40X

40 Exchange Place, New York, NY 10005
Team #20

EXECUTIVE SUMMARY

40 Exchange Place is a multi-tenant Class B office building located in the Financial District of Manhattan. The 20-story building was originally built in 1896 as the Lord's Court Building and has gone through several changes of ownership over its lifetime. This report aims to present a complete picture of the acquisition of the building in 2015 by GFP-RE and the deal structure necessary to acquire and redevelop a $141.5 million project in the center of Manhattan.

Lower Manhattan's Financial District was one of the few areas of Manhattan without large numbers of full-time residents. The area rapidly became a more vibrant mixed-use community thanks to local incentives, new developments, and attractive office rents compared to the Midtown market. 40 Exchange Place had not been renovated by the previous ownership for over 30 years and took in below market rents (averaging $27/SF). GFP-RE saw the opportunity for a value-add investment by renovating the building and attracting new small office tenants at competitive market rents ($51/SF on average, with the LM-REAP incentive).

The property was acquired in 2015 for $114.5 million ($391/SF) by a joint venture between Newmark Holdings (Now GPF-RE) and Northwind Group. Of the $141.5 million total project cost, Limited Partners invested $60 million and the General Partners negotiated an $81.5 million interest-only loan from Natixis Real Estate to finance the investment. The property received $26.5 million in capital improvements over the first 3 years, after which a buy-out and refinancing strategy was applied by GFP-RE to become sole owners.

The buy-out valued the building at $175 million. This buy-out generated a 12.8% Internal rate of return (IRR) and a x1.45 equity multiple for Northwind. If the property were sold today at market value $200 million, GFP-RE investors would earn a 19% IRR and a x1.62 equity multiple. The General Partners create value as business providers and property managers. At today's valuation, the sale would earn the General Partners a promote interest worth $9.1 million.

BUILT
1896

CONSTRUCTION TYPE
STEEL FRAMING STRUCTURE WITH MASONRY, LIMESTONE AND BRICK FACADE

STORIES
20

TOTAL SQUARE-FOOTAGE
293,700 SQF

TYPICAL FLOOR SIZE:
≅15,000 RSF

DEVELOPER
GFP-RE

ACQUISITION
2015

RENOVATION
2016-2017

BUDGET
$141.5M

DEAL STRUCTURE
JOINT VENTURE
GFP-RE & NORTHWIND

FINANCING
56.7% LTC / $60M EQUITY

REFINANCING
NORTHWIND BUY-OUT REFINANCING WITH CAPITAL ONE

DOWNTOWN OVERVIEW

LOCATION & ACCES

40 Exchange Place is located in Lower Manhattan's Financial District at the southwest corner of Exchange Place and William Street. It is one block from Wall Street and a short walk to the New York Stock Exchange and the World Trade Center. The west side of Exchange Place is a pedestrian only zone since the September 11th terrorist attacks, preventing cars from approaching the all of the above-mentioned locations. The property is surrounded by office and residential buildings, and a 4-minute walk from Stones Street, one of New York's oldest streets and famous for its diverse restaurants. It also has an easy access to local convenience stores and high street retail.

Access is excellent as it is located within five blocks of major subway lines (N, R, W, 4, 5, 2, 3, A, C, J, Z). It also has a great connections to the World Trade Center PATH and Fulton Street transit hubs that provide access to the New York-New Jersey metro area. It is a 7-minute walk to the Pier 11/ Wall St. Ferry Terminal and the World Trade Center Ferry Terminal. There is also a 24/7 Icon parking in front of the entrance of the building, before the start of the pedestrian zone (*A map with amenities is shown in appendices*).

THE FINANCIAL DISTRICT

The Financial District, also now referred to as “FiDi”, is a neighborhood located on the south end of Manhattan island. It is bounded by the West Side Highway to the west, Chambers Street and City Hall Park to the north, Brooklyn Bridge on the northeast, the East River to the southeast, and Battery Park on the south. The district comprises the offices and headquarters of many of the city's major financial institutions, including the New York Stock Exchange and the Federal Reserve Bank of New York.

The Financial District has long been a neighborhood ghost town after dark and was one of the few areas of Manhattan without large numbers of full-time residents. In the 1970s, the neighborhood had barely 700 residents. Since 2001, it has gradually emerged from being a sleepy business district dominated by financial, insurance and legal firms into a more vibrant mixed-use community. This transformation has been accelerated with the recent $30 billion of public and private investment, including the rebuilding of its major transit hubs ($1.4B Fulton Center & The Oculus, and $3.8B World Trade Center Transit Hub).

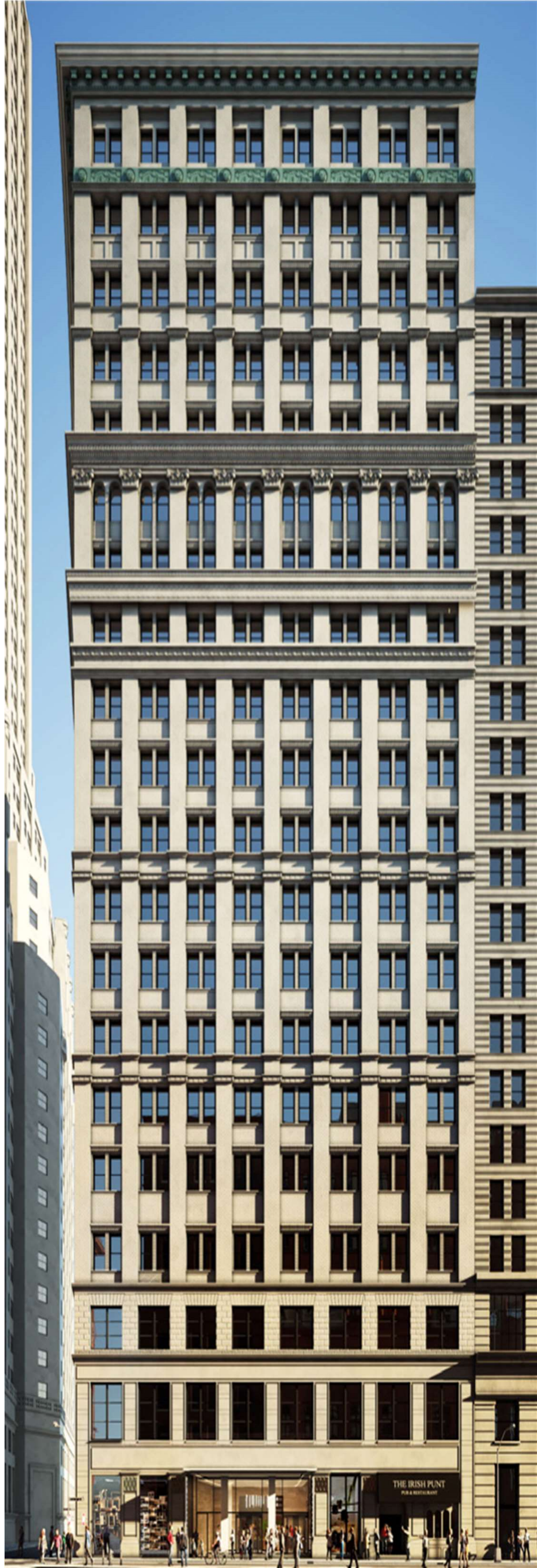
Today, FiDi is home to about 61,000 residents as of 2018, up from 43,000 in 2014, which in turn was nearly double the 23,000 recorded at the 2000 Census. Following this trend, a surge of new bars, services and restaurants moved to the area. The hotel business is booming with more than 7,000 rooms in 32 hotels and another 2,000 rooms under construction. Tech firms are also moving to the neighborhood in big numbers, drawn by more attractive rents compared to Midtown or the traditional hubs of Manhattan tech: Flatiron, Soho and Chelsea. The neighborhood offers tech firms some of the most robust mass transit options in the City, as well as plenty of office space to grow into. Consequently, the commercial vacancy rate is below 10%.

Fulton Center Transit Hub and Oculus

OFFICE MARKET STUDY

The office market in the Financial District has seen a surge in tenant demand, which has resulted in rents growing over the last two years from the low $30s/SF into the high-$40s/SF or even higher. Of a total 10.5 million SF of new leases signed Downtown in last 3 years, 62% were tenants relocating from Midtown and Midtown South – primarily seeking more cost-effective space. Technology, Advertising, Media, and Information tenants (or TAMI) accounted for 65% of all tenant relocations by square foot in 2014. 318,000 employees now work Downtown with education and media as the fastest growers. Despite recent growth, average Downtown office rents of $51 remain 32% below the average $75/SF in Midtown and 16% below the average $61/SF in Midtown South. Moreover, the emergence of Brooklyn and the New Jersey waterfront as preferred residential neighborhoods for today’s younger workforce has helped to make the Financial District a convenient choice due to its easy commute. This demand is further bolstered by financial incentives offered by various City and State agencies including the Lower Manhattan Relocation Employee Assistance Program (“LM-REAP”), which provides a $3000 tax credit per employee per year (est. $15/SF per year).

