured by the Reserve Fund established under the 2003 General Bond Resolution. The rights to payment of Senior Bonds, senior swap payments, and senior reimbursement obligations from amounts in the PRF and the Reserve Fund are senior to the rights to payment of Junior Bonds, junior swap payments, and junior reimbursement obligations from such amounts. As of each November 1, amounts in the PRF in excess of funding requirements for project operating expenses and certain other amounts will be transferred into an unpledged Residual Fund and may be used by the Authority for other purposes (see note 8).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement, to provide for the custody of the Special Fund. The Authority established a new Special Fund to the credit of which shall be deposited approximately \$46 million. The Special Fund was funded from the proceeds of the former Special Fund created pursuant to a former 1993 Master Revenue Resolution upon the dissolution of such existing Special Fund in connection with the 2003 refunding of outstanding Authority bonds. The Special Fund may only be used by the Authority, as necessary, (i) to pay debt service obligations of the Authority on its bonds, or (ii) for purposes that are jointly agreed upon between the City and the Authority, as the same may be amended from time to time. Neither the Special Fund nor the monies on deposit from time to time therein may be pledged to secure any obligation pursuant to any Resolutions authorizing additional bonds or other bonds or debt obligations of the Authority. Income and earnings actually received by or for the account of the Authority from investments of monies on deposit from time to time in the Special Fund shall be treated as revenues (see note 17(f)).

(11) Agreements with the City of New York Relating to Disposition of Revenue

The Authority entered into the Settlement Agreement with the City which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 Revenue Bonds, and on any bonds issued to finance the HNYC housing program (see notes 9 and 10), certain site development costs, and any agreed-upon commitments, will be remitted to the City; and (ii) all other rent payments and other revenue received by the Authority, remaining after payment of a proportionate part of the aforementioned items, will be retained by the Authority and spent in such manner and for such purposes as the Authority and the City shall jointly determine.

The \$92.7 million and \$83.1 million provided for the transfer to the City during the fiscal years ended October 31, 2008 and 2007 were paid in June 2009 and 2008, respectively. A provision in the amount of \$31.2 million has been charged to operations for the six-month period ended April 30, 2009. The Authority

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will retain a portion of the estimated excess revenues at year-end as corporate funds to be spent in a manner and for such purposes as the Authority and the City shall jointly decide.

In January 2007, the City and the Authority signed an agreement to increase the amount of bonds or other debt obligations the Authority may issue for infrastructure and other capital expenditures by an additional \$74.6 million.

(12) Rents and Other Receivables

Rents and other receivables comprise the following at April 30, 2009 and 2008:

	2009	2008
Swap interest receivable	\$ 106,345	585,000
Miscellaneous receivables	1,157,187	1,217,645
Interest receivable	1,584,613	1,975,239
Upfront payment due from lessee	17,000,000	—
Rents receivable	<u>10,766,483</u>	<u>8,664,350</u>
 Total receivables	 30,614,628	 12,442,234
Less allowance for doubtful accounts	(55,000)	(117,643)
 Net receivables	 <u>\$ 30,559,628</u>	 <u>12,324,591</u>

Rents receivable include accumulated amounts recognized relating to the Goldman Sachs escrow deposit due to be paid to the Authority in December 2009, approximately \$9.2 million through April 30, 2009 and \$6.7 million through April 30, 2008.

(13) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at April 30, 2009 and 2008 comprise the following:

	2009	2008
Amounts due to vendors	\$ 4,687,701	5,670,889
Contract retention	3,149,991	2,457,234
Due to developers	27,500	27,500
State recovery costs	2,400,000	1,705,951
Accrued payroll and benefits	540,604	538,156
Accrued lease costs – Goldman Sachs	5,835,635	—
Accrued legal settlement	—	211,197
 Total	 <u>\$ 16,641,431</u>	 <u>10,610,927</u>

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(14) Long-Term Liabilities

The Organization's bonds and other long-term liabilities as of April 30, 2009 and 2008 are comprised of the following obligations:

	<u>October 31, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>April 30, 2009</u>	<u>Due within one year</u>
Authority bonds outstanding:					
2003 Revenue Bonds:					
Series 2003A	\$ 406,350,000	—	14,570,000	391,780,000	12,980,000
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	400,000,000	—	3,375,000	396,625,000	5,450,000
Subtotal	1,041,350,000	—	17,945,000	1,023,405,000	18,430,000
Unamortized net premiums	<u>21,079,046</u>	<u>—</u>	<u>586,869</u>	<u>20,492,177</u>	<u>—</u>
Total bonds outstanding	<u>1,062,429,046</u>	<u>—</u>	<u>18,531,869</u>	<u>1,043,897,177</u>	<u>18,430,000</u>
Other long-term liabilities:					
Unamortized loss on extinguishment	(30,070,462)	—	(888,183)	(29,182,279)	—
Other postemployment benefits	14,943,967	652,173	111,969	15,484,171	—
Deferred revenue	219,430,154	45,700,556	32,182,993	232,947,717	36,753,623
Security and other deposits	34,052,073	3,763,843	23,064	37,792,852	18,844,635
Total other long-term liabilities	<u>238,355,732</u>	<u>50,116,572</u>	<u>31,429,843</u>	<u>257,042,461</u>	<u>55,598,258</u>
Total long-term liabilities	<u>\$ 1,300,784,778</u>	<u>50,116,572</u>	<u>49,961,712</u>	<u>1,300,939,638</u>	<u>74,028,258</u>

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	<u>October 31, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>April 30, 2008</u>	<u>Due within one year</u>
Authority bonds outstanding:					
2003 Revenue Bonds:					
Series 2003A	\$ 406,350,000	—	—	406,350,000	14,570,000
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	400,000,000	—	—	400,000,000	3,375,000
Subtotal	1,041,350,000	—	—	1,041,350,000	17,945,000
Unamortized net premiums	<u>22,252,784</u>	<u>—</u>	<u>586,869</u>	<u>21,665,915</u>	<u>—</u>
Total bonds outstanding	<u>1,063,602,784</u>	<u>—</u>	<u>586,869</u>	<u>1,063,015,915</u>	<u>17,945,000</u>
Other long-term liabilities:					
Unamortized loss on extinguishment	(31,846,828)	—	(888,183)	(30,958,645)	—
Other postemployment benefits	13,852,211	652,173	105,456	14,398,928	—
Deferred revenue	129,328,529	82,874,277	29,751,050	182,451,756	31,623,677
Security and other deposits	25,518,163	6,090,782	1,730,939	29,878,006	18,435,083
Total other long-term liabilities	<u>136,852,075</u>	<u>89,617,232</u>	<u>30,699,262</u>	<u>195,770,045</u>	<u>50,058,760</u>
Total long-term liabilities	<u>\$ 1,200,454,859</u>	<u>89,617,232</u>	<u>31,286,131</u>	<u>1,258,785,960</u>	<u>68,003,760</u>

(15) Retirement Costs

The Authority – The Authority participates in the New York State and Local Employees' Retirement System (ERS), and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing multiple-employer, defined benefit retirement systems. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement Systems, 110 State Street, Albany, NY 12236.

The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than ten years of service who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension fund.

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The Authority is required to contribute at an actuarially determined rate. The required contributions for the current fiscal year and two preceding fiscal years were:

2009	\$ 397,400
2008	454,632
2007	<u>392,719</u>
	<u>\$ 1,244,751</u>

The Authority's contributions made to the systems were equal to 100% of the contributions required for each year.

The Conservancy – The Conservancy sponsored a Tax Deferred Savings Annuity (TDSA), a 403(b) retirement plan, through December 2007 covering all its employees upon attainment of regular status. Eligible employees contributed up to 16.67% of their annual salary, but were limited to amounts necessary to meet nondiscrimination tests. The Conservancy contributed an amount equal to 25% of each employee's contribution up to a maximum of 6% of annual salary. In addition, the Conservancy contributed an amount equal to 2% of each employee's salary each pay period. After three years of employment, the Conservancy contributed an additional 1% of each employee's annual earnings up to \$40,000. Employees' contributions with accrued interest are fully vested at all times. Contributions by the Conservancy were subject to a five-year vesting using a cumulative 20% vesting schedule and amounted to \$5,231 for the six month period ended April 30, 2008, while no employer contributions were made for the six-month period ended April 30, 2009. No contributions were made by the Conservancy employees for the six-month periods ended April 30, 2009 and 2008.

In March 2007, the Conservancy replaced the TDSA by entering into a retirement benefits plan administered by Cultural Institutions Retirement System (CIRS) for all eligible employees. CIRS' retirement benefit plan is a cost-sharing multiple-employer sponsored plan consisting of a defined benefit plan (CIRS Pension Plan) and a Section 401(k) defined contribution plan (CIRS Savings Plan). CIRS is responsible for administering all aspects of the CIRS Pension Plan, including the investment of CIRS Plan assets that are held in trust for beneficiaries of the CIRS Pension Plan. The CIRS Savings Plan allows participants to select their own investments from a range of options. CIRS issues an annual financial summary report for the Plans. The report can be obtained by contacting Cultural Institutions Retirement System or on their website at www.cirsplans.org.

To be eligible under the CIRS Pension Plan, employees must be over the age of 21 and be employed for a minimum of one year at regular status. Benefits paid to retirees are based on age at retirement, years of credited service, and average compensation. The CIRS Pension Plan is a private pension plan governed by ERISA, and is characterized as a Multiemployer Plan by the U.S. Department of Labor. In the event of CIRS Pension Plan insolvency, the CIRS Pension Plan is covered under the Pension Benefit Guaranty Corporation. The total CIRS Pension Plan costs for eligible employees amounted to \$139 thousand and \$22 thousand for the periods ended April 30, 2009 and April 30, 2008, respectively. The Conservancy began participation in the CIRS Savings Plan during fiscal 2007. Under the CIRS Savings Plan, participants are required to contribute at least 2% of their base salary and direct the investment of their funds based on the investment options offered by the Savings Plan. To be eligible under this plan,

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employees must be over the age of 21 and be employed for a minimum of 3 months. Total contributions made by participants for the six-month periods ended April 30, 2009 and 2008 are \$111,135 and \$111,267, respectively.

(16) Postemployment Healthcare Plan

(a) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the State as an agent multiple employer defined benefit plan. Under the plan the Authority provides certain healthcare for eligible retired employees and their dependents under a single-employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Authority's Board is authorized to establish contribution rates for employees and retirees below those set by Civil Service Law. The Authority's Plan states that employees and/or their dependents become eligible for these benefits at 55 years of age when the employee has 10 years of State service. In calculating the 10-year service requirement, all of the employee's service need not be with the Authority, but may be a composite of New York State service elsewhere, with a minimum of 3 years with the Authority. Employees with no prior State service must work a minimum of 10 years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees hired on or after November 1, 2001, contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. The Authority covers 100% of the cost of single and dependent coverage for employees hired before November 1, 2001. A vestee is an Authority employee vested as a member of the retirement system administered by the State, has withdrawn from State service after meeting the Authority's minimum service requirement, but has not met the age requirement for continuing health insurance. Approximately 94 participants, including 62 current employees, 3 vestees, and 29 retired and/or spouses of retired employees were eligible to receive these benefits at April 30, 2009. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

Effective November 1, 2006, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. Through the fiscal year ended October 31, 2006, OPEB provisions were financed on a pay-as-you-go basis. The first actuarial valuation date is November 1, 2006. Actuarial valuations involve estimates of the value of reported amounts, assumptions about the probability of events in the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about employment mortality and the healthcare cost trend.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Since the Authority used a one-year amortization period, the ARC in future years represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any interest on the unfunded actuarial accrued liability. The Authority's current period

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ARC is approximately \$652 thousand as detailed in the chart in the OPEB Status and Funding Progress section of this note.

(b) *Funding*

The contribution requirements (funding) of the Authority's net OPEB obligation are at the discretion of management as approved by the members of the Board. The Authority's net OPEB obligation continues to be financed on a pay-as-you-go basis from assets segregated for the exclusive purpose of paying OPEB obligations.

(c) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2006, actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% (net of administrative expenses) including inflation, declining 1% each year to an ultimate trend rate of 5%. Both rates include a 3% inflation assumption.

(d) *OPEB Status and Funding Progress*

The Authority's OPEB obligation and the funded status of the plan as of April 30, 2009 and 2008 are as follows:

	2009	2008
Actuarial Accrued Liability (AAL):		
Net OPEB obligation beginning of year	\$ 14,943,967	13,852,211
Annual Required Contribution (ARC):		
Normal cost	361,360	361,360
Interest to period end	290,813	290,813
Payments for retirees during period	(111,969)	(105,456)
Net OPEB obligation end of period	<u>\$ 15,484,171</u>	<u>14,398,928</u>
Actuarial Accrued Liability (AAL) November 1, 2008 and 2007	\$ 14,398,828	13,852,111
Funded OPEB plan assets	<u>—</u>	<u>—</u>
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2008 and 2007	<u>\$ 14,398,828</u>	<u>13,852,111</u>
Funded ratio (actuarial value of plan assets/AAL)	—%	—%
Covered payroll	\$ 5,001,187	5,001,187
UAAL as percentage of covered payroll	288%	277%

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Corporate assets held at April 30, 2009 and 2008 in a separate Corporate OPEB account for the exclusive purpose of paying OPEB obligations were approximately \$16.3 million and \$16 million, respectively. The OPEB assets are included on the balance sheet within the other corporate designated, escrowed, and postemployment benefit funds financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(17) Commitments and Other Matters

- (a) The Authority has entered into construction and other related contracts, having unexpended balances aggregating approximately \$26.9 million as of April 30, 2009.
- (b) The Authority rents office space in One World Financial Center, as well as community meeting space, field offices, and maintenance space in condominium buildings in Battery Park City. Total rent expense amounted to \$1.1 million and \$986 thousand for the six-month periods ended April 30, 2009 and 2008, respectively.
- (c) The terrorist attack on the World Trade Center on September 11, 2001 destroyed the North Bridge and severely damaged the South Bridge owned by the Authority. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, the insurance monies were deposited, in May 2006, into an interest-bearing account (Insurance Fund), jointly controlled by the Authority and the Management Committee of the World Financial Center, (comprised of Brookfield Financial Properties, American Express Company, and Merrill Lynch & Co.), for the purposes of (i) ensuring access into Battery Park City from the pedestrian concourse (Concourse) which the Port Authority of New York and New Jersey (PANYNJ) is constructing under West Street, connecting the World Trade Center site and the World Financial Center, and (ii) restoring the South Bridge. These funds are not recorded as assets of the Authority in the accompanying balance sheets. In March 2009, the Authority and the Management Committee entered into an agreement permitting the following withdrawals from the Insurance Fund: (i) up to \$1,747,000 to fund the cost of the foundation of a structure, proposed by Brookfield, which would shelter the Concourse escalator bank in front of, and provided access to, the Winter Garden, and (ii) up to \$4,405,000 to fund the Authority's construction of an eastern extension of the South Bridge, as part of a project to renovate the Bridge.
- (d) In November 2007, the Authority designated The New York City School Construction Authority (SCA) as the ground lessee and developer of Site 2B for the purpose of constructing a public school for elementary and intermediate school students. The project is funded by the New York City Department of Education and construction commenced in September 2008. The Authority is expected to receive nominal rent for the Site.
- (e) The City owns Pier A (a three-story historic landmark building), and a contiguous upland area (together, the Pier), which are located adjacent to the Project at its southern tip. In December 2007, the Authority and the City executed a nonbinding Term Sheet, providing for their negotiation in good faith of a long-term lease of the Pier (the Lease), based on the major terms described in the Term Sheet. The lease was executed in October 2008. Under the lease, the Authority is redeveloping

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the Pier with funding provided by the City, which will then be used for recreational, maritime, and ancillary uses, including retail purposes.

- (f) On October 23, 2007, the members of the Authority approved a proposal by the Governor to pay up to \$40 million of Special Fund monies (see note 10) to the PANYNJ for the construction of a planned pedestrian concourse running under Route 9A. The concourse will connect the Winter Garden (on the west, at the edge of Battery Park City) and the World Trade Center site on the east. As of April 30, 2009 no disbursements were made by the Authority to the PANYNJ.
- (g) Pursuant to its ground lease with Goldman providing for construction by Goldman of a new world headquarters building in Battery Park City, the Authority entered into an arrangement as of July 18, 2007 under which Goldman may make purchases related to construction, furnishing, and equipping the building without liability for New York State and City sales tax, for an aggregate sales tax exemption of up \$60 million. To qualify for the exemption, the Authority is liable for payment of Goldman's purchases in connection with the building, in an amount not to exceed \$100 million (in addition to the value of goods delivered to the building), which purchases Goldman is to make as agent of the Authority, but which Goldman is obligated to pay pursuant to its ground lease. The Goldman Sachs Group, Inc (the corporate parent of Goldman) executed a guaranty to assure reimbursement of any amounts paid by the Authority as a consequence of this arrangement. The likelihood of any payments made directly by the Authority resulting from this arrangement is considered remote.

(18) Battery Park City Parks Conservancy

The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation. The Authority, as sole member of the Conservancy, designated the Authority's members to serve as the Conservancy's board of directors. By modification of the bylaws, the Conservancy added the Authority's President as an additional director. The Conservancy was formed by the Authority to comply with certain requirements of agreements between the Authority and the City pursuant to which the Authority is obligated to maintain and repair the parks and open spaces in and around Battery Park City's residential areas. In March 1988, the Authority entered into a management agreement with the Conservancy, which authorized the Conservancy to undertake all responsibilities, related to the operation, maintenance, and repair of such parks and open spaces. For the six-month periods ended April 30, 2009 and 2008, the Authority paid the Conservancy approximately \$4 million and \$3.1 million, respectively, for services, which are included in the Authority's operating expenses. Additionally, approximately \$334 thousand and \$304 thousand at April 30, 2009 and 2008, respectively, is payable by the Authority to the Conservancy. Both are eliminated in the blending of the Conservancy's financial statements into the Authority's financial statements (see Other Supplementary Information – Combining Balance Sheet).

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(19) Litigation

- a) Several claims have been asserted against the Authority arising out of design and construction work performed on the Authority's combined school/residential facility located on Site 22 in Battery Park City (the Site 22 Project). The general contractor, the plumbing contractor, and a subcontractor that performed work on the Site 22 Project have asserted a total of approximately \$12.1 million in claims. The school portion of the Site 22 Project was constructed by the Authority pursuant to an agreement with the City, the New York City Educational Construction Fund, and the Board of Education of the City of New York.

Pursuant to the terms of that agreement, the City agreed to indemnify the Authority *inter alia* for any liability, loss, cost, damage, or claim arising from the design or construction of the school portion of the Site 22 Project. The amount of Site 22 Project claims allocable to the school portion has not yet been determined, and the amount of the Authority's liability for claims relating to the Site 22 Project, if any, is not predictable at present. Any amount the Authority may pay to settle claims relating to such school portion must be approved by the City.

- b) Numerous claims have been asserted against the Authority and others in state and federal court by individuals who worked in and around the World Trade Center site after the September 11th attack (such individuals and their representatives are hereinafter referred to as Plaintiffs). Some of the Plaintiffs were undertaking clean-up activities for ground lessees of the Authority and tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. The majority of the claims have been dismissed or discontinued with prejudice with respect to the Authority on account of the Plaintiffs' failure to file a notice of claim. However, State legislation was enacted on September 16, 2009 amending General Municipal Law §50-I to revive for one year certain claims related to the World Trade Center rescue, recovery, and clean-up effort that were barred for failure to timely file a notice of claim. The court has been notified of the new legislation, and the Authority anticipates that the cases that were previously dismissed will be restored shortly. Once restored, the Authority will have approximately 650 claims pending against it in Federal court. The Authority's ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, Brookfield, Merrill Lynch, and the lessee under the Gateway Plaza Sublease have agreed to assume the defense of the claims related to the premises that they control. The Authority is pursuing the tender of the remaining claims to its other ground lessees. Certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not provide coverage to the Authority for these claims.
- c) Metrotech Contracting Corporation (Metrotech), a contractor of the Authority that has filed for bankruptcy, has asserted a number of claims against the Authority, totaling approximately \$693,000, relating to work allegedly performed and not paid for by the Authority. Approximately \$264,000 of this claim has been settled by Stipulation in Bankruptcy Court, leaving approximately \$429,000 in dispute.

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April 30, 2009

	Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:					
Bank deposits	\$ 13,341	559,649	—	—	572,990
Investments	3,233,372	—	—	—	3,233,372
Corporate-designated, escrowed, and OPEB funds	19,086,381	—	—	—	19,086,381
Restricted assets:					
Rents and other receivables (net of allowance for doubtful accounts of \$55,000)	30,550,657	343,295	(334,324)	—	30,559,628
2003 Revenue Bond Resolution Funds	201,535,113	—	—	—	201,535,113
Total current assets	254,418,864	902,944	(334,324)	—	254,987,484
Noncurrent assets:					
Restricted assets:					
2003 Revenue Bond Resolution Funds	92,859,738	—	—	—	92,859,738
Residential lease required funds	18,076,106	—	—	—	18,076,106
Corporate-designated, escrowed, and OPEB funds	329,392,534	—	—	—	329,392,534
Deferred costs:					
Bond issuance costs, less accumulated amortization of \$13,575,037	37,188,011	—	—	—	37,188,011
Costs of leases, less accumulated amortization of \$849,379	3,830,149	—	—	—	3,830,149
Battery Park City project assets – at cost, less accumulated depreciation	458,037,151	—	—	—	458,037,151
Other assets	6,174,777	231,786	—	—	6,406,563
Total noncurrent assets	945,558,466	231,786	—	—	945,790,252
Total assets	<u>\$ 1,199,977,330</u>	<u>1,134,730</u>	<u>(334,324)</u>	<u>—</u>	<u>1,200,777,736</u>

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Liabilities and Net Assets (Deficit)	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 16,835,977	—	—	16,835,977
Accounts payable and other liabilities	16,592,231	383,524	(334,324)	16,641,431
Due to the City of New York	123,921,222	—	—	123,921,222
Deferred revenue:				
PILOT revenue	23,774,773	—	—	23,774,773
Base rent and other revenue	12,978,850	—	—	12,978,850
Security and other deposits	18,844,635	—	—	18,844,635
2003 Revenue Bonds	18,430,000	—	—	18,430,000
Total current liabilities	<u>231,377,688</u>	<u>383,524</u>	<u>(334,324)</u>	<u>231,426,888</u>
Noncurrent liabilities:				
Deferred revenue:				
Base rent and other revenue	196,194,094	—	—	196,194,094
Security and other deposits	18,948,217	—	—	18,948,217
OPEB	15,484,171	—	—	15,484,171
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$6,503,794	1,025,467,177	—	—	1,025,467,177
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(29,182,279)	—	—	(29,182,279)
Total noncurrent liabilities	<u>1,226,911,380</u>	<u>—</u>	<u>—</u>	<u>1,226,911,380</u>
Total liabilities	<u>1,458,289,068</u>	<u>383,524</u>	<u>(334,324)</u>	<u>1,458,338,268</u>
Net assets (deficit):				
Invested in capital assets, net of related debt	6,059,832	—	—	6,059,832
Restricted:				
Debt service	96,173,053	—	—	96,173,053
Under bond resolutions and other agreements	278,711,268	—	—	278,711,268
Unrestricted (deficit) assets	(639,255,891)	751,206	—	(638,504,685)
Total net assets (deficit)	<u>(258,311,738)</u>	<u>751,206</u>	<u>—</u>	<u>(257,560,532)</u>
Total liabilities and net assets (deficit)	<u>\$ 1,199,977,330</u>	<u>1,134,730</u>	<u>(334,324)</u>	<u>1,200,777,736</u>

See accompanying independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Balance Sheet

April 30, 2008

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	\$ 13,843	140,415	—	154,258
Investments	89,416	275,362	—	364,778
Corporate-designated, escrowed, and OPEB funds	17,361,263	—	—	17,361,263
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of \$117,643)	12,297,403	327,495	(300,307)	12,324,591
2003 Revenue Bond Resolution Funds	154,570,541	—	—	154,570,541
Total current assets	<u>184,332,466</u>	<u>743,272</u>	<u>(300,307)</u>	<u>184,775,431</u>
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	214,681,929	—	—	214,681,929
Residential lease required funds	10,637,652	—	—	10,637,652
Corporate-designated, escrowed, and OPEB funds	224,518,297	—	—	224,518,297
Deferred costs:				
Bond issuance costs, less accumulated amortization of \$12,136,562	38,626,485	—	—	38,626,485
Costs of leases, less accumulated amortization of \$788,643	2,990,901	—	—	2,990,901
Battery Park City project assets – at cost, less accumulated depreciation	410,746,608	—	—	410,746,608
Other assets	6,859,106	181,164	—	7,040,270
Total noncurrent assets	<u>909,060,978</u>	<u>181,164</u>	<u>—</u>	<u>909,242,142</u>
Total assets	<u>\$ 1,093,393,444</u>	<u>924,436</u>	<u>(300,307)</u>	<u>1,094,017,573</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Balance Sheet

April 30, 2008

Liabilities and Net Assets (Deficit)	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 18,277,860	—	—	18,277,860
Accounts payable and other liabilities	10,468,375	442,859	(300,307)	10,610,927
Due to the City of New York	124,671,746	—	—	124,671,746
Deferred revenue:				
PILOT revenue	21,633,342	—	—	21,633,342
Base rent and other revenue	9,990,335	—	—	9,990,335
Security and other deposits	18,435,083	—	—	18,435,083
2003 Revenue Bonds	<u>17,945,000</u>	<u>—</u>	<u>—</u>	<u>17,945,000</u>
Total current liabilities	<u>221,421,741</u>	<u>442,859</u>	<u>(300,307)</u>	<u>221,564,293</u>
Noncurrent liabilities:				
Deferred revenue:				
Base rent and other revenue	150,828,079	—	—	150,828,079
Security and other deposits	11,442,923	—	—	11,442,923
OPEB	14,398,928	—	—	14,398,928
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$5,330,056	1,045,070,915	—	—	1,045,070,915
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	<u>(30,958,645)</u>	<u>—</u>	<u>—</u>	<u>(30,958,645)</u>
Total noncurrent liabilities	<u>1,190,782,200</u>	<u>—</u>	<u>—</u>	<u>1,190,782,200</u>
Total liabilities	<u>1,412,203,941</u>	<u>442,859</u>	<u>(300,307)</u>	<u>1,412,346,493</u>
Net assets (deficit):				
Invested in capital assets, net of related debt	4,132,425	—	—	4,132,425
Restricted:				
Debt service	83,919,311	—	—	83,919,311
Under bond resolutions and other agreements	219,562,484	291,369	—	219,853,853
Unrestricted assets (deficit)	<u>(626,424,717)</u>	<u>190,208</u>	<u>—</u>	<u>(626,234,509)</u>
Total net assets (deficit)	<u>(318,810,497)</u>	<u>481,577</u>	<u>—</u>	<u>(318,328,920)</u>
Total liabilities and net assets (deficit)	<u>\$ 1,093,393,444</u>	<u>924,436</u>	<u>(300,307)</u>	<u>1,094,017,573</u>

See accompanying independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Six-month period ended April 30, 2009

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 29,397,291	—	—	29,397,291
Supplemental rent	268,107	—	—	268,107
Payments in lieu of real estate taxes	71,263,469	—	—	71,263,469
Civic facilities payments and other	10,457,738	4,907,011	(4,742,314)	10,622,435
Total operating revenues	<u>111,386,605</u>	<u>4,907,011</u>	<u>(4,742,314)</u>	<u>111,551,302</u>
Operating expenses:				
Wages and related benefits	3,727,719	3,273,921	—	7,001,640
OPEB	652,173	—	—	652,173
Other operating and administrative expenses	17,906,336	1,114,102	(4,828,570)	14,191,868
Depreciation of project assets	2,959,992	—	—	2,959,992
Other depreciation and amortization	1,474,408	41,603	—	1,516,011
Total operating expenses	<u>26,720,628</u>	<u>4,429,626</u>	<u>(4,828,570)</u>	<u>26,321,684</u>
Operating income	<u>84,665,977</u>	<u>477,385</u>	<u>86,256</u>	<u>85,229,618</u>
Nonoperating revenues (expenses):				
Interest income on funds relating to:				
2003 Revenue Bonds	1,813,997	—	—	1,813,997
Corporate-designated, escrowed, and OPEB funds	2,067,587	—	—	2,067,587
Realized and unrealized gains and losses	9,157,001	—	—	9,157,001
Other revenue	484,980	87,444	(86,256)	486,168
Interest expense relating to:				
2003 Swap agreements – net expense	(5,469,447)	—	—	(5,469,447)
2003 Revenue Bonds	(16,045,161)	—	—	(16,045,161)
Loss from extinguishment	(888,183)	—	—	(888,183)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	<u>(31,185,222)</u>	<u>—</u>	<u>—</u>	<u>(31,185,222)</u>
Total nonoperating expenses	<u>(40,064,448)</u>	<u>87,444</u>	<u>(86,256)</u>	<u>(40,063,260)</u>
Change in net assets	<u>44,601,529</u>	<u>564,829</u>	<u>—</u>	<u>45,166,358</u>
Net (deficit) assets, beginning of period	<u>(302,913,267)</u>	<u>186,377</u>	<u>—</u>	<u>(302,726,890)</u>
Net (deficit) assets, end of period	<u>\$ (258,311,738)</u>	<u>751,206</u>	<u>—</u>	<u>(257,560,532)</u>

See accompanying independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Six-month period ended April 30, 2008

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 28,098,041	—	—	28,098,041
Supplemental rent	281,273	—	—	281,273
Payments in lieu of real estate taxes	66,307,613	—	—	66,307,613
Civic facilities payments and other	4,900,491	3,994,729	(3,789,312)	5,105,908
Total operating revenues	<u>99,587,418</u>	<u>3,994,729</u>	<u>(3,789,312)</u>	<u>99,792,835</u>
Operating expenses:				
Wages and related benefits	3,684,406	2,877,619	—	6,562,025
OPEB	652,173	—	—	652,173
Other operating and administrative expenses	11,211,308	1,031,838	(3,818,345)	8,424,801
Depreciation of project assets	2,571,300	—	—	2,571,300
Other depreciation and amortization	1,493,878	40,349	—	1,534,227
Total operating expenses	<u>19,613,065</u>	<u>3,949,806</u>	<u>(3,818,345)</u>	<u>19,744,526</u>
Operating income	<u>79,974,353</u>	<u>44,923</u>	<u>29,033</u>	<u>80,048,309</u>
Nonoperating revenues (expenses):				
Interest income on funds relating to:				
2003 Revenue Bonds	2,192,829	—	—	2,192,829
Corporate-designated, escrowed and OPEB funds	2,282,271	—	—	2,282,271
Realized and unrealized gains and losses	11,059,159	—	—	11,059,159
Other revenue	6,298,394	29,033	(29,033)	6,298,394
Interest expense relating to:				
2003 Swap agreements – net interest (expense) income	—	—	—	—
2003 Revenue Bonds	(1,746,795)	—	—	(1,746,795)
Loss from extinguishment	(23,541,049)	—	—	(23,541,049)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	(888,183)	—	—	(888,183)
	<u>(41,571,746)</u>	<u>—</u>	<u>—</u>	<u>(41,571,746)</u>
Total nonoperating expenses	<u>(45,915,120)</u>	<u>29,033</u>	<u>(29,033)</u>	<u>(45,915,120)</u>
Change in net assets	<u>34,059,233</u>	<u>73,956</u>	<u>—</u>	<u>34,133,189</u>
Net assets (deficit), beginning of period	<u>(352,869,730)</u>	<u>407,621</u>	<u>—</u>	<u>(352,462,109)</u>
Net assets (deficit), end of period	<u>\$ (318,810,497)</u>	<u>481,577</u>	<u>—</u>	<u>(318,328,920)</u>

See accompanying independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows

Six-month period ended April 30, 2009

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 105,825,699	—	—	105,825,699
Receipts from the Authority	—	3,934,012	(3,934,012)	—
Miscellaneous receipts	697,046	180,939	—	877,985
Total cash receipts from operating activities	<u>106,522,745</u>	<u>4,114,951</u>	<u>(3,934,012)</u>	<u>106,703,684</u>
Cash payments for:				
Salaries and benefits	(3,870,064)	(3,373,632)	—	(7,243,696)
Services and supplies	(8,647,010)	(467,354)	4,020,268	(5,094,096)
Total cash payments from operating activities	<u>(12,517,074)</u>	<u>(3,840,986)</u>	<u>4,020,268</u>	<u>(12,337,792)</u>
Net cash provided by operating activities	<u>94,005,671</u>	<u>273,965</u>	<u>86,256</u>	<u>94,365,892</u>
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(23,064)	—	—	(23,064)
Receipts from NYC – Pier A	3,175,535	—	—	3,175,535
Payments to Pier A Contractors on behalf of NYC	(1,087,849)	—	—	(1,087,849)
Payments from lessees – Site security deposits	2,265,934	—	—	2,265,934
Net cash provided by noncapital financing activities	<u>4,330,556</u>	<u>—</u>	<u>—</u>	<u>4,330,556</u>
Cash flows from capital and related financing activities:				
Capital asset expenditures	(284,668)	(86,256)	—	(370,924)
Development costs – site improvements and construction	(10,194,079)	—	—	(10,194,079)
Receipts for the purchase of capital assets/development costs	116,239	87,444	(86,256)	117,427
Payments for bond issuance costs	(271,529)	—	—	(271,529)
Auction fees for variable debt	(793,733)	—	—	(793,733)
Swap payment made on the 2003 Swap agreement	(6,904,000)	—	—	(6,904,000)
Swap interest payments received on the 2003 Swap agreement	2,166,071	—	—	2,166,071
Principle paydown on 2003 Revenue Bonds	(17,945,000)	—	—	(17,945,000)
Interest paid on 2003 Senior Revenue Bonds	(9,927,899)	—	—	(9,927,899)
Interest paid on 2003 Junior Revenue Bonds	(7,312,138)	—	—	(7,312,138)
Net cash (used in) provided by capital and related financing activities	<u>(51,350,736)</u>	<u>1,188</u>	<u>(86,256)</u>	<u>(51,435,804)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	6,905,617	—	—	6,905,617
Fair value adjustment short-term investments	(46,123)	—	—	(46,123)
Redemptions and sales of investment securities	178,123,135	—	—	178,123,135
Purchases of investment securities	(511,022,539)	—	—	(511,022,539)
Net cash used in investing activities	<u>(326,039,910)</u>	<u>—</u>	<u>—</u>	<u>(326,039,910)</u>
(Decrease) increase in cash and cash equivalents	(279,054,419)	275,153	—	(278,779,266)
Cash and cash equivalents, beginning of period	<u>329,840,040</u>	<u>284,496</u>	<u>—</u>	<u>330,124,536</u>
Cash and cash equivalents, end of period	<u>\$ 50,785,621</u>	<u>559,649</u>	<u>—</u>	<u>51,345,270</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows

Six-month period ended April 30, 2009

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 84,665,977	477,385	86,256	85,229,618
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Bad debt expense	(25,865)	—	—	(25,865)
Depreciation and amortization	4,434,400	41,603	—	4,476,003
Changes in operating assets and liabilities:				
Increase in rents and other receivables	(16,989,975)	(306,732)	318,298	(16,978,409)
(Acrease) decrease in other assets	(419,747)	62,641	—	(357,106)
Increase (decrease) in accounts payable and other liabilities	8,283,114	(932)	(318,298)	7,963,884
Increase in deferred revenue	13,517,563	—	—	13,517,563
Increase in OPEB	540,204	—	—	540,204
Net cash provided by operating activities	<u>\$ 94,005,671</u>	<u>273,965</u>	<u>86,256</u>	<u>94,365,892</u>
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 13,341	559,649	—	572,990
Cash and cash equivalents	32,411,819	—	—	32,411,819
Investments with less than 91-day maturities	18,360,461	—	—	18,360,461
Cash and cash equivalents, end of period	<u>\$ 50,785,621</u>	<u>559,649</u>	<u>—</u>	<u>51,345,270</u>

See accompanying independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows
 Six-month period ended April 30, 2008

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 154,398,627	—	—	154,398,627
Receipts from the authority	—	3,042,279	(3,042,279)	—
Miscellaneous receipts	432,504	206,890	—	639,394
Total cash receipts from operating activities	<u>154,831,131</u>	<u>3,249,169</u>	<u>(3,042,279)</u>	<u>155,038,021</u>
Cash payments for:				
Salaries and benefits	(3,780,975)	(2,791,834)	—	(6,572,809)
Services and supplies	(8,754,151)	(530,159)	3,042,279	(6,242,031)
Total cash payments from operating activities	<u>(12,535,126)</u>	<u>(3,321,993)</u>	<u>3,042,279</u>	<u>(12,814,840)</u>
Net cash provided by (used in) operating activities	<u>142,296,005</u>	<u>(72,824)</u>	<u>—</u>	<u>142,223,181</u>
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(83,381)	—	—	(83,381)
NYC School Construction Authority receipt	1,640,829	—	—	1,640,829
Payment to the NYC School Construction Authority	(884,500)	—	—	(884,500)
Payment from Millennium (Site 2A) – Site security deposit	2,832,476	—	—	2,832,476
Net cash provided by noncapital financing activities	<u>3,505,424</u>	<u>—</u>	<u>—</u>	<u>3,505,424</u>
Cash flows from capital and related financing activities:				
Capital asset expenditures	(102,378)	(29,033)	29,033	(102,378)
Cash receipts for purchase of capital asset expenditures	—	29,033	(29,033)	—
Development costs – site improvements and construction	(12,973,758)	—	—	(12,973,758)
Defeasance escrow funds	—	—	—	—
Auction fees for variable debt	(801,354)	—	—	(801,354)
Swap payment made on the 2003 Swap agreement	(6,904,000)	—	—	(6,904,000)
Swap interest payments received on the 2003 Swap agreement	5,718,657	—	—	5,718,657
Interest paid on 2003 Senior Revenue Bonds	(9,927,899)	—	—	(9,927,899)
Interest paid on 2003 Junior Revenue Bonds	(12,937,017)	—	—	(12,937,017)
Net cash used in capital and related financing activities	<u>(37,927,749)</u>	<u>—</u>	<u>—</u>	<u>(37,927,749)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	10,935,109	—	—	10,935,109
Fair value adjustment short-term investments	136,764	—	—	136,764
Redemptions and sales of investment securities	247,514,880	—	—	247,514,880
Purchases of investment securities	(471,001,969)	—	—	(471,001,969)
Net cash used in investing activities	<u>(212,415,216)</u>	<u>—</u>	<u>—</u>	<u>(212,415,216)</u>
Decrease in cash and cash equivalents	<u>(104,541,536)</u>	<u>(72,824)</u>	<u>—</u>	<u>(104,614,360)</u>
Cash and cash equivalents, beginning of period	<u>249,283,708</u>	<u>488,601</u>	<u>—</u>	<u>249,772,309</u>
Cash and cash equivalents, end of period	<u>\$ 144,742,172</u>	<u>415,777</u>	<u>—</u>	<u>145,157,949</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
 (A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows

Six-month period ended April 30, 2008

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$ 79,974,353	44,923	29,033	80,048,309
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Bad debt expense	3,975	—	—	3,975
Depreciation and amortization	4,065,178	40,349	—	4,105,527
Changes in operating assets and liabilities:				
Decrease (increase) in rents and other receivables	1,603,500	(297,741)	249,256	1,555,015
(Increase) decrease in other assets	(587,299)	86,704	—	(500,595)
Increase in accounts payable and other liabilities	3,100,249	52,941	(278,289)	2,874,901
Increase in deferred revenue	53,589,332	—	—	53,589,332
Increase in OPEB	546,717	—	—	546,717
Net cash provided by (used in) operating activities	<u>\$ 142,296,005</u>	<u>(72,824)</u>	<u>—</u>	<u>142,223,181</u>
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 13,843	140,415	—	154,258
Cash and cash equivalents	6,071,856	275,362	—	6,347,218
Investments with less than 91-day maturities	138,656,473	—	—	138,656,473
Cash and cash equivalents, end of period	<u>\$ 144,742,172</u>	<u>415,777</u>	<u>—</u>	<u>145,157,949</u>

See accompanying independent accountants' review report.

APPENDIX C

Definitions and Summary of Certain Provisions of the General Resolution

The following is a summary of certain provisions of the General Resolution and definitions therein contained. This summary does not purport to be comprehensive and is subject to all of the terms and provisions of the General Resolution.

CERTAIN DEFINITIONS

“Accreted Value” shall mean with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Capital Appreciation Bond or a Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates.

“Act” shall mean the Battery Park City Authority Act, Title 12 of Article 8 of the Public Authorities Law (constituting Chapter 43-a of the Consolidated Laws of the State of New York) as added by Chapter 343 of the Laws of 1968, as amended.

“Administrative Expenses” shall mean the reasonable expenses of the Authority in carrying out and administering the powers, duties and functions of the Authority in connection with the Project and the Resolution, and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, insurance premiums, legal, accounting, management and consulting and engineering expenses, the fees and expenses of the Trustee (including, without limitation, legal and accounting fees and annual fees), the fees and expenses of trustees or other fiduciaries for any Bonds, Credit Facility fees or premiums that are not paid as Costs of Issuance, broker-dealer fees, auction agent fees and remarketing agent fees related to Variable Interest Rate Bonds, amounts rebatable to the United States of America with respect to Bonds pursuant to Section 148 of the Code, any scheduled rating agency fees incurred in connection with any Bonds, payments to pension, retirement, health and hospitalization funds, and any other expenses necessary or appropriate to carry out or administer such powers, duties and functions.

“Aggregate Debt Service” shall mean, for any period of calculation, the aggregate amount of principal, interest (net of capitalized interest) and Sinking Fund Installments scheduled to be paid from the Debt Service Fund on Outstanding Bonds during such period, plus the aggregate amount of Reimbursement Obligations and Qualified Swaps scheduled to be paid from the Debt Service Fund during such period. For purposes of such calculation, the interest rate to be borne by Variable Interest Rate Bonds and/or Qualified Swaps during any period of calculation shall be deemed to be the Estimated Average Interest Rate therefor.

“Appreciated Value” shall mean with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Deferred Income Bond or a Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in

equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

“Authority” shall mean the Battery Park City Authority, the body corporate and politic constituting a public benefit corporation, created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of the Authority.

“Authorized Officer” shall mean any member of the Authority or its Chairman, President, Treasurer or Executive Vice President or any other officer or employee of the Authority authorized by the by-laws or resolution of the Authority to perform the act or sign the document in question.

“Battery Park Project Area” shall have the meaning ascribed to such term in the Act.

“Beneficiaries” shall mean Bondholders and, to the extent specified in the related Series Resolution or other Supplemental Indenture, Facility Providers, Qualified Swap Providers and persons to whom Subordinated Payments are owed by the Authority.

“Bond” or “Bonds” shall mean any of the bonds, notes or other obligations of the Authority issued pursuant to the General Resolution and one or more Series Resolutions.

“Bondholder”, or “Holder”, or “Holders of Bonds”, or any similar term, shall mean any person or party who shall be the registered owner of any Outstanding Bond or Bonds.

“Bond Proceeds Fund” shall mean the Fund so designated which is created in the General Resolution.

“Bond Year” shall mean a year of 365 or 366 days, as the case may be, commencing on November 2 and ending on the next succeeding November 1, except that the initial Bond Year shall be the period commencing on the Initial Funding Date and ending on November 2, 2003.

“Book Entry Bond” means a Bond authorized to be issued to, and issued to and registered in the name of, a Depository directly or indirectly for the beneficial owners thereof.

“Business Day” shall mean any day other than (i) a Saturday and Sunday, (ii) a day on which the Trustee or banks and trust companies in New York, New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed. “Capital Appreciation Bond” shall mean any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof.

“Cash Equivalent” shall mean a letter of credit, insurance policy, surety, guaranty or other security arrangement provided by a Qualified Financial Institution.

“City” shall mean The City of New York, New York.

“Civic Facilities” shall mean those portions of the Battery Park Project Area developed or to be developed with buildings, structures or betterments erected on the Battery Park Project Area designed for municipal uses and services, including but not limited to schools, police stations, health centers, fire houses, libraries, cultural and recreational facilities (including, without limitation, museums), streets, sidewalks, parks, esplanades, sewers, water lines, hydrants, street lighting, signal boxes, other utilities and other similar uses substantially as provided for in the Master Development Plan.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

“Collateral” shall have the meaning ascribed to such term in the General Resolution.

“Condemnation Proceeds” shall have the meaning ascribed to such term in the General Resolution.

“Corporate Trust Office” shall mean the office of the Trustee at which the corporate trust business of the Trustee related hereto shall, at any particular time, be principally administered, which office is, at the date of the Official Statement, located at 101 Barclay Street, New York, New York 10286.

“Costs of Issuance” shall mean items of expense incurred in connection with the authorization, sale and issuance of Bonds, which items of expense shall include, but not be limited to, underwriters’ fees or discount, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, commitment and initial fees or similar charges of a remarketing agent or relating to a Credit Facility or a Qualified Swap, legal fees and charges, professional consultants’ fees, fees and charges for execution, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, costs and expenses of refunding Bonds, and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

“Counsel’s Opinion” shall mean an opinion signed by an attorney or firm of attorneys selected by the Authority. Unless otherwise restricted in the Resolution, such attorney may be a counsel in the regular employment of the Authority.

“Credit Facility” shall mean any letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any agreement relating to the reimbursement of any payment thereunder (or any combination of the foregoing), which is obtained by the Authority and is issued by a financial institution, insurance provider or other person and which provides security or liquidity in respect of any Outstanding Bonds or Reimbursement Obligations.

“Debt Service Fund” shall mean the Fund so designated which is created in the General Resolution.

“Defeasance Securities” shall mean money and, to the extent lawful for investment of funds of the Authority, any of the following:

(i) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including “CATS, TIGRS” and “TRS”) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(ii) non-callable obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof);

(iii) certificates rated at the time of purchase in one of the two highest long-term rating categories by each Rating Agency evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (ii), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian;

(iv) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (x) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (y) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (i), (ii) or (iii) which fund may be applied only to the payment when due of such bonds or other obligations and (z) rated in the highest long-term rating category by each of the Rating Agencies; and

(v) investment arrangements rated at the time of purchase in the highest long-term and short-term rating categories by each Rating Agency.

“Deferred Income Bond” shall mean any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable semi-annually on each May 1 and each November 1.

“Depository” means DTC or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds to serve as securities depository for the Bonds of such Series.

“DTC” shall mean The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors or assigns.

“Estimated Average Interest Rate” shall mean, as to any Variable Interest Rate Bonds or Qualified Swap and as of any date of calculation, the average interest rate or rates anticipated to be borne by such Bonds or Qualified Swap, or by the combination of such arrangements, over the period or periods for which such rate or rates are anticipated to be in effect, all as estimated by an Authorized Officer of the Authority and its Financial Advisor.

“Event of Default” shall have the meaning ascribed to such term in the General Resolution.

“Excess Earnings” shall mean, with respect to a Series of Bonds, (i) the amount by which the earnings on the Gross Proceeds of such Series of Bonds exceeds the amount which would have been earned thereon if such Gross Proceeds were invested at a yield equal to the yield on such Series of Bonds, as such yield is determined in accordance with the Code, and (ii) amounts earned on the investment of such excess.

“Facility Provider” shall mean the issuer of a Credit Facility.

“Fiscal Year” shall mean a year of 365 or 366 days, as the case may be, commencing on November 1 and ending on the next succeeding October 31, except that the initial Fiscal Year shall be the period commencing on the Initial Funding Date and ending on October 31, 2004.

“Gross Proceeds” shall mean, with respect to a Series of Bonds the “gross proceeds” as defined in the Tax Certificate executed by the Authority in connection with the issuance of such Series of

Bonds, which definition shall be consistent with the provisions of the Code relating to the exclusion of interest on state and local government obligations for federal income taxation purposes.

“Historical Test Period” shall mean, as of any date of calculation, at the option of the Authority, either (i) the most recently completed Fiscal Year for which audited financial statements of the Authority shall have been published, or (ii) the most recently completed period of twelve (12) full calendar months for which the Authority has sufficient data to make the calculations required by the General Resolution.

“Initial Funding Date” shall mean the single, earliest date upon which any Bonds shall be outstanding.

“Interest Commencement Date” shall mean, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Bond or a Series Certificate, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on each May 1 and each November 1.

“Investment Agreement” means an agreement for the investment of moneys with a Qualified Financial Institution.

“Investment Obligation” shall mean and include any security that is legal for investment of funds by the State Comptroller pursuant to Section 98 of the State Finance Law, including Investment Agreements that are fully collateralized by Permitted Security, in each case if and to the extent that the same are at the time legal for investment of funds of the Authority under the Act.

“Junior Bond” shall mean any Bond that is entitled to payment from the Junior Payments Account in accordance with the General Resolution.

“Junior Payments Account” shall mean the Account so designated which is created in the General Resolution.

“Junior Payments Requirement” shall mean, for any date of calculation by the Authority in each Bond Year, the aggregate amount of debt service on Junior Bonds and Junior Reimbursement Obligations and Junior Swap Payments that remain scheduled to be paid during such Bond Year. For purposes of calculating the Junior Payments Requirement, the interest rate to be borne by Variable Interest Rate Bonds shall be deemed to be the Maximum Rate therefor.

“Junior Reimbursement Obligation” shall mean any Reimbursement Obligation that is payable from the Junior Payments Account in accordance with the General Resolution.

“Junior Swap Payment” shall mean any Qualified Swap Payment that is payable from the Junior Payments Account in accordance with the General Resolution.

“Master Development Plan” shall mean the plan designated as Schedule A annexed to the Master Lease and made a part thereof, as amended.

“Master Lease” shall mean the Restated Amended Agreement of Lease, dated June 10, 1980 between BPC Development Corporation, as Landlord, and the Authority, as Tenant, as from time to time amended, supplemented or restated, relating to the Project.

“Maximum Rate” shall mean, for each Variable Interest Rate Bond, the maximum rate per annum at which interest may accrue from time to time on the unpaid principal amount thereof in

accordance with the terms thereof; provided, however, that if, as of any date of calculation, the rate of interest due on such Variable Interest Rate Bond for any period is fixed, the Maximum Rate shall mean, with respect to such Variable Interest Rate Bond and for such period, such fixed rate.

“*Non-WFC Parcel*” shall mean a Parcel on which the World Financial Center is not situated.

“*Operating Expenses*” shall mean, with respect to any period of time, the Administrative Expenses payable during such period, together with an amount of money equal to the reasonable expenses of the Authority, payable during such period, for maintenance, repair, restoration and reconstruction of Public Open Areas and Civic Facilities, exclusive of (i) capital expenditures for new construction or equipping of new Civic Facilities or Public Open Areas, (ii) expenses covered by payments due from third parties under all Subleases or other contractual arrangements, and (iii) costs actually reimbursed to the Authority with the proceeds of insurance.

“*Option Bond*” shall mean any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Series Resolution authorizing such Bond or the Series Certificate related to such Bonds.

“*Outstanding*”, when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except (i) any Bonds canceled by the Trustee or any Paying Agent at or prior to such date, (ii) Bonds for the payment or redemption of which monies equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Section 406 or Section 1105 of the General Resolution, (iv) subject to the provisions of a Series Resolution relating to a Series of Bonds, Bonds paid pursuant to Section 1401 of the General Resolution and those Bonds for which payment shall have been deemed to have been paid pursuant to Section 1402 of the General Resolution, and (v) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bonds on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available and set aside for such payment as provided in such Series Resolution, except to the extent such tendered Option Bonds thereafter may be resold pursuant to the terms thereof and of such Series Resolution. The principal component of any Reimbursement Obligation shall be deemed to be Outstanding in a principal amount equal to the principal amount of the obligation then owed by the Authority thereunder in lieu of the related Bond, regardless of the authorized amount of the principal component of such Reimbursement Obligation or the related Bond and provided that, unless otherwise required pursuant to the related Series Resolution, the principal component of such Reimbursement Obligation shall not by itself increase the Outstanding principal amount of Bonds.

“*Parcel*” shall mean a specific portion of the Battery Park Project Area described by metes and bounds or by such other means as shall identify the same with certainty and which shall constitute the subject matter of a demise under a Sublease and the buildings, structures and betterments, if any, erected thereon designed for residential and/or commercial use, exclusive, however, of any portion thereof devoted to public utilities or streets, and including accessory facilities as provided for in the Master Development Plan, exclusive, however, of any portion of the Battery Park Project Area devoted to Public Open Areas or Civic Facilities.

“Participants” shall mean those broker-dealers, banks and other financial institutions for which DTC holds Bonds as securities depository.

“Paying Agent” shall mean any bank or trust company appointed pursuant to the provisions of Section 802 of the General Resolution for payment of principal and Redemption Price of and interest on Bonds.

“Permitted Purposes” shall mean (i) the payment of Project Costs, (ii) the refunding of bonds and notes of the Authority, (iii) the refunding of bonds of the Housing New York Corporation, and (iv) the payment of Junior Payments (to the extent permitted by law).

“Permitted Security” means any of the following:

(i) Defeasance Securities;

(ii) commercial paper that (x) matures within two hundred seventy (270) days after its date of issuance, (y) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (z) is issued by a domestic corporation whose unsecured senior debt is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category; and

(iii) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by Bests Insurance Guide or at least one nationally recognized statistical rating service in the highest rating category.

“Pledged Funds” shall mean the Bond Proceeds Fund, the Pledged Revenue Fund, the Debt Service Fund, the Redemption Fund, the Reserve Fund, and the Subordinated Payments Fund.

“Pledged Revenue Fund” shall mean the Fund so designated which is created in the General Resolution.

“Pledged Sublease Revenues” shall mean all Sublease Rentals (together, to the extent provided in any Supplemental Resolution, with all or any portion of any money, due and payable to the Authority by or for account of a Sublessee pursuant to a Sublease, that does not constitute Sublease Rentals).

“Principal Installments” shall mean, as of any date of calculation and with respect to any Series of Bonds or any Reimbursement Obligation, as applicable, (a) the principal amount of Outstanding Bonds of such Series, due on the dates and in the amounts specified by Series Resolution or Supplemental Resolution, reduced by the principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Resolution of Sinking Fund Installments payable before such dates, plus the unsatisfied balance of any Sinking Fund Installments due on any certain future date for Bonds of such Series, together with such redemption premiums, if any, applicable on any such future date, and (b) with respect to any Reimbursement Obligation, the amount due thereunder on the dates and in the amounts established in accordance with Section 205 of the General Resolution as a principal component of such Reimbursement Obligation payable from the Debt Service Fund in accordance with the General Resolution.

“Project” shall have the meaning ascribed to such term in the Act.

“Project Costs” shall have the meaning ascribed to such term in the Act (including, without limitation, the payment of interest on Bonds).

“Project Operating Fund” shall mean the Fund so designated which is created in the General Resolution.

“Project Operating Fund Requirement” shall mean, as of any date of calculation by the Authority, the amount of money equal to twenty-five percent (25%) of the aggregate Operating Expenses estimated in the annual budget of the Authority for the then-current Fiscal Year.

“Public Open Areas” shall mean those portions of the Battery Park Project Area, exclusive of Civic Facilities, devoted to recreational, cultural or similar public uses as provided for in the Master Development Plan and developed with buildings, structures or betterments erected on the Battery Park Project Area.

“Qualified Financial Institution” shall mean any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as “+” or “-” or numerical

notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as “+” or “-” or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meet the applicable rating requirements set forth above.

“Qualified Swap” shall mean, to the extent from time to time permitted by law, with respect to Bonds, any financial arrangement (i) which is entered into by the Authority with an entity that is a Qualified Swap Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Bonds of the Authority as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Bonds); asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, in each case executed by the Authority for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Bonds or variable interest rate Bonds on a synthetic basis or otherwise, or other similar financial transaction, and (iii) which has been designated in writing to the Trustee by an Authorized Officer of the Authority as a Qualified Swap with respect to such Bonds.

“Qualified Swap Payment” shall mean any regularly scheduled payment required to be made by the Authority under a Qualified Swap, exclusive of: any termination payments or other fees, expenses, indemnification or other obligations to a Qualified Swap Provider, or any payments that represent payment of interest under a Qualified Swap in advance of the payment of interest on the Bonds to which such Qualified Swap relates.

“Qualified Swap Provider” shall mean an entity whose senior long term obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under an interest rate exchange agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated at the time the Qualified Swap is executed without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, at least as high as the third highest rating category by at least two nationally recognized statistical rating services.

“Rating Agencies” shall mean, at any time, the national rating agency or agencies that, at the request of the Authority, shall be rating the Bonds at such time.

“Ratings Confirmation” shall mean written evidence from each of the Rating Agencies that no rating assigned to any Bonds by such Rating Agency will be withdrawn or reduced solely as a result of an action to be taken under the Resolution.

“Real Estate Consultant” shall mean one or more entities at the time retained by the Authority to furnish certificates, opinions or reports to be furnished pursuant to the General Resolution

and may include a different entity furnishing such certificate, opinion or report with respect to any particular area of the Project; provided that each such entity shall be an independent firm or corporation having good and favorable repute for skill and experience with respect to New York City real estate in performing such services.

“Rebate Fund” shall mean the Fund so designated which is created in the General Resolution.

“Record Date” shall have the meaning, with respect to Bonds of a particular Series, set forth in the Series Resolution or Series Certificate relating to such Bonds.

“Redemption Fund” shall mean the Fund so designated which is created in the General Resolution.

“Redemption Price” shall mean, when used with respect to a Bond, the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant hereto or to any applicable Series Resolution or Series Certificate.

“Refunding Bonds” shall mean Bonds issued for the purpose of refunding other Bonds or Reimbursement Obligations, funding related debt service reserves or paying related costs of issuance.

“Reimbursement Obligation” shall have the meaning ascribed to such term in the General Resolution.

“Reserve Fund” shall mean the Fund so designated which is created in the General Resolution.

“Reserve Fund Requirement” shall mean, as of any date of calculation, the sum of the amounts specified for each Series of Bonds, in the applicable Series Resolution for each Series of Outstanding Bonds, as the Series Reserve Requirement.

“Residual Fund” shall mean the Fund so designated which is created in the General Resolution.

“Resolution” shall mean the General Resolution as from time to time modified, amended or supplemented by Supplemental Resolutions adopted in accordance with the terms and provisions hereof.

“Senior Bond” shall mean any Bond that is entitled to payment from the Senior Payments Account in accordance with the General Resolution.

“Senior Payments Account” shall mean the Account so designated which is created in the General Resolution.

“Senior Payments Requirement” shall mean, for any date of calculation in each Bond Year, the aggregate amount of debt service on Senior Bonds and Senior Reimbursement Obligations and Senior Swap Payments that remain scheduled to be paid during such Bond Year. For purposes of calculating the Senior Payments Requirement, the interest rate to be borne by Variable Interest Rate Bonds shall be deemed to be the Maximum Rate therefor.

“Senior Reimbursement Obligation” shall mean any Reimbursement Obligation that is payable from the Senior Payments Account in accordance with the General Resolution.

“Senior Swap Payment” shall mean any Qualified Swap Payment that is payable from the Senior Payments Account in accordance with the General Resolution.

“Serial Bonds” shall mean the Bonds so designated in a Series Resolution or a Series Certificate.

“Series” shall mean all of the Bonds authenticated and delivered on original issuance and pursuant hereto and to any applicable Series Resolution or applicable Series Certificate authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III, Section 406 or Section 1105 of the General Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

“Series Certificate” shall mean a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds in accordance with the delegation of power to do so under the Resolution or under a Series Resolution.

“Series Reserve Requirement” for a Series of Bonds shall have the meaning ascribed to such term in the Series Resolution authorizing the issuance of such Series of Bonds for purposes of calculating the Reserve Fund Requirement.

“Series Resolution” shall mean a resolution, adopted by the Authority pursuant to Article II, authorizing the issuance of a Series of Bonds or the execution of a Qualified Swap.

“Series 2009A Cash Subsidy Payments” shall mean the cash payments, if any, received by the Authority from the United States Treasury with respect to the Series 2009A Bonds under Section 6431 of the Code.

“Sinking Fund Installment” shall mean, as of any date of computation and with respect to Term Bonds, the amount payable for the retirement of such Term Bonds that mature thereafter, but does not include any amount payable only by reason of the maturity of a Bond.

“State” shall mean the State of New York.

“Sublease” shall mean a lease, now or hereafter in effect, of an entire Parcel made by the Authority to a Sublessee, or a lease of all or a portion of a Parcel under which the tenant attorns, as undertenant, to the Authority, as overtenant, following the termination of the Sublease to which such lease was theretofore subject.

“Sublease Rentals” shall mean the money due and payable to the Authority by or for account of a Sublessee pursuant to a Sublease, exclusive of: (i) Civic Facilities Payments and Transaction Payments (each as defined in such Sublease), (ii) payments in lieu of sales taxes thereunder, (iii) (A) in the case of a Sublease of a Non-WFC Parcel, rentals thereunder that are not (1) base rent or land rent payments, (2) supplemental rent payments (which include payments sometimes referred to as incremental rent, supplemental hotel base rent or additional rent), (3) real property tax equivalency payments or (4) payments in lieu of real property taxes and (B) in the case of a Sublease of the World Financial Center, rentals thereunder that are not (1) base rent payments, (2) additional base rent payments, or (3) payments in lieu of real property taxes, and (iv) to the extent that the Authority elects to make any payment required to be made by any Sublessee under a Sublease, sums of money reimbursed to the Authority for such payments.

“Sublessee” shall mean a tenant, its successors and assigns, pursuant to a Sublease.

“Subordinated Payments” shall mean (i) termination payments on any Qualified Swap or Reimbursement Obligation, (ii) any other payments on any Qualified Swap that are not Qualified Swap Payments, and (iii) any other Subordinated Payments so identified in or by reference to the General Resolution or any Supplemental Resolution or Series Certificate.

“Subordinated Payments Fund” shall mean the Fund so designated which is created in the General Resolution.

“Subordinated Payments Requirement” shall mean, for any date of calculation by the Authority in each Bond Year, the aggregate amount of Subordinated Payments that remain scheduled to be paid during such Bond Year.

“Subseries” shall mean the grouping of Bonds of a Series established by the Authority pursuant to the Series Resolution authorizing issuance of the Bonds of such Series or the applicable Series Certificate.

“Supplemental Resolution” shall mean a resolution supplemental to or amendatory of the Resolution adopted by the Authority in accordance with Article X.

“Swap Receipts” shall mean money received by or for the account of the Authority from or on account of a Qualified Swap Provider pursuant to a Qualified Swap.

“Tax Certificate” shall mean such tax certificates, instructions and other documents as may be executed by an Authorized Officer of the Authority in connection with the issuance of Bonds of a Series for the purpose of demonstrating compliance with the provisions of Section 103(a) of the Code.

“Term Bonds” shall mean the Bonds which mature on a single future date and for which Sinking Fund Installments are established and specified by the Resolution.

“Trustee” shall mean the bank or trust company appointed pursuant to the provisions of the General Resolution to act as trustee under the General Resolution, and its successor or successors and any other bank or trust company at any time substituted in its place pursuant to the Resolution.

“Valuation Date” shall mean (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Series Resolution authorizing such Bond or a Series Certificate on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date set forth in the Series Resolution authorizing such Bond or a Series Certificate on which specific Appreciated Values are assigned to such Deferred Income Bond.

“Variable Interest Rate Bonds” shall mean Bonds which bear a variable interest rate but does not include any Bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. The method of computing such variable interest rate shall be specified in the Series Resolution authorizing such Series of Bonds.

“World Financial Center” shall mean all or a portion of the office and retail complex presently known as the World Financial Center, situated at 1, 2, 3 and 4 World Financial Center, New York, New York.

AUTHORIZATION AND ISSUANCE OF BONDS; QUALIFIED SWAPS; CREDIT FACILITIES AND OTHER ARRANGEMENTS

Authorization of Bonds. The General Resolution authorizes the issuance of, pursuant to the Act, Bonds of the Authority to be known and designated as “Battery Park City Authority Revenue Bonds”. (Section 201)

Additional Bonds; Refunding Bonds. (1) The Authority shall not issue any bonds, notes or other evidences of indebtedness, other than the Bonds issued on the Initial Funding Date, secured by any assignment or pledge of or other lien or charge on the Collateral, and shall not create or cause to be created any lien or charge on the Collateral, except as provided below; provided, however, that nothing in the General Resolution shall prevent the Authority from issuing indebtedness payable out of, or secured by a pledge, assignment or other encumbrance of, the Pledged Sublease Revenues to be derived on and after such date as the pledges created by the General Resolution shall be discharged and satisfied as provided below under “DEFEASANCE - Release of Lien of Resolution”. Nothing in the General Resolution shall prevent the Authority from pledging, assigning or otherwise encumbering any revenues or assets of the Authority not constituting Collateral.

(2) The Authority may issue additional Bonds so long as before or simultaneously with each and any such issuance there is delivered to or filed with the Trustee either (i) Ratings Confirmation or (ii) a certificate signed by an Authorized Officer stating that the sum of:

(x) the Pledged Sublease Revenues obtained by the Authority during the Historical Test Period (net of Operating Expenses incurred by the Authority during the Historical Test Period), and

(y) income and earnings received by the Authority during the Historical Test Period from the investment of monies held or to be held in trust for the payment of Bonds (other than monies held in trust for, upon and after the defeasance of any Bonds),

for the Historical Test Period, in the current Fiscal Year and in each future Fiscal Year, to and including the Fiscal Year in which the latest final stated maturity of Bonds then or thereupon to be outstanding shall be scheduled to occur, was or will be a sum at least equal to (i) two hundred per centum (200%) of the sum of Aggregate Debt Service payable from the Senior Payments Account of the Debt Service Fund, and (ii) one hundred fifty-five per centum (155%) of the sum of Aggregate Debt Service.

(3) The Authority may issue Refunding Bonds so long as before or simultaneously with each and any such issuance there is delivered to or filed with the Trustee either (i) Ratings Confirmation or (ii) a certificate signed by an Authorized Officer confirming that for the then current and each future Fiscal Year, to and including the Fiscal Year in which the date of the latest final maturity of outstanding Bonds (including such Refunding Bonds) then or thereupon to be outstanding shall be scheduled to occur, the amount by which the sum of:

(x) the Pledged Sublease Revenues obtained (net of Operating Expenses actually incurred) or estimated by the Authority (based upon a report of a Real Estate Consultant, which report shall be dated within 60 days prior to the date of such pledge, assignment or other encumbrance) to be obtainable (net of Operating Expenses estimated by the Authority to be incurred), and

(y) income and earnings estimated by the Authority to be received (such estimate to be certified in writing by an Authorized Officer and a duly authorized officer of each other issuer, respectively) from the investment of monies held or to be held in trust for the payment of Bonds (other than monies held in trust for, upon and after the defeasance of any Bonds),

shall exceed Aggregate Debt Service, will not be reduced (or, in case the sum of items (x) and (y) is less than Aggregate Debt Service, that the amount of such deficit will not be increased) as a result of the issuance of such Refunding Bonds. (Section 204)

Credit Facilities; Qualified Swaps; Other Arrangements. (1) The Authority may include such provisions in a Series Resolution or related Series Certificate authorizing the issuance of a Series of Bonds secured by a Credit Facility as the Authority deems appropriate, including:

(a) So long as the Credit Facility is in full force and effect, and payment on the Credit Facility is not in default and the provider of the Credit Facility is legally qualified to do business in the State, and (x) no proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in respect of the provider of the Credit Facility in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) for the provider of the Credit Facility or for any substantial part of its property or for the winding up or liquidation of the affairs of the provider of the Credit Facility and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) days or such court shall enter a decree or order granting the relief sought in such proceeding, or (y) the provider of the Credit Facility shall not have commenced a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall not have consented to the entry of an order for relief in an involuntary case under any such law, or shall not have consented to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) for the provider of the Credit Facility or for any substantial part of its property, or shall not have made a general assignment for the benefit of creditors, or shall not have failed generally to pay its debts as they become due, or shall not have taken any corporate action with respect to any of the foregoing, then, in all such events, the provider of the Credit Facility shall be deemed to be the sole Holder of the Outstanding Bonds the payment of which such Credit Facility secures when the approval, consent or action of the Bondholders for such Bonds is required or may be exercised under the Resolution, including, without limitation, Articles X and XI of the General Resolution, and following a default under Article XII of the General Resolution, except where the Credit Facilities provide only liquidity support and not credit support.

(b) In the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and interest due on any Bonds Outstanding, or the purchase price of puts in connection with such Bonds, shall be paid under the provisions of a Credit Facility, all covenants, agreements and other obligations of the Authority to the Bondholders of such Bonds shall continue to exist and such provider of the Credit Facility shall be subrogated to the rights of such Bondholders in accordance with the terms of such Credit Facility.

(2) In addition, such Series Resolution or related Series Certificate may establish such provisions as are necessary (i) to comply with the provisions of each such Credit Facility, (ii) to provide relevant information to the provider of the Credit Facility, (iii) to provide a mechanism for paying Principal Installments and interest on such Series of Bonds under the Credit Facility, and (iv) to make provision for any Events of Default or for additional or improved security required by the provider of a Credit Facility.

(3) In connection therewith the Authority may enter into such agreements with the issuer of such Credit Facility providing for, inter alia: (i) the payment of fees and expenses to such provider for the issuance of such Credit Facility; (ii) the terms and conditions of such Credit Facility and the Series of Bonds affected thereby; and (iii) the security, if any, to be provided for the issuance of such Credit Facility.

(4) The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Series Resolution. The Authority may also in an agreement with the provider of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the “Reimbursement Obligation”) solely from Collateral; provided, however, that no Reimbursement Obligation shall be created, for purposes of the Resolution, until amounts are paid under such Credit Facility. Any such Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bond, may be secured by a pledge of, and a lien on, the Collateral on a parity with the lien created by the General Resolution, but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration. Any Reimbursement Obligation conforming with the provisions of the previous sentence shall be deemed a “Senior Reimbursement Obligation” if payable from the Senior Payments Account of the Debt Service Fund in accordance with the provisions summarized under “ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATION THEREOF- Debt Service Fund”, or a “Junior Reimbursement” if payable from the Junior Payments Account of the Debt Service Fund in accordance with the provisions summarized under “ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATION THEREOF - Debt Service Fund”, as the case may be. Senior Reimbursement Obligations and Junior Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, or any payments pursuant to term loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds. Senior Reimbursement Obligations and Junior Reimbursement Obligations may be evidenced by Bonds designated as “Bank Bonds.” Any such Senior Reimbursement Obligation or Junior Reimbursement Obligation shall be deemed to be a part of the Series of Bonds to which the Credit Facility which gave rise to such Reimbursement Obligation relates.

