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Dear Potential and Present Lexington Avenue Investors:

In early autumn 2005, we received a listing for a three-family townhouse for sale at 1608 Lexington Avenue, New York, NY in a sub-market of which has been termed, "The Upper Upper East Side". We were familiar with this area as, over the past 20 years, we had been Managing Partner on as many as 250 rent-stabilized multi-family units within this sub-market (they were all sold in 1999). As 1608 was priced right, I was very curious to see if the gentrification had reached a level where I would be able to convince, my wife, Dana, to convert this townhouse to a single-family home and move into New York with our two youngest children who are presently in high school in Westport, CT.

Whenever we inspect real estate in New York City, we always begin the tour by standing across the street to absorb the full picture of what is happening on the entire block. I will never forget the first moments of standing across from 1608 Lexington: It immediately became apparent to me that there was far more here than simply an opportunity to purchase a single, relatively affordable, brownstone. In fact, from the very first day, we began planning to purchase and assemble all of the nine pieces of property that line this block which comprise our assemblage between 101<sup>st</sup> and 102<sup>nd</sup> Streets on the west side of Lexington Avenue (**please see attached plot plans of 1596-1612 Lexington Avenue**).

The thought of convincing Dana to move here quickly gave way to a far more ambitious plan: As my partner, John Anderson, and I had recently sold a piece of real estate and needed a 1031 Exchange, we decided to purchase 1608 Lexington and began the delicate disciplines involved in attempting to purchase the rest of the block. We felt--and still feel--that even if we didn't succeed with the assemblage, as a result of the steady upscale demographic overflow of buyers and tenants from south of 96<sup>th</sup> Street, combined with the lack of rent controls and stabilization for small buildings, the downside exposure was exceedingly small--if not non-existent. On December 12, 2005, we closed on 1608 Lexington and we then began to focus on the rest of the block. Our plan for 1608 was to sufficiently upgrade the brownstone to be able to rent out the three units to create some income while we assembled the rest of the block for a potential development site for as large a building as possible; we assumed our assemblage would take, at least, seven years to complete. We couldn't have been more wrong. Now, two and one-half years later, we either own or control (1612 Lex) seven (7) of the individual pieces on this block (1600 – 1612 Lex).

Soon after purchasing 1608, we went into contract and closed on 1606 Lexington. Then 1604, became available, which we purchased in the summer of 2008, followed by the purchase of two pieces of raw land: 1600 and 1602 Lexington Avenue. On August 5<sup>th</sup>, we closed on 1610 Lexington—The Church. We have been in consistent discussions with the City of New York to gain control of 1612 Lexington (a piece of raw land that the City took from The Church, 1610 Lex, for real estate tax foreclosure purposes in 1993) which is contiguous to The Church and the northwest corner of 102<sup>nd</sup> and Lexington.

Although we had great confidence that the immediate sub-market of, say, East 103<sup>rd</sup> Street to East 96<sup>th</sup> Street and from Park Avenue to Third Avenue would continue to upgrade, we were very pleasantly surprised to watch a new 50,000 SF building rise directly across the street on the northeast corner of 101<sup>st</sup> Street this year. **(Please see attached photos)**. This property, when completed (in approximately six months), will have a retail layer at street level, the second floor will be medical offices and there will be 48 residential rental units in the top six floors. In addition, another brand new, ground-up constructed, 76-unit rental building with retail was very recently completed and leased on the southwest corner of East 101<sup>st</sup> Street and Third Avenue. There are also two additional significant mixed-use, ground-up construction projects in process on Lexington Avenue between 104<sup>th</sup> and 102<sup>nd</sup> street.

Therefore, our game plan is as follows: instead of quietly sitting on our site, renting the brownstones and waiting for the “world to come to us”, we have determined the time is right for us to proactively begin all of the various processes involved to “up-zone” our site and achieve building permits sooner than later. This involves many moving parts regarding the endorsement of local community leaders, detailed and varied architectuals, engineers, expeditors and countless meetings with The City over the next few years. Toward that end, we have decided to officially and contractually merge all of the individual pieces into one (Please see attached proformas). We will also raise extra capital (our “war chest” to pay for all of the many professional disciplines and regular time consumption regarding this process). While we are actively working on “the big picture”, we will either continue to rent the three-unit brownstones as non-rent stabilized residential apartments or we may begin to convert them to “bed and breakfast status” with the help and co-management of the two gentlemen who have been running both 1596 and 1598 Lexington as B & B’s. They have net-leased 1598 Lexington for the past five years and they recently purchased and renovated 1596 Lexington as well. We will be renovating 1610 Lex (The Church) to have the ability to either rent as three (3) apartments or, at the appropriate time, we will be able to convert the top two (2) floors into a four-unit B & B and thus increase the net income in that property. At present, the income from the existing brownstones leased as three (3) unit apartment buildings, combined with minimal income from the raw land, will yield an actual cash-on-cash return for the first stabilized twelve (12) months of approximately 3% as well as tax benefits. As the neighborhood continues to upgrade, we expect the lease turnovers to continue to increase in rental value and thus, the actual quarterly cash dividends should steadily increase. In fact, we are finding that the units are so desirable that once a tenant takes possession, regardless of what is going on with the rest of the market, we are able to increase their annual rents by as much as 8% for them to continue their tenancies. Please note that all of the apartment units have no rent control or stabilization, thus they pay their own, heat, hot water and electric. Real estate taxes are exceptionally low (under \$2000 / building) as they are three-family properties. When the new building across the street is finished and leased, we expect our rental values to solidify even further.