As the office and residential markets have matured, the cheaper “mom and pop” retail stores in the Financial District have gradually been replaced by higher-end food and beverage, convenience stores as well as some national and “high-street” retailers. The World Trade Center and Brookfield Place projects brought an additional 1.8 million SF of new retail and dining. In addition, the 175,000 SF of new retail at 28 Liberty (formerly Chase Plaza) is only two blocks from the Property. The reduction in office supply through residential conversion also supports continued growth in office rents.



40X Redevelopment Rendering

SITE DESCRIPTION

SITE PLAN HISTORY AND ZONING ANALYSIS

The original property was built as a 15-story office tower in 1896 by John T. Williams, an architect, civil engineer and investor. It was one of the earliest speculative skyscrapers, designed from the beginning to be rented out in its entirety. Williams named the building the "Lord's Court," referring to the manicured garden at the rear. Shortly after, in 1902, it was expanded to its current height of 20 stories, and total bulk.

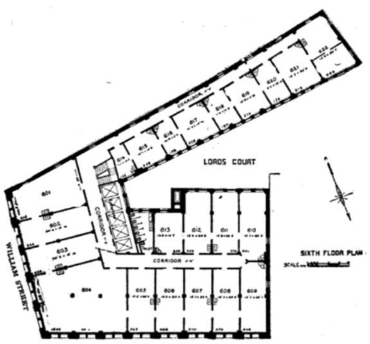
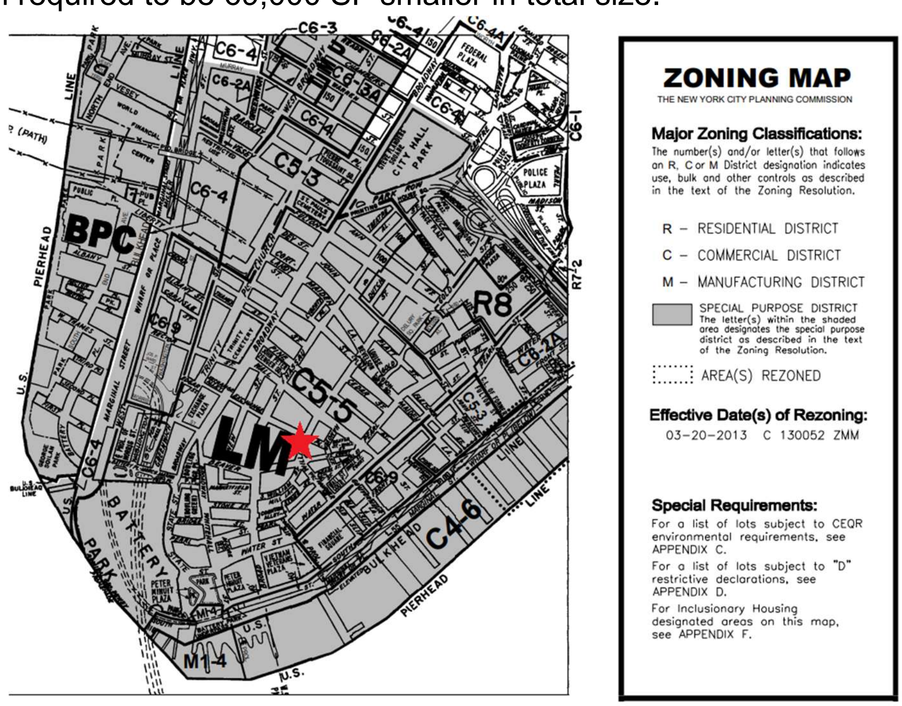


FIG. 37.—LORD'S COURT BUILDING.
(John T. Williams, Architect.)

The 40 Exchange place lot covers 14,970 SF over a particularly irregular lot (see image). Williams developed the building to have significant access to light and air, with five exposures, and the central court. The property itself comprises a total of 293,000 SF divided into 285,000 SF of office space and 8,000 SF of ground floor retail space. (*Current plans of the property are shown in appendices)*.

New York City zoning uses a system called FAR (Floor to Area Ratio) to determine the maximum bulk permitted for a building. The maximum developable square feet for the lot is calculated by the FAR value multiplied by the lot size in square feet. In the case of 40 Exchange Place, the zoning district is called C5-5/LM, allowing a FAR up to 15. Therefore, the maximum building size allowed on the lot is 15 x 14,970 = 224,550SF.

The existing structure is then larger than the code allows. However, since it was built before the zoning code was enacted, it is grandfathered in total bulk as long as the original building remains. This made it clear that the best plan of action was to modernize and update the existing building, rather than construct a new building, which by code would have been required to be 69,000 SF smaller in total size.



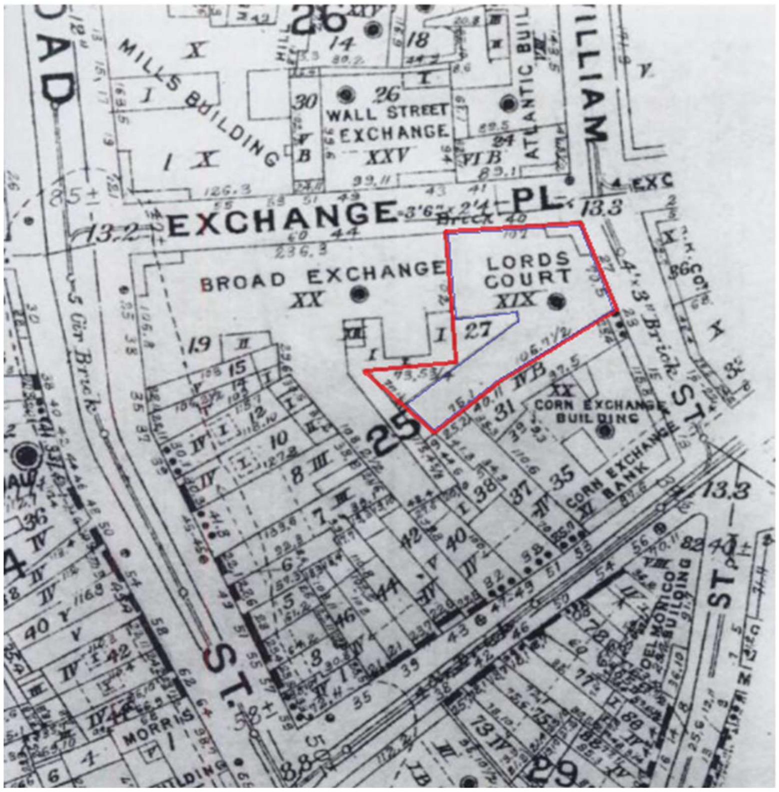
BUILDING CONDITION

Once the determination to keep the existing building superstructure was made, it became vital to establish the current state of the physical plant and determine a path for updates.

The prior ownership of the building acquired it in 1992. From 1992 to 2015 substantial amounts of required maintenance were deferred or outright ignored, with the prior ownership letting the once-great building fall into disrepair. The most outwardly notable aspect of lack of maintenance is the significant crack on the corner of the building facade, running up nearly 10 stories in height (*picture in appendices*).

New York City has an ordinance called Local Law 11 (LL11), which requires facades to be inspected every 5 years to prevent falling bricks from injuring pedestrians. 40 Exchange Place's prior ownership had run afoul of this ordinance. Prior to acquisition GFP-RE estimated repair and compliance with LL11 to cost $2,000,000.

The remainder of the building physical plant was in quite good condition, allowing GFP-RE to concentrate the rest of their capital towards modernizing the systems and areas necessary to make the building as attractive to new office tenants as possible. These items are discussed below in the Building Retrofit/Development Plan.