(5) Any such Credit Facility may be for the benefit of and secure one or more Series of Bonds or portions thereof as specified in the applicable Series Resolution.

(6) In connection with the issuance of a Series of Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the Authority also may enter into Qualified Swaps or, to the extent from time to time permitted pursuant to law, other similar arrangements if the Authority determines that such Qualified Swaps or other similar arrangements will assist the Authority in more effectively managing its interest costs. To the extent provided in a Series Resolution or related Series Certificate, the Authority’s obligation to pay Qualified Swap Payments under any Qualified Swap may be secured by a pledge of, and a lien on, the Senior Payments Account of the Debt Service Fund, and any Qualified Swap Payments so secured shall be deemed “Senior Swap Payments.” To the extent provided in a Series Resolution or related Series Certificate, the Authority’s obligation to pay Qualified Swap Payments under any Qualified Swap may be secured by a pledge of, and a lien on, the Junior Payments Account of the Debt Service Fund, and any Qualified Swap Payments so secured shall be deemed “Junior Swap Payments.”

(7) Reimbursement Obligations shall not be a debt of the State or of the City and neither the State nor the City shall be liable thereon, nor shall Reimbursement Obligations be payable out of any funds other than those of the Authority pledged therefor pursuant to the Resolution.

(8) Qualified Swap Payments shall not be a debt of the State or of the City and neither the State nor the City shall be liable thereon, nor shall Qualified Swap Payments be payable out of any funds other than those of the Authority pledged therefor pursuant to the Resolution.

Subordinated Payments shall not be a debt of the State or of the City and neither the State nor the City shall be liable thereon, nor shall Subordinated Payments be payable out of any funds other than those of the Authority pledged therefor pursuant to the Resolution. (Section 205)

CUSTODY AND APPLICATION OF CERTAIN PROCEEDS OF BONDS

Establishment of Bond Proceeds Fund. A special trust fund, which shall be deposited with and held by the Trustee, is created and established by the General Resolution and designated as the “Bond Proceeds Fund. Monies so deposited in the Bond Proceeds Fund shall be used by the Authority for any Permitted Purposes and for the payment of Costs of Issuance. (Section 501)

Lien of Bondholders. Subject to the provisions of the General Resolution summarized under “THE TRUSTEE AND THE PAYING AGENTS - Compensation” below, the proceeds of the Bonds and any other monies deposited to the credit of the Bond Proceeds Fund, together with interest earned and monies received on obligations purchased as an investment of such monies and any profit realized from the sale of such obligations, shall be held in trust and applied only to Permitted Purposes and the payment of Costs of Issuance in accordance with the provisions summarized under “CUSTODY AND APPLICATION OF CERTAIN PROCEEDS OF BONDS” and are assigned to and pledged to the Trustee, pending such application, for the benefit of the Holders of Bonds for the security of the payment of the principal of and interest on Bonds and shall at all times be subject to the lien of such assignment and pledge until paid out or transferred. (Section 502)

Retention and Inspection of Documents. All requisitions and certificates received by the Trustee, as conditions of payment from the Bond Proceeds Fund, may be relied upon by and shall be retained in the possession of the Trustee, subject at all times during normal business hours to the inspection of the Authority and Bondholders and their agents and representatives. (Section 504)

Reports. At least once in each calendar month while monies are on deposit in the Bond Proceeds Fund, the Authority shall require a report to be made by an officer or employee of the Trustee on behalf of the Trustee covering all receipts and monies then on deposit with the Trustee, in the name of the Trustee or the Authority, in the Bond Proceeds Fund and any security specifically pledged or provided therefor, any investment thereof, and all expenditures and disbursements made from the Bond Proceeds Fund. (Section 505)

Transfer of Surplus from Bond Proceeds Fund. The Authority covenants that, promptly after the payment of all Project Costs, it will deliver to the Trustee a certificate signed by an Authorized Officer stating same. Upon receipt of such certificate, the Trustee shall forthwith transfer from the Bond Proceeds Fund the balance of the monies, if any, remaining in the Bond Proceeds Fund in the following order: (a) into the Reserve Fund in such amount, if any, as shall be necessary to increase the amount in said Fund to the Reserve Fund Requirement, and (b) into the Redemption Fund to the full extent of the remainder for the purchase or redemption of Bonds. Notwithstanding the foregoing, upon giving notice of the occurrence of an Event of Default pursuant to Section 1211 of the General Resolution described below, the Trustee shall transfer all amounts on deposit in the Bond Proceeds Fund to the Pledged Revenue Fund for application in accordance with the General Resolution. (Section 506)

ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATION THEREOF

Pledge. The Pledged Sublease Revenues, Swap Receipts, Condemnation Proceeds, all monies in the Pledged Funds, the investments thereof and the proceeds of such investments, are pledged for the payment of the principal and Redemption Price of and interest on the Bonds, Senior Reimbursement Obligations, Junior Reimbursement Obligations, Senior Swap Payments, Junior Swap Payments and Subordinated Payments, all in accordance with the terms and provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. This pledge shall be valid and binding from and after the date of adoption of the General Resolution, and the Pledged Sublease Revenues, Swap Receipts, Condemnation Proceeds, all monies in the Pledged Funds, the investments thereof and the proceeds of such investments pledged (collectively, the “Collateral”) shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof. (Section 601)

Establishment of Funds and Accounts. The following special Funds and Accounts shall be established and maintained pursuant to the provisions of the Resolution:

- (1) Pledged Revenue Fund;
- (2) Project Operating Fund;
- (3) Debt Service Fund, and therein:
 - (a) Senior Payments Account, and
 - (b) Junior Payments Account;
- (4) Redemption Fund;
- (5) Reserve Fund;
- (6) Subordinated Payments Fund;
- (7) Rebate Fund; and
- (8) Residual Fund.

The Authority may, in any Supplemental Resolution, create and establish such additional Funds or Accounts or such sub-Funds or sub-Accounts as it shall determine to be necessary or desirable and may, in such Supplemental Resolution, provide for the pledge, assignment or grant (if any) of such Funds and Accounts not inconsistent with the other provisions summarized under the heading “ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATION THEREOF”. The Trustee may establish such additional Funds or Accounts or such other sub-Funds or sub-Accounts as it shall determine to be necessary. (Section 602)

Pledged Revenue Fund. (1) There is created and established a “Pledged Revenue Fund”, which shall be held by the Trustee. The Authority obligates and binds itself irrevocably to pay, or cause to be paid, to the Trustee all Pledged Sublease Revenues and Swap Receipts as and when actually received by or for the account of the Authority. Monies, including interest earned or other sums received on obligations purchased as an investment of such monies and any profit realized from the sale of such

obligations, from time to time in the Pledged Revenue Fund (including monies or the proceeds of any property other than the Pledged Sublease Revenues that may be pledged pursuant to the Resolution and that may be deposited to the credit of the Pledged Revenue Fund) shall be paid out and applied for the uses and purposes for which the same are pledged by the provisions of the Resolution, in the manner provided in the Resolution.

(2) Subject to paragraph (4) below, once a month on any day within the first five Business Days of each calendar month, monies in the Pledged Revenue Fund shall be disbursed and applied by the Trustee, in the following order, subject to the provisions of the Resolution:

(a) FIRST, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Project Operating Fund the sum, if any, necessary to increase the amount in the Project Operating Fund so that it equals the Project Operating Fund Requirement;

(b) SECOND, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Senior Payments Account of the Debt Service Fund the sum, if any, necessary to increase the amount in the Senior Payments Account so that it equals the Senior Payments Requirement;

(c) THIRD, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Junior Payments Account of the Debt Service Fund the sum, if any, necessary to increase the amount in the Junior Payments Account so that it equals the Junior Payments Requirement;

(d) FOURTH, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Reserve Fund the sum, if any, necessary to increase the amount in the Reserve Fund so that it equals the Reserve Fund Requirement; and

(e) FIFTH, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Subordinated Payments Fund the sum, if any, necessary to increase the amount in the Subordinated Payments Fund so that it equals the Subordinated Payments Requirement.

(3) In accordance with written directions from the Authority signed by an Authorized Officer, the Trustee shall from time to time apportion and set apart out of the Pledged Revenue Fund and deposit in the Rebate Fund for the purpose of making payments to the United States in accordance with the provisions summarized under the subheading "*Rebate Fund*" below.

(4) As of each November 1, prior to any disbursement from the Pledged Revenue Fund to be made during such calendar month pursuant to the second preceding paragraph above: (a) *first*, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Senior Payments Account of the Debt Service Fund the sum, if any, designated in writing to the Trustee by an Authorized Officer of the Authority as being necessary, together with other amounts expected to be available pursuant to paragraph (2)(b) above, to make all payments scheduled to be made from the Senior Payments Account pursuant to paragraph (2) of the Section entitled "Debt Service Fund" during the next three (3) calendar months; (b) *second*, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Junior Payments Account of the Debt Service Fund the sum, if any, designated in writing to the Trustee by an Authorized Officer of the Authority as being necessary, together with other amounts expected to be available pursuant to paragraph (2)(c) above, to make all payments scheduled to be made from the Junior Payments Account pursuant to paragraph (3) of the Section entitled "Debt Service Fund" below during the next five (5) calendar months; (c) *third*, the

Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Subordinated Payments Fund the sum, if any, designated in writing to the Trustee by an Authorized Officer of the Authority as being necessary, together with other amounts expected to be available pursuant to paragraph (2)(e) above, to make all payments scheduled to be made from the Subordinated Payments Fund pursuant to paragraph (2) of the Section entitled "Subordinated Payments Fund" below during the next five (5) calendar months; and (d) *fourth*, the Trustee shall apportion and set apart out of the Pledged Revenue Fund and deposit in the Residual Fund the balance of funds on deposit in the Pledged Revenue Fund. (Section 603)

Debt Service Fund. (1) There is created and established a "Debt Service Fund" which shall be held by the Trustee and which shall be used solely for the purposes of paying the principal and Redemption Price of and interest on the Bonds and of retiring Bonds at or prior to maturity in the manner provided herein. Immediately upon the issuance, sale and delivery of the Bonds, the Authority shall pay into the Debt Service Fund the amount, if any, received from such sale as accrued interest on the Bonds. The Authority obligates and binds itself irrevocably to pay, or cause to be paid, into the Debt Service Fund all monies withdrawn (a) from the Pledged Revenue Fund for the purposes of the Debt Service Fund pursuant to the provisions of paragraphs (2) and (4) of the Section entitled "Pledged Revenue Fund" above and (b) from the Reserve Fund for the purposes of the Debt Service Fund and (c) from the Bond Proceeds Fund for purposes of paying interest on Bonds in accordance with the provisions of Article V and pursuant to a Series Resolution. Within the Debt Service Fund there are created and established the following Accounts: (a) Senior Payments Account, and (b) Junior Payments Account.

(2) The Senior Payments Account shall be drawn upon for the sole purposes of (i) paying interest on Senior Bonds when due and payable, (ii) paying principal of Senior Bonds when due and payable at maturity, (iii) paying into the Redemption Fund the Sinking Fund Installments on Senior Bonds when due, (iv) paying Senior Reimbursement Obligations when due, and (v) paying Senior Swap Payments when due. The Trustee shall pay out of the Senior Payments Account to the Paying Agents, on each principal or interest payment date for any Senior Bonds, the amounts respectively required for the payment on such date of interest on the Senior Bonds and principal of the Senior Bonds maturing on such date, and such amounts shall be applied by the Paying Agents to such payments. The Trustee shall also withdraw from the Senior Payments Account and deposit in the Redemption Fund the amount of each Sinking Fund Installment for the Senior Bonds on or before the corresponding redemption date. The Trustee shall also pay out of the Senior Payments Account to the appropriate Paying Agents, prior to the redemption date for any Senior Bonds, the amount required for the payment of interest on the Senior Bonds then to be redeemed, and such amount shall be applied by such Paying Agents to such payment. The Trustee shall also pay out of the Senior Payments Account to the appropriate Beneficiary the amount of Senior Reimbursement Obligations then due to be paid to such Beneficiary. The Trustee shall also pay out of the Senior Payments Account to the appropriate Beneficiary the Senior Swap Payments then due to be paid to such Beneficiary. Monies set aside from time to time with the Trustee and Paying Agents for the payment of such interest, principal, Redemption Price, Senior Reimbursement Obligation or Senior Swap Payment shall be held in trust for the Holders of the Bonds or other Beneficiaries in respect of which the same shall have been so set aside. If, at any time, the amount in the Senior Payments Account is in excess of the Senior Payments Requirement, the Trustee shall, upon the written direction of an Authorized Officer, withdraw such excess therefrom and deposit the same in the Pledged Revenue Fund. On the last Business Day of each October, the Trustee shall, upon the written direction of an Authorized Officer, withdraw from the Senior Payments Account and deposit in the Pledged Revenue Fund the excess, if any, of the amount then in the Senior Payments Account over the Senior Payments Requirement.

(3) The Junior Payments Account shall be drawn upon for the sole purposes of (i) paying interest on Junior Bonds when due and payable, (ii) paying principal of Junior Bonds when due and payable at maturity, (iii) paying into the Redemption Fund the Sinking Fund Installments on Junior Bonds when due, (iv) paying Junior Reimbursement Obligations when due, and (v) paying Junior Swap Payments when due. The Trustee shall pay out of the Junior Payments Account to the Paying Agents, on each principal or interest payment date for any Junior Bonds, the amounts respectively required for the payment on such date of interest on the Junior Bonds and principal of the Junior Bonds maturing on such date, and such amounts shall be applied by the Paying Agents to such payments. The Trustee shall also withdraw from the Junior Payments Account and deposit in the Redemption Fund the amount of each Sinking Fund Installment for the Junior Bonds on or before the corresponding redemption date. The Trustee shall also pay out of the Junior Payments Account to the appropriate Paying Agents, prior to the redemption date for any Junior Bonds, the amount required for the payment of interest on the Junior Bonds then to be redeemed, and such amount shall be applied by such Paying Agents to such payment. The Trustee shall also pay out of the Junior Payments Account to the appropriate Beneficiary the amount of Junior Reimbursement Obligations then due to be paid to such Beneficiary. The Trustee shall also pay out of the Junior Payments Account to the appropriate Beneficiary the Junior Swap Payments then due to be paid to such Beneficiary. Monies set aside from time to time with the Trustee and Paying Agents for the payment of such interest, principal, Redemption Price, Junior Reimbursement Obligation or Junior Swap Payment shall be held in trust for the Holders of the Bonds or other Beneficiaries in respect of which the same shall have been so set aside. If, at any time, the amount in the Junior Payments Account is in excess of the Junior Payments Requirement, the Trustee shall, upon the written direction of an Authorized Officer, withdraw such excess therefrom and deposit the same in the Pledged Revenue Fund. On the last Business Day of each October, the Trustee shall, upon the written direction of an Authorized Officer, withdraw from the Junior Payments Account and deposit in the Pledged Revenue Fund the excess, if any, of the amount then in the Junior Payments Account over the Junior Payments Requirement.

(4) If on any date there shall be a deficiency of funds in any Account in the Debt Service Fund to meet any payment or withdrawal on said date directed by paragraph (2) or (3) above, the Trustee shall withdraw from the Reserve Fund any available monies necessary for the purpose and pay the same in the following order: (a) *first*, into the Senior Payments Account in such amount as shall be necessary to make up any such deficiency therein, and ratably in proportion to the respective amounts of such deficiencies, and (b) *second*, into the Junior Payments Account in such amount as shall be necessary to make up any such deficiency therein, and ratably in proportion to the respective amounts of such deficiencies. If after such transfer of available monies from the Reserve Fund to the Senior Payments Account or the Junior Payments Account, as the case may be, there shall remain a deficiency of funds in any Account in the Debt Service Fund to meet any payment or withdrawal on said date directed by paragraph (2) or (3) above, then the monies in such deficient Account shall be applied to the payments or withdrawals therefrom on such date ratably in proportion to the respective full amounts of such payments and withdrawals due on such date. (Section 604)

Redemption Fund. (1) There is created and established a "Redemption Fund" which shall be held by the Trustee. The Trustee shall establish and maintain in the Redemption Fund a separate account for the Term Bonds of each Series, if any, into which the amounts to be deposited in the Redemption Fund in accordance with paragraph (2) or (3) of the Section entitled "Debt Service Fund" summarized above shall be segregated and set aside by the Trustee. The Trustee shall apply monies in each such account to the purchase or the redemption of the Term Bonds for which such account is maintained as described below or to the payment of the principal thereof at maturity. If at any date there shall be monies in any such account and

there shall be Outstanding no Term Bonds for which such account was established, said monies shall be withdrawn from said account and paid into the Pledged Revenue Fund.

(2) In connection with each Sinking Fund Installment required for Term Bonds, the Authority shall give written notice signed by an Authorized Officer to the Trustee of the date and amount of such Sinking Fund Installment as so specified, the maturity and interest rate of the Term Bonds entitled to such Sinking Fund Installment, and the principal amount of such Term Bonds to be redeemed out of such Sinking Fund Installment. Such notice shall be given at least forty-five (45) days prior to the date of such Payment or at such later time as shall be provided in a Series Resolution or otherwise as shall be acceptable to the Trustee. After receipt of such notice, the Trustee shall call for redemption on the date of such Sinking Fund Installment such principal amount of said Term Bonds; provided, however, that the amount of such Sinking Fund Installment shall be deemed to be reduced by the amount of the aggregate principal amount of any of the Term Bonds entitled to such Sinking Fund Installment that shall previously have been purchased by the Trustee pursuant to this section by application of monies deposited in the Redemption Fund on account of such Sinking Fund Installment pursuant to paragraph (2) or (3) of the section "Debt Service Fund" summarized above. The Trustee shall, on or prior to the date of such Sinking Fund Installment, out of the account for said Term Bonds maintained in the Redemption Fund pursuant to paragraph (1) above, pay or cause to be paid to the appropriate Paying Agent or Paying Agents an amount in cash, which, in addition to other monies, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem at the date of such Sinking Fund Installment, at the Redemption Price thereof, all of the Term Bonds which are to be redeemed out of such Sinking Fund Installment, and the Paying Agent or Paying Agents shall apply such amounts to the payment of such Redemption Price on and after such date.

(3) The amounts paid into the Redemption Fund in accordance with the provisions set forth under "Transfer of Surplus from Bond Proceeds Fund", or in accordance with paragraph (3) under "DEFEASANCE – Payment and Discharge of Bonds" below, if any, shall be applied by the Trustee to the purchase or the redemption of any of the Bonds Outstanding or to the payment of the principal thereof at maturity.

(4) The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond plus accrued interest thereon. Subject to the limitations hereinabove set forth or referred to above, the Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as the Authority shall so direct. All Bonds so purchased shall be canceled by the Trustee and not be redelivered. (Section 605)

Reserve Fund. (1) There is created and established a "Reserve Fund" which shall be held by the Trustee. The Authority shall pay over to the Trustee for deposit in the Reserve Fund (a) proceeds of sale of Bonds pursuant to the provisions of a Series Resolution, and (b) any other monies which may be made available to the Authority only for the purposes of the Reserve Fund from any other source or sources, and the Trustee shall deposit in the Reserve Fund all monies authorized to be transferred thereto from the Pledged Revenue Fund.

(2) Monies and securities held for the credit of the Reserve Fund shall be transferred by the Trustee to the Debt Service Fund at the times and in the amounts required to comply with the provisions summarized in paragraph (4) under "Debt Service Fund" above.

(3) If, at any time, the monies and securities in the Reserve Fund are in excess of the Reserve Fund Requirement, the Trustee shall, upon the written direction of an

Authorized Officer, withdraw such excess therefrom and deposit the same in the Pledged Revenue Fund.

(4) With Ratings Confirmation, and subject to the provisions of any Supplemental Resolution, the Reserve Fund may be funded by the Authority in whole or in part through delivery of Cash Equivalents to be held by the Trustee for the credit of the Reserve Fund, so long as prior to each such delivery the Trustee and the Authority receive an opinion of bond counsel for the Authority to the effect that the proposed funding with Cash Equivalents will not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes. In connection with any provision of the Resolution concerning money, amounts or securities in the Reserve Fund, such terms shall be deemed to include such permitted Cash Equivalents. (Section 606)

Subordinated Payments Fund. (1) There is created and established a "Subordinated Payments Fund" which shall be held by the Trustee and which shall be used solely for the purposes of paying Subordinated Payments in the manner provided herein. The Authority obligates and binds itself irrevocably to pay, or cause to be paid, into the Subordinated Payments Fund all monies withdrawn from the Pledged Revenue Fund for the purposes of the Subordinated Payments Fund pursuant to the provisions summarized in paragraph (2) under "Pledged Revenue Fund" above and in accordance with the agreements, arrangements or obligations pursuant to which such Subordinated Payments may be or become due.

(2) The Subordinated Payments Fund shall be drawn upon for the sole purpose of paying Subordinated Payments when due and payable. The Trustee shall pay out of the Subordinated Payments Fund to the appropriate Beneficiary the amount required for the payment of Subordinated Payments then due to be paid to such Beneficiary.

(3) If, at any time, the monies and securities in the Subordinated Payments Fund are in excess of the Subordinated Payments Requirement, the Trustee shall, upon the written direction of an Authorized Officer, withdraw such excess therefrom and deposit the same in the Pledged Revenue Fund. (Section 607)

Rebate Fund. (1) There is created and established a "Rebate Fund" which shall be held by the Trustee and which shall be used solely for the purposes and in the manner provided herein. Amounts held for the credit of the Rebate Fund shall not constitute Collateral. No Bondholder or other Beneficiary shall have any rights in or claim to such money in the Rebate Fund. The Trustee shall transfer to the Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in the Pledged Revenue Fund at such times and in such amounts as shall be set forth in such directions. The Authority may withdraw from the Bond Proceeds Fund and pay to the Trustee for deposit to the Rebate Fund, such amounts as shall be determined by the Authority to be necessary to comply with the Code.

(2) Monies on deposit in the Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be paid or rebated to the United States of America.

(3) If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Series of Bonds and direct the Trustee (i) to transfer from the Pledged Revenue Fund or the Bond Proceeds Fund and deposit to the Rebate Fund all or a portion of the Excess Earnings with respect to each Series of Bonds, and (ii) to pay out of the

Rebate Fund to the United States of America the amount, if any, required by the Code to be paid or rebated thereto.

(4) If, at any time, the monies and securities in the Rebate Fund are in excess of the amount required by the Code to be paid or rebated to the United States, as evidenced by a certificate signed by an Authorized Officer, the Trustee shall, upon the written direction of an Authorized Officer, withdraw such excess therefrom and deposit the same in the Pledged Revenue Fund. (Section 608)

Residual Fund. There is created and established a “Residual Fund”, which shall be held by the Trustee and into which shall be deposited by the Trustee monies transferred from the Pledged Revenue Fund pursuant to the provisions summarized under “Pledged Revenue Fund” above. Amounts held for the credit of the Residual Fund shall not constitute Collateral. No Bondholder or other Beneficiary shall have any rights in or claim to such money in the Residual Fund. Monies held for the credit of the Residual Fund may be withdrawn at any time by the Authority and applied by the Authority to any of its lawful corporate purposes. (Section 609)

Project Operating Fund. There is created and established a “Project Operating Fund”, which shall be held by the Trustee and into which shall be deposited by the Trustee monies transferred from the Pledged Revenue Fund pursuant to the provisions summarized under “Pledged Revenue Fund” above, and monies to be deposited therein pursuant to a Supplemental Resolution. Amounts held for the credit of the Project Operating Fund shall not constitute Collateral. No Bondholder or other Beneficiary shall have any rights in or claim to such money in the Project Operating Fund. Monies at any time held for the credit of the Project Operating Fund may be withdrawn by the Authority from time to time for and applied to the payment of Operating Expenses of the Authority. (Section 610)

SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Security for Deposits. It shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any monies with them held in trust for the payment of the principal or Redemption Price of or interest on any Bonds or in the Bond Proceeds Fund. (Section 701)

Investment of Funds and Accounts. Upon the deposit of the proceeds of Bonds in the manner hereinabove prescribed in the Bond Proceeds Fund, the Authority shall furnish the Trustee with a schedule of dates on which it is estimated by the Authority that such monies in said Fund will be required to be expended for Permitted Purposes or to pay Costs of Issuance. The Authority may from time to time amend the schedule so furnished. Upon receipt of such schedule or amended schedule, the Trustee shall invest and reinvest, at the direction of the Authority, in Investment Obligations, the monies in said Fund so that the maturity date or date of redemption at the option of the holder of such Obligations shall coincide as nearly as practicable with the times at which monies are needed by the Authority to be so expended. Any investment in Investment Obligations may be made in the form of an entry made on the records of the issuer of the particular obligations or of a recognized securities depository. Any such investment herein authorized is subject to the condition that no portion of the proceeds derived from the sale of the Bonds shall be used, directly or indirectly, in such manner as to cause any Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code. The Investment Obligations purchased shall be held by the Trustee and shall be deemed at all times to be part of the Bond Proceeds Fund, and the Trustee shall, on a monthly basis or more frequently upon the reasonable request of the Authority,

keep the Authority advised as to the details of all investments held by it for the credit of the Bond Proceeds Fund.

Monies in the Pledged Revenue Fund shall be invested by the Trustee at the written direction of the Authority in Investment Obligations the maturity or redemption date at the option of the holder of which shall coincide as nearly as practicable with and shall not exceed the times at which monies in said Fund will be required for the purposes in the Resolution provided.

Monies in any Account in the Debt Service Fund shall be invested by the Trustee at the written direction of the Authority in Investment Obligations the maturity or redemption date at the option of the holder of which shall coincide as nearly as practicable with and shall not exceed the times at which monies in said Account will be required for the purposes in the Resolution provided.

Monies in the Reserve Fund shall be invested by the Trustee at the written direction of the Authority in Investment Obligations or as permitted under the provisions summarized under paragraph (4) of "ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATION THEREOF - Reserve Fund".

To the extent permitted or authorized by the Act, in lieu of the investment of monies in Investment Obligations as authorized in this Section, the Trustee shall, upon written direction of the Authority confirmed in writing by an Authorized Officer, deposit monies held by it under the Resolution in interest-bearing time deposits, or interest bearing notes, make repurchase agreements, reverse repurchase agreements or investment agreements or make other similar banking arrangements or make such other investment arrangements involving Investment Obligations or other obligations which permit the Authority to make the certification required in clause (i) below, with the financial institution acting as Trustee or with any other bank, trust company, national banking association or Bank Holding Company in the United States, or with any surety or insurance company, or any other public or private corporation or make repurchase or reverse repurchase agreements involving Investment Obligations, with any government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York and having capital aggregating at least fifty million dollars (\$50,000,000); provided that upon the making of such deposit, agreement or arrangement the Authority shall certify in writing to the Trustee (i) that each such interest-bearing time deposit, interest-bearing note, repurchase agreement, reverse repurchase agreement, investment agreement or other similar banking arrangement or other investment arrangement involving Investment Obligations or other obligations shall permit the full principal amount of the monies so placed together with the investment income agreed to be paid to be available, without penalty, for use, as provided in paragraph (1) above, at the times provided with respect to the investment or reinvestment of such monies and (ii) that (x) the entity with which such interest-bearing time deposit, interest-bearing note, repurchase agreement, reverse repurchase or investment agreement, or other similar banking arrangement or other investment arrangement involving Investment Obligations or other obligations is made must be an entity certain of whose unsecured or unc�탑erized long-term debt obligations are assigned to a rating category which is equal to or higher than the rating category to which the Bonds are assigned by each of the Rating Agencies at the time of the making of such investment or, to the extent applicable, if such entity is the lead bank of a Bank Holding Company, such Bank Holding Company's unsecured or unc�탑erized long-term debt obligations are assigned to a rating category which is equal to or higher than the rating category which the Bonds are assigned by each of the Rating Agencies or (y) to the extent approved by each of the Rating Agencies, the performance of the entity with which such interest-bearing time deposit, or interest bearing notes, repurchase agreement, reverse repurchase agreement or investment agreement, or other similar banking arrangement or other investment arrangement involving Investment Obligations or other obligations is made must be guaranteed by an entity referred to in (x) above or (z) such interest-bearing time deposit, interest-bearing note, repurchase agreement, reverse repurchase agreement, or other investment agreement, or other similar banking arrangement or investment arrangement is secured by contracts, arrangements or surety

bonds with or from an entity certain of whose unsecured or uncollateralized long-term debt obligations are assigned to a rating category which is equal to or higher than the rating category which the Bonds are assigned by each of the Rating Agencies at the time of the making of such investment. In addition, the applicable short-term (rather than long-term) rating category of an entity described above may be utilized in satisfying the requirements of this Section if an Authorized Officer certifies to the Trustee in connection with an investment, as to which certificate the Trustee may conclusively rely in making such investment, that (1) the use of such short-term rating category has been approved by each of the Rating Agencies and such short-term rating category is at least equivalent to the rating category which the Bonds are assigned by each of the Rating Agencies, (2) any such investment made with such entity shall be made in accordance with the terms and conditions, including term thereof, specified in the approval of the Rating Agencies (which may, to the extent applicable, mean that there is with respect to such entity a long-term rating which is equal to or higher than the rating category which the Bonds are assigned by such Rating Agency at the time of the making of such investment) and (3) the investment made with such entity would not cause, either directly or indirectly, any Rating Agency to lower the rating category which the Bonds are assigned immediately prior to such proposed investment. The Authority shall require the valuation of the obligations (which valuations may be performed by the Trustee), if any, securing such interest-bearing deposits, repurchase or reverse repurchase agreement or other similar banking arrangement not less than once each week. For the purposes of this paragraph, the term "Bank Holding Company" shall mean a corporation that is subject to registration with the Board of Governors of the Federal Reserve System pursuant to the requirements of the Bank Holding Company Act of 1956, as amended.

Monies in the Redemption Fund shall be invested by the Trustee upon the written direction of the Authority in writing signed by an Authorized Officer (which direction shall specify the amount thereof to be so invested, and the Authority, in issuing such direction, shall take into consideration the dates and times when monies in said Fund will be required for the purposes of the Resolution) authorizing such investment in such Defeasance Securities as the Authority may approve.

Obligations purchased as an investment of monies in any Fund or Account held by the Trustee under the provisions of the Resolution, and the interest earned on obligations purchased as an investment of such monies and any profit realized from the sale of such obligations, shall be deemed at all times to be a part of such Fund or Account and any losses realized from the sale of such obligations shall be charged thereto.

In computing the amount at any time in any Fund or Account held by the Trustee under the provisions of the Resolution, obligations purchased as an investment of monies therein shall be valued at par, or if purchased at less than par, at their cost to the Authority, plus the interest on such obligations accrued to said date.

At the direction of the Authority, the Trustee shall sell, or present for redemption, any obligations purchased by it as an investment whenever it shall be necessary in order to provide monies to meet any payment or transfer from the Fund or Account for which such investment was made. The Trustee shall advise the Authority in writing, on or before the tenth day of each calendar month, of the details of all investments held for the credit of each Fund and Account in its custody under the provisions of the Resolution as of the end of the preceding month.

The Trustee shall promptly immediately confirm to the Authority, in writing, the completion of any investment or reinvestment of amounts in any Fund or Account in the custody of the Trustee under the General Resolution. (Section 702)

Liability of Trustee for Investments. The Trustee shall not be liable or responsible for the making of any investment authorized by the provisions summarized under “Investment of Funds and Accounts” above, in the manner summarized under “SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS”, or for any loss resulting from any such investment so made, or for compliance with Section 148 of the Code, except as summarized under “THE TRUSTEE AND THE PAYING AGENT – Responsibility.” (Section 703)

THE TRUSTEE AND THE PAYING AGENTS

Responsibility of Trustee and Paying Agents. The recitals of fact in the Bonds contained shall be taken as the statements of the Authority and neither the Trustee nor any Paying Agent assumes any responsibility for the correctness of the same. Neither the Trustee nor any Paying Agent shall be deemed to make any representations as to the validity or sufficiency of the Resolution or of any Bonds or in respect of the security afforded by the Resolution, and neither the Trustee nor any Paying Agent shall incur any responsibility in respect thereof. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of any monies paid to the Authority. Neither the Trustee nor any Paying Agent shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own monies, unless properly indemnified. Neither the Trustee nor any Paying Agent shall be liable in connection with the performance of its duties under the Resolution except for its own negligence or willful misconduct. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any monies paid to any one of the others. Except during the continuance of an Event of Default described under “DEFAULT AND REMEDIES – Events of Default” below, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Resolution, and no implied covenants or obligations shall be read into the Resolution against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. (Section 803)

Evidence on Which Fiduciaries May Act. The Trustee and any Paying Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. The Trustee and any Paying Agent may consult with counsel, who may or may not be counsel to the Authority, and the opinion or advice of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

Whenever the Trustee or any Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an

Authorized Officer, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the General Resolution upon the faith thereof, but in its discretion the Trustee or any Paying Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

Except as otherwise expressly provided in the General Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by the Authority to the Trustee or any Paying Agent shall be sufficiently executed if executed in the name of the Authority by an Authorized Officer. (Section 804)

Compensation. Unless otherwise provided by agreement between the Authority and the Trustee or the Authority and a Paying Agent, the Authority shall pay to the Trustee and to each Paying Agent from time to time reasonable compensation for all services rendered under the Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the Resolution, and the Trustee and each Paying Agent shall have a lien therefor on any and all funds at any time held by it under the Resolution. The Authority further agrees to indemnify and save the Trustee and each Paying Agent harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the General Resolution, and which are not due to its negligence or willful misconduct. (Section 805)

Permitted Acts and Functions. The Trustee and any Paying Agent may become the owner of any Bonds, and the trustee or paying agent for any other Secured Indebtedness, with the same rights it would have if it were not such Trustee or Paying Agent. The Trustee and any Paying Agent may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the General Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding. (Section 806)

Resignation of Trustee. The Trustee may, subject to the provisions summarized under "Transfer of Rights and Property to Successor Trustee" below, at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than sixty (60) days' written notice by registered or certified mail, postage prepaid, to the Authority and to each Bondholder, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as described in "Appointment of Successor Trustee" below, in which event such resignation shall take effect immediately on the appointment of such successor. (Section 807)

Removal of Trustee. The Trustee shall be removed, subject to the provisions summarized under "Transfer of Rights and Property to Successor Trustee" below, by the Authority if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority, and signed by the Holders of a majority in aggregate principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority. The Authority may, subject to such summarized provisions, remove the Trustee at any time, by filing with the Trustee an instrument signed by an Authorized Officer of the Authority: (i) without cause, so long as no

Event of Default has occurred that continues or remains uncured, (ii) on the terms set forth in any Series Resolution authorizing the issuance of a Series of Bonds, so long as no Event of Default has occurred that continues or remains uncured, or (iii) for just cause (including, but not limited to, negligence in the performance of its duties and obligations). (Section 808)

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Authority may appoint a successor Trustee. The Authority shall give notice of any such appointment made by it, by certified or registered mail, postage prepaid, to each Bondholder, such mailing to be made within twenty (20) days after such appointment.

If in any of the foregoing circumstances no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within thirty (30) days after the Trustee shall have given to the Authority written notice, as provided in "Resignation of Trustee" above, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee so appointed in succession to the Trustee shall be a bank or trust company organized under the laws of the State of New York or a national banking association doing business and having its principal office in the Borough of Manhattan, City and State of New York and having a capital and surplus aggregating at least Fifty Million Dollars (\$50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the General Resolution. (Section 809)

Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the Authority, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all monies, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, and, any other provision of the Resolution to the contrary notwithstanding, no resignation or removal of the Trustee shall be effective until the execution, acknowledgement and delivery of such instrument of acceptance; but the Trustee ceasing to act shall nevertheless, on the written request of the Authority, or of the successor Trustee, execute, acknowledge and deliver forthwith such instruments of conveyance and further assurance, without recourse or warranty, and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Resolution, and shall pay over, assign and deliver to the successor Trustee any monies or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances, and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the

Authority. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

Any provision under Article VIII of the Resolution to the contrary notwithstanding, no resignation or removal of the Trustee shall take effect unless and until a successor shall have been appointed and such successor shall have accepted such appointment (Section 810)

Merger, Conversion or Consolidation. Any company into which the Trustee or any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or any Paying Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to such Trustee or Paying Agent without the execution or filing of any paper or the performance of any further act, provided with respect to the Trustee such company shall be a bank or trust company organized under the laws of the State of New York or a national banking association and shall have an office for the transaction of its business in the Borough of Manhattan, City and State of New York, and shall be authorized by law to perform all the duties imposed upon it by the General Resolution. (Section 811)

COVENANTS OF THE AUTHORITY

Payment of Bonds. The Authority shall duly and punctually pay or cause to be paid the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof. (Section 901)

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in the event that the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled in the event of any default under the Resolution to the benefit of the Resolution or to any payment out of any assets of the Authority or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the General Resolution) held by the Trustee or any Paying Agent, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. (Section 902)

Offices for Payment and Registration of Bonds. The Authority shall at all times maintain an office or agency in the Borough of Manhattan, City and State of New York, where Bonds may be presented for payment. The Authority may by a Supplemental Resolution designate an additional Paying Agent or Paying Agents where Bonds may be presented for payment. The Authority shall at all times maintain an office or agency in the Borough of Manhattan, City and State of New York, where Bonds may be presented for registration, transfer or exchange and the Trustee is appointed as its agent to maintain such office or agency for the registration, transfer or exchange of Bonds. (Section 903)

Further Assurances. At any and all times the Authority shall, so far as it may be authorized or permitted by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, confirming and effecting all and singular the monies, securities, funds and property pledged or assigned, or intended so to be, or which the Authority may hereafter become bound to pledge or assign. (Section 904)

Power to Issue Bonds and Make Pledges. The Authority is duly authorized pursuant to law to create and issue the Bonds and to adopt the General Resolution and to pledge and assign the Collateral and other monies, securities, funds and property purported to be pledged and assigned by the Resolution in the manner and to the extent provided in the Resolution. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their respective terms. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge and assignment of the Collateral and other monies, securities, funds and property pledged and assigned under the General Resolution and all the rights of the Bondholders under the General Resolution against all claims and demands of all persons whomsoever. (Section 905)

Agreement of the State. In accordance with the provisions of Section 1978 of the Public Authorities Law, as amended, the Authority, on behalf of the State, does pledge to and agree with the Holders of the Bonds that the State will not limit or alter the rights vested by the Act in the Authority to acquire, lease, mortgage or dispose of real or personal property or any interest therein or construct, improve, enlarge, operate and maintain the Project, to fix, establish and collect the rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with Bondholders, or in any way impair the rights and remedies of such Holders until the Bonds, together with the interest thereon, interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged. (Section 906)

Accounts and Reports. The Authority shall keep proper books of record and account in which complete and correct entries shall be made of all of its transactions including but not limited to those relating to the Collateral and all Funds and Accounts established by the Resolution or by any other document (including, without limitation, bond resolutions) secured in any way by any portion of the Collateral, which shall at all reasonable times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than five per cent (5%) in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing. (Section 907)

Pledge and Assignment of Collateral. Subject to the terms of Section 601, the Collateral is pledged and assigned to the Trustee for the benefit of the Holders of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and the Trustee shall have the legal right to enforce such pledge and assignment in the manner provided in the General Resolution. (Section 908)

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the

General Resolution or in any Supplemental Resolution or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority. (Section 909)

Operation and Maintenance of Project. The Authority shall at all times maintain and operate the Project, or cause the Project to be operated and maintained, including the enforcement of its rights under each Sublease of a Parcel from which the Authority derives Pledged Sublease Revenues, under the same standard of care as would be applied by an owner or operator of similar property in like circumstances. (Section 910)

Preservation of Interests in Certain Parcels. The Authority covenants that, with the exception of mortgages, liens or other encumbrances in existence as of the Initial Funding Date, the Authority shall not mortgage or dispose of any interest of the Authority in any Parcel; provided, however, that the foregoing provisions of this Section shall not prevent the Authority from adopting any resolution in furtherance of, pursuant to or in accordance with the General Resolution; and provided, further, that the foregoing provisions of this Section shall not otherwise prevent the Authority from performing, enforcing or terminating any Sublease or from taking any action in pursuit of such performance, enforcement or termination. (Section 911)

Proceeds of Condemnation. In the event that there shall be a total taking or a constructive total taking of the fee title to all or a portion of any WFC Parcel or of all or a portion of the Authority's leasehold interest therein pursuant to condemnation proceedings or by exercise of the right of eminent domain, then the amount of the proceeds, if any, received by the Authority that are derived from such condemnation or exercise of eminent domain (such proceeds being referred to herein as "Condemnation Proceeds") shall be applied in the following priority:

FIRST: an amount of Condemnation Proceeds not greater than the aggregate principal amount of Senior Bonds and Senior Reimbursement Obligations then Outstanding shall be applied, pro rata, to the redemption (including the payment of interest due upon such redemption) of Senior Bonds and the payment of Senior Reimbursement Obligations;

SECOND: an amount of Condemnation Proceeds not greater than the aggregate principal amount of Junior Bonds and Junior Reimbursement Obligations then Outstanding shall be applied, pro rata, to the redemption (including the payment of interest due upon such redemption) of Junior Bonds and the payment of Junior Reimbursement Obligations; and

THIRD: an amount of Condemnation Proceeds not greater than the aggregate amount of Subordinated Payments then due shall be applied, pro rata, to the payment of such Subordinated Payments. (Section 912)

Covenant as to State Tax Contract. The Authority, on behalf of the State, does pledge to and agree with all Holders and transferees of the Bonds that, in consideration of the acceptance of and payment of the purchase price, the Bonds and the income therefrom, and all monies, funds and revenues pledged to pay or secure the payment of the Bonds, shall at all times be free from taxation except for transfer and estate taxes. (Section 913)

SUPPLEMENTAL RESOLUTIONS

Adoption and Filing. The Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, in accordance with the terms summarized under “General Provisions Relating to Supplemental Resolutions” below:

(1) To provide for the issuance of a Series of Bonds pursuant to the provisions hereof and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(2) To provide for the incurrence of Reimbursement Obligations pursuant to the provisions hereof and to prescribe the terms and conditions pursuant to which such Reimbursement Obligations may be incurred;

(3) To provide for the execution of Qualified Swaps pursuant to the provisions hereof and to prescribe the terms and conditions pursuant to which such Qualified Swaps may be executed;

(4) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained herein;

(5) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(6) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms hereof, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained herein;

(7) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, Reimbursement Obligations, Qualified Swap Payments or Subordinated Payments, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(8) To modify any of the provisions hereof or of any previously adopted Series Resolution in any other respect, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution or Series Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions;

(9) To exclude from Pledged Sublease Revenues and to release from all obligations under the General Resolution, all of the Sublease Rentals derived or to be derived from the Subleases of any one or more Non-WFC Parcels (whereupon such Sublease Rentals shall be so excluded and released), so long as before or simultaneously with each such exclusion and release there is delivered to or filed with the Trustee a certificate signed by an Authorized Officer to the effect that immediately following such exclusion and release the coverage tests summarized under “AUTHORIZATION AND ISSUANCE OF BONDS; QUALIFIED SWAPS; CREDIT FACILITIES AND OTHER ARRANGEMENTS - Additional Bonds; Refunding Bonds” above applicable to a concurrent, hypothetical issuance of one dollar (\$1.00) of additional Senior Bonds and one dollar (\$1.00) of additional Junior Bonds will be satisfied; or

(10) With Rating Confirmation, to modify any of the provisions of the General Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect. (Section 1001)

Supplemental Resolutions Effective with Consent of Bondholders. The provisions of the General Resolution may be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the provisions summarized under "AMENDMENTS OF RESOLUTION" below. (Section 1002)

General Provisions Relating to Supplemental Resolutions. The Resolution shall not be modified or amended in any respect except to the extent and on the conditions described in "Adoption and Filing" above or in accordance with and subject to the provisions summarized under "AMENDMENTS OF RESOLUTION" below. Nothing summarized under "SUPPLEMENTAL BOND RESOLUTIONS" or "AMENDMENT OF RESOLUTION" shall affect or limit the right or obligation of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions summarized under "COVENANT OF THE AUTHORITY – Further Assurances" above, or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in the Resolution provided or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Supplemental Resolution adopted by the Authority when filed with the Trustee shall be accompanied by a Counsel's Opinion to the effect that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms.

The Trustee is authorized to accept delivery of a certified copy of any Supplemental Resolution permitted or authorized pursuant to the provisions of the Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on a Counsel's Opinion to the effect that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

No Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of any Paying Agent may be adopted by the Authority without the written consent of the Trustee or the Paying Agent affected thereby, as the case may be.

The Authority shall promptly notify the Rating Agencies of any amendment, modification or supplementation of the General Resolution pursuant to provisions summarized under "SUPPLEMENTAL BOND RESOLUTIONS. (Section 1003)

AMENDMENTS OF RESOLUTION

Powers of Amendment. Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as described under "Consent of Bondholders" below, of the Holders of a majority in aggregate principal amount of the Bonds Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds pursuant to this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such

Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. (Section 1101)

Consent of Bondholders. The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions summarized under "Powers of Amendment" above, to take effect when and as provided in this paragraph. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be furnished, by certified or registered mail, postage prepaid, by the Authority to Bondholders (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this paragraph provided). Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (i) the written consents of Holders of the percentages of Outstanding Bonds specified in "Powers of Amendment" above and (ii) a Counsel's Opinion to the effect that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 1301 of the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee prior to the time when the written statement of the Trustee hereinafter in this section provided for is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 1301 of the General Resolution. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided by this paragraph, may be given to Bondholders by the Authority by mailing such notice to Bondholders (but failure to make such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this paragraph provided). (Section 1102)

Modifications by Unanimous Consent. The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the Authority of a Supplemental Resolution and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in "Consent of Bondholders" above, except that no notice to Bondholders shall be required. (Section 1103)

DEFAULTS AND REMEDIES

Trustee to Exercise Powers of Statutory Trustee. The Trustee shall be and is vested with all of the rights, powers and duties of a trustee appointed by Bondholders pursuant to Section 1983 of the Public Authorities Law, except the rights as to declaration of Bonds being due and payable provided for in subdivision 2(e) of said Section 1983 or as to appointment of a receiver provided for in subdivision 5 of said Section 1983 or as to general representation of Bondholders provided for by subdivision 6 of said Section 1983, and the right of Bondholders to appoint a trustee pursuant to Section 1983 of the Public Authorities Law is abrogated in accordance with the provision of paragraph (j) of subdivision 4 of Section 1976 of the Public Authorities Law. (Section 1201)

Events of Default. Each of the following events is declared an “Event of Default”, that is to say, if:

- (a) Default in the payment of the principal of or interest on any Bond after the same shall become due, whether at maturity or upon call for redemption; or
- (b) Default in the payment of any Senior Reimbursement Obligation or Junior Reimbursement Obligation after the same shall become due; or
- (c) Default in the payment of any Qualified Swap Payment after the same shall become due; or
- (d) Default by the Authority in the performance or observance of any of the covenants, agreements or conditions on its part in the Resolution, any Supplemental Resolution, or in the Bonds contained, and continuance of such for a period of sixty (60) days after receipt of written notice thereof by the Authority from the Trustee or by the Authority and the Trustee from the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, provided, however, that, if the Authority is diligently proceeding to cure such default, the Authority shall have one hundred twenty (120) days to cure such default if such default is of the nature that is able to be cured within such time period. (Section 1202)

Remedies. Upon the happening and continuance of any event of default specified in “Events of Default” above, then and in each such case the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (a) by suit, action or proceeding in accordance with the Civil Practice Law and Rules, enforce all rights of the Bondholders, including the right to require the Authority to perform its duties under the Act;
- (b) by suit or action upon the Bonds;
- (c) by action or suit to require the Authority to account as if it were the trustee of an express trust for the Holders of the Bonds; or
- (d) by action or suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds. (Section 1203)

Priority of Payments After Default. If at any time the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal or Redemption Price then due

on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act and the provisions summarized under "DEFAULTS AND REMEDIES", after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred (including the reasonable attorney fees and disbursements of counsel for the Trustee) and advances made by the Trustee in the performance of its duties under the Resolution, shall be applied as follows:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due with respect to Senior Bonds or Senior Reimbursement Obligations in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Senior Bonds and Senior Reimbursement Obligations;

SECOND: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Senior Bonds or Senior Reimbursement Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all such amounts on Senior Bonds and Senior Reimbursement Obligations due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference;

THIRD: To the payment to the persons entitled thereto of all installments of interest then due with respect to Junior Bonds or Junior Reimbursement Obligations and of all Qualified Swap Payments (other than those that are designated as Subordinated Payments) in the order of the maturity of the installments of such interest or such Qualified Swap Payments (as the case may be), and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Junior Bonds, Junior Reimbursement Obligations and in related Qualified Swaps;

FOURTH: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Junior Bonds or Junior Reimbursement Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all such amounts on Junior Bonds and Junior Reimbursement Obligations due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

FIFTH: To the payment to the persons entitled thereto of all Subordinated Payments in the order of the maturity thereof, and, if the amount available shall not be sufficient to pay in full any Subordinated Payments, then to the payment thereof ratably, according to the amounts due, to the persons entitled thereto, without any discrimination or preference.

The provisions summarized under "Priority of Payment After Default" are in all respects subject to the provisions summarized under "COVENANTS OF THE AUTHORITY - Extension of Payment of Bonds" above.

Whenever monies are to be applied by the Trustee pursuant to the provisions of this Section, such monies shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such monies available for

application and the likelihood of additional money becoming available for such application in the future. The deposit of such monies with the Paying Agents, or otherwise setting aside such monies in trust for the proper purpose, shall constitute proper application by the Trustee. The Trustee shall incur no liability whatsoever to the Authority, to any Beneficiary or to any other person for any delay in applying any such monies, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such monies, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest (if any) on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid. (Section 1204)

Termination of Proceedings. In case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights under the General Resolution, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken. (Section 1205)

Bondholders' Direction of Proceedings. Anything in the Resolution to the contrary notwithstanding, the Holders of the majority in principal amount of the Bonds then Outstanding shall have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Resolution, provided that such direction shall not be otherwise than in accordance with law or the provisions of the General Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction. (Section 1206)

Limitation on Rights of Bondholders. No Holder of any Bond shall have any right to institute any suit, action, or other proceeding under the Resolution, or for the protection or enforcement of any right under the Resolution or any right under law, unless such Holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five per centum (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the cost, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolution or for any other remedy under the Resolution or under law. It is understood and intended that no one or more Holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution or under law with respect to the Bonds or the Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Holders of the Outstanding Bonds. Notwithstanding the foregoing provisions of this Section or any other provisions summarized under "DEFAULTS AND REMEDIES," the obligation of the Authority shall be absolute and unconditional to pay the principal and Redemption Price of and interest on the Bonds to the respective Holders thereof at

the respective due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Anything to the contrary notwithstanding contained in the preceding paragraph, or any other provision of the Resolution, each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least twenty-five per centum (25%) in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or Redemption Price of or interest on any Bond on or after the respective due date thereof expressed in such Bond. (Section 1207)

Possession of Bonds by Trustee Not Required. All rights of action under the Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds subject to the provisions of the General Resolution. (Section 1208)

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the General Resolution or now or hereafter existing at law or in equity or by statute. (Section 1209)

No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the General Resolution to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient. (Section 1210)

Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety (90) days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of the principal, Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Debt Service Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by certified or registered mail, postage prepaid, to all registered owners of Bonds, as the names and addresses of such owners appear upon the books for registration and transfer of Bonds as kept by the Trustee. (Section 1211)

Restriction on Acceleration of Maturity. Notwithstanding any provision of the Resolution or of Section 1983 of the Public Authorities Law, neither the Trustee nor any Bondholder shall declare or have any right to declare any Bonds due and payable in advance of stated maturity. (Section 1212)

DEFEASANCE

Release of Lien of Resolution. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, (i) to the Holders of the Bonds then Outstanding, the principal and interest and Redemption Price, if any, due or to become due, (ii) to the providers of Credit Facilities, the amounts due or to become due under Reimbursement Obligations, if any, (iii) to Qualified Swap Providers under Qualified Swaps, the Qualified Swap Payments due, (iv) to the Beneficiaries entitled thereto any Subordinated Payments due or to become due, together with (v) any compensation due and owing to the Trustee under the Resolution, in each case at the times and in the manner stipulated therein and in the Resolution, then and in that event the pledges, assignments, covenants, agreements and other obligations of the Authority to the Beneficiaries shall be discharged and satisfied. In such events, at the expense of the Authority, the Trustee shall, upon request of the Authority and upon receipt of a certificate of an Authorized Officer and an opinion of counsel acceptable to the Trustee, each to the effect that all conditions precedent herein provided relating to the discharge and satisfaction of the obligations of the Authority have been satisfied, execute and deliver to the Authority all such instruments, without recourse or warranty, as may be desirable to evidence such release and discharge and the Trustee and the Paying Agents shall deposit in the Rebate Fund or pay over or deliver to the Authority all monies or securities held by them pursuant to the General Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption in accordance with the direction of an Authorized Officer of the Authority. (Section 1401)

Payment and Discharge of Bonds. Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in "Release of Lien of Resolution" above. All Outstanding Bonds of any Series, any Subseries or any maturity within a Series or a portion of a maturity within a Series or Subseries shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in "Release of Lien of Resolution" above if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided the Resolution notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which, when due, will provide moneys which without regard to reinvestment, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of such Bonds at their last known addresses appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of which Series of Bonds, Subseries of Bonds or which maturity within a Series or Subseries or the principal amount of Bonds within a maturity of a Series or Subseries payment of which shall be made in accordance with this Section. The Trustee shall select which Bonds of like Series, Subseries and maturity payment of which shall be made in accordance with this Section in the manner provided in the Resolution. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such

Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and subject to any applicable tax covenant, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be; and provided further that moneys and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which without regard to reinvestment, together with the moneys, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such moneys and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, paid by the Trustee as follows: first to the Arbitrage Rebate Fund the amount specified to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; and, then the balance thereof to the Authority. The moneys so paid by the Trustee shall be released and free from any trust, pledge, lien, encumbrance or security interest created under the Resolution or by the Agreement.

For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the second sentence of the preceding paragraph, the interest to come due on such Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Rate therefor; provided, however, that if on any date, as a result of such Bonds having borne interest at less than such Maximum Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Bonds in order to satisfy the second sentence of the preceding paragraph, the Trustee shall, if requested, by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest securing the Bonds or otherwise existing under the Resolution.

Option Bonds shall be deemed to have been paid in accordance with the second sentence of the second preceding paragraph only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the second preceding paragraph, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest securing the Bonds or otherwise existing under the General Resolution. (Section 1402)

Obligations of Trustee. Notwithstanding the release of the lien of the Resolution or the payment and discharge of the Bonds, the obligations of the Authority to the Trustee under the provisions summarized under “THE TRUSTEE AND THE PAYING AGENTS - Compensation” shall survive until satisfied. (Section 1403)

MISCELLANEOUS

Preservation and Inspection of Documents. All documents received by the Trustee or any Paying Agent under the provisions of the General Resolution or any Supplemental Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, the Trustee, any Paying Agent or any Bondholder and their agents and representatives, any of whom may make copies thereof. (Section 1501)

No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on the General Resolution against any member, officer or employee of the Authority or any person executing the Bonds. (Section 1502)

Interested Parties. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Authority, the Trustee, the Paying Agents, if any, and the Bondholders and other Beneficiaries, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the General Resolution contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, the Paying Agents, if any, and the Bondholders and other Beneficiaries. (Section 1504)

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APPENDIX D

Summary of Certain Provisions of the Master Lease, the Specified Subleases and Other Documents

The following are descriptions of the major provisions of the Master Lease, the Existing Subleases and certain other agreements. Capitalized terms used in this Appendix D and not defined herein, in "Appendix C Definitions and Summary of Certain Provisions of the Master Resolution" to the Official Statement or in the Official Statement to which this is appended, have the meanings ascribed to them in the respective agreements. The descriptions contained herein do not purport to be complete, and reference is made to the respective agreements for full and complete statements of their provisions.

THE MASTER LEASE

The Project Area was originally leased to the Authority by the City pursuant to a lease, dated November 24, 1969 (as supplemented, restated and amended, the "Master Lease"), which expires June 18, 2069. In June 1980 the New York State Urban Development Corporation ("UDC") acquired the fee interest in the Project Area from the City in a condemnation proceeding, and conveyed the Project Area to its wholly owned subsidiary, BPC Development Corporation ("BPCDC"). In December 1982, BPCDC conveyed the fee interest in the Project Area to the Authority for a nominal consideration. By its terms, the Master Lease remained in effect after acquisition by the Authority of fee title to the Project Area and the Authority is the landlord and tenant thereunder.

The Master Lease obligated the Authority, as tenant, to construct or cause to be constructed site improvements, including utilities, streets and civic and other facilities and residential and commercial improvements, all in substantial accordance with the Master Development Plan. The Master Lease provides for the payment of a basic rent of \$1.00 per year and additional rent, payable monthly (with an accounting 120 days after the end of the fiscal year), in the amount equal to the amount by which all rents, issues, profits, revenue and income (determined on a cash basis) derived from the Project Area for such fiscal year exceeds all obligations incurred by the Authority in such fiscal year with respect to the Project Area.

The Master Lease contemplates the execution by the Authority of (a) subleases in its capacity as tenant under the Master Lease and (b) of direct leases (excluding the Master Lease) in its capacity as the owner, both of which are defined as "Basic Subleases," of portions of the Project Area. The Master Lease provides that each Basic Sublease shall provide for the payment to the Authority of a net annual basic rent plus tax equivalency payment which shall not be less than certain amounts specified in the Master Lease. Each of the Existing Subleases complies with these Master Lease requirements on Basic Sublease rent. The Master Lease is a "net" lease to landlord thereunder. The Authority, as tenant under the Master Lease, is to cause each tenant under a Basic Sublease to pay all impositions levied or assessed against the premises demised under such Basic Sublease, to insure all improvements constructed by such tenant, to comply with all requirements of governmental authorities, to restore the improvements constructed on such tenant's premises in the event of a fire or other casualty or a partial taking in condemnation and to make all repairs and replacements necessary to maintain the improvements in a condition appropriate for improvements of similar construction, use and class in New York City. The

Authority, as tenant under the Master Lease, is to keep all civic facilities (prior to dedication thereof) insured, to maintain a policy of comprehensive general liability insurance, to discharge any mechanic's lien filed against the Project Area or any improvements constructed thereon and, if a tenant under a Basic Sublease shall have failed to comply with any provision of the Master Lease requiring performance by such tenant, to perform such obligation.

The Authority, as landlord under the Master Lease, shall have the right to terminate the Master Lease if a default in the payment of Basic Rent or any item of additional rent shall remain unpaid for a period of 30 days after notice or if there is a failure to perform any other provision of the Master Lease and such failure continues for 90 days after notice, unless such failure could not by its nature be cured within such 90 days, in which event tenant is required to remedy such failure with reasonable diligence.

The Authority, as landlord under the Master Lease has agreed, in the event of a termination of the Master Lease, to recognize the Gateway Plaza Sublease, the Rector Place Subleases and the Battery Place Subleases, all of which are subordinate to the Master Lease, provided no default then exists which would permit landlord under the respective Sublease to terminate such Sublease. The WFC Severance Leases are direct leases with the Authority and would not be affected by a termination of the Master Lease. In addition, landlord has agreed that it will not exercise its right to terminate the Master Lease upon the occurrence of an event of default unless landlord shall have delivered to the trustee under any indenture securing any bonds or any resolution authorizing bonds, either: (i) monies sufficient to make full and complete redemption of such bonds then outstanding in accordance with their terms, (ii) an instrument whereby landlord assumes full payment of the debt service on such bonds, or (iii) an instrument whereby landlord agrees to recognize and continue the pledge to the bondholders under the terms of such indenture or resolution to apply to the payment of debt service on such bonds then outstanding the gross revenue and receipts received and derived from the Project Area and undertakes the performance of all of the duties and obligations relating to the Project Area which tenant under the Master Lease is required to perform, as tenant under the Master Lease or under such indenture or resolution.

The Master Lease grants to the City the right to reacquire the Project Area for \$1.00 within certain time periods following the date upon which all bonds and other indebtedness incurred by the Authority have been paid or repaid in full, but in no event prior to January 1, 2000. See "THE BATTERY PARK CITY PROJECT – The City Repurchase Right" for a further description of the City's right to repurchase the Project Area.

WORLD FINANCIAL CENTER SEVERANCE LEASES

The World Financial Center has been developed pursuant to four severance leases between the Authority, as landlord, and the developers identified therein, as tenants (individually, a "WFC Severance Lease" and collectively, the "WFC Severance Leases"). A schedule of the WFC Severance Leases is annexed hereto. The following is a description of the major provisions of the WFC Severance Leases. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the WFC Severance Leases. The description contained herein does not purport to be complete and reference is made to the WFC Severance Leases for full and complete statements of their provisions.

1. *Term:* The term of each of the WFC Severance Leases commenced on the date such WFC Severance Lease was executed and expires, unless sooner terminated, on June 17, 2069. No WFC Severance Lease contains any right on the part of tenant thereunder to renew or otherwise extend the term beyond June 17, 2069.

2. *Rental:* The primary components of rent under the WFC Severance Leases are base rent (including additional base rent), payments in lieu of real estate taxes or PILOT, and percentage rent. The following is a description of each such component of rent:

(a) *Base Rent:* Each WFC Severance Lease obligates tenant thereunder to pay, on a monthly basis, base rent (“Base Rent”) in the following amounts:

**ONE WORLD FINANCIAL CENTER
(PARCEL A)**

The Base Rent is \$3,400,000/year for the remainder of the term.

**TWO WORLD FINANCIAL CENTER
(PARCEL B)**

The Base Rent is \$5,100,000/year for the remainder of the term.

**THREE WORLD FINANCIAL CENTER
(PARCEL C)**

The Base Rent is \$5,100,000/year for the remainder of the term.

**FOUR WORLD FINANCIAL CENTER
(PARCEL D)**

The Base Rent is \$3,400,000/year for the remainder of the term.

(b) *Additional Base Rent:* Each WFC Severance Lease obligates tenant thereunder to pay, on a monthly basis, additional Base Rent at the following times and in the following amounts:

**ONE WORLD FINANCIAL CENTER
(PARCEL A)**

Additional Base Rent is payable from 9/1/99-8/31/14 at the rate of \$1,588,920/year.

**TWO WORLD FINANCIAL CENTER
(PARCEL B)**

Additional Base Rent is payable from 9/1/99-8/31/14 at the rate of \$2,383,380/year.

**THREE WORLD FINANCIAL CENTER
(PARCEL C)**

Additional Base Rent is payable from 9/1/99-8/31/09 at the rate of \$3,106,674/year.

**FOUR WORLD FINANCIAL CENTER
(PARCEL D)**

Additional Base Rent is payable from 9/1/99-8/31/14 at the rate of \$1,588,920/year.

(c) PILOT: The Authority and the Project Area are exempt from real estate taxes. Each WFC Severance Lease obligates tenant thereunder to make payments to the Authority of PILOT. PILOT will be the same amount as the real estate taxes which would have been payable except for the Authority's tax exempt status, with an annually declining percentage abatement for approximately the first 10 years after substantial completion of the buildings which abatement has elapsed. Each WFC Severance Lease provides that tenant thereunder shall have the right to institute tax assessment reduction proceedings to reduce the assessed valuation of the premises covered by its WFC Severance Lease. If such proceeding is successful, PILOT will be reduced.

(d) *Percentage Rent*: Commencing on the 12th year after substantial completion of the buildings and continuing through the year 2016, each tenant under a WFC Severance Lease shall pay percentage rent ("Percentage Rent") in an amount equal to 5% of the amount by which "net fixed rent" for such year exceeds "net fixed rent" for the 11th year after substantial completion of the buildings. Percentage Rent is paid semi-annually. "Net fixed rent" is defined generally as revenues derived from use and occupancy of space in the buildings which is permitted to be used for office purposes (except to the extent deemed space used for retail purposes), or parking of vehicles, including, without limitation, base rent, fixed rent, percentage rent, additional rent, debt service and all other income, less operating expenses allocable to such office space, and debt service on loans made by tenant thereunder to subtenants to finance leasehold improvements in excess of the building standard improvements.

Each tenant under a WFC Severance Lease shall also pay Retail Rent and Other Rent. In addition, each tenant is obligated to pay, subject to such tenant's right to contest same, any imposition levied or assessed against the premises demised by a WFC Severance Lease (excluding real estate taxes, which, if levied, shall be paid by the Authority). Except as hereinafter set forth, each tenant's obligation to pay Rental is net to the Authority and without abatement, set-off or counterclaim. Each of the WFC Severance Leases gives tenant thereunder certain limited off-set rights against Rental in the following instances:

(a) In the event of a final determination in favor of a tenant in a tax assessment reduction proceeding, succeeding PILOT payments to the Authority will be reduced to the extent necessary to offset the overpayment of PILOT;

(b) If the premises covered by a WFC Severance Lease shall at any time become subject to real estate taxes, the Authority is responsible for the payment of same. In the event the Authority shall have failed to pay such real estate taxes or to timely contest such taxes, or if the Authority shall contest such taxes but, notwithstanding such contest, the failure to pay such taxes will result in the loss of the Premises and termination of tenant's interest under the WFC Severance Lease, and tenant shall have paid same, such tenant may deduct such payment, together with interest and penalties thereon, from Rental;

(c) In the event and to the extent Percentage Rent shall have been overpaid by a tenant;

(d) The cost of any work performed by a tenant in order to preserve the premises from damage due to excavation work undertaken by the Authority on adjacent premises; or

(e) If there shall be a judgment beyond appeal awarding a tenant a sum for expenses for rightfully undertaking to perform the Authority's obligations with respect to the civic facilities, as provided in the Project Operating Agreement dated as of June 15, 1983.

3. *Taxes:* As previously stated, in the event real estate taxes shall be levied and assessed against the premises covered by a WFC Severance Lease, the Authority shall be obligated to pay same. The Authority has the right, however, to contest the imposition of taxes, and, in certain circumstances, may defer payment during the pendency of such tax contest.

4. *Insurance:* Both during and after completion of the buildings, each tenant under a WFC Severance Lease is obligated to maintain, at its expense, insurance, including rent insurance in an amount equal to one year's current Base Rent, PILOT, Substitute PILOT, if any, and Basic Retail Rent (as defined therein). The types of insurance and limits of coverage are specified in each WFC Severance Lease. All insurance provided (except certain workmen's compensation insurance) shall name, the tenant and, at the tenant's option, the landlord as named insureds and certain insurance may name the mortgagee, if any, provided, however, that all rent insurance shall name the landlord as well as the tenant. In addition, the Authority may require types of insurance and limits of coverage comparable to those maintained by prudent owners of like buildings. Each WFC Severance Lease provides that, in the event of a casualty, the insurance proceeds shall be paid to tenant, in trust, for the sole purpose of paying the cost of restoration if less than \$1,000,000 (the amount as of the execution of the WFC Severance Leases, which amount is subject to adjustment on September 1, 1986 and every fifth year thereafter based on the consumer price index) or, if in excess of \$1,000,000 (as adjusted), to a depository designated by such tenant, such depository to be an institutional lender (as defined in each WFC Severance Lease). The Authority has agreed pursuant to the Merrill Lynch Agreements to increase the "\$1,000,000" figure, whenever such figure appears in the WFC Severance Leases for Two World Financial Center and Four World Financial Center, to \$2,500,000.

5. *Restoration:* Except as hereinafter set forth, each tenant is obligated to restore the buildings in the event of damage or destruction due to fire or other casualty, whether insured or uninsured, whether or not the cost of restoration exceeds the insurance proceeds and whether or not the mortgagee shall permit such insurance proceeds to be used for restoration. Each tenant shall be obligated for the payment of Rental during the period of a casualty without reduction or abatement. In the event a tenant fails to restore the buildings as provided in its WFC Severance Lease, the Authority shall have the right to do so at tenant's expense and may apply the insurance proceeds for such purposes. To the extent the cost of restoration equals or exceeds \$1,000,000 or, with respect to Two World Financial Center and Four World Financial Center, \$2,500,000 (as adjusted), such tenant shall provide the Authority with plans and specifications for such restoration, a construction contract and payment and performance bonds or other security reasonably satisfactory to the Authority. In addition, if such restoration involves work to the exterior of any buildings or a change in the height, bulk or setback of such buildings, such tenant shall deliver plans and specifications for such work prior to the commencement of the

restoration. No WFC Severance Lease grants tenant thereunder the right to terminate its WFC Severance Lease in the event of a casualty, except in the following instances:

(a) If there is damage or destruction during the last 5 years of the term rendering 20% or more of the premises untenantable; and

(b) If there is damage or destruction during the last 2 years of the term rendering 10% or more of the premises untenantable.

If a tenant elects to terminate its WFC Severance Lease, the insurance proceeds are paid to the Authority. To the extent any procedure for payment of insurance proceeds required under any mortgage held by an Institutional Investor shall be inconsistent with a WFC Severance Lease, the procedures required by the mortgage shall control provided they are more restrictive with respect to the payment of insurance proceeds to or on behalf of the tenant.

6. *Condemnation:* In the event all or substantially all of the premises demised under a WFC Severance Lease are taken in a condemnation, such WFC Severance Lease shall be terminated. In such event, there shall first be paid to the Authority the entire award for that part of the land and the civic facilities, if any, taken. The balance of the award shall be paid to such tenant, subject to the rights of any mortgagees. In the event less than all or substantially all of the premises shall be taken, such WFC Severance Lease shall continue in full force and effect with respect to the portion of the premises not so taken, the Authority shall receive that portion of the award attributable to the land and civic facilities, if any, so taken and such tenant shall restore the buildings, whether or not the balance of the award is sufficient for such purpose. In the event of a partial taking, such tenant shall be obligated for the payment of Rental, without abatement or reduction. The obligations of each tenant to restore the buildings in the case of a partial taking are similar to such tenant's obligations in the case of a casualty. No WFC Severance Lease grants tenant thereunder the right to terminate its WFC Severance Lease except with respect to a taking of all or substantially all of the premises covered by a WFC Severance Lease and in the additional following instances:

(a) If there is a taking of 20% or more of the building during the last 5 years of the term; and

(b) If there is a taking of 10% or more of the building during the last 2 years of the term.

