SUNSET INDUSTRIAL PARK
50 21St Street
Brooklyn, New York
THE SAVOY GROUP / 601W COMPANIES

I. EXECUTIVE SUMMARY

The Savoy Group/601W Companies ("Savoy/601W") are under contract to acquire Sunset Industrial Park, located at 50 21st Street in Sunset Park, Brooklyn (the "Property"). The Property is situated on a 14.33-acre plot of land along the western waterfront of Brooklyn, and includes 18 buildings totaling approximately 318,000 square feet of industrial and office facilities. The buildings were constructed in phases between 1926 and 2000, and have undergone substantial upgrades since 1985. It has been owned and managed by the same family for the past thirty years.

The Property is most unique in that it spans three square blocks from 19th to 22nd Street (four blocks from the nearest subway), beginning several hundred feet to the west of 3rd Ave and continuing to the Gowanus Bay. The Property provides approximately 1,900 linear feet of water frontage, offering expansive views of Lower Manhattan and Downtown Brooklyn. Directly north of the Property is Home-Depot, with adjoining retail along 3rd Avenue. Other noteworthy retailers in the area include IKEA, Lowes and Whole Foods. Along the waterfront to the south, existing properties are used primarily as office, industrial and distribution facilities.

Presently, the Property is 93% leased to quality tenants such as Federal Express, Pro Build and Verizon. In addition, a lease agreement has just been finalized with a real estate management firm to master lease the remaining 7% vacancy for the next three years, which would bring the occupancy up to 100%. A majority of the Property’s net rents range between $10 and $15 per square foot, which is slightly below the area’s best industrial rents. The net operating income ("NOI") for the Property is currently $4,500,000 (including the new master lease), with the potential to increase it through prudent management and new leasing efforts.

The current zoning for the Property is M3-1, which permits a Floor Area Ratio ("FAR") of 2.0, which allows 1,200,000 (approximate) square feet “as of right” of light-industrial, retail, manufacturing, or distribution space. Over the past two decades, the other waterfront industrial areas of Brooklyn, including Red-Hook, Williamsburg, and DUMBO, have been rezoned and subsequently re-developed into residential uses, and property values in each of those neighborhoods have skyrocketed.

The Property offers one of the largest undeveloped tracts of waterfront land in all of Brooklyn and the entire Metropolitan area. Through a rezoning, as was successfully accomplished in similar waterfront neighborhoods, the Property could support a 3,600,000 square foot mixed-use
development, which would create a large campus-like community that would include a mix of office, retail, and residential uses.

II. PROPERTY OVERVIEW

The Property is laid out efficiently, as the structures line the perimeter of the Property, with 500 parking spaces in the center. The peninsula-like layout creates added waterfront frontage stretching along the entirety of both the south and west sides of the Property. A majority of the buildings are single-story, providing drive-in loading access. The traffic pattern of the Industrial Park provides easy access through two-curb-cuts on 3rd Ave, and a road circling the interior of Property.

The 18 buildings have been developed in stages since 1926, with the most recent buildings being constructed in the past decade. Under current ownership, the buildings have been upgraded, catering to the growing demand of global companies using Sunset Park as an industrial and distribution hub. There is enough available and unused land that would support additional structures for new tenants without disturbing any of the existing structures.

III. SUNSET PARK OVERVIEW

Sunset Park stretches south of 15th Street through 65th Street, from 9th Ave to the New York Harbor. The neighborhood is known for its ethnically diverse population of over 100,000 residents, with an industrial workforce of over 20,000. Bordering Sunset Park is Park Slope to the North; Borough Park to the East; and Bay Ridge to the South. Sunset Park is easily accessible by car or public transportation, with access to the D, M, N, R subway lines and the Gowanus Expressway running above 3rd Avenue.

Over the past half-century, Sunset Park became a destination for maritime distribution, a result of the unobstructed stretch of water-frontage. Historically, the backbone of Sunset Park has been its industrial sector, anchored by