RETAIL TENANTS

The Irish Punt (Bar)

Rosetta Wines (Store)

Minas Shoes (Repair)

De Janeiro (Clothes)

REPRESENTATIVE OFFICE TENANTS

Powell (PR)

Wolf Kasteler (PR)

Knology (Consulting)

Empire Stat Group LLC (tech)

Sottile Security Solutions Inc

Dunvagen Music Publishers Inc

Wallace Morgan (marketing)

TRS INC. Professional Suite

Marketing on 6th

TransPerfect Document

Multicultural Radio Broadcasting

Sino Television, Inc

DEVELOPMENT VISION

ACQUISITION DETAILS

40 Exchange Place was acquired in 2015 for $114.5 million ($391/SF) by a joint venture between Newmark Holdings (now GFP-RE) and Northwind Group. Northwind Group led by Ran Eliasaf, is a privately-owned Manhattan based owner/operator of value-added real estate properties predominantly in downtown Manhattan. Northwind owns a diverse portfolio comprised of office, residential, retail and hospitality assets.

The initial contract to acquire the property was signed in June 2015 but the seller had the right to extend closing to accommodate a 1031 exchange. Section 1031 of the Internal Revenue Code allows the seller to defer paying capital gains taxes on 40 Exchange, as long as another similar property is purchased with the profit gained by the sale within 180 days.

The total investment budget was $141.5 million ($482/SF), which included $114.5 million ($391/SF) to acquire the Property, $14 million ($47/SF) of capital and leasing costs, $4.5 million ($16/SF) of soft costs and $8.5 million ($29/SF) of reserves. The plan was to finance the investment with an $81.5 million (57.6% Loan-to-costs "LTC") loan and $60 million of equity. GFP-RE and Northwind Group shared the equity investment equally, each providing $30 million.

At that time, the Property was 85% leased although 15% were month to month, so approximately 40% of the space was available for new tenants within the first year of ownership. Over 70% of the space would roll within the first four years (2019) and approximately 90% by the 6th year (2021).

GFP
REAL ESTATE
SINCE 1952

In 1952 Aaron Gural and partners acquired Newmark & Company, a real estate management, brokerage and holdings firm.

Aaron's son, Jeffrey Gural joined Newmark & Co with Barry Gosin following a few years later. Together in 1978, Jeffrey and Barry purchased the management and brokerage company from Aaron Gural and partners. That company is known today as Newmark Knight Frank (NKF). At the remaining Newmark & Company, Aaron, Jeff and Barry commenced on a buying spree and began converting manufacturing buildings to Class B office space. The firm's principals and partners acquired 520 8th Avenue, cementing the Company's presence in the Garment District.

In 2011, NKF Brokerage was sold to BGC Cantor Fitzgerald, while the Gural family and partners maintained ownership, management, and leasing of their existing real estate portfolio as Newmark Holdings. In 2017, NKF became a separate public company. To avoid confusion with NKF, Newmark Holdings changed its name to GFP RE. The portfolio's growth continues, through the acquisition of 40 Exchange Place and numerous properties in Brooklyn and Long Island City.

GFP RE is still run by the Gural family, including Chairman Jeffrey Gural and Co Chief Executive Officers Eric Gural and Brian Steinwurtzel. Carrying on the tradition, the family leadership remains focused on improving New York City through property development, strong tenant relationships, and community involvement. It is a vertically integrated owner, operator, property manager and developer of commercial real estate in the New York and Tri State Region.

BUILDING RETROFIT AND DEVELOPMENT PLAN

Following the acquisition GFP-RE enacted a comprehensive capital improvement program for the property by improving all tenant spaces (when vacant) and building systems. As the previous owners had not renovated the building for more than 30 years, the aim was to modernize all spaces and create a hub for innovation in the heart of Lower Manhattan *(cf. pictures before/after in appendices).*

Product wise, it included the full renovation of the lobby, common areas, new elevator cabs, façade restoration, new storefronts and restrooms. The design promotes the use of wood in the common areas and on floors to add a warm touch. Concerning the building's systems, the renovation included a fully addressable centrally monitored Class E Fire Alarm System, sprinklers, roof, and tenant HVAC systems (controlled air-cooled central AC units located within each tenant's space). The Property's systems were redeveloped within 12 months after the acquisition.

The various spaces became available following updating ranging from 1,000 to 8,000 RSF. The spaces are generally open plan, providing flexible and efficient layouts to accommodate the needs of every tenant. Tenants are allowed to customize to suit or can choose a selection of high-end pre-built offices designed by GFP-RE to work efficiently in this location. Cleaning is provided by the landlord from Monday to Friday.

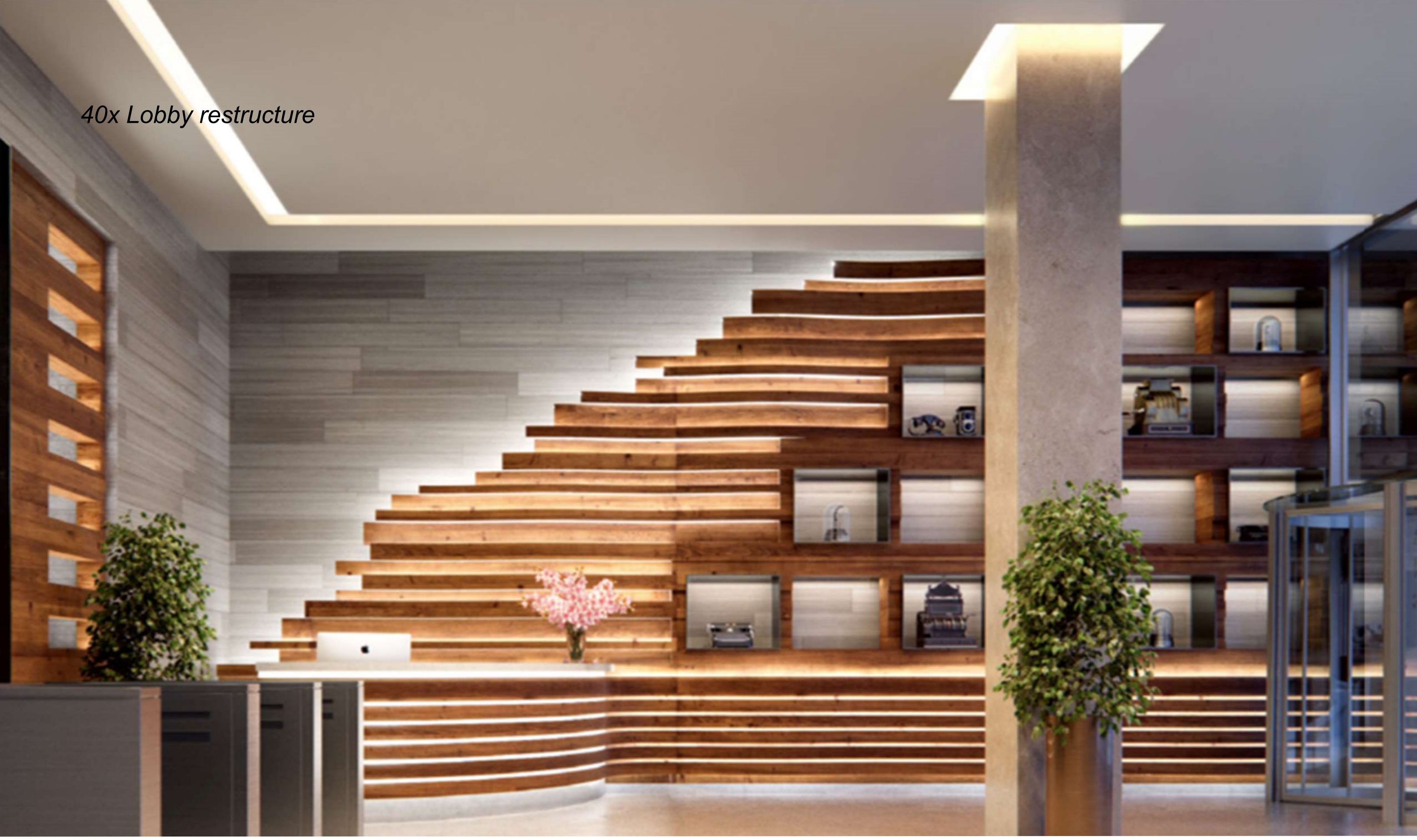
The initial capital expenditures for improvements to the base building are shown in the table below:

Up-Front Base Building Capital		
Façade Work LL11		$2,000,000
Aesbestos Removal		500,000
Sidewalk		500,000
Roof		400,000
Lobby		800,000
Elevators		400,000
Fire Alarm		500,000
Telecom		25,000
Plumbing		1,000,000
Standpipe		600,000
Electrical		100,000
Retail Storefront		300,000
Boiler System Upgrades		300,000
Heating System Energy Upgrade		100,000
Structural - Egress		100,000
Total HC before Contingency		$7,625,000
Contingency	10.0%	762,500
Total HC with Contingency		$8,387,500

SUSTAINABILITY MEASURES

The renovation aimed to increase the building's energy efficiency. The renovated building envelope provides a high-performance shell, energy efficient windows, protection from wind and moisture, occupant comfort, durability, while ensuring an aesthetic original beauty. Materials within the building for the offices' design are eco-friendly, and the lighting system was switched from incandescent bulbs to LEDs, helping to comply with the upcoming New York City Energy Audit Policy. Wood is the center element of the new design: wooden floors, kitchens, and decoration.