If a tenant elects to terminate its WFC Severance Lease, the condemnation proceeds are paid to the Authority. To the extent any procedure for payment of condemnation proceeds required under any mortgage held by an Institutional Lender shall be inconsistent with a WFC Severance Lease, the procedures required by the mortgage shall control provided they are more restrictive with respect to the payment of insurance proceeds to or on behalf of the tenant.

7. *Assignment, Subletting:* Tenant thereunder has the right to assign its WFC Severance Lease, sublet all or substantially all of the premises demised thereunder or effect certain transfers of interests in such tenant without the Authority's approval (including transfers to affiliated or related entities). Each WFC Severance Lease permits tenant thereunder at any time to enter into subleases of portions of the premises for actual occupancy without the Authority's approval. Tenant may collaterally assign its interest in a WFC Severance Lease to one or more mortgagees without the consent of landlord and may subject its leasehold interest to one or more mortgages. If an event of default by a tenant under a WFC Severance Lease shall

have occurred, the Authority may, under certain circumstances, collect rent from subtenants under such subleases. In the event the Authority shall terminate a WFC Severance Lease, at the Authority's option and except as hereinafter provided, each subtenant under a sublease shall attorn to or enter into a direct lease with the Authority on identical terms and for the balance of the unexpired term of such subtenant's sublease. The Authority has agreed, in certain circumstances, to recognize a sublease with a subtenant which is not an affiliate of tenant in the event a WFC Severance Lease is terminated, provided, among other things, such subtenant is not in default under its sublease. Assuming compliance with these provisions, the Authority will be able to retain any subleases made by tenant in the event of a WFC Severance Lease termination by the Authority.

8. *Mortgages:* Each WFC Severance Lease provides that in the event tenant thereunder shall mortgage its interest in its WFC Severance Lease and shall have delivered notice thereof to the Authority, the Authority shall give each mortgagee a copy of any notice of default given by the Authority to such tenant. Each mortgagee shall have the right to cure such default in the manner set forth in such WFC Severance Lease and the Authority shall accept performance by a mortgagee with the same force and effect as though performed by tenant. In the event the Authority shall have terminated a WFC Severance Lease as a result of an event of default by tenant or for any other reason, the Authority shall notify each mortgagee of such termination and, at such mortgagee's request, shall enter into a new lease with the mortgagee (or its designee or nominee) most junior in lien (unless a mortgagee senior in lien has such right) for the remainder of the term and upon the same terms and conditions as in such WFC Severance Lease. In such event, such mortgagee shall pay to the Authority all unpaid Rental and the Authority's expenses incurred in connection with tenant's default and the termination of such WFC Severance Lease and shall remedy those defaults which are susceptible of being cured. In the event a mortgagee did not cure tenant's defaults or request a new lease, the lien of such mortgagee's mortgage would be extinguished as a result of the termination of such WFC Severance Lease. The rights of mortgagees have also been given to certain pledgees of direct or indirect interests in the WFC Severance Lease tenants and collateral assignees of mortgages.

9. *Repairs:* The WFC Severance Leases provide that each tenant thereunder shall, at its expense, take good care of the premises and all equipment and shall keep and maintain the buildings (which tenant was obligated to construct pursuant to each WFC Severance Lease) in good and safe order and working condition and shall make all repairs, internal and external, structural and non-structural.

10. *Compliance with Requirements:* The WFC Severance Leases provide that each tenant thereunder shall, at its expense, comply with all laws, rules, ordinances, etc. applicable to the premises. Each tenant shall have the right, in certain circumstances, to contest the validity of any such requirement.

11. *Capital Improvements:* The WFC Severance Leases provide that tenant shall have the right to make capital improvements to the buildings, provided any such capital improvement, when completed, shall be of such a character as not to reduce the value of the buildings below their value immediately before construction of the capital improvement was commenced. In addition, capital improvements of a structural nature require the submission to the Authority of plans and specifications. Capital improvements in excess of \$1,000,000 (or \$2,500,000 with respect to Two World Financial Center and Four World Financial Center) (as

adjusted) also require the submission to the Authority of the construction contract, bonds or a letter of credit or other security reasonably satisfactory to the Authority. Title to all additions, alterations, improvements and replacements made to the World Financial Center, including, without limitation, capital improvements, shall vest in the landlord without need to compensate the tenant.

12. *Discharge of Liens:* The WFC Severance Leases provide that tenant thereunder shall not create or cause to be created any lien, encumbrance or charge upon such tenant's estate in the premises (except a permitted mortgage, sublease, assignment of lease or additional easements), any assets of or funds appropriated to the Authority or upon the Authority's estate in the premises. Such tenant shall cause any such lien to be promptly discharged of record.

13. *The Authority's Right to Perform:* If an event of default shall have occurred under a WFC Severance Lease, the Authority shall have the right to perform any obligation on tenant's behalf and any monies expended by the Authority shall be repaid by such tenant with interest.

14. *Events of Default:* The WFC Severance Leases provide that if certain defaults shall occur the Authority shall have the right to terminate such WFC Severance Lease. Defaults by a tenant that would entitle the Authority to terminate such WFC Severance Lease include: (a) failure to make any required payment of Rental after 10 days' notice, (b) failure to perform any other provision of such WFC Severance Lease if such failure continues for a period of 30 days after notice by the Authority to such tenant, unless such failure could not by its nature be cured within such 30 days, in which case such tenant is required to remedy such failure with reasonable diligence, (c) such tenant's failure to comply with those prohibitions contained in such WFC Severance Lease on assigning, subleasing, mortgaging, pledging or otherwise encumbering such WFC Severance Lease unless such assignment, sublease, mortgage, pledge or encumbrance is fully discharged within 30 days after notice by the Authority to such tenant, and (d) events of bankruptcy concerning such tenant. In the event of a default by such tenant and the failure of such tenant or such tenant's mortgagee to timely exercise its cure rights, as hereinabove described, the Authority will have the right to terminate such WFC Severance Lease. As previously stated, each WFC Severance Lease grants a mortgagee certain rights intended to provide protection in the event of a default by a tenant under a WFC Severance Lease, including a right to notice and cure and a right to enter into a new lease with the Authority directly. Such rights have also been given to certain pledgees of direct or indirect interests in the WFC Severance Lease tenants and collateral assignees of mortgages.

15. *Civic Facilities:* Each of the WFC Severance Leases provides that the Authority shall construct, at its expense, certain enumerated civic facilities and insure, maintain, repair and, in the event of a fire or other casualty or condemnation, restore such civic facilities. Brookfield WFC has undertaken certain construction and maintenance obligations with respect to the civic facilities pursuant to separate agreements with the Authority. (See: "Ancillary and Other Agreements" below.)

16. *No Subordination:* The Authority's interest in the WFC Severance Leases shall not be subject or subordinate to any mortgage placed upon a tenant's interest in its WFC Severance Lease or to any other lien or encumbrance affecting such tenant's interest in its WFC Severance Lease. Tenant's interest shall not be subject or subordinate to any liens or encumbrances affecting landlord's interest in, among other things, the Master Lease.

17. *Affirmative Action:* Tenants under the WFC Severance Leases are obligated to comply with an affirmative action program, which program is annexed to each WFC Severance Lease.

18. *Restrictions on Transfers by the Authority:* The Authority has agreed in each of the WFC Severance Leases that it will not make or cause there to be made any mortgage of or other encumbrance against its interest in the fee title to the premises, tenant's leasehold estate under the Master Lease applicable to the premises, the civic facilities or the WFC Severance Leases and it will not sell, convey, assign or otherwise transfer or relinquish its interest in any of the foregoing except to the New York State Urban Development Corporation or any subsidiary thereof, the State of New York or a bureau or department thereof or a public benefit corporation, agency or authority of the State of New York and further provided that the Authority will not sell, convey, assign or otherwise transfer or relinquish its interest in any of the foregoing if as a result thereof real estate taxes would become payable with respect to the premises or sales or compensating use taxes would become payable in connection with the purchase of materials, fixtures and equipment (each of the foregoing being called a "Restricted Transfer"). The foregoing prohibitions shall not apply to the right of repurchase granted to New York City to acquire the Project.

19. *Limitation of the Authority's Liability:* The liability of the Authority under each of the WFC Severance Leases for damages or otherwise shall be limited to the Authority's interest in the demised premises and the WFC Severance Leases, including, without limitation, the rents, issues and profits thereof, the proceeds of any insurance policies, any awards payable in connection with any condemnation, any amounts received or receivable by the Authority in connection with a sale, transfer or assignment by the Authority of its interest in the premises and the WFC Severance Leases to the extent such amounts have not been distributed and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to the premises. The limitations of the Authority's liability shall not apply to any liability that the Authority may incur by reason of the consummation of a Restricted Transfer.

20. *Limitation of Tenant's Liability:* The liability of a tenant under its WFC Severance Lease shall be limited to such tenant's interest in the demised premises and its WFC Severance Lease, including, without limitation, the rents, issues and profits thereof, the proceeds of any insurance policies, any awards payable in connection with any condemnation, any amounts received or receivable by such tenant in connection with a sale, transfer or assignment of the tenant's interest in the premises and the WFC Severance Lease to the extent such amounts have not been distributed and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to the premises. Accordingly, if a tenant shall have defaulted under its WFC Severance Lease and such default was not remedied by such tenant or its mortgagee or if such WFC Severance Lease was terminated and a new lease was not requested by such mortgagee, the sole remedy of the Authority will be to terminate such WFC Severance Lease and repossess the demised premises. The Authority will be unable to recover any monetary damages resulting from such termination from the tenant thereunder.

SCHEDULE OF WORLD FINANCIAL CENTER SEVERANCE LEASES

ONE WORLD FINANCIAL CENTER (PARCEL A)

Agreement of Severance Lease dated as of June 15, 1983, between the Authority, as landlord, and Olympia & York (now known as WFC Tower A Company), as tenant, as amended by: amendments dated as of June 1, 1984, August 30, 1984 and August 15, 1985; assumption agreement dated as of January 30, 1987, between O&Y Equity Company, L.P. and the Authority; and amendments dated as of February 26, 1988 and January 19, 1989, respectively, between the Authority and WFC Tower A Company; and by an assignment to New Tower A LP (now known as WFP Tower A Co. L.P.) dated as of November 21, 1996.

TWO WORLD FINANCIAL CENTER (PARCEL B)

Agreement of Severance Lease dated as of June 15, 1983, between the Authority, as landlord, and Olympia & York as tenant. The interest of Olympia & York in said Lease was assigned to Olympia & York Tower B Company (“Tower B Company”) pursuant to an assignment dated as of October 7, 1983, between Olympia & York and Tower B Company. Said Lease was amended by: agreement dated as of August 24, 1984, among the Authority, Tower B Company and Merrill Lynch & Co., Inc.; amendment dated as of December 5, 1984, between the Authority and Tower B Company; agreement dated July 12, 1985, among the Authority, Tower B Company and Bankers Trust Company, as collateral agent; amendment dated as of August 15, 1985, between the Authority and Tower B Company; agreement dated as of January 30, 1987, between the Authority, Tower B Company and Bankers Trust Company; assumption agreement dated as of January 30, 1987, between O&Y Equity Company, L.P. and the Authority; amendment dated as of September 23, 1987, among the Authority, Bankers Trust Company, as collateral agent, Tower B Company, Merrill Lynch & Co., Inc. and Merrill Lynch/WFC/L, Inc.; agreement dated December 1987, between the Authority and Tower B Company; agreement dated June 30, 1988, between the Authority and Tower B Company; amendment dated as of July 14, 1988, between the Authority and Tower B Company; and agreement dated December 14, 1988, among the Authority, Bankers Trust Company and Tower B Company; and by an assignment to WFP Tower B Co. L.P. dated as of November 21, 1996.

THREE WORLD FINANCIAL CENTER (PARCEL C)

Agreement of Severance Lease dated as of June 15, 1983, between the Authority, as landlord, and Olympia & York as tenant. The interest of Olympia & York in said Lease was assigned to American Express Company, Shearson/American Express, Inc., American Express International Bank Corporation and American Express Travel Related Services Company, Inc. (collectively, “Assignee”) pursuant to an agreement dated as of June 15, 1983. Said Lease was amended by agreement dated August 30, 1984, between the Authority and Olympia & York. The interest of Assignee in said Lease was assigned to American Express Company, American Express Bank Ltd., American Express Travel Related Services Company, Inc., Shearson Lehman Brothers Inc., Lehman Government Securities Inc. and Lehman Commercial Paper Incorporated pursuant to an assignment dated as of May 30, 1985.

**FOUR WORLD FINANCIAL CENTER
(PARCEL D)**

Agreement of Severance Lease dated as of June 15, 1983, between the Authority, as landlord, and Olympia & York, as tenant. The interest of Olympia & York in said Lease was assigned to Olympia & York Tower D Company (now known as WFC Tower D Company) ("Tower D Company") pursuant to an assignment dated as of October 7, 1983, between Olympia & York and Tower D Company. Said Lease was amended by: agreement dated as of August 24, 1984, among the Authority, Tower D Company and Merrill Lynch & Co., Inc.; amendment dated as of December 5, 1984, between the Authority and Tower D Company; agreement dated July 12, 1985, among the Authority, Tower D Company and Bankers Trust Company, as collateral agent; amendment dated as of August 15, 1985, between the Authority and Tower D Company; agreement dated December 24, 1986, among the Authority, Tower D Company and The Sumitomo Bank Limited, New York Branch ("Sumitomo"); assumption agreement dated as of January 30, 1987, between O&Y Equity Company, L.P. and the Authority; agreement dated March 24, 1987, between the Authority, Tower D Company and The First National Bank of Chicago; agreement dated as of February 26, 1988, among the Authority, Sumitomo, and Tower D Company; amendment dated as of February 26, 1988, between the Authority and Tower D Company; and by an assignment to WFP Tower D Co. L.P. dated as of November 21, 1996.

GROUND LEASE FOR SITE 15 (NYMEX)

The following is a description of the major provisions of the Ground Lease for Site 15 (NYMEX), or the Lease, between Battery Park City Authority (the “Authority”), as landlord, and New York Mercantile Exchange, as tenant (“Tenant”), made as of the 18th day of May, 1995, for Site 15 (NYMEX) (the “Lease”). In exchange for reduced base rent, reduced payments in lieu of real property taxes, increased sales tax benefits, public monies contributed towards construction of a new commodities exchange headquarters on Site 15 and other certain benefits, NYMEX agreed to maintain its world headquarters at Site 15 and to comply with certain other conditions set forth in a separate agreement dated the same date as the Lease (the “Occupancy Agreement”) between the City of New York, the Authority, Tenant and certain other public parties. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of their provisions.

1. *Term:* The Lease commenced on the date of the Lease, or the Commencement Date and expires, unless sooner terminated, on June 17, 2069. The Lease contains an option to extend the Lease and a purchase option, if any other commercial tenant or commercial subtenant is granted an option to purchase or extend its lease beyond June 17, 2069, on comparable terms.

2. *Rental:* The primary components of rent under the Lease are base rent, payments in lieu of real estate taxes (“PILOT”) and Civic Facilities Payments.

(a) *Base Rent:* The Lease obligates Tenant to pay, on a monthly basis, base rent in the following amounts:

(i) \$1.00 for each lease year up to the date on which floor trading occurs, or the Occupancy Date, for the trading portion of the building (the “Trading Portion”) consisting of approximately 113,625 square feet; and \$1.00 for the office portion of the building (the “Office Portion”) consisting of approximately 386,375 square feet;

(ii) for each lease year commencing on the Occupancy Date and for 20 years: (A) \$1.00 for the Trading Portion; and (B) \$1,000,000 for first 7 years, \$1,500,000 for the next 6 years, and \$2,000,000 for the remaining 7 years for the Office Portion;

(iii) thereafter \$4,000,000, subject to adjustment based on fair market rent. The fair market rent is to be determined on the 1st day of the month next succeeding the 20th anniversary of the Occupancy Date and as of each subsequent 15th anniversary by an appraisal or agreed by Tenant and the Authority at least 6 months prior to any appraisal date. For each lease year and continuing for period of 15 years: (1) if the fair market rent is in excess of \$4,000,000, the base rent shall be the sum of \$4,000,000 plus ½ of the difference between fair market rent and \$4,000,000; or (2) if the fair market rent is less than \$4,000,000, the base rent shall be the difference of \$4,000,000 minus ½ of the difference between \$4,000,000 and fair market rent.

(b) *PILOT:* For each tax year, Tenant shall pay to the Authority, without notice or demand, on or before the last date taxes are payable, an annual sum of PILOT, which shall be payable for:

- (i) The Trading Portion: (A) subject to adjustment, from the Commencement Date to the 20th anniversary of the Occupancy Date, PILOT shall be zero and provided that if Tenant shall cease to use the Trading Portion for the purposes provided in the Lease and the Occupancy Agreement, PILOT shall be increased to an amount equal to real property taxes (subject, however, to any real property tax abatement, deferral or exemption which would be available from time to time if the premises were owned by an entity not exempt from the payment of taxes); and (B) thereafter continuing for the remainder of the term, PILOT shall be in an amount equal to real property taxes assessed on the Trading Portion, subject to adjustments for any real property tax abatement, deferral or exemption as described above.
- (ii) The Office Portion: (A) subject to adjustment as provided in (D) below, from the Commencement Date to the 2nd anniversary of the Occupancy Date, PILOT shall be zero; (B) subject to adjustment as provided in (D) below, for the next 10 years, PILOT shall be paid in amount equal to the following percentages of real property taxes in each tax year: 1st – 25%, 2nd – 32.5%, 3rd – 40%, 4th – 47.5%, 5th – 55%, 6th – 62.5%, 7th – 70%, 8th – 77.5%, 9th – 85%, 10th – 92.5%; (C) thereafter, PILOT shall be in an amount equal to real property taxes assessed on the Office Portion and (D) PILOT for subleased space shall be based upon a prorata amount of real property taxes on the building, without the abatement described in (A) or (B) (subject, however, to any real property tax abatement, deferral or exemption which would be available from time to time if the premises were owned by an entity not exempt from the payment of taxes).

Except for subleased space, in determining PILOT, the allocation of the total assessed value (1) of the land, is made on a pro rata basis based upon the square footage of each, and (2) of the improvements is (A) in the Office Portion, based on the number of rentable square feet of office space in the building multiplied by the then current, per square-foot assessed value of comparable office buildings in the project area and (B) the balance is allocated to the Trading Portion. The lease provides that the World Financial Center is deemed to be "comparable office buildings". Tenant is under the obligation to continue to pay the full amount of PILOT, notwithstanding that Tenant may have instituted tax assessment reduction or other actions or proceedings to reduce the assessed valuation of the premises. Tenant shall be entitled to an adjustment or a credit against future PILOT to the extent of any tax reduction, provided, however, that Tenant shall not be entitled to any refund of any such excess from the Authority.

- (c) *Civic Facility Payments*: As its allocable share of the cost of operating and maintaining civic facilities, Tenant shall pay to the Authority an annual sum in the amount of \$150,000, escalated annually by 3%, commencing on the first day of the first month following the Occupancy Date and ending on the last day of the term of the Lease.

3. *Insurance*: Both during and after completion of the building, Tenant is obligated to provide and keep in force insurance, including rent insurance in an amount equal to at least one year's current Base Rent, PILOT and Civic Facilities Payment and other insurance required by the Authority against hazards commonly insured by prudent owners of such buildings. The limits of coverage are specified in the Lease. All insurance provided (except for workers' compensation insurance) must name Tenant as named insured and the Authority, the City of

New York (the "City") and the New York State Urban Development Corporation, or UDC, as additional insureds to the extent of their respective insurable interests in the premises and shall be primary with respect to any other coverage the Authority may obtain, and certain insurance may name the mortgagee, if any. Loss under all policies against damage to the building shall be payable to the depository, designated by Tenant and such depository being an institutional lender, except that amounts of less than \$1,000,000 shall be payable directly to Tenant, in trust, for application to the cost of restoration. Such amount shall be adjusted on the 5th anniversary of the Commencement Date and on every 5th year thereafter based on the Consumer Price Index. All Rent Insurance shall provide in substance that all adjustments for claims with the insurers shall be made with the Authority and Tenant.

4. *Restoration:* If all or any part of the Building shall be destroyed or damaged in whole or in part by fire or other casualty Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such restoration, restore the building. The Authority in no event shall be obligated to restore the building or any portion thereof or to pay any of the costs or expenses thereof. If Tenant shall fail or neglect to restore the building as provided in the Lease, the Authority may, but shall not be required to, complete such restoration at Tenant's expense. Prior to commencing any restoration, Tenant shall furnish the Authority with an estimate of the cost of such restoration prepared by a licensed professional engineer or registered architect, and to the extent the cost of restoration equals or exceeds \$1,000,000, Tenant shall furnish to the Authority complete plans and specifications for the restoration and any required permits, a contract or construction management agreement and payment and performance bonds or such other security as shall be reasonably satisfactory to the Authority. To the extent that any portion of the restoration involves work on the exterior of the building or a change in height, bulk or setback of the building, or in any manner affects compliance with the master development plan, the design guidelines and declaration of restrictions, if applicable, Tenant shall furnish to the Authority a complete set of plans and specifications for the restoration prior to commencement of such restoration. The Lease shall not terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder, by reason of damage to or total, substantial or partial destruction of the building by reason of the untenability of the same for or due to any reason or cause whatsoever, and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the building had not been damaged or destroyed without abatement, suspension, diminution of any kind.

5. *Condemnation:* If all or substantially all of the premises shall be taken by any lawful power or authority by exercise of the right of condemnation or eminent domain or agreement among the Authority, Tenant and those authorized to exercise such right, the Lease and the Term shall end on the date of such taking and all obligations and liabilities of Tenant shall terminate and expire. In such case, the award, awards or damages shall be apportioned: first to the Authority for the value of land and civic facilities taken; next to the mortgagee which holds a first lien on Tenant's interest in the Lease; then if such taking is by the United States of America or any instrumentality thereof, the amount funded by the New York City Economic Development Corporation, or EDC, shall be amortized over 15 years and next paid to the Authority, for payments by the Authority under the Project Agreement to UDC and EDC, the unamortized portion thereof, unless Tenant shall have elected to remain in New York City, in

which event, such portion of the award shall be paid to Tenant; then next to the Authority for the Authority's reversionary interest in part of the building as described in the Lease; and subject to rights of any mortgagees, Tenant shall receive the balance, if any, of any such award.

If less than substantially all of the premises shall be taken, the Lease and the Term shall continue as to the portion of the premises remaining without abatement of the Base Rent or diminution of any of Tenant's obligations thereunder. Tenant shall proceed to restore any remaining part of the building in conformity with applicable plans. Any award should be first paid to the Authority for the value attributable to land and civic facilities, and the balance to be paid to depository and if less than \$1,000,000, in trust, to Tenant for application to the cost of restoration of the part of building not so taken. The obligations of Tenant to restore the building are similar to such obligations as discussed under the subheading "Restoration" above. If the temporary use of the whole or any part of the premises shall be taken, Tenant shall give notice to the Authority and the term shall not be reduced or affected in any way and Tenant shall continue to pay in full the rental payable without reduction or abatement, and Tenant shall be entitled to receive for itself any award or payments for such use subject to restrictions provided in the Lease.

6. *Assignment, Subletting:* Prior to the Lease Restrictions Expiration Date, as such term is defined in the Lease, neither the Lease nor any interest of Tenant in the Lease, shall be sold, assigned, or otherwise transferred, nor certain transfer of interests in Tenant made, nor shall Tenant sublet the premises as an entirety or substantially as an entirety without the consent of the Authority. Thereafter, Tenant may assign the Lease, sublet the premises as an entirety or substantially as an entirety or transfer certain interests in Tenant, without first obtaining the Authority's approval, provided no default shall have occurred and be continuing, unless it is cured simultaneously with such transfer, assignment or subletting. In no event shall Tenant assign the Lease, sublet the premises as an entirety or substantially as an entirety or enter into or effect any transfer of certain interests in Tenant to certain prohibited persons. The consent of the Authority shall not apply to acquisition of the premises by a mortgagee through foreclosure of its mortgage, so long as such mortgagee shall assume and agree to perform all of the terms, covenants and conditions of this Lease to be observed or performed by Tenant, excluding certain minimum occupancy requirements. Tenant shall not, without prior consent of the Authority, which may be withheld in the Authority's sole discretion, submit Tenant's leasehold to the provisions of Article 9-B of the NYS Real Property Law, as such may be amended.

Tenant may, without the Authority's consent, subject to minimum occupancy requirements, enter into agreements for the rental of space in the building for periods shorter than or equal to the remainder of the term of the Lease. In the event, at any time prior to the 15th anniversary of the 1st date on which floor trading occurs on the premises, Tenant enters into a sublease with other than its affiliate or a service provider, then, Tenant shall pay an increase in PILOT equal to taxes on such sublet premises (subject to any real property tax abatement, deferral or exemption which would be available from time to time if the premises were owned by an entity not exempt from the payment of taxes). The Authority, after an event of default by Tenant, may, subject to the rights of any mortgagee, collect subrent and other sums due under subleases. In the event of termination of the Lease, at the Authority's option, subtenants under a sublease shall attorn to or enter into a direct lease with the Authority on identical terms. In certain circumstances, the Authority agrees to recognize subtenants that are not affiliates of Tenant as the direct tenant of the Authority upon termination of the Lease.

7. *Mortgages:* Tenant shall have the right to mortgage or otherwise encumber Tenant's interest in the Lease. In the event Tenant so mortgages its interest, Tenant or a mortgagee shall give the Authority prompt notice and the Authority shall give notice to such mortgagee of each default. Each mortgagee shall have the right to cure such default in the manner set forth in the Lease and the Authority shall accept performance by a mortgagee with the same force and effect as though performed by Tenant. In case of termination of the Lease by reason of any event of default, the Authority shall give prompt notice thereof to each mortgagee of such termination, and, at such mortgagee's request, shall enter into a new lease with such mortgagee, or its designee or nominee, for the remainder of the term subject to all covenants, conditions, limitations and agreements contained in the Lease. In such event, such mortgagee shall pay to the Authority all unpaid rental due and all expenses incurred by the Authority in connection with the default by Tenant and termination of the Lease, and shall cure all defaults susceptible of being cured. Concurrently, the Authority shall assign to such mortgagee all of its right, title and interest in and to moneys, if any, then held by or payable to the Authority or depository that Tenant would have been entitled to receive but for termination of this Lease. If there is more than one mortgage, the Authority shall only recognize the mortgagee whose mortgage is senior in lien and that has requested a new lease of the premises.

8. *Repairs:* Tenant shall, at its sole cost and expense, put and keep in good condition and repair the premises and fixtures, and shall put, keep and maintain the building in good and safe order and condition and make all repairs therein and thereon, interior and exterior, structural or nonstructural, ordinary and extraordinary, foreseen and unforeseen, necessary or appropriate to keep the same in good and safe order and condition, and whether or not necessitated by wear, tear, obsolescence or defects, latent or otherwise.

9. *Compliance with Requirements:* Tenant promptly shall comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the premises. Tenant shall have the right to contest the validity of any such requirements or the application thereof.

10. *Capital Improvements:* Tenant shall have the right to make capital improvements to the building, provided that any such capital improvement, when completed, shall be of such a character as not to materially reduce the value of the premises. If the estimated cost of any proposed capital improvement exceeds \$1,000,000 (as adjusted), Tenant shall: a) pay to the Authority the reasonable fees and expenses of any architect or engineer selected by the Authority to review the plans and specifications and inspect work; and b) furnish to the Authority complete plans and specifications for such capital improvement, a contract or construction management agreement and bonds or other security reasonably satisfactory to the Authority. To the extent that any portion of the capital improvement involves work which affects the structural elements of the building or work involving the exterior or a change in the height, bulk or setback of the building, Tenant shall furnish to the Authority complete plans and specifications at the Authority's request. Title to all additions, alterations, improvements and replacements made to the building shall forthwith vest in the Authority, without any obligation by the Authority to pay any compensation therefor to Tenant.

11. *Discharge of Liens:* Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the premises, or the project area, and shall not suffer any other matter or thing whereby the estate, right and interest of the Authority in the premises might be impaired. Tenant may finance any equipment. If any lien at

any time shall be filed against the premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise. Tenant shall have no power to do any act or make any contract which may create or be the foundation for any lien, mortgage or other encumbrance upon the estate or assets of, or funds appropriated to, the Authority or of any interest of the Authority in the premises.

12. *Limitations on Liabilities:* The Authority shall not in any event whatsoever be liable for any injury or damage to Tenant or to any other person happening on, in or about the premises, nor for any injury or damage to the premises which may be caused by any fire or breakage, or by the use, misuse or abuse of the building or which may arise from any other cause whatsoever except to the extent any of the foregoing shall have resulted from the negligence or wrongful act of the Authority; nor for the acts or failure to act of any other tenant of any premises within the project area other than the premises, or of any agent, representative, employee, contractor or servant of such other tenant. In no event shall Tenant be liable to the Authority or to any other person for any injury or damage to the Authority or to such other person happening on, in or about the premises and its appurtenances which may be caused by the Authority's civic facilities or the existence of any hazardous, toxic or dangerous waste, substance or material in the soil or subsurface, except to the extent that the same shall have been caused in whole or in part by the negligence or wrongful act of Tenant.

13. *The Authority's Right to Perform:* If Tenant at any time shall be in default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a mortgagee, respectively, to cure or commence to cure same, the Authority, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may but shall be under no obligation to perform such obligation on Tenant's behalf. All associated expenses shall be paid by Tenant.

14. *Events of Default:* The following events shall be Events of Default under the Lease: a) failure of Tenant to pay any item of Rental for 10 days after notice from the Authority to Tenant; b) failure of Tenant to observe or perform one or more of the other terms contained in this Lease which failure continues for a period 30 days after notice thereof by the Authority specifying such failure; c) admission, in writing, by Tenant that it is unable to pay its debts as such become due; d) an assignment for the benefit of creditors; e) filing of a bankruptcy petition; f) the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days; g) the assignment of the Lease, sublease, or transfer of certain interests in Tenant, without the Authority's approval to the extent required which transaction does not comply with the terms of the Lease or is voided ab initio within 30 days after notice thereof from the Authority; h) a levy against the premises which is not vacated or removed within a period of 30 days from the date on which Tenant shall have received notice of same; i) failure by Tenant to maintain its corporate existence in good standing and continue for 30 days after notice thereof to Tenant; j) default by Tenant under the Funding Agreement or Occupancy Agreement which default shall not have been remedied within any applicable grace or cure period provided therein; and k) amendment, modification or execution of a supplement to the Severance Tenants Agreement without the prior consent of the Authority.

If an Event of Default shall occur, and Tenant shall fail to cure it within 10 days after receipt of written notice from the Authority, the Authority may: elect to declare due and payable

a sum equal to the amount by which the rental reserved in this Lease for the period which otherwise would have constituted the unexpired portion of the Term exceeds the fair and reasonable rental value of the premises for the same period, both discounted to present worth at the rate of 8%; give notice that the Lease and the Term shall expire and terminate on the date specified in such notice; re-enter and repossess the premises using such force for that purpose as may be necessary without being liable to indictment, prosecution or damages therefor and may dispossess Tenant by summary proceedings or otherwise. Tenant shall pay to the Authority all costs and expenses incurred by the Authority in any action or proceeding to which the Authority may be made a party by reason of any act or omission of Tenant, in enforcing any of the covenants and provisions of this Lease and incurred in any action brought by the Authority against Tenant on account of the provisions hereof within 15 days after demand by the Authority.

15. *Civic Facilities:* The Authority has the obligation to construct certain enumerated the Authority's civic facilities and Tenant has the obligation to construct certain other civic facilities. the Authority and Tenant shall take good care of and be responsible for compliance with requirements, discussed above, and shall maintain and repair their respective civic facilities. Tenant's sole remedies for a failure by the Authority to substantially complete the Authority's civic facilities shall be: a) an extension of the Scheduled Completion Date, and b) the right to engage in Self-Help and to receive offset against Base Rent and Civic Facilities Payment. If all or any part of the Authority's civic facilities shall be destroyed or damaged, the Authority, at no cost and expense to Tenant, shall restore. In the event the Authority shall fail to perform the Authority's construction or maintenance, the Authority shall incur no penalty or liability and Tenant shall have no remedies or rights other than as expressly provided in the Lease.

16. *Subordination:* the Authority's interest in the Lease shall not be subject or subordinate to any mortgage or any other liens or encumbrances upon Tenant's interest in the Lease.

17. *Limitations on the Authority's Liability:* The liability of the Authority shall be limited to the Authority's interest in the premises. Neither the Authority nor any of its members, directors, officers, employees, agents or servants shall have any liability (personal or otherwise) hereunder beyond the Authority's interest in the premises, and no other property or assets of the Authority or any such person or any of the members, directors, officers, employees, agents or servants of either shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

18. *Limitations on Tenant's Liability:* The liability of Tenant hereunder for damages or otherwise shall be limited to the property and assets of Tenant. Neither the Tenant nor any of the members, directors, officers, shareholders, partners, managers, principals or joint venturers, employees, agents or servants of Tenant or its partners, members or shareholders shall have any liability (personal or otherwise) hereunder beyond the property or assets of the Tenant, and no property or asset of any such excluded persons shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Authority's remedies hereunder.

19. *Security Deposit:* Tenant shall deposit with the Authority as security the following amounts in cash or other security: up to \$10,000,000 at the time and in the manner provided in the Funding Agreement; \$10,000,000 for the period of 5 years from the Occupancy Date; \$7,500,000 for 5 years thereafter; \$5,000,000 for 5 years thereafter; and zero thereafter.

LEASE FOR SITE 26 (Goldman, Sachs & Co.)

The following is a description of the major provisions of the Lease for Site 26 (Goldman Sachs), or the Lease between Battery Park City Authority, d/b/a Hugh L. Carey Battery Park City Authority (the “Authority”), as landlord, and Goldman Sachs Headquarters LLC, as tenant (“Tenant”), made as of the 23rd day of August, 2005, for Site 26 (Goldman Sachs) (the “Lease”). In exchange for reduced base rent, reduced payments in lieu of real property taxes, increased sales tax benefits, public monies contributed towards construction of a new headquarters at Site 26 and certain other benefits, Goldman Sachs agreed to locate its headquarters at the Premises. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of its provisions.

1. **Term:** The Lease commenced on August 23rd, 2005, (the “Commencement Date”), and expires, unless sooner terminated, on June 17, 2069. The Lease contains an option to extend the Term and a purchase option if any other tenant or subtenant of a fee owner in Battery Park City is granted an option to purchase the fee or extend its lease term beyond June 17, 2069, on comparable terms.

2. **Rental:** The primary components of rent under the Lease are base rent (“Base Rent”), payments in lieu of real estate taxes (“PILOT”), payments in Lieu of Sales and Use Tax (“PILOST”) and Civic Facilities Payments.

(a) **Base Rent:** The Lease obligates Tenant to pay in advance, in one installment, the total Base Rent for the entire Term in the sum of One Hundred Sixty Million Nine Hundred Twenty Thousand and 00/100 Dollars (\$160,920,000.00) into the Payment Escrow pursuant to the Payment Escrow Agreement as defined in the Lease, and which portion of the Payment Escrow shall constitute the Ground Lease Payment Escrow with the following qualifiers:

- (i) There shall be no apportionment of Base Rent; and
- (ii) In the event the Lease Term shall end on a date prior to the Lease expiration date, or should the Lease be rejected pursuant to a bankruptcy or similar proceeding; Landlord shall have no obligation to refund to, or to otherwise credit Tenant with any portion of Base Rent; and
- (iii) Should the Lease be terminated in the event of a taking of all, or substantially all of the Premises as defined in Article 9 of the Lease (see condemnation provisions hereinafter described) prior to the release of the Payment Escrow Agreement, then Tenant shall be entitled to the payment of such escrowed amounts; however, such payments shall be credited against amounts which Tenant would otherwise be entitled as defined in Article 9 of the Lease.
- (iv) Notwithstanding the above, Landlord agrees that if Tenant shall pay the New York City commercial rent or occupancy tax imposed by Section 11-702 of the New York City Administrative Code (“CROT”), or any successor imposition in respect of Base Rent, and provided the CROT payment is not made under protest or pursuant to a final order, Tenant shall be entitled to credits in the aggregate amount of CROT so

paid to a maximum of \$6,000,000.00 against its next payment or payments of PILOT, plus interest at 7.75% per annum with respect to such portion of the credit that remains unapplied from time to time.

Amounts held in the Payment Escrow shall be payable to the Landlord if prior to December 31, 2009 (which date may be extended to not later than March 31, 2010) there shall have been developed and implemented portions of the required security plan, which is the responsibility of the City and the State.

(b) **PILOT:** For each Tax Year, which is defined as each annual period commencing on July 1 and ending the following June 30 of any given year in the Term, Tenant shall pay to the Landlord, without notice or demand, on or before the last date taxes are payable, a sum of PILOT, which shall be payable as follows:

(i) Commencing on the PILOT Benefit Commencement Date, which is the earlier of: (x) July 1, 2007, provided assessable Building infrastructure has not been created prior to January 5, 2006; or (y) July 1st following the first taxable status date on which the Department of Finance determines that assessable Building infrastructure at the Project Premises have been created, tenant will make PILOT payments for each Tax Year except as follows:

A. From the PILOT Benefit Commencement Date to the day immediately preceding the eighth anniversary of said commencement date, Tenant will make semi-annual PILOT payments for each Tax Year equal to the least of (i) Full Real Estate Property Taxes; (ii) the Capped Pilot², or an amount equal to the lesser of the sum of:

a) With respect to the Land: the product of (x) the AV (assessed value), defined as the lesser of the taxable transitional or taxable actual assessed value for such Tax Year of the Land, as computed as per sub-Section 1805(b) of the New York State Real Property Tax Law as certified on the assessment roll by the Commissioner of Finance as delivered to the City Council of the City of New York for such Tax Year, without giving effect to any exemption, abatement or reduction in assessed value available through any as-of-right program, of the Land only, for such Tax Year and (y) the lesser of 11.58% or the actual real property tax rate for the Land only for such Tax Year; and

b) With respect to the building: the product of (x) the AV for such Tax Year less the Exemption Amount determined in accordance with the following schedule: for (i) years one through four, 100% of the

² Capped Pilot means: for any Tax Year, the product of (1) total gross square footage of the Building (calculated by the Dept. of Finance, *provided that* prior to substantial completion of the Building, the total gross square footage of the Building shall be assumed to be the total gross square footage as shown by the then most recent plans on file with the Dept. of Buildings) and (2) the quotient of (A) the aggregate payments in lieu of real property taxes (final determination) with respect to any such Tax Year payable in respect of the World Financial Center (including NYMEX building) divided by (B) the aggregate gross square footage (as calculated by the Dept. of Finance) of the World Financial Center (including the NYMEX building; and (3) 115%.

Exemption Base³; (ii) year five, 80%; (iii) year six, 60%; (iv) year seven, 40%; and (v) year eight, 20% ; and (y) the lesser of 11.58% or the actual real property tax rate for the Building for such Tax year; and

B. From the eighth anniversary of the PILOT Benefit Commencement Date to the day immediately prior to the twentieth anniversary date of the PILOT Benefit Commencement Date Tenant will make semi-annual installments for each Tax Year equal to the least of (x) Full Real Property Taxes; (y) the Capped PILOT; or (z) the sum of:

- a) With respect to the Land: the product of (x) the AV of the Land for such Tax Year and (y) the lesser of 11.58% or the actual real property tax rate for the Land for such Tax Year;
- b) With respect to the Building: the product of (x) the AV of the Building for such Tax year and (y) the lesser of 11.58% or the actual real property tax rate for the Building for such Tax Year; and

if Tenant constructs Additional Improvements which qualify for an As-Of-Right Tax Reduction, then the PILOT in respect of the Building shall be reduced by the AV of the Additional Improvements and Tenant shall make additional PILOT payments for the Additional Improvements based upon the product of the following: the Exemption AV – Additional Improvements for such Tax Year; and either (i) for periods prior to the 20th anniversary of the PILOT Benefit Commencement Date, the lesser of 11.58% or the actual real property tax rate for the Additional Improvements for such Tax Year; or (ii) for periods after the twentieth anniversary date of the PILOT Benefit Commencement Date, the actual real property tax rate for the Additional Improvements for the Tax Year minus any additional As-Of-Right Tax Reduction not included in the calculation of Exemption AV – Additional Improvements.

C. Tenant shall pay a PILOT equal to Full Real Property Taxes on generator equipment located at the Building, but only to the extent that Tenant would not have been eligible, prior to the twentieth anniversary of the PILOT Benefit Commencement Date to receive ICIP tax benefits in respect of such equipment. Under certain qualifiers as defined in Section 3.02 of the Lease, Tenant will make PILOT payments in respect of such equipment, and be entitled to the PILOT benefits. Tenant's PILOT obligation up to the twentieth anniversary of the PILOT Benefit Commencement Date shall not exceed the Capped PILOT.

D. Notwithstanding the above, PILOT shall equal Full Real Property Taxes for each Tax Year or portion thereof for any portion of the Building sublet to an unrelated third party by Tenant and PILOT for any such portion of the Building shall be calculated based upon the product of: (x) Full Real Property Taxes for the Building for the Tax year or portion thereof in question, and (y) a ratio, the numerator of which shall be the gross

³ Exemption Base means: for any Tax Year commencing on or following the PILOT Benefit Commencement Date, the AV of the Building at the Site made since the date of issuance by the Dept. of Buildings of a building permit for the construction work described in the initial Approved Plans which are attributable exclusively to the construction work described in the Approved Plans, provided such improvements have been completed within forty-two months of the Building Permit Issuance Date.

square footage of the Building occupied by such third party subtenant, and the denominator of which shall be the total gross square footage of the Building.

(c) **Civic Facility Payments:** As its allocable share of the cost of operating and maintaining civic facilities, Tenant shall pay to the Landlord, commencing on January 1, 2009, which is the Initial CFP Date, Civic Facility Payments (“CFP”), payable in equal monthly installments in advance, as follows: (i) the product of the gross square feet of the Building, or if not yet constructed, the gross square feet of floor area in the Construction Documents multiplied by \$0.4136, for the Initial CFP period, which period runs from the Initial CFP date to December 31, 2009 (the “First CFP Period”); and (ii) for each Lease Year after the First CFP Period and for the balance of the Term, a sum equal to the immediately prior year’s CFP increased by 3%.

3. **Insurance:** Tenant shall, after Substantial Completion of the Building, and thereafter for the full Term of the Lease, keep in full force and effect, among other coverages, (i) an All Risk of Physical Loss form of policy on an Agreed Amount basis, and (ii) a rental loss and/or business interruption policy equal to not less than one year’s PILOT and Civic Facilities Payments; all policies shall name the Tenant as the insured and the Landlord as an additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee endorsement, provided Mortgagee irrevocably agrees in writing for the benefit of Landlord to apply all proceeds of an award in accordance with the terms of the Lease. All Rent Insurance shall be for the benefit of Landlord and Tenant, but the proceeds shall be paid to Depository to be applied to PILOT and Civic Facilities Payments and any other sums due and owing until completion of such Restoration by Tenant. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of five million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee; as their interests may appear; however the rental loss and/or business interruption insurance for amounts not in excess of the amount of insurance shall be made with Landlord and Tenant only.

4. **Restoration:** If all or any part of the Building or Tenant’s Civic Facilities as defined in the Lease, shall be destroyed or damaged in whole or in part by fire or other casualty Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, restore the Building and or Tenant’s Civic Facilities. As per Section 26.07 of the Lease, in no event is Tenant responsible for Restoration or reconstruction of Landlord’s Civic Facilities. The Landlord in no event shall be obligated to restore the Building or any portion thereof or to pay any of the costs or expenses thereof. Should Tenant fail or neglect to restore the Building as provided in the Lease, the Landlord may, but shall not be required to complete such Restoration at Tenant’s expense. Tenant shall restore the Building to the same primary use, and to the same height, bulk, quality and setback of the Building as existed immediately prior to the occurrence. Tenant shall furnish the Landlord within 120 days of an occurrence an estimate of the cost of such restoration prepared by a licensed professional engineer or registered architect. In the event the cost of restoration exceeds five million dollars, and the net insurance proceeds, then unless Landlord approves of the payment and performance bonds as provided for in Section 8.04(a)(ii) of the Lease, then Tenant shall deposit with Depository, as security for the completion of the restoration, security reasonably satisfactory to Landlord in the amount of such excess to be held and applied by Depository in accordance with Section 8.02 of the Lease. The Lease shall not

terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total substantial or partial destruction of, the Building by reason of the untenantability of the same for, or due to, any reason or cause whatsoever, and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the Building had not been damaged or destroyed without abatement, suspension, or diminution of any kind. Notwithstanding the above, should the estimated cost of any Restoration to be performed due to casualty or condemnation in the last ten years of the Term exceed twenty five percent of the full replacement cost, Tenant, at its option, may cancel the Lease upon ten days notice. The Term shall end on the date indicated in the notice. The Tenant shall have no obligation to perform such Restoration, provided however, at Landlord's option, Tenant shall demolish the Improvements on the Land. All proceeds of insurance for such damage, other than the amount reasonably necessary to demolish the Improvements, shall be paid to Landlord, and Tenant shall pay Landlord an amount equal to the deductibles applicable to the loss under the insurance policies, under which such proceeds were received.

5. ***Condemnation:*** If the whole or substantially all of the Premises shall be taken, (excluding a taking of the fee interest in the Premises, if after such taking Tenant's rights under the Lease are not affected), for any public or quasi public purpose by any lawful power or authority by exercise of the right of condemnation or eminent domain or agreement among the Landlord, Tenant and those authorized to exercise such right, the Lease and the Term shall terminate and expire. Any claim in respect of a leasehold interest superior to that of Tenant, as well as any claim by the tenant under the Master Lease shall be subject and subordinate to Tenant's claims pursuant to Article 9 of the Lease, and provided that the foregoing shall not be construed as Tenant permitting such leasehold interest. In such case, the award, awards, or damages shall be apportioned: (i) first to the Landlord for so much of the award which is for, or attributable to, the value of land so taken, considered as unimproved and encumbered by the Lease, and the provisions contained therein, including the benefits accruing to Landlord, and any improvements made by Landlord on the Premises so taken; (ii) next, to the Mortgagees, in accordance with the priority of their mortgages, so much of the balance of such award as shall be (x) equal the lesser of the unpaid principal indebtedness secured by such Mortgages with interest thereon at the rate specified therein to the date of payment and (y) prior to the tenth anniversary of the Commencement Date, an amount equal to eighty percent of the costs of the Building, as reasonably established by Tenant; and thereafter (z) an amount equal to eighty percent of the fair market value of the Building immediately prior to such taking, as established by an appraisal reasonably acceptable to Tenant and Landlord; (iii) next, to Landlord for so much of the award which is for, or attributable to, the value of Landlord's reversionary interest in that part of the Building taken (it being agreed that for a period of forty years from the Scheduled Completion Date as set forth in the Lease, the value of the Landlord's reversionary interest in the Building shall be zero; and (iv) subject to the rights of any Mortgagees, to Tenant for the balance, if any, of the award.

If less than substantially all of the premises shall be taken, the Lease and the Term shall continue as to the portion of the premises remaining without abatement of the Base Rent or diminution of any of Tenant's obligations thereunder. Tenant shall proceed to restore any remaining part of the Building in conformity with applicable plans. PILOT shall be adjusted to reflect any changes to gross square footage of the Building or the assessed valuation of the

Premises resulting from such taking. Tenant shall restore the Building in accordance with the Design Guidelines and to the same primary use and to the same quality, height, bulk and setback of the Building existing immediately prior to such occurrence. In the event of a less than substantial taking, the award shall be payable first to Tenant for restoration in accordance with the Lease; then to Landlord to the extent attributable to the Land; and next to mortgagees in the order of priority of any respective liens and if there are no Mortgagees, then to Tenant in accordance with the terms of the Lease. In the event of an award of five million dollars or less, such amount shall be payable, in trust, to Tenant for application to the cost of Restoration of the part of the Building not so taken; if such balance shall be more than said amount, the same shall be paid to Depository, if any, less all necessary and proper third-party expenses paid or incurred by Tenant, Depository, the Mortgagee most senior in lien status, or its designee, and Landlord in the condemnation proceedings.

In the event of a temporary taking which does not extend beyond the Term, Tenant shall continue to pay, in full, the Rental without reduction or abatement, and if any award or payment is made less frequently than monthly installments, the same shall be paid to and held by Depository as a fund which shall be applied from time to time to the payment of Rental; however, if such taking results in changes in the Building which necessitate an expenditure to restore the Building to its former condition, then a portion of the award or payment considered by Landlord in its reasonable opinion, appropriate to cover the expenses of Restoration shall be retained by Depository without application as aforesaid, and applied and paid over toward the Restoration of the Building to its former condition and substantially in the same manner and subject to the same conditions. If the taking is for a period extending beyond the Term, such award or payment shall be equitably apportioned between Landlord and Tenant as of the Expiration Date and Landlord's and Tenant's share thereof, if paid less than once monthly shall be paid to and administered by Depository in accordance with Section 9.05 of the Lease.

Pursuant to the Lease Landlord, Tenant, and any Mortgagee shall be entitled to file a claim and to otherwise participate in any condemnation or similar proceeding and all hearings, trials and appeals in respect thereof. Landlord represents that under current law it does not have the authority to condemn all or any part of the Premises.

6. Assignment, Subletting: Prior to Substantial Completion of the Building, neither the Lease nor any interest of Tenant in the Lease, shall be sold, assigned, or otherwise transferred whether by operation of law or otherwise; however, so long as no Default exists under the Lease, or shall arise by reason of any action or inaction that would violate the transfer provisions under Section 10.01(a), and the Goldman Parent Controls Tenant, then Section 10.01(a) shall not prohibit any Transfer or subletting of the Premises as an entirety or substantially as an entirety to an affiliate and shall not prohibit Tenant or any Person who owns a direct or indirect interest in Tenant from granting a Mortgage, or the exercise by a Mortgagee of remedies under any such Mortgage. From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to a Transfer assignment of Tenant's interests or subletting, provided that no event of Default shall have occurred and be continuing under this Lease and Tenant shall have complied with the provisions of Article 10 of the lease in connection with such Transfer, assignment, or subletting. As a condition to the effectiveness of any such transfer, assignment or subletting, Tenant shall provide the notice to Landlord, and shall comply with all other requirements as set forth therein regarding identification of parties and furnishing of documentation. In no event shall Tenant make, suffer, or permit any Transfer, Mortgage,

Assignment or sublet to a party, who at the time of such event is a Prohibited Person⁴ or is controlled by a Prohibited Person, whether directly or indirectly. The consent of the Landlord shall not apply to acquisition of the Premises by a Mortgagee, or qualifying Mortgagee Designee, qualifying as such designee in accordance with terms of Section 10.01(iv)(f), through foreclosure of its Mortgage or by an instrument of transfer delivered in lieu thereof, so long as such Mortgagee or Mortgagee Designee shall agree to assume and agree to perform all of the terms, covenants and conditions of the Lease thereafter to be observed or performed by Tenant. Subject to the provisions of 10.01(c) Tenant may enter into leases for the rental of space in the Building and agreements for the occupancy of such space pursuant to licenses or concessions for periods shorter than, or equal to, the Term at the time of such lease agreement (collectively "Subleases"). Permitted Subleases shall not include any such sublease, license, concession or other occupancy arrangement with any Affiliate of Tenant unless the same shall constitute a Qualifying Sublease⁵. Subject to the rights of a qualifying Mortgagee as defined in the Lease, Landlord retains the right to participate in Sublease rents during a continuing Event of Default.

7. ***Mortgages:*** Tenant shall have the right to mortgage or otherwise encumber Tenant's interest in the Lease. In the event Tenant so mortgages its interest, Tenant or a Mortgagee shall give the Landlord notice of such Mortgage and provide Landlord with a complete and correct copy of such Mortgage certified by Tenant or such Mortgagee and shall provide the name and address of such Mortgagee. Landlord shall give notice to such Mortgagee of each default in accordance with Article 25 of the Lease. Landlord shall accept performance of any obligation of Tenant by Mortgagee, with the same force and effect as though performed by Tenant. In the event of a modification or amendment of the Lease made subsequent to the date of the Mortgage, and delivery to Landlord in accordance with the notice provisions, then Mortgagee shall not be liable under the provisions of the Lease unless such Mortgagee consents to such modifications or amendments. In the event of Termination of the Lease by reason of any Default, the Landlord shall give prompt notice thereof to each Mortgagee of such termination, and, at such Mortgagee's request made within thirty days after the giving of notice from Landlord, shall enter into a new lease with such Mortgagee for the Premises, or such portion of

⁴ Prohibited Person means: a Person (i) (x) who has ever been convicted of a felony, (y) against whom any action or proceeding is pending to enforce rights of the State of New York or any agency, department, public authority or public benefit corporation thereof arising out of a mortgage obligation to the State of New York or to any such agency, department, public authority or public benefit corporation, or (z) with respect to whom any notice of substantial monetary default which remains uncured has been given by the State of New York or any agency, department, public authority or any public benefit corporation; (ii) on the most current list of "Specifically Designated National and Blocked Persons", or on any other similarly designated lists promulgated from time to time by any agency of the U.S. government and with whom the conduct of business is prohibited; or (iii) who is a "designated national," "specifically designated national," "specially designated terrorist," "specially designated global terrorist," "foreign terrorist organization," or "blocked person" within the definitions set forth in the Foreign Assets Control Regulations of the United States Treasury Department, 31 C.F.R., Subtitle B, Chapter V, as amended from time to time.

⁵ Qualifying Sublease means: a Sublease (a)(x) which is made at a net effective rental of not less than the fair market rental for the space demised thereunder as of date of execution and delivery (taking into account all of the terms and conditions of such Sublease), which must be conclusively established by the delivery, within ninety (90) days after the effective date of the Sublease, of an Appraiser's Certificate or (y) with respect to which, each Mortgagee shall have agreed in writing substantially to the effect that it will not join the subtenant as a party defendant in any foreclosure action or proceeding which may be instituted or taken by the Mortgagee, nor evict the subtenant from the portion of the premises demised to it, except by reason of the subtenant's rights under such Sublease, nor affect any of the subtenant's rights under such Sublease by reason of any default under its Mortgage, and (b) which is entered into in accordance with all of the requirements of this Lease applicable to Subleases.

the Premises subject to the Lease, or its designee or nominee, for the remainder of the Term subject to all covenants, conditions, limitations and agreements contained in the Lease, provided in such event, such Mortgagee shall pay to the Landlord all unpaid Rental from the date of termination up to and including the date of commencement of the term of such new lease, and together with all expenses incurred by the Landlord in connection with the default by Tenant, termination of the Lease, and all expenses incurred in connection with the new lease with Mortgagee, and Mortgagee shall perform all obligations if Tenant susceptible of being performed by Mortgagee. Concurrently, the Landlord shall assign to such Mortgagee all of its right, title and interest in and to moneys, if any, then held by or payable to the Landlord or Depository that Tenant would have otherwise been entitled to receive but for termination of the Lease.

8. **Repairs:** Tenant shall, at its sole cost and expense, put and keep in good condition and repair the premises and fixtures, and shall put, keep, and maintain the Building in good and safe order and condition and make all repairs therein and thereon, interior and exterior, structural or nonstructural, ordinary and extraordinary, foreseen and unforeseen, necessary or appropriate to keep the same in good and safe order and condition, and whether or not necessitated by wear, tear, obsolescence or defects, latent or otherwise. Tenant shall take good care of the Tenant's Civic Facilities and shall make all repairs necessary to maintain same in first-class condition. If Tenant is in compliance in all material respects with its obligations with respect to the Pedestrian Walkway, and there is no event of Default that is continuing, then Tenant shall be entitled to enforce the rights of Landlord against the tenant of another site in Battery Park City for reimbursement of a portion of the cost of removing dirt, rubbish, snow and ice from the pedestrian walkway.

9. **LEED Compliance:** Tenant acknowledges that the incorporation of environmentally responsible building methods and systems into the Building is an important goal of Landlord and Tenant and the same is thus a material obligation of Tenant; therefore, the Building shall be constructed in a manner consistent with the achievement of a gold rating on the LEED-NC version 2.1 rating system of the United States Green Building Council, as published in November 2002.

10. **Compliance with Requirements:** Tenant promptly shall comply with any and all applicable present and future laws, rules, orders, ordinances, including without limitation Environmental Statutes, etc. affecting the premises. Tenant shall have the right to contest the validity of any such requirements or the application thereof; however if the amount of compliance with the requirement exceeds five million dollars, then Tenant shall furnish to Landlord or deposit with Depository a qualifying bond, cash or other security reasonably satisfactory to Landlord securing compliance with the requirement.

11. **Purchase Option:** If any other tenant or subtenant of Landlord or any tenant or subtenant of any other owner of property in Battery Park City purchases, or is granted by Landlord or such other fee owner the right or an option to purchase, the fee interest relating to its leased premises, Tenant shall be offered an option to purchase the Premises on comparable terms.

12. **Capital Improvements:** Tenant shall have the right to make capital improvements to the building, provided that any such capital improvement, when completed, shall be of such a character as not to materially reduce the value of the premises and shall be in compliance with

the Design Guidelines for the Building. If the estimated cost of any proposed capital improvement exceeds \$5,000,000 (as adjusted) in any twelve month period, or should the improvement not exceed \$5,000,000 but such improvement impacts or affects the structural integrity of the building, or the exterior appearance of the Building, then Tenant shall: a) pay to the Landlord the reasonable fees and expenses of any architect or engineer selected by the Landlord to review the plans and specifications and inspect work; and b) furnish to the Landlord to Landlord twenty days in advance complete plans and specifications for such capital improvement, a contract or construction management agreement and bonds or other security reasonably satisfactory to the Landlord. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in the Landlord, without any obligation by the Landlord to pay any compensation therefor to Tenant.

13. ***Discharge of Liens:*** Tenant shall not create or permit to be created any lien, encumbrance or charge upon the Premises, or the Project Area, and shall not suffer any other matter or thing whereby the estate, right and interest of the Landlord in the Premises or the Project Area, or any part thereof, the income therefrom or any asset of, or funds appropriated to Landlord. Tenant shall not create suffer to exist any other matter or thing whereby any interest of the Landlord in the Premises, or any part thereof may be impaired, provided Tenant's obligations shall not relate to any Landlord's Lien or any lien, encumbrance or charge resulting from any Pre-Existing Environmental Condition. Tenant may finance any equipment. If any lien at any time shall be filed against the premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise within forty-five days of notice of the foiling thereof. Tenant shall have no power to do any act or make any contract which may create or be the foundation for any lien, mortgage or other encumbrance upon the estate or assets of, or funds appropriated to, the Landlord or of any interest of the Landlord in the premises.

14. ***Limitations on Liabilities:*** Landlord shall not in any event whatsoever be liable for any injury or damage to Tenant or to any other person happening on, in or about the premises, nor for any injury or damage to the premises which may be caused by any fire or breakage, or by the use, misuse or abuse of the Building or which may arise from any other cause whatsoever, except to the extent any of the foregoing shall have resulted from the negligence or wrongful act of the Landlord or its officers agents, employees, contractors, servants, or licensees. Nor for the acts or failure to act of any other tenant of any premises within the Project Area other than the Premises, or of any agent, representative, employee, contractor or servant of such other tenant. Landlord shall not be liable to Tenant or to any other Person for any failure of water supply, gas or electric current, injury or damage to the property of Tenant or of any other Person or to the Premises caused by gasoline, oil, steam, gas, electricity, hurricane, tornado, flood, or similar storms or disturbances, sewer, gas mains or subsurface area or interference with light or other incorporeal hereditament by anybody, or caused any public or quasi-public work, except to the extent any of the foregoing shall have resulted from the negligence or wrongful act of the Landlord, or its officers agents, employees, contractors, servants, or licensees. In addition, in no event shall Landlord be liable to Tenant or to any other Person for any injury or damage to any property of Tenant or of any other person or to the Premises arising out of any sinking, shifting, movement, subsidence, failure in load bearing capacity of or other matter or difficulty related to, the soil, or other surface or subsurface materials on the Premises or in the Project Area, except to the extent any of the foregoing shall have resulted from the negligence or wrongful act of the

Landlord, or its officers agents, employees, contractors, servants, or licensees, it being agreed that Tenant shall assume and bear all risk of loss with respect thereto.

15. ***Indemnification of Landlord:*** Tenant, to the fullest extent permitted by law shall indemnify and save Landlord, and any former Landlord and the State of New York and their agents, directors, officers and employees (collectively the "Indemnitees") harmless from and against any and all liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses, including, without limitation, reasonable engineers architects and attorneys fees and disbursements, which may be imposed upon or incurred by, or asserted against any of the Indemnitees by reason of any occurrence or matter as set forth in Article 19 of the Lease and relating to construction and operation of the Building, in the manner therein set forth during the Term, except with respect to Landlord's Liens or to the extent that the same shall have been caused by the negligence or wrongful act of any of the Indemnitees.

16. ***Landlord's Right to Perform:*** If Tenant at any time shall be in default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may but shall be under no obligation to perform such obligation on Tenant's behalf. All associated expenses shall be paid by Tenant.

17. ***Events of Default:*** The following events shall be Events of Default under the Lease: a) if Tenant shall fail to pay any item of Rental for 10 days after notice from the Landlord to Tenant; b) if Tenant shall fail to observe or perform any of the other terms contained in this Lease which failure continues for a period 30 days after notice thereof by the Landlord specifying such failure; c) if Tenant shall admit, in writing, that it is unable to pay its debts as such become due; d) an assignment for the benefit of creditors; e) if tenant shall file a bankruptcy petition; f) if within 90 days after the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code, the same shall not have been dismissed ; g) if the Lease shall be assigned, subleased, transferred, mortgaged or encumbered without the Landlord's approval to the extent required which transaction does not comply with the terms of the Lease or is not voided ab initio within 30 days after notice thereof from the Landlord; h) if a levy under execution or attachment shall be made against the Premises which is not vacated or removed within a period of 60 days from the date on which Tenant shall have received notice of same; i) if Tenant shall fail to maintain its corporate existence in good standing and continue for 30 days after notice thereof to Tenant; j) if Tenant shall default under a certain Staging Letter, which default shall not have been remedied within any applicable grace or cure period provided therein; k) if any guarantor under a Guaranty of Completion delivered pursuant to the terms of the Lease shall be in default beyond any applicable cure period and such default shall continue for 10 days after notice to Tenant; l) if Obligor fails to pay a recapture amount due under the Project Agreement, except that this default provision shall be of no force and effect if Tenant's leasehold interest is subject to one or more Mortgages securing not less than \$500 million in financing held by a party who is not an affiliate of Tenant or any Eligible Affiliate.

If an Event of Default shall occur, and Tenant shall fail to cure it after receipt of written notice from the Landlord (subject to limitations on the number of times Tenant shall have the right to cure certain repeated Events of Default) the Landlord may, in its discretion, elect to give notice that the Lease and the Term shall expire and terminate on the date specified in such notice.

In such event, Tenant shall quit and surrender the Premises. If the Lease is terminated as provided for in the Lease, Landlord may re-enter and repossess the premises using such force for that purpose as may be necessary without being liable to indictment, prosecution or damages therefor and may dispossess Tenant by summary proceedings or otherwise. Tenant shall pay to the Landlord all costs and expenses incurred by the Landlord as provided for in Article 24 of the Lease. With respect to damages if the Lease is terminated or Tenant is dispossessed, Tenant shall pay all rental payable until the date of termination and dispossession, and Landlord may elect to declare due and payable a sum equal to the amount by which the rental reserved in this Lease for the period which otherwise would have constituted the unexpired portion of the Term exceeds the fair and reasonable rental value of the premises for the same period, both discounted to present worth at the rate of 6% per annum Landlord may also elect to collect from Tenant, in installments, any deficiency between the Rental reserved under the Lease and the amount of any rents collected under any subsequent reletting or the total amount of such deficiency for the unexpired of the Term, discounted at the rate of 6% per annum. Landlord may elect to proceed by appropriate judicial proceedings, either at law or in equity to enforce performance or observance by Tenant of the applicable provisions of the Lease and/or to recover damages for breach thereof.

18. **Civic Facilities:** The Landlord has constructed certain enumerated Civic Facilities and has undertaken to construct certain other civic facilities for the benefit of Tenant in the Project Area. Tenant has the obligation to construct certain numerated Civic Facilities. Tenant shall commence and diligently complete the construction and installation of Tenant's Civic Facilities on or before the first anniversary of Substantial Completion in accordance with the Construction Documents and the specifications supplied by Landlord, Landlord and Tenant shall perform their respective maintenance obligations in connection with the Civic Facilities and take good care of and be responsible for compliance with requirements therein, and shall maintain and repair their respective Civic Facilities in accordance thereto. Tenant's sole remedies for a failure by the Landlord to substantially complete the Landlord's Civic Facilities shall be: a) an extension of the *Scheduled* Completion Date, and b) the right to engage in Self-Help and to receive offset against Base Rent and Civic Facilities Payment. If all or any part of the Landlord's Civic Facilities shall be destroyed or damaged, the Landlord, at no cost and expense to Tenant, shall restore the same. If Landlord shall fail to perform the Landlord's construction or maintenance obligations, the Landlord shall incur no penalty or liability and Tenant shall have no remedies or rights other than as expressly provided in the Lease. Landlord shall have no obligation to restore Landlord's Civic Facilities after a casualty or condemnation shall in any event such obligation only extend to, and shall only apply prior to any public dedication thereof, certain Landlord's Basic Civic Facilities. Tenant shall make annual Civic Facilities Payments as its allocable share of maintaining the Esplanade and parks in Battery Park City.

19. **Subordination:** Landlord's interest in the Lease shall not be subject or subordinate to any mortgage or any other liens or encumbrances upon Tenant's interest in the Lease. Tenant's interest in the Lease as may be modified, amended or supplemented, shall not be subject or subordinate to any liens or encumbrances hereafter affecting Landlord's interest in the fee title to Battery Park City or any part thereof, the Lease, the Premises or the Master Lease. Without limiting the foregoing, Battery Park City Authority, in its capacity as tenant under the Master Lease, acknowledges and agrees that the interest of the tenant under the Master Lease and the interest of any Person in the Premises which arises by, through, or under, or is otherwise

derivative of the Master Lease, including any possessory interest therein, are and shall be subordinate to the Tenant's interest under the Lease for so long as the Lease remains in effect.

20. ***Limitations on Landlord's Liability:*** The liability of Landlord shall be limited to the Landlord's interest in the Premises. Neither Landlord nor any of its members, directors, officers, employees, agents or servants shall have any liability (personal or otherwise) hereunder beyond the Landlord's interest in the premises, and no other property or assets of the Landlord or any such person or any of the members, directors, officers, employees, agents or servants of either shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

21. ***Limitations on Tenant's Liability:*** The liability of Tenant for damages or otherwise shall be limited to the property and assets of Tenant, except as to Recourse Claims as defined in the Lease. Neither the Tenant nor any of the members, directors, officers, shareholders, partners, managers, principals or joint venturers, employees, agents or servants of Tenant or its partners, members or shareholders shall have any liability (personal or otherwise) beyond the property or assets of the Tenant, and no property or asset of any such excluded persons shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Landlord's remedies hereunder.

22. ***Letter of Credit Security Deposit:*** Tenant shall secure its obligations under the Lease through Completion of the Building, including, without limitation, Tenant's obligation for the payment of Rental, by depositing with Landlord a clean irrevocable letter of credit drawn in favor of Landlord, in the form provided for in the Lease having a term of not less than one year. The initial Letter of Credit shall be in the amount of eighteen million eight hundred seventy thousand dollars. The letter of credit shall be renewed or replaced without decrease in amount each and every year as provided in the Lease. Notwithstanding the above, upon payment in full of the Base Rent, and provided no Event of Default shall have occurred and is ongoing, then Tenant shall have the right to reduce the letter of credit with Landlord's authorization to one million dollars or to provide a deposit of immediately available funds in such amount to be held by Landlord until completion of the Building.

EXISTING RECTOR PLACE SUBLEASES

The Rector Place (or Phase II) portion of the Project Area consists of twelve parcels which have been developed pursuant to ten subleases between the Authority, as landlord, and certain developers identified therein, as tenants (individually, a "Rector Place Sublease" and collectively, the "Rector Place Subleases"). A schedule of the Rector Place Subleases is annexed hereto. The following is a description of the major provisions of the Rector Place Subleases. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Rector Place Subleases. The description contained herein does not purport to be complete and reference is made to the Rector Place Subleases for full and complete statements of their provisions.

1. ***Term:*** The term of each of the Rector Place Subleases commenced on the date such Rector Place Sublease was executed and expires, unless sooner terminated, on June 17, 2069. No Rector Place Sublease contains any right on the part of tenant thereunder to renew or otherwise extend the term of its Rector Place Sublease beyond June 17, 2069.

2. *Rental:* The primary components of rent under the Rector Place Subleases are base rent, payments in lieu of real estate taxes (“PILOT”), supplemental rent and civic facilities payments. The following is a description of each such component of rent:

(a) Base Rent: Each Rector Place Sublease obligates tenant thereunder to pay, on a monthly basis commencing on the date of execution of its Rector Place Sublease (the “Commencement Date”), base rent (“Base Rent”). For the period commencing on the Commencement Date and expiring on the day prior to the twenty-fifth anniversary of the date on which a temporary certificate of occupancy is issued for any dwelling unit in the buildings constructed pursuant to such Rector Place Sublease (such anniversary being called the “First Appraisal Date”), the Base Rent shall be in the amount specified in each of the Rector Place Subleases. Thereafter, Base Rent is adjusted every fifteen years based upon an appraisal of the land underlying each Rector Place Sublease. The formula and procedure for determining Base Rent subsequent to the First Appraisal Date is more fully described in each Rector Place Sublease. Each Rector Place Sublease provides that the annual Base Rent for the fifteen-year period commencing on the First Appraisal Date shall be equal to 6% of the fair market value of the land, a certain percentage in excess of 100% of the highest annual Base Rent paid by tenant thereunder for the period from the Commencement Date to the First Appraisal Date, or a fixed amount as set forth in the particular Rector Place Sublease, and that the Base Rent payable after any reappraisal shall not be less than the Base Rent payable prior to such reappraisal.