We have a high degree of confidence that, eventually, “extended zoning” will become a reality as it is already happening on the block fronts of 96<sup>th</sup> to 97<sup>th</sup> Streets and 97<sup>th</sup> to 98<sup>th</sup> Streets on Lexington where two high-rises were built two years ago and a third one is being built now; 12 years ago the site at 97<sup>th</sup> Street was zoned identical to our site. On the west side of Lexington from 99<sup>th</sup> to 100<sup>th</sup> Streets is “brown brick” City-owned housing known as “Lexington Houses” and the MTA Bus Barn (“extended zoning” has a precedent of “hop scotching” over public owned property). From 100<sup>th</sup> to 101<sup>st</sup> Street is owned by The Children’s Aid Society; they are actively working on offering their site as a potential development site and their exclusive sales agent is a real estate consultant and a very close, old friend of ours. Thus, we will be working with The Children’s Aid Society to get “extended high rise re-zoning” for both it’s site and ours. The timing for all of this proactive activity is perfect as the City of New York and the local communities are both extremely pro-development for increased

housing units at this time. We envision “coming up for air” with increased zoning and building permits approximately three years from now when, presumably, the banks will be more flush with money than now and our local economy will be back “in sync” or well on it’s way.

In addition to all of the above, at present, there are three (including ours) potential development sites within one block of each other:

- 1) Our site: West Side of Lexington from 101<sup>st</sup> to 102<sup>nd</sup> Street
- 2) The existing gas station on the east side of Lexington Avenue directly across from on the southeast corner of 102<sup>nd</sup> and Lexington
- 3) The Children’s Aid Society just south of us between 100<sup>th</sup> and 101<sup>st</sup> Street on the west side of Lexington

The development of these sites may be able to be coordinated to create a synergistic project such as a “Latino Trade Center” tied into the El Barrio Museum on Fifth Avenue, a Mount Sinai Hospital Campus East or some reasonable facsimile.

At present, 1600 to 1612 Lexington would support approximately 52,875+ SF as of right. When we achieve the final building permits, we will have a choice of either selling the site to a larger, third-party developer and/or developing it ourselves. We have had much communication with the people who presently control 1596 and 1598 Lex and we have reason to believe that we may be able to either purchase and/or include them on a parri par sue basis. At present, should we include the two (2) B & B’s (1596 and 1598 Lex) we would be able to build 70,000 SF as of right; we believe there is a very reasonable chance that approximately three years from now, regardless of whether we include the B & B’s or not, that our as of right FAR SF will be substantially increased. As a result of proximity to transportation, the continuing gentrification of the sub-market, the increased banking liquidity, the natural forces of inflation and the hilltop geographic location, it is not unreasonable to expect a value of approximately \$300 per FAR SF three to four years from now. At 100,000 SF, this would equal \$30 million for the site; 125,000 SF would equal \$37,500,000; 142,000 SF would equal \$42,600,000.

This has been one of the most exciting and, potentially, highest remunerative projects that we have ever been involved in. We are fully prepared to march forward and give this the extremely significant amount of time and focus it will require for success. And, another thought is that although we are budgeting approximately three years to accomplish this, it would not surprise us if it happens faster as demonstrated by how long it has taken us to get to where we are right now.

We have, at present, a total of approximately \$8,104,454 in cash and approximately \$475,000 in debt on the project. When it becomes opportune to purchase both 1598 Lex and 1596 Lex or 1598 Lex alone, there will be room for additional investment.

It is exceptional to own the majority of a block front in New York City; when combined with the fact that we will own this 95% all cash (we may, over the next year or so, decide to pay off the external debt of \$475,000, however, due to a 1031 exchange, we may decide to retain the debt), it is even more unusual: we will own this site...like a rock.

We very much look forward to working with you on this project and thank you, once again, for your attentions and confidence. I will be following up with you very shortly, as we would like to button

down the final remaining investment asap. Directly upon finalizing the syndication, we are looking forward to signing amongst ourselves the Master Lease which will combine all properties and create a pro-rated all for one, one for all scenario between all of the investors. **Please be certain to access the attachments: pictures, plot plan, and pro forma showing each individual's and collective monies within the assemblage to date.** Thanks once again. Best regards. Robert