Finally, office structures are modular and removable, offering the possibility of renewing materials between leases and change layouts easily according to tenants' needs.



40x Lobby restructure

Typical office space

BENEFITS

Attractive cost basis - The $141.5 million ($482/SF) cost to acquire and redevelop the Property was over 65% below replacement cost, which the team estimated to be $1400/SF including $450/SF for land, $500/SF for hard and $150/SF for soft costs, and $300/SF for developer profit.

Physical attributes - The Property has a unique “U” shaped floor, high ceilings (11½ to 14 feet) and good windows sizes that provide quality light and air, which is rare for the older structures in the Financial District. This helps to make the Property desirable for small tenants, who are leading demand, as they are traditionally underserved by large developers.

Improving location - The neighborhood’s transformation from a financial district to a 24-hour mixed-use area was a great opportunity. As residents and office tenants have had migrated downtown, the retail had greatly improved. Moreover, the property benefits from an immediate proximity to many recently updated transit hubs.

Incentives - The building qualified for Lower Manhattan incentives that are part of the Commercial Revitalization Program (CRP). The goal of this program is to rehabilitate older building stock in Lower Manhattan. The New York City Department of Finance provides benefits under CRP such as the ICAP and the LM-REAP. *Quantitative effects of these incentives are discussed further below in the report.*

Optionality - The zoning allows for a number of potential uses. If the office market in the Financial District softens considerably, the high ceiling heights, access to light and air, and durable construction would easily allow conversion to residential or hotel use.

LEASING STRATEGY

At the time of acquisition, the building’s average rent was $27.01/SF, almost 40% below market rents of $45/SF. The capital improvements would help increase rents to market leasing prices, thanks to a full renovation including designing modern workspaces and services for business. As 40% of the space would be available for new tenants within the first year of ownership, the General Partners were confident in renting the new spaces at the market rent of $45/SF. Over 70% of the space would roll within the first four years (2019) and approximately 90% by the 6th year (2021). Consequently, for a 23% capital improvement investment ($26.5m/ $114.5m), rents would increase by 67%.

INCENTIVES

ICAP

The property is eligible to participate in the New York City ICAP - Industrial and Commercial Abatement Program. This program provides abatements for property taxes for periods of up to 25 years. To be eligible, industrial and commercial buildings must be newly built, modernized, expanded, or otherwise physically improved. The program has 13 sub-categories for specific types of buildings.

In the case of 40 Exchange place, by committing a specific percentage of the buildings' taxable assessed value to building improvements, ownership was able to qualify for a 12-year property tax abatement. The abatement schedule has 8-years of 100% abated property tax, followed by a 4-year phase-in period, concluding at the end of the 12th year.

The GFP-RE valuation team estimated the specific value of each year of the ICAP benefit following the planned completion of the building updates for the full 12-year period. They then calculated the Net Present Value of each year of the abatement to establish a single total value for the abatement at the time of purchase. The total NPV of abatement at the time of sale was $16.2m (*shown in appendices*). By using this method, the valuation team was able to see and quantify future value in the building that the seller had not been able to realize.

NYC Finance

	Subd. 3(d)(i)
	For Renovation work in Renovation Areas (Lower Manhattan and Garment District); retail space in excess of 5% receives no abatement
Year	Percentage
1	100%
2	100%
3	100%
4	100%
5	100%
6	100%
7	100%
8	100%
9	80%
10	60%
11	40%
12	20%
13	

LM-REAP

The property is also eligible to participate in the Lower Manhattan Relocation and Employment Assistance Program (LM-REAP). LM-REAP is based on the citywide REAP and is specifically aimed at bringing businesses into Lower Manhattan and the Financial District. In order to qualify, the building must meet re-development or improvement criteria.

LM-REAP provides an annual tax credit of up to $3,000 per employee relocated from outside of New York City to the designated LM-REAP area (*shown in blue in the appendix*). The tax credits go directly to the specific business, in this case the new tenants of the building, not the developer itself. This does, however, provide additional attractive reasons to lease in the property by reducing business costs of the tenants.

The LM-REAP incentive lasts for 12-years. The first 5-years of the credit are refundable if unused, in cash, to the business. If unused in the remaining years of the program the tax credits for each year can be rolled forward for up to 5-years. For example, if a 15-person office relocated from outside New York City to 40 Exchange Place, they would earn $45,000 in tax credits per year through the LM-REAP program.

DEAL STRUCTURE

THE INITIAL DEAL

EQUITY AND LIMITED PARTNER RETURN

The main actors on the deal are the General Partners (GP) of GFP-RE, the Limited Partners (LP) of GFP-RE, and Northwind Group.

General Partners, known as Newmark Holdings (now GFP-RE) are:

- Eric M. Gural, Co-CEO and principal of GFP-RE
- Brian R. Steinwurtzel, Co-CEO and principal of GFP-RE
- Tom Ortinau, Head of Acquisition of GFP-RE

Northwind Group represented by:

- Ran Eliasaf, Managing Partner, Northwind Group

Initially identified by Ran Eliasaf, at Northwind, the property was brought to the General Partners at GFP-RE for their knowledge of the market and operational expertise. GFP-RE contributed half of the required equity, by investing $10milllion and raised $20million, from GFP-RE Limited Partners. This was done by selling the equity with a preferred, simple-interest rate of 5% (the “pref”), plus 75% of the cash flow above that. Therefore, 25% over the 5% pref would go back to the General Partners (the “promote”).

Since Northwind originated the investment, they negotiated the right to invest and promote the other half of the $60 million of equity. This was structured as a 50/50 Joint venture with GFP-RE. Northwind Group raised their $30 million by offering Northwind Limited Partners a preferred rate of 7% compounded (“pref”) and 70% of the cash flow above the pref. Northwind was established as a short-term investor, with the expectation that they would be bought out after 3 to 5 years with a refinancing strategy.

As the operational experts, the General Partners from GFP-RE retained complete authority to handle operational and managerial decisions including the redevelopment, management and leasing of the Property, for which they also receive fees (leasing commissions, development fees, acquisition fees, asset management fees and project management fees).

The GFP-RE General Partners’ profit would come after the refinancing and subsequent buyout of Northwind Group. After the buyout all equity would be owned by GFP-RE Limited Partners.

DEBT

The overall investment was 141.5 million, from which $60 million was put in as equity from the above-mentioned parties. Thus, a $81.5 million loan was needed, representing a 57.6% loan-to-costs (LTC) ratio at the time of acquisition.

The $81.5 million construction loan was provided by Natixis Real Estate Capital to acquire the property ($65 million) and for renovations ($16.5 million). The interest-only loan was for a 3-year term, with two 1-year extension options, at the rate of 225bps + LIBOR.

RISKS

New Partnership – 40 Exchange was the first time that GFP-RE and Northwind had acquired a property together.

- Mitigant: Both GFP-RE and Northwind have extensive experience working within joint venture partnerships on investments similar to 40 Exchange.
- Mitigant: GFP-RE had the authority to develop, manage, lease the property as well as set operating and capital budgets or call capital for emergency needs even in the event of disagreement within the partnership.

Capital Budget – The property was old and had significant deferred maintenance, so the capital needed to redevelop the Property could have exceeded estimates.

- Mitigant: The budget was based upon actual cost estimates (including an additional 10% contingency) that GFP-RE had from reputable contractors to perform the work at the property. Many of whom had previous working relationships with GFP-RE and were therefore known quantities.

Market rents – The deal worked only if market rents stayed as predicted according to the business plan ($45/SF).

- Mitigant: Lower Manhattan incentives such as the REAP allowed for the operator to lease the building at higher rates than the market and helped energize the neighborhood, making it more attractive for offices.

REFINANCING & BUY-OUT

REFINANCING

After 3 years, in 2018, the General Partners negotiated a new loan based on a $175 million property valuation from the improved building conditions and growing rent roll. This means for each $1 of capital improvement invested, the building value increased by $1.26. They secured a $91 million loan and then an additional $9 million loan a year following both with Capital One Bank. The new debt has a fixed 3.75% interest rate on a 30-year amortization schedule, representing annual payments of $4.3 million.