(b) PILOT: The Authority and the Battery Park City Project Area are exempt from real estate taxes. Each Rector Place Sublease obligates tenant thereunder to make payments to the Authority of PILOT, such payments to be made quarterly in advance (semi-annually for the Rector Place Sublease for Parcel D) commencing on the Commencement Date. PILOT will be the same amount as the real estate taxes which would have been payable except for the Authority’s tax exempt status. Tenant is entitled to the amount of real estate tax exemptions or abatements available to an owner of comparable property in the Borough of Manhattan. Each Rector Place Sublease provides that tenant thereunder shall have the right to institute tax assessment reduction proceedings to reduce the assessed valuation of the premises covered by its Rector Place Sublease. If such proceeding is successful, tenant will be entitled to a credit against future PILOT. Each Rector Place Sublease provides for an abatement of PILOT equivalent to the real estate abatement set forth in Section 421 a of the Real Property Tax Law of the State of New York as in effect on the date such Rector Place Sublease was executed (“Section 421-a”), which abatement declines to zero biannually over a ten-year period following substantial completion of the buildings. As a condition to receiving benefits equivalent to benefits available under Section 421-a, until the Release Date described in the Rector Place Subleases each tenant must comply with various requirements specified in Section 421-a and the regulations promulgated thereunder for buildings receiving Section 421-a benefits. A failure by a tenant to comply with those requirements will subject such tenant to penalties and sanctions (including increases in Rentals).

(c) Supplemental Rent: In addition to Base Rent and PILOT, each tenant is required to pay to the Authority as supplemental rent (“Supplemental Rent”), on a monthly basis, commencing on the Commencement Date and expiring with respect to (i) all Rector Place Subleases other than the Subleases for Parcels D and H/I, on the day prior to the

First Appraisal Date, (ii) the Rector Place Sublease for Parcel D, on June 30, 2009 and (iii) the Rector Place Sublease for Parcel H/I, on the 12th anniversary of the issuance of a temporary certificate of occupancy for the residential space in the building constructed thereon, an amount equal to the difference, if any, between the amounts specified in its Rector Place Sublease and PILOT for the applicable lease year.

(d) Civic Facilities Payments: Each tenant under a Rector Place Sublease shall pay to the Authority its allocable share of the cost of operating, maintaining, repairing, restoring, upgrading and insuring Rector Park, the Esplanade and certain other “civic facilities” enumerated in the Rector Place Subleases, commencing on the date (the “Initial Occupancy Date”) on which a temporary certificate of occupancy was issued for any dwelling unit in the buildings constructed pursuant to such Rector Place Sublease (the “Civic Facilities Payment”). The Civic Facilities Payment for the remainder of the Tax Year in which the Initial Occupancy Date occurs and for the next two Tax Years following the Initial Occupancy Date becomes an amount equal to an annual rate of \$150 multiplied by the number of dwelling units in the buildings, increases (for the following three Tax Years) to \$200, and is thereafter in an amount equal to such tenant’s proportionate share of the Authority’s budget for certain operating costs. The Rector Place Subleases set a limit on increases in the Civic Facilities Payment of an amount not to exceed 125% of the payment for the prior year.

The term “Rental” also includes any other sums which may be due and payable under the Rector Place Subleases. For example, each tenant is obligated to pay, subject to such tenant’s right to contest same, any imposition (including water and sewer charges) levied or assessed against the demised premises (excluding real estate taxes, which, if levied, shall be paid by the Authority). Except as noted below, each tenant’s obligation to pay Rental is net to the Authority and without abatement, set-off or counterclaim. Each of the Rector Place Subleases gives tenant thereunder certain limited off-set rights against Rental (or certain components thereof) for payments made (and interest thereon) in the following instances:

(a) In the event of a final determination in favor of a tenant in a tax assessment reduction proceeding, succeeding PILOT payments to the Authority will be reduced to the extent necessary to offset the overpayment of PILOT.

(b) If the premises covered by a Rector Place Sublease shall at any time become subject to real estate taxes, the Authority is responsible for the payment of same. In the event the Authority shall have failed to pay such real estate taxes and tenant shall have paid same (together with any interest and penalties thereon), such tenant may deduct such payment from the next installment of PILOT and, to the extent such payment shall exceed the next installment of PILOT, from the next installment(s) of Base Rent. If a Rector Place Sublease and leasehold estate are submitted to condominium ownership pursuant to the terms of such Rector Place Sublease and real estate taxes are assessed and levied by New York City against the condominium units, then payments of such taxes by the unit owners shall be credited against PILOT.

(c) If a tenant is compelled by a governmental authority to pay any sales or compensating use taxes with respect to materials incorporated into the buildings and as to which such tenant previously made payments in lieu of such taxes to the Authority, such tenant may deduct such payments from subsequent installments of Base Rent and PILOT

if the Authority failed to successfully contest the imposition of such tax, provided such deduction shall not exceed the amount so paid by such tenant to the Authority.

(d) Each Rector Place Sublease obligated the Authority to construct certain civic facilities (including Rector Park and the Esplanade), and thereafter, requires the Authority to maintain such civic facilities. In the event the Authority fails to maintain such civic facilities, each tenant shall have the right, after notice to the Authority and the expiration of a cure period, to perform such maintenance and to offset such cost against subsequent installments of Base Rent, Supplemental Rent and Civic Facilities Payments. In addition, in the event the Authority fails to insure such civic facilities, such tenant may, after notice to the Authority, pay the premiums therefor and deduct such payment from subsequent installments of Base Rent and the Civic Facilities Payments.

(e) The Rector Place Subleases for Parcels E/F, G, H/I and J obligated the Authority to construct, and thereafter, requires the Authority to maintain a service road. In the event the Authority fails to maintain such service road, tenants under such Rector Place Subleases shall have the right to do so after notice to the Authority and the expiration of a cure period, and to offset the costs thereof against subsequent installments of Base Rent, Supplemental Rent and service road maintenance payments due under the Rector Place Subleases.

3. *Taxes:* As previously noted, in the event real estate taxes shall be levied and assessed against the premises covered by a Rector Place Sublease, the Authority shall be obligated to pay same. The Authority has the right, however, to contest the imposition of taxes, and, in certain circumstances, may defer payment during the pendency of such tax contest.

4. *Insurance:* Each tenant under a Rector Place Sublease is obligated to maintain, at its expense, insurance, including rent insurance in an amount equal to at least one year's current Base Rent, Supplemental Rent, PILOT and Civic Facilities Payment. The types of insurance and limits of coverage are specified in the Rector Place Subleases. All insurance provided by tenant shall name tenant as named insured and the Authority, in its capacity as landlord and Master Landlord, as additional insured. In addition, the Authority may require types of insurance and limits of coverage comparable to those maintained by prudent owners of like buildings. Each Rector Place Sublease provides that, in the event of casualty, the insurance proceeds shall be paid to tenant, in trust, if less than \$250,000 (subject to adjustment in the manner therein provided based on the consumer price index) or, if in excess of \$250,000 (subject to adjustment), to a depository designated by such tenant with the Authority's approval, such depository to be an institutional lender (as defined in each Rector Place Sublease).

5. *Restoration:* Each tenant is obligated to restore the buildings in the event of damage or destruction due to fire or other casualty, whether insured or uninsured and whether or not the cost of restoration exceeds the insurance proceeds. Each tenant shall be obligated for the payment of Rental during the period of a casualty without reduction or abatement. In the event a tenant fails to restore the buildings as provided in its Rector Place Sublease, the Authority shall have the right to do so and may apply the insurance proceeds for such purposes. Other than under the Rector Place Sublease for Parcel H/I, to the extent the cost of restoration exceeds \$250,000 (subject to adjustment), such tenant shall provide the Authority with complete plans and specifications for such restoration, a construction contract and payment and performance bonds or other security reasonably satisfactory to the Authority. In addition, if such restoration involves work to the exterior of any buildings or a change in the height, bulk or setback of such

buildings, such tenant shall deliver complete plans and specifications for such work prior to the commencement of the restoration. No Rector Place Sublease grants tenant thereunder the right to terminate its Rector Place Sublease in the event of a casualty.

6. *Condemnation:* In the event all or substantially all of the premises demised under a Rector Place Sublease is taken in a condemnation, such Rector Place Sublease shall be terminated. In such event, there shall first be paid to the Authority the portion of the award attributable to the land and the civic facilities taken, if any, except that in the Rector Place Sublease for Parcel H/I there shall first be paid to the Trustee (as defined in the Master Lease) an amount equal to the amount which it is entitled to receive pursuant to the Master Lease. The balance of the award shall be paid to such tenant, subject to the rights of any mortgagees. In the event less than all or substantially all of the premises under a Rector Place Sublease shall be taken, such Rector Place Sublease shall continue in full force and effect with respect to the portion of the premises not so taken, the Authority shall receive that portion of the award attributable to the land and civic facilities, if any, so taken and such tenant shall restore the buildings, whether or not the balance of the award is sufficient for such purpose. In the event of a partial taking, such tenant shall be obligated for the payment of Base Rent, without abatement or reduction. The Rector Place Subleases (other than those for Parcels D and H/I) provide that if as a result of such taking PILOT is reduced, Supplemental Rent shall similarly be reduced by an amount equal to the amount by which PILOT shall have been so reduced. If the Authority and tenant are unable to agree on the amount of reduction of Supplemental Rent, such dispute shall be submitted to arbitration. The obligations of each tenant to restore the buildings in the case of a partial taking are similar to such tenant's obligations in the case of a casualty. Except with respect to a taking of all or substantially all of the demised premises, no Rector Place Sublease grants tenants thereunder the right to terminate its Rector Place Sublease.

7. *Assignment, Subletting:* Tenants can fully assign, sublet or transfer their respective Rector Place Sublease provided the assignee, sublessee or transferee is not prohibited (as described in the Rector Place Subleases). If an event of default by a tenant under a Rector Place Sublease shall have occurred, the Authority may, subject to the rights of any mortgagee, under certain circumstances, collect from subtenants under such subleases. In the event the Authority shall terminate a Rector Place Sublease, at the Authority's option and except as described below, each subtenant under a sublease shall attorn to or enter into a direct lease with the Authority on identical terms and for the balance of the unexpired term of such subtenant's sublease. The Authority has agreed, in certain circumstances and with respect to certain Rector Place Subleases, to recognize a sublease with a subtenant in the event a Rector Place Sublease is terminated, provided such subtenant is not in default under its sublease. Assuming compliance with these provisions, the Authority will be able to retain any subleases made by tenant in the event of a Rector Place Sublease termination by the Authority.

8. *Mortgages:* Each Rector Place Sublease provides that in the event tenant thereunder shall mortgage its interest in its Rector Place Sublease and shall have delivered notice thereof to the Authority, the Authority shall give each mortgagee a copy of any notice of default given by the Authority to such tenant. Each mortgagee shall have the right to cure such default in the manner set forth in such Rector Place Sublease, and the Authority shall accept performance by a mortgagee with the same force and effect as though performed by tenant. In the event the Authority shall have terminated a Rector Place Sublease as a result of an event of default by tenant or for any other reason, the Authority shall notify each mortgagee of such

termination and, at such mortgagee's request, shall enter into a new lease with the mortgagee (or its designee or nominee) most senior in lien for the remainder of the term and upon the same terms and conditions as in such Rector Place Sublease. In such event, such mortgagee shall pay to the Authority all unpaid Rental, the Authority's expenses incurred in connection with tenant's default, the termination of such Rector Place Sublease and the execution of a new lease with such mortgagee and shall remedy those defaults which are susceptible of being cured. In the event a mortgagee did not cure tenant's defaults or request a new lease, the lien of such mortgagee's mortgage would be extinguished as a result of the termination of such Rector Place Sublease. See "Condominium Ownership" below for a further discussion of certain limitations on such remedies applicable to condominium units.

9. *Repairs:* The Rector Place Subleases provide that each tenant thereunder shall, at its expense, take good care of the premises (excluding the civic facilities) and all equipment and shall keep and maintain the buildings (which tenant was obligated to construct pursuant to the Rector Place Sublease) in good and safe order and working condition and shall make all repairs, internal and external, structural and non-structural.

10. *Compliance with Requirements:* The Rector Place Subleases provide that each tenant thereunder shall, at its expense, comply with all laws, rules, ordinances, etc. applicable to the premises. Each tenant shall have the right, in certain circumstances, to contest the validity of any such requirement at such tenant's sole cost and expense.

11. *Capital Improvements:* The Rector Place Subleases provide that tenant shall have the right to make capital improvements to the buildings, provided any such capital improvements, when completed, shall be of such a character as not to reduce the value of the buildings below their value immediately before construction of the capital improvement was commenced and certain other conditions are met.

12. *Discharge of Liens:* The Rector Place Subleases provide that tenant thereunder shall not create or cause to be created any lien, encumbrance or charge upon such tenant's estate in the premises (other than permitted liens), any assets of or funds appropriated to the Authority or upon the Authority's estate in the premises. Such tenant shall cause any such lien to be promptly discharged of record unless tenant is contesting the lien in the manner permitted.

13. *The Authority's Right to Perform:* If an event of default shall have occurred under a Rector Place Sublease, the Authority shall have the right to perform any obligation on tenant's behalf without waiving or releasing such tenant of any obligation contained in such Rector Place Sublease, and any monies expended by the Authority shall be repaid by such tenant with interest.

14. *Events of Default:* The Rector Place Subleases provide that if certain defaults shall occur, the Authority shall have the right to terminate such Rector Place Sublease. (See also: "Condominium Ownership" below for a discussion of certain limitations on such remedy.) Defaults by a tenant that would entitle the Authority to terminate such Rector Place Sublease include: (a) failure to make any required payment of Rental after 10 days' notice; (b) failure to perform any other provision of such Rector Place Sublease if such failure continues for a period of 30 days after notice by the Authority to such tenant, unless such failure could not by its nature be cured within such 30 days, in which case such tenant is required to remedy such failure with reasonable diligence; (c) such tenant's failure to comply with those prohibitions contained in such Rector Place Sublease on assigning, subleasing, mortgaging, pledging or otherwise

encumbering such Rector Place Sublease unless such assignment, sublease, mortgage, pledge or encumbrance is voided or made to comply with Rector Place Sublease requirements within 30 days after notice by the Authority to such tenant; and (d) events of bankruptcy concerning such tenant for the Rector Place Subleases for Parcels D and H/I. In the event of a default by such tenant and the failure of such tenant or such tenant's mortgagee to timely exercise its cure rights, as described above, the Authority will have the right to terminate such Rector Place Sublease. As previously noted, each Rector Place Sublease grants a mortgagee certain rights intended to provide protection in the event of a default by a tenant under a Rector Place Sublease, including a right to notice and cure and a right to enter into a new lease with the Authority directly.

15. *Civic Facilities:* The Rector Place Subleases provide that the Authority construct, at its expense, the enumerated civic facilities and (except to the extent that certain responsibilities of the Authority are taken over by New York City or appropriate utilities) insure, maintain, repair and, in the event of a fire or other casualty or condemnation, restore such civic facilities. Commencing with the sixth Lease Year after the Tax Year in which the Initial Occupancy Date occurs and subject to a 25% limit on increases over the prior year, the Authority is reimbursed for certain operating costs related to the civic facilities by means of the Civic Facilities Payment. In the event of a fire or other casualty or condemnation, each tenant will reimburse the Authority for such tenant's proportionate share of the cost of restoration in excess of the insurance proceeds or condemnation award received by the Authority and any reserve funds set aside by the Authority, provided that the Authority maintained the insurance coverage required by the Rector Place Subleases. As previously noted, in the event the Authority fails to maintain or insure such civic facilities, tenants under the Rector Place Subleases are given curing and off-set rights.

16. *No Subordination:* The Authority's interest in the Rector Place Subleases shall not be subject or subordinate to any mortgage placed upon a tenant's interest in its Rector Place Sublease or to any other lien or encumbrance affecting such tenant's interest. See, however, "CERTAIN FACTORS AFFECTING REVENUES FROM EXISTING SUBLEASES – Existing Sublease Defaults and Termination – Provisions Applicable to Certain Condominiums."

17. *Affirmative Action:* Tenants under the Rector Place Subleases are obligated to comply with an affirmative action program and affirmative fair housing marketing program.

18. *Condominium Ownership:* Each of the Rector Place Subleases or the related condominium plan contains provisions for the submission by the original tenant thereunder of its Rector Place Sublease and leasehold estate to condominium ownership pursuant to Article 9-B of the Real Property Law of the State of New York. Under such provisions, the Authority has agreed to give up its right to terminate a Rector Place Sublease submitted to condominium ownership in conformance with the provisions of such Rector Place Sublease and to look directly to the condominium unit owners for payment and performance of tenant's obligation under such Rector Place Sublease. Nine buildings have been submitted to a condominium form of ownership, and the tenth parcel H/I, is subject to a condominium plan which has not yet been declared effective. Each such Rector Place Sublease, or the related condominium plan provides for the establishment of a security fund in the amount specified therein, which fund may be applied by the Authority to the payment of unpaid Rental or portions thereof. Upon submission to condominium ownership, the board of managers constitute the attorney-in-fact for all unit owners for the purpose of paying, performing and observing on tenant's part all terms, covenants

and conditions of the Rector Place Sublease. In addition, subject to certain notice procedures, the Authority may proceed directly against a unit owner and could, in certain circumstances, as a result of the Authority's legal action, become the owner of a defaulting unit owner's unit.

19. *Limitation of the Authority's Liability:* The liability of the Authority under each of the Rector Place Subleases for damages or otherwise shall be limited to the Authority's interest in the demised premises, including, without limitation, the rents and profits therefrom, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to such premises.

20. *Limitation of Tenant's Liability:* The liability of tenants under each of the Rector Place Subleases shall be limited to such tenant's interest in the demised premises, including, without limitation, the rents and profits therefrom, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to such premises. Accordingly, if a tenant shall have defaulted under its Rector Place Sublease and such default was not remedied by such tenant or its mortgagee or if such Rector Place Sublease was terminated and a new lease was not requested by such mortgagee, the sole remedy of the Authority will be to terminate such Rector Place Sublease and repossess the demised premises. (See: "Condominium Ownership" above for a description of certain limitations on such remedy.) The Authority will be unable to recover any monetary damages from such tenant or any of its principals resulting from such termination.

SCHEDULE OF RECTOR PLACE SUBLEASES

Parcel A:
(280 Rector Street)
The Soundings

Agreement of Lease dated as of December 20, 1984, between the Authority, as landlord, and Rector Park A Associates L.P., as tenant, as amended by amendments dated as of November 15, 1985 and as of December 3, 1985, respectively. Parcel A was submitted to condominium ownership by a declaration dated February 1, 1987.

Parcel B:
(200 Rector Place)
Liberty Court

Agreement of Lease dated as of October 25, 1984, between the Authority, as landlord, and Mariner's Cove Site B Associates, as tenant, as amended by amendments dated as of November 7, 1985, and as of December 3, 1985, respectively; as supplemented by agreement dated as of March 26, 1987; and as amended as of April 3, 1987. Parcel B was submitted to condominium ownership by a declaration dated September 17, 1987.

Parcel C:
(250 South End
Avenue)
Hudson View East

Agreement of Lease dated as of December 6, 1984, between the Authority, as landlord, and Hudson View Towers Associates, as tenant, as amended by amendments dated as of March 26, 1985, as of August 30, 1985, and as of November 14, 1985, respectively. Parcel C was submitted to condominium ownership by a declaration dated August 25, 1986.

Parcel D:
(225 Rector Place)
Parc Place

Parcels E/F:
(350 Albany Street)
Hudson Towers

Agreement of Lease dated October 29, 1984, between the Authority, as landlord, and Liberty View Associates L.P., as tenant.

Agreement of Lease dated as of August 23, 1984, between the Authority, as landlord, and Hudson Tower Associates, as tenant, as amended by amendments dated as of March 26, 1985, and as of August 30, 1985, respectively. Parcel E/F was submitted to condominium ownership by a declaration dated April 10, 1986.

Parcel G:
(300 Albany Street)
Hudson View West

Agreement of Lease dated as of December 6, 1984, between the Authority, as landlord, and Hudson View Towers Associates, as tenant, as amended by amendments dated as of March 26, 1985, as of August 30, 1985, and as of November 21, 1985, respectively. Parcel G was submitted to condominium ownership by a declaration dated December 17, 1986.

Parcels H/I:
(333 Rector Place)
River Rose

Agreement of Lease dated as of March 23, 1984, between the Authority, as landlord, and River Rose Company, as tenant, as supplemented by a letter of clarification dated March 27, 1984, between the Authority, as landlord, and John Gutheil, as attorney for River Rose Company.

Parcel J:
(377 Rector Place)
Liberty House

Agreement of Lease dated as of October 25, 1984, between the Authority, as landlord, and Mariner's Cove Site J Associates, as tenant, as amended by amendments dated as of November 7, 1985, and as of December 11, 1985, respectively. Parcel J was submitted to condominium ownership by a declaration dated April 9, 1986.

Parcel K:
(380 Rector Place)
Liberty Terrace

Agreement of Lease dated as of October 25, 1984, between the Authority, as landlord, and Mariner's Cove Site K Associates, as tenant, as amended by amendments dated as of November 7, 1985, and as of December 11, 1985, respectively; and as supplemented by letter agreement dated July 28, 1986. Parcel K was submitted to condominium ownership by a declaration dated October 17, 1986.

Parcel L:
(300 Rector Place)
Battery Pointe

Agreement of Lease dated as of December 20, 1984, between the Authority, as landlord, and Rector Place L Associates L.P., as tenant, as amended by amendment dated as of November 15, 1985; and as supplemented by agreements dated as of September 10, 1985, and May 29, 1987, respectively. Parcel L was submitted to condominium ownership by a declaration dated June 1, 1989.

GATEWAY PLAZA SUBLEASE

The Gateway Plaza (or POD III) development has been developed pursuant to a sublease dated as of June 3, 1980, as amended by amendments dated as of June 10, 1982, November 20, 1987, October 29, 1993, April 27, 2005, and July 1, 2009 (the “Gateway Plaza Sublease”), between the Authority, as landlord, and Marina Towers Associates, L.P., as tenant (“Tenant”). The Authority is also the mortgagee with respect to the mortgage loans made to finance the development. Payments pursuant to such mortgage loans do not constitute Existing Sublease Revenues. Tenant has entered into agreements with the Authority which regulate the operation of the development, including matters relating to maximum chargeable apartment rentals. The following is a description of certain provisions of the Gateway Plaza Sublease. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Gateway Plaza Sublease. The description contained herein does not purport to be complete and reference is made to the Gateway Plaza Sublease for full and complete statements of its provisions.

1. *Term:* The term of the Gateway Plaza Sublease commenced on June 3, 1980 (the “Commencement Date”) and expires, unless sooner terminated, on June 30, 2040. Tenant has the option to renew the term for two additional periods of five years each, and a third renewal commencing on July 1, 2050 and expiring on June 17, 2069.

2. *Rental:* Rent under the Gateway Plaza Sublease consists of an annual ground rent or land rent, tax equivalency payments and certain enumerated items of additional rent. The following is a description of each such component of rent:

(a) *Land Rent:* Tenant shall pay to the Authority, on a monthly basis, annual ground rent (“Land Rent”) in the amount of \$305,440 per annum. From July 1, 2023 through June 30, 2040, ground rent shall be equal to 8.125% of the rent collected by Tenant minus certain deductions. If Tenant shall have exercised its renewal option(s), the Land Rent for each renewal term shall be adjusted to an amount determined by agreement between the Authority and Tenant, or in the event the parties shall be unable to so agree, the Land Rent shall be in an amount equal to 8% of the fair market value of the land demised under the Gateway Plaza Sublease, as determined by appraisal, provided on such anniversary date either the HUD Mortgage shall have been paid or the HUD Mortgage shall no longer be insured by HUD. In no event however shall such Land Rent, together with the Tax Equivalency Payments (as defined below) be less than the amounts otherwise required to be paid by tenant to the Authority pursuant to Section 4.02(a) of the Master Lease.

(b) *Tax Equivalency Payments:* for purposes of the Gateway Plaza Sublease, “Tax Equivalency Payments” shall be determined and computed as follows: until February 15, 2016 (the “First Adjustment Date”), the Tax Equivalency Payments shall equal the Original Tax Equivalency Payments (“Original Tax Equivalency Payments” being an amount equal to 10% of (i) the total rents from the buildings less (ii) the net cost of providing electricity, gas, heat and other utilities to dwelling units therein); from February 16, 2016 until February 15, 2017, the Tax Equivalency Payments shall equal the sum of (a) the Original Tax Equivalency Payments, plus (b) twenty percent (20%) of the TEP Amount; from February 16, 2017, until February 15, 2018, the Tax Equivalency Payments shall equal the sum of (a) the Original Tax Equivalency Payments, plus (b) forty percent (40%) of the TEP Amount; from February 16, 2018 until February 15,

2019, the Tax Equivalency Payments shall equal the sum of (a) the Original Tax Equivalency Payments, plus (b) sixty percent (60%) of the TEP Amount; from February 16, 2019 until February 15, 2020 (the “Fifth Adjustment Date”), the Tax Equivalency Payments shall equal the sum of (i) the Original Tax Equivalency Payments, plus eighty percent (80%) of the TEP Amount; and from and after February 16, 2020, the Tax Equivalency Payments shall equal Full Taxes. “TEP Amount” shall mean the excess, if any, of (i) full real estate taxes with respect to the project in the period for which the Tax Equivalency Payment is being calculated, over (ii) the Original Tax Equivalency Payment for such period.

(c) Additional Rent:

(i) Tenant shall pay to the Authority, as additional rent, 10% of any “net proceeds” (as defined in the Gateway Plaza Sublease) realized from a refinancing of a leasehold mortgage (other than certain specified leasehold mortgages, *i.e.*, mortgages obtained to finance construction of improvements and the HUD Mortgage), subject, however, to repayment by the Authority to such leasehold mortgagee or tenant upon payment of the refinanced leasehold mortgage.

(ii) Commencing on the 40th anniversary of the Commencement Date, tenant shall pay to the Authority 40% of the “net proceeds” received thereafter until the Authority shall have received an aggregate amount based upon a formula specified therein.

(iii) Tenant shall pay to the Authority an allocable share of the cost of operating, maintaining, repairing, restoring and upgrading certain “civic facilities” enumerated in the amendment to the Gateway Plaza Sublease dated November 20, 1987 (the “Civic Facilities Payment”), in addition to the special civic facilities payments as set forth in the Gateway Plaza Sublease. The Civic Facilities Payment for each year is an amount equal to tenant’s proportionate share of the Authority’s budget for such costs.

(iv) For each year until termination of the Gateway Plaza Sublease and during renewal periods, Tenant shall pay to the Authority a supplemental contribution in addition to the Civic Facilities Payment. This “Special Civic Facilities Payment” shall be \$300,000 per year for each year from June 1, 1994 through June 30, 2009; for each year thereafter, including renewal periods, it shall be \$350,000.

The term “Additional Rent” (as defined in the Gateway Plaza Sublease) means any sums other than Land Rent which may be due and payable thereunder. In addition, tenant is obligated to pay, subject to tenant’s right to contest same, any imposition levied or assessed against the premises (excluding real estate taxes). Except as noted below, tenant’s obligation to pay Land Rent, Tax Equivalency Payments and Additional Rent is net to the Authority and without abatement, set-off or counterclaim. Tenant shall be entitled to deduct from Land Rent and Tax Equivalency Payments the amounts of any refund, together with interest in specified circumstances, to which it is entitled in the event of a final determination in favor of tenant in a tax assessment reduction proceeding.

3. *Insurance:* Tenant is obligated to maintain, at its expense, insurance naming the Authority, BPCDC and any leasehold mortgagee as additional insureds, including rent insurance in an amount equal to one year’s current Land Rent, premiums for insurance required to be maintained by tenant and Tax Equivalency Payments. The types of insurance and limits of

coverage are specified in the Gateway Plaza Sublease. In the event of a casualty, the insurance proceeds shall be paid to the institutional leasehold mortgagee, or if there is none, to the Authority, or if the Authority and such institutional leasehold mortgagee agree, to tenant, in trust.

4. *Restoration:* Tenant is obligated to restore the buildings in the event of damage or destruction due to fire or other casualty, whether insured or uninsured and whether or not the cost of restoration exceeds the insurance proceeds. The Land Rent and Tax Equivalency Payments from the date of the casualty until completion of the restoration shall be abated to the extent of the amount of rental value insurance received by the Authority for application to Land Rent and Tax Equivalency Payments for such period. Tenant shall be obligated for the payment of Land Rent, Tax Equivalency Payments, Additional Rent and other charges on the part of tenant to be paid if in excess of the insurance amounts received by the Authority during the period of a casualty, without further reduction or abatement. To the extent such restoration involves structural alterations or changes, tenant shall provide the Authority with plans and specifications for such restoration, and if the cost thereof exceeds \$250,000, bonds or other security reasonably satisfactory to the Authority. Tenant shall not have the right to terminate the Gateway Plaza Sublease in the event of a casualty.

5. *Condemnation:* In the event all or substantially all of the premises demised under the Gateway Plaza Sublease is taken in a condemnation, the Gateway Plaza Sublease shall be terminated. In such event, there shall first be paid to the Authority the entire award for that part of the land and the civic facilities, if any, taken. In the event less than all or substantially all of the premises under the Gateway Plaza Sublease shall be taken, the Gateway Plaza Sublease shall continue in full force and effect with respect to the portion of the premises not so taken, the Authority shall receive that portion of the award attributable to the land and civic facilities, if any, so taken and tenant shall restore the buildings, whether or not the balance of the award is sufficient for such purpose. In the event of a partial taking, a just proportion of the Land Rent, Tax Equivalency Payments and other charges, according to the extent and nature of such taking, shall abate for the remainder of the term of the Gateway Plaza Sublease. If the Authority and tenant are unable to agree on the abatement, such dispute shall be determined by arbitration. The obligations of tenant to restore the buildings in the case of a partial taking are similar to tenant's obligations in the case of a casualty.

6. *Assignment, Subletting:* Without the consent of the Authority, no interest in tenant (other than a limited partnership interest) may be sold, assigned or transferred, provided no consent by the Authority shall be required if the approval of the Secretary of HUD (during the period that the leasehold mortgage is insured, reinsured, held by or given to HUD) shall have been obtained, nor may tenant assign the Gateway Plaza Sublease or enter into any sublease (other than for residential use where the subtenant will occupy such space for living quarters). Provided the use under any non-residential sublease is consistent with the character and quality of the improvements and adjoining buildings, the Authority's consent to such sublease will not be unreasonably withheld. In the event the Authority shall terminate the Gateway Plaza Sublease, the Authority has agreed, in certain circumstances, to recognize a sublease with a subtenant, provided such subtenant is not in default under its sublease and attorns to the Authority. Assuming compliance with these provisions, the Authority will be able to retain any subleases made by tenant and recognized by the Authority in the event of the Gateway Plaza Sublease termination by the Authority.

7. *Mortgage:* So long as any leasehold mortgage shall remain outstanding, the Gateway Plaza Sublease may not be cancelled, surrendered, modified or amended without the prior written consent of the mortgagee. Tenant may mortgage its leasehold to any Institutional Leasehold Mortgagee without the consent of the Authority. The Gateway Plaza Sublease provides that in the event tenant shall mortgage its interest in the Gateway Plaza Sublease, the Authority shall give each requesting mortgagee a copy of any notice of default given by the Authority to tenant. Each mortgagee shall have the right to cure such default in the manner set forth in the Gateway Plaza Sublease, and the Authority shall accept performance by a mortgagee with the same force and effect as though performed by tenant. In the event the Authority shall have terminated the Gateway Plaza Sublease as a result of an event of default by tenant, the Authority shall notify each mortgagee of such termination and, at such mortgagee's request made at any time within 6 months after the Authority's notice, shall enter into a new lease with the mortgagee most senior in lien (or with a junior mortgagee exercising such right if the senior mortgagee fails or refuses to do so), which lease shall be effective as of the date of the lease termination for the remainder of the term and upon the same terms and conditions as in the Gateway Plaza Sublease. In such event, such mortgagee shall pay to the Authority all unpaid Land Rent, Tax Equivalency Payments, Additional Rent and other charges, the Authority's expenses incurred in connection with tenant's default and the termination of the Gateway Plaza Sublease and shall agree to remedy those defaults which are susceptible of being cured. In the event a mortgagee did not cure tenant's defaults or request a new lease, the lien of such mortgagee's mortgage would be extinguished as a result of the termination of the Gateway Plaza Sublease.

8. *Repairs:* Tenant shall, at its expense, take good care of the premises and all equipment and shall keep and maintain the buildings (which tenant was obligated to construct pursuant to the Gateway Plaza Sublease) in good and safe order and working condition and shall make all repairs, internal and external, structural and non-structural.

9. *Compliance With Requirements:* Tenant shall, at its expense, comply with all laws, rules, ordinances, etc. applicable to the premises. Tenant shall have the right, in certain circumstances, to contest the validity of any such requirement.

10. *Capital Improvements:* Subject to the Authority's consent which is not to be unreasonably withheld and certain other conditions, the Gateway Plaza Sublease provides that tenant shall have the right to make capital improvements to the buildings, provided any such capital improvement, when completed, shall be of such a character as not to reduce the value of the buildings below its value immediately before construction of the capital improvement was commenced. In addition, capital improvements of a structural nature require the submission to the Authority of plans and specifications for such capital improvement.

11. *Discharge of Mechanic's Liens:* Tenant shall not create or cause to be created any mechanic's lien, encumbrance or charge upon tenant's estate in the premises (other than permitted liens), any assets of or funds appropriated to the Authority or upon the Authority's estate in the premises. Tenant shall cause any such lien to be promptly discharged of record.

12. *The Authority's Right to Perform:* If an event of default shall have occurred under the Gateway Plaza Sublease, the Authority shall have the right to perform any obligation on tenant's behalf and any monies expended by the Authority shall be repaid by tenant with interest

on demand, such right, except in case of emergency, to be subject to the rights granted to institutional leasehold mortgagees.

13. *Master Lease:* The Gateway Plaza Sublease is subject and subordinate to all terms and condition of the Master Lease. If estates under the Master Lease are merged, tenant will attorn to the holder of the reversionary interest.

14. *Events of Default:* If certain defaults shall occur, the Authority shall have the right to terminate the Gateway Plaza Sublease. Defaults by tenant that would entitle the Authority to terminate the Gateway Plaza Sublease include: (a) failure to make any required payment of Land Rent, Tax Equivalency Payment, Additional Rent or other charge after 15 days' notice; (b) failure to perform any other provision of the Gateway Plaza Sublease if such failure continues for a period of 30 days after notice by the Authority to tenant, unless such failure could not by its nature be cured within such 30 days, in which case tenant is required to remedy such failure with reasonable diligence; and (c) events of bankruptcy concerning tenant. In the event of a default by tenant and the failure of tenant or tenant's mortgagee to timely exercise its cure rights, as hereinabove described, the Authority will have the right to terminate the Gateway Plaza Sublease and at its option relet the premises and seek damages. As previously stated, the Gateway Plaza Sublease grants a mortgagee certain rights intended to provide protection in the event of a default by tenant, including a right to notice and cure and a right to enter into a new lease with the Authority directly.

15. *Compliance with HUD Mortgage:* Notwithstanding any other provisions of the Gateway Plaza Sublease, so long as any leasehold mortgage shall be insured, reinsured or held by or given to HUD in connection with a resale or the premises are acquired by HUD because of a default under said mortgage, all provisions of the Gateway Plaza Sublease relating to plans, specifications, design, construction, reconstruction, restoration, repairs, replacement or rebuilding, operations and maintenance, kinds or amounts of insurance, project cost and cost certifications, apportionment of condemnation or other awards or insurance or other payments (which apportionments shall be subject to the Master Lease and the HUD Mortgage) shall be subject to the rules, regulations and administrative determinations of the Secretary of HUD, provided that nothing contained in the Gateway Plaza Sublease shall prevent tenant from challenging the same.

16. *Limitation of Personal Liability:* No member, officer, employee, consultant or agent of the Authority nor any venturer, partner (general or limited), director, employee, agent, consultant, affiliate, associate, principal or stockholder of tenant shall have any personal liability under the Gateway Plaza Sublease. Accordingly, if tenant shall have defaulted under the Gateway Plaza Sublease and such default was not remedied by tenant or its mortgagee or if the Gateway Plaza Sublease was terminated and a new lease was not requested by such mortgagee, the sole remedy of the Authority will be to terminate the Gateway Plaza Sublease and repossess the premises demised thereunder. The Authority will be unable to recover any monetary damages resulting from such termination.

SUBLEASE FOR SITE 3

The following is a description of the major provisions of the Lease for Site 3 (Battery Place) between Battery Park City Authority, d/b/a Hugh L. Carey Battery Park City Authority, as

landlord (the “Authority” or “Landlord”), and Battery Place Green, LLC, as tenant (“Tenant”), made as of the 17th day of August, 2006, (the “Lease”). Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of its provisions.

1. **Term:** The Lease commenced on August 17, 2006, (the “Commencement Date”), and expires, unless sooner terminated, on June 17, 2069. The Lease does not contain any right on the part of Tenant to renew or otherwise extend the Term.

2. **Rental:** The primary components of rent under the Lease are the (i) the “Upfront Lease Payment;” (ii) special additional rent payments (“Special Additional Rent Payments”); (iii) base rent (“Base Rent”); (iv) payments in lieu of real estate taxes (“PILOT”); and (v) “Civic Facilities Payments.”

(a) **Upfront Lease Payment:** As an inducement to Landlord, and as a condition precedent to Landlord’s obligation to enter into the Lease, Tenant has paid to Landlord the sum of four million dollars (“Upfront Lease Payment”). As of the Commencement Date the Upfront Lease Payment shall be deemed fully earned and shall be non-refundable under any circumstances whatsoever.

(b) **Special Additional Rent Payments:** As additional rent, Tenant shall pay to Landlord the following payments (collectively the “Special Additional Rent Payments”): (x) seven million five hundred thousand dollars no later than thirty days after the Commencement of Construction as defined in the Lease; (y) fourteen million dollars no later than thirty days after the issuance of the first Residential TCO for the Building; and (z) seventeen million dollars no later than two hundred ten days after issuance of the first Residential TCO for the Building. Each such Special Additional Rent Payment shall be deemed fully earned when paid and non-refundable under any circumstances whatsoever. To assure payment of each Special Additional Rent Payment when due, Tenant, as Borrower, and Construction Lender, as defined in the Lease, have entered into a Building Loan Agreement and Project Loan Agreement (the “Agreements”) for the construction of the Premises. The Agreements provide that the amount of each Special Additional Rent Payment when due as described herein shall be paid directly to Landlord by Construction Lender, on behalf of Tenant, as an advance on account of the building loan (each a “Special Additional Rent Advance”), on the due date, subject only to compliance by Tenant, as borrower, with the conditions precedent to advances under the building loan and project loan and to the Special Additional Rent Advance(s) that are set forth in the Agreements. Tenant reserves the right to pay the amount of each Special Additional Rent Payment directly to Landlord on or before the due date, and in which event Construction Lender shall have no obligation to pay to Landlord any Special Additional Rent Advance with respect thereto. The Agreements shall contain provisions that the Agreements shall not be amended in any way without the consent of Landlord and no advances shall be made thereunder except in strict compliance with the provisions thereof until all Special Additional Rent has been paid to Landlord. In addition to the foregoing Tenant shall be deemed to mean “Sponsor” should the Premises be submitted to a condominium form of ownership, and Landlord may pursue any rights granted to Landlord directly against Sponsor. In addition to the provisions and requirements set forth in Exhibit F of the

Lease, the Condominium Plan shall condition effectiveness of a transfer of a Unit by Sponsor upon the payment of any Special Additional Rent Payment then due in accordance with the Lease, and should payment not be tendered when due, such transfer shall be deemed null and void, and of no force and effect. Landlord agrees that provided the Special Additional Rent Payments are paid as required under the Lease, then Landlord, if having received the notice required under the Lease, shall provide to a unit purchaser and/or unit purchaser's mortgagee an estoppel certificate containing a certification that all Special Additional Rent Payments then due have been paid.

(c) Base Rent: The Lease obligates Tenant to pay, in the manner hereinafter defined, beginning upon the Commencement Date, and continuing thereafter throughout the Term to the Landlord, without notice or demand, the sums hereinafter described:

(i) First Period: For the twenty five year period beginning on the Commencement Date, pay the Base Rent as follows: Year 1 at \$0.00; Year 2 at \$901,829.00; Year 3 at \$928,883.00; Year 4 at \$956,750.00; Year 5 at \$985,453.00; Year 6 at \$1,015,016.00; Year 7 at \$1,048,004.00; Year 8 at \$1,082,064.00; Year 9 at \$1,117,231.00; Year 10 at \$1,153,541.00; Year 11 at \$1,191,031.00; Year 12 at \$1,229,740.00; Year 13 at \$1,269,706.00; Year 14 at \$1,310,972.00; Year 15 at \$1,353,579.00; Year 16 at \$1,397,570.00; Year 17 at \$1,442,991.00; Year 18 at \$1,489,888.00; Year 19 at \$1,538,309.00; Year 20 at \$1,588,304.00; Year 21 at \$1,639,924.00; Year 22 at \$1,693,222.00; Year 23 at \$1,748,252.00; Year 24 at \$1,805,070.00; and Year 25 at \$1,863,735.00 (the first twenty five years of Base Rent collectively the "First Period").

(ii) Second Period: For each Lease Year commencing on August 17, 2031 which is the 25th anniversary of the Commencement Date ("First Appraisal Date"), and continuing for a period of fifteen Lease Years thereafter ("Second Period"), an amount per annum equal to (x) the Base Rent Floor , as defined below, as determined on the First Appraisal Date which is the first day of the Second Period, equal to the greater of 6% of the fair market value of the Land, determined in accordance with the Lease, considered as unencumbered by the Lease and the Master Lease and as unimproved, except for Landlord's Civic Facilities and other site improvements made by Landlord, ("Base Rent Floor") or (y) the Base Rent payable in the Lease Year immediately prior to the period for which such Base Rent Floor was determined. Base Rent for the Second Period shall escalate on August 17, 2036 and again August 17, 2041 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period.

(iii) Third Period: For each Lease Year commencing on August 17, 2046 (the first day of the Third Period and Fourth Period defined below each a "Reappraisal Date") and continuing for a period of fifteen (15) Lease Years thereafter ("Third Period") an amount per annum equal to the Base Rent Floor as determined on the Reappraisal Date, as escalated on August 17, 2051 and again August 17, 2056 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable

escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period.

(iv) Fourth Period: For each Lease Year commencing on August 17, 2061 continuing thereafter until the Expiration Date (“Fourth Period”) an amount per annum equal to the Base Rent Floor as determined on the Reappraisal Date, as escalated on August 17, 2066 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period.

The Base Rent shall be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term.

(d) PILOT: For each tax year or portion thereof within the Term, Tenant shall pay to the Landlord, without notice or demand, an annual sum (“PILOT”), equal to the greater of (x) actual Taxes for such Tax Year and (y) the Minimum PILOT set forth as follows: (i) Year 1 at \$598,489.00; Year 2 at \$797,985.00; Year 3 at \$2,488,507.00; Year 4 at \$4,977,014.00; Year 5 at \$5,076,554.00; Year 6 at \$5,178,085.00; Year 7 at \$5,281,647.00; Year 8 at \$5,387,279.00; Year 9 at \$5,495,025.00; Year 10 at \$5,604,926.00; Year 11 at \$5,717,024.00; Year 12 at \$5,831,356.00; Year 13 at \$5,947,992.00; Year 14 at \$6,066,952.00; Year 15 at \$6,188,291.00; Year 16 at \$6,312,057.00; Year 17 at \$6,438,298.00; Year 18 at \$6,567,064.00; Year 19 at \$6,698,405.00; Year 20 at \$6,832,373.00; Year 21 at \$6,969,020.00; Year 22 at \$7,108,401.00; Year 23 at \$7,250,569.00; Year 24 at \$7,395,580.00; and Year 25 at \$7,543,492.00; In no event shall the amount of PILOT be less than the amounts set forth above. PILOT shall be paid in equal semi-annual installments during such tax year, in advance on the first day of each of January and July.

(e) Civic Facility Payments: As its allocable share of the cost of operating and maintaining certain Civic Facilities as described in the Lease as the Parks and any other parks or open spaces within or adjacent to the Project Area (“Operating Costs”), Tenant, for each Lease Year, or portion thereof, shall pay to the Landlord commencing on the date on which a temporary Certificate of Occupancy shall be issued for any dwelling unit in the Building (“Initial Occupancy Date”) and ending on the last day of the Term an annual sum (“Civic Facilities Payment”) as follows:

(i) For the period commencing on the Initial Occupancy Date and for each of the next two full Lease Years an annual amount equal to the product obtained by multiplying the sum computed under the succeeding clause (ii) by a fraction the numerator of which shall be the number of days between the Initial Occupancy Date and the last day of the Lease Year in which the Initial Occupancy Date occurs and the denominator of which shall be three hundred sixty-five.

(ii) For each of the next two Lease Years an amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$500.00 dollars and (B) the product derived by multiplying \$.50 by the gross square feet of non-residential floor area, but excluding therefrom the Park Space and common areas described in the Lease, in the Building.

(iii) For each of the next three Lease Years an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$550.00 dollars and (B) the product derived by multiplying \$.55 by the gross square feet of non-residential floor area, but excluding therefrom the Park Space and common areas described in the Lease, in the Building.

(iv) For the next succeeding Lease Year and for each Lease Year thereafter with respect to the North Neighborhood Residential Parks, an amount equal to the product of (A) the Parks Budget as defined below, less amounts (x) payable toward such Parks Budget by other tenants of Landlord in the Project Area under leases which were originally entered into prior to the Commencement Date and (y) computed on the basis of operating costs for a particular neighborhood within the Project Area other than for Operating Costs for the entire Project Area, multiplied by (B) a fraction, the numerator of which shall be the maximum permissible number of Zoning Floor Area square feet in the Building (excluding the Zoning Floor Area square feet comprising the Parks Space) and the denominator of which shall be the maximum permissible number of Zoning Floor Area square feet in all residential buildings, including the Building (but excluding the Zoning Floor Area square feet comprising the Parks Space); except that Landlord, at its sole option and at any time, may establish as an alternative method for determining such allocable share of the Operating Costs and the amount of the Civic Facilities Payment that Tenant would pay as its share, as may be equitable with respect to all tenants of Landlord within the Project Area. Notwithstanding the provisions of the foregoing clause (iii), the amount of tenant's Civic Facilities Payment for any Lease Year referred to in the Lease shall not be greater than one hundred twenty-five percent of Tenant's Civic Facilities Payment for the prior Lease Year and the amount of capital costs included in Operating Costs for any year shall not exceed ten percent of the Operating Costs for such year.

(v) For each Lease Year commencing with the Lease Year referred to in item (iii) above, Landlord shall submit to Tenant (A) an estimate of Operating Costs for such Payment Period ("Parks Budget"), (B) an estimate of the Operating Costs for the North Neighborhood Esplanade for such Payment Period ("Civic Facilities Budget") and (C) an estimate of the Operating Costs for the Residential Esplanade ("Residential Esplanade Budget").

(vi) The North Neighborhood Esplanade Budget defined as an amount computed by multiplying (A) the estimated Operating Costs of the entire Esplanade in the Project Area other than such portion of the Esplanade described in the Lease and defined as the Residential Esplanade by (B) a fraction, the numerator of which is the number of linear feet of the North Neighborhood Esplanade and the denominator of which is the total number of linear feet of the Residential Esplanade. Tenant shall pay to Landlord the Civic Facilities Payment due in respect of each such Payment Period in equal monthly installments payable in advance on the first day of each month.

(f) Percentage Rent: For the period commencing on the date Tenant shall first collect any Gross Non-Residential Revenue (the "Percentage Rent Commencement Date"), which Gross Non-Residential Revenue includes, but is not limited to all revenue received by Tenant or an Affiliate of Tenant from, in connection with, or arising out of the use and

occupancy of space in the Building which is being used for any non-residential purpose, payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, and which Gross Non-Residential Revenue is more particularly defined in the Lease, and ending on December 31 of the calendar year in which the Percentage Rent Commencement Date occurs, and for each calendar year thereafter during the First Period, Tenant shall pay to Landlord an amount equal to the excess of (x) 11% of the amount by which Gross Non-Residential Revenue collected by Tenant during each such calendar year exceeds the Allowed Deductions for such calendar year, or portion thereof, less (y) the total minimum percentage rent amount, set forth in the Lease, applicable to the Lease Year during which such calendar year, or portion thereof, occurs.

(i) For the period commencing on the first day of the Second Period and ending on December 31 of the calendar year in which the Second Period commences, and for each calendar year or partial calendar year thereafter during the Term, an amount equal to 11% of the amount by which Gross Non-Residential Revenue collected by Tenant during each such calendar year exceeds the Allowed Deductions for such calendar year or portion thereof.

(ii) Tenant shall pay to Landlord, with respect to the Garage Space as defined in the Lease the sum of \$926,464.00 (the “Upfront Garage Percentage Rent Payment”); and with respect to the Retail Space, the sum of \$175,652.00 (the “Upfront Retail Percentage Rent Payment”). Tenant shall pay the Upfront Garage Percentage Rent Payment upon the earlier to occur of (x) the date Tenant shall first collect any Gross Non-Residential Revenue with respect to all or any portion of the Garage Space; (y) the date that is nine months following the issuance of a Certificate of Occupancy for the Garage Space; or (z) the date that Sponsor conveys the Unit comprising the Garage Space to a Unit Owner that is not a Sponsor. Tenant shall pay the Upfront Retail Percentage Rent upon the earlier to occur of (x) the date Tenant shall first collect any Gross Non-Residential Revenue with respect to all or any portion of the Retail Space; (y) the date that is nine months following the issuance of a Certificate of Occupancy for the Retail Space; or (z) the date that Sponsor conveys the Unit comprising the Retail Space to a Unit Owner that is not a Sponsor. The aforementioned Upfront payments shall be fully earned upon payment and non-refundable under any circumstances whatsoever.

Percentage Rent shall be computed quarterly, in the manner specified in the Lease, and within thirty days after the end of each calendar quarter Tenant shall submit in reasonable detail the Gross Non-Residential Revenue from the prior quarter and based upon said submission pay Landlord 11% of the amount by which the Gross Non-Residential Revenue exceeds the Allowed Deductions for such calendar quarter, as a partial payment. Tenant shall deliver to Landlord as soon as is practicable after the end of each calendar year, but not later than 120 days after the end of such calendar year, a separate statement for such year showing the Gross Non-Residential Revenue, together with the Percentage Rent due for such year. In the event of an underpayment of the Percentage Rent for the period, Tenant shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

If Tenant sells the Garage Unit or the Retail Space to an owner which is not the Sponsor and has previously paid the Upfront Garage Percentage Rent Payment or the Upfront Retail Percentage Rent payment, respectively, no further percentage rent with respect to the Garage Space or the Retail Space, respectively, shall be payable.

In the event Tenant's leasehold estate in the Premises shall be submitted to a condominium form of ownership, then "Tenant" shall be deemed to mean the Sponsor or Condominium Board if it shall become the Unit Owner, it being the agreement of Landlord and Tenant that so long as Sponsor is a Unit Owner, Sponsor shall be solely liable for the payment of any Percentage Rent and the Upfront Percentage Rents payable directly to Landlord and that Landlord may pursue any rights granted to Landlord hereunder directly against each Sponsor, or Condominium Board if it should become the unit owner.

3. ***Insurance:*** Tenant shall, after Substantial Completion of the Building, and thereafter for the full Term of the Lease, keep in full force and effect (i) an All Risk of Physical Loss policy of insurance, including without limitation loss o damage by water, flood, subsidence and earthquake, on an Agreed Amount basis with full replacement cost; as such shall be determined from time to time, but not less frequently than required by the insurer and in any event at least once every three (3) years. In the event Tenant's leasehold estate shall be submitted to condominium ownership, however, then such replacement cost determination shall be made annually; (ii) commercial general liability insurance against liability for bodily injury, death and property damage in an amount as may be reasonably required by Landlord upon thirty (30) days notice, but not less than twenty five million dollars combined single limit; and (iii) such other insurance enumerated in the Lease approved by Landlord, and such other insurance in such amounts as may be reasonably required by Landlord. All policies shall name the Tenant as the insured, the Landlord, and Master Landlord as additional insureds to the extent, where applicable, of their respective insurable interests in the Premises, and shall be primary with respect to any other coverage which Landlord and Master Landlord may obtain as additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee endorsement, provided that such Mortgagee irrevocably agrees in writing for the benefit of Landlord that all proceeds of such insurance shall be applied in accordance with the Lease. Mortgagee may be an additional insured under the policies, and loss payable in accordance with the provisions of the Lease. All Rent Insurance shall be for the benefit of Landlord and Tenant, but the proceeds, if in excess of one million dollars shall be paid to Depository to be applied to Rental Payments until such Restoration by Tenant is completed. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of one million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee, as their interests may appear.

4. ***Restoration:*** If all or any part of the Building as defined in the Lease, shall be destroyed or damaged in whole or in part by fire or other casualty, Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, Restore the Building. Except as hereinafter set forth, Tenant shall Restore the Premises in the event all or any part of the Premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the Premises existing immediately prior to such occurrence, and if such casualty occurs within ten years after the date the building has been Substantially completed, then Restoration shall be performed in

accordance with the Construction Documents as defined in the Lease. If any loss, damage or destruction occurs, and the cost of Restoration of which equals or exceeds \$1,000,000. (as adjusted), Tenant shall furnish to the Landlord complete plans and specifications for such Restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to the Landlord for the cost of Restoration exceeding such amount, and required insurance policies. Notwithstanding anything in the Lease to the contrary, to the extent that any portion of the Restoration involves work on the exterior of the Building or a change in the height, bulk or setback of the Building, Tenant shall furnish to the Landlord a complete set of plans and specifications for the Restoration. The Lease shall not terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total, substantial or partial destruction of, the Building by reason of the untenantability of the same for, or due to, any reason or cause whatsoever, and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the Premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the Building had not been damaged or destroyed without abatement, suspension, or diminution of any kind.

If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligations under Article 8 of the Lease shall be the obligation of the Condominium Board.

5. ***Condemnation:*** If the whole or substantially all of the Premises shall be taken, excluding a taking of the fee interest in the Premises, or any leasehold interest superior to that of the Tenant's, if after such taking Tenant's rights under this Lease are not affected, for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Landlord, Tenant and those authorized to exercise such right, this Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: (i) first to the Landlord for or attributable to the value of the Land so taken, considered as unencumbered by the Lease and the Master Lease and as unimproved, and the Landlord's Civic Facilities and other site improvements made by Landlord taken in any proceeding with respect to such taking; (ii) next to the mortgagee which holds a first lien on Tenant's interest in the Lease under a Single Asset Mortgage or to Unit Mortgagees under Single Asset Unit Mortgages constituting first liens against the mortgaged Units, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Single Asset Mortgage or Single Asset Unit Mortgage with interest thereon at the rate specified therein to the date of payment; (iii) for a period of forty years from the Scheduled Completion Date, there shall next be paid to each additional Mortgagee under a Single Asset Mortgage, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by its Single Asset Mortgage with interest thereon at the rate specified therein to the date of payment; (iv) next to Landlord so much of the award which is for or attributable to the value of Landlord's reversionary interest in that part of the Building taken in such proceeding, it being understood that for the period of forty years from the Scheduled Completion Date the value of Landlord's reversionary interest shall be zero; and (v) subject to the rights of any Mortgagees or Unit Mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the Premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to Restore any

remaining part of the Building. The entire award for or attributable to the Land taken and the fair market value of the Landlord's Civic Facilities shall be first paid to the Landlord, and the balance, if any, shall be paid to Depository, except that if such balance shall be less than \$1,000,000 (as adjusted in accordance with the Lease), such balance shall be payable, in trust, to Tenant for application to the cost of Restoration.

If the temporary use of the whole or any part of the Premises shall be taken, the Term shall not be reduced or affected in any way and Tenant shall continue to pay in full the Rental, and Tenant shall be entitled to receive for itself any award or payments for such use, in accordance with the provisions of Section 9.5(i) and (ii) of the Lease.

Landlord, Tenant and any Mortgagee shall be entitled to file a claim and otherwise participate in any condemnation or similar proceedings. Landlord represents that under current law it has no power to condemn all or any part of the Premises; furthermore, Landlord hereby covenants and agrees that it shall never institute any taking or condemnation of all or any portion of the Premises without the prior written consent of Tenant.

6. ***Assignment, Subletting:*** Except as otherwise provided, prior to Substantial Completion of the Building, or at any time after Substantial Completion of the Building that the conditions set forth in Section 10.01(b) of the Lease are not satisfied, neither the Lease nor any interest of Tenant in the Lease shall be sold, assigned, or otherwise transferred, whether by operation of law or otherwise, including without limitation an assignment to an Apartment Corporation in connection with a Cooperative Plan or partial assignment in connection with Tenant's submission of its leasehold estate in the Premises to a condominium form of ownership, but excluding transfers of individual condominium units following the submission by Tenant of its leasehold estate in the Premises to a condominium form of ownership pursuant to Article 41 and Exhibit F (Provisions Regarding the Conversion To Condominium Form of Ownership), of the Lease, or in connection with the issuance or transfer of proprietary leases following the submission of Tenant of its leasehold estate in the Premises to an Apartment Corporation in connection with a Cooperative Plan nor shall any of the issued or outstanding capital stock of any corporation, any membership interest in any limited liability company any partnership interest in any partnership or any equity interest in any Person, in each case, which is Tenant or owns a direct or indirect interest in Tenant be sold assigned, transferred pledged or encumbered, whether by operation of law or otherwise, if such would result in a change of the Controlling membership ownership of Tenant as held by the members thereof as of the Commencement Date, or there be any change in the right to direct the management of any Person that is Tenant or owns a direct or indirect interest in Tenant, nor shall Tenant sublet the Premises as an entirety or substantially as an entirety, without the consent of Landlord in each case. Notwithstanding the foregoing, prior to Substantial Completion of the Building Landlord's consent shall not be required with respect to any Transfer that satisfies the conditions as set forth in Section 10.01(a) of the Lease.

From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to any Transfer, assignment, or subletting of the Premises provided no Default as to which notice shall have been given shall have occurred and then be continuing, and Tenant has complied with the requirements under Article 10 of the Lease. Landlord's consent shall not be required in the event Tenant assigns its interest in this Lease to the Apartment Corporation pursuant to a Cooperative Plan, provided no Default then exists and is continuing; however, Tenant shall not, at any time during the Term, assign its interest in the Lease in whole or in part

pursuant to any plan to submit Tenant's leasehold estate in the Premises to condominium ownership except pursuant to the provisions of Article 41 and Exhibit F of the Lease.

Tenant may, without Landlord's consent, but subject to the provisions of the last sentence of Section 10.01(c) enter into agreements for the rental of residential and non-residential space in the Building or the occupancy of such space for periods shorter than or equal to the remainder of the Term at the time of such agreements ("Subleases"). Each residential Sublease shall obligate the Subtenant pursuant thereto to occupy and use the Premises included therein for residential purposes only. After an Event of Default by Tenant, Landlord may, subject to the rights of any Mortgagee which is an Institutional Lender, collect subrent and all other sums due under Subleases and apply the net amount collected to Rental, but no such collection shall be deemed to be a waiver of any agreement, term, covenant or condition under the Lease. Tenant sets over to Landlord all of Tenant's right title and interest in and to all Subleases, subject to the rights of any qualifying Mortgagee in accordance with the Lease. All Subleases shall provide that they are subject to the Lease and to the Master Lease, and at Landlord's option on the termination of the Lease; the Subtenants will attorn to or enter into a direct lease with Landlord. With respect to certain Subleases, the Landlord and a Subtenant shall execute an agreement wherein the Landlord agrees to recognize such Subtenant as a direct Tenant of Landlord under its Sublease upon termination of the Lease.

7. ***Mortgages:*** Tenant shall have the right to mortgage or otherwise encumber Tenant's interest in the Lease. In the event Tenant so mortgages its interest, Tenant or a Mortgagee shall give the Landlord notice of such Mortgage and provide Landlord with a complete and correct copy of such Mortgage certified by Tenant or such Mortgagee and shall provide the name and address of such Mortgagee. Landlord shall give notice to such Mortgagee of each Default in accordance with Article 25 of the Lease. Landlord shall accept performance by Mortgagee, with the same force and effect as though performed by Tenant. In the event of a modification or amendment of the Lease made subsequent to the date of the Mortgage, and delivery to Landlord in accordance with the notice provisions, then Mortgagee shall not be liable under the provisions of the Lease. In the event of Termination of the Lease by reason of any Default, the Landlord shall give prompt notice thereof to each Mortgagee of such termination, and, at such Mortgagee's request made within thirty days after the giving of notice from Landlord, shall enter into a new lease with such Mortgagee for the Premises, or such portion of the Premises subject to the Lease, or its designee or nominee, for the remainder of the Term subject to all covenants, conditions, limitations and agreements contained in the Lease, provided in such event, such Mortgagee shall pay to the Landlord all unpaid Rental from the date of termination up to and including the date of commencement of the term of such new lease, and together with all expenses incurred by the Landlord in connection with the Default by Tenant, termination of the Lease, and all expenses incurred in connection with the new lease with Mortgagee; Mortgagee shall cure all Defaults susceptible of being cured. Concurrently, the Landlord shall assign to such Mortgagee all of its right, title and interest in and to moneys, if any, then held by or payable to the Landlord or Depository that Tenant would have otherwise been entitled to receive but for termination of the Lease.

8. ***Repairs:*** Tenant shall, unless otherwise provided, at its sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the Premises and shall put, keep and maintain the Building in good and safe order and condition, and make all repairs to keep the same in good and safe order and condition. Tenant shall not commit or suffer, and shall

use all reasonable precaution to prevent, waste, damage or injury to the Premises. Tenant assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the Premises. All repairs made by Tenant shall be at least equal in quality and class to the original work and shall be made in compliance with all Governmental Authorities as defined in Section 12.01 of the Lease.

9. ***Compliance with Requirements:*** Tenant promptly shall comply with any and all applicable present and future laws, rules, orders, ordinances, including without limitation Environmental Statutes, etc. affecting the Premises. Tenant shall have the right to contest the validity of any such requirements or the application thereof. During such contest, compliance with any such contested Requirements may be deferred by Tenant upon condition that, if Tenant is not an Institutional Lender, before instituting any such proceeding,, then Tenant shall furnish to Landlord or deposit with Depository a qualifying bond, cash or other security reasonably satisfactory to Landlord securing compliance with the requirement.

10. ***Capital Improvements:*** Tenant shall not demolish, replace or materially alter the Building, or make any addition thereto, unless Tenant has procured from all Governmental Authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the Premises; the Capital Improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and Tenant has delivered to Landlord certificates of insurance acceptable to Landlord. If the estimated cost of any proposed Capital Improvement exceeds \$750,000 (as adjusted), Tenant shall pay the fees and expenses of any architect or engineer selected by the Landlord and furnish: complete plans and specifications; a contract or construction management agreement; payment and performance bonds or other security. To the extent that any portion of the Capital Improvement involves work which affects the structural elements of the Building or work involving the exterior or a change in the height, bulk or setback of the Building, Tenant shall furnish to the Landlord complete plans and specifications and any other item at the Landlord's request. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in Landlord, without any obligation by Landlord to pay any compensation therefor to Tenant.

11. ***Equipment:*** All equipment shall be and shall remain the property of the Landlord. Tenant shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of Landlord, which consent shall not be unreasonably withheld.

12. ***Discharge of Liens:*** Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the Premises and shall not suffer any other matter or thing whereby the estate, right and interest of the Landlord in the Premises might be impaired. Tenant may finance any Equipment. If any lien at any time shall be filed against the Premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

13. ***The Landlord's Right to Perform:*** If Tenant at any time shall be in Default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may but shall be under

no obligation to perform such obligation on Tenant's behalf. All associated expenses shall be paid by Tenant.

14. *Events of Default:* The Lease provides that if certain Defaults shall occur, the Landlord shall have the right to terminate the Lease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. Events of Default shall include but are not limited to: (i) failure of Tenant to pay any item of Rental for 10 days after notice from the Landlord to Tenant; (ii) failure by Tenant to observe or perform one or more of the terms, conditions, covenants or agreements contained in this Lease which failure continues for a period of 30 days after notice thereof by Landlord; (iii) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days and (iv) assignment of the Lease, sublease, or transfer of certain interests in Tenant, without the Landlord's approval to the extent required which transaction has not been made to comply or voided ab initio within 30 days after notice thereof from Landlord; (v) to the extent permitted by law, if Tenant shall admit in writing that it is unable to pay its debts as such become due, or if Tenant shall make an assignment for the benefit of creditor's. As previously stated, the Lease grants a mortgagee certain rights intended to provide protection in the Event of Default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly. In the event the Lease shall terminate due to an Event of Default and in accordance with the provisions of the Lease, then Tenant, Tenant as debtor-in-possession and/or Trustee shall immediately quit and surrender the Premises. No termination of this Lease pursuant to Section 24.03(a) or taking possession of or re-letting the Premises or any part thereof, pursuant to Sections 24.03(b) or 24.04(b) of the Lease shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or re-letting. Tenant shall pay to Landlord all costs and expenses, including, without limitation, reasonable attorney's fees and disbursements, incurred by Landlord in any action or proceeding to which Landlord may be made a party by reason of any act or omission of Tenant, and Tenant shall pay to Landlord all costs and expenses, incurred by Landlord in enforcing any of the covenants and provisions of this Lease and incurred in any action brought by Landlord against Tenant on account of the provisions thereof.

15. *Civic Facilities:* The Landlord has the obligation to construct certain enumerated Civic Facilities. Tenant acknowledges that other than those certain facilities enumerated in Article 26 of the Lease, Landlord has completed the Civic Facilities improvements. Tenant has the obligation to maintain certain of the enumerated Civic Facilities, and Landlord the obligation to maintain the balance of the enumerated Civic Facilities. In the event Landlord fails to so maintain the enumerated civic facilities in accordance with the Lease Tenant shall have the right but not the obligation to undertake Landlord's Maintenance Obligations ("Self-Help," as defined in the Lease). In the event Tenant undertakes Self-Help, then Tenant shall have the right to offset against the next installment of Civic Facilities Payments an amount equal to the reasonable expenses thereby incurred or paid by Tenant together with interest thereon at the Involuntary Rate computed with respect to each payment made by Tenant. Landlord shall incur no penalty or liability, and Tenant shall have no remedies or rights other than as expressly provided in the Lease, it being agreed by the parties that Landlord's failure to perform Landlord's Maintenance Obligations shall not be deemed a failure by Landlord to perform a substantial obligation on Landlord's part to be performed under the Lease.

16. *Subordination:* the Landlord's interest in the Lease shall not be subject or subordinate to any mortgage or any other liens or encumbrances upon Tenant's interest in the Lease. Tenant's interest in the Lease as may be modified, amended or supplemented, shall not be subject or subordinate to any liens or encumbrances hereafter affecting the Landlord's interest in the fee title to Battery Park City or any part thereof, this Lease, the Premises or the Master Lease. Without limiting the foregoing, Battery Park City Authority, in its capacity as tenant under the Master Lease acknowledges and agrees that the interest of the tenant under the Master Lease and the interest of any Person in the Premises which arises by, through, or under, or is otherwise derivative of the Master Lease, including any possessory interest therein, are and shall be subordinate to the Tenant's interest under the Lease for so long as the Lease remains in effect.

17. *Limitations on the Landlord's Liability:* The liability of the Landlord shall be limited to the Landlord's interest in the Premises. Neither the Landlord nor any of its members, directors, officers, employees, agents or servants shall have any liability (personal or otherwise) hereunder beyond the Landlord's interest in the Premises, and no other property or assets of the Landlord or any such person or any of the members, directors, officers, employees, agents or servants of either shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

18. *Limitations on Tenant's Liability:* The liability of Tenant hereunder for damages or otherwise shall be limited to the property and assets of Tenant, except as to Recourse Claims as defined in the Lease and which recovery is limited to the recovery for said Recourse Claims as stated therein. Neither the Tenant nor any of the members, directors, officers, shareholders, partners, managers, principals or joint venturers, employees, agents or servants of Tenant or its partners, members or shareholders shall have any liability (personal or otherwise) hereunder beyond the property or assets of the Tenant, and no property or asset of any such excluded persons shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Landlord's remedies hereunder.

19. *Letter of Credit Security Deposit:* Tenant shall secure obligations under the Lease through Completion of the Building, including, without limitation, Tenant's obligation for the payment of Rental, by depositing with Landlord a clean irrevocable letter of credit drawn in favor of Landlord, in the form provided for in the Lease having a term of not less than one year, payable in U.S. dollars. The initial Letter of Credit shall be eighteen million eight hundred seventy thousand dollars. The letter of credit shall be renewed or replaced without decrease in amount each and every year as provided in the Lease. Notwithstanding the above, upon payment in full of the Base Rent, and provided no Event of Default shall have occurred and is ongoing, then Tenant shall have the right to reduce the letter of credit with Landlord's authorization to one million dollars. Upon reduction of said amount, Tenant shall have the option to replace the letter of credit with a deposit of immediately available funds for said amount.

EXISTING BATTERY PLACE SUBLEASES FOR SITES 4, 10, 11

The following is a description of the major provisions of the Battery Place subleases for Sites 4, 10 and 11 (individually, a "Battery Place Sublease" and collectively, the "Battery Place Subleases"). A schedule of the Battery Place Subleases is annexed hereto. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Battery Place

Subleases. The description contained herein does not purport to be complete and reference is made to the Battery Place Subleases for full and complete statements of their provisions.

1. *Term:* The term of each of the Battery Place Subleases commenced on the date such Battery Place Sublease was executed and expires, unless sooner terminated, on June 17, 2069. No Battery Place Sublease contains any right on the part of Tenant thereunder to renew or otherwise extend the term of its Battery Place Sublease beyond June 17, 2069.