GFP-RE used proceeds from the refinancing in 2018 as well as an additional capital raise of $26 million from the original GFP-RE Limited Partners (at the same initial conditions) to buy-out Northwind Group's equity stake in the venture.

NORTHWIND RETURNS

In 2018 GFP-RE completed the buyout of Northwind Group's share of the joint venture. This allowed GFP-RE and their Limited Partners to take over the full ownership of the property.

The primary element of the buy-out negotiation was the building's valuation at the time. Both groups used a starting point of the $175m valuation used for the Capital One refinancing. Secondary considerations included tax exposure to Northwind Group and value of the promote for Ran Eliasaf from Northwind Group.

In the end, GFP-RE and Northwind Group agreed to a $43.5m buyout for Northwind Group, calculated as follows:

- $30 million equity return from the initial investment.
- $6 million in interest according to the 7% preferred rate negotiated at the start of the Joint Venture in 2015.
- $7.5 million distributed evenly in the next 3 years (2019, 2020, 2021) negotiated during the buy-out discussions.

The $7.5m is representative of a roughly 50% share of the additional cash-out provided by the Capital One refinancing after the initial Natixis interest-only loans were settled. Overall, it generated a 12.8% Internal rate of return (IRR) and a x1.45 equity multiple for Northwind Group. The principal of Northwind earned a promoted interest of $2.3 million (30% over the 7% pref, with the remaining 70% going to the Northwind Limited Partners). After dilution from the $2.3m promote, Northwind Group Limited Partners received a 11.3% IRR and an equity multiple of x1.38.

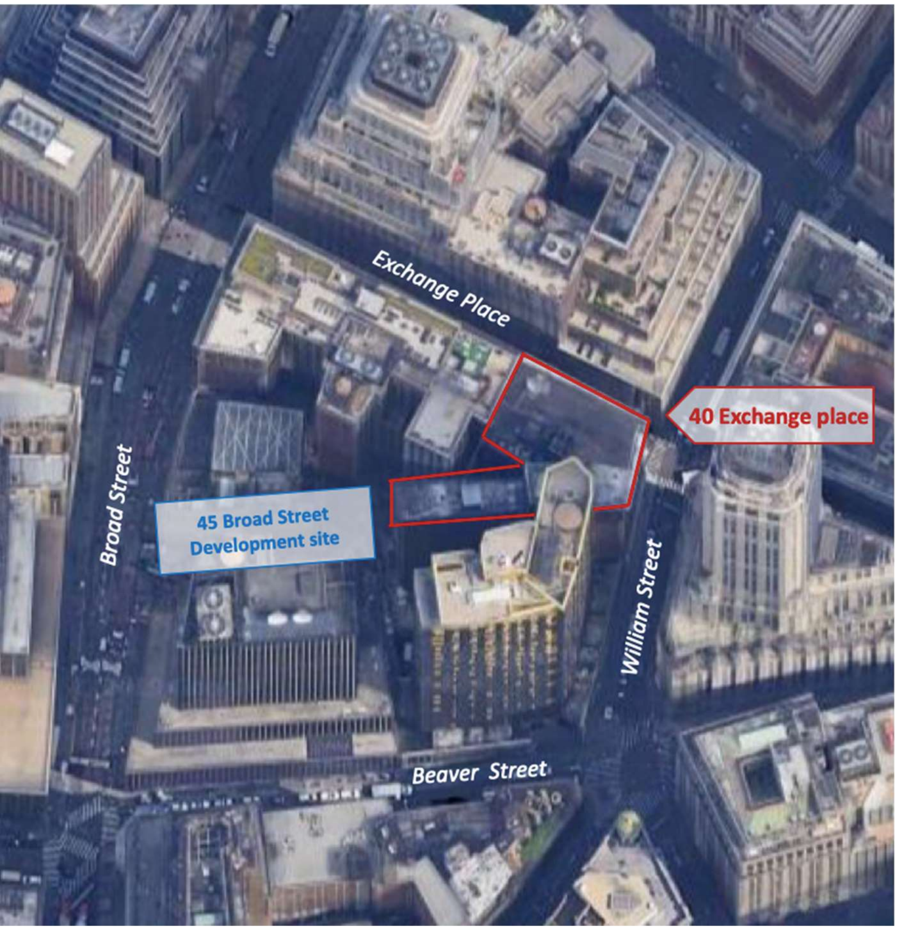
MARKET UPDATES & CURRENT STATUS

The past few years have dramatically changed the real estate market in the neighborhood, bringing new luxury condo units and mixed-use skyscrapers. It has had a marked impact on rents and consequently the property's valuation.

RECENT DEVELOPMENTS

45 BROAD STREET RESIDENTIAL PROJECT

Walking distance from 40 Exchange - 1 minute.
45 Broad Street is a CetraRuddy-designed supertall mixed-use building, currently being developed by Madison Equities and Pizzarotti LLC. The vacant land was sold for $86 million in 2015, offering approximately 290,000SF of FAR for development ($297/ buildable square-foot). The first 8 floors of the building will have offices, and 206 condos will be located above that. It is slated to rise 1,115 feet above Lower Manhattan and expected to be finished around 2021. The skyscraper's design will be Art Deco-inspired and will make a significant impression on the skyline. The developer took the initiative to help create a new pair of subway elevators for the Broad Street station for those with disabilities. This contribution is due to the Department of City Planning's "subway bonus" initiative that allows developers to help fund subway improvements in exchange for zoning benefits for a construction site adjacent to a subway stop.



20 BROAD ST

Walking distance from 40 Exchange - 1 minute.

Developer Metro Loft is converting the former home of the New York Stock Exchange into 533 rentals. CetraRuddy has designed the conversion. The apartments will come in studios through three-bedroom variants and prices are expected to start around $2,600/month. Once complete, 20 Broad Street will also have retail at the base.

ONE WALL STREET

Walking distance from 40 Exchange - 3 minutes.

Macklowe Properties is working with SLCE Architects to transform the Art Deco landmark building into a condo building with 566 apartments. Apartments will average a pricey $3 million. The building will have 100,000 square feet of amenities and a Whole Foods at the base. Construction is expected to be completed in 2020.

THE EQUITABLE BUILDING - 120 BROADWAY

Walking distance from 40 Exchange - 3 minutes.

Silverstein Properties is renovating the H-shaped skyscraper at 120 Broadway at a cost of $50 million. Beyer Blinder Belle will design the renovation and create a new soaring lobby, a reception desk, a granite accent wall, redesigned revolving doors, new retail spaces in the lobby, a new rooftop space, and a new bike room.

77 GREENWICH STREET

Walking distance from 40 Exchange - 6 minutes.

The residential building is designed by FX Collaborative and will bring 90 condos to the Financial District, spread out over 40 stories. Developed by Trinity Place Holdings, the tower will eventually rise to 500 feet and feature interiors by Deborah Berke Partners. Foundation work is underway, and the condo will tower and cantilever over the shell of the landmarked Robert and Anne Dickey House.

125 GREENWICH STREET

This building is a new residential skyscraper designed by world-renowned architect, Rafael Viñoly. This condominium offering includes 273 residences ranging from studios to three-bedroom and penthouse residences, featuring one-of-a-kind interiors by March & White. The project was developed by Bizzi & Partners and has apartments starting from $1.275 million.

PERFORMANCE TO DATE

Today, 40 Exchange Place is significantly overperforming compared to the initial business plan, thanks to a significant rent improvement in the neighborhood above prediction. Market rents in the area are reaching $57-$60 per square foot, compared to an expected $45 in the business plan. Therefore, a 23% capital improvement investment ($26.5m/ $114.5m) actually increased rents by 111% and not 67% as expected by the initial leasing strategy.

It still remains below the average $75/SF in Midtown, keeping the area attractive, and almost reaches the $61/SF in Midtown South. Consequently, the 2019 annual budget suggests a $12.9 million effective gross income compared to a $11.3 million estimated in the initial Business Plan (14% increase). Operating expenses are well managed by the General Partners.

Considering a conservative (for New York City) 5% market cap rate, the property is now worth $200 million (+41% increased value compared to the $141.5 million costs at acquisition).

Should the property be sold, the Limited Partners would receive:

- $30 million equity in with a 5% preferred simple interest return over 4 years = $36.5 million
- $26 million equity in with a 5% preferred simple interest return over 1 year = $27.3 million

The equity return with the preferred rate would total $63.8 million over the Limited Partner's $56 million initial investment. In addition, they would receive 75% of the remaining profits, as 25% goes to the General Partners as a promote. Therefore, after settling the outstanding loan, the remaining equity of $36.2 million would be distributed between the Limited Partners as $27.2 million, and the General Partners as $9.1 million. The Limited Partner total return is then $91 million.