2. *Rental:* The primary components of rent under the Battery Place Subleases are base rent, payments in lieu of real estate taxes (“PILOT”) and civic facilities payments. The following is a description of each such component of rent:

(a) *Base Rent:* Each Battery Place Sublease obligates Tenant thereunder to pay base rent (“Base Rent”) on a monthly basis commencing on the date of execution of its Battery Place Sublease (the “Commencement Date”) in the case of Sites 4 and 11, or on March 20, 1987 (the “Rent Commencement Date”) in the case of Site 10. For the period commencing on the Commencement Date, in the case of Sites 4 and 11, and the Rent Commencement Date, in the case of Site 10, and expiring on the day prior to the twentieth anniversary of the date on which a temporary certificate of occupancy is issued for any dwelling unit in the buildings constructed pursuant to such Battery Place Sublease (such anniversary being called the “First Appraisal Date”), the Base Rent shall be in the amount specified in each of the Battery Place Subleases subject to certain annual increases determined in accordance with each Battery Place Sublease. For the fifteen years immediately following the First Appraisal Date, (i) in the case of Sites 4 and 10, the Base Rent shall be in the amount specified in the Battery Place Sublease for such site, and (ii) in the case of Site 11, the annual Base Rent shall be the greater of 6% of the fair market value of the land or 125% of the Base Rent for the year preceding the First Appraisal Date. Every succeeding 15 year anniversary of the First Appraisal Date, each a “Reappraisal Date,” annual Base Rent is readjusted to be the greater of 6% of the fair market value of the land or 125% of the Base Rent for the year preceding the respective Reappraisal Date.

(b) *PILOT:* The Authority and the Battery Park City Project Area are exempt from real estate taxes. Each Battery Place Sublease obligates Tenant thereunder to make payments to the Authority of PILOT, such payments to be made semi-annually in advance, or some variation thereof. PILOT will be the same amount as the real estate taxes which would have been payable except for the Authority’s tax exempt status. Tenant is entitled to the amount of real estate tax exemptions or abatements available to an owner of comparable property in the Borough of Manhattan under Section 421-a of the Real Property Tax Law of the State of New York as in effect on the date the related Battery Park Sublease was executed (“Section 421-a”). Each Battery Place Sublease provides that Tenant thereunder shall have the right to institute tax assessment reduction proceedings to reduce the assessed valuation of the premises covered by its Battery Place Sublease. If such proceeding is successful, Tenant will be entitled to a credit against future PILOT. Each Battery Place Sublease provides for an abatement of PILOT equivalent to the real estate abatement set forth in Section 421-a, which abatement declines biannually over a ten-year period following substantial completion of the buildings. As a condition to receiving benefits equivalent to benefits available under Section 421-a, until the Release Date described in the Battery Place Subleases each

Tenant must comply with various requirements specified in Section 421-a and the regulations promulgated thereunder for buildings receiving Section 421-a benefits. A failure by Tenant to comply with those requirements will subject such Tenant to penalties and sanctions.

(c) *Civic Facilities Payments:* Each Tenant under a Battery Place Sublease shall pay to the Authority its allocable share of the cost of operating, maintaining, repairing, restoring, replacing and upgrading certain “civic facilities” enumerated in the Battery Place Subleases, commencing on the date (the “Initial Occupancy Date”) on which a temporary certificate of occupancy was issued for any dwelling unit in the buildings constructed pursuant to such Battery Place Sublease (the “Civic Facilities Payment”). The Civic Facilities Payment is an amount equal to such Tenant’s proportionate share of the Authority’s budget for certain operating costs. The Battery Place Subleases set a limit on increases in the Civic Facilities Payment of an amount not to exceed 125% of the payment for the prior year.

The term “Rental” also includes any other sums which may be due and payable under the Battery Place Subleases. For example, each Tenant is obligated to pay, subject to such Tenant’s right to contest same, any imposition (including water and sewer charges) levied or assessed against the demised premises (excluding real estate taxes, which, if levied shall be paid by the Authority). In the case of Sites 10 and 11, Tenant is obligated to pay Percentage Rent equal to 10% of Gross Non-Residential Revenue for each calendar year. Except as noted below, each Tenant’s obligation to pay Rental is net to the Authority and without abatement, set-off or counterclaim. Each of the Battery Place Subleases gives Tenant thereunder certain limited offset rights against Rental (or certain components thereof) for payments made (and interest thereon) in the following instances:

(a) In the event of a final determination in favor of a Tenant in a tax assessment reduction proceeding, succeeding PILOT payments to the Authority will be reduced to the extent necessary to offset the overpayment of PILOT.

(b) If the premises covered by a Battery Place Sublease shall at any time become subject to real estate taxes, the Authority is responsible for the payment of same. In the event the Authority shall have failed to pay such real estate taxes and Tenant shall have paid same (together with any interest and penalties thereon), such Tenant may deduct such payment from the next installment of PILOT and, to the extent such payment shall exceed the next installment of PILOT, from the next installments(s) of Base Rent. If a Battery Place Sublease and leasehold estate are submitted to condominium ownership pursuant to the terms of such Battery Place Sublease and real estate taxes are assessed and levied by New York City against the condominium units, then payments of such taxes by the unit owners shall be credited against PILOT.

(c) If a Tenant is compelled by a governmental authority to pay any sales or compensating use taxes with respect to materials incorporated into the buildings and as to which such Tenant previously made payments in lieu of such taxes to the Authority, such Tenant may deduct such payments from subsequent installments of Base Rent and PILOT if the Authority failed to successfully contest the imposition of such tax, provided such deduction shall not exceed the amount so paid by such Tenant to the Authority.

(d) Each Battery Place Sublease obligated the Authority to construct certain civic facilities, and thereafter, requires the Authority to maintain such civic facilities. In the

event the Authority fails to maintain such civic facilities, each Tenant shall have the right, after notice to the Authority and the expiration of a cure period, to perform such maintenance and to offset such cost against subsequent installments of Base Rent and Civic Facilities Payments.

3. *Taxes:* As previously noted, in the event real estate taxes shall be levied and assessed against the premises covered by a Battery Place Sublease, the Authority shall be obligated to pay same. The Authority has the right, however, to contest the imposition of taxes, and, in certain circumstances, may defer payment during the pendency of such tax contest.

4. *Insurance:* Each Tenant under a Battery Place Sublease is obligated to maintain, at its expense, insurance, including rent insurance in an amount equal to at least one year's current Base Rent, PILOT, Percentage Rent (in the case of Sites 10 and 11) and Civic Facilities Payment. The types of insurance and limits of coverage are specified in the Battery Place Subleases. In addition, the Authority may require types of insurance and limits of coverage comparable to those maintained by prudent owners of like buildings. Each Battery Place Sublease provides that, in the event of casualty, the insurance proceeds shall be paid to Tenant, in trust, if less than \$250,000 (subject to adjustment in the manner therein provided based on the consumer price index) or, if in excess of \$250,000 (subject to adjustment), to a depository designated by such Tenant with the Authority's approval, such depository to be an institutional lender (as defined in each Battery Place Sublease).

5. *Restoration:* Each Tenant is obligated to restore the buildings in the event of damage or destruction due to fire or other casualty, whether insured or uninsured and whether or not the cost of restoration exceeds the insurance proceeds. Each Tenant shall be obligated for the payment of Rental during the period of a casualty without reduction or abatement. In the event a Tenant fails to restore the buildings as provided in its Battery Place Sublease, the Authority shall have the right to do so and may apply the insurance proceeds for such purposes. To the extent the cost of restoration exceeds \$250,000 (as adjusted), such Tenant shall provide the Authority with complete plans and specifications for such restoration, a construction contract and payment and performance bonds or other security reasonably satisfactory to the Authority. In addition, if such restoration involves work to the exterior of any buildings or a change in the height, bulk or setback of such buildings, such Tenant shall deliver complete plans and specifications for such work prior to the commencement of the restoration. No Battery Place Sublease grants Tenant thereunder the right to terminate its Battery Place Sublease in the event of a casualty.

6. *Condemnation:* In the event all or substantially all of the premises demised under a Battery Place Sublease is taken in a condemnation, such Battery Place Sublease shall be terminated. In such event, there shall first be paid (i) to the Authority the portion of the award attributable to the value of the land (considered as unencumbered and unimproved except for civic facilities provided by the Authority); (ii) to certain mortgagees the amount of unpaid principal indebtedness; (iii) to the Authority its amount of reversionary interest in Buildings taken; and (iv) subject to the rights of certain mortgagees, to the Tenant any remaining amount. In the event less than all or substantially all of the premises under a Battery Place Sublease shall be taken, such Battery Place Sublease shall continue in full force and effect with respect to the portion of the premises not so taken, the Authority shall receive that portion of the award attributable to the land and civic facilities, if any, so taken and such Tenant shall restore the buildings, whether or not the balance of the award is sufficient for such purpose. In the event of a partial taking, such Tenant shall be obligated for the payment of Base Rent, without abatement

or reduction. The obligations of each Tenant to restore the buildings in the case of a partial taking are similar to such Tenant's obligations in the case of a casualty. Except with respect to a taking of all or substantially all of the demised premises, no Battery Place Sublease grants the Tenants thereunder the right to terminate its Battery Place Sublease.

7. *Assignment, Subletting:* After substantial completion of the buildings, Tenant can fully assign, sublet or transfer the Battery Place Subleases provided the assignee, sublessee or transferee is not prohibited (as described in the Battery Place Subleases). If an event of default by a Tenant under a Battery Place Sublease shall have occurred, the Authority may, subject to the rights of any mortgagee, under certain circumstances, collect from subtenants under such subleases. In the event the Authority shall terminate a Battery Place Sublease, at the Authority's option and except as described below, each subtenant under a sublease shall attorn to or enter into a direct lease with the Authority on identical terms and for the balance of the unexpired term of such subtenant's sublease. The Authority has agreed, in certain circumstances and with respect to certain Battery Place Subleases, to recognize a sublease with a subtenant in the event a Battery Place Sublease is terminated, provided such subtenant is not in default under its sublease. Assuming compliance with these provisions, the Authority will be able to retain any subleases made by Tenant in the event of a Battery Place Sublease termination by the Authority.

8. *Mortgages:* Each Battery Place Sublease provides that in the event Tenant thereunder shall mortgage its interest in its Battery Place Sublease and shall have delivered notice thereof to the Authority, the Authority shall give each mortgagee a copy of any notice of default given by the Authority to such Tenant. Each mortgagee shall have the right to cure such default in the manner set forth in such Battery Place Sublease, and the Authority shall accept performance by a mortgagee with the same force and effect as though performed by Tenant. In the event the Authority shall have terminated a Battery Place Sublease as a result of an event of default by Tenant or for any other reason, the Authority shall notify each mortgagee of such termination and, at such mortgagee's request, shall enter into a new lease with the mortgagee (or its designee or nominee) most senior in lien for the remainder of the term and upon the same terms and conditions as in such Battery Place Sublease. In such event, such mortgagee shall pay to the Authority all unpaid Rental, the Authority's expenses incurred in connection with Tenant's default and the termination of such Battery Place Sublease and shall remedy those defaults which are susceptible of being cured. In the event a mortgagee did not cure Tenant's defaults or request a new lease, the lien of such mortgagee's mortgage would be extinguished as a result of the termination of such Battery Place Sublease. See, however, "Condominium Ownership" below for a further discussion of certain limitations on such remedies applicable to condominium units.

9. *Repairs:* The Battery Place Subleases provide that each Tenant thereunder shall, at its expense, take good care of the premises (excluding the civic facilities) and all equipment and shall keep and maintain the buildings (which the Tenant was obligated to construct pursuant to the Battery Place Sublease) in good and safe order and working condition and shall make all repairs, internal and external, structural and non-structural.

10. *Compliance with Requirements:* The Battery Place Subleases provide that each Tenant thereunder shall, at its expense, comply with all laws, rules, ordinances, etc. applicable to the premises. Each Tenant shall have the right, in certain circumstances, to contest the validity of any such requirement.

11. *Capital Improvements:* Subject to the Authority's consent which is not to be unreasonably withheld and certain other conditions, the Battery Place Subleases provide that Tenant shall have the right to make capital improvements to the buildings, provided any such capital improvements, when completed, shall be of such a character as not to reduce the value of the buildings below their value immediately before construction of the capital improvement was commenced.

12. *Discharge of Liens:* The Battery Place Subleases provide that Tenant thereunder shall not create or cause to be created any lien, encumbrance or charge upon such Tenant's estate in the premises (other than permitted liens), any assets of or funds appropriated to the Authority or upon the Authority's estate in the premises. Such Tenant shall cause any such lien to be promptly discharged of record unless Tenant is contesting the lien in the manner permitted.

13. *The Authority's Right to Perform:* If an event of default shall have occurred under a Battery Place Sublease, the Authority shall have the right to perform any obligation on Tenant's behalf and any monies expended by the Authority shall be repaid by such Tenant with interest.

14. *Events of Default:* The Battery Place Subleases provide that if certain defaults shall occur, the Authority shall have the right to terminate such Battery Place Sublease. (See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy.) Defaults by a Tenant that would entitle the Authority to terminate such Battery Place Sublease include: (a) failure to make any required payment of Rental after 10 days' notice; (b) failure to perform any other provision of such Battery Place Sublease if such failure continues for a period of 30 days after notice by the Authority to such Tenant, unless such failure could not by its nature be cured within such 30 days, in which case such Tenant is required to remedy such failure with reasonable diligence; and (c) such Tenant's failure to comply with those prohibitions contained in such Battery Place Sublease on assigning, subleasing, mortgaging, pledging or otherwise encumbering such Battery Place Sublease unless such assignment, sublease, mortgage, pledge or encumbrance is voided or made to comply with Battery Place Sublease requirements within 30 days after notice by the Authority to such Tenant. As previously noted, each Battery Place Sublease grants a mortgagee certain rights intended to provide protection in the event of a default by a Tenant under a Battery Place Sublease, including a right to notice and cure and a right to enter into a new lease with the Authority directly.

15. *Civic Facilities:* The Battery Place Subleases provide that the Authority construct, at its expense, the enumerated civic facilities and (except to the extent that certain responsibilities of the Authority are taken over by New York City or appropriate utilities) maintain, repair and, in the event of a fire or other casualty or condemnation, restore such civic facilities. Commencing with the sixth Lease Year after the Lease Year in which the Initial Occupancy Date occurs and subject to the 25% limit on increases over the prior year, the Authority is reimbursed for certain operating costs related to the civic facilities by means of the Civic Facilities Payment. In the event of a fire or other casualty or condemnation, each Tenant will reimburse the Authority for such Tenant's proportionate share of the cost of restoration in excess of the insurance proceeds or condemnation award received by the Authority and any reserve funds set aside by the Authority.

16. *No Subordination:* The Authority's interest in the Battery Place Subleases shall not be subject or subordinate to any mortgage placed upon a Tenant's interest in its Battery Place Sublease or to any other lien or encumbrance affecting such Tenant's interest. See, however, "Condominium Ownership" below and "CERTAIN FACTORS AFFECTING REVENUES FROM EXISTING SUBLICENSES – Existing Sublease Defaults and Termination – Provisions Applicable to Certain Condominiums" above.

17. *Affirmative Action:* Tenants under the Battery Place Subleases are obligated to comply with an affirmative action program and affirmative fair housing marketing program.

18. *Condominium Ownership:* Each of the Battery Place Subleases contains provisions for the submission by the original Tenant thereunder of its Battery Place Sublease and leasehold estate to condominium ownership pursuant to Article 9-B of the Real Property Law of the State of New York. Each Battery Place Sublease contains specific provisions governing such a submission. All three buildings subject to Battery Place Subleases have been submitted to a condominium form of ownership. Under such provisions, the Authority has agreed to give up its right to terminate a Battery Place Sublease submitted to condominium ownership in conformance with the provisions of such Battery Place Sublease and to look directly to the condominium unit owners for payment and performance of Tenant's obligation under such Sublease. Each such Battery Place Sublease provides for the establishment of a security fund in the amount specified therein, which fund may be applied by the Authority to the payment of unpaid Rental or portions thereof. Upon conversion to condominium ownership, the Board of Managers constitute the attorney-in-fact for all unit owners for the purpose of paying, performing and observing on Tenant's part all terms, covenants and conditions of the Battery Place Sublease. In addition, subject to certain notice procedures, the Authority may proceed directly against a unit owner and could, in certain circumstances, as a result of the Authority's legal action, become the owner of a defaulting unit owner's unit.

19. *Limitation of the Authority's Liability:* The liability of the Authority under each of the Battery Place Subleases for damages or otherwise shall be limited to the Authority's interest in the demised premises, including, without limitation, the rents and profits therefrom, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to such premises.

20. *Limitation of Tenant's Liability:* The liability of the Tenants under each of the Battery Place Subleases shall be limited to such Tenant's interest in the demised premises, including, without limitation, the rents and profits therefrom, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to such premises. Accordingly, if a Tenant shall have defaulted under its Battery Place Sublease and such default was not remedied by such Tenant or its mortgagee or if such Battery Place Sublease was terminated and a new lease was not requested by such mortgagee, the sole remedy of the Authority will be to terminate such Battery Place Sublease and repossess the demised premises. (See: "Condominium Ownership" above for a description of certain limitations on such remedy.) The Authority will be unable to recover any monetary damages from such termination.

SCHEDULE OF BATTERY PLACE SUBLEASES

Site 4: (99 Battery Place) Liberty View	Agreement of Lease dated as of March 12, 1987 between the Authority as landlord, and Battery Park Associates general partnership, as tenant, as amended by amendments dated as of May 17, 1991 and as of February 28, 1992, respectively. Site 4 was submitted to condominium ownership by a declaration dated May 15, 1991.
Site 10: (21 South End Avenue) The Regatta	Agreement of Lease dated as of April 9, 1987, between the Authority, as landlord, and South Cove III Associates general partnership, as tenant, as amended by an amendment dated as of July 10, 1991. Site 10 was submitted to condominium ownership by a declaration dated December 13, 1988.
Site 11: (2 South End Avenue) Cove Club	Agreement of Lease dated as of March 19, 1987 between the Authority, as landlord, and Battery Place Site II Associates, as tenant, as assigned to South Cove Associates, L.P., as tenant, as amended by amendments dated as of January 12, 1989, as of May 17, 1991 and as of July 19, 1994, respectively. Site 11 was submitted to condominium ownership by a declaration dated May 22, 1991.

SUBLEASES FOR SITES 12 (RIVER WATCH), 13 (SOUTH COVE PLAZA), 18A (SOLAIRE), 19A (RIVER TERRACE), 20B (HALLMARK), 20A/C (TRIBECA PARK), 21A (TRIBECA POINT) AND 22 (TRIBECA BRIDGE TOWER)

The following is a description of the major provisions of the subleases executed by the Battery Park City Authority (the “Authority”) for Site 12 (“River Watch”), Site 13 (“South Cove Plaza”), Site 18A (“Solaire”), Site 19A (“River Terrace”), Site 20B (“Hallmark”), Site 20A/C (“Tribecca Park”), Site 21A (“Tribecca Point”) and Site 22 (“Tribecca Bridge Tower”) (individually, a “Post-1987 Sublease” and collectively, the “Post-1987 Subleases”). A schedule of the Post-1987 Subleases is annexed hereto. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Post-1987 Subleases. The description contained herein does not purport to be complete and reference is made to the Post-1987 Subleases for full and complete statements of their provisions.

1. *Term:* The term of each of the Post-1987 Subleases commenced on the date such Post-1987 Sublease was executed and expires, unless sooner terminated, on June 17, 2069. No Post-1987 Sublease contains any right on the part of Tenant thereunder to renew or otherwise extend the term of its Post-1987 Sublease beyond June 17, 2069.

2. *Rental:* The primary components of rent under the Post-1987 Subleases are base rent, incremental rent (in the case of Tribecca Park and Tribecca Point), transaction payments (in the case of Tribecca Park and Tribecca Point), payments in lieu of real estate taxes (“PILOT”), Incremental PILOT (in the case of Hallmark), and civic facilities payments. The following is a description of each such component of rent:

(a) *Base Rent:* Each Post-1987 Sublease obligates Tenant thereunder to pay base rent (“Base Rent”) on a monthly basis commencing on the date of execution of its Post-1987 Sublease (the “Commencement Date”). For the period commencing on the Commencement Date (the “First Period”), and expiring (i) for Tribecca Bridge Tower, on the 25th anniversary of the Commencement Date, (ii) for Solaire, on the 23rd anniversary of the Commencement Date, (iii) for River Watch, on the first day of the 23rd Lease Year

and (iv) for all other Post-1987 Subleases, on the first day of the month next succeeding the 20th anniversary of the date on which a temporary certificate of occupancy is issued for any dwelling unit in the Building (in all cases, such anniversary being called the "First Appraisal Date"), the Base Rent shall be in the amount specified on Schedule 1 of each Post-1987 Sublease, except that for Tribeca Bridge Tower, Base Rent shall be reduced to the extent that actual PILOT exceeds the PILOT amount indicated in Schedule 1 for each year. Also, in the case of Solaire, a Section 421-a Differential Rent payment is made which is generally an amount equal to the difference between benefits under the 10 year and 20 year Section 421-a (defined below) abatement programs as indicated in the proforma schedule attached to the lease, multiplied by a factor from 25% to 50%, such factor being determined based upon the average initial rent per square foot for market rate units subject to adjustment as set forth in the lease. In addition, for Solaire, Base Rent in Schedule 1 commences January 9, 2004, however, Solaire is required to make a one-time payment of \$1,032,623 on July 8, 2012 for deferred construction period rent.

(1) Base Rent escalation for Tribeca Bridge Tower and Solaire – For the first five years after the First Appraisal Date, the annual Base Rent shall increase to an amount which is the greater of (i) 6% of the fair market value of the land, (ii) the Base Rent for the immediately preceding year, or (iii) for Solaire, \$3,731,130. The Base Rent will be increased in the 6th Lease Year and 11th Lease Year after the First Appraisal Date by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage increase, if any, of the Consumer Price Index during the 60 months of the prior five Lease Year period. Every succeeding 15 year anniversary of the First Appraisal Date, (each a "Reappraisal Date") and for the 15-year period thereafter, annual Base Rent is readjusted to increase as indicated in the preceding two sentences except that clause (iii) above shall not apply.

(2) Base Rent escalation for all other Post-1987 Subleases – For the fifteen years immediately following the First Appraisal Date, the annual Base Rent shall be the greater of 6% of the fair market value of the land or the product derived by multiplying the Base Rent payable for the Lease Year immediately before the First Appraisal Date (for the Second Period only, Base Rent includes Incremental Rent but not Incremental PILOT (both described below) for purposes of this computation) by the Applicable Percentage for such Lease Year. The Applicable Percentage starts at 103% and increases by 3 each year until the tenth year when it levels at 130% for the remainder of the Second Period. At each Reappraisal Date, and the 15 years thereafter, annual Base Rent is readjusted as indicated in the preceding two sentences except that Incremental Rent adjustments shall not apply.

(b) *Incremental Rent/Incremental PILOT:* For River Terrace, Tribeca Park, Hallmark and Tribeca Point, Incremental Rent (called Incremental PILOT in the Hallmark lease) shall be paid in equal monthly installments commencing on the Commencement Date, and shall equal the amount, if any, by which the amount set forth in Schedule 2 in the Post-1987 Sublease which is applicable to a given Tax Year exceeds PILOT for such Tax Year.

(c) *Transaction Payments:* For Tribeca Park and Tribeca Point, if Tenant shall have submitted its leasehold estate to either a cooperative or condominium

ownership, Tenant shall pay to the Authority, upon the transfer of each Cooperative Apartment or each Unit, a payment in an amount equal to two percent (2%) of the Gross Sales Price of such Apartment or Unit.

(d) *PILOT:* The Authority and the Battery Park City Project Area are exempt from real estate taxes. However, each Post-1987 Sublease obligates Tenant to make payments to the Authority of PILOT, such payments to be made semi-annually in advance, or some variation thereof. PILOT will be the same amount as the real estate taxes which would have been payable except for the Authority's tax exempt status, except that for Tribeca Bridge Tower, the greater of such actual PILOT or the amount of PILOT indicated in Schedule 1 ("Minimum PILOT") shall be paid. Each Post-1987 Sublease provides that Tenant thereunder shall have the right to institute tax assessment reduction proceedings to reduce the assessed valuation of the premises covered by its Post-1987 Sublease. If such proceeding is successful, Tenant will be entitled to a credit against future PILOT. Each Post-1987 Sublease (except for River Terrace, Hallmark and Tribeca Bridge Tower, which pay full unabated PILOT) provides for an abatement of PILOT equivalent to the real estate abatement set forth in Section 421-a of the Real Property Tax Law of the State of New York as in effect on the date the related Post-1987 Sublease was executed ("Section 421-a"). The PILOT abatement on the building is (x) 100% for the period ending on the last day of the Tax Year in which all residential units have received a temporary certificate of occupancy or the last day of the Tax Year in which the third anniversary of the commencement of construction has occurred on or before the tax status date during such Tax Year, whichever is earlier, (y) 100% for the next succeeding 10 years and (z) for the 10 tax years thereafter, the abatement declines by 20% biannually. As a condition to receiving benefits equivalent to benefits available under Section 421-a, until the Release Date described in the Post-1987 Subleases each Tenant must comply with various requirements specified in Section 421-a and the regulations promulgated thereunder for buildings receiving Section 421-a benefits. A failure by Tenant to comply with those requirements will subject such Tenant to penalties and sanctions.

(e) *Civic Facilities Payments:* Each Tenant under a Post-1987 Sublease shall pay to the Authority its allocable share of the cost of operating, maintaining, repairing, restoring, replacing and upgrading certain "civic facilities" enumerated in the Post-1987 Subleases, commencing on the date (the "Initial Occupancy Date") on which a temporary certificate of occupancy was issued for any dwelling unit in the buildings constructed pursuant to such Post-1987 Sublease (the "Civic Facilities Payment"). For the remainder of the Lease Year on which the Initial Occupancy Date occurs and the next five years, the Civic Facilities Payment is a set amount per residential unit or an amount per square foot of non-residential space (not including lobbies or common areas) as stated in each Post-1987 Sublease. Thereafter, the Civic Facilities Payment is an amount equal to such Tenant's proportionate share of the Authority's budget for the civic facilities, based upon one of two formulas, one based on the pro-rata share of total residential building square footage for the neighborhood in which the building is located and the other based on the total square footage for all residential buildings in Battery Park City, as adjusted for square footage related to and payments made by pre-1988 residential leases. The choice of formula is left to the Authority in its sole discretion. The Civic Facilities Payment for any Lease Year shall not exceed 125% of the payment for the prior year.

The term “Rental” also includes any other sums which may be due and payable under the Post-1987 Subleases. For example, each Tenant is obligated to pay, subject to such Tenant’s right to contest same, any imposition (including water and sewer charges) levied or assessed against the demised premises (excluding real estate taxes, which, if levied, shall be paid by the Authority). Tenant is obligated to pay Percentage Rent equal to a percentage of Gross Non-Residential Revenue for each calendar year. The Percentage Rent is 2% for River Watch, 10% for Tribeca Park, 5% for Tribeca Point and 3% for Solaire; there is no Percentage Rent for Tribeca Bridge Tower, South Cove Plaza or River Terrace. In addition, (i) Tribeca Park, for each calendar year until the First Appraisal Date, shall pay to the Authority Net Income Percentage Rent which is equal to 10% of the amount by which Net Income for such calendar year exceeds Tenant’s Preferred Return and (ii) Hallmark shall pay to the Authority an amount by which 10% of Net Cash Flow exceeds the amount of Base Rent. If Tribeca Park shall submit its leasehold interest to a condominium form of ownership, then Tenant’s obligations to pay Net Income Percentage Rent shall cease. If Tenant under a Post-1987 Lease shall submit its leasehold interest to a condominium form of ownership, then all of Tenant’s obligations for Percentage Rent shall become the obligations of the respective non-residential unit owners from which Gross Non-Residential Revenue is earned.

Except as noted below, each Tenant’s obligation to pay Rental is net to the Authority and without abatement, set-off or counterclaim. Each of the Post-1987 Subleases gives Tenant thereunder certain limited off-set rights against Rental (or certain components thereof) for payments made (and interest thereon) in the following instances:

- (a) If a final determination is made in favor of a Tenant in a tax assessment reduction proceeding, succeeding PILOT payments to the Authority will be reduced to the extent necessary to offset the overpayment of PILOT.
- (b) If the premises covered by a Post-1987 Sublease shall at any time become subject to real estate taxes, the Authority is responsible for the payment of same. If the Authority shall have failed to pay such real estate taxes and Tenant shall have paid same (together with any interest and penalties thereon), such Tenant may deduct such payment from the next installment of PILOT and, to the extent such payment shall exceed the next installment of PILOT, from the next installments(s) of Base Rent.
- (c) If a Tenant is compelled by a governmental authority to pay any sales or compensating use taxes with respect to materials incorporated into the buildings and as to which such Tenant previously made payments in lieu of such taxes to the Authority, such Tenant may deduct such payments from subsequent installments of Base Rent and PILOT if the Authority failed to successfully contest the imposition of such tax, provided such deduction shall not exceed the amount so paid by such Tenant to the Authority.
- (d) Each Post-1987 Sublease obligated the Authority to construct certain civic facilities, and thereafter, requires the Authority to maintain such civic facilities. If the Authority fails to maintain such civic facilities, each Tenant shall have the right, after notice to the Authority and the expiration of a cure period, to perform such maintenance and to offset such cost against subsequent installments of Base Rent and Civic Facilities Payments.

3. *Taxes:* As previously noted, if real estate taxes shall be levied and assessed against the premises covered by a Post-1987 Sublease, the Authority shall be obligated to pay same. The Authority has the right, however, to contest the imposition of taxes, and, in certain circumstances, may defer payment during the pendency of such tax contest.

4. *Insurance:* Each Tenant under a Post-1987 Sublease is obligated to maintain, at its expense, insurance, including rent insurance in an amount equal to at least one year's current Base Rent, PILOT, Percentage Rent and Civic Facilities Payment. The types of insurance and limits of coverage are specified in the Post-1987 Subleases. In addition, the Authority may require types of insurance and limits of coverage comparable to those maintained by prudent owners of like buildings. Each Post-1987 Sublease provides that, in the event of casualty, the insurance proceeds shall be paid to Tenant, in trust, if less than \$1,000,000 (subject to adjustment in the manner therein provided based on the consumer price index) (for Tribeca Park, \$250,000) or, if in excess of \$1,000,000 (subject to adjustment) (for Tribeca Park, \$250,000), to a depository designated by such Tenant with the Authority's approval, such depository to be an institutional lender (as defined in each Post-1987 Sublease).

5. *Restoration:* Each Tenant is obligated to restore the buildings if damaged or destroyed due to fire or other casualty, whether insured or uninsured and whether or not the cost of restoration exceeds the insurance proceeds. Each Tenant is obligated for the payment of Rental during the period of a casualty without reduction or abatement. If a Tenant fails to restore the buildings as provided in its Post-1987 Sublease, the Authority shall have the right to do so and may apply the insurance proceeds for such purposes. To the extent the cost of restoration exceeds \$1,000,000 (as adjusted) (\$250,000 for Tribeca Park), such Tenant shall provide the Authority with complete plans and specifications for such restoration, a construction contract and payment and performance bonds or other security reasonably satisfactory to the Authority for approval by the Authority. In addition, if such restoration involves work to the exterior of any buildings or a change in the height, bulk or setback of such buildings, such Tenant shall deliver complete plans and specifications for such work prior to the commencement of the restoration for approval by the Authority. No Post-1987 Sublease grants Tenant thereunder the right to terminate its Post-1987 Sublease in the event of a casualty. In the case of Tribeca Bridge Tower, if all or any part of the School Building shall be destroyed or damaged in whole or in part due to fire or other casualty, and in such event, if School Tenant has exercised its right to terminate the School Lease, the Authority and the Tribeca Bridge Tower Tenant have agreed that Tenant shall perform any Structural Restoration and all proceeds received from insurance coverage provided by School Tenant shall be applied for purposes of performing such Structural Restoration. If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligations under this section shall be the obligation of the Condominium Board.

6. *Condemnation:* If all or substantially all of the premises demised under a Post-1987 Sublease is taken in a condemnation, such Post-1987 Sublease shall terminate. In such event, there shall first be paid (i) to the Authority the portion of the award attributable to the value of the land (considered as unencumbered and unimproved except for civic facilities provided by the Authority); (ii) to certain mortgagees the amount of unpaid principal indebtedness; (iii) to the Authority its amount of reversionary interest in Buildings taken; and (iv) subject to the rights of certain mortgagees, to the Tenant any remaining amount. If less than all or substantially all of the premises under a Post-1987 Sublease shall be taken, such Post-1987 Sublease shall continue in full force and effect with respect to the portion of the premises not so

taken, the Authority shall receive that portion of the award attributable to the land and civic facilities, if any, so taken and such Tenant shall restore the buildings, whether or not the balance of the award is sufficient for such purpose. In the event of a partial taking, such Tenant shall be obligated for the payment of Base Rent, without abatement or reduction. The obligations of each Tenant to restore the buildings in the case of a partial taking are similar to such Tenant's obligations in the case of a casualty. Except with respect to a taking of all or substantially all of the demised premises, no Post-1987 Sublease grants the Tenant thereunder the right to terminate its Post-1987 Sublease. In each Post 1987 Sublease, the Authority represents that under current law it has no power to condemn all or any part of the Premises.

7. *Assignment, Subletting:* After substantial completion of the buildings, Tenant may fully assign, sublet or transfer the Post-1987 Subleases provided the assignee, sublessee or transferee is not a prohibited person (as defined in the Post-1987 Subleases) and the Tenant is not in default. If an event of default by a Tenant under a Post-1987 Sublease shall have occurred, the Authority may, subject to the rights of any mortgagee, under certain circumstances, collect from subtenants under such subleases. If the Authority shall terminate a Post-1987 Sublease, at the Authority's option and except as described below, each subtenant under a sublease shall attorn to or enter into a direct lease with the Authority on identical terms and for the balance of the unexpired term of such subtenant's sublease. The Authority has agreed, in certain circumstances and with respect to the Post-1987 Subleases, to recognize a sublease with a subtenant if a Post-1987 Sublease is terminated, provided such subtenant is not in default under its sublease.

8. *Mortgages:* Each Post-1987 Sublease provides that if Tenant thereunder shall mortgage its interest in its Post-1987 Sublease to an institutional mortgagee and shall have delivered notice thereof to the Authority, the Authority shall give each mortgagee a copy of any notice of default given by the Authority to such Tenant. Each mortgagee shall have the right to cure such default in the manner set forth in such Post-1987 Sublease, and the Authority shall accept performance by a mortgagee with the same force and effect as though performed by Tenant. If the Authority shall have terminated a Post-1987 Sublease as a result of an event of default by Tenant or for any other reason, the Authority shall notify each mortgagee of such termination and, at such mortgagee's request, shall enter into a new lease with the mortgagee (or its designee or nominee) most senior in lien for the remainder of the term and upon the same terms and conditions as in such Post-1987 Sublease. In such event, such mortgagee shall pay to the Authority all unpaid Rental, the Authority's expenses incurred in connection with Tenant's default and the termination of such Post-1987 Sublease and shall remedy those defaults which are susceptible of being cured.

9. *Repairs:* The Post-1987 Subleases provide that each Tenant, or if Tenant's leasehold estate in the Premises is submitted to the condominium form of ownership, the Board of Managers thereunder, shall, at its expense, take good care of the premises (excluding the Authority's Civic Facilities) and all equipment and shall keep and maintain the buildings (which the Tenant or Board of Managers was obligated to construct pursuant to the Post-1987 Sublease) in good and safe order and working condition and shall make all repairs, internal and external, structural and nonstructural.

10. *Compliance with Requirements:* The Post-1987 Subleases provide that each Tenant thereunder shall, at its expense, comply with all laws, rules, ordinances, etc. applicable to

the premises. Each Tenant shall have the right, in certain circumstances, to contest the validity of any such requirement.

11. *Capital Improvements:* Subject to certain conditions, the Post-1987 Subleases provide that Tenant shall have the right to make capital improvements to the buildings, provided any such capital improvements, when completed, shall be of such a character as not to reduce the value of the buildings below their value immediately before construction of the capital improvement was commenced. In addition, capital improvements of a structural nature require the submission of plans and specifications to the landlord for approval. Capital improvements in excess of (i) \$500,000 (as adjusted) for all Post-1987 Subleases except South Cove Plaza and (ii) \$1,000,000 (as adjusted) for South Cove Plaza also require the submission to the Authority of the construction contract, bonds or a letter of credit or other security reasonably satisfactory to the landlord for approval by the Authority. Title to all additions, alterations, improvements and replacements made to the Premises, including, without limitation, capital improvements, shall vest in the Authority without need to compensate Tenant.

12. *Discharge of Liens:* The Post-1987 Subleases provide that Tenant thereunder shall not create or cause to be created any lien, encumbrance or charge upon such Tenant's estate in the premises (other than liens expressly permitted in such Sublease), any assets of or funds appropriated to the Authority or upon the Authority's estate in the premises. Such Tenant shall cause any such lien to be promptly discharged of record unless Tenant is contesting the lien in the manner permitted.

13. *The Authority's Right to Perform:* If an event of default shall have occurred under a Post-1987 Sublease, the Authority shall have the right to perform any obligation on Tenant's behalf and any monies expended by the Authority shall be repaid by such Tenant with interest.

14. *Events of Default:* The Post-1987 Subleases provide that if certain defaults shall occur, the Authority shall have the right to terminate such Post-1987 Sublease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. Defaults by a Tenant that would entitle the Authority to terminate such Post-1987 Sublease include: (a) failure to make any required payment of Rental after 10 days' notice; (b) failure to perform any other provision of such Post-1987 Sublease if such failure continues for a period of 30 days after notice by the Authority to such Tenant, unless such failure could not by its nature be cured within such 30 days, in which case such Tenant is required to remedy such failure with reasonable diligence; (c) such Tenant's failure to comply with those prohibitions contained in such Post-1987 Sublease on assigning, subleasing, mortgaging, pledging or otherwise encumbering such Post-1987 Sublease unless such assignment, sublease, mortgage, pledge or encumbrance is voided or made to comply with Post-1987 Sublease requirements within 30 days after notice by the Authority to such Tenant; and (d) events of bankruptcy concerning such Tenant. As previously noted, each Post-1987 Sublease grants a mortgagee certain rights intended to provide protection in the event of a default by a Tenant under a Post-1987 Sublease, including a right to notice and cure and a right to enter into a new lease with the Authority directly.

15. *Civic Facilities:* The Post-1987 Subleases provide that the Authority construct, at its expense, enumerated civic facilities and (except to the extent that certain responsibilities of the Authority are taken over by New York City or appropriate utilities) maintain, repair and, in

the event of a fire or other casualty or condemnation, restore such civic facilities. If a fire or other casualty or condemnation occurs, each Tenant will reimburse the Authority for such Tenant's proportionate share of the cost of restoration in excess of the insurance proceeds or condemnation award received by the Authority and any reserve funds set aside by the Authority.

16. *No Subordination:* The Authority's interest in the Post-1987 Subleases shall not be subject or subordinate to any mortgage placed upon a Tenant's interest in its Post-1987 Sublease or to any other lien or encumbrance affecting such Tenant's interest. If the Master Lease should terminate, each Post-1987 Sublease will continue and will not be affected by any proceeding to terminate the Master Lease. Each Sublease is expressly subordinate to the Master Lease.

17. *Affirmative Action:* Under each Post-1987 Sublease, Tenant is obligated to comply with an affirmative action program and affirmative fair housing marketing program, which program is annexed to each Post-1987 Sublease.

18. *Condominium Ownership:* Except for Hallmark, each of the Post-1987 Subleases provides, under certain circumstances, for the submission by the original Tenant thereunder of its Post-1987 Sublease and leasehold estate to condominium ownership pursuant to Article 9-B of the Real Property Law of the State of New York. The Post-1987 Subleases either provide attached specific terms regarding the conversion of such subleases to a condominium regime or a right to conversion on similar terms accepted by the Authority subsequent to the date of each Post-1987 Sublease. No Post-1987 Sublease has been converted to condominium ownership. However, a hotel/residential lease executed in 2000 for Site 1 (not included in the definition of "Post-1987 Sublease") has been so converted and similar terms applicable to that sublease have been included in certain Post-1987 Subleases. Under such provisions, in the event of a conversion, the Authority has agreed to give up its right to terminate such Post-1987 Sublease and to look directly to the condominium unit owners for payment and performance of Tenant's obligation under such sublease. The condominium provisions included or which would be included in each Post-1987 Sublease would provide for the establishment of a security fund in the amount specified therein, which fund may be applied by the Authority to the payment of unpaid Rental or portions thereof. Upon conversion to condominium ownership, the Board of Managers constitute the attorney-in-fact for all unit owners for the purpose of paying, performing and observing on Tenant's part all terms, covenants and conditions of the Post-1987 Sublease. In addition, subject to certain notice procedures, the Authority may proceed directly against a unit owner and could, in certain circumstances, as a result of the Authority's legal action, become the owner of a defaulting unit owner's unit.

19. *Limitation of the Authority's Liability:* The liability of the Authority under each of the Post-1987 Subleases for damages or otherwise shall be limited to the Authority's interest in the demised premises, including, without limitation, the rents and profits therefrom, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to such premises.

20. *Limitation of Tenant's Liability:* The liability of Tenant (except for River Watch, a special purpose entity which provided certain personal guarantees of completion) under each of the Post-1987 Subleases shall be limited to such Tenant's interest in the demised premises,

including, without limitation, the rents and profits therefrom, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to such premises.

21. *Special Provisions:* Hallmark shall be operated as a senior housing facility and for no other use or purpose. Tribeca Bridge Tower is subject to a moderate income housing program for 30 identified units in the premises, such program continuing for the term and under the conditions set forth in the Tribeca Bridge Tower lease.

SCHEDULE OF POST-1987 SUBLEASES

Site 12: River Watch	Agreement of Lease dated as of November 17, 1998 between the Authority as landlord, and BPC12 Associates LLC, as tenant.
Site 13: South Cove Plaza	Agreement of Lease dated as of June 17, 1999 between the Authority as landlord, and Dematteis Battery Park Associates LLC, as tenant.
Site 18A: Solaire	Agreement of Lease dated as of April 4, 2001 between the Authority as landlord, and River Terrace Associates, as tenant, as amended by amendments dated as of July 8, 2002 and as of October 22, 2002, respectively.
Site 19A: South Cove Plaza	Agreement of Lease dated as of September 30, 1999 between the Authority as landlord, and 22 River Terrace LLC, as tenant.
Site 20A/C: Tribeca Park	Agreement of Lease dated as of December 18, 1997 between the Authority, as landlord, and BPC Associates LP, as tenant.
Site 20B: Hallmark	Agreement of Lease dated as of August 24, 1999 between the Authority, as landlord, and AH Battery Park Owner LLC, as tenant.
Site 21A: Tribeca Point	Agreement of Lease dated as of November 20, 1997 between the Authority, as landlord, and Tribeca Landing LLC, as tenant.
Site 22: Tribeca Bridge Tower	Agreement of Lease dated as of May 25, 2000 between the Authority as landlord, and Tribeca North End LLC, as tenant.

BATTERY PARK CITY SITE 25 LEASE

Site 25 has been developed under: (1) a Ground Lease between Battery Park City Authority, as landlord (the “Authority”), and BPC Site 25 Associates, LLC, as tenant (the “Ground Lease”); (2) a Hotel Sublease between BPC Site 25 Associates, LLC, as sublandlord, and BPC Hotel, LLC, as subtenant (“Hotel Subtenant”); and (3) a Retail Sublease between BPC Site 25 Associates, LLC, as sublandlord, and FC Battery Park Associates, LLC, as subtenant (“Retail Subtenant”) (Hotel Subtenant or Retail Subtenant, a “Tenant” and collectively,

“Tenants”, and Hotel Sublease or Retail Sublease, a “Sublease” and collectively, the “Site 25 Subleases”). The Site 25 project has been converted to a condominium regime. Further, BPC Site 25 Associates, LLC’s interest under the Ground Lease was assigned to the Authority in October 2000. Since the assignment, the Authority has collected rental payments as successor in interest to the sublandlords under the Site 25 Subleases. The following is a description of the major provisions of the Site 25 Subleases. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Site 25 Subleases. The description contained herein does not purport to be complete and reference is made to the Site 25 Subleases for full and complete statements of their provisions.

1. *Term:* The term of each of the Site 25 Subleases commenced on the date such Site 25 Sublease was executed. The Site 25 Subleases expire, unless sooner terminated, on June 16, 2069. The Ground Lease expires, unless sooner terminated, on June 17, 2069. No Site 25 Sublease contains any right on the part of tenant thereunder to renew or otherwise extend the term beyond June 17, 2069.

2. *Rental:* The primary components of rent under the Site 25 Subleases are base rent, payments in lieu of real estate taxes (“PILOT”), Civic Facilities Payment, Percentage Rent and Hotel Participation Rent. The following is a description of each such component of rent:

(a) *Base Rent.* Each Site 25 Sublease obligates tenant thereunder to pay, on a monthly basis, base rent (“Base Rent”) in the following amounts:

(i) *Hotel Sublease:* Base Rent for the current year (ending November 17, 2003) on the Hotel Sublease is \$344,500. Commencing November 18, 2003, Base Rent on the Hotel Sublease shall be \$355,000 per year. For the period commencing on the Commencement Date (the “First Period”), and expiring on the day before the first day of the twenty-third Lease Year (such anniversary being called the “First Appraisal Date”), Base Rent increases based on Schedule 1 of the Hotel Sublease. For the fifteen years immediately following the First Appraisal Date (the “Second Period”), the annual Base Rent shall be the greater of 6% of the fair market value of the land or \$860,500. At each succeeding 15 year anniversary of the First Appraisal Date, each a “Reappraisal Date”, and the 15 years thereafter, annual Base Rent shall be the greater of 6% of the fair market value of the land or 125% of the Base Rent payable for the Lease Year immediately before the Reappraisal Date.

(ii) *Retail Sublease:* Base Rent for the current year (ending November 17, 2003) on the Retail Sublease is \$79,500. Commencing November 18, 2003, Base Rent on the Retail Sublease shall be \$82,000 per year. For the First Period (as defined above), and expiring on the First Appraisal Date (as defined above), Base Rent increases based on Schedule 1 of the Retail Sublease. For the Second Period (as defined above), the annual Base Rent shall be the greater of 6% of the fair market value of the land or \$312,500. At each Reappraisal Date (as defined above), and the 15 years thereafter, annual Base Rent shall be the greater of 6% of the fair market value of the land or 125% of the Base Rent payable for the Lease Year immediately before the Reappraisal Date.

(b) *PILOT:* The Authority and the Project Area are exempt from real estate taxes. Each Site 25 Sublease obligates the tenant thereunder to make payments to the landlord thereunder of PILOT in semiannual equal installments. Each Site 25 Sublease provides that tenant thereunder shall have the right to institute tax assessment reduction proceedings to reduce

the assessed valuation of the premises covered by its Site 25 Sublease. If such proceeding is successful, PILOT will be reduced.

(i) *Hotel Sublease:* PILOT for the first 10 years of the lease is as indicated in Schedule 1 of the Hotel Sublease. Schedule 1 also contains a full unabated tax schedule and a “Deferral” PILOT schedule based on a declining abatement for both the Hotel Sublease and the Retail Sublease premises for that period. The aggregate difference between the schedule of full unabated PILOT for the Hotel Sublease and the Retail Sublease premises and the Deferral PILOT for the Hotel Sublease and Retail Sublease premises for the first 10 years divided by 10 is the Recapture Amount which is to be made in years 11-20. For years 11-20, PILOT is equal to the Taxes owed on the Hotel Sublease and the Retail Sublease premises plus the Recapture Amount minus the amount of PILOT paid by the Retail Subtenant. From Year 21 until the end of the Term, PILOT equals the Taxes on the Hotel only.

(ii) *Retail Sublease:* PILOT for the first 20 years of the Retail Sublease is as indicated in Schedule 1 of the Retail Sublease. From Year 21 until the end of the Term, PILOT equals the Taxes on the Retail Complex only.

(c) *Civic Facility Payments:* Commence in the third year of the lease and is due in monthly installments commencing at an annual rate of \$96,000 for the Hotel Sublease and \$75,000 for the Retail Sublease. The Civic Facility Payment increases at 3% per year for the term of each Site 25 Sublease.

(d) *Percentage Rent:* Commencing on the 22nd anniversary of the Construction Commencement Date through the end of the Term, each tenant under a Site 25 SubLease shall pay percentage rent (“Percentage Rent”) in an amount equal to 0.5% of the Gross Revenue during each such Lease Year. Percentage Rent is paid quarterly.

(e) *Hotel Participation Rent:* Under the Hotel Sublease, for the period commencing on the fifteenth day following the first full fiscal quarter following the Hotel Opening Date (the “Hotel Participation Rent Commencement Date”) and for each Lease Year thereafter during the Term, Tenant shall pay a portion of the Adjusted Hotel Gross Revenues derived from the Hotel, determined in accordance with the following formula (any such payments, “Hotel Participation Rent”): fifteen percent (15%) of the amount, if any, by which Adjusted Hotel Gross Revenues for such Lease Year exceeds the product of (x) thirteen percent (13%) and (y) Total Project Cost. In no event shall Hotel Participation Rent exceed a maximum amount of \$175,000 in the first full Lease Year following the Hotel Participation Rent Commencement Date, such maximum amount increasing for each year thereafter at a rate of three percent (3%) per annum throughout the Term.

(f) Except as hereinafter set forth, each tenant’s obligation to pay Rental is net to the Authority and without abatement, set-off or counterclaim. Each of the Site 25 Subleases gives tenant thereunder certain limited offset rights against Rental in the following instances:

(i) If a final determination in favor of a tenant in a tax assessment reduction proceeding, succeeding PILOT payments to the landlord will be reduced to the extent necessary to offset the overpayment of PILOT;

- (ii) If and to the extent Percentage Rent was overpaid by a tenant;
- (iii) If there shall be a judgment beyond appeal awarding a tenant a sum for expenses for rightfully undertaking to perform the landlord's obligations with respect to the Civic Facilities; or
- (iv) If and to the extent Hotel Participation Rent was overpaid by a tenant.

3. *Taxes:* As previously stated, in the event real estate taxes shall be levied and assessed against the premises covered by a Site 25 Sublease, the Authority shall be obligated to pay same. The Authority has the right, however, to contest the imposition of taxes, and, in certain circumstances, may defer payment during the pendency of such tax contest.

4. *Insurance:* Each tenant under a Site 25 Sublease is obligated to maintain, at its expense, insurance, including rent insurance in an amount equal to one year's current Base Rent, PILOT, and Civic Facilities Payments in accordance with the terms provided in each Site 25 Sublease. The types of insurance and limits of coverage are specified in each Site 25 Sublease. In addition, the landlord may require types of insurance and limits of coverage comparable to those maintained by prudent owners of like buildings. Each Site 25 Sublease provides that, in the event of a casualty, the insurance proceeds shall be paid to tenant, in trust, for the sole purpose of paying the cost of restoration if less than \$350,000 (the amount as of the execution of the Site 25 Subleases, which amount is subject to adjustment every fifth year thereafter based on the consumer price index) or, if in excess of \$350,000 (as adjusted), to a depository designated by such tenant, such depository to be an institutional lender (as defined in each Site 25 Sublease).

5. *Restoration:* Each tenant is obligated to restore the buildings in the event of damage or destruction due to fire or other casualty, whether insured or uninsured, whether or not the cost of restoration exceeds the insurance proceeds and whether or not the mortgagee shall permit such insurance proceeds to be used for restoration. Each tenant shall be obligated for the payment of Rental during the period of a casualty without reduction or abatement. If a tenant fails to restore the buildings as provided in its Site 25 Sublease, the landlord shall have the right to do so at tenant's expense and may apply the insurance proceeds for such purposes. To the extent the cost of restoration equals or exceeds \$350,000 such tenant shall provide the landlord with plans and specifications for such restoration, a construction contract and payment and performance bonds or other security reasonably satisfactory to the landlord. In addition, if such restoration involves work to the exterior of any buildings or a change in the height, bulk or setback of such buildings, such tenant shall deliver plans and specifications for such work before commencing the restoration. No Site 25 Sublease grants tenant thereunder the right to terminate its Site 25 Sublease in the event of a casualty except if there is damage or destruction to all or substantially all of the Premises during the last 5 years of the Term. Subject to the previous sentence, a tenant under a Site 25 Sublease shall continue to pay Rental without abatement, suspension, diminution or reduction of any kind as though the Premises had not been damaged or destroyed. The foregoing is an "express agreement to the contrary" as provided in Section 227 of the Real Property Law of the State of New York.

6. *Condemnation:* If all or substantially all of the premises demised under a Site 25 Sublease are taken in a condemnation, such Site 25 Sublease shall be terminated. In such event, there shall first be paid to the landlord the entire award for that part of the land and the Landlord's Civic Facilities, if any, taken. The balance of the award shall be paid to such tenant,

subject to the rights of any mortgagees. If less than all or substantially all of the premises shall be taken, such Site 25 Sublease shall continue in full force and effect with respect to the portion of the premises not so taken, the Authority shall receive that portion of the award attributable to the land and Landlord's Civic Facilities, if any, so taken and such tenant shall restore the buildings, whether or not the balance of the award is sufficient for such purpose. In the event of a partial taking, such tenant shall be obligated for the payment of Rental, without abatement or reduction. The obligations of each tenant to restore the buildings in the case of a partial taking are similar to such tenant's obligations in the case of a casualty. No Site 25 Sublease grants tenant thereunder the right to terminate its Site 25 Sublease except for a taking of all or substantially all of the premises covered by a Site 25 Sublease.

7. *Assignment, Subletting:* Tenant thereunder has the right to assign its Site 25 Sublease, sublet all or substantially all of the premises demised thereunder or effect certain transfers of interests in such tenant with the landlord's approval. Transfers to affiliated or related entities may be effected without landlord approval. Each Site 25 Sublease permits tenant thereunder at any time to enter into subleases of portions of the premises for actual occupancy without the landlord's approval. Tenant may collaterally assign its interest in a Site 25 Sublease to one or more mortgagees without the consent of landlord and may subject its leasehold interest to one or more mortgages. If an event of default by a tenant under a Site 25 Sublease shall have occurred, the landlord may, under certain circumstances, collect rent from subtenants under such subleases. If the landlord shall terminate a Site 25 Sublease, at the landlord's option and except as hereinafter provided, each subtenant under a sublease shall attorn to or enter into a direct lease with the landlord on identical terms and for the balance of the unexpired term of such subtenant's sublease. The landlord has agreed, in certain circumstances, to recognize a sublease with a subtenant which is not an affiliate of tenant if a Site 25 Sublease is terminated, provided, among other things, such subtenant is not in default under its sublease. Assuming compliance with these provisions, the landlord will be able to retain any subleases made by tenant if the landlord terminates a Site 25 Sublease.

8. *Mortgages:* Each Site 25 Sublease provides that if tenant thereunder shall mortgage its interest in its Site 25 Sublease and shall have delivered notice thereof to the landlord, the landlord shall give each mortgagee a copy of any notice of default given by the landlord to such tenant. Each mortgagee shall have the right to cure such default in the manner set forth in such Site 25 Sublease and the landlord shall accept performance by a mortgagee with the same force and effect as though performed by tenant. If the landlord shall have terminated a Site 25 Sublease as a result of an event of default by tenant or for any other reason, the landlord shall notify each mortgagee of such termination and, at such mortgagee's request, shall enter into a new lease with the mortgagee (or its designee or nominee) most junior in lien (unless a mortgagee senior in lien has such right) for the remainder of the term and upon the same terms and conditions as in such Site 25 Sublease. In such event, such mortgagee shall pay to the landlord all unpaid Rental and the landlord's expenses incurred in connection with tenant's default and the termination of such Site 25 Sublease and shall remedy those defaults which are susceptible of being cured. The rights of mortgagees have also been given to certain pledgees of direct or indirect interests in the Site 25 Sublease tenants and collateral assignees of mortgages.

9. *Repairs:* The Site 25 Subleases provide that each tenant thereunder shall, at its expense, take good care of the premises and all equipment and shall keep and maintain the

building in good and safe order and working condition and shall make all repairs, internal and external, structural and nonstructural.

10. *Compliance with Requirements:* The Site 25 Subleases provide that each tenant thereunder shall, at its expense, comply with all laws, rules, ordinances, etc. applicable to the premises. Each tenant shall have the right, in certain circumstances, to contest the validity of any such requirement.

11. *Capital Improvements:* The Site 25 Subleases provide that tenant shall have the right to make capital improvements to the buildings, provided any such capital improvement, when completed, shall be of such a character as not to reduce the value of the buildings below their value immediately before construction of the capital improvement was commenced. In addition, capital improvements of a structural nature require the submission to the landlord of plans and specifications. Capital improvements in excess of \$500,000 (as adjusted) also require the submission to the landlord of the construction contract, bonds or a letter of credit or other security reasonably satisfactory to the landlord. Title to all additions, alterations, improvements and replacements made to the Premises, including, without limitation, capital improvements, shall vest in the landlord without need to compensate the tenant.

12. *Discharge of liens:* The Site 25 Subleases provide that tenant thereunder shall not create or cause to be created any lien, encumbrance or charge upon such tenant's estate in the premises (except a permitted mortgage, sublease, assignment of lease or additional easements), any assets of or funds appropriated to the landlord or upon the landlord's estate in the premises. Such tenant shall cause any such lien to be promptly discharged of record.

13. *The Authority's Right to Perform:* If an event of default shall have occurred under a Site 25 Sublease, the landlord shall have the right to perform any obligation on tenant's behalf and any monies expended by the landlord shall be repaid by such tenant with interest.

14. *Events of Default:* The Site 25 Subleases provide that if certain defaults shall occur the landlord shall have the right to terminate such Site 25 Sublease. Defaults by a tenant that would entitle the landlord to terminate such Site 25 Sublease include: (a) failure to make any required payment of Rental after 10 days' notice, (b) failure to perform any other provision of such Site 25 Sublease if such failure continues for a period of 30 days after notice by the landlord to such tenant, unless such failure could not by its nature be cured within such 30 days, in which case such tenant is required to remedy such failure with reasonable diligence, (c) such tenant's failure to comply with those prohibitions contained in such Site 25 Sublease on assigning, subleasing, mortgaging, pledging or otherwise encumbering such Site 25 Sublease unless such assignment, sublease, mortgage, pledge or encumbrance is fully discharged within 30 days after notice by the landlord to such tenant, and (d) events of bankruptcy concerning such tenant. In the event of a default by such tenant and the failure of such tenant or such tenant's mortgagee to timely exercise its cure rights, the landlord will have the right to terminate such Site 25 Sublease. As previously stated, each Site 25 Sublease grants a mortgagee certain rights intended to provide protection in the event of a default by a tenant under a Site 25 Sublease, including a right to notice and cure and a right to enter into a new lease with the landlord directly. Such rights have also been given to certain pledgees of direct or indirect interests in the Site 25 Sublease tenants and collateral assignees of mortgages.

15. *Civic Facilities:* Each of the Site 25 Subleases provides that the landlord shall construct, at its expense, certain enumerated civic facilities and insure, maintain, repair and, in the event of a fire or other casualty or condemnation, restore such civic facilities.

16. *No Subordination:* The Authority's interest in the Site 25 Subleases shall not be subject or subordinate to any mortgage placed upon a tenant's interest in its Site 25 Sublease or to any other lien or encumbrance affecting such tenant's interest in its Site 25 Sublease. If the Ground Lease should terminate, each Sublease will continue and will not be affected by any proceeding to terminate the Ground Lease. Each Site 25 Sublease is expressly subordinate to the Ground Lease and the Master Lease.

17. *Limitation of the Authority's Liability:* The liability of the landlord under each of the Site 25 Subleases for damages or otherwise shall be limited to the landlord's interest in the demised premises and the Site 25 Subleases, including, without limitation, the rents, issues and profits thereof, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to the premises.

18. *Limitation of Tenant's Liability:* The liability of a tenant under its Site 25 Sublease shall be limited to such tenant's interest in the demised premises and its Site 25 Sublease, including, without limitation, the rents, issues and profits thereof, the proceeds of any insurance policies, any awards payable in connection with any condemnation and any other rights, privileges, licenses, franchises, claims, causes of action or other interests, sums or receivables appurtenant to the premises.

GROUND LEASE FOR SITE 1 (MILLENNIUM HOTEL AND CONDOMINIUMS)

The following is a description of the major provisions of the Ground Lease, or the Lease, between Battery Park City Authority ("Authority"), as landlord, and Millenium BPC Development LLC, as tenant ("Tenant"), made as of the 1st day of January, 2000, for Site 1 (Millennium Hotel and Condominiums). Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of their provisions.

1. *Term:* The term of the Lease commenced on the date of the Lease, or the Commencement Date, and expires, unless sooner terminated, on June 17, 2069. The Lease does not contain any right on the part of Tenant to renew or otherwise extend the term.

2. *Rental:* The primary components of rent under the Lease are Base Rent, payments in lieu of real estate taxes ("PILOT"), Civic Facilities Payments, Hotel Percentage Rent, a Transaction Payment and Supplemental Hotel Base Rent. The following is a description of each such component of rent:

(i) *Base Rent:* The Lease obligates Tenant to pay, upon the Commencement Date and continuing thereafter throughout the term, to the Authority, without notice or demand, the annual sums referred to below:

Hotel Portion: With respect to the portion of the building used or designated for use by the Hotel, or the Hotel Portion: (1) for each lease year (or portion thereof) commencing on the Commencement Date, \$494,744, up to but not including the first day of the month next succeeding the 22nd anniversary of the Commencement Date; (2) thereafter and for 15 years, the greater of (x) 6% of the fair market value of the land allocable to the Hotel Portion, determined as provided in the Lease, considered as unencumbered by this Lease and as unimproved except for the Authority's civic facilities and other improvements made by the Authority or (y) \$618,430; (3) thereafter and for 15 years and for any such subsequent 15-year term until expiration, the greater of (x) 6% of the fair market value of such land as above or (y) 125% of the rent payable in the last year of such preceding period.

Residential Portion: With respect to the portion of the building exclusively used for residential purposes, or the Residential Portion: (1) for each lease year (or portion thereof) commencing on the Commencement Date \$458,906 up to but not including as of the first day of the month next succeeding the 22nd anniversary of the Commencement Date; (2) thereafter and for 15 years, the greater of (x) 6% of the fair market value of the land allocable to the Residential Portion, or (y) \$573,633; (3) thereafter and for 15 years and for any such subsequent 15-year term until expiration, the greater of (x) 6% of the fair market value of such land as above or (y) 125% of the rent payable in the last year of such preceding period.

The Base Rent shall be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term. To calculate the base rent, 54.7696% of the land shall be deemed to be allocable to the Hotel Portion, and 45.2304% to the Residential Portion.

(ii) *PILOT:* For each tax year, Tenant shall pay to the Authority, without notice or demand, on or before the last date real property taxes are payable, an annual sum, with respect to the land and building, equal to real property taxes for such tax year. Except that the Hotel Portion PILOT payments shall be reduced by any Hotel PILOT Credit given as provided in the Lease for the period from the Commencement Date through the first June 30th to occur after the 10th anniversary of the Commencement Date.

(iii) Tenant must pay the full amount of PILOT, notwithstanding that Tenant may have instituted tax assessment or other actions or proceedings to reduce the assessed valuation of the premises. Tenant shall be entitled to an adjustment or a credit against future PILOT to the extent of any tax reduction, provided, however, that Tenant shall not be entitled to any refund of any such excess from the Authority, unless the Authority shall receive any such refund.

(iv) *Civic Facilities Payment:* As its allocable share of the cost of operating and maintaining civic facilities, Tenant shall pay to the Authority for:

Hotel Portion: (1) \$106,847, for the 3rd lease year; and (2) for each lease year thereafter, the prior lease year payment increased by the greater of (a) 3% or (b) the Consumer Price Index.

Residential Portion: (1) for the 3rd and 4th lease years, the product of multiplying the number of residential apartment units by \$280; (2) for each of the next 3 lease years, the product of multiplying the number of residential apartment units by \$330; (3) thereafter, the Civic Facilities

Payment is an amount equal to Tenant's proportionate share of the Authority's budget for the civic facilities, based upon one of two formulas, one based on the Residential Portion pro-rata share of total residential building square footage for the neighborhood in which the building is located and the other based on the total square footage for all residential buildings in Battery Park City, as adjusted for square footage related to and payments made by pre-1988 residential leases. The choice of formula is left to the Authority in its sole discretion. Notwithstanding the foregoing, Tenant's civic facilities payment shall not be greater than 125% of such payment for the prior year and Tenant shall have the right to offset the amount of any excess paid.

(v) *Hotel Percentage Rent:* Tenant shall pay to the Authority Hotel Percentage Rent with respect to the Hotel Portion: for the period commencing on the date Tenant shall first receive any Hotel Gross Revenue and ending on the last day of the lease year, and for each year thereafter, the lesser of (i) \$542,512 and (ii) 3% of the amount by which Hotel Gross Revenue during each such lease year, exceeds the Hotel Base Rent, payable on a quarterly basis. Furthermore, Tenant shall deliver to the Authority the Annual Percentage Statement and pay to the Authority any deficiency or offset the amount of any excess, without interest, against subsequent payments of Hotel Percentage Rent.

(vi) *Transaction Payment:* In lieu of individual payments to be made to the Authority by Tenant in connection with the sale or occupancy of each Residential unit throughout the Term, Tenant paid to the Authority a single transaction payment in the amount of \$2,000,000 on the Commencement Date.

(vii) *Supplemental Hotel Base Rent:* Prior to execution of the Lease certain components of Rental were established which assumed a tax deferral program which established a fixed PILOT schedule for the Hotel Portion and recapture payments for deferred PILOT payments as set forth in Schedule 1 to the Lease. A real property tax deferral program was not implemented and the lease provides that PILOT for the Hotel Portion shall equal real property taxes allocable to the Hotel Portion. However, in view of such previously established Rental amounts, the Authority and Tenant agreed to the following method of applying Base Rent and other non-PILOT payments to Hotel PILOT and recapturing such credits against Hotel PILOT in Lease Years 11-20: a Hotel PILOT Record is established and the non-PILOT payments shall be used to offset amounts due from Tenant for PILOT allocable to the Hotel Portion, in excess of the Hotel Baseline Amounts set forth in Schedule 1 of the Lease and such record shall terminate on the earlier of (x) the first July 1 after the 10th anniversary of the Commencement Date or (y) the termination of the Lease. To the extent that the balance in the Hotel PILOT Record is insufficient to cover Hotel PILOT due, Tenant shall make any additional payments required to cover PILOT payments with respect to the Hotel Portion and as a result thereof shall be entitled to receive a credit, plus interest thereon at an annual rate of 7%, against certain future Hotel Base Rent and Hotel Percentage Rent payments due. Tenant shall make payments of Supplemental Hotel Base Rent equal to the Recapture Amount as described in Schedule 1 to the Lease for a 10-year period commencing with the first July 1 to occur after the 10th anniversary of the Commencement Date. An assessment reduction in Tenant's favor for any tax year through to the end of the 10th full tax year shall be (i) credited against future PILOT payments under this Lease in the manner

described in the Lease and (ii) used to reduce the Supplemental Hotel Base Rent, provided, however, that real property taxes used for purposes of computing such payments shall not be below the projected full taxes specified for any year as set forth in such Schedule 1.

Rental shall be absolutely net to the Authority without any abatement, deduction, counterclaim, set-off or offset whatsoever except as specifically set forth in this Lease, so that this Lease shall yield, net, to the Authority, Rental in each year during the Term and that Tenant shall pay all costs, expenses and charges of every kind and nature relating to the premises (except real property taxes, if any, and the cost of constructing and maintaining the Authority's civic facilities) which may arise or become due or payable during or after (but attributable to a period falling within) the Term.

3. *Insurance:* Tenant is obligated to maintain, at its expense, insurance, including rent insurance in an amount equal to one year's current Base Rent, PILOT, and Civic Facilities Payments in accordance with the terms provided in the Lease. The types of insurance and limits of coverage are specified in the Lease. In addition, the Authority may require types of insurance and limits of coverage comparable to those maintained by prudent owners of like buildings. The loss under all policies insuring against damage to the Building by fire or other casualty shall be payable to a depository, except that amounts of less than \$500,000 (as adjusted on each 5th anniversary of the Commencement Date based on consumer price index) shall be payable in trust directly to Tenant for application to the cost of restoration.

4. *Restoration:* Except as hereinafter set forth, Tenant shall restore the premises in the event all or any part of the premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the premises existing immediately prior to such occurrence. If such casualty occurs within the last 5 years of the Term and damages all or substantially all of the premises, this Lease shall terminate and Tenant shall not be obligated to restore the premises and depository shall pay over to the Authority all restoration funds. The Authority in no event shall be obligated to restore the premises or any portion thereof or to pay any of the costs or expenses thereof but if Tenant shall fail or neglect to restore the premises, the Authority may, but shall not be required to, complete such restoration at Tenant's expense. If any loss, damage or destruction occurs, and the cost of restoration of which equals or exceeds \$250,000 (as adjusted), Tenant shall furnish to the Authority complete plans and specifications for such restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to the Authority for the cost of restoration exceeding such amount, and required insurance policies. Notwithstanding, to the extent that any portion of the restoration involves work on the exterior of the building or a change in the height, bulk or setback of the building, Tenant shall furnish to the Authority a complete set of plans and specifications for the restoration. Subject to provisions of the Lease, there shall no termination or reduction or abatement of the Rental, by reason of damage to destruction of the building or by reason of the untenability, and Tenant waives any and all rights to quit or surrender the premises and agrees that its obligations shall continue as though the premises had not been damaged or destroyed and without abatement, suspension, diminution or reduction of any kind.

5. *Condemnation:* If the whole or substantially all of the premises shall be taken for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Authority, Tenant and those authorized to exercise such right, this Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: first to the Authority for or attributable to the value of the Land and the Authority's civic facilities; next to the mortgagee which holds a first lien on Tenant's interest in the Lease so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Mortgage; next to the Authority the value of the Authority's reversionary interest, if any, in that part of the building taken; and finally subject to rights of any mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to restore any remaining part of the building. The entire award for or attributable to the Land taken and the fair market value of the Authority's civic facilities shall be first paid to the Authority, and the balance, if any, shall be paid to a depository, except that if such balance shall be less than \$250,000 (as adjusted), such balance shall be payable, in trust, to Tenant for application to the cost of restoration. If the temporary use of the whole or any part of the premises shall be taken, the term shall not be reduced and Tenant shall continue to pay in full the rental, and Tenant shall be entitled to receive for itself any award or payments for such use, as provided in the Lease.

6. *Assignment, Subletting:* Except as otherwise provided, prior to completion of the Hotel Portion, the substantial completion of the Residential Portion and of the Public Amenity Space Core and Shell, as defined in the Lease, neither the Lease nor any interest of Tenant in the Lease, shall be sold, assigned, or otherwise transferred, nor certain transfers of interests in Tenant made, nor shall Tenant sublet the premises as an entirety or substantially as an entirety without the consent of the Authority which consent shall be given or withheld in the Authority's sole discretion. In addition, the prior written consent of the Authority is required under certain circumstances under the Hotel Unit Lease, the Hotel Unit Sublease, and a Public Amenity Space Agreement. Furthermore, subject to certain provisions of the Lease, Tenant shall not submit Tenant's leasehold estate in the premises to the provisions of Article 9-B of the Real Property Law of the State of New York, as it may be amended, or to a cooperative form of ownership.

From and after the substantial completion of the Residential Portion, the Hotel Portion and the Public Amenity Core and Shell, the Authority's consent shall not be required with respect to certain transfers of interests in Tenant, or sale or assignment of this Lease, or subletting of the premises except with respect to the Public Amenity Space, and after the Condominium Date with respect to Hotel and Residential units, as provided in the Lease, provided there are no defaults and there is compliance with the applicable provisions, but in no event shall such transfer, assignment or sublease be made to certain prohibited persons including those who have been convicted of a felony, and those against whom any action or proceeding is pending to enforce rights arising out of a mortgage obligation to the State of New York, etc. In addition, subject to compliance by a mortgagee with certain provisions of the Lease, consent by the Authority shall not apply to the acquisition of Tenant's interest in the premises under the Lease by such mortgagee. Tenant may, without the Authority's consent, at any time enter into

agreements for the letting of: hotel rooms and retail commercial space as part of the operation of the Hotel, and the letting of residential apartment units, etc., for periods shorter than or equal to the remainder of the Term. Each such sublease shall obligate the sublessee to occupy and use the premises for purposes consistent with this Lease and other requirements. A violation or breach of any of the terms of the Lease by any subtenant or other occupant of the building shall not relieve Tenant of Tenant's obligations. Tenant shall take any and all reasonable steps necessary to prevent any such violation or breach. The Authority after a default, may, subject to the rights of any mortgagee, collect subrent and all other sums due under subleases, and apply the net amount collected to Rental. Furthermore, Tenant has assigned all of Tenant's right, title and interest in and to all Subleases and conferred upon the Authority a right of entry in, and sufficient possession of, the premises to permit and ensure the collection by the Authority of the rentals and other sums payable under subleases.

All Subleases shall include certain terms including that they are subject and subordinate to this Lease and that at the Authority's option, on the termination of the Lease, the Subtenants will attorn to, or enter into a direct sublease on identical terms with, the Authority. With respect to certain subleases, the Authority and a subtenant shall execute an agreement wherein the Authority agrees to recognize such subtenant as the direct tenant of the Authority under its sublease upon the termination of this Lease.

7. *Mortgage:* Tenant shall have the right to mortgage or otherwise encumber Tenant's interest in this Lease to a mortgagee and shall give the Authority notice of such mortgage and the Authority shall give to such mortgagee a copy of each notice of default and such mortgagee may remedy the default and the Authority shall accept performance with the same force and effect as though performed by Tenant. No Mortgagee shall become liable under the provisions of this Lease unless and until such time as it becomes and remains, the owner of the leasehold estate created hereby. Each mortgagee shall, as a precondition to filing any mortgage execute a Mortgagee Subordination and Recognition Agreement in substantially the form attached as an exhibit to the Lease. In the case of termination of this Lease upon default, the Authority shall give notice thereof to each mortgagee and on written request shall promptly execute and deliver a new lease of the premises covered by the mortgage, to the mortgagee, for the remainder of the Term, provided that such mortgagee shall pay all rental due and all expenses incurred by the Authority and cure all defaults. The Authority shall assign to the tenant all of its right, title and interest in and to moneys then held by or payable to the Authority or depository which Tenant would have been entitled. If there is more than one mortgage, the Authority shall only recognize the mortgagee whose mortgage is senior in lien and which has requested a new lease of the premises.

The Authority shall have the right to mortgage its leasehold interest in the premises, as long as such mortgage is subject and subordinate to this Lease and any new lease and Tenant's interest shall not be subordinate to any such mortgage, except to the extent subordinated to the Authority's interests. Any such the Authority's leasehold mortgagee shall be entitled to succeed to all of the right, title and interest of the Authority under this Lease, and other documents, and shall have the same priority as the Authority.

8. *Repairs:* Tenant shall, unless otherwise provided, at its sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the premises and shall put, keep and maintain the building in good and safe order and condition, and make all

repairs to keep the same in good and safe order and condition. Tenant shall not commit or suffer, and shall use all reasonable precaution to prevent, waste, damage or injury to the premises. Tenant assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the premises.

9. *Compliance with Requirements:* Tenant promptly must comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the premises and shall have the right to contest the validity of any such requirements or the application thereof.

10. *Capital Improvements:* Tenant shall not demolish, replace or materially alter the building, or make any addition thereto, unless Tenant has procured from all governmental authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the premises; the improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and Tenant has delivered to the Authority original insurance policies acceptable to the Authority. If the estimated cost of any proposed capital improvement exceeds \$500,000 (as adjusted), Tenant shall pay the fees and expenses of any architect or engineer selected by the Authority and furnish: complete plans and specifications; a contract or construction management agreement; payment and performance bonds or other security. To the extent that any portion of the capital improvement involves work which affects the structural elements of the building or work involving the exterior or a change in the height, bulk or setback of the building, Tenant shall furnish to the Authority complete plans and specifications and other item at the Authority's request. Title to all additions, alterations, improvements and replacements made to the building shall forthwith vest in the Authority, without any obligation by the Authority to pay any compensation therefor to Tenant.

11. *Equipment:* All equipment shall be and shall remain the property of the Authority. Tenant shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of the Authority, which consent shall not be unreasonably withheld.

12. *Discharge of Liens:* Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the premises and shall not suffer any other matter or thing whereby the estate, right and interest of the Authority in the premises might be impaired. Tenant may finance any Equipment. If any lien at any time shall be filed against the premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

13. *The Authority's Right to Perform:* If Tenant at any time shall be in default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Authority, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may (but shall be under no obligation to) perform such obligation on Tenant's behalf. All associated expenses, with interest thereon, shall be paid by Tenant.

14. *Events of Default:* The Lease provides that if certain defaults shall occur, the Authority shall have the right to terminate the Lease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. The following events shall be Events of Default under the Lease: (a) failure of Tenant to pay any item of

Rental for 10 days after notice from the Authority to Tenant; (b) failure by Tenant to observe or perform one or more of the terms, conditions, covenants or agreements contained in this Lease which failure continues for a period of 30 days after notice thereof by the Authority; provided, however, if such cure is not effected within 90 days following notice of such failure, then Tenant must provide collateral satisfactory to the Authority; (c) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 60 days and (d) assignment of the Lease, sublease, or transfer of certain interests in Tenant, without the Authority's approval to the extent required which transaction has not be made to comply or voided ab initio within 30 days after notice thereof from the Authority. As previously stated, the Lease grants a mortgagee certain rights intended to provide protection in the event of a default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly.

15. *Civic Facilities:* The Authority has the obligation to construct certain enumerated civic facilities. Tenant's sole remedies for a failure by the Authority to substantially complete the Authority's civic facilities shall be: (i) an extension of the Scheduled Completion Date, and (ii) the right to engage in Self-Help. If all or any part of the Authority's civic facilities shall be destroyed or damaged, the Authority shall restore the civic facilities, at no cost and expense to Tenant, whether or not insurance proceeds shall be sufficient for the purpose.

16. *No Subordination:* The Authority's interest in this Lease shall not be subject or subordinate to any mortgage now or hereafter placed upon Tenant's interest in this Lease or any other liens or encumbrances hereafter affecting Tenant's interest in this Lease.

17. *Condominium Ownership:* The Authority permitted the submission of Tenant's leasehold estate in the premises under the Lease to the condominium form of ownership pursuant to the Article 9-B of the Real Property Law of the State of New York and the Authority agreed to limit its remedies under the Lease from and after the Condominium Date in certain respects, including the right to terminate this Lease and the term hereof. The Hotel Unit was leased to the Authority and leased back to the Hotel Unit Owner, giving the Authority a direct lease relationship with the Hotel Unit Owner under a sublease. The deed to the Public Amenity Unit (approximately 5,000 square feet) has been conveyed to the Authority by Tenant and the Authority subsequently leased the Public Amenity Unit to the Skyscraper Museum for a nominal sum.

18. *Limitations on the Authority's Liability:* The liability of the Authority shall be limited to the Authority's interest in the premises. Neither the Authority nor any of its members, directors, officers, employees, agents or servants shall have any liability (personal or otherwise) hereunder beyond the Authority's interest in the premises, and no other property or assets of the Authority or any such Person or any of the members, directors, officers, employees, agents or servants of either shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

19. *Limitations on Tenant's Liability:* The liability of Tenant hereunder for damages or otherwise shall be limited to the property and assets of Tenant. Neither the Tenant nor any of the members, directors, officers, shareholders, partners, managers, principals or joint

venturers, employees, agents or servants of Tenant or its partners, members or shareholders shall have any liability (personal or otherwise) hereunder beyond the property or assets of the Tenant, and no property or asset of any such excluded persons shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Authority's remedies hereunder.

LEASE FOR SITE 2A

The following is a description of the major provisions of the Lease between Battery Park City Authority, as landlord ("Authority" and/or "Landlord"), and Millenium BPC Development LLC, as tenant ("Tenant"), made as of the 22nd day of February, 2005, for Site 2A (Millennium). Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of their provisions.

1. **Term:** The term of the Lease commenced on February 22, 2005 ("Commencement Date"), and expires, unless sooner terminated, on June 17, 2069. The Lease does not contain any right on the part of Tenant to renew or otherwise extend the term.

2. **Rental:** The primary components of rent under the Lease are Base Rent, payments in lieu of real estate taxes ("PILOT"), Civic Facilities Payments, Percentage Rent, Transaction Payments, and Participation Payments. The following is a description of each such component of rent:

3. **Base Rent:** The Lease obligates Tenant to pay, in the manner hereinafter defined, beginning upon the Commencement Date, and continuing thereafter throughout the term to the Landlord, without notice or demand, the sums hereinafter described:

(i) **First Period:** For the twenty five year period beginning on the Commencement Date, pay the Base Rent as follows: (i) Year 1 at \$250,000.00; Year 2 at \$250,000.00; Year 3 at \$564,370.00; Year 4 at \$581,301.00; Year 5 at \$598,740.00; Year 6 at \$616,702.00; Year 7 at \$635,203.00; Year 8 at \$654,260.00; Year 9 at \$673,887.00; Year 10 at \$694,104.00; Year 11 at \$714,927.00; Year 12 at \$736,375.00; Year 13 at \$758,466.00; Year 14 at \$781,220.00; Year 15 at \$804,657.00; Year 16 at \$828,796.00; Year 17 at \$853,660.00; Year 18 at \$879,270.00; Year 19 at \$905,648.00; Year 20 at \$932,818.00; Year 21 at \$960,802.00; Year 22 at \$989,626.00; Year 23 at \$1,019,315.00; Year 24 at \$1,049,894.00; and Year 25 at \$1,081,391.00 (the first twenty five years of Base Rent collectively the "First Period"); (ii) Notwithstanding (i) above, Tenant shall have no obligation to pay any Base Rent for the period commencing on the second anniversary of the Commencement Date through and including the day immediately preceding the sixth anniversary of the Commencement Date ("Years 3-6 Base Rent"), and \$145,387.00 of the Base Rent that would otherwise have been payable beginning on the sixth anniversary of the Commencement Date ("Year 7 Relieved Base Rent"); it being understood that in lieu of the Years 3-6 Base Rent and Year 7 Relieved Base Rent Tenant shall pay to Landlord an aggregate amount equal to four million seven hundred fifty thousand dollars ("Deferred Amount") as follows: (a) \$1,450,000.00 during the Lease Year commencing in the month following the date on which the

Deferral ends, and payable in equal installments of \$120,833.33 on the first day of each month of said Lease Year; (b) \$1,350,000.00 during the Lease Year commencing in the month immediately following the first anniversary of the Deferral End Date and payable in equal installments of \$112,500.00 on the first day of each month; (c) \$1,200,000.00 during the Lease Year commencing in the month immediately following the second anniversary of the Deferral End Date and payable in equal installments of \$100,000.00 on the first day of each month of said Lease Year, and (d) \$750,000.00 during the Lease Year commencing in the month immediately following the third anniversary of the Deferral End Date and payable in equal installments of \$62,500.00 on the first day of each month of said Lease Year; however, if prior to any of the aforementioned Lease Years (x) 40% of the residential square footage in the 2nd floor through and including the 12th floor of the Building (the “Lower Portion”) are sold to a third party, then within thirty days from the date of achieving said percentage sale threshold, 40% of the Deferred Amount shall become payable; if 70% of the residential square footage in the Lower Portion shall be sold to a third party then an additional 30% of the Deferred Amount shall become payable within thirty days of said threshold having been achieved; and should 95% of the Lower Portion shall be sold then the balance of the Deferred Amount shall become payable within thirty days of such threshold having been achieved as set forth in Section 3.9(a) of the Lease. Any payments of the Deferred Amount that are made based on obtaining any of the aforementioned sale thresholds shall be credited against the last installments of the Deferred Amount that would otherwise become due or payable. Until the Deferred Amount is paid in full Tenant shall deposit with Landlord an irrevocable letter of credit in the initial amount of \$4,750,000.00 in form acceptable to Landlord (the “Deferred Amount Letter of Credit”). The Deferred Amount Letter of Credit may be reduced dollar for dollar with each payment of the Deferred Amount by delivering a replacement letter of credit in the required amount in form satisfactory to Landlord.

(ii) Second Period: For each Lease Year commencing on the 25th anniversary of the Commencement Date or February 22, 2030 (“First Appraisal Date”), and continuing for a period of fifteen Lease Years thereafter (“Second Period”), an amount per annum equal to (x) the Base Floor Rent, as defined below, as determined on the First Appraisal Date which is the first day of the Second Period, equal to the greater of 6% of the fair market value of the Land, determined in accordance with the Lease, considered as unencumbered by the Lease and the Master Lease and as unimproved, except for Landlord’s Civic Facilities and other site improvements made by Landlord, (“Base Floor Rent”) or (y) the Base Rent payable in the Lease Year immediately prior to the period for which such Base Rent Floor was determined. Base Rent for the Second Period shall escalate on February 22, 2035 and again February 22, 2040 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

(iii) Third Period: For each Lease Year commencing on February 22, 2045 (the first day of the Third Period and Fourth Period defined below each a “Reappraisal Date”) and continuing for a period of fifteen (15) Lease Years thereafter (“Third Period”) an

amount per annum equal to the Base Rent Floor as determined on the Reappraisal Date, as escalated on February 22, 2050 and again February 22, 2055 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

(iv) Fourth Period: For each Lease Year commencing on February 22, 2060 continuing thereafter until the Expiration Date (“Fourth Period”) an amount per annum equal to the Base Rent Floor as determined on the Reappraisal Date, as escalated on February 22, 2065 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

The Base Rent shall be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term.

4. ***PILOT:*** For each tax year or portion thereof within the Term, Tenant shall pay to the Landlord, without notice or demand, an annual sum (“PILOT”), equal to the greater of (x) actual Taxes for such Tax Year and (y) the Minimum PILOT set forth as follows: (i) Year 1 at \$600,000.00; Year 2 at \$600,000.00; Year 3 at \$1,500,000.00; Year 4 at \$3,068,193.00; Year 5 at \$3,229,273.00; Year 6 at \$3,398,810.00; Year 7 at \$3,577,247.00; Year 8 at \$3,765,053.00; Year 9 at \$3,962,718.00; Year 10 at \$4,170,761.00; Year 11 at \$4,306,311.00; Year 12 at \$4,446,266.00; Year 13 at \$4,590,769.00; Year 14 at \$4,739,969.00; Year 15 at \$4,894,018.00; Year 16 at \$5,053,074.00; Year 17 at \$5,217,299.00; Year 18 at \$5,386,861.00; Year 19 at \$5,561,934.00; Year 20 at \$5,742,697.00; Year 21 at \$5,929,334.00; Year 22 at \$6,122,038.00; Year 23 at \$6,321,004.00; Year 24 at \$6,526,437.00; and Year 25 at \$6,738,546.00; In no event shall the amount of PILOT be less than the amounts set forth above. PILOT shall be paid in equal semi-annual installments during such tax year, in advance, on the first day of each of January and July.

5. ***Civic Facilities Payment:*** As its allocable share of the cost of operating and maintaining certain Civic Facilities as described in the Lease in the Project Area, Tenant, for each Lease Year, or portion thereof, shall pay to the Landlord commencing on the date on which a temporary Certificate of Occupancy shall be issued for any dwelling unit in the Building (“Initial Occupancy Date”) and ending on the last day of the Term an annual sum (“Civic Facilities Payment”) as follows:

(i) For the period commencing on the Initial Occupancy Date and ending on the last day of the Lease Year in which the Initial Occupancy Date occurs (“First CFP Period”) an amount equal to the product obtained by multiplying the sum computed under the succeeding clause (ii) by a fraction, the numerator of which shall be the number of days between the Initial Occupancy Date and the last day of the Lease Year in which the Initial Occupancy Date occurs and the denominator of which shall be three hundred sixty-five (365);

(ii) For each of the next two Lease Years following the First CFP Period (“Second CFP Period”), an amount equal to the product obtained by multiplying the number of

residential units in the Buildings by four hundred dollars and the product derived by multiplying \$.40 by the gross square feet of nonresidential floor area, other than common areas and certain other enumerated areas as defined in the Lease; and

(iii) For the next three Lease Years succeeding the Second CFP Period ("Third CFP Period") an amount equal to the product obtained by multiplying the number of residential units in the Buildings by four hundred fifty dollars and the product derived by multiplying \$.45 by the gross square feet of nonresidential floor area, other than common areas and certain other enumerated areas as defined in the Lease.

(iv) For each Lease Year succeeding the Third CFP Period ("Payment Period"), an amount equal to the product of an estimate of the Operating Costs, as defined in Section 26.5(a) of the Lease, for the Payment Period (the "Parks Budget") multiplied by a fraction, the numerator of which shall be the maximum permissible Zoning Floor Area, which shall be 416,200 square feet for the Land as computed in accordance with Section 12-10 of the Zoning Resolution in the Building and the denominator of which shall be the then maximum permissible Zoning Floor Area in all residential buildings, including the Building, constructed or to be constructed in the Project Area in accordance with the Zoning Resolution of the City of New York, as such number may have been reduced by the Design Guidelines pertaining to such buildings, less amounts payable toward such Parks Budget by other tenants of Landlord in the Project Area under leases which were (x) originally entered into prior to the Commencement Date and (y) computed on the basis of operating costs for a particular neighborhood within the Project Area rather than for Operating Costs for the entire Project Area. Landlord at its sole option may at any time establish such alternative method of determining Tenant's allocable share of the Operating Costs and the amount of Civic Facilities Payment as may be equitable with respect to all tenants of Landlord within the Project Area.

Notwithstanding the foregoing provisions, the amount of Tenant's Civic Facilities payment for any Lease Year shall not be greater than one hundred twenty-five percent of Tenant's Civic Facilities Payment for the prior Lease Year and the amount of capital costs included in the Operating Costs shall not exceed ten percent of the Operating Costs for any one year.

6. **Percentage Rent:** For the period commencing on the date Tenant shall first collect any Gross Non-Residential Revenue (the "Percentage Rent Commencement Date"), which Gross Non-Residential Revenue includes, but is not limited to all revenue received by Tenant or an Affiliate of Tenant from, in connection with, or arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, and which Gross Non-Residential Revenue is more particularly defined in the Lease, and ending on December 31 of the calendar year in which the Percentage Rent Commencement Date occurs, and for each calendar year thereafter during the term, Tenant shall pay to Landlord an amount equal to 10% of the Gross Non-Residential Revenue during each such calendar year or portion thereof ("Percentage Rent"). Percentage Rent shall be computed quarterly, in the manner specified in the Lease, and within thirty days after the end of each calendar quarter Tenant shall submit in reasonable detail the Gross Non-Residential Revenue from the prior quarter and based upon said submission pay Landlord 5% of the Gross Non-Residential Revenue as a

partial payment. Tenant shall deliver to Landlord as soon as is practicable after the end of each calendar year, but not later than 120 days after the end of such calendar year, a separate statement for such year showing the Gross Non-Residential Revenue, together with the Percentage Rent due for such year. In the event of an underpayment of the Percentage Rent for the period, Tenant shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

In the event Tenant's leasehold estate in the Premises shall be submitted to a condominium for of ownership, then "Tenant" shall be deemed to mean the unit owner of each commercial unit of such condominium, it being the agreement of Landlord and Tenant that each such unit owner shall pay Percentage Rent directly to Landlord and that Landlord may pursue any rights granted to Landlord hereunder directly against each such unit owner.

7. ***Transaction Payments:*** In the event Tenant shall submit Tenant's Leasehold estate in the Premises to either a cooperative or condominium form of ownership in accordance with this Lease, Tenant shall pay to Landlord, upon transfer of each Cooperative Apartment or Unit to a bona fide purchaser ("Transaction Payment"), a payment in an amount equal to one percent of the Gross Sales Price of such Apartment or Unit. To secure Tenant's obligation to make the Transaction Payment, Tenant shall deliver to Landlord a guaranty in form reasonably acceptable to Landlord from a credit worthy entity reasonably acceptable to Landlord with sufficient liquidity of \$1,000,000.00 or more.

8. ***Participation Payments:*** Tenant shall pay to Landlord an amount, such amount being calculated on a quarterly basis and being referred to as "Participation Payments" equal to 3% of Distributable Cash as defined below, after Tenant has received an aggregate amount of Distributable Cash equal to the sum of (i) Development Costs; (ii) the aggregate amount of all Operating Deficits, the sum of (i) and (ii), as such sum may be increased from time to time is referred to as the "Hurdle Amount" and (iii) the return, calculated in the same manner as interest accruing at the rate of ten percent per annum, compounding annually, on accrued and unpaid Hurdle Amount calculated quarterly, Development Costs being deemed incurred and repaid as of the end of the calendar quarter immediately following the date of such incurrence or repayment and Operating Deficits being deemed incurred as of the last day of each calendar quarter. ("Preferred Return") on the Hurdle Amount, which such Distributable Cash defined as the excess of the sum of all revenue received by Tenant from operations and capital events (but excluding financing/refinancing proceeds during such period), and including without limitation the receipt of insurance proceeds and condemnation awards, but only to the extent same are not used to rebuild or restore the property, and reductions in any reserves previously set aside by Tenant, as determined on the last day of such period ("Revenues") over the sum of all expenses however defined or denominated, incurred by Tenant during such period, including those categories of cost and expense identified within the definition of Development Costs, as defined in the Lease, but not including cost and expenses already included as Development Costs, and all reasonable amounts deposited into reserves maintained by or for the benefit of Tenant and the Building determined as of the last day of such period ("Expenses"). Revenues shall not include the proceeds of any financing or refinancing by Tenant, and Expenses shall not include any interest, fees or other charges incurred in connection with any financing or refinancing by Tenant. If Expenses exceed Revenues in a given period, then the amount by which Expenses so exceed Revenues shall be deemed an "Operating Deficit;"

Participation Payments shall be paid in arrears on or prior to April 15 of each calendar year beginning with the first calendar year after Substantial Completion that Tenant shall have previously received an aggregate amount of Distributable Cash equal to the sum of the Hurdle Amount and the Preferred Return thereon as of the last day of such calendar year.

9. ***Insurance:*** Tenant shall, after Substantial Completion of the Building, and thereafter for the full Term of the Lease, keep in full force and effect (i) an All Risk of Physical Loss policy of insurance, including without limitation loss o damage by water, flood, subsidence and earthquake, on an Agreed Amount basis with full replacement cost; as such shall be determined from time to time, but not less frequently than required by the insurer and in any event at least once every three (3) years. In the event Tenant's leasehold estate shall be submitted to condominium ownership, however, then such replacement cost determination shall be made annually. All policies shall name the Tenant as the insured, the Landlord, and Master Landlord as additional insureds' to the extent, where applicable, of their respective insurable interests in the Premises, and shall be primary with respect to any other coverage which Landlord and Master Landlord may obtain as additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee endorsement, under the following policies: All Risk of Physical Loss, commercial general liability, sprinkler leakage, boiler and machinery, and automobile liability policies of insurance only; All Rent Insurance shall be for the benefit of Landlord and Tenant, but the proceeds, if in excess of one million dollars shall be paid to Depository to be applied to Rental Payments until such Restoration by Tenant is completed. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of one million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee; as their interests may appear.

10. ***Restoration:*** : If all or any part of the Building as defined in the Lease, shall be destroyed or damaged in whole or in part by fire or other casualty Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, restore the Building. Except as hereinafter set forth, Tenant shall restore the premises in the event all or any part of the premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the premises existing immediately prior to such occurrence, and if such casualty occurs within the first ten years of the Term, then restoration shall be performed in accordance with the Construction Documents as defined in the Lease. If such casualty occurs within the last 3 years of the Term and damages all or substantially all of the premises, then at Tenant's option, to be exercised no later than ninety days following such casualty, this Lease shall terminate on the date specified by Tenant, but no later than 30 days following Tenants exercise of said option. Tenant shall not be obligated to restore the premises and Depository shall pay over to the Landlord all restoration funds. The Landlord in no event shall be obligated to restore the premises or any portion thereof or to pay any of the costs or expenses thereof, but if Tenant shall fail or neglect to restore the premises, the Landlord may, but shall not be required to, complete such restoration at Tenant's expense. If any loss, damage or destruction occurs, and the cost of restoration of which equals or exceeds \$1,000,000. (as adjusted), Tenant shall furnish to the Landlord complete plans and specifications for such restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to

the Landlord for the cost of restoration exceeding such amount, and required insurance policies. Notwithstanding, to the extent that any portion of the restoration involves work on the exterior of the building or a change in the height, bulk or setback of the building, Tenant shall furnish to the Landlord a complete set of plans and specifications for the restoration. . The Lease shall not terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total substantial or partial destruction of, the Building by reason of the untenantability of the same for, or due to, any reason or cause whatsoever, and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the Building had not been damaged or destroyed without abatement, suspension, or diminution of any kind.

If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligation's under Article 8 of the Lease shall be the obligation of the Condominium.

11. ***Condemnation:*** If the whole or substantially all of the premises shall be taken, excluding a taking of the fee interest in the Premises, or any leasehold interest superior to that of the Tenant's, if after such taking Tenant's rights under this Lease are not affected, for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Landlord, Tenant and those authorized to exercise such right, this Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: (i) first to the Landlord for or attributable to the value of the Land so taken, considered as encumbered by the Lease and the Master Lease and as unimproved, and the Landlord's Civic Facilities and other site improvements made by Landlord taken in any proceeding with respect to such taking; (ii) next to the mortgagee which holds a first lien on Tenant's interest in the Lease under a Single Asset Mortgage or to Unit Mortgagees under Single Asset Unit Mortgages constituting first liens against the mortgaged Units, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Single Asset Mortgage or Single Asset Unit Mortgage with interest thereon at the rate specified therein to the date of payment; (iii) for a period of forty years from the Scheduled Completion Date, there shall next be paid to each additional Mortgagee under a Single Asset Mortgage, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by its Single Asset Mortgage with interest thereon at the rate specified thereon to the date of payment; (iv) next to Landlord so much of the award which is for or attributable to the value of Landlord's reversionary interest in that part of the Building taken in such proceeding, it being understood that for the period of forty years from the Scheduled Completion Date the value of Landlord's reversionary interest shall be zero; and (v) subject to the rights of any Mortgagees or Unit Mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to restore any remaining part of the building. The entire award for or attributable to the Land taken and the fair market value of the Landlord's Civic Facilities shall be first paid to the Landlord, and the balance, if any, shall be paid to Depository, except that if such balance shall

be less than \$1,000,000 (as adjusted in accordance with the Lease), such balance shall be payable, in trust, to Tenant for application to the cost of restoration.

If the temporary use of the whole or any part of the premises shall be taken, the term shall not be reduced or affected in any way and Tenant shall continue to pay in full the Rental, and Tenant shall be entitled to receive for itself any award or payments for such use, in accordance with the provisions of Section 9.5(i)(ii) of the Lease.

Landlord, Tenant and any Mortgagee shall be entitled to file a claim and otherwise participate in any condemnation or similar proceedings. Landlord represents that under current law it has no power to condemn all or any part of the Premises; furthermore, Landlord hereby covenants and agrees that it shall never institute any taking or condemnation of all or any portion of the Premises without the prior written consent of Tenant.

12. Assignment, Subletting: Except as otherwise provided, prior to Substantial Completion of the Building, or at any time after Substantial Completion of the Building that the conditions set forth in Section 10.1(b) of the Lease are not satisfied, neither the Lease nor any interest of Tenant in the Lease shall be sold, assigned, or otherwise transferred, whether by operation of law or otherwise, including without limitation an assignment to an Apartment Corporation in connection with a Cooperative Plan or partial assignment in connection with Tenant's submission of its leasehold estate in the Premises to a condominium form of ownership, but excluding transfers of individual condominium units following the submission by Tenant of its leasehold estate in the Premises to a condominium form of ownership pursuant to Article 40 and Exhibit F (Provisions Regarding the Conversion To Condominium Form of Ownership), of the Lease, or (ii) in connection with the issuance or transfer of proprietary leases following the submission of Tenant of its leasehold estate in the Premises to an Apartment Corporation in connection with a Cooperative Plan nor shall any of the issued or outstanding capital stock of any corporation, any membership interest in any limited liability company any partnership interest in any partnership or any equity interest in any Person, in each case, which is Tenant or owns a direct or indirect interest in Tenant be sold assigned, transferred pledged or encumbered, whether by operation of law or otherwise, if such would result in a change of the Controlling membership ownership of Tenant as held by the members thereof as of the Commencement Date. Landlord's consent shall not be required with respect to any mortgage of Tenant's leasehold interest pursuant to an instrument that qualifies as a Mortgage as defined in Article 1, provided that the Mortgagee complies with the provisions of Sections 10.10 and 10.11 of the Lease and any pledge or collateral assignment of all but not less than all of the direct equity interests in Tenant or all but not less than all of the direct equity interests in a Person which owns directly or indirectly all of the equity interests in Tenant pursuant to an instrument that qualifies as a Pledge.

From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to any transfer, assignment, or subletting of the Premises provided no Default as to which notice shall have been given shall have occurred and then be continuing, and Tenant has complied with the requirements under Section 10.1(c) and 10.1(d) of the Lease. Landlord's consent shall not be required in the event Tenant assigns its interest in this Lease to the Apartment Corporation pursuant to a Cooperative Plan, provided no Default then exists and is continuing; however, Tenant shall not, at any time during the Term, assign its interest in the Lease in whole or in part pursuant to any plan to submit Tenant's leasehold estate in the

Premises to condominium ownership except pursuant to the provisions of Article 40 and Exhibit F of the Lease.

Tenant may, without Landlord's consent, but subject to the provisions of the last sentence of Section 10.1(c) enter into agreements for the rental of residential and non-residential space in the Building or the occupancy of such space for periods shorter than or equal to the remainder of the Term at the time of such agreements ("Subleases"). Each residential Sublease shall obligate the Subtenant pursuant thereto to occupy and use the premises included therein for residential purposes only. After an Event of Default by Tenant, Landlord may, subject to the rights of any Mortgagee which is an Institutional Lender, collect subrent and all other sums due under Subleases and apply the net amount collected to Rental, but no such collection shall be deemed to be a waiver of any agreement, term, covenant or condition under the Lease. Tenant sets over to Landlord all of Tenant's right title and interest in and to all Subleases, subject to the rights of any qualifying Mortgagee in accordance with the Lease. All Subleases shall provide that they are subject to the Lease and to the Master Lease, and at Landlord's option on the termination of the Lease, the Subtenants will attorn to or enter into a direct lease with Landlord. With respect to certain Subleases, the Landlord and a Subtenant shall execute an agreement wherein the Landlord agrees to recognize such Subtenant as a direct Tenant of Landlord under its Sublease upon termination of the Lease.

13. ***Mortgage:*** Tenant shall have the right to mortgage or otherwise pledge Tenant's interest in this Lease to a Mortgagee or Pledgee, and shall give Landlord prompt notice of such mortgage or pledge, and the Landlord shall give to such mortgagee or pledgee that is a First Pledgee a copy of each notice of default and such Mortgagee or First Pledgee may remedy the default and Landlord shall accept performance with the same force and effect as though performed by Tenant. Except as provided in Section 10.10(b) of the Lease, no Mortgagee or First Pledgee shall become liable under the provisions of this Lease unless and until such time as it becomes and remains, the owner of the leasehold estate created hereby. Each Mortgagee shall, as a precondition to filing any mortgage execute a Mortgagee Subordination and Recognition Agreement in substantially the form attached as an exhibit to the Lease. Notwithstanding the foregoing, from and after the Condominium Date the rights recognition and privileges afforded a Mortgagee or Pledgee under the Lease shall consist solely of those rights, recognition and privileges afforded under Exhibit F and any applicable Pledgee Subordination and Recognition Agreement, or Construction Mortgage Subordination and Recognition Agreement or applicable Unit Mortgagee Subordination and Recognition Agreement. In the case of termination of this Lease upon default, Landlord shall give notice thereof to each Mortgagee and/or Pledgee and on written request shall promptly execute and deliver a new lease of the premises covered by the mortgage or pledge, to the Mortgagee or Pledgee, for the remainder of the Term, provided that such Mortgagee or Pledgee shall pay all rental due and all expenses incurred by the Landlord and cure all defaults. The Landlord shall assign to the tenant all of its right, title and interest in and to moneys then held by or payable to the Landlord or Depository which Tenant would have been entitled. If there is more than one mortgage, the Landlord shall only recognize the Mortgagee whose mortgage is most senior in lien and which has requested a new lease of the premises.

14. ***Repairs:*** Tenant shall, unless otherwise provided, at its sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the premises and shall put, keep and maintain the building in good and safe order and condition, and make all repairs

to keep the same in good and safe order and condition. Tenant shall not commit or suffer, and shall use all reasonable precaution to prevent, waste, damage or injury to the premises. Tenant assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the premises. All repairs made by Tenant shall be at least equal in quality and class to the original work and shall be made in compliance with all governmental authorities as defined in Section 12.1 of the Lease.

15. ***Compliance with Requirements:*** Tenant promptly must comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the premises and shall have the right to contest the validity of any such requirements or the application thereof in accordance with the provisions of the Lease.

16. ***Capital Improvements:*** Tenant shall not demolish, replace or materially alter the building, or make any addition thereto, unless Tenant has procured from all governmental authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the premises; the improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and Tenant has delivered to Landlord original insurance policies acceptable to Landlord. If the estimated cost of any proposed capital improvement exceeds \$500,000 (as adjusted), Tenant shall pay the fees and expenses of any architect or engineer selected by the Landlord and furnish: complete plans and specifications; a contract or construction management agreement; payment and performance bonds or other security. To the extent that any portion of the capital improvement involves work which affects the structural elements of the building or work involving the exterior or a change in the height, bulk or setback of the building, Tenant shall furnish to the Landlord complete plans and specifications and any other item at the Landlord's request. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in Landlord, without any obligation by Landlord to pay any compensation therefor to Tenant.

17. ***Equipment:*** All equipment shall be and shall remain the property of the Landlord. Tenant shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of Landlord, which consent shall not be unreasonably withheld.

18. ***Discharge of Liens:*** Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the premises and shall not suffer any other matter or thing whereby the estate, right and interest of the Landlord in the premises might be impaired. Tenant may finance any Equipment. If any lien at any time shall be filed against the premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

19. ***Landlord's Right to Perform:*** If Tenant at any time shall be in default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may (but shall be under no obligation to) perform such obligation on Tenant's behalf.

20. ***Events of Default:*** The Lease provides that if certain defaults shall occur, the Landlord shall have the right to terminate the Lease. See, however, "Condominium

Ownership" below for a discussion of certain limitations on such remedy. The following events shall be Events of Default under the Lease: (a) failure of Tenant to pay any item of Rental for 10 days after notice from the Landlord to Tenant; (b) failure by Tenant to observe or perform one or more of the terms, conditions, covenants or agreements contained in this Lease which failure continues for a period of 30 days after notice thereof by Landlord; (c) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days and (d) assignment of the Lease, sublease, or transfer of certain interests in Tenant, without the Landlord's approval to the extent required which transaction has not be made to comply or voided ab initio within 30 days after notice thereof from Landlord. (e) to the extent permitted by law, if Tenant should admit, in writing, that it is unable to pay its debts or Tenant shall make an assignment for the benefit of creditors. As previously stated, the Lease grants a mortgagee certain rights intended to provide protection in the event of a default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly. In the event the Lease shall terminate due to an Event of Default and in accordance with the provisions of the Lease, then Tenant, Tenant as debtor-in-possession and/or Trustee shall immediately quit and surrender the Premises. No termination of this Lease pursuant to Section 24.3(a) or taking possession of or re-letting the Premises or any part thereof, pursuant to Sections 24.3(b) or 24.4(b) of the Lease shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or re-letting. Tenant shall pay to Landlord all costs and expenses, including, without limitation, reasonable attorney's fees and disbursements, incurred by Landlord in any action or proceeding to which Landlord may be made a party by reason of any act or omission of Tenant, and Tenant shall pay to Landlord all costs and expenses, incurred by Landlord in enforcing any of the covenants and provisions of this Lease and incurred in any action brought by Landlord against Tenant on account of the provisions thereof.

21. **Civic Facilities:** The Landlord has the obligation to construct certain enumerated Civic Facilities. Tenant acknowledges that other than those certain facilities enumerated in Article 26 of the Lease, Landlord has completed the Civic Facilities improvements. Tenant has the obligation to maintain certain of the enumerated Civic Facilities, and Landlord the obligation to maintain the balance of the enumerated Civic Facilities. In the event Landlord fails to so maintain the enumerated civic facilities in accordance with the Lease Tenant shall have the right but not the obligation to undertake Landlord's Maintenance Obligations as defined in the Lease ("Self-Help"). In the event Tenant undertakes Self-Help, then Tenant shall have the right to offset against the next installment of Civic Facilities Payments an amount equal to the reasonable expenses thereby incurred or paid by Tenant together with interest thereon at the Involuntary Rate computed with respect to each payment made by Tenant . Landlord shall incur no penalty or liability, and Tenant shall have no remedies or rights other than as expressly provided in the Lease, it being agreed by the parties that Landlord's failure to perform Landlord's Maintenance Obligations shall not be deemed a failure by Landlord to perform a substantial obligation on Landlord's part to be performed under the Lease.

22. **No Subordination:** The Landlord's interest in this Lease shall not be subject or subordinate to any mortgage now or hereafter placed upon Tenant's interest in this Lease or any other liens or encumbrances hereafter affecting Tenant's interest in this Lease, including without limitation any Unit Mortgage, or any other liens or encumbrances hereafter affecting

Tenant's interest in the Lease including without limitation a lien filed pursuant to Section 339-z and 339-aa of the Real Property Law. Master Landlord and Tenant executed that certain Master Landlord Non-Disturbance and Recognition Agreement which shall be in the form exhibited to the Lease, and which is binding on Master Landlord's successors and assigns and benefits Tenant's successors and assigns, and provides that if the master Lease is terminated then Landlord will recognize Tenant under the Lease and Tenant will attorn to Landlord and will recognize such holder as Tenant's landlord under the Lease.

23. ***Condominium Ownership:*** The Landlord permitted the submission of Tenant's leasehold estate in the premises under the Lease to the condominium form of ownership pursuant to the Condominium Act and the terms and provisions of Exhibit F of the Lease. The Lease shall, after the condominium Date, remain in full force and effect, provided that to the extent that after the Condominium Date any of the provisions of Exhibit F of the Lease conflict with other Lease provisions, the terms of Exhibit F shall prevail.

24. ***Limitations on Landlord's Liability:*** The liability of Landlord, as set forth in the Lease, shall be limited to Landlord's interest in the Premises, including the rents and profits therefrom, the proceeds of any insurance policies covering the relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof and any other rights, privileges, or other interests appurtenant to the Premises. Neither Landlord nor any such Person nor any of the members, directors, officers, employees, agents or servants of either shall have nay liability hereunder beyond Landlord's interest in the Premises, including, without limitation, the rents and profits therefrom and such other proceeds and awards as set forth in the Lease appurtenant to the Premises, and no other property or asset of Landlord or any such Person shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

25. ***Tenant's Liability:*** Except as to Recourse Claims as defined in the Lease, the liability of Tenant shall be limited to Tenant's interest in the Premises, including without limitation, the rents and profits from the Premises, the proceeds of any insurance policies covering or relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof, any security provided hereunder and amount deposited hereunder with Landlord, Depository or a Mortgagee, or other interest or sums appurtenant to the Premises. Except as to Recourse Claims, Tenant shall have no liability hereunder beyond Tenant's interest in the Premises, and no other property or asset of Tenant shall be subject to levy, execution or other enforcement procedure for the satisfaction of Landlord's remedies hereunder.

LEASE FOR PARCEL 18B

The following is a description of the major provisions of the Lease between Battery Park City Authority, as landlord ("Authority" and/or "Landlord"), and North End Associates, LLC, as tenant ("Tenant"), made as of August 19, 2004, for Parcel 18B. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of their provisions.

1. **Term:** The term of the Lease commenced on August 19, 2004 (“Commencement Date”), and expires, unless sooner terminated, on June 17, 2069. The Lease does not contain any right on the part of Tenant to renew or otherwise extend the term.

2. **Rental:** The primary components of rent under the Lease are Base Rent, payments in lieu of real estate taxes (“PILOT”), Civic Facilities Payments, Percentage Rent, and Transaction Payments. The following is a description of each such component of rent:

3. **Base Rent:** The Lease obligates Tenant to pay, in the manner hereinafter defined, beginning upon the Commencement Date, and continuing thereafter throughout the term to the Landlord, without notice or demand, the sums hereinafter described:

(i) **First Period:** For each of the first twenty five, twelve month periods (“First Period”) beginning on the earlier of the January 1st or July 1st first following the Commencement Date, and each succeeding twelve month period or portion thereof during the Term to, but not including the First Appraisal Date, as hereinafter defined, and following the First Appraisal Date, the twelve month period beginning on such date and each succeeding twelve month period or portion thereof during the Term (“Lease Year”), an amount equal to the amount which is the difference between (x) the Aggregate Rent as herein listed for such Lease Year less (y) PILOT payable for such Lease Year pursuant to the Lease, it being understood that, provided PILOT does not exceed the Aggregate Rent, the sum of Base Rent plus PILOT for the first twenty-five Lease Years shall be the Aggregate Rent as follows: (i) Year 1 at \$240,000.00; Year 2 at \$420,000.00; Year 3 at \$540,000.00; Year 4 at \$741,900.00; Year 5 at \$755,723.00; Year 6 at \$769,806.00; Year 7 at \$784,153.00; Year 8 at \$798,770.00; Year 9 at \$813,662.00; Year 10 at \$828,833.00; Year 11 at \$844,290.00; Year 12 at \$860,038.00; Year 13 at \$876,082.00; Year 14 at \$892,427.00; Year 15 at \$909,080.00; Year 16 at \$1,640,838.00; Year 17 at 1,677,772.00; Year 18 at \$2,470,182.00; Year 19 at \$2,529,578.00; Year 20 at \$3,387,069.00; Year 21 at \$3,471,287.00; Year 22 at \$4,398,585.00; Year 23 at \$4,510,174.00; Year 24 at \$5,512,330.00; and Year 25 at \$5,654,042.00.

(ii) **Second Period:** For each Lease Year commencing on August 19, 2029 (“First Appraisal Date”), and continuing for a period of fifteen Lease Years thereafter (“Second Period”), an amount per annum equal to (x) the Base Floor Rent, as defined below, as determined on the First Appraisal Date which is the first day of the Second Period, equal to the greater of 6% of the fair market value of the Land, determined in accordance with the Lease, considered as unencumbered by the Lease and the Master Lease and as unimproved, except for Landlord’s Civic Facilities and other site improvements made by Landlord, or the Base Rent payable in the Lease Year immediately prior to the period for which such Base Rent Floor was determined (“Base Floor Rent”). Base Rent for the Second Period shall escalate on August 19, 2049 and again August 19, 2054 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period. Base Rent for the Second Period shall escalate on January 1, 2034 and again January 1, 2039 by the greater of (x) 15% of the Base Rent set for the prior five Lease Years or

(y) the percentage of increase, of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

(iii) Third Period: For each Lease Year commencing on August 19, 2044 and continuing for a period of fifteen (15) Lease Years thereafter (“Third Period”) an amount per annum equal to the Base Rent Floor as determined on the first day of the Third Period, as escalated on January 1, 2049 and again January 1, 2054 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

(iv) Fourth Period: For each Lease Year commencing on August 19, 2059 continuing thereafter until the Expiration Date (“Fourth Period”) an amount per annum equal to the Base Rent Floor as determined as of the first day of the Fourth Period, as escalated on August 19, 2064 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

The Base Rent shall be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term.

4. ***PILOT:*** For each tax year or portion thereof within the Term, Tenant shall pay to the Landlord, without notice or demand, an annual sum (“PILOT”). For each Tax Year or portion thereof during the First Period, PILOT shall equal the greater of (x) actual Taxes for such Tax Year, irrespective of whether same shall exceed the Aggregate Rent set forth above or (y) the Minimum PILOT set forth as follows: (i) Year 1 at \$90,000.00; Year 2 at \$270,000.00; Year 3 at \$280,000.00; Year 4 at \$290,000.00; Year 5 at \$294,785.00; Year 6 at \$299,649.00; Year 7 at \$304,593.00; Year 8 at \$309,619.00; Year 9 at \$314,728.00; Year 10 at \$319,921.00; Year 11 at \$325,199.00; Year 12 at \$330,565.00; Year 13 at \$336,019.00; Year 14 at \$341,564.00; Year 15 at \$347,200.00; Year 16 at \$1,067,720.00; Year 17 at \$1,093,191.00; Year 18 at \$1,873,910.00; Year 19 at \$1,921,380.00; Year 20 at \$2,766,707.00; Year 21 at \$2,838,517.00; Year 22 at \$3,753,161.00; Year 23 at \$3,851,841.00; Year 24 at \$4,840,830.00; and Year 25 at \$4,969,112.00, payable in equal semi-annual installments during such Tax Year; and (ii) for each Tax Year or portion thereof occurring after the First Period, PILOT shall equal actual Taxes for such Tax Year, in each case payable, in advance, on the first day of each of January and July; and (iii) PILOT for the period from the Commencement Date until the first day of the first Lease Year shall be the greater of (x) Minimum PILOT payable for the first Lease Year as set forth above, and (y) actual Taxes for the Tax Year during which such period occurs, apportioned for such period.

5. ***Civic Facilities Payment:*** As its allocable share of the cost of operating and maintaining certain Civic Facilities as described in the Lease as the North Neighborhood Residential Parks, the North Neighborhood Esplanade, the Vesey Street Area, the Murray Street Triangle, the Median Parks and any other parks or open spaces within or adjacent to the North Residential Neighborhood (“Operating Costs”), Tenant, for each Lease Year, or portion thereof, shall pay to the Landlord commencing on the date on which a temporary

Certificate of Occupancy shall be issued for any dwelling unit in the Building ("Initial Occupancy Date") and ending on the last day of the Term an annual sum ("Civic Facilities Payment") as follows:

- (i) For the period commencing on the Initial Occupancy Date and for each of the next two full Lease Years an annual amount equal to the sum of (1) the product obtained by multiplying the number of residential units in the Building by \$300.00 dollars and (2) the product derived by multiplying \$.30 by the gross square feet of non-residential floor area, but excluding therefrom the common areas described in the Lease, in the Building;
- (ii) For each of the next three Lease Years an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$350.00 dollars and (B) the product derived by multiplying \$.35 by the gross square feet of non-residential floor area, but excluding therefrom the common areas, the space occupied by Landlord, but including any garage, described in the Lease, in the Building;
- (iii) For the next succeeding Lease Year and for each Lease Year thereafter with respect to the North Neighborhood Residential Parks, an amount equal to the product of (A) the North Neighborhood Residential Parks Budget as defined below, less any portion thereof attributable to the Open Space, as defined in the Lease, multiplied by (B) .07104; and for the period referred to in the preceding clause, with respect to the North Neighborhood Esplanade, an amount equal to the product of (A) the North Neighborhood Esplanade Budget, defined below, multiplied by (B) .07104, except that Landlord, at its sole option and at any time, may establish as an alternative method for determining such allocable share of the Operating Costs and the amount of the Civic Facilities Payment that Tenant would pay as its share, an amount equal to the product of (x) the sum of the Parks Budget, as hereinafter defined and the Residential Esplanade Budget, less amounts payable toward such Budgets by other tenants of Landlord in the Project Area under leases which were originally entered into prior to January 1, 1988, multiplied by (y) .04994. Notwithstanding the provisions of the foregoing clause (iii), the amount of tenant's Civic Facilities Payment for any Lease Year referred to in the Lease shall not be greater than one hundred twenty-five percent of Tenant's Civic Facilities Payment for the prior Lease Year and the amount of capital costs included in Operating Costs for any year shall not exceed ten percent of the Operating Costs for such year; and
- (iv) For each Lease Year commencing with the Lease Year referred to in item (iii) above, Landlord shall submit to Tenant (i) an estimate of Operating Costs for the North Neighborhood Residential Parks, for such Payment Period ("North Neighborhood Residential Parks Budget"), and (ii) an estimate of the Operating Costs for the North Neighborhood Esplanade for such Payment Period ("Civic Facilities Budget") and (iii) an estimate of the Operating Costs for the Residential Esplanade ("Residential Esplanade Budget").

The North Neighborhood Residential Parks budget shall be an amount computed by multiplying (A) the estimated Operating Cost of all parks in or adjacent to the Project

Area other than parks situated in the area described in the Lease and defined as the “Residential Parks,” by (B) a fraction, the numerator of which shall be the number of square feet in the North Neighborhood Residential Parks and the denominator of which shall be the total number of square feet in all Residential Parks. The North Neighborhood Esplanade Budget is defined as an amount computed by multiplying (A) the estimated Operating Costs of the entire Esplanade in the Project Area as defined in the Lease, by (B) a fraction, the numerator of which is the number of linear feet of the North Neighborhood Esplanade and the denominator of which is the total number of linear feet of the Residential Esplanade. Tenant shall pay to Landlord the Civic Facilities Payment due in respect of each such Payment Period in equal monthly installments payable in advance on the first day of each month.

6. ***Percentage Rent:*** For the period commencing on the date Tenant shall first collect any Gross Non-Residential Revenue (the “Percentage Rent Commencement Date”), which Gross Non-Residential Revenue includes, but is not limited to all revenue received by Tenant or an Affiliate of Tenant from, in connection with, or arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, and which Gross Non-Residential Revenue is more particularly defined in the Lease, and ending on December 31 of the calendar year in which the Percentage Rent Commencement Date occurs, and for each calendar year thereafter during the term, Tenant shall pay to Landlord an amount equal to 3% of the Gross Non-Residential Revenue during each such calendar year or portion thereof (“Percentage Rent”). Percentage Rent shall be computed quarterly, in the manner specified in the Lease, and within thirty days after the end of each calendar quarter Tenant shall submit in reasonable detail the Gross Non-Residential Revenue from the prior quarter and based upon said submission pay Landlord 2% of the Gross Non-Residential Revenue as a partial payment. Tenant shall deliver to Landlord as soon as is practicable after the end of each calendar year, but not later than 120 days after the end of such calendar year, a separate statement for such year showing the Gross Non-Residential Revenue, together with the Percentage Rent due for such year. In the event of an underpayment of the Percentage Rent for the period, Tenant shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

In the event Tenant’s leasehold estate in the Premises shall be submitted to a condominium for of ownership, then “Tenant” shall be deemed to mean the unit owner of each commercial unit of such condominium, it being the agreement of Landlord and Tenant that each such unit owner shall pay Percentage Rent directly to Landlord and that Landlord may pursue any rights granted to Landlord hereunder directly against each such unit owner.

7. ***Transaction Payments:*** In the event Tenant shall submit Tenant’s Leasehold estate in the Premises to either a cooperative or condominium form of ownership in accordance with this Lease, Tenant shall pay to Landlord, upon transfer of each Cooperative Apartment or Unit to a bona fide purchaser (“Transaction Payment”), a payment in an amount equal to one percent of the Gross Sales Price of such Apartment or Unit. To secure Tenant’s obligation to make the Transaction Payment, Tenant shall deliver to Landlord such Security as shall be reasonably satisfactory to Landlord to secure Tenant’s obligations for the payment of Transaction Payments.

8. ***Insurance:*** Tenant shall, after Substantial Completion of the Building, and thereafter for the full Term of the Lease, keep in full force and effect (i) an All Risk of Physical Loss policy of insurance, including without limitation loss or damage by water, flood, subsidence and earthquake, on an Agreed Amount basis with full replacement cost; as such shall be determined from time to time, but not less frequently than required by the insurer and in any event at least once every three (3) years. In the event Tenant's leasehold estate shall be submitted to condominium ownership, however, then such replacement cost determination shall be made annually. All policies shall name the Tenant as the insured, the Landlord, and Master Landlord as additional insureds' to the extent, where applicable, of their respective insurable interests in the Premises, and shall be primary with respect to any other coverage which Landlord and Master Landlord may obtain as additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee endorsement, provided that such Mortgagee irrevocably agrees in writing for the benefit of Landlord that all proceeds of such insurance shall be applied in accordance with the Lease. Mortgagee may be named as an additional insured policies in accordance with the provisions of the Lease: All Rent Insurance shall be for the benefit of Landlord and Tenant, but the proceeds, if in excess of one million dollars shall be paid to Depository to be applied to Rental Payments until such Restoration by Tenant is completed. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of one million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee, as their interests may appear.

9. ***Restoration:*** If all or any part of the Building as defined in the Lease, shall be destroyed or damaged in whole or in part by fire or other casualty Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, restore the Building. Except as hereinafter set forth, Tenant shall restore the premises in the event all or any part of the premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the premises existing immediately prior to such occurrence, and if such casualty occurs within the first ten years of the Term, then restoration shall be performed in accordance with the Construction Documents as defined in the Lease. If any loss, damage or destruction occurs, and the cost of restoration of which equals or exceeds \$1,000,000. (as adjusted), Tenant shall furnish to the Landlord complete plans and specifications for such restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to the Landlord for the cost of restoration exceeding such amount, and required insurance policies. Notwithstanding anything in the Lease to the contrary, to the extent that any portion of the restoration involves work on the exterior of the building or a change in the height, bulk or setback of the building, Tenant shall furnish to the Landlord a complete set of plans and specifications for the restoration. . The Lease shall not terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total substantial or partial destruction of, the Building by reason of the untenantability of the same for, or due to, any reason or cause whatsoever, and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the Building had not been damaged or destroyed without abatement, suspension, or diminution of any kind.

If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligations under Article 8 of the Lease shall be the obligation of the Condominium.

10. ***Condemnation:*** If the whole or substantially all of the premises shall be taken, excluding a taking of the fee interest in the Premises, or any leasehold interest superior to that of the Tenant's, if after such taking Tenant's rights under this Lease are not affected, for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Landlord, Tenant and those authorized to exercise such right, this Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: (i) first to the Landlord for or attributable to the value of the Land so taken, considered as encumbered by the Lease and the Master Lease and as unimproved, and the Landlord's Civic Facilities and other site improvements made by Landlord taken in any proceeding with respect to such taking; (ii) next to the mortgagee which holds a first lien on Tenant's interest in the Lease under a Single Asset Mortgage or to Unit Mortgagees under Single Asset Unit Mortgages constituting first liens against the mortgaged Units, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Single Asset Mortgage or Single Asset Unit Mortgage with interest thereon at the rate specified therein to the date of payment; (iii) for a period of forty years from the Scheduled Completion Date, there shall next be paid to each additional Mortgagee under a Single Asset Mortgage, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by its Single Asset Mortgage with interest thereon at the rate specified therein to the date of payment; (iv) next to Landlord so much of the award which is for or attributable to the value of Landlord's reversionary interest in that part of the Building taken in such proceeding, it being understood that for the period of forty years from the Scheduled Completion Date the value of Landlord's reversionary interest shall be zero; and (v) subject to the rights of any Mortgagees or Unit Mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to restore any remaining part of the building. The entire award for or attributable to the Land taken and the fair market value of the Landlord's Civic Facilities shall be first paid to the Landlord, and the balance, if any, shall be paid to Depository, except that if such balance shall be less than \$1,000,000 (as adjusted in accordance with the Lease), such balance shall be payable, in trust, to Tenant for application to the cost of restoration.

If the temporary use of the whole or any part of the premises shall be taken, the term shall not be reduced or affected in any way and Tenant shall continue to pay in full the Rental, and Tenant shall be entitled to receive for itself any award or payments for such use, in accordance with the provisions of Section 9.5(i)(ii) of the Lease.

Landlord, Tenant and any Mortgagee shall be entitled to file a claim and otherwise participate in any condemnation or similar proceedings. Landlord represents that under current law it has no power to condemn all or any part of the Premises; furthermore,

11. ***Assignment, Subletting:*** Except as otherwise provided, prior to Substantial Completion of the Building, or at any time after Substantial Completion of the Building that

the conditions set forth in Section 10.01(b) of the Lease are not satisfied, neither the Lease nor any interest of Tenant in the Lease shall be sold, assigned, or otherwise transferred, whether by operation of law or otherwise, including without limitation an assignment to an Apartment Corporation in connection with a Cooperative Plan or partial assignment in connection with Tenant's submission of its leasehold estate in the Premises to a condominium form of ownership, but excluding transfers of individual condominium units following the submission by Tenant of its leasehold estate in the Premises to a condominium form of ownership pursuant to Article 41 and Exhibit F (Provisions Regarding the Conversion To Condominium Form of Ownership), of the Lease, or (ii) in connection with the issuance or transfer of proprietary leases following the submission of Tenant of its leasehold estate in the Premises to an Apartment Corporation in connection with a Cooperative Plan nor shall any of the issued or outstanding capital stock of any corporation, any membership interest in any limited liability company any partnership interest in any partnership or any equity interest in any Person, in each case, which is Tenant or owns a direct or indirect interest in Tenant be sold assigned, transferred pledged or encumbered, whether by operation of law or otherwise, if such would result in a change of the Controlling membership ownership of Tenant as held by the members thereof as of the Commencement Date, or there be any change in the right to direct the management of any Person that is Tenant or owns a direct or indirect interest in Tenant, nor shall Tenant sublet the Premises as an entirety or substantially as an entirety, without the consent of Landlord in each case. Notwithstanding the foregoing, prior to Substantial Completion of the Building Landlord's consent shall not be required with respect to any Transfer that satisfies the conditions as set forth in Section 10.01(a) of the Lease.

From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to any transfer, assignment, or subletting of the Premises provided no Default as to which notice shall have been given shall have occurred and then be continuing, and Tenant has complied with the requirements under Article 10 of the Lease. Landlord's consent shall not be required in the event Tenant assigns its interest in this Lease to the Apartment Corporation pursuant to a Cooperative Plan, provided no Default then exists and is continuing; however, Tenant shall not, at any time during the Term, assign its interest in the Lease in whole or in part pursuant to any plan to submit Tenant's leasehold estate in the Premises to condominium ownership except pursuant to the provisions of Article 41 and Exhibit F of the Lease.

Tenant may, without Landlord's consent, but subject to the provisions of last sentence of Section 10.01(c) enter into agreements for the rental of residential and non-residential space in the Building or the occupancy of such space for periods shorter than or equal to the remainder of the Term at the time of such agreements ("Subleases"). Each residential Sublease shall obligate the Subtenant pursuant thereto to occupy and use the premises included therein for residential purposes only. After an Event of Default by Tenant, Landlord may, subject to the rights of any Mortgagee which is an Institutional Lender, collect subrent and all other sums due under Subleases and apply the net amount collected to Rental, but no such collection shall be deemed to be a waiver of any agreement, term, covenant or condition under the Lease. Tenant sets over to Landlord all of Tenant's right title and interest in and to all Subleases, subject to the rights of any qualifying Mortgagee in accordance with the Lease. All Subleases shall provide that they are subject to the Lease and to the Master Lease, and at Landlord's option on the termination of the Lease; the Subtenants will attorn to or enter into a direct lease with Landlord. With respect to certain Subleases, the Landlord and a Subtenant shall execute an agreement wherein the

Landlord agrees to recognize such Subtenant as a direct Tenant of Landlord under its Sublease upon termination of the Lease.

12. ***Mortgage:*** Tenant shall have the right to mortgage Tenant's interest in this Lease to a Mortgagee, and shall give Landlord prompt notice of such mortgage, and the Landlord shall give to such mortgagee a copy of each notice of default and such Mortgagee may remedy the default and Landlord shall accept performance with the same force and effect as though performed by Tenant. Except as provided in Section 10.10(b) of the Lease, no Mortgagee shall become liable under the provisions of this Lease unless and until such time as it becomes and remains, the owner of the leasehold estate created hereby. Landlord shall not be obligated to execute and deliver a new lease of the Premises pursuant to Section 10.11(a) at any time which is more than twenty-one years after the death of the last to die of the parties so named in Section 10.11(e) of the Lease. The provisions of Section 10.10 and 10.11 shall be of no further force and effect in the event Tenant shall have subjected Tenant's leasehold interest in the Premises to a condominium form of ownership. In the case of termination of the Lease upon default, Landlord shall give notice thereof to each Mortgagee and on written request shall promptly execute and deliver a new lease of the premises covered by the mortgage, to the Mortgagee, for the remainder of the Term, provided that such Mortgagee shall pay all rental due and all expenses incurred by the Landlord and cure all defaults. The Landlord shall assign to the tenant all of its right, title and interest in and to moneys then held by or payable to the Landlord or Depository which Tenant would have been entitled. If there is more than one mortgage, the Landlord shall only recognize the Mortgagee whose mortgage is most senior in lien and which has requested a new lease of the premises.

13. ***Repairs:*** Tenant shall, unless otherwise provided, at its sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the premises and shall put, keep and maintain the building in good and safe order and condition, and make all repairs to keep the same in good and safe order and condition. Tenant shall not commit or suffer, and shall use all reasonable precaution to prevent, waste, damage or injury to the premises. Tenant assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the premises. All repairs made by Tenant shall be at least equal in quality and class to the original work and shall be made in compliance with all governmental authorities as defined in Section 12.01 of the Lease. Should the Premises be submitted to the condominium form of ownership, in accordance with the Lease, the Condominium Board shall assume the obligations under Section 12.01 of the Lease.

14. ***Compliance with Requirements:*** Tenant promptly must comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the premises and shall have the right to contest the validity of any such requirements or the application thereof in accordance with the provisions of the Lease.

15. ***Capital Improvements:*** Tenant shall not demolish, replace or materially alter the building, or make any addition thereto, unless Tenant has procured from all governmental authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the premises; the improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and

Tenant has delivered to Landlord original insurance policies acceptable to Landlord. If the estimated cost of any proposed capital improvement exceeds \$500,000 (as adjusted), Tenant shall pay the fees and expenses of any architect or engineer selected by the Landlord and furnish: complete plans and specifications; a contract or construction management agreement; payment and performance bonds or other security. To the extent that any portion of the capital improvement involves work which affects the structural elements of the building or work involving the exterior or a change in the height, bulk or setback of the building, Tenant shall furnish to the Landlord complete plans and specifications and any other item at the Landlord's request. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in Landlord, without any obligation by Landlord to pay any compensation therefor to Tenant.

16. ***Equipment:*** All equipment shall be and shall remain the property of the Landlord. Tenant shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of Landlord, which consent shall not be unreasonably withheld.

17. ***Discharge of Liens:*** Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the premises and shall not suffer any other matter or thing whereby the estate, right and interest of the Landlord in the premises might be impaired. Tenant may finance any Equipment. If any lien at any time shall be filed against the premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

18. ***Landlord's Right to Perform:*** If Tenant at any time shall be in default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may (but shall be under no obligation to) perform such obligation on Tenant's behalf.

19. ***Events of Default:*** The Lease provides that if certain defaults shall occur, the Landlord shall have the right to terminate the Lease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. The following events shall be Events of Default under the Lease: (a) failure of Tenant to pay any item of Rental for 10 days after notice from the Landlord to Tenant; (b) failure by Tenant to observe or perform one or more of the terms, conditions, covenants or agreements contained in this Lease which failure continues for a period of 30 days after notice thereof by Landlord; (c) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days and (d) assignment of the Lease, sublease, or transfer of certain interests in Tenant, without the Landlord's approval to the extent required which transaction has not been made to comply or voided ab initio within 30 days after notice thereof from Landlord; (e) to the extent permitted by law, if Tenant shall admit, in writing, that it is unable to pay its debts as such become due, or if Tenant should make an assignment for the benefit of creditors. As previously stated, the Lease grants a mortgagee certain rights intended to provide protection in the event of a default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly. In the event the Lease shall terminate due to an Event of Default and in accordance with the provisions of the Lease, then Tenant, Tenant as debtor-in-

possession and/or Trustee shall immediately quit and surrender the Premises. No termination of this Lease pursuant to Section 24.03(a) or taking possession of or re-letting the Premises or any part thereof, pursuant to Sections 24.03(b) or 24.04(b) of the Lease shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or re-letting. Tenant shall pay to Landlord all costs and expenses, including, without limitation, reasonable attorney's fees and disbursements, incurred by Landlord in any action or proceeding to which Landlord may be made a party by reason of any act or omission of Tenant, and Tenant shall pay to Landlord all costs and expenses, incurred by Landlord in enforcing any of the covenants and provisions of this Lease and incurred in any action brought by Landlord against Tenant on account of the provisions thereof.

20. **Civic Facilities:** The Landlord has the obligation to construct certain enumerated Civic Facilities. Tenant acknowledges that other than those certain facilities enumerated in Article 26 of the Lease, Landlord has completed the Civic Facilities improvements. Tenant has the obligation to maintain certain of the enumerated Civic Facilities, and Landlord the obligation to maintain the balance of the enumerated Civic Facilities. In the event Landlord fails to so maintain the enumerated civic facilities in accordance with the Lease Tenant shall have the right but not the obligation to undertake Landlord's Maintenance Obligations as defined in the Lease ("Self-Help"). In the event Tenant undertakes Self-Help, then Tenant shall have the right to offset against the next installment of Civic Facilities Payments an amount equal to the reasonable expenses thereby incurred or paid by Tenant together with interest thereon at the Involuntary Rate computed with respect to each payment made by Tenant. Landlord shall incur no penalty or liability, and Tenant shall have no remedies or rights other than as expressly provided in the Lease, it being agreed by the parties that Landlord's failure to perform Landlord's Maintenance Obligations shall not be deemed a failure by Landlord to perform a substantial obligation on Landlord's part to be performed under the Lease.

21. **No Subordination:** The Landlord's interest in this Lease shall not be subject or subordinate to any mortgage now or hereafter placed upon Tenant's interest in this Lease or any other liens or encumbrances hereafter affecting Tenant's interest in this Lease, including without limitation any Unit Mortgage, or any other liens or encumbrances hereafter affecting Tenant's interest in the Lease including without limitation a lien filed pursuant to Section 339-z and 339-aa of the Real Property Law. Master Landlord and Tenant executed that certain Master Landlord Non-Disturbance and Recognition Agreement which shall be in the form exhibited to the Lease, and which is binding on Master Landlord's successors and assigns and benefits Tenant's successors and assigns, and provides that if the master Lease is terminated then Landlord will recognize Tenant under the Lease and Tenant will attorn to Landlord and will recognize such holder as Tenant's landlord under the Lease.

22. **Condominium Ownership:** The Landlord permitted the submission of Tenant's leasehold estate in the premises under the Lease to the condominium form of ownership pursuant to the Condominium Act and the terms and provisions of Exhibit F of the Lease. The Lease shall, after the condominium Date, remain in full force and effect, provided that to the extent that after the Condominium Date any of the provisions of Exhibit F of the Lease conflict with other Lease provisions, the terms of Exhibit F shall prevail.

23. ***Limitations on Landlord's Liability:*** The liability of Landlord, as set forth in the Lease, shall be limited to Landlord's interest in the Premises, including the rents and profits therefrom, the proceeds of any insurance policies covering the relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof and any other rights, privileges, or other interests appurtenant to the Premises. Neither Landlord nor any such Person nor any of the members, directors, officers, employees, agents or servants of either shall have nay liability hereunder beyond Landlord's interest in the Premises, including, without limitation, the rents and profits therefrom and such other proceeds and awards as set forth in the Lease appurtenant to the Premises, and no other property or asset of Landlord or any such Person shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

24. ***Tenant's Liability:*** Except as to Recourse Claims as defined in the Lease, the liability of Tenant shall be limited to Tenant's interest in the Premises, including without limitation, the rents and profits from the Premises, the proceeds of any insurance policies covering or relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof, any security provided hereunder and amount deposited hereunder with Landlord, Depository or a Mortgagee, or other interest or sums appurtenant to the Premises. Except as to Recourse Claims, Tenant shall have no liability hereunder beyond Tenant's interest in the Premises, and no other property or asset of Tenant shall be subject to levy, execution or other enforcement procedure for the satisfaction of Landlord's remedies hereunder.

25. ***Subsurface Vaults:*** The Tenant has Leased from Landlord the "East Subsurface Vault" and the "West Subsurface Vault," both as more particularly described in the Lease (the East Subsurface Vault and the West Subsurface Vault hereinafter collectively the "Subsurface Vaults"). The Subsurface Vaults are included in the Premises and demised to Tenant. All of Tenant's rights and obligations under the Lease apply with respect to the Subsurface Vaults. Tenant has, by virtue of a certain revocable license granted to Tenant by Landlord under the Lease, the right to use and occupy that certain Licensed Subsurface Vault as more particularly defined in the Lease. Tenant's rights with respect to the Licensed Subsurface Vaults is limited solely to the privilege to use and occupy same for the term granted under the Lease as a revocable license upon the terms and conditions so stipulated in the Lease only.

SUBLEASE FOR SITE 16/17

The following is a description of the major provisions of the Lease between Battery Park City Authority, as landlord ("Authority" and/or "Landlord"), and Site 16/17 Development, LLC, as tenant ("Tenant"), made as of March 31, 2005, for Parcel 16/17. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of its provisions.