Overall for GFP-RE, it would represent a 23% IRR and a x1.8 equity multiple, if the property was sold. Excluding the 25% General Partners' promote, it would represent a 19% IRR and a x1.62 equity multiple for the Limited Partners equity investment.

As the strategy is to keep and manage the property as a long-term hold, GFP-RE investors have trust in their General Partners to leverage their investments and make the right decision at the right time. The district is booming, thanks to many residential and mixed-use developments as detailed above, retail openings and strong local incentives. The General Partners believe the market will continue to improve and the multi-tenant rent roll will provide strong downside protection in case of any market correction.

CONCLUSION

Manhattan is the crown jewel of New York City, and Wall Street is famous the world over. As one of the densest, and most costly real estate markets on the planet, acquisitions of investment grade properties here is both challenging and expensive.

GFP-RE's acquisition, redevelopment and management of 40 Exchange Place demonstrates that with the right market knowledge, tolerance for risk, and operational expertise, it is still possible to create significant investor returns, even in such a competitive marketplace.

GFP-RE utilized their knowledge of the New York City office space market, and active partnerships to identify an underperforming asset in a neighborhood with powerful indicators of an expanding market. GFP-RE's vertically integrated business allowed them to cost-effectively redevelop the property in order to market to the changing landscape of office tenants in today's new economy.

The fundamentals of 40 Exchange place were all there from the start

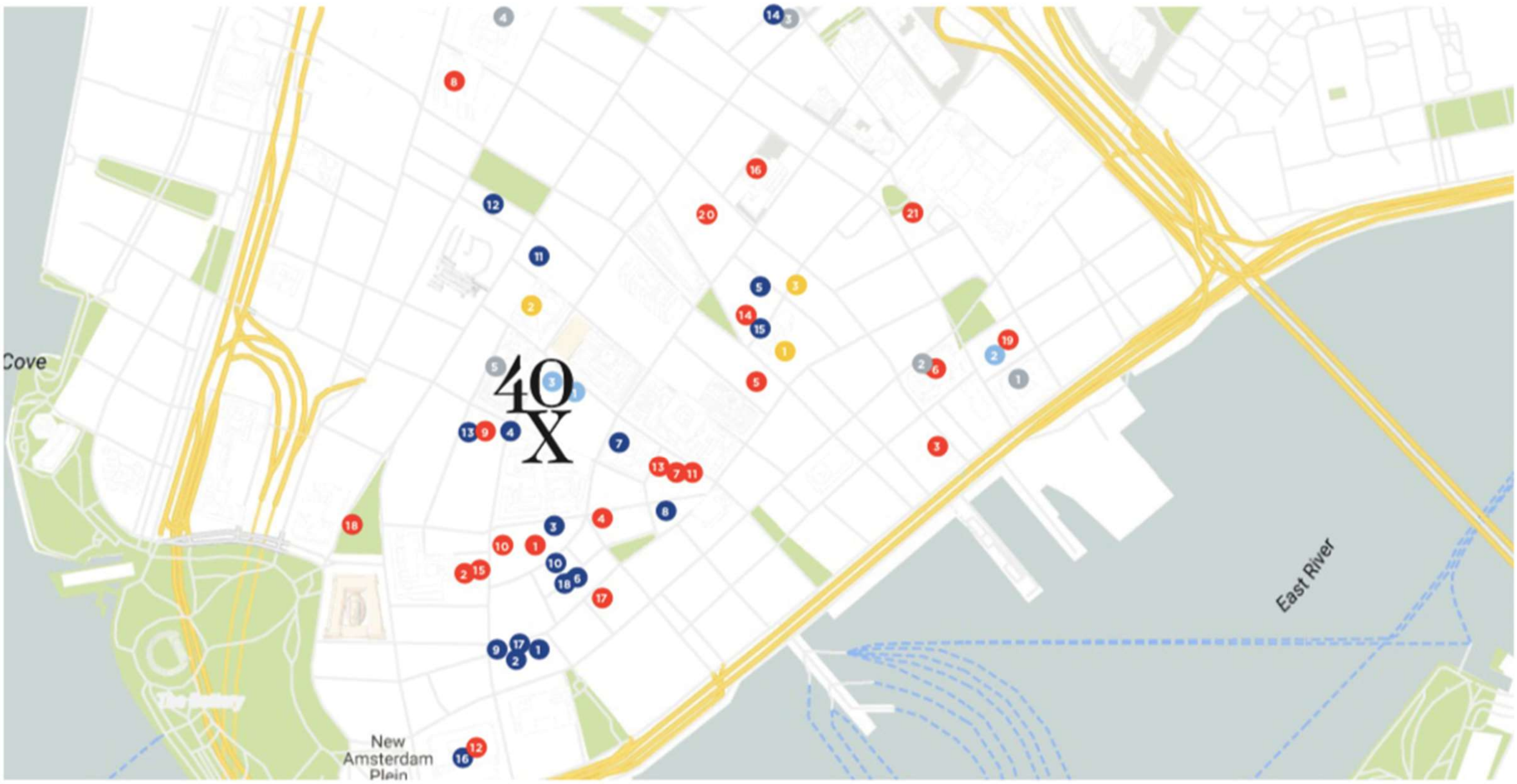
- Below market rents
- Acquisition price significantly below replacement cost
- Financial tax incentives
- Strong physical attributes

But there is little ability for many owner-operators to write a $60 million equity check and sign a $80 million loan all on their own. GFP-RE was able to bring together a wide range of partners with diverse investment goals, expectations, and timelines. They were then able to create the deal structure necessary to satisfy all the different investor types and classes.

In the end, the General Partners of GFP-RE were able to purchase, redevelop and hold a building now valued at $200 million utilizing only $10 million of their personal capital. By focusing on an acquisition with very strong base fundamentals, defended by the strong barrier to entry of the New York market, they not only met their business plan expectations, but far exceeded them.

APPENDICES

AMENITIES MAP



AMENITIES MAP

FOOD PURVEYORS & GROCERY

1. Luke's Lobster FiDi
2. Dig Inn
3. El Luchador
4. Leo's Bagels
5. Terri
6. Roast Kitchen
7. La Colombe Coffee Roasters
8. Eataly NYC Downtown
9. Bluestone Lane
10. Num Pang Sandwich Shop
11. Sweet Green
12. Naya Express
13. Lu Maison Du Chocolat
14. Toloache Taqueria
15. The Juice Shop
16. Open Kitchen
17. Robusta
18. Bowling Green Supermarket
19. Fulton Stall Market
20. Zeytuna
21. 55 Fulton Market

RESTAURANTS

1. OBAO
2. The Dead Rabbit Grocery and Grog
3. Delmonico's
4. Bobby Van's
5. Felice
6. Adrienne's Pizzabar
7. Cipriani Wall Street
8. Haru Sushi
9. Fraunces Tavern Museum
10. Smorgas Chef
11. The Capitale Grille
12. Trinity Place
13. Reserve Cut
14. Augustine - New York
15. Harry's Italian
16. Schnipper's
17. Shorty's
18. Stone Street Tavern