1. ***Term:*** The term of the Lease commenced on December 29, 2005 ("Commencement Date"), and expires, unless sooner terminated, on June 17, 2069. The Lease does not contain any right on the part of Tenant to renew or otherwise extend the term.

2. **Rental:** The primary components of rent under the Lease are the Upfront Lease Payment, Base Rent, payments in lieu of real estate taxes (“PILOT”), Civic Facilities Payments, Percentage Rent, and Transaction Payments. The following is a description of each such component of rent:

(a) **Upfront Lease Payment:** Upon the Commencement Date, Tenant is obligated to pay an Upfront Lease Payment in the amount of sixty million dollars (\$60,000,000.) which payment is fully earned and non-refundable under any circumstances.

(b) **Base Rent:** The Lease obligates Tenant to pay, in the manner hereinafter defined, beginning upon the Commencement Date, and continuing thereafter throughout the term to the Landlord, without notice or demand, the sums hereinafter described:

(i) **First Period:** For each of the first twenty five, twelve month periods (“First Period”) beginning on the earlier of the January 1st or July 1st first following the Commencement Date, and each succeeding twelve month period or portion thereof during the Term to, but not including the First Appraisal Date, as hereinafter defined, and following the First Appraisal Date, the twelve month period beginning on such date and each succeeding twelve month period or portion thereof during the Term (“Lease Year”), the amounts as follows: (i) Year 1 at \$1,100,000.00; Year 2 at \$1,155,000.00; Year 3 at \$1,212,750.00; Year 4 at \$1,273,388.00; Year 5 at \$1,337,057.00; Year 6 at \$1,403,910.00; Year 7 at \$1,474,105.00; Year 8 at \$1,547,810.00; Year 9 at \$1,625,201.00; Year 10 at \$1,706,461.00; Year 11 at \$1,791,784.00; Year 12 at \$1,881,373.00; Year 13 at \$1,975,442.00; Year 14 at \$2,074,214.00; Year 15 at \$2,177,925.00; Year 16 at \$2,286,821.00; Year 17 at \$2,401,162.00; Year 18 at \$2,521,220.00; Year 19 at \$2,647,281.00; Year 20 at \$2,779,645.00; Year 21 at \$2,918,627.00; Year 22 at \$3,064,559.00; Year 23 at \$3,217,787.00; Year 24 at \$3,378,676.00; and Year 25 at \$3,547,610.00.

(ii) **Second Period:** For each Lease Year commencing on December 29, 2030 (“First Appraisal Date”), and continuing for a period of fifteen Lease Years thereafter (“Second Period”), an amount per annum equal to the Base Rent Floor , as defined below, as determined on the First Appraisal Date which is the first day of the Second Period, equal to the greater of 6% of the fair market value of the Land, determined in accordance with the Lease, considered as unencumbered by the Lease and the Master Lease and as unimproved, except for Landlord’s Civic Facilities and other site improvements made by Landlord, or the Base Rent payable in the Lease Year immediately prior to the period for which such Base Rent Floor was determined (“Base Rent Floor “). Base Rent for the Second Period shall escalate on December 29, 2035 and again December 29, 2040 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period. (i.e. December, 2030 and again December, 2035).

(iii) **Third Period:** For each Lease Year commencing on December 29, 2045 and continuing for a period of fifteen (15) Lease Years thereafter (“Third Period”) an amount per annum equal to the Base Rent Floor as determined on the first day of the

Third Period, as escalated on December 29, 2050 and again December 29, 2055 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period (i.e. December, 2045 and again December, 2050).

(iv) **Fourth Period:** For each Lease Year commencing on December 29, 2060 and continuing thereafter until the Expiration Date (“Fourth Period”) an amount per annum equal to the Base Rent Floor as determined as of the first day of the Fourth Period, as escalated on December 29, 2065 and again December 29, 2070 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period (i.e. December, 2060 and again December, 2065).

The Base Rent shall be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term.

(c) ***PILOT:*** For each tax year or portion thereof within the Term, Tenant shall pay to the Landlord, without notice or demand, an annual sum (“PILOT”). For each Tax Year or portion thereof during the First Period, PILOT shall equal the greater of (x) actual Taxes for such Tax Year, or (y) the Minimum PILOT set forth as follows: (i) Year 1 at \$4,279,066; Year 2 at \$4,407,438; Year 3 at \$4,539,661; Year 4 at \$4,675,851; Year 5 at \$4,816,126; Year 6 at \$4,960,610; Year 7 at \$5,109,429; Year 8 at \$5,262,711; Year 9 at \$5,420,593; Year 10 at \$5,583,211; Year 11 at \$5,750,707; Year 12 at \$5,923,228; Year 13 at \$6,100,925; Year 14 at \$6,283,953; Year 15 at \$6,472,471; Year 16 at \$6,666,645; Year 17 at \$6,866,645; Year 18 at \$7,072,644; Year 19 at \$7,284,823; Year 20 at \$7,503,368; Year 21 at \$7,728,469; Year 22 at \$7,960,323; Year 23 at \$8,199,133; Year 24 at \$8,445,107; and Year 25 at \$8,698,460, payable in equal semi-annual installments during such Tax Year; and (ii) for each Tax Year or portion thereof occurring after the First Period, PILOT shall equal actual Taxes for such Tax Year, in each case payable, in advance, on the first day of each of January and July; and (iii) PILOT for the period from the Commencement Date until the first day of the first Lease Year shall be the greater of (x) Minimum PILOT payable for the first Lease Year as set forth above, and (y) actual Taxes for the Tax Year during which such period occurs, apportioned for such period.

(d) ***Civic Facilities Payment:*** As its allocable share of the cost of operating and maintaining certain Civic Facilities including curbs, street trees, open spaces and parks as described in the Lease, Tenant, for each Lease Year, or portion thereof, shall pay to the Landlord commencing on the date on which a temporary Certificate of Occupancy shall be issued for any dwelling unit in the Building (“Initial Occupancy Date”) and ending on the last day of the Term an annual sum (“Civic Facilities Payment”) as follows:

(i) For the period commencing on the Initial Occupancy Date and ending on the last day of the Lease Year in which the Initial Occupancy Date occurs (“First CFP Period”) an amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$500.00 dollars and (B) the product

derived by multiplying \$.50 by the gross square feet of non-residential floor area, but excluding therefrom the common areas described in the Lease, in the Building (ii) by a fraction the numerator of which shall be the number of days between the Initial Occupancy Date occurs and the denominator of which is three hundred sixty five (365);

(ii) For each of the next two Lease Years succeeding the First CFP period (“Second CFP Period”), an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$500.00 dollars and (B) the product derived by multiplying \$.50 by the gross square feet of non-residential floor area, but excluding therefrom the common areas, the space occupied by Landlord, but including any garage, described in the Lease, in the Building;

(iii) For each of the next three Lease Years succeeding the Second CFP Period (“Third CFP Period”), an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$550.00 dollars and (B) the product derived by multiplying \$.55 by the gross square feet of non-residential floor area, but excluding therefrom the common areas, the space occupied by Landlord, but including any garage, described in the Lease, in the Building; and

(iv) For each succeeding Lease Year after the Third CFP Period, an amount equal to one hundred ten percent (110%) of the product of: (a) the Parks Budget¹ for each Lease Year or portion thereof (“Payment Period”), succeeding the Third CFP Period multiplied by (B) a fraction, the numerator of which shall be the maximum permissible number of Zoning Floor Area in all residential buildings including the Building, less amounts (x) payable toward such Parks Budget by other tenants of Landlord in the Project Area under leases entered into prior to the Commencement Date; and (y) computed on the basis of operating costs for a particular neighborhood within the Project Area rather than for Operating Costs for the entire Project Area; Landlord at its sole option, and at any time, may establish an alternative method of determining Tenant’s allocable share of the Operating Costs and the amount of the Civic Facilities Payment as may be equitable with respect to all tenants of landlord within the Project Area.

Notwithstanding the foregoing, the amount of Tenant’s Civic Facilities payment for any Lease Year referred to therein shall not be greater than one hundred twenty-five percent (125%) of Tenant’s Civic Facilities payment for the prior Lease Year and the amount of capital costs included in the Operating Costs shall not exceed ten percent (10%) of the Operating Costs for any one year.

Tenant shall pay to Landlord the Civic Facilities Payment due in respect of each such Payment Period in equal monthly installments payable in advance on the first day of each month that occurs within a Payment Period in equal monthly installments.

¹ Parks Budget being defined as an estimate of the cost of operating, maintaining, repairing, restoring, replacing and upgrading the Parks, any other parks and open spaces within or adjacent to the Project Area, the curbs, street trees and similar civic facilities or any part thereof, including the costs to create and maintain a reserve fund and of insuring the Civic Facilities, excluding therefrom certain enumerated areas as described in the Lease for each Payment Period or portion thereof.

(v) In the event that Landlord's Civic Facilities or portion thereof shall be destroyed by fire or other casualty, or taken by the exercise of the right of condemnation or eminent domain or similar proceeding, and the reasonable costs associated with the Restoration or reconstruction of all or any portion of the Landlord Civic Facilities exceed the proceeds of an award, proceeds of insurance and/or the Civic Facilities reserve fund established, then Tenant shall pay to Landlord an amount equal to the product obtained by multiplying such excess by (A) the Parks Budget³ for each Lease Year or portion thereof ("Payment Period"), succeeding the Third CFP Period multiplied by (B) a fraction, the numerator of which shall be the maximum permissible number of Zoning Floor Area in all residential buildings including the Building, less amounts (x) payable toward such Parks Budget by other tenants of Landlord in the Project Area under leases entered into prior to the Commencement Date; and (y) computed on the basis of operating costs for a particular neighborhood within the Project Area rather than for Operating Costs for the entire Project Area; reduced by the amount, if any, of sums payable by such other tenants;

(e) **Percentage Rent:** (i) For the period commencing on the date Tenant shall first collect any Gross Non-Residential Revenue², as hereinafter defined (the "Percentage Rent Commencement Date"), ending on December 31 of the calendar year in which the Percentage Rent Commencement Date occurs, and for each calendar year thereafter during the term, Tenant shall pay to Landlord an amount equal to 10% of the Gross Non-Residential Revenue during each such calendar year or portion thereof ("Percentage Rent"). Percentage Rent shall be computed quarterly, in the manner specified in the Lease, and within thirty days after the end of each calendar quarter Tenant shall submit in reasonable detail the Gross Non-Residential Revenue from the prior quarter and based upon said submission pay Landlord 10% of the Gross Non-Residential Revenue as a partial payment. Tenant shall deliver to Landlord as soon as is practicable after the end of each calendar year, but not later than 120 days after the end of such calendar year, a separate statement for such year showing the Gross Non-Residential Revenue, together with the Percentage Rent due for such year. In the event of an underpayment of the Percentage Rent for the period, Tenant shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

(ii) For the period commencing on the Percentage Rent Commencement Date and ending on December 31 of the calendar year in which the Percentage Rent

² Gross Non-Residential Revenue includes, but is not limited to all revenue received by Tenant or an Affiliate of Tenant from, in connection with, or arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, and which includes all revenue received by Tenant or an Affiliate of Tenant arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, including without limitation, base rent, fixed rent, percentage rent, additional rent, and all other income, sums and charges, whether payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, but such gross non-residential revenue shall not include certain sums enumerated in the Lease, and by way of example, include but are not limited to management fees, security deposits affecting non-residential space, payments by residential tenants of the Building for laundry, cleaning services, et seq., refinancing proceeds, transfers between Tenants and Affiliates of Tenants, sums paid to Tenant or an Affiliate of Tenant for movie and television filming rights, or the right to provide the Building with garbage collection or cable television services, et seq., sums received by Tenant or an Affiliate in payment for construction work beyond the building standard then performed by landlords for non-residential tenants in the Project Area generally, up to the fair market value of the work or services, and amounts otherwise included in computing gross non-residential revenue, but ultimately credited or refunded to Tenant or Tenant Affiliate to any Person, all of which are detailed with specificity in the Lease.

Commencement Date occurs, and for each calendar year or partial calendar year thereafter during the Term, Tenant shall pay to Landlord, an amount equal to one hundred percent (100%) of the Net Non-Residential Revenue³ collected by Tenant during such calendar year, or portion thereof. Tenant shall deliver to Landlord as soon as practicable after the end of each calendar year, but in no event later than one hundred twenty (120) days thereafter, a separate statement for such year showing the Net Non-Residential Revenue, together with the Net Non-Residential Rent due for such year. In the event of an underpayment of the Net Non-Residential Rent for the period, Tenant shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

In the event Tenant's leasehold estate in the Premises shall be submitted to a condominium form of ownership, then "Tenant" shall be deemed to mean the unit owner of each commercial unit of such condominium, including, without limitation the Café Space Unit Owner, it being the agreement of Landlord and Tenant that such unit owner, and/or Unit Owner of Café Space shall pay Net Non-Residential Rent directly to Landlord and that Landlord may pursue any rights granted to Landlord hereunder directly against such Unit Owner of the Café Space.

(f) ***Additional Payments:*** (i) **Transaction Payments.** In the event Tenant shall submit Tenant's Leasehold estate in the Premises to a condominium form of ownership in accordance with the Lease, Tenant shall pay to Landlord, upon transfer of each Unit to a bona fide purchaser ("Transaction Payment"), a payment in an amount equal to three percent (3%) of the all amounts received as consideration for the transfer of such Unit, including (A) all cash or cash equivalent proceeds; (B) the outstanding principal amount of any debt, and any interest accrued thereon, assumed by the purchaser in such sale or to which such sale is made subject; (C) the fair market value of any property received by or on behalf of Tenant as consideration; (D) the amount of any installments of the purchase price for such Unit payable subsequent to the closing of such sale, whether pursuant to a purchase money promissory note or otherwise; and (E) any other amounts received as consideration ("Gross Sales Price") of such Apartment or Unit. To secure its obligations under the Lease to pay the Transaction Payments, Tenant shall also deposit with Landlord an irrevocable letter of credit in favor of Landlord, in form and content acceptable Landlord, having a term of not less than one year, shall be in the initial amount of nine million seven hundred thousand two hundred dollars (\$9,700,200), subject to such approved reduction as provided in the Lease, and shall remain in effect through the final payment in full of the Transaction Payments.

(ii) **Additional Transaction Payments.** In the event the Gross Sales Prices from the initial sale of the residential Units, divided by the amount of the square footage of all

³ Net Non-Residential Revenue being the revenue attributable to the Café Space, comprised of approximately 1,400 square feet of space located on the ground floor of the easterly elevation of the Building, less the actual bona fide out-of-pocket operating expenses paid by Tenant to independent third parties, calculated consistently with GAAP, in connection with the Café Space during such period, but excluding: (i) debt service payable on any loan, including any loan secured by a Mortgage or Unit Mortgage; (ii) capital reserves; (iii) management fees in excess of 5% of Gross Non-Residential Revenue attributable to the Café Space; and (iv) capital expenditures, except such capital expenditures amortized over the then remaining term of any lease for the Café Space necessitated by the provisions of any lease for the Café Space and subject to Landlord approval. In the event any such operating expenses for the Building are partially attributable to the Café Space, the portion of such expenses allocable to the Café Space shall be in an amount equal to the product derived by multiplying such expenses by a fraction, the numerator of which is the gross square footage of the Café Space and the denominator of which is the gross square footage of the Building.

such residential Units (“Average Per Square Foot Gross Sales Price”) exceeds eight hundred seventy five dollars (\$875) per square foot, Tenant shall pay Landlord an amount (“Additional Transaction Payment”) on the earlier to occur of: (i) the transfer of the last residential Unit to a bona fide purchaser; and (ii) the fourth anniversary of the transfer of the first residential Unit to a bona fide purchaser (“Payment Date”), in an amount equal to twenty percent (20%) of the amount equal to the product of: (x) the amount by which the Average Per Square Foot Gross Sales Price exceeds eight hundred fifty dollars (\$850) per square foot; and (y) the aggregate square footage of all of the residential Units. If on the fourth anniversary of the transfer of the first residential Unit to a bona fide purchaser there remains any unsold residential Units, the Average Per Square Foot Gross Sales Price of all residential Units theretofore transferred to bona fide purchasers or then under contract to bona fide purchasers shall be utilized to determine the Additional Transaction Payment, but such payment shall be calculated as if all of the residential Units had heretofore been sold to bona fide purchasers. The square footage of a residential Unit shall be the square footage of such Unit as set forth in the Condominium Plan for purposes of calculating the Additional Transaction Payment. To secure the obligations to pay the Additional Transaction Payments, if any described above, Tenant shall deliver a Guaranty of Payment as described in the Lease, in the amounts, and upon the terms set forth in the Lease upon the Lease execution, and shall fund the escrow account, with an approved escrow agent, in the prescribed amounts, and upon the terms as contained in the Lease; such escrow deposits to be held in such escrow account and payable on the Payment Date in the manner prescribed in the Lease, if due.

(iii) Flip Tax Payments. Tenant shall pay to Landlord upon the transfer of each residential Unit after the initial transfer of such Unit an amount (“Flip Tax Payment”) equal to one percent (1%) of the Gross Sales Price of such Unit directly to Landlord. The Condominium Plan shall condition any such transfer of a residential Unit upon payment of the Transaction Payment, Flip Tax, and/or the Additional Transaction Payment Escrow Amount, if any, described above. If such payments are not paid when due, such transfer shall be null and void.

3. ***Insurance:*** Tenant shall, after Substantial Completion of the Building, and thereafter for the full Term of the Lease, keep in full force and effect (i) an All Risk of Physical Loss policy of insurance, including without limitation loss or damage by water, flood, subsidence and earthquake, on an Agreed Amount basis with full replacement cost; as such shall be determined from time to time, but not less frequently than required by the insurer and in any event at least once every three (3) years. In the event Tenant’s leasehold estate shall be submitted to condominium ownership, however, then such replacement cost determination shall be made annually; (ii) commercial general liability insurance against liability for bodily injury, death and property damage in an amount as may be reasonably required by Landlord upon thirty (30) days notice, but not less than twenty five million dollars combined single limit; and (iii) such other insurance enumerated in the Lease approved by Landlord, and such other insurance in such amounts as may be reasonably required by Landlord. All policies shall name the Tenant as the insured, the Landlord, and Master Landlord as additional insureds’ to the extent, where applicable, of their respective insurable interests in the Premises, and shall be primary with respect to any other coverage which Landlord and Master Landlord may obtain as additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee

endorsement, provided that such Mortgagee irrevocably agrees in writing for the benefit of Landlord that all proceeds of such insurance shall be applied in accordance with the Lease. All Rent Insurance shall be for the benefit of Landlord and Tenant, but the proceeds, if in excess of one million dollars shall be paid to Depository to be applied to Rental Payments until such Restoration by Tenant is completed. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of one million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee, as their interests may appear.

4. ***Restoration:*** If all or any part of the Building as defined in the Lease, shall be destroyed or damaged in whole or in part by fire or other casualty Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, Restore the Building. Except as hereinafter set forth, Tenant shall Restore the Premises in the event all or any part of the Premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the Premises existing immediately prior to such occurrence, and if such casualty occurs within ten years after the date the Building has been Substantially Completed, then Restoration shall be performed in accordance with the Construction Documents as defined in the Lease. If any loss, damage or destruction occurs, and the cost of Restoration of which equals or exceeds \$1,000,000 (as adjusted), Tenant shall furnish to the Landlord complete plans and specifications for such Restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to the Landlord for the cost of Restoration exceeding such amount, and required insurance policies. Notwithstanding anything in the Lease to the contrary, to the extent that any portion of the Restoration involves work on the exterior of the Building or a change in the height, bulk or setback of the Building, Tenant shall furnish to the Landlord a complete set of plans and specifications for the Restoration. The Lease shall not terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total substantial or partial destruction of, the Building by reason of the untenantability of the same for, or due to, any reason or cause whatsoever, and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the Premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the Building had not been damaged or destroyed without abatement, suspension, or diminution of any kind.

If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligations under Article 8 of the Lease shall be the obligation of the Condominium Board.

5. ***Condemnation:*** If the whole or substantially all of the Premises shall be taken, excluding a taking of the fee interest in the Premises, or any leasehold interest superior to that of the Tenant's, if after such taking Tenant's rights under the Lease are not affected, for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Landlord, Tenant and those authorized to exercise such right, the Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: (i) first to the Landlord for or attributable to the value of the Land so taken, considered as unencumbered by the Lease and the

Master Lease and as unimproved, and the Landlord's Civic Facilities and other site improvements made by Landlord taken in any proceeding with respect to such taking; (ii) next to the mortgagee which holds a first lien on Tenant's interest in the Lease under a Single Asset Mortgage or to Unit Mortgagees under Single Asset Unit Mortgages constituting first liens against the mortgaged Units, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Single Asset Mortgage or Single Asset Unit Mortgage with interest thereon at the rate specified therein to the date of payment; (iii) for a period of thirty years from the Scheduled Completion Date, there shall next be paid to each additional Mortgagee under a Single Asset Mortgage, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by its Single Asset Mortgage with interest thereon at the rate specified therein to the date of payment; (iv) next to Landlord so much of the award which is for or attributable to the value of Landlord's reversionary interest in that part of the Building taken in such proceeding, it being understood that for the period of thirty years from the Scheduled Completion Date the value of Landlord's reversionary interest shall be zero; and (v) subject to the rights of any Mortgagees or Unit Mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the Premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to Restore any remaining part of the Building. The entire award for or attributable to the Land taken and the fair market value of the Landlord's Civic Facilities shall be first paid to the Landlord, and the balance, if any, shall be paid to Depository, except that if such balance shall be less than \$1,000,000 (as adjusted in accordance with the Lease), such balance shall be payable, in trust, to Tenant for application to the cost of Restoration.

If the temporary use of the whole or any part of the Premises shall be taken, the Term shall not be reduced or affected in any way and Tenant shall continue to pay in full the Rental, and Tenant shall be entitled to receive for itself any award or payments for such use, in accordance with the provisions of Section 9.05(i) and (ii) of the Lease.

Landlord, Tenant and any Mortgagee shall be entitled to file a claim and otherwise participate in any condemnation or similar proceedings. Landlord represents that under current law it has no power to condemn all or any part of the Premises.

6. ***Assignment, Subletting:*** Except as otherwise provided, and with specified exceptions regarding transfers among initial investors in the project, prior to Substantial Completion of the Building, or at any time after Substantial Completion of the Building that the conditions set forth in Section 10.01(b) of the Lease are not satisfied, neither the Lease nor any interest of Tenant in the Lease shall be sold, assigned, or otherwise transferred, whether by operation of law or otherwise, including without limitation an assignment in connection with a Tenant's submission of its leasehold estate in the Premises to a condominium form of ownership, nor shall any of the issued or outstanding capital stock of any corporation, any membership interest in any limited liability company any partnership interest in any partnership or any equity interest in any Person, in each case, which is Tenant or owns a direct or indirect interest in Tenant be sold assigned, transferred pledged or encumbered, whether by operation of law or otherwise, if such would result in a change of the Controlling membership ownership of Tenant as held by the members thereof as of the Commencement Date, or there be any change in the right to direct the management of any Person that is Tenant or owns a direct or indirect interest in Tenant, nor shall Tenant sublet the Premises as an entirety or substantially as an entirety, without the consent of Landlord in each case. Notwithstanding the foregoing, prior to Substantial

Completion of the Building Landlord's consent shall not be required with respect to any Transfer that satisfies the conditions as set forth in Section 10.01(a) of the Lease.

From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to any Transfer, assignment, or subletting of the Premises provided no Default as to which notice shall have been given shall have occurred and then be continuing, and Tenant has complied with the requirements under Article 10 of the Lease. Landlord's consent shall not be required in the event Tenant assigns its interest in the Lease or subletting of the Premises as an entirety or substantially as an entirety, provided no Default then exists and is continuing; however, Tenant shall not, at any time during the Term, assign its interest in the Lease in whole or in part pursuant to any plan to submit Tenant's leasehold estate in the Premises to condominium ownership except in accordance with the applicable provisions of Article 10 above, and which assignment shall be governed by the provisions of Sections 23.01, Section 40 and Exhibit F of the Lease.

Tenant, including any Unit Owner, may, without Landlord's consent, but subject to the provisions of last sentence of Section 10.01(c) enter into agreements for the rental of residential and non-residential space in the Building or the occupancy of such space for periods shorter than or equal to the remainder of the Term at the time of such agreements ("Subleases"). Notwithstanding the foregoing, the identity of the tenant and/or operator of the Café Space and the parking garage identified in the Lease shall be subject to the prior written approval of the Landlord, which shall not be unreasonably withheld. Each residential Sublease shall obligate the Subtenant pursuant thereto to occupy and use the Premises included therein for residential purposes only. After an Event of Default by Tenant, Landlord may, subject to the rights of any Mortgagee which is an Institutional Lender, collect subrent and all other sums due under Subleases and apply the net amount collected to Rental, but no such collection shall be deemed to be a waiver of any agreement, term, covenant or condition under the Lease. Tenant sets over to Landlord all of Tenant's right title and interest in and to all Subleases, subject to the rights of any qualifying Mortgagee in accordance with the Lease. All Subleases shall provide that they are subject to the Lease and to the Master Lease, and at Landlord's option on the termination of the Lease; the Subtenants will attorn to or enter into a direct lease with Landlord. With respect to certain Subleases, and upon the terms enumerated in the Lease, the Landlord and a Subtenant shall execute an agreement wherein the Landlord agrees to recognize such Subtenant as a direct Tenant of Landlord under its Sublease upon termination of the Lease.

7. **Mortgage:** Tenant shall have the right to mortgage Tenant's interest in the Lease to a Mortgagee, and shall give Landlord prompt notice of such mortgage, and the Landlord shall give to such mortgagee a copy of each notice of Default and such Mortgagee may remedy the Default and Landlord shall accept performance with the same force and effect as though performed by Tenant. Except as provided in Section 10.10(b) of the Lease, no Mortgagee shall become liable under the provisions of the Lease unless and until such time as it becomes and remains, the owner of the leasehold estate created hereby. Landlord shall not be obligated to execute and deliver a new lease of the Premises pursuant to Section 10.11 except in accordance with the terms and as otherwise provided in the Lease. The provisions of Section 10.10 and 10.11 shall be of no further force and effect in the event Tenant shall have subjected Tenant's leasehold interest in the Premises to a condominium form of ownership. In the case of termination of the Lease upon Default, Landlord shall give notice thereof to each Mortgagee and on written request shall promptly execute and deliver a new lease of the premises covered by the

mortgage, to the Mortgagee, for the remainder of the Term, provided that such Mortgagee shall pay all rental due and all expenses incurred by the Landlord and cure all Defaults. The Landlord shall assign to the tenant all of its right, title and interest in and to moneys then held by or payable to the Landlord or Depository which Tenant would have been entitled. If there is more than one mortgage, the Landlord shall only recognize the Mortgagee whose mortgage is most senior in lien and which has requested a new lease of the premises.

8. **Repairs:** Tenant shall, unless otherwise provided, at its sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the Premises and shall put, keep and maintain the Building in good and safe order and condition, and make all repairs to keep the same in good and safe order and condition. Tenant shall not commit or suffer, and shall use all reasonable precaution to prevent, waste, damage or injury to the Premises. Tenant assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the Premises. All repairs made by Tenant shall be at least equal in quality and class to the original work and shall be made in compliance with all Governmental Authorities as defined in Section 12.01 of the Lease. Should the Premises be submitted to the condominium form of ownership, in accordance with the Lease, the Condominium Board shall assume the obligations under Section 12.01.

9. **Compliance with Requirements:** Tenant promptly must comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the Premises and shall have the right to contest the validity of any such requirements or the application thereof in accordance with the provisions of the Lease.

10. **Capital Improvements:** Tenant shall not demolish, replace or materially alter the Building, or make any addition thereto, unless Tenant has procured from all Governmental Authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the Premises; the Capital Improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and Tenant has delivered to Landlord certificates of insurance acceptable to Landlord. If the estimated cost of any proposed capital improvement exceeds \$500,000 (as adjusted), Tenant shall pay the fees and expenses of any architect or engineer selected by the Landlord and furnish: complete plans and specifications; a contract or construction management agreement; payment and performance bonds or other security. To the extent that any portion of the Capital Improvement involves work which affects the structural elements of the Building or work involving the exterior or a change in the height, bulk or setback of the Building, Tenant shall furnish to the Landlord complete plans and specifications and any other item at the Landlord's request. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in Landlord, without any obligation by Landlord to pay any compensation therefor to Tenant.

11. **Equipment:** All equipment shall be and shall remain the property of the Landlord. Tenant shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of Landlord, which consent shall not be unreasonably withheld.

12. **Discharge of Liens:** Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the Premises and shall not

suffer any other matter or thing whereby the estate, right and interest of the Landlord in the Premises might be impaired. Tenant may finance any Equipment. If any lien at any time shall be filed against the Premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

13. ***Landlord's Right to Perform:*** If Tenant at any time shall be in Default, after notice thereof and after applicable grace periods, if any, provided under the Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenant from any obligation of Tenant contained in the Lease, may (but shall be under no obligation to) perform such obligation on Tenant's behalf.

14. ***Events of Default:*** The Lease provides that if certain Defaults shall occur, the Landlord shall have the right to terminate the Lease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. The following events shall be Events of Default under the Lease: (i) failure of Tenant to pay any item of Rental for 10 days after notice from the Landlord to Tenant; (ii) failure by Tenant to observe or perform one or more of the terms, conditions, covenants or agreements contained in the Lease which failure continues for a period of 30 days after notice thereof by Landlord; (iii) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days and (iv) assignment of the Lease, sublease, or Transfer of certain interests in Tenant, without the Landlord's approval to the extent required which transaction has not been made to comply or voided ab initio within 30 days after notice thereof from Landlord; (v) to the extent permitted by law, if Tenant shall admit, in writing, that it is unable to pay its debts as such become due, or if Tenant should make an assignment for the benefit of creditors. As previously stated, the Lease grants a mortgagee certain rights intended to provide protection in the Event of Default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly. In the event the Lease shall terminate due to an Event of Default and in accordance with the provisions of the Lease, then Tenant, Tenant as debtor-in-possession and/or Trustee shall immediately quit and surrender the Premises. No termination of the Lease pursuant to Section 24.03(a) or taking possession of or re-letting the Premises or any part thereof, pursuant to Sections 24.03(b) or 24.04(b) of the Lease shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or re-letting. Tenant shall pay to Landlord all costs and expenses, including, without limitation, reasonable attorney's fees and disbursements, incurred by Landlord in any action or proceeding to which Landlord may be made a party by reason of any act or omission of Tenant, and Tenant shall pay to Landlord all costs and expenses, incurred by Landlord in enforcing any of the covenants and provisions of the Lease and incurred in any action brought by Landlord against Tenant on account of the provisions thereof.

15. ***Civic Facilities:*** The Landlord has the obligation to construct certain enumerated Civic Facilities. Tenant acknowledges that other than those certain facilities enumerated in Article 26 of the Lease, Landlord has completed the Civic Facilities improvements. Tenant has the obligation to maintain certain of the enumerated Civic Facilities, and Landlord the obligation to maintain the balance of the enumerated Civic Facilities. In the event Landlord fails to so maintain the enumerated civic facilities in accordance with the Lease Tenant shall have the right but not the obligation to undertake Landlord's Maintenance Obligations as defined in the Lease ("Self-Help," as defined in the Lease). In the event Tenant undertakes Self-Help, then Tenant

shall have the right to offset against the next installment of Civic Facilities Payments an amount equal to the reasonable expenses thereby incurred or paid by Tenant together with interest thereon at the Involuntary Rate computed with respect to each payment made by Tenant. Landlord shall incur no penalty or liability, and Tenant shall have no remedies or rights other than as expressly provided in the Lease, it being agreed by the parties that Landlord's failure to perform Landlord's Maintenance Obligations shall not be deemed a failure by Landlord to perform a substantial obligation on Landlord's part to be performed under the Lease.

16. **No Subordination:** The Landlord's interest in the Lease shall not be subject or subordinate to any mortgage now or hereafter placed upon Tenant's interest in the Lease or any other liens or encumbrances hereafter affecting Tenant's interest in the Lease, including without limitation any Unit Mortgage, or any other liens or encumbrances hereafter affecting Tenant's interest in the Lease including without limitation a lien filed pursuant to Section 339-z and 339-aa of the Real Property Law. Master Landlord and Tenant executed that certain Master Landlord Non-Disturbance and Recognition Agreement which shall be in the form exhibited to the Lease, and which is binding on Master Landlord's successors and assigns and benefits Tenant's successors and assigns, and provides that if the master Lease is terminated then Landlord will recognize Tenant under the Lease and Tenant will attorn to Landlord and will recognize such holder as Tenant's landlord under the Lease.

17. **Condominium Ownership:** The Landlord permitted the submission of Tenant's leasehold estate in the Premises under the Lease to the condominium form of ownership pursuant to the Condominium Act and the terms and provisions of Exhibit F of the Lease. The Lease shall, after the condominium Date, remain in full force and effect, provided that to the extent that after the Condominium Date any of the provisions of Exhibit F of the Lease conflict with other Lease provisions, the terms of Exhibit F shall prevail.

18. **Limitations on Landlord's Liability:** The liability of Landlord, as set forth in the Lease, shall be limited to Landlord's interest in the Premises, including the rents and profits therefrom, the proceeds of any insurance policies covering the relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof and any other rights, privileges, or other interests appurtenant to the Premises. Neither Landlord nor any such Person nor any of the members, directors, officers, employees, agents or servants of either shall have any liability hereunder beyond Landlord's interest in the Premises, including, without limitation, the rents and profits therefrom and such other proceeds and awards as set forth in the Lease appurtenant to the Premises, and no other property or asset of Landlord or any such Person shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

19. **Tenant's Liability:** Except as to Recourse Claims as defined in the Lease, the liability of Tenant shall be limited to Tenant's interest in the Premises, including without limitation, the rents and profits from the Premises, the proceeds of any insurance policies covering or relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof, any security provided hereunder and amount deposited hereunder with Landlord, Depository or a Mortgagee, or other interest or sums appurtenant to the Premises. Except as to Recourse Claims, Tenant shall have no liability hereunder beyond Tenant's interest in the Premises, and no other property or asset of Tenant shall be subject to

levy, execution or other enforcement procedure for the satisfaction of Landlord's remedies hereunder.

LEASE FOR PARCEL 19B

The following is a description of the major provisions of the Lease between Battery Park City Authority, as landlord ("Authority" and/or "Landlord"), and BPC Green, L.L.C., as tenant ("Tenant"), made as of December 18, 2003, for Parcel 19B. Capitalized terms used herein and not defined herein have the meanings ascribed to them in the Lease. The description contained herein does not purport to be complete and reference is made to the Lease for full and complete statements of their provisions.

1. **Term:** The term of the Lease commenced on December 18, 2003 ("Commencement Date"), and expires, unless sooner terminated, on June 17, 2069. The Lease does not contain any right on the part of Tenant to renew or otherwise extend the term.

2. **Rental:** The primary components of rent under the Lease are Base Rent, payments in lieu of real estate taxes ("PILOT"), Civic Facilities Payments, Percentage Rent, and Transaction Payments. The following is a description of each such component of rent:

(a) **Base Rent:** The Lease obligates Tenant to pay, in the manner hereinafter defined, beginning upon the Commencement Date, and continuing thereafter throughout the term to the Landlord, without notice or demand, the sums hereinafter described:

(i) **First Period:** For each of the first twenty five, twelve month periods ("First Period") beginning on the earlier of the January 1st or July 1st first following the Commencement Date, and each succeeding twelve month period or portion thereof during the Term to, but not including the First Appraisal Date, as hereinafter defined, and following the First Appraisal Date, the twelve month period beginning on such date and each succeeding twelve month period or portion thereof during the Term ("Lease Year"), an amount equal to the amount which is the difference between (x) the Aggregate Rent as herein listed for such Lease Year less (y) PILOT payable for such Lease Year pursuant to the Lease, it being understood that, provided PILOT does not exceed the Aggregate Rent, the sum of Base Rent plus PILOT for the first twenty-five Lease Years shall be the Aggregate Rent as follows: (i) Year 1 at \$850,544.00; Year 2 at \$859,544.00; Year 3 at \$868,724.00; Year 4 at \$878,088.00; Year 5 at \$887,638.00; Year 6 at \$897,380.00; Year 7 at \$907,317.00; Year 8 at \$917,453.00; Year 9 at \$927,791.00; Year 10 at \$938,336.00; Year 11 at \$949,091.00; Year 12 at \$960,062.00; Year 13 at \$971,253.00; Year 14 at \$982,667.00; Year 15 at \$994,309.00; Year 16 at \$2,088,898.00; Year 17 at \$2,124,267.00; Year 18 at \$3,290,034.00; Year 19 at \$3,351,028.00; Year 20 at \$4,591,808.00; Year 21 at \$4,680,440.00; Year 22 at \$6,000,262.00; Year 23 at \$6,118,665.00; Year 24 at \$7,521,758.00; and Year 25 at \$7,672,193.00.

(ii) **Second Period:** For each Lease Year commencing on January 1, 2029 ("First Appraisal Date"), and continuing for a period of fifteen Lease Years thereafter ("Second Period"), an amount per annum equal to (x) the Base Floor Rent, as defined below, as determined on the First Appraisal Date which is the first day of the Second Period, equal to the greater of 6% of the fair market value of the Land, determined in accordance with the Lease, considered as unencumbered by the Lease and the Master

Lease and as unimproved, except for Landlord's Civic Facilities and other site improvements made by Landlord, or the Base Rent payable in the Lease Year immediately prior to the period for which such Base Rent Floor was determined ("Base Floor Rent"). Base Rent for the Second Period shall escalate on February 22, 2035 and again February 22, 2040 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period. Base Rent for the Second Period shall escalate on January 1, 2034 and again January 1, 2039 by the greater of (x) 15% of the Base Rent set for the prior five Lease Years or (y) the percentage of increase, of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

(iii) **Third Period:** For each Lease Year commencing on January 1, 2044 and continuing for a period of fifteen (15) Lease Years thereafter ("Third Period") an amount per annum equal to the Base Rent Floor as determined on the first day of the Third Period, as escalated on January 1, 2049 and again January 1, 2054 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

(iv) **Fourth Period:** For each Lease Year commencing on January 1, 2059 continuing thereafter until the Expiration Date ("Fourth Period") an amount per annum equal to the Base Rent Floor as determined as of the first day of the Fourth Period, as escalated on January 1, 2064 and again January 1, 2069 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the last month of the prior five Lease Year period.

The Base Rent shall be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term.

(b) **PILOT:** For each tax year or portion thereof within the Term, Tenant shall pay to the Landlord, without notice or demand, an annual sum ("PILOT"). For each Tax Year or portion thereof during the First Period, PILOT shall equal the greater of (x) actual Taxes for such Tax Year, irrespective of whether same shall exceed the Aggregate Rent set forth above or (y) the Minimum PILOT set forth as follows: (i) Year 1 through to and including Year 15 at \$400,544.00; Year 16 at \$1,483,257.00; Year 17 at \$1,506,513.00; Year 18 at \$2,659,925.00; Year 19 at \$2,708,317.00; Year 20 at \$3,936,243.00; Year 21 at \$4,011,764.00; Year 22 at \$5,318,212.00; Year 23 at \$5,422,974.00; Year 24 at \$6,812,153.00; and Year 25 at \$6,948,396.00, payable in equal semi-annual installments during such Tax Year; and (ii) for each Tax Year or portion thereof occurring after the First Period, PILOT shall equal actual Taxes for such Tax Year, in each case payable, in advance, on the first day of each of January and July; and (iii) PILOT for the period from the Commencement Date until the first day of the first Lease Year shall be the greater of (x) Minimum PILOT payable for the first Lease Year as set forth

above, and (y) actual Taxes for the Tax Year during which such period occurs, apportioned for such period.

(c) ***Civic Facilities Payment:*** As its allocable share of the cost of operating and maintaining certain Civic Facilities as described in the Lease as the North Neighborhood Residential Parks, the North Neighborhood Esplanade, the Vesey Street Area, the Murray Street Triangle, the Median Parks and any other parks or open spaces within or adjacent to the North Residential Neighborhood (“Operating Costs”), Tenant, for each Lease Year, or portion thereof, shall pay to the Landlord commencing on the date on which a temporary Certificate of Occupancy shall be issued for any dwelling unit in the Building (“Initial Occupancy Date”) and ending on the last day of the Term an annual sum (“Civic Facilities Payment”) as follows:

- (i) For the period commencing on the Initial Occupancy Date and for each of the next two full Lease Years an annual amount equal to the sum of (1) the product obtained by multiplying the number of residential units in the Building by \$300.00 dollars and (2) the product derived by multiplying \$.30 by the gross square feet of non-residential floor area, but excluding therefrom the common areas described in the Lease, in the Building;
- (ii) For each of the next three Lease Years an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in the Building by \$350.00 dollars and (B) the product derived by multiplying \$.35 by the gross square feet of non-residential floor area, but excluding therefrom the common areas described in the Lease, in the Building;
- (iii) For the next succeeding Lease Year and for each Lease Year thereafter with respect to the North Neighborhood Residential Parks, an amount equal to the product of (A) the North Neighborhood Residential Parks Budget as defined below, less any portion thereof attributable to the Open Space, as defined in the Lease, multiplied by (B) .09017; and for the period referred to in the preceding clause, with respect to the North Neighborhood Esplanade, an amount equal to the product of (A) the North Neighborhood Esplanade Budget, defined below, multiplied by (B) .09017, except that Landlord, at its sole option and at any time, may establish as an alternative method for determining such allocable share of the Operating Costs and the amount of the Civic Facilities Payment that Tenant would pay as its share, an amount equal to the product of (x) the sum of the Parks Budget, as hereinafter defined and the Residential Esplanade Budget, less amounts payable toward such Budgets by other tenants of Landlord in the Project Area under leases which were originally entered into prior to January 1, 1988, multiplied by (y) .06339. Notwithstanding the provisions of the foregoing clause (iii), the amount of tenant’s Civic Facilities Payment for any Lease Year referred to in the Lease shall not be greater than one hundred twenty-five percent of Tenant’s Civic Facilities Payment for the prior Lease Year and the amount of capital costs included in Operating Costs for any year shall not exceed ten percent of the Operating Costs for such year; and
- (iv) For each Lease Year commencing with the Lease Year referred to in item (iii) above, Landlord shall submit to Tenant (i) an estimate of Operating Costs for

the North Neighborhood Residential Parks, for such Payment Period (“North Neighborhood Residential Parks Budget”), and (ii) an estimate of the Operating Costs for the North Neighborhood Esplanade for such Payment Period (“Civic Facilities Budget”) and (iii) an estimate of the Operating Costs for the Residential Esplanade (“Residential Esplanade Budget”).

The North Neighborhood Esplanade Budget defined as an amount computed by multiplying (A) the estimated Operating Costs of the entire Esplanade in the Project Area other than such portion of the Esplanade described in the Lease and defined as the Residential Esplanade by (B) a fraction, the numerator of which is the number of linear feet of the North Neighborhood Esplanade and the denominator of which is the total number of linear feet of the Residential Esplanade. Tenant shall pay to Landlord the Civic Facilities Payment due in respect of each such Payment Period in equal monthly installments payable in advance on the first day of each month.

(d) ***Percentage Rent:*** For the period commencing on the date Tenant shall first collect any Gross Non-Residential Revenue (the “Percentage Rent Commencement Date”), which Gross Non-Residential Revenue includes, but is not limited to all revenue received by Tenant or an Affiliate of Tenant from, in connection with, or arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, and which Gross Non-Residential Revenue is more particularly defined in the Lease, and ending on December 31 of the calendar year in which the Percentage Rent Commencement Date occurs, and for each calendar year thereafter during the term, Tenant shall pay to Landlord an amount equal to 10% of the Gross Non-Residential Revenue during each such calendar year or portion thereof (“Percentage Rent”). Percentage Rent shall be computed quarterly, in the manner specified in the Lease, and within thirty days after the end of each calendar quarter Tenant shall submit in reasonable detail the Gross Non-Residential Revenue from the prior quarter and based upon said submission pay Landlord 5% of the Gross Non-Residential Revenue as a partial payment. Tenant shall deliver to Landlord as soon as is practicable after the end of each calendar year, but not later than 120 days after the end of such calendar year, a separate statement for such year showing the Gross Non-Residential Revenue, together with the Percentage Rent due for such year. In the event of an underpayment of the Percentage Rent for the period, Tenant shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

In the event Tenant’s leasehold estate in the Premises shall be submitted to a condominium for of ownership, then “Tenant” shall be deemed to mean the unit owner of each commercial unit of such condominium, it being the agreement of Landlord and Tenant that each such unit owner shall pay Percentage Rent directly to Landlord and that Landlord may pursue any rights granted to Landlord hereunder directly against each such unit owner.

(e) ***Transaction Payments:*** In the event Tenant shall submit Tenant’s Leasehold estate in the Premises to either a cooperative or condominium form of ownership in accordance with this Lease, Tenant shall pay to Landlord, upon transfer of each Cooperative Apartment or Unit to a bona fide purchaser (“Transaction Payment”), a payment in an amount equal to one percent of the Gross Sales Price of such Apartment or Unit. To secure Tenant’s obligation to make the Transaction Payment, Tenant shall deliver to Landlord such Security as

shall be reasonably satisfactory to Landlord to secure Tenant's obligations for the payment of Transaction Payments.

3. ***Insurance:*** Tenant shall, after Substantial Completion of the Building, and thereafter for the full Term of the Lease, keep in full force and effect (i) an All Risk of Physical Loss policy of insurance, including without limitation loss or damage by water, flood, subsidence and earthquake, on an Agreed Amount basis with full replacement cost; as such shall be determined from time to time, but not less frequently than required by the insurer and in any event at least once every three (3) years. In the event Tenant's leasehold estate shall be submitted to condominium ownership, however, then such replacement cost determination shall be made annually. All policies shall name the Tenant as the insured, the Landlord, and Master Landlord as additional insureds' to the extent, where applicable, of their respective insurable interests in the Premises, and shall be primary with respect to any other coverage which Landlord and Master Landlord may obtain as additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee endorsement, provided that such Mortgagee irrevocably agrees in writing for the benefit of Landlord that all proceeds of such insurance shall be applied in accordance with the Lease. Mortgagee may be an additional insured under the following policies: All Risk of Physical Loss, commercial general liability, sprinkler leakage, boiler and machinery, and automobile liability policies of insurance; All Rent Insurance shall be for the benefit of Landlord and Tenant, but the proceeds, if in excess of one million dollars shall be paid to Depository to be applied to Rental Payments until such Restoration by Tenant is completed. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of one million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee, as their interests may appear.

4. ***Restoration:*** If all or any part of the Building as defined in the Lease, shall be destroyed or damaged in whole or in part by fire or other casualty Tenant shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, restore the Building. Except as hereinafter set forth, Tenant shall restore the premises in the event all or any part of the premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the premises existing immediately prior to such occurrence, and if such casualty occurs within the first ten years of the Term, then restoration shall be performed in accordance with the Construction Documents as defined in the Lease. If any loss, damage or destruction occurs, and the cost of restoration of which equals or exceeds \$1,000,000. (as adjusted), Tenant shall furnish to the Landlord complete plans and specifications for such restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to the Landlord for the cost of restoration exceeding such amount, and required insurance policies. Notwithstanding anything in the Lease to the contrary, to the extent that any portion of the restoration involves work on the exterior of the building or a change in the height, bulk or setback of the building, Tenant shall furnish to the Landlord a complete set of plans and specifications for the restoration. . The Lease shall not terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total substantial or partial destruction of, the Building by reason of the untenantability of the same for, or due to, any reason or cause whatsoever,

and Tenant, notwithstanding any law or statute, waives any and all rights to quit or surrender the premises. Tenant expressly agrees that its obligations hereunder, including, without limitation, the payment of Rental, shall continue as though the Building had not been damaged or destroyed without abatement, suspension, or diminution of any kind.

If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligations under Article 8 of the Lease shall be the obligation of the Condominium.

5. ***Condemnation:*** If the whole or substantially all of the premises shall be taken, excluding a taking of the fee interest in the Premises, or any leasehold interest superior to that of the Tenant's, if after such taking Tenant's rights under this Lease are not affected, for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Landlord, Tenant and those authorized to exercise such right, this Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: (i) first to the Landlord for or attributable to the value of the Land so taken, considered as encumbered by the Lease and the Master Lease and as unimproved, and the Landlord's Civic Facilities and other site improvements made by Landlord taken in any proceeding with respect to such taking; (ii) next to the mortgagee which holds a first lien on Tenant's interest in the Lease under a Single Asset Mortgage or to Unit Mortgagees under Single Asset Unit Mortgages constituting first liens against the mortgaged Units, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Single Asset Mortgage or Single Asset Unit Mortgage with interest thereon at the rate specified therein to the date of payment; (iii) for a period of forty years from the Scheduled Completion Date, there shall next be paid to each additional Mortgagee under a Single Asset Mortgage, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by its Single Asset Mortgage with interest thereon at the rate specified therein to the date of payment; (iv) next to Landlord so much of the award which is for or attributable to the value of Landlord's reversionary interest in that part of the Building taken in such proceeding, it being understood that for the period of forty years from the Scheduled Completion Date the value of Landlord's reversionary interest shall be zero; and (v) subject to the rights of any Mortgagees or Unit Mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to restore any remaining part of the building. The entire award for or attributable to the Land taken and the fair market value of the Landlord's Civic Facilities shall be first paid to the Landlord, and the balance, if any, shall be paid to Depository, except that if such balance shall be less than \$1,000,000 (as adjusted in accordance with the Lease), such balance shall be payable, in trust, to Tenant for application to the cost of restoration.

If the temporary use of the whole or any part of the premises shall be taken, the term shall not be reduced or affected in any way and Tenant shall continue to pay in full the Rental, and Tenant shall be entitled to receive for itself any award or payments for such use, in accordance with the provisions of Section 9.5(i)(ii) of the Lease.

Landlord, Tenant and any Mortgagee shall be entitled to file a claim and otherwise participate in any condemnation or similar proceedings. Landlord represents that under current law it has no power to condemn all or any part of the Premises; furthermore, Landlord hereby covenants and agrees that it shall never institute any taking or condemnation of all or any portion of the Premises without the prior written consent of Tenant.

6. Assignment, Subletting: Except as otherwise provided, prior to Substantial Completion of the Building, or at any time after Substantial Completion of the Building that the conditions set forth in Section 10.01(b) of the Lease are not satisfied, neither the Lease nor any interest of Tenant in the Lease shall be sold, assigned, or otherwise transferred, whether by operation of law or otherwise, including without limitation an assignment to an Apartment Corporation in connection with a Cooperative Plan or partial assignment in connection with Tenant's submission of its leasehold estate in the Premises to a condominium form of ownership, but excluding transfers of individual condominium units following the submission by Tenant of its leasehold estate in the Premises to a condominium form of ownership pursuant to Article 40 and Exhibit F (Provisions Regarding the Conversion To Condominium Form of Ownership), of the Lease, or (ii) in connection with the issuance or transfer of proprietary leases following the submission of Tenant of its leasehold estate in the Premises to an Apartment Corporation in connection with a Cooperative Plan nor shall any of the issued or outstanding capital stock of any corporation, any membership interest in any limited liability company any partnership interest in any partnership or any equity interest in any Person, in each case, which is Tenant or owns a direct or indirect interest in Tenant be sold assigned, transferred pledged or encumbered, whether by operation of law or otherwise, if such would result in a change of the Controlling membership ownership of Tenant as held by the members thereof as of September 26, 2003, or there be any change in the right to direct the management of any Person that is Tenant or owns a direct or indirect interest in Tenant, nor shall Tenant sublet the Premises as an entirety or substantially as an entirety, without the consent of Landlord in each case. Notwithstanding the foregoing, prior to Substantial Completion of the Building Landlord's consent shall not be required with respect to any Transfer that satisfies the conditions as set forth in Section 10.01(a) of the Lease.

From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to any transfer, assignment, or subletting of the Premises provided no Default as to which notice shall have been given shall have occurred and then be continuing, and Tenant has complied with the requirements under Article 10 of the Lease. Landlord's consent shall not be required in the event Tenant assigns its interest in this Lease to the Apartment Corporation pursuant to a Cooperative Plan, provided no Default then exists and is continuing; however, Tenant shall not, at any time during the Term, assign its interest in the Lease in whole or in part pursuant to any plan to submit Tenant's leasehold estate in the Premises to condominium ownership except pursuant to the provisions of Article 40 and Exhibit F of the Lease.

Tenant may, without Landlord's consent, but subject to the provisions of last sentence of Section 10.01(c) enter into agreements for the rental of residential and non-residential space in the Building or the occupancy of such space for periods shorter than or equal to the remainder of the Term at the time of such agreements ("Subleases"). Each residential Sublease shall obligate the Subtenant pursuant thereto to occupy and use the premises included therein for residential purposes only. After an Event of Default by Tenant, Landlord may, subject to the rights of any

Mortgagee which is an Institutional Lender, collect subrent and all other sums due under Subleases and apply the net amount collected to Rental, but no such collection shall be deemed to be a waiver of any agreement, term, covenant or condition under the Lease. Tenant sets over to Landlord all of Tenant's right title and interest in and to all Subleases, subject to the rights of any qualifying Mortgagee in accordance with the Lease. All Subleases shall provide that they are subject to the Lease and to the Master Lease, and at Landlord's option on the termination of the Lease; the Subtenants will attorn to or enter into a direct lease with Landlord. With respect to certain Subleases, the Landlord and a Subtenant shall execute an agreement wherein the Landlord agrees to recognize such Subtenant as a direct Tenant of Landlord under its Sublease upon termination of the Lease.

7. ***Mortgage:*** Tenant shall have the right to mortgage Tenant's interest in this Lease to a Mortgagee, and shall give Landlord prompt notice of such mortgage, and the Landlord shall give to such mortgagee a copy of each notice of default and such Mortgagee may remedy the default and Landlord shall accept performance with the same force and effect as though performed by Tenant. Except as provided in Section 10.10(b) of the Lease, no Mortgagee shall become liable under the provisions of this Lease unless and until such time as it becomes and remains, the owner of the leasehold estate created hereby. Each Mortgagee shall, as a precondition to filing any mortgage execute Mortgagee Subordination and Recognition Agreement in substantially the form attached as an exhibit to the Lease. Notwithstanding the foregoing, from and after the Condominium Date the rights recognition and privileges afforded a Mortgagee under the Lease shall consist solely of those rights, recognition and privileges afforded under Exhibit F and any applicable Construction Mortgage Subordination and Recognition Agreement or applicable Unit Mortgagee Subordination and Recognition Agreement. In the case of termination of this Lease upon default, Landlord shall give notice thereof to each Mortgagee and on written request shall promptly execute and deliver a new lease of the premises covered by the mortgage, to the Mortgagee, for the remainder of the Term, provided that such Mortgagee shall pay all rental due and all expenses incurred by the Landlord and cure all defaults. The Landlord shall assign to the tenant all of its right, title and interest in and to moneys then held by or payable to the Landlord or Depository which Tenant would have been entitled. If there is more than one mortgage, the Landlord shall only recognize the Mortgagee whose mortgage is most senior in lien and which has requested a new lease of the premises.

8. ***Repairs:*** Tenant shall, unless otherwise provided, at its sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the premises and shall put, keep and maintain the building in good and safe order and condition, and make all repairs to keep the same in good and safe order and condition. Tenant shall not commit or suffer, and shall use all reasonable precaution to prevent, waste, damage or injury to the premises. Tenant assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the premises. All repairs made by Tenant shall be at least equal in quality and class to the original work and shall be made in compliance with all governmental authorities as defined in Section 12.01 of the Lease.

9. ***Compliance with Requirements:*** Tenant promptly must comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the premises and

shall have the right to contest the validity of any such requirements or the application thereof in accordance with the provisions of the Lease.

10. ***Capital Improvements:*** Tenant shall not demolish, replace or materially alter the building, or make any addition thereto, unless Tenant has procured from all governmental authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the premises; the improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and Tenant has delivered to Landlord original insurance policies acceptable to Landlord. If the estimated cost of any proposed capital improvement exceeds \$500,000 (as adjusted), Tenant shall pay the fees and expenses of any architect or engineer selected by the Landlord and furnish: complete plans and specifications; a contract or construction management agreement; payment and performance bonds or other security. To the extent that any portion of the capital improvement involves work which affects the structural elements of the building or work involving the exterior or a change in the height, bulk or setback of the building, Tenant shall furnish to the Landlord complete plans and specifications and any other item at the Landlord's request. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in Landlord, without any obligation by Landlord to pay any compensation therefor to Tenant.

11. ***Equipment:*** All equipment shall be and shall remain the property of the Landlord. Tenant shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of Landlord, which consent shall not be unreasonably withheld.

12. ***Discharge of Liens:*** Subject to the provisions of the Lease, Tenant shall not create or permit to be created any lien, encumbrance or charge upon the premises and shall not suffer any other matter or thing whereby the estate, right and interest of the Landlord in the premises might be impaired. Tenant may finance any Equipment. If any lien at any time shall be filed against the premises, Tenant shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

13. ***Landlord's Right to Perform:*** If Tenant at any time shall be in default, after notice thereof and after applicable grace periods, if any, provided under this Lease for Tenant or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may (but shall be under no obligation to) perform such obligation on Tenant's behalf.

14. ***Events of Default:*** The Lease provides that if certain defaults shall occur, the Landlord shall have the right to terminate the Lease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. The following events shall be Events of Default under the Lease: (a) failure of Tenant to pay any item of Rental for 10 days after notice from the Landlord to Tenant; (b) failure by Tenant to observe or perform one or more of the terms, conditions, covenants or agreements contained in this Lease which failure continues for a period of 30 days after notice thereof by Landlord; (c) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days and (d) assignment of the Lease, sublease, or transfer of certain interests in

Tenant, without the Landlord's approval to the extent required which transaction has not been made to comply or voided ab initio within 30 days after notice thereof from Landlord. As previously stated, the Lease grants a mortgagee certain rights intended to provide protection in the event of a default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly. In the event the Lease shall terminate due to an Event of Default and in accordance with the provisions of the Lease, then Tenant, Tenant as debtor-in-possession and/or Trustee shall immediately quit and surrender the Premises. No termination of this Lease pursuant to Section 24.03(a) or taking possession of or re-letting the Premises or any part thereof, pursuant to Sections 24.03(b) or 24.04(b) of the Lease shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or re-letting. Tenant shall pay to Landlord all costs and expenses, including, without limitation, reasonable attorney's fees and disbursements, incurred by Landlord in any action or proceeding to which Landlord may be made a party by reason of any act or omission of Tenant, and Tenant shall pay to Landlord all costs and expenses, incurred by Landlord in enforcing any of the covenants and provisions of this Lease and incurred in any action brought by Landlord against Tenant on account of the provisions thereof.

15. **Civic Facilities:** The Landlord has the obligation to construct certain enumerated Civic Facilities. Tenant acknowledges that other than those certain facilities enumerated in Article 26 of the Lease, Landlord has completed the Civic Facilities improvements. Tenant has the obligation to maintain certain of the enumerated Civic Facilities, and Landlord the obligation to maintain the balance of the enumerated Civic Facilities. In the event Landlord fails to so maintain the enumerated civic facilities in accordance with the Lease Tenant shall have the right but not the obligation to undertake Landlord's Maintenance Obligations as defined in the Lease ("Self-Help"). In the event Tenant undertakes Self-Help, then Tenant shall have the right to offset against the next installment of Civic Facilities Payments an amount equal to the reasonable expenses thereby incurred or paid by Tenant together with interest thereon at the Involuntary Rate computed with respect to each payment made by Tenant. Landlord shall incur no penalty or liability, and Tenant shall have no remedies or rights other than as expressly provided in the Lease, it being agreed by the parties that Landlord's failure to perform Landlord's Maintenance Obligations shall not be deemed a failure by Landlord to perform a substantial obligation on Landlord's part to be performed under the Lease.

16. **No Subordination:** The Landlord's interest in this Lease shall not be subject or subordinate to any mortgage now or hereafter placed upon Tenant's interest in this Lease or any other liens or encumbrances hereafter affecting Tenant's interest in this Lease, including without limitation any Unit Mortgage, or any other liens or encumbrances hereafter affecting Tenant's interest in the Lease including without limitation a lien filed pursuant to Section 339-z and 339-aa of the Real Property Law. Master Landlord and Tenant executed that certain Master Landlord Non-Disturbance and Recognition Agreement which shall be in the form exhibited to the Lease, and which is binding on Master Landlord's successors and assigns and benefits Tenant's successors and assigns, and provides that if the master Lease is terminated then Landlord will recognize Tenant under the Lease and Tenant will attorn to Landlord and will recognize such holder as Tenant's landlord under the Lease.

17. **Condominium Ownership:** The Landlord permitted the submission of Tenant's leasehold estate in the premises under the Lease to the condominium form of ownership

pursuant to the Condominium Act and the terms and provisions of Exhibit F of the Lease. The Lease shall, after the condominium Date, remain in full force and effect, provided that to the extent that after the Condominium Date any of the provisions of Exhibit F of the Lease conflict with other Lease provisions, the terms of Exhibit F shall prevail.

18. ***Limitations on Landlord's Liability:*** The liability of Landlord, as set forth in the Lease, shall be limited to Landlord's interest in the Premises, including the rents and profits therefrom, the proceeds of any insurance policies covering the relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof and any other rights, privileges, or other interests appurtenant to the Premises. Neither Landlord nor any such Person nor any of the members, directors, officers, employees, agents or servants of either shall have nay liability hereunder beyond Landlord's interest in the Premises, including, without limitation, the rents and profits therefrom and such other proceeds and awards as set forth in the Lease appurtenant to the Premises, and no other property or asset of Landlord or any such Person shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies hereunder.

19. ***Tenant's Liability:*** Except as to Recourse Claims as defined in the Lease, the liability of Tenant shall be limited to Tenant's interest in the Premises, including without limitation, the rents and profits from the Premises, the proceeds of any insurance policies covering or relating to the Premises, any awards payable in connection with any condemnation of the Premises or any part thereof, any security provided hereunder and amount deposited hereunder with Landlord, Depository or a Mortgagee, or other interest or sums appurtenant to the Premises. Except as to Recourse Claims, Tenant shall have no liability hereunder beyond Tenant's interest in the Premises, and no other property or asset of Tenant shall be subject to levy, execution or other enforcement procedure for the satisfaction of Landlord's remedies hereunder.

SUBLEASES FOR SITES 23 AND 24

The following is a description of the major provisions of that certain Original Lease dated October 31, 2006, as to Site 24, and placed into escrow as of the date thereof, as fully Amended and Restated in its entirety by two separate Amended and Restated Agreements of Lease entered into between Battery Park City Authority, as landlord ("Authority" and/or "Landlord"), and MP FREEDOM LLC, as tenant ("Freedom Tenant"), as to Site 23, under separate Amended and Restated Agreement of Lease ("Freedom Lease"), and MP LIBERTY LLC ("Liberty Tenant"), as to Site 24, under separate Amended and Restated Agreement of Lease ("Liberty Lease") (each of Freedom Tenant and Liberty Tenant hereinafter sometimes individually and collectively referred to as "Tenant" or "Tenants"). Each separate Amended and Restated Agreement of Lease being entered into on November 15, 2007, respectively (each of the Freedom Lease and the Liberty Lease, hereinafter sometimes individually or collectively referred to as the "Lease" or "Leases"). Capitalized terms used herein and not defined herein have the meanings ascribed to them in each of the respective Leases. The description contained herein does not purport to be complete and reference is made to the Leases for full and complete statements of their provisions.

1. ***Term:*** The term of the Leases commenced on November 15, 2007 ("Commencement Date"), and expires, unless sooner terminated, on June 17, 2069. The Leases do not contain any right on the part of Tenants to renew or otherwise extend the Term.

2. **Rental:** The primary components of rent under the Leases are the Upfront Lease Payment, Base Rent, payments in lieu of real estate taxes (“PILOT”), Civic Facilities Payments, Percentage Rent, Transaction Payments, and Deferred Lease Payments. The following is a description of each such component of rent:

(a) **Upfront Lease Payment:** Upon the Commencement Date, Tenants are obligated to pay an Upfront Lease Payment together with interest for the actual days elapsed based on a 360 day year at the fixed rate of 6% per annum, calculated from August 1, 2007, through the Commencement Date, which payment is fully earned and non-refundable under any circumstances as follows:

(i) Freedom Tenant shall pay an amount of twenty two million five hundred three thousand eight hundred eighty seven dollars (\$22,503,887).

(ii) Liberty Tenant shall pay an amount of thirty three million nine hundred forty six thousand one hundred thirteen dollars (\$33,946,113).

In addition, and as a condition precedent to Landlord’s obligations under the Leases, Tenants are jointly and severally obligated to construct the public improvements defined in the Leases as the Center and the BM Facility at the sole cost and expense of Tenants in accordance with the terms and provisions of the Leases.

(b) **Base Rent:** The Leases obligate Tenants to pay, in the manner hereinafter defined, beginning upon the Commencement Date, and continuing thereafter throughout the Term to the Landlord, without notice or demand, the sums hereinafter described:

(i) First Period: For each of the first twenty five, twelve month periods (“First Period”) beginning on the January 1 first following the Commencement Date, and each succeeding twelve month period or portion thereof during the Term to, but not including the First Appraisal Date, as hereinafter defined, and following the First Appraisal Date, the twelve month period beginning on such date and each succeeding twelve month period or portion thereof during the Term (“Lease Year”), the amounts as follows:

As to Freedom Tenant: (i) Year 1 at \$590,004(commences January 1, 2008); Year 2 at \$607,705; Year 3 at \$625,936; Year 4 at \$644,714; Year 5 at \$664,055; Year 6 at \$683,977; Year 7 at \$704,496; Year 8 at \$725,631; Year 9 at \$747,400; Year 10 at \$769,822; Year 11 at \$792,917; Year 12 at \$816,704; Year 13 at \$841,205; Year 14 at \$866,441; Year 15 at \$892,435; Year 16 at \$919,208; Year 17 at \$946,784; Year 18 at \$975,187; Year 19 at \$1,004,443; Year 20 at \$1,034,576; Year 21 at \$1,065,614; Year 22 at \$1,097,582; Year 23 at \$1,130,510; Year 24 at \$1,164,425; and Year 25 at \$1,199,358.

As to Liberty Tenant: (i) Year 1 at \$889,996 (commences January 1, 2008); Year 2 at \$916,695; Year 3 at \$944,196; Year 4 at \$972,522; Year 5 at \$1,001,698; Year 6 at \$1,031,749; Year 7 at \$1,062,701; Year 8 at \$1,094,582; Year 9 at \$1,127,420; Year 10 at \$1,161,242; Year 11 at \$1,196,079; Year 12 at \$1,231,962; Year 13 at \$1,268,921; Year 14 at \$1,306,989; Year 15 at \$1,346,198; Year 16 at \$1,386,584;

Year 17 at \$1,428,182; Year 18 at \$1,471,027; Year 19 at \$1,515,158; Year 20 at \$1,560,613; Year 21 at \$1,607,431; Year 22 at \$1,655,654; Year 23 at \$1,705,323; Year 24 at \$1,756,483; and Year 25 at \$1,806,177.

(ii) Second Period: For each Lease Year commencing on November 1, 2032 (“First Appraisal Date”), and continuing for a period of fifteen Lease Years thereafter (“Second Period”), each of Liberty Tenant and Freedom Tenant shall pay an amount per annum equal to the Base Rent Floor, as defined below, as determined on the First Appraisal Date which is the first day of the Second Period, equal to the greater of 6% of the fair market value of the Land, determined in accordance with each of the Liberty Lease and Freedom Lease, respectively, considered as unencumbered by the Lease and the Master Lease and as unimproved, except for Landlord’s Civic Facilities and other site improvements made by or on behalf of Landlord, or the Base Rent payable in the Lease Year immediately prior to the period for which such Base Rent Floor was determined (“Base Rent Floor”). Base Rent for the Second Period shall escalate on November 1, 2037 and again November 1, 2042 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period under each of the Liberty Lease and Freedom Lease (i.e. November, 2032 and again November, 2037, respectively).

(ii) Third Period: For each Lease Year commencing on November 1, 2047 and continuing for a period of fifteen (15) Lease Years thereafter (“Third Period”) each of Liberty Tenant and Freedom Tenant shall pay an amount per annum equal to the Base Rent Floor as determined as of the first day of the Third Period, as escalated on November 1, 2052 and again November 1, 2057 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period under each of the Liberty Lease and Freedom Lease (i.e. November, 2047 and again November, 2052, respectively).

(iii) Fourth Period: For each Lease Year commencing on November 1, 2062 and continuing thereafter until the Expiration Date (“Fourth Period”) each of Liberty Tenant and Freedom Tenant shall pay an amount per annum equal to the Base Rent Floor as determined as of the first day of the Fourth Period, as escalated on November 1, 2067 by the greater of 15% of the Base Rent set for the prior five Lease Years or the percentage of increase of the Consumer Price Index as determined for the month in which the applicable escalation date occurs over the Consumer Price Index for the first month of the prior five Lease Year period under each of the Liberty Lease and Freedom Lease (i.e. November, 2062).

The Base Rent for Liberty Tenant and Freedom Tenant shall each be payable in equal monthly installments in advance commencing on the Commencement Date and on the first day of each month thereafter during the Term.

(c) ***PILOT***: For each tax year or portion thereof within the Term, Tenants shall pay to the Landlord, without notice or demand, an annual sum (“PILOT”). For each Tax Year or portion thereof during the First Period, PILOT shall equal the greater of (x) actual Taxes for such Tax Year, or (y) the Minimum PILOT set forth as follows:

As to Freedom Tenant: (i) Year 1 at \$355,801; Year 2 at \$359,359; Year 3 at \$362,952; Year 4 at \$366,582; Year 5 at \$370,248; Year 6 at \$373,950; Year 7 at \$641,860; Year 8 at \$915,501; Year 9 at \$1,206,495; Year 10 at \$1,503,699; Year 11 at \$1,819,228; Year 12 at \$2,141,475; Year 13 at \$2,483,067; Year 14 at \$3,144,928; Year 15 at \$3,486,756; Year 16 at \$3,521,737; Year 17 at \$3,557,098; Year 18 at \$3,596,387; Year 19 at \$3,645,125; Year 20 at \$3,699,984; Year 21 at \$3,755,668; Year 22 at \$3,812,191; Year 23 at \$3,869,565; Year 24 at \$3,927,802; and Year 25 at \$3,986,915.