RETAIL

1. Tiffany & Co.
2. Northern Grade
3. Hermés

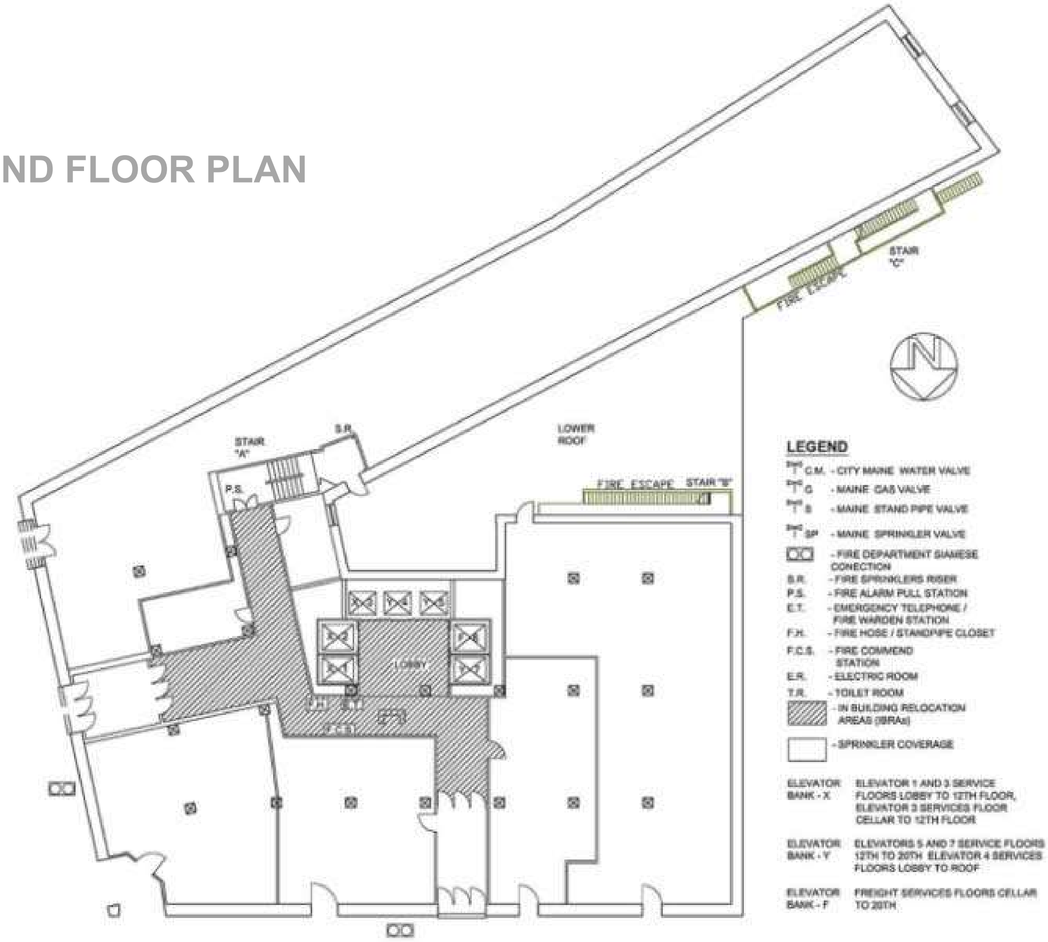
ENTERTAINMENT & RECREATION

1. Pier 17
2. South Street Seaport
3. The Beekman, a Thompson Hotel
4. WTC Oculus
5. New York Stock Exchange

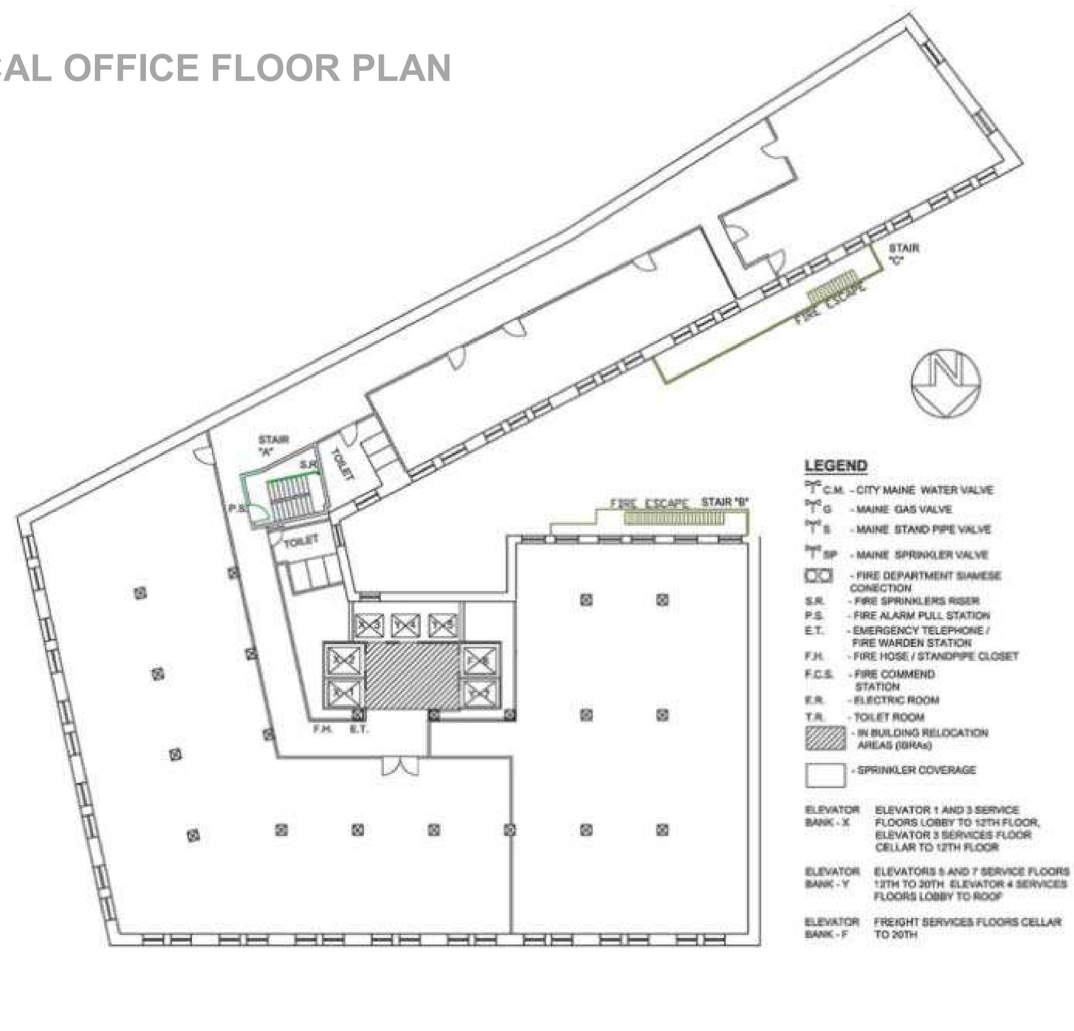
SPA & FITNESS

1. SoulCycle FiDi
2. Equinox Wall Street
3. Crunch - John Street

GROUND FLOOR PLAN



TYPICAL OFFICE FLOOR PLAN



BUILDING'S CONDITION BEFORE RENOVATION

Damage to Façade prior to acquisition, due to differed maintenance, and in violation of New York Local Law 11.

PICTURES BEFORE/ AFTER RENOVATION

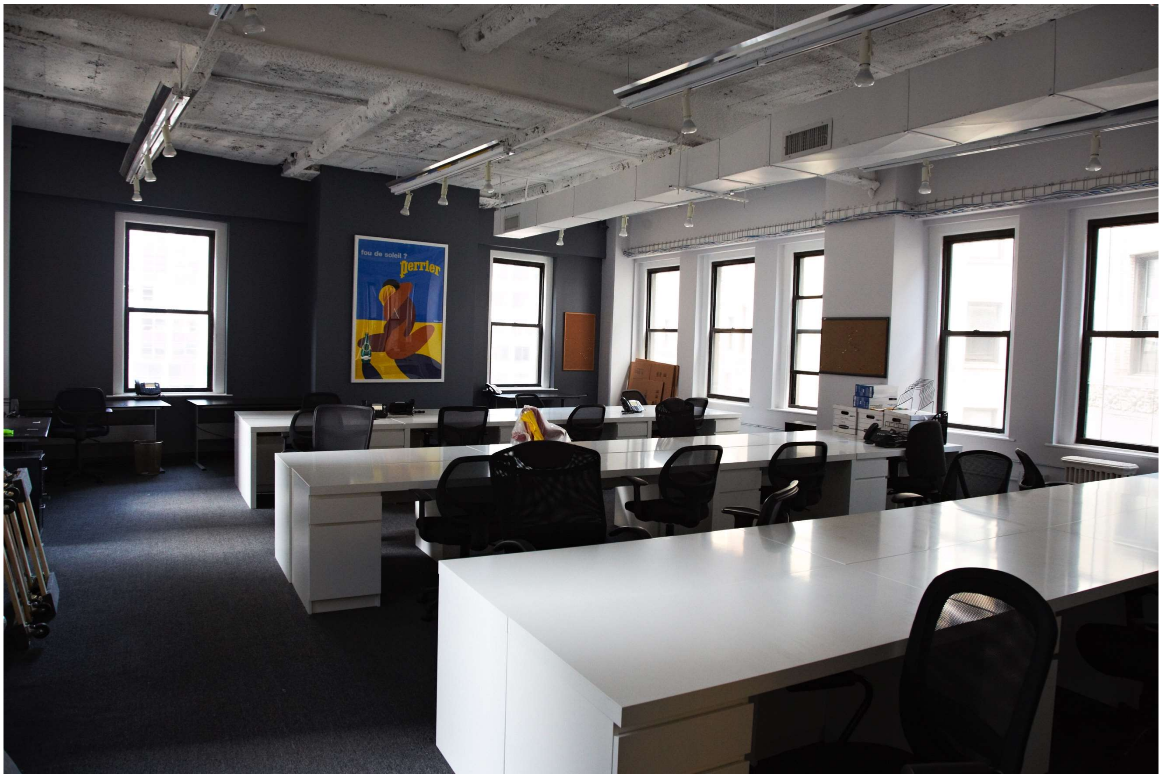
Entrance before renovation

Entrance After renovation

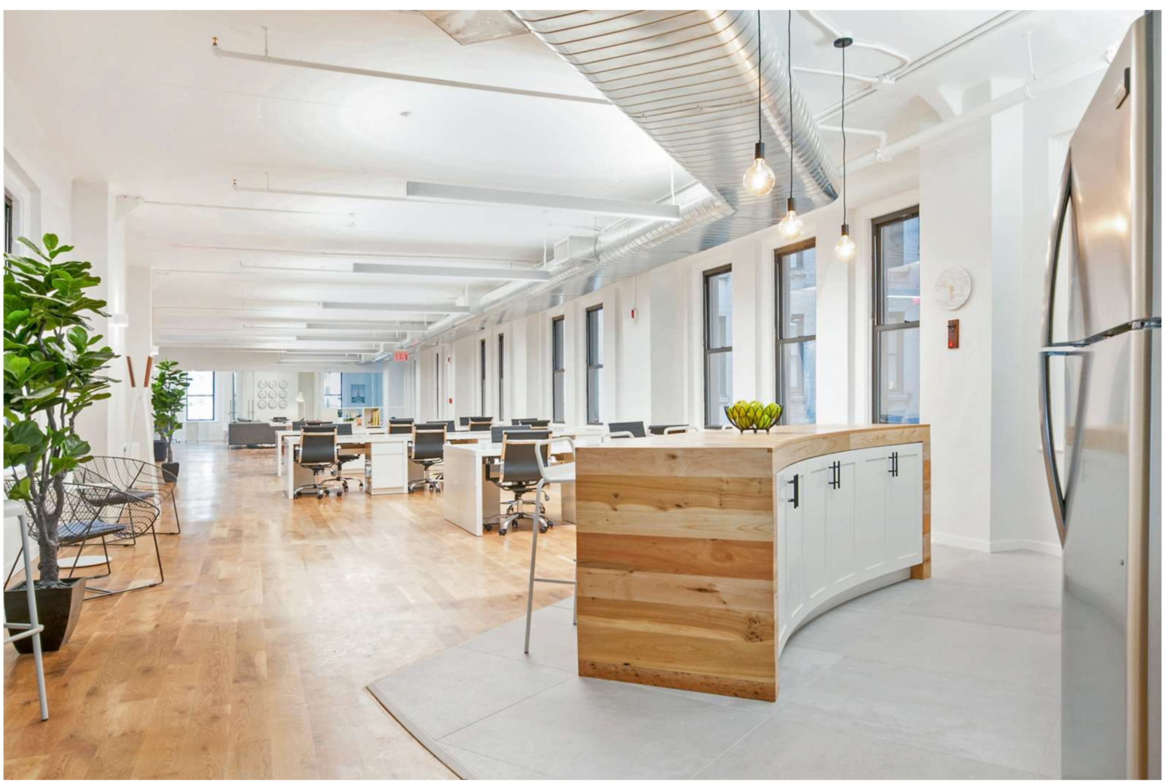
Typical corridor before renovation

Typical corridor after renovation

Typical office space before renovation



Typical office space after renovation



ICAP ABATEMENT

GFP-RE Estimates for ICAP abatement valuation of 40 Exchange Place.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current Year Tax	2,000,000	2,060,000	2,121,800	2,185,454	2,251,018	2,318,548	2,388,105	2,459,748	2,533,540	2,609,546	2,687,833	2,768,468
Abatement Schedule	100%	100%	100%	100%	100%	100%	100%	100%	80%	60%	40%	20%
Abatement Value	$ 2,000,000	$ 2,060,000	$ 2,121,800	$ 2,185,454	$ 2,251,018	$ 2,318,548	$ 2,388,105	$ 2,459,748	$ 2,026,832	$ 1,565,728	$ 1,075,133	$ 553,694
NPV of Abatement	**$16,186,347**											

LM-REAP Program

Map of lower Manhattan showing area where LM-REAP tax credits are applicable.

HISTORICAL IMAGE

Lord's Court Elevators as designed by John T Williams.

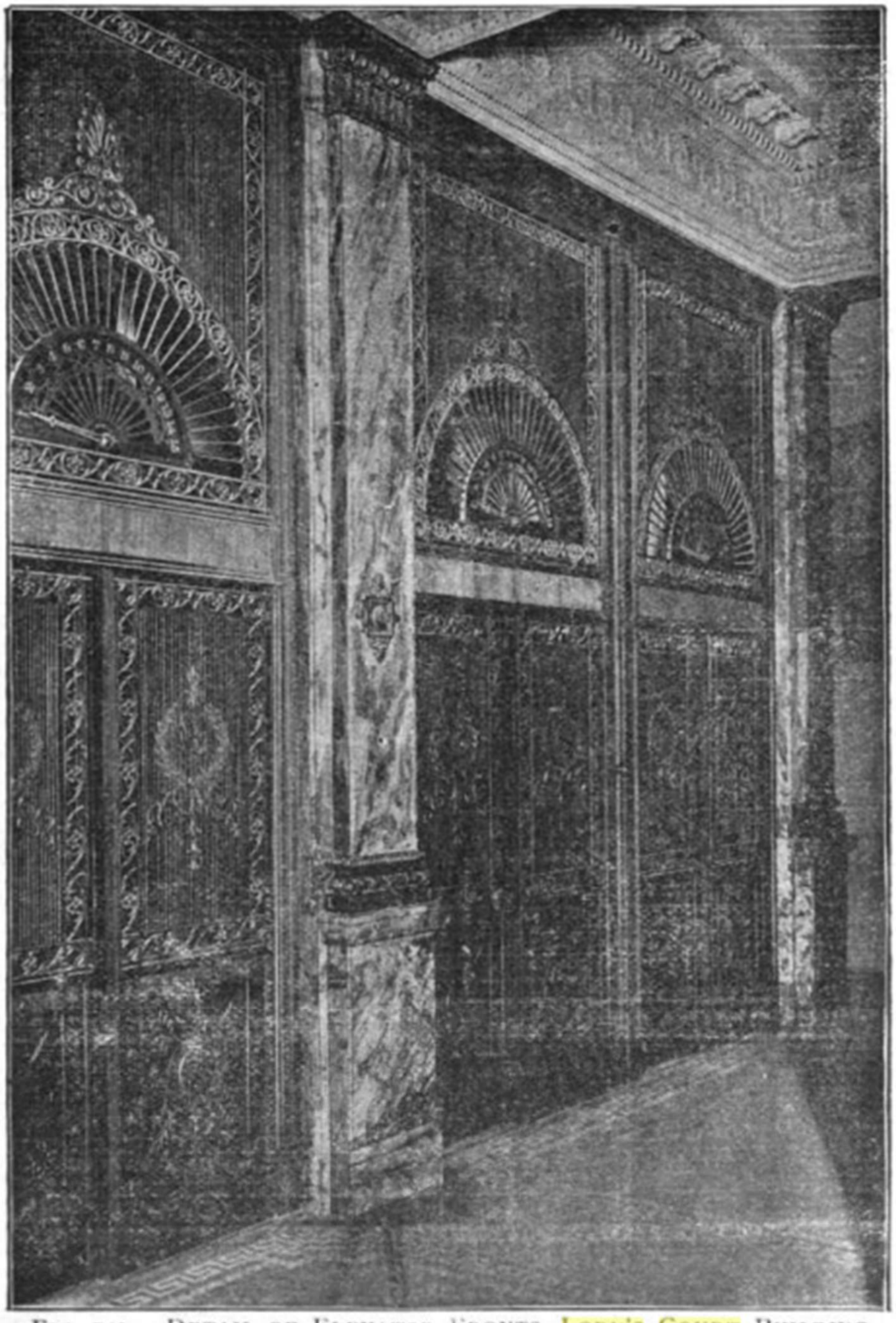


FIG. 141.—DETAIL OF ELEVATOR FRONTS, LORD'S COURT BUILDING.