As to Liberty Tenant: (i) Year 1 at \$536,709; Year 2 at \$542,076; Year 3 at \$547,498; Year 4 at \$552,972; Year 5 at \$558,502; Year 6 at \$564,087; Year 7 at \$968,218; Year 8 at \$1,380,992; Year 9 at \$1,819,945; Year 10 at \$2,268,264; Year 11 at \$2,744,225; Year 12 at \$3,230,319; Year 13 at \$3,745,597; Year 14 at \$4,743,983; Year 15 at \$5,259,616; Year 16 at \$5,312,383; Year 17 at \$5,365,724; Year 18 at \$5,424,990; Year 19 at \$5,498,508; Year 20 at \$5,581,261; Year 21 at \$5,665,259; Year 22 at \$5,750,521; Year 23 at \$5,837,066; Year 24 at \$5,924,914; and Year 25 at \$6,014,084.

Each and all of the above being payable in equal semi-annual installments during such Tax Year as to each of Liberty Tenant and Freedom Tenant, respectively; (ii) for each Tax Year or portion thereof occurring after the First Period, PILOT shall equal actual Taxes for such Tax Year, in each case payable in equal semi-annual installments during such Tax Year, in advance, on the first day of each of January and July; and (iii) PILOT for the period from the Commencement Date until the first January 1 or July 1 first following the Commencement Date shall be the greater of (x) Minimum PILOT payable for the first Lease Year as set forth above, and (y) actual Taxes for the Tax Year during which such period occurs, apportioned for such period, as to each of Liberty Tenant and Freedom Tenant.

(d) ***Civic Facilities Payment***: As their allocable share of the cost of operating and maintaining certain Civic Facilities including curbs, street trees, open spaces and parks as described in the Leases, Tenants, for each Lease Year, or portion thereof, shall pay to the Landlord commencing on the date on which a temporary Certificate of Occupancy shall be issued for any dwelling unit in each of the respective Liberty Tenant and Freedom Tenant Buildings (“Initial Occupancy Date”) and ending on the last day of the Term of each of the Liberty Lease and the Freedom Lease an annual sum (“Civic Facilities Payment”) to be paid by each of Liberty Tenant and Freedom Tenant as follows:

(i) For the period commencing on the Initial Occupancy Date and ending on the last day of the Lease Year in which the Initial Occupancy Date occurs an amount equal to (A) the product obtained by multiplying the number of residential units in each of the Liberty Building and Freedom Building by \$500.00 dollars and (B) the product derived by multiplying \$.50 by the gross square feet of non-residential floor area, but

excluding therefrom the common areas described in each of the Liberty Lease and the Freedom Lease, for its respective Building (ii) by a fraction the numerator of which shall be the number of days between the Initial Occupancy Date and the last day of the Lease Year in which the Initial Occupancy Date occurs and the denominator of which is three hundred sixty five (365);

(ii) For each of the next two Lease Years after (i) above, an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in each of the Liberty Lease Building and Freedom Lease Building by \$500.00 dollars and (B) the product derived by multiplying \$.50 by the gross square feet of non-residential floor area, but excluding therefrom the common areas, the space occupied by Landlord, but including any garage, as described in each of the Liberty Lease and the Freedom Lease, for its respective Building;

(iii) For each of the next three Lease Years succeeding (ii) above, an annual amount equal to the sum of (A) the product obtained by multiplying the number of residential units in each of the Liberty Lease Building and Freedom Lease Building by \$550.00 dollars and (B) the product derived by multiplying \$.55 by the gross square feet of non-residential floor area, but excluding therefrom the common areas, the space occupied by Landlord, but including any garage, as described in each of the Liberty Lease and the Freedom Lease, for its respective Building; and

(iv) For the next succeeding Lease after (iii) above, and for each succeeding Lease Year thereafter, an amount equal to the product of: (a) the Parks Budget¹ less amounts (x) payable toward such Parks Budget by other tenants of Landlord in the Project Area under leases entered into prior to the Commencement Date; and (y) computed on the basis of operating costs for a particular neighborhood within the Project Area rather than for Operating Costs for the entire Project Area, multiplied by (a) a fraction, the numerator of which shall be the maximum permissible number of Zoning Floor Area, as defined in each of the Liberty Lease and the Freedom Lease, for its respective Building, excluding Community Space, and the denominator of which shall be the maximum permissible Zoning Floor Area in all residential buildings, excluding those described in (x) and (y) above, including each of the respective Liberty Lease Building or Freedom Lease Building, excluding Community Space, when computing its respective sum. Landlord at its sole option, and at any time, may establish an alternative method of determining Tenants' allocable share of the Operating Costs and the amount of the Civic Facilities Payment as may be equitable with respect to all tenants of landlord within the Project Area.

Notwithstanding the foregoing, the amount of each of Liberty Tenant and Freedom Tenant Civic Facilities payments, for any Lease Year referred to in each of the Liberty Lease and Freedom Lease shall not be greater than one hundred twenty-five percent (125%) of each of Liberty Tenant and Freedom Tenant's Civic Facilities payment for the prior Lease Year under each of the Liberty Lease and the Freedom

¹ Parks Budget being defined as an estimate of the cost of operating, maintaining, repairing, restoring, replacing and upgrading the Parks, any other parks and open spaces within or adjacent to the Project Area, the curbs, street trees and similar civic facilities or any part thereof, including the costs to create and maintain a reserve fund and of insuring the Civic Facilities, excluding therefrom certain enumerated areas as described in the Lease for each Payment Period or portion thereof.

Lease and the amount of capital costs included in the Operating Costs shall not exceed one hundred ten percent (110%) of the Operating Costs for any one year.

Tenants shall pay to Landlord the Civic Facilities Payments due in respect of each such Payment Period in equal monthly installments payable in advance on the first day of each month that occurs within a Payment Period in equal monthly installments.

(v) In the event that Landlord's Civic Facilities or portion thereof shall be destroyed by fire or other casualty, or taken by the exercise of the right of condemnation or eminent domain or similar proceeding, and the reasonable costs associated with the Restoration or reconstruction of all or any portion of the Landlord Civic Facilities exceed the proceeds of an award, proceeds of insurance and/or the Civic Facilities reserve fund established, then Tenants shall pay to Landlord an amount equal to the product obtained by multiplying such excess by (A) the Parks Budget for each Lease Year or portion thereof ("Payment Period"), succeeding the period in (iii) above, multiplied by (B) a fraction, the numerator of which shall be the maximum permissible number of Zoning Floor Area in all residential buildings including each of the respective the Buildings, less amounts (x) payable toward such Parks Budget by other tenants of Landlord in the Project Area under leases entered into prior to the Commencement Date; and (y) computed on the basis of operating costs for a particular neighborhood within the Project Area rather than for Operating Costs for the entire Project Area; reduced by the amount, if any, of payable by such other tenants.

(e) **Percentage Rent:** (i) For the period commencing on the date Tenant shall first collect any Gross Non-Residential Revenue², as hereinafter defined (the "Percentage Rent Commencement Date"), ending on December 31 of the calendar year in which the Percentage Rent Commencement Date occurs, and for each calendar year thereafter during the Term, Tenant shall pay to Landlord an amount equal to 10% of the Gross Non-Residential Revenue during each such calendar year or portion thereof ("Percentage Rent"). Percentage Rent shall be computed quarterly, in the manner specified in the Lease, and within thirty days after the end of each calendar quarter Tenant shall submit in reasonable detail the Gross Non-Residential Revenue from the prior quarter and based upon said submission pay Landlord 10% of the Gross Non-Residential Revenue as a partial payment. Tenant shall deliver to Landlord as soon as is practicable after the end of each calendar year, but not later than 120 days after the end of such calendar year, a separate statement for such year showing the Gross Non-Residential Revenue, together with the Percentage Rent due for such year. In the event of an underpayment of the Percentage Rent for the period, Tenant

² Gross Non-Residential Revenue includes, but is not limited to all revenue received by Tenant or an Affiliate of Tenant from, in connection with, or arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, and which includes all revenue received by Tenant or an Affiliate of Tenant arising out of the use and occupancy of space in the Building which is being used for any non-residential purpose, including without limitation, base rent, fixed rent, percentage rent, additional rent, and all other income, sums and charges, whether payable to Tenant or any Affiliate of Tenant under a Sublease or otherwise, but such gross non-residential revenue shall not include certain sums enumerated in the Lease, and by way of example, include but are not limited to security deposits affecting non-residential space, payments by residential tenants of the Building for laundry, cleaning services, et seq., refinancing proceeds, transfers between Tenants and Affiliates of Tenants, sums paid to Tenant or an Affiliate of Tenant for movie and television filming rights, or the right to provide the Building with garbage collection or cable television services, et seq., sums received by Tenant or an Affiliate in payment for construction work beyond the Building standard then performed by landlords for non-residential tenants in the Project Area generally, up to the fair market value of the work or services, and amounts otherwise included in computing gross non-residential revenue, but ultimately credited or refunded to Tenant or Tenant Affiliate to any Person, all of which are detailed with specificity in the Lease.

shall pay to Landlord the deficiency upon submission of the annual statement. In the event of an overpayment for such year, Tenant may offset said excess sum, without interest, against subsequent payment of Percentage Rent.

In the event Liberty Tenant's and/or Freedom Tenant's leasehold estate in the Premises shall be submitted to a condominium form of ownership, then all of Tenants obligations with respect to percentage rent shall be the direct obligation of the Unit Owners of each such commercial Units, it being the agreement of Landlord and Tenant that such unit owner, shall pay net Percentage Rent directly to Landlord and that Landlord may pursue any rights granted to Landlord hereunder directly against such Unit Owner, and any interest in the non-residential portion of each of the Liberty Lease and Freedom Lease Buildings that does not so provide shall be void and of no force and effect; however on or after the Conversion Date under each of the respective Liberty Lease and Freedom Lease, no rental shall be calculated or due in respect of the Center.

(f) ***Additional Payments:*** (i) **Transaction Payments**. In the event Tenants shall submit Tenants respective Leasehold estates in the Premises to a condominium form of ownership in accordance with the Leases, Tenants shall pay to Landlord, upon the first transfer of each Unit to a bona fide purchaser ("Transaction Payment"), a payment in an amount equal to three and one-quarter percent (3.25%) of the all amounts received as consideration for the transfer of such Unit, including (A) all cash or cash equivalent proceeds; (B) the outstanding principal amount of any debt, and any interest accrued thereon, assumed by the purchaser in such sale or to which such sale is made subject; (C) the fair market value of any property received by or on behalf of Tenant as consideration; (D) the amount of any installments of the purchase price for such Unit payable subsequent to the closing of such sale, whether pursuant to a purchase money promissory note or otherwise; and (E) any other amounts received as consideration ("Gross Sales Price") of such Apartment or Unit. To secure its obligations under the Leases to pay the Transaction Payments, Tenants shall also deliver to Landlord a Guaranty of Transaction Payments in favor of Landlord, in form and content as set forth in the respective Leases, and shall remain in effect through the final payment in full of the Transaction Payments.

(ii) **Additional Transaction Payments**. If Tenant shall fail to conduct a Bona Fide Sale Process and if, in accordance with the terms of the Leases, by December 31, 2014 ("Guarantee Date"), the net present value of Transaction Payments received by Landlord under the Liberty Lease and the Freedom Lease ("Actual NPV Amount") is less than six million two hundred fifty thousand dollars (\$6,250,000) (the "Guaranteed NPV Amount"), Liberty Tenant and/or Freedom Tenant shall, on or before January 31, 2015, make a prepayment of Transaction Payments in an amount equal to the difference between the Guaranteed NPV Amount and the Actual NPV Amount. If in accordance with the terms of the Leases, by December 31, 2019, the net present value of Transaction Payments received by Landlord under the Liberty Lease and the Freedom Lease, including any prepayments ("2nd Actual NPV Amount") is less than nine million five hundred thousand dollars (\$9,500,000) (the "2nd Guaranteed NPV Amount"), Liberty Tenant and/or Freedom Tenant shall, on or before January 31, 2020, make a prepayment of Transaction Payments in an amount equal to the difference between the 2nd Guaranteed NPV Amount and the 2nd Actual

NPV Amount. Net present value amounts shall be calculated for the period beginning on the Commencement Date and ending on either the Guarantee Date or the 2nd Guarantee Date, or such other date as appropriate for the calculation, and shall assume a discount rate of 6% and monthly discounting of cash flows. Landlord shall have no further entitlement to Transaction Payments after it has received cumulative Transaction Payments, including prepayments with a net present value of twelve million five hundred thousand dollars (\$12,500,000).

(iii) Deferred Lease Payments. Tenants shall pay to Landlord, no later than five (5) Business Days after the issuance of the initial temporary Certificate of Occupancy for any part of the respective Liberty Lease Building and/or Freedom Lease Building, deferred lease payments as follows:

As to Freedom Tenant: Two hundred fifty three thousand nine hundred thirty two dollars (\$253,932) together with interest on such sum accruing at a fixed rate of six percent (6%) per annum from the Commencement Date through the date such payment is actually made (based upon actual days elapsed and a 360 day year); and the Fuel Cell Adjustment³, if applicable.

As to Liberty Tenant: Three hundred seventy seven thousand two hundred sixty eight dollars (\$377,268) together with interest on such sum accruing at a fixed rate of six percent (6%) per annum from the Commencement Date through the date such payment is actually made (based upon actual days elapsed and a 360 day year); and the Fuel Cell Adjustment, if applicable.

3. ***Insurance***: Tenants shall, after Substantial Completion of each respective Building, and thereafter for the full Term of each of the Leases, keep in full force and effect (i) an All Risk of Physical Loss policy of insurance, including without limitation loss or damage by water, flood, subsidence and earthquake, on an Agreed Amount basis with full replacement cost; as such shall be determined from time to time, but not less frequently than required by the insurer and in any event at least once every three (3) years. In the event Tenants' leasehold estates shall be submitted to condominium ownership, however, then such replacement cost determination shall be made annually; (ii) commercial general liability insurance against liability for bodily injury, death and property damage in an amount as may be reasonably required by Landlord upon thirty (30) days notice, but not less than twenty five million dollars combined single limit under each respective Lease; and (iii) such other insurance enumerated in the Leases approved by Landlord, and such other insurance in such amounts as may be reasonably required by Landlord. All policies shall name each respective Tenant under each of the Liberty Lease and the Freedom Lease as the insured, the Landlord, and Master Landlord as additional insureds to the extent, where applicable, of their respective insurable interests in the Premises, and shall be primary with respect to any other coverage which Landlord and Master Landlord may obtain as additional insured. Any Mortgagee may be named an additional insured under a standard mortgagee endorsement, provided that such Mortgagee irrevocably agrees in writing for the benefit of Landlord that all proceeds of such insurance shall be applied in accordance with the

³ Fuel Cell Adjustment being equal to (i) \$586,800 minus (ii) all reasonable non-recoverable out-of-pocket expenses and costs incurred by Tenants in connection with the design and planning of the fuel cell technology-based generating plant by either of the Liberty Tenant and Freedom Tenant as described in Section 11.16 of each of the Liberty Lease and the Freedom Lease.

Lease. All Rent Insurance shall provide that any adjustments for claims in excess of such Insurance required by Landlord be for the benefit of Landlord and Tenants. The Lease provides in substance that all adjustments for claims with the insurers shall be made with the Landlord and Tenant. All proceeds of loss under the policies in excess of one million dollars which such floor as may be increased from time to time as provided for in the Lease, shall name as loss payees Landlord, Tenant and Mortgagee, as their interests may appear.

4. ***Restoration:*** If all or any part of the Buildings as defined in the Leases, shall be destroyed or damaged in whole or in part by fire or other casualty, Tenants shall, whether or not such damage or destruction shall have been insured, and whether or not insurance, if any, shall be sufficient for the purpose of such Restoration, Restore the Buildings. Except as hereinafter set forth, Tenants shall Restore the Premises in the event all or any part of the Premises shall be destroyed or damaged in whole or in part by fire or other casualty, at least to the extent of the value and as nearly as possible to the condition, quality and class of the Premises existing immediately prior to such occurrence, and if such casualty occurs within ten years after the date the Building has been Substantially Completed, then Restoration shall be performed in accordance with the Construction Documents as defined in the respective Leases. If any loss, damage or destruction occurs, and the cost of Restoration of which equals or exceeds \$1,000,000 (as adjusted), Tenants shall furnish to the Landlord complete plans and specifications for such Restoration, a contract or construction management agreement, payment and performance bonds in forms reasonably satisfactory to the Landlord for the cost of Restoration exceeding such amount, and required insurance policies, the Liberty Lease nor the Freedom Lease shall terminate or be forfeited or be affected in any manner, and there shall be no reduction or abatement of the Rental payable thereunder by reason of damage to, or total, substantial or partial destruction of the Building by reason of the untenability of the same for, or due to, any reason or cause whatsoever, and Tenants, notwithstanding any law or statute, waive any and all rights to quit or surrender the respective Premises, except in accordance with the provisions as set forth in each of the respective Leases. Tenants expressly agree that their obligations thereunder, including, without limitation, the payment of Rental, shall continue as though the Buildings had not been damaged or destroyed without abatement, suspension, or diminution of any kind, except in accordance with the respective Leases. Notwithstanding anything in the Leases to the contrary, to the extent that any portion of the Restoration involves work on the exterior of the Buildings or a change in the height, bulk or setback of the Buildings, Tenants shall furnish to the Landlord a complete set of plans and specifications for the Restoration of such Building. If such casualty occurs within the last three (3) years of either the Liberty Lease Term or the Freedom Lease Term, and materially damages all or substantially all of the Premises, then at the respective Tenant's option, to be exercised within ninety (90) days of such casualty, then Liberty Tenant and/or Freedom Tenant may terminate its respective Lease on the date so specified by Tenant, but no later than the date that is thirty (30) days following Tenant's exercise of such option, and provided Tenant shall have secured the Premises and put in a safe condition and Depository shall have paid over to Landlord all Restoration proceeds, as defined in the respective Leases.

If Tenant's leasehold interest in the Premises is submitted to the condominium form of ownership, all of Tenant's obligations under Article 8 of the Lease shall be the obligation of the Condominium Board.

5. ***Condemnation:*** If the whole or substantially all of the Premises shall be taken, excluding a taking of the fee interest in the Premises, or any leasehold interest superior to that of

the Tenant's, if after such taking Tenant's rights under this Lease are not affected, for any public or quasi-public purpose by any lawful power or authority by the exercise of the right of condemnation or eminent domain or by agreement among the Landlord, Tenant and those authorized to exercise such right, this Lease and the Term shall terminate and expire on the date of such taking and the rental payable by Tenant shall be equitably apportioned as of the date of such taking. The condemnation awards shall be apportioned: (i) first to the Landlord for or attributable to the value of the Land so taken, considered as unencumbered by the Lease and the Master Lease and as unimproved, and the Landlord's Civic Facilities and other site improvements made by Landlord taken in any proceeding with respect to such taking; (ii) next to the mortgagee which holds a first lien on Tenant's interest in the Lease under a Single Asset Mortgage or to Unit Mortgagees under Single Asset Unit Mortgages constituting first liens against the mortgaged Units, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by such Single Asset Mortgage or Single Asset Unit Mortgage with interest thereon at the rate specified therein to the date of payment; (iii) for a period of forty years from the Scheduled Completion Date, there shall next be paid to each additional Mortgagee under a Single Asset Mortgage, so much of the balance of such award as shall equal the unpaid principal indebtedness secured by its Single Asset Mortgage with interest thereon at the rate specified therein to the date of payment; (iv) next to Landlord so much of the award which is for or attributable to the value of Landlord's reversionary interest in that part of the Building taken in such proceeding, it being understood that for the period of forty years from the Scheduled Completion Date the value of Landlord's reversionary interest shall be zero; and (v) subject to the rights of any Mortgagees or Unit Mortgagees, Tenant shall receive the balance, if any, of the award. If less than substantially all of the Premises shall be so taken, the Lease shall continue as to the portion of the Premises remaining without abatement of the rent or diminution of any of Tenant's obligations hereunder. Tenant shall proceed diligently to Restore any remaining part of the Building. The entire award for or attributable to the Land taken and the fair market value of the Landlord's Civic Facilities shall be first paid to the Landlord, and the balance, if any, shall be paid to Depository, except that if such balance shall be less than \$1,000,000 (as adjusted in accordance with the Lease), such balance shall be payable, in trust, to Tenant for application to the cost of Restoration.

If the temporary use of the whole or any part of the Premises shall be taken, the term shall not be reduced or affected in any way and Tenants shall continue to pay in full the Rental, and Tenants shall be entitled to receive for itself any award or payments for such use, in accordance with the provisions of Section 9.05(i) and (ii) of the Lease.

Landlord, Tenant and any Mortgagee shall be entitled to file a claim and otherwise participate in any condemnation or similar proceedings. Landlord represents that under current law it has no power to condemn all or any part of the Premises, and Landlord covenants and agrees that without the prior written consent of Tenants, it shall never institute any taking or condemnation of all or any portion of the Premises.

6. Assignment, Subletting: Except as otherwise provided, and with specified exceptions regarding transfers among initial investors in the project, prior to Substantial Completion of the Buildings, or at any time after Substantial Completion of the Buildings that the conditions set forth in Section 10.01(b) of each of the Leases are not satisfied, neither the Leases nor any interest of Tenants in the Leases shall be sold, assigned, or otherwise transferred, whether by operation of law or otherwise, including without limitation an assignment in connection with a Tenants' submission of its leasehold estates in the Premises to a condominium

form of ownership, but excluding transfers of individual residential apartment Units following the submission by Tenants of their respective leasehold estates in the Premises to a condominium form of ownership pursuant to Article 40 and Exhibit G (Provisions Regarding the Conversion To Condominium Form of Ownership), of the Leases, nor shall any of the issued or outstanding capital stock of any corporation, any membership interest in any limited liability company, any partnership interest in any partnership or any equity interest in any Person, in each case, a respective Tenant, or owns a direct or indirect interest in the respective Tenant, be sold, assigned, transferred, pledged or encumbered, whether by operation of law or otherwise, if such would result in a change of the Controlling membership ownership of such Tenant as held by the members thereof as of the Commencement Date, or there be any change in the right to direct the management of any Person that is a respective Tenant or owns a direct or indirect interest in such respective Tenant, nor shall Tenants sublet the Premises as an entirety or substantially as an entirety, without the consent of Landlord in each case.

From and after the Substantial Completion of the Building, Landlord's consent shall not be required prior to any Transfer, assignment, or subletting of the Premises provided no Default as to which notice shall have been given shall have occurred and then be continuing, and Tenants have complied with the requirements under Article 10 of the respective Leases. Landlord's consent shall not be required in the event Tenants assign their interests in the Leases or subletting of the Premises as an entirety or substantially as an entirety, provided no Default then exists and is continuing; however, Tenants shall not, at any time during the Term, assign their interest in the Leases in whole or in part pursuant to any plan to submit Tenants' leasehold estate in the Premises to condominium ownership except in accordance with the applicable provisions of Article 10 above, and which assignment shall be governed by the provisions of Sections 23.01, Section 40 and Exhibit G of the Lease.

Tenants, including any Unit Owner, may, without Landlord's consent, but subject to the provisions of the last sentence of Section 10.01(c) enter into agreements for the rental of residential and non-residential space in the Building or the occupancy of such space for periods shorter than or equal to the remainder of the Term at the time of such agreements ("Subleases"). Each residential Sublease shall obligate the Subtenant pursuant thereto to occupy and use the Premises included therein for residential purposes only. After an Event of Default by Tenant, Landlord may, subject to the rights of any Mortgagee which is an Institutional Lender, collect subrent and all other sums due under Subleases and apply the net amount collected to Rental, but no such collection shall be deemed to be a waiver of any agreement, term, covenant or condition under the Lease. Tenants set over to Landlord all of Tenants' right title and interest in and to all Subleases, subject to the rights of any qualifying Mortgagee in accordance with the respective Lease. All Subleases shall provide that they are subject to the Leases and to the Master Lease, and at Landlord's option on the termination of the respective Lease; the Subtenants will attorn to or enter into a direct lease with Landlord. With respect to certain Subleases, and upon the terms enumerated in the Leases, the Landlord and a Subtenant shall execute an agreement wherein the Landlord agrees to recognize such Subtenant as a direct Tenant of Landlord under its Sublease upon termination of the respective Leases.

7. **Mortgage:** Tenants shall have the right to mortgage Tenants respective interests in its Leases to a Mortgagee, and shall give Landlord prompt notice of such mortgage, and the Landlord shall give to such mortgagee a copy of each notice of Default and such Mortgagee may remedy the Default and Landlord shall accept performance with the same force and effect as

though performed by Tenants. Except as provided in Section 10.10(b) of the respective Leases, no Mortgagee shall become liable under the provisions of the Leases unless and until such time as it becomes and remains, the owner of the respective leasehold estate created hereby. Landlord shall not be obligated to execute and deliver a new lease of the Premises pursuant to Section 10.11 except in accordance with the terms and as otherwise provided in the Leases. The provisions of Section 10.10 and 10.11 shall be of no further force and effect in the event Tenants shall have subjected Tenants' leasehold interests in the Premises to a condominium form of ownership. In the case of termination of the Leases upon Default, Landlord shall give notice thereof to each Mortgagee and on written request shall promptly execute and deliver a new lease of the respective premises covered by the mortgage, to the Mortgagee, for the remainder of the Term, provided that such Mortgagee shall pay all rental due and all expenses incurred by the Landlord and cure all Defaults. The Landlord shall assign to the tenant all of its right, title and interest in and to moneys then held by or payable to the Landlord or Depository which such Tenant would have been entitled. If there is more than one mortgage, the Landlord shall only recognize the Mortgagee whose mortgage is most senior in lien and which has requested a new lease of such premises.

8. ***Repairs:*** Tenants shall, unless otherwise provided, at their sole cost and expense, put and keep, or shall cause to be put and kept, in good condition and repair the premises and shall put, keep and maintain the Building in good and safe order and condition, and make all repairs to keep the same in good and safe order and condition. Tenants shall not commit or suffer, and shall use all reasonable precaution to prevent, waste, damage or injury to the premises. Tenants assume the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the Premises. All repairs made by Tenants shall be at least equal in quality and class to the original work and shall be made in compliance with all Governmental Authorities, as defined in Section 12.01 of the Leases. Tenants shall be responsible for the maintenance and repair of the structural elements of the core and shell as referred to in Section 11.02(n) of the respective Leases for the Community Space. Landlord shall be responsible for the construction, maintenance and repair of the interior of the Community Space, including the Landlord's Installation as defined in the respective Leases. When Tenants submit their respective Leases to a condominium form of ownership in accordance with Article 40 and Exhibit G of the respective Leases, then the obligations hereinabove described shall be assumed by such Condominium Board.

9. ***Compliance with Requirements:*** Tenant promptly must comply with any and all applicable present and future laws, rules, orders, ordinances, etc. affecting the Premises and shall have the right to contest the validity of any such requirements or the application thereof in accordance with the provisions of the Lease.

10. ***Capital Improvements:*** Tenants shall not demolish, replace or materially alter the Building, or make any addition thereto, unless Tenants have procured from all Governmental Authorities and paid for all permits, consents, certificates and approvals; the improvements will not materially reduce the value of the Premises; the Capital Improvements are made with diligence, in a good and workmanlike manner and in compliance with all requirements; and Tenants have delivered to Landlord certificates of insurance acceptable to Landlord. If the estimated cost of any proposed Capital Improvement exceeds \$1,000,000 (as adjusted), Tenants shall pay the fees and expenses of any architect or engineer selected by the Landlord and furnish: complete plans and specifications; a contract or construction management agreement; payment

and performance bonds or other security. To the extent that any portion of the Capital Improvement involves work which affects the structural elements of the Building or work involving the exterior or a change in the height, bulk or setback of the Building, Tenants shall furnish to the Landlord complete plans and specifications and any other item at the Landlord's request. Title to all additions, alterations, improvements and replacements made to the Building shall forthwith vest in Landlord, without any obligation by Landlord to pay any compensation therefor to Tenants.

11. ***Equipment:*** All equipment shall be and shall remain the property of the Landlord. Tenants shall not have the right, power or authority to, and shall not, remove any Equipment from the Premises without the consent of Landlord, which consent shall not be unreasonably withheld.

12. ***Discharge of Liens:*** Subject to the provisions of the respective Leases, Tenants shall not create or permit to be created any lien, encumbrance or charge upon the Premises and shall not suffer any other matter or thing whereby the estate, right and interest of the Landlord in the Premises might be impaired. Tenants may finance any Equipment. If any lien at any time shall be filed against the Premises, Tenants shall cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise.

13. ***Landlord's Right to Perform:*** If Tenants at any time shall be in Default, after notice thereof and after applicable grace periods, if any, provided under the respective Leases for Tenants or a Mortgagee, respectively, to cure or commence to cure same, the Landlord, without waiving or releasing Tenants from any obligations of Tenants contained in the respective Leases, may (but shall be under no obligation to) perform such obligation on Tenants' behalf.

14. ***Events of Default:*** The Leases provide that if certain Defaults shall occur, the Landlord shall have the right to terminate the respective Lease. See, however, "Condominium Ownership" below for a discussion of certain limitations on such remedy. Events of Default under the Leases include but are not limited to: (i) failure of Tenants to pay any item of Rental for 10 days after notice from the Landlord to such Tenant; (ii) failure by Tenants to observe or perform one or more of the terms, conditions, covenants or agreements contained in this Lease which failure continues for a period of 30 days after notice thereof by Landlord; (iii) filing of a bankruptcy petition or the commencement of any proceeding against Tenant seeking dissolution or similar relief under the bankruptcy code that shall not have been dismissed within 90 days and (iv) assignment of the Lease, sublease, or transfer of certain interests in Tenant, without the Landlord's approval to the extent required which transaction has not been made to comply or voided ab initio within 30 days after notice thereof from Landlord; (v) to the extent permitted by law, if Tenant shall admit, in writing, that it is unable to pay its debts as such become due, or if Tenant should make an assignment for the benefit of creditors. As previously stated, the Leases grant a mortgagee certain rights intended to provide protection in the Event of Default by Tenant, including a right to notice and cure and a right to enter into a new lease with the landlord directly. In the event the Lease shall terminate due to an Event of Default and in accordance with the provisions of the Leases, then Tenant, Tenant as debtor-in-possession and/or Trustee shall immediately quit and surrender the Premises. No termination of this Lease pursuant to Section 24.03(a) or taking possession of or re-letting the Premises or any part thereof, pursuant to Sections 24.03(b) or 24.04(b) of the Lease shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, repossession or re-letting.

Each Tenant shall pay to Landlord all costs and expenses, including, without limitation, reasonable attorney's fees and disbursements, incurred by Landlord in any action or proceeding to which Landlord may be made a party by reason of any act or omission of Tenant, and Tenant shall pay to Landlord all costs and expenses, incurred by Landlord in enforcing any of the covenants and provisions of this Lease and incurred in any action brought by Landlord against Tenant on account of the provisions thereof.

15. ***Civic Facilities:*** The Landlord has the obligation to construct certain enumerated Civic Facilities. Tenants acknowledge that other than those certain facilities enumerated in Article 26 of the Lease, Landlord has completed the Civic Facilities improvements. Tenants have the obligation to maintain certain of the enumerated Civic Facilities, and Landlord the obligation to maintain the balance of the enumerated Civic Facilities. In the event Landlord fails to so maintain the enumerated civic facilities in accordance with the Leases Tenants shall have the right but not the obligation to undertake Landlord's Maintenance Obligations ("Self-Help," as defined in the Leases). In the event Tenants undertake Self-Help, then Tenants shall have the right to offset against the next installment of Civic Facilities Payments an amount equal to the reasonable expenses thereby incurred or paid by each respective Tenant together with interest thereon at the Involuntary Rate computed with respect to each payment made by such Tenant. Landlord shall incur no penalty or liability, and Tenants shall have no remedies or rights other than as expressly provided in the respective Lease, it being agreed by the parties that Landlord's failure to perform Landlord's Maintenance Obligations shall not be deemed a failure by Landlord to perform a substantial obligation on Landlord's part to be performed under the Lease.

16. ***No Subordination:*** The Landlord's interest in the Leases shall not be subject or subordinate to any mortgage now or hereafter placed upon Tenants' interests in the Leases or any other liens or encumbrances hereafter affecting Tenants' interests in the Leases, including without limitation any Unit Mortgage, or any other liens or encumbrances hereafter affecting Tenants' interests in their respective Leases including without limitation a lien filed pursuant to Section 339-z and 339-aa of the Real Property Law. Master Landlord and Tenants executed that certain Master Landlord Non-Disturbance and Recognition Agreement which shall be in the form exhibited to each of the Leases, and which is binding on Master Landlord's successors and assigns and benefits Tenants' successors and assigns, and provides that if the Master Lease is terminated then Landlord will recognize Tenants under the Leases and Tenants will attorn to Landlord and will recognize such holder as Tenants' landlord under the Leases.

17. ***Condominium Ownership:*** Tenants shall, within ninety (90) days after Substantial Completion of each respective Building submit Tenants' leasehold estate in the Premises to condominium ownership pursuant to Article 40 and Exhibit G of each respective Lease. The Condominium Plan shall provide that the Community Space will comprise a separate Unit or Units. On the later of completion of Tenants' work to construct the core and shell of the Community Space or the Condominium Date, Tenants shall convey the Units comprising the Community Space to Landlord. No Common Charges or maintenance fees shall be allocated to the Units comprising the Community Space. The documents governing the Community Space as a component of a condominium corporation and Landlord's rights and interests shall be subject to Landlord's approval, which shall not be unreasonably withheld or delayed. From and after the Condominium Date, Landlord and Tenant agree that Landlord shall not have the right to terminate the Leases pursuant to Section 24.03(a) or to repossess the respective Premises or dispossess Tenants pursuant to Section 24.03(b), except as expressly

permitted in the respective Leases and in accordance with the terms covenants and conditions thereunder.

18. ***Limitations on Landlord's Liability:*** The liability of Landlord, as set forth in the Leases, shall be limited to Landlord's interest in each such respective Premises, including the rents and profits therefrom, the proceeds of any insurance policies covering the relating to such Premises, any awards payable in connection with any condemnation of such Premises or any part thereof and any other rights, privileges, or other interests appurtenant to such Premises. Neither Landlord nor any such Person nor any of the members, directors, officers, employees, agents or servants of either shall have nay liability hereunder beyond Landlord's interest in such Premises, including, without limitation, the rents and profits therefrom and such other proceeds and awards as set forth in the respective Leases appurtenant to such Premises, and no other property or asset of Landlord or any such Person shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenants' remedies thereunder.

19. ***Tenant's Liability:*** Except as to Recourse Claims as defined in the Leases, the liability of Tenants shall be limited to Tenants' interests in the respective Premises, including without limitation, the rents and profits from such Premises, the proceeds of any insurance policies covering or relating to such Premises, any awards payable in connection with any condemnation of such Premises or any part thereof, any security provided hereunder and amount deposited hereunder with Landlord, Depository or a Mortgagee, or other interest or sums appurtenant to such Premises. Except as to Recourse Claims, Tenants shall have no liability thereunder beyond Tenants' interests in such Premises, and no other property or asset of Tenants shall be subject to levy, execution or other enforcement procedure for the satisfaction of Landlord's remedies hereunder.

20. ***Subsurface Vaults:*** The Tenants have Leased from Landlord the "East Subsurface Vault" and the "West Subsurface Vault," both as more particularly described in the respective Leases (the East Subsurface Vault and the West Subsurface Vault hereinafter collectively the "Subsurface Vaults"). The Subsurface Vaults are included in the Premises and demised to each respective Tenant. All of Tenants' rights and obligations under the Leases apply with respect to the Subsurface Vaults. Tenants have, by virtue of a certain revocable license granted to Tenants by Landlord under the Leases, the right to use and occupy that certain Licensed Subsurface Vault as more particularly defined in the Leases. Tenants' rights with respect to the Licensed Subsurface Vaults are limited solely to the privilege to use and occupy same for the Term granted under the respective Leases as a revocable license upon the terms and conditions so stipulated in the Leases only.

ANCILLARY AND OTHER AGREEMENTS

In connection with the development, maintenance and operation of the World Financial Center, the Authority, Olympia & York and American Express Company and certain of its affiliates (with respect to the Project Operating Agreement) have entered into certain ancillary agreements. The Authority is also a party to other agreements governing construction of infrastructure improvements and the construction, operation and maintenance of parks and open spaces in the Project Area.

Subsequent to the confirmation of a bankruptcy plan in September 1996, (see "CERTAIN FACTORS AFFECTING REVENUES FROM EXISTING SUBLEASES – Bankruptcy

Considerations”), Brookfield Financial Properties, L.P., (formerly known as World Financial Properties, L.P.) has succeeded to the interests of Olympia & York Battery Park Company in the agreement set forth below and manages the common areas of the World Financial Center.

Civic Facilities Maintenance Agreement

Pursuant to an agreement dated as of September 1, 1981, between the Authority and Olympia & York Battery Park Company (“Olympia & York” or the “Contractor”), as amended by an amendment dated as of June 15, 1983, between the Authority and the Contractor (the “Civic Facilities Maintenance Agreement”), the Contractor agreed, upon the terms and conditions therein provided, to operate, maintain and repair certain civic facilities (the “WFC Civil Facilities”) for the Authority. Unless sooner terminated, the Civic Facilities Maintenance Agreement extends until the earlier of June 17, 2069, the date New York City becomes the fee owner of the Premises, or until dedication of the Civic Facilities to New York City, or acceptance by the appropriate utility company or by a tenant under a WFC Severance Lease or assumption by the Management Committee pursuant to the Project Operating Agreement of the maintenance responsibilities therefor, or December 31 of the calendar year in which the Contractor or a Permitted Assignee ceases to be the holder of tenant’s interest under any WFC Severance Lease.

The Contractor shall submit to the Authority, for its approval, a budget of the costs and expenses which, it expects to incur in connection with the performance of its duties. The Authority shall either approve such budget or give the Contractor a notice of objections in reasonable detail. If the Authority shall have objected to the budget and the parties are thereafter unable to agree, the Authority shall solicit bids for the operation, maintenance and repair of the WFC Civic Facilities and shall award a contract to the lowest qualified bidder. If the lowest qualified bid shall be other than the Contractor, the Civic Facilities Maintenance Agreement shall be terminated. If the Authority fails to perform its obligations under the Civic Facilities Maintenance Agreement, the Contractor may exercise any remedy to which it is entitled at law or in equity.

The liability of the Authority for damages or otherwise shall be limited to the Authority’s interest in the WFC Civic Facilities, the Premises and the WFC Severance Leases, including, without limitation, the rents, issues and profits therefrom, the proceeds of any insurance policies covering or relating to the WFC Civic Facilities and the Premises, and any awards payable in connection with any condemnation of the WFC Civic Facilities, the Premises and the WFC Severance Leases. Neither the Authority nor any of its directors, officers, employees, agents or servants shall have any liability (personal or otherwise) beyond the Authority’s interest in the WFC Civic Facilities, the Premises and the WFC Severance Leases, and no other property or assets of the Authority or any of its directors, officers, employees, agents or servants shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Contractor’s remedies thereunder.

The Authority is obligated to reimburse the Contractor for its Actual Costs, which include Extra Budget Amounts (which includes Actual Costs necessitated by any Casualty, Taking, defects in original construction except for a Warranty Repair, conditions other than those arising by reason of wear and tear and obsolescence, or additional repair or change of the Plaza or Esplanade because of specific events). Any offsets taken by a tenant under the WFC Severance

Leases on account of amounts owed by the Authority to the Contractor under the Civic Facilities Construction Agreement shall be deemed to constitute payment by the Authority to the Contractor of such sums.

Project Operating Agreement

The Authority, Olympia & York and American Express Company and certain of its affiliates entered into a project operating agreement dated as of June 15, 1983, as amended by an amendment dated as of November 21, 1996 between the Authority, American Express Company and certain of its related entities and Brookfield WFC (the “Project Operating Agreement”). The purpose of the Project Operating Agreement is to provide for the use, management, repair and restoration and cost sharing of certain areas and facilities (collectively, the “Common Areas”) which, although located solely or principally in one of the Parcels, are for the use or benefit of, or provide utilities or other necessary services to, all or more than one of the Parcels and tenants and subtenants thereof. The Common Areas include the glass-enclosed Winter Garden, the Liberty Street Bridge, the Central Plant, the Loading Dock, the Courtyard, the Utility Lines and Conduit, the Security and Fire Control Center, the Pedestrian Ways, the Landscaped Areas, the Driveway, and, until the dedication thereof to New York City for public use, those WFC Civic Facilities with respect to which the Management Committee elects or a tenant under a WFC Severance Lease elects to assume responsibility for the operation, maintenance, repair and restoration (the “Elected Civic Facilities”). The Project Operating Agreement commenced on June 15, 1983, is intended to run with the land to apply to and bind the successors and assigns of the respective parties (including the Authority as successor in interest to a tenant or The City of New York), and expires on June 17, 2069. Tenant of each Parcel for itself, its successors and assigns, agrees that it will not amend its WFC Severance Lease or the Easement and Restrictive Covenant Agreement in any manner which would adversely affect the rights of any other tenant, or impair or derogate its obligations, under the Project Operating Agreement.

The Project Operating Agreement provides for the establishment of a tenants’ committee (the “Management Committee”) comprised of representatives of tenants under the WFC Severance Leases. The Project Operating Agreement imposes monetary and other obligations on the part of tenants under the WFC Severance Leases. In the event the Authority shall have terminated a WFC Severance Lease, the Authority shall assume such obligations of tenant under the terminated WFC Severance Lease. The parties to the Project Operating Agreement acknowledge that, under each WFC Severance Lease, the Authority has agreed that tenants, acting jointly through the Management Committee, shall have the right of self-help if the Authority, as landlord under the WFC Severance Leases, fails to perform its obligations to operate, maintain and repair the WFC Civic Facilities. If the Management Committee, on behalf of tenants, shall obtain a judgment (beyond right of appeal) holding that such tenants rightfully undertook to perform or cause the performance of such obligations of the Authority, then each tenant under a WFC Severance Lease (other than the Authority if it shall have succeeded to the interest of a tenant under the Project Operating Agreement) may offset from the next installments of Base Rent, Percentage Rent, Retail Rent, Other Rent and PILOT due the Authority such tenant’s pro rata share of the amount of the final judgment (together with interest).

The Authority may dedicate to the City for public use those portions of the WFC Civic Facilities consisting of the Pedestrian Bridges and the Plaza or Esplanade, or any portion thereof. The Authority has, however, agreed to give tenants notice of its intention to dedicate such WFC

Civic Facilities, and if the Management Committee (excluding the Authority if it is a tenant) elects by notice to the Authority on behalf of tenants to assume the Authority's obligations to operate, maintain, repair and restore such WFC Civic Facilities, the Authority shall not dedicate such WFC Civic Facilities or the portion thereof in question. In such event, tenants (other than the Authority) jointly shall be obligated to each other and to the Authority to operate, maintain, repair and restore such WFC Civic Facilities or such portion thereof, until dedication to New York City. In the event the Management Committee shall not have elected to block such dedication, the Authority has agreed to give tenant under the WFC Severance Lease for One World Financial Center the right to block such dedication and individually assume such obligations with respect to the Southern Pedestrian Bridge, and tenant under the WFC Severance Lease for Two World Financial Center the right to block such dedication and individually assume such obligations with respect to the Northern Pedestrian Bridge, the Plaza and the Esplanade. If neither tenant shall have elected to do so, the Authority has agreed that tenant under the WFC Severance Lease for Three World Financial Center shall have such rights.

Additional Ancillary Agreements

1. On October 27, 1987, the Authority entered into an agreement with successors in interest to Olympia & York ("O&Y WFC") and its affiliates (the "O&Y WFC Settlement Agreement") in which the parties agreed that a payment of \$625,000 by the Authority to O&Y WFC would constitute a full settlement of the Authority's obligation to make payments to O&Y WFC for the costs, past, present and future, incurred by O&Y WFC in performing the maintenance and other obligations with respect to the WFC Civic Facilities under the Civic Facilities Maintenance Agreement. O&Y WFC's acceptance of such payment was subject to (i) an agreement being entered into between the Authority, American Express Company and certain of its affiliates and Merrill Lynch & Co. and certain of its affiliates pursuant to which the Management Committee, at its expense, under the Project Operating Agreement would perform the maintenance obligations for the WFC Civic Facilities and the Authority would not dedicate the WFC Civic Facilities to The City of New York, and (ii) American Express Company and Merrill Lynch & Co. each agreeing in a new civic facilities agreement to pay a respective portion of the cost of these maintenance obligations. Although such agreement has not been finalized or executed as of this date, the Authority has made the \$625,000 payment to O&Y WFC and the Management Committee has been maintaining the WFC Civic Facilities at its expense. There can be no assurance, however, that the Management Committee will continue to do so. See "Civic Facilities Maintenance Agreement" and "Project Operating Agreement" above for a discussion of the rights and obligations of the Authority, Olympia & York, as Contractor, and the tenants under the WFC Severance Leases with respect to the WFC Civic Facilities. Brookfield WFC has succeeded to the interest of O&Y WFC.

2. With regard to the operation and maintenance of the Plaza, the Authority and WFP Retail Co. L.P. ("WFP Retail"), successor in interest to Olympia & York WFC Retail Company ("O&Y Retail") are parties to an agreement, dated as of July 27, 1988, which provided for the Authority's assignment to O&Y Retail of its rights to license vendors in certain areas in or adjacent to the Plaza. The agreement provides that WFP Retail may sub-license vendors in accordance with criteria and rules developed by O&Y Retail (or which might be developed by WFP Retail) subject to the reasonable approval of the Authority.

3. In an agreement between the Authority, WFC Tower A Company, Olympia & York Tower B Company, and WFC Tower D Company, dated as of July 27, 1988, the Authority agreed not to grant the operator of the North Cove Yacht Harbor (the "Marina operator") any exclusive easement across or through the WFC Civic Facilities and to require the operator to bear the incremental costs of operating, maintaining, repairing, providing security for and restoring the WFC Civic Facilities resulting from the operation of the Marina. The Agreement makes the Authority liable to the Management Committee and tenants under the WFC Severance Leases for any such costs which the Marina operator fails to pay. The agreement further provides that the insured entities as defined in the agreement shall not be liable for, and the Authority shall, or shall cause the Marina operator to indemnify, defend and hold harmless such insured entities from and against, any losses, costs, expenses, damages and claims arising out of, resulting from or in connection with the construction of the Marina and the negligent or wrongful actions of the Marina operator in connection with the operation of the Marina. The Authority is liable to the Management Committee and tenants under the WFC Severance Leases to the extent that the Marina operator fails to fulfill certain obligations specified in the agreement.

By assignments on November 21, 1996, WFP Tower A Co. L.P., WFP Tower B Co. L.P., and WFP Tower D Co. L.P. have succeeded to the interests, respectively, of WFC Tower A Company, Olympia & York Tower B Company, and WFC Tower D Company.

4. The Authority and WFP Retail, as successor in interest to O&Y Retail, are also parties to an agreement, dated as of July 27, 1988, concerning the license of certain limited portions of the World Financial Center Plaza adjacent to Two World Financial Center and Four World Financial Center for use as spillover seating by restaurant subtenants located in each such building.

Other Agreements

In connection with matters relating to other portions of the Project Area (not limited to the World Financial Center), the Authority has entered into three mapping agreements with the City: (a) dated as of April 23, 1982, relating to the streets and parks in the Rector Place and Battery Place residential areas and to the southernmost of two pedestrian bridges which cross West Street and are connected to the World Financial Center (BPC Development Corporation, a subsidiary of the New York State Urban Development Corporation and the Authority's predecessor in interest as fee owner of the Project Area, was also a signatory), (b) dated as of March 15, 1983, relating to the northernmost of two pedestrian bridges which cross West Street and are connected to the World Financial Center area and (c) dated as of October 3, 1991, relating to the streets and parks in the portion of the Project Area north of Liberty Street (the "North Neighborhood"). Together these agreements provide for the Authority's construction, conveyance to the City and dedication for public use (and the City's acceptance of such dedication) of the streets, water and sewer facilities and certain related infrastructure improvements (not including parks) of Battery Park City. Provision is also made in these agreements for the parks of Battery Park City, including the Plaza at the World Financial Center.

These agreements, among other things, allow the Authority to retain ownership of these mapped parks (subject to certain limitations described below), require the Authority to consult with the New York City Department of Parks and Recreation concerning rules and regulations for the parks and require the Authority to develop and maintain the parks. These agreements

also permit the Plaza at the World Financial Center and the North Cove to be developed, operated and maintained by the tenants under the WFC Severance Leases and by the North Cove lessee, respectively. These agreements further provide for the funding mechanism for the operation and maintenance of the parks adjacent to the residential area of the Project Area which is reflected in the Civic Facilities Payment provisions of the Rector Place Subleases and the Battery Place Subleases.

The mapping agreement for the Rector Place and Battery Place residential areas provides that prior to the City's exercise of its option to acquire all of the Project Area, upon the request of the City, the Authority shall dedicate to the City by deed or deeds of cession the parks in such area. The mapping agreement for the North Neighborhood provides that prior to the City's exercise of its option to acquire all of the Project Area, (a) if the Authority shall fail in a material way to comply with its obligations with respect to the parklands or (b) if the New York City Department of Parks and Recreation shall determine to acquire the parks at any time after December 31, 1999, upon notice from the Parks Department, the Authority shall dedicate to the City by deed or deeds of cession the parks in such North Neighborhood (except for the World Financial Center Plaza).

Upon the exercise of the City's option to acquire all of Battery Park City, title to the parks will be held by the City, except that title to the parklands in the North Neighborhood shall be subject to certain then existing agreements with respect to the Plaza at the World Financial Center, the North Cove and the operating agreement for such North Neighborhood parklands.

APPENDIX E

Form of Continuing Disclosure Agreement

This Continuing Disclosure Agreement (this “Agreement”) dated December 22, 2009 is by and between Battery Park City Authority (“BPCA”) and The Bank of New York Mellon, New York, New York, as trustee (the “Trustee”), pursuant to the 2009 Bonds Series Resolution adopted by BPCA on September 10, 2009 (collectively with the General Bond Resolution of the BPCA adopted on September 9, 2003, the “Resolution”). This Agreement is executed and delivered in connection with the issuance by BPCA of its Senior Revenue Bonds, Series 2009A and Senior Revenue Bonds, Series 2009B (collectively, the “2009 Bonds”).

The parties hereto, in consideration of the mutual covenants herein contained, and other good and lawful consideration, hereby agree, as follows:

ARTICLE I **DEFINITIONS**

Section 1.1. **Definitions.** Any capitalized terms not otherwise defined in Section 1.1 of this Agreement shall have the respective meanings set forth in the Resolution. The following terms used in this Agreement shall have the following respective meanings:

(a) **“Annual Financial Information”** means, collectively, (1) information of the type set forth in those tables included in the Official Statement and entitled: “Table 1 - Summary of Pledged Revenues and Operating Expenses,” “Table 2 - Summary of Billable Assessed Values of WFC Buildings NYNEX Building and Residential and Hotel Buildings,” and “Table 3 - City Real Property Tax Rates,” (2) financial information or operation data applicable to BPCA’s most recent Fiscal Year (currently, each Fiscal Year would end on October 31), of the types included in Appendix B to the Official Statement entitled “Authority Audited Financial Statements and Supplementary Schedules,” and (3) the information regarding amendments to this Agreement required pursuant to Sections 4.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

(b) **“Audited Financial Statements”** means annual financial statements, if any, of BPCA, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP applied on a consistent basis; provided, however, that BPCA may from time to time, in order to comply with federal or State legal requirements, modify the basis on which its financial statements are prepared. Notice of any such modification shall be provided to MSRB through and in accordance with EMMA, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(c) **“Beneficial Owner”** means a beneficial owner of 2009 Bonds, as determined pursuant to the Rule.

(d) **“EMMA”** means the MSRB’s Electronic Municipal Market Access System.

(e) “**Fiscal Year**” means that period established by BPCA with respect to which, as applicable, its Audited Financial Statements or Unaudited Financial Statements are prepared. As of the date of this Agreement, BPCA’s Fiscal Year begins on November 1 and ends on October 31 of the next calendar year.

(f) “**GAAP**” means accounting principles generally accepted in the United States of America from time to time by the Financial Accounting Standards Board and the Government Accounting Standards Board.

(g) “**Holders**” means the registered owners of the 2009 Bonds.

(h) “**Listed Event**” means any of the following events with respect to the 2009 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserve reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax exempt status of any 2009B Bonds;
- (vii) modifications to rights of Holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property, securing repayment of the 2009 Bonds;
- (xi) rating changes; and
- (xii) failure of the BPCA to comply with the requirements of Section 2.2 of this Continuing Disclosure Agreement.

(i) “**Material Event**” means any Listed Event, if material.

(j) “**Material Event Notice**” means written or electronic notice of a Material Event.

(k) “**MSRB**” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(l) **“Notice”** means written notice, sent for overnight delivery via the United States Postal Service or a private delivery service which prove evidence of delivery.

(m) **“Notice Address”** means with respect to BPCA:

Battery Park City Authority
One World Financial Center
New York, New York 10281-1097
Attention: President and Chief Executive Officer and
Attention: General Counsel

(n) **“Official Statement”** means the Official Statement, dated December 15, 2009, of BPCA with respect to the BPCA Senior Revenue Bonds, Series 2009A and Series 2009B.

(o) **“Rule”** means the applicable provisions of Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof.

(p) **“SEC”** means the United States Securities and Exchange Commission.

(q) **“Securities Counsel”** means legal counsel expert in federal securities law.

(r) **“Unaudited Financial Statements”** means the same as Audited Financial Statements, except that they shall not have been audited.

(s) **“Underwriters”** means the underwriters in connection with the primary offering of the 2009 Bonds.

ARTICLE II **THE UNDERTAKING**

Section 2.1. Purpose. This Agreement shall constitute a written undertaking for the benefit of the Holders and the Beneficial Owners, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) BPCA shall provide Annual Financial Information with respect to each Fiscal Year to the MSRB through and in accordance with EMMA by no later than 180 days after the end of such Fiscal Year.

(b) BPCA shall provide, in a timely manner, notice to the MSRB through and in accordance with EMMA of any failure by it to provide Annual Financial Information to the MSRB.

Section 2.3. Audited Financial Statements. If Audited Financial Statements are not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, BPCA shall provide Audited Financial Statements, when and if available, to the MSRB by and through EMMA.

Section 2.4. Material Event Notice. (a) BPCA shall provide, in a timely manner, any Material Event Notice to (i) the MSRB and (ii) Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the 2009 Bonds. *Notwithstanding* the foregoing, unless the Rule were to require otherwise, Material Event Notice of Listed Events described in items (viii) and (ix) of the definition of Listed Events need not be given under this Agreement any earlier than, if applicable, the date notice is required to be given to Holders of 2009 Bonds pursuant to the Resolution.

(b) The Trustee shall promptly give Notice to BPCA at its Notice Address and Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings whenever in the course of performing its duties as Trustee under the Resolution, the Trustee identifies a Listed Event; *provided, however,* that the failure of the Trustee so to advise BPCA shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Resolution.

Section 2.5. Additional Information. Nothing in this Agreement shall be deemed to prevent BPCA from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Material Event, in addition to that which is required by this Agreement. If BPCA chooses to include any information in any Annual Financial Information or notice of occurrence of a Material Event in addition to that which is specifically required by this Agreement, BPCA shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of a Material Event.

ARTICLE III OPERATING RULES

Section 3.1. Fiscal Year. Annual Financial Information shall be provided at least annually, *notwithstanding* any Fiscal Year longer than 12 calendar months. BPCA shall promptly notify the MSRB by and through EMMA of each change in its Fiscal Year.

Section 3.2. Incorporation by Reference. It shall be sufficient for purposes of Section 2.2 hereof if BPCA provides Annual Financial Information by specific reference to documents previously filed with the MSRB by and through EMMA.

Section 3.3. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.4. Transmission of Information and Notices. *Unless* otherwise required by law and, in BPCA's sole determination, subject to technical and economic feasibility, BPCA shall employ such methods of information and notice of transmission as shall be requested or recommended by the herein-designated recipients of BPCA's information and notices including the MSRB.

ARTICLE IV **TERMINATION, AMENDMENT AND ENFORCEMENT**

Section 4.1. Termination. (a) BPCA's and the Trustee's obligations under this Agreement with respect to 2009 Bonds shall terminate upon the legal defeasance pursuant to the Resolution, prior redemption, or payment in full of all of the 2009 Bonds. BPCA shall give notice of any such termination to the MSRB by and through EMMA.

(b) This Agreement, or any provision hereof, shall be null and void to the extent set forth in the opinion of Securities Counsel described in clause (1) in the event that BPCA (1) delivers to the Trustee an opinion of Securities Counsel, addressed to BPCA and the Trustee, to the effect than those portions of the Rule which require the provisions of this Agreement, or any of such provisions, do not or no longer apply to any or all of the 2009 Bonds, whether because such portions of the Rules are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers notice to such effect to the MSRB by and through EMMA.

Section 4.2. Amendment. (a) This Agreement may be amended by written agreement of the parties, and any provision of this Agreement may be waived in writing, in either case without the consent of the Holders or Beneficial Owners, except to the extent required pursuant to clause 4(ii) below, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of BPCA or the type of business conducted thereby, (2) this Agreement as so amended or waived would have complied with the requirements of the Rule as of the date of the Official Statement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) BPCA shall have delivered to the Trustee an opinion of Securities Counsel, addressed to BPCA and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with BPCA (such as the Trustee or bond counsel), acceptable to BPCA and the Trustee, has determined that the amendment or waiver does not materially impair the interests of the Beneficial Owners, or (ii) the Holders consent to the amendment or waiver of this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of Holders, and (5) BPCA shall have delivered copies of such amendment or waiver to the MSRB by and through EMMA.

(b) In addition to clause (a) above, this Agreement may be amended by written agreement of the parties, and any provision of this Agreement may be waived in writing, in either case without the consent of the Holders or Beneficial Owners, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement, and is applicable to this Agreement, (2) the Trustee shall have received an opinion of Securities Counsel, addressed to BPCA and the Trustee, to the effect that the execution, performance and effect of such amendment or waiver would not, in and of themselves, result in a violation of the Rule, taking into account any subsequent change in or official interpretation of the Rule, and (3) BPCA shall have delivered copies of such amendment or waiver to the MSRB by and through EMMA.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual

Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall inure solely to the benefit of the parties hereto and the Holders from time to time; *except* that Beneficial Owners shall be third-party beneficiaries of this Agreement.

(b) *Except* as provided in this subsection (b), the provisions of this Agreement shall create no rights in any other person or entity. Except as limited by the two succeeding sentences, the obligation of BPCA to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Beneficial Owner of Outstanding 2009 Bonds, or by the Trustee on behalf of the Holders of Outstanding 2009 Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding 2009 Bonds or by any Beneficial Owner. A Beneficial Owner may not take any enforcement action pursuant to clause (ii) without the consent of the Holders of not less than a majority in aggregate principal amount of the 2009 Bonds at the time Outstanding. The Trustee shall not be required to take any enforcement action *except* at the direction of the Holders of not less than a majority in aggregate principal amount of the 2009 Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity.

(c) The Beneficial Owners', the Holders', and the Trustee's right to enforce the provisions of this Agreement shall be limited to a right, by action in mandamus or for specific performance, in the Federal or State courts located in the Borough of Manhattan, State and City of New York, to compel performance of BPCA's obligations under this Agreement. Any failure by BPCA or the Trustee to perform in accordance with this Agreement shall not constitute a default or any Event of Default under the Resolution, and the rights and remedies provided by the General Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

ARTICLE V MISCELLANEOUS

Section 5.1. Duties, Immunities and Liabilities of Trustee. The Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement, and BPCA agrees to indemnify and save, but solely from Pledged Sublease Revenues, the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any

claim of liability, but excluding liabilities due to the Trustee's negligence or misconduct in the performance of its duties hereunder.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.3. Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State, *provided that*, to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

BATTERY PARK CITY AUTHORITY

By: _____
Authorized Representative

**THE BANK OF NEW YORK MELLON,
as Trustee**

By: _____
Authorized Officer

APPENDIX F

Form of Opinion of Bond Counsel

Battery Park City Authority
New York, New York

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of New York (the “State”) and a record of proceedings relating to the issuance of \$56,600,000 aggregate principal amount of Senior Revenue Bonds, Series 2009A (Federally Taxable—Build America Bonds) (the “2009A Bonds”), and \$30,635,000 aggregate principal amount of Senior Revenue Bonds, Series 2009B (Tax-Exempt Bonds) (the “2009B Bonds”), of the Battery Park City Authority (the “Authority”), a body corporate and politic, constituting a public benefit corporation, created by the Battery Park City Authority Act, Title 12 of Article 8 of the Public Authorities Law (constituting Chapter 43-a of the Consolidated Laws of the State of New York) as added by Chapter 343 of the Laws of New York, 1968, as amended (the “Act”), and existing pursuant to the Act and the laws of the State.

In such examinations, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

The 2009A Bonds and the 2009B Bonds (collectively, the “2009 Bonds”) are authorized to be issued pursuant to the Act and pursuant to the 2003 General Bond Resolution adopted by the Authority on September 9, 2003 (the “General Resolution”), as supplemented by the 2009 Bonds Series Resolution adopted by the Authority on September 10, 2009 (the “2009 Series Resolution”), and by two related Series Certificates (the “Series Certificates”). The General Resolution and the 2009 Series Resolution are collectively referred to herein as the “Resolution.”

Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Resolution.

The 2009 Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolution and the respective Series Certificates. The Authority has reserved the right to issue additional Bonds on the terms and conditions stated in the Resolution.

We undertake no responsibility for the accuracy, completeness or fairness of any Official Statement or other offering material relating to the 2009 Bonds and we express no opinion with respect thereto.

Subject to the foregoing, we are of the following opinion:

1. Under the Constitution and the laws of the State, the Authority has been duly created and validly exists as a body corporate and politic, constituting a public

benefit corporation, with good right and lawful authority, among other things, to issue the 2009 Bonds, to pledge the Collateral as security for the 2009 Bonds, and to perform its obligations under the Resolution.

2. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and valid and binding upon the Authority, and is enforceable against the Authority in accordance with its terms. The Series Certificates have been duly executed and delivered by an Authorized Officer of the Authority.

3. The 2009 Bonds have been authorized and issued by the Authority in accordance with the Resolution and the laws of the State, including the Act.

4. The 2009 Bonds are valid and binding special obligations of the Authority, payable solely from the Collateral pledged therefor pursuant to the Resolution, and are enforceable in accordance with their terms and the terms of the Resolution.

5. The 2009 Bonds are Senior Bonds, secured by a pledge in the manner and to the extent provided in the Resolution. The Resolution creates the valid pledge of the Collateral that it purports to create, subject only to the provisions of the Resolution permitting the withdrawal, payment or setting apart thereof for or to the purposes and on the terms and conditions set forth in the Resolution.

6. Pursuant to the Act, the 2009 Bonds are not a debt of the State, and the State is not liable with respect to the 2009 Bonds. The 2009 Bonds are not payable out of any funds other than those pledged by the Authority for the payment thereof.

7. Interest on the 2009A Bonds is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). This opinion is not intended or provided by us to be used and cannot be used by an owner of the 2009A Bonds for the purpose of avoiding Federal taxpayer penalties that may be imposed on such owner. The opinion set forth in this paragraph is provided to support the promotion or marketing of the 2009A Bonds. Each owner of 2009A Bonds should seek advice based on its particular circumstances from an independent tax advisor.

8. Under existing statutes and court decisions, (i) interest on the 2009B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the 2009B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

9. For any 2009B Bonds having original issue discount, original issue discount that has accrued and is properly allocable to the owners of such 2009B Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the 2009B Bonds.

10. Under existing statutes, interest on the 2009 Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof (including The City of New York).

In rendering the opinions in paragraphs 8 and 9 above, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, Asphalt Green, Inc. (the "Community Center Manager") and others in connection with the 2009B Bonds, and we have assumed compliance by the Authority and the Community Center Manager with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2009B Bonds from gross income under Section 103 of the Code. In addition, we have relied on the opinion of counsel to the Community Center Manager regarding, among other matters, the current qualifications of the Community Center Manager as an organization described in Section 501(c)(3) of the Code. Under the Code, failure to comply with such procedures and covenants may cause the interest on the 2009B Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the 2009B Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

Except as stated in paragraphs 7, 8, 9 and 10 above, we express no opinion as to any federal, state or local tax consequences arising with respect to the 2009 Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for federal income tax purposes of interest on the 2009B Bonds, or under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2009 Bonds and the Resolution may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to the general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

This opinion is rendered as of the date hereof and we assume no obligation to update, revise or supplement this opinion as to the effect of any action hereafter taken or not taken, or as to any facts or circumstances or any changes in law or interpretations thereof that may hereafter arise or occur, or for any other reason.

We have examined an executed 2009A Bond and an executed 2009B Bond and, in our opinion, the forms thereof and their execution are regular and proper.

Very truly yours,

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APPENDIX G

Book-Entry-Only System

The Depository Trust Company (“DTC”) will act as securities depository for the Securities. References to the Securities under the caption “Book-Entry Only System” shall mean all Series 2009B Bonds held in the United States through DTC. The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each principal amount of Securities of each series maturing on a specific date and bearing interest at a specific interest rate, each in the aggregate principal amount of such quantity of Security, and will be deposited with DTC. Purchasers may own beneficial ownership interests in the Series 2009B Bonds held in the United States through DTC. Purchasers may own beneficial ownership interests in the Series 2009A Bonds in Europe through Clearstream Banking, societe anonyme (“Clearstream”), or the Euroclear System (“Euroclear”).

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and together with the Direct Participants, “Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Securities (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be

requested by an authorized representative of DTC. The deposit of the Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts the Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2009A and the Series 2009 Bonds (collectively, the "Series 2009 Bonds") are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2009 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, the Underwriter, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2009 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Series 2009 Bonds by causing the Direct Participant to transfer the Participant's interest in such Series 2009 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of the Series 2009 Bonds in connection with mandatory purchase will be deemed satisfied when the ownership rights in the Series 2009 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2009 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information herein concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Underwriter believe to be reliable, but neither the Authority nor the Underwriter takes responsibility for the accuracy thereof. The Beneficial Owners should confirm the foregoing information with DTC or the Direct Participants or the Indirect Participants.

Each person for whom a Participant acquires an interest in the Series 2009 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. **NEITHER THE AUTHORITY, THE UNDERWRITER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2009 BONDS.**

So long as Cede & Co. is the registered owner of the Series 2009 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2009 Bonds (other than under the caption "TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2009 Bonds.

When reference is made to any action that is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of Series 2009 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2009 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2009 Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Series 2009 Bond certificates will be delivered as described in the Resolution.

Notwithstanding any other provision of the Resolution to the contrary, so long as any Series 2009 Bond is held in book-entry form, such Series 2009 Bond need not be delivered in connection with any mandatory tender of Series 2009 Bonds described under "DESCRIPTION OF THE SERIES 2009 BONDS." In such case, payment of the Purchase Price in connection with such tender shall be made to the registered owner of such Series 2009 Bonds on the date designated for such payment, without further action by the Beneficial Owner who delivered notice, and, notwithstanding the description of mandatory tender of Series 2009 Bonds contained under "DESCRIPTION OF THE SERIES 2009 BONDS," transfer of beneficial ownership shall be made in accordance with the procedures of DTC.

NONE OF THE AUTHORITY, THE UNDERWRITER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY

OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2009 BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2009 BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2009 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2009 BONDS; OR (VI) ANY OTHER MATTER.

Global Clearance Procedures

Reference to the Securities under the caption “Global Clearance Procedures” shall mean all Series 2009B Bonds except for beneficial ownership interests in Series 2009B in the United States which are held through DTC. The Securities initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the Securities. Purchases of the Securities will be in book-entry form only. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers’ securities accounts in Clearstream’s and/or Euroclear’s names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers’ securities accounts in the U.S. Depositories’ names on the books of DTC. Citibank, N.A. acts as the U.S. Depository for Clearstream and JPMorgan Chase Bank acts as the U.S. Depository for Euroclear.

Clearstream

Clearstream Banking, societe anonyme, 42 Avenue J.F. Kennedy, L-1855 Luxembourg (“Clearstream, Luxembourg”), was incorporated in 1970 as “Cedel S.A.”, a company with limited liability under Luxembourg law (a societe anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank’s parent company, Cedel International, societe anonyme (“CI”) merged its clearing, settlement and custody business with that of Deutsche Borse AG (“DBAG”). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Borse Clearing (“DBC”), to a new Luxembourg company, which with effect from 14 January 2000 was renamed Clearstream International, societe anonyme, and was then 50% owned by CI and 50% owned by DBAG. Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On 18 January 2000, Cedelbank was renamed “Clearstream Banking, socl&6 anonyme”, and Cedel Global Services was renamed “Clearstream Services, societe anonyme”. On 17 January 2000, Deutsche Borse Clearing AG was renamed “Clearstream Banking AG”. Today Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier (“CSSF”) and the Banque Centrale du Luxembourg (“BCL”) which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg’s customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg’s U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the “Euroclear Operator”) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear

Euroclear Bank S.A./N.V. (“Euroclear Bank”) holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries. Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants. Non-Participants in the Euroclear System may hold and transfer book-entry interests in the securities through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

Clearance and Settlement. Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Securities to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the securities offered herein.

Custody. Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear Bank.

Custody Risk. Investors that acquire, hold and transfer interests in the securities by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co-property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement: Distributions, Actions on Behalf of the Owners. All of the Securities will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "US Depositories"). Holders of the Securities may hold their Securities through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems. Investors electing to hold their Securities through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional EuroBonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Securities held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Securities on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Procedures May Change. Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and

Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

Secondary Market Trading. Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same day funds. Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional EuroBonds in same-day funds. When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear Participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Securities will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later. As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds. Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participant, a cross-market transaction will settle no differently from a trade between two participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participant's or Clearstream customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one day period.

If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

THE AUTHORITY, THE UNDERWRITER AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SECURITIES: (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE SECURITIES; (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SECURITIES; OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SECURITIES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFERING CIRCULAR.

THE AUTHORITY, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE SECURITIES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE SECURITIES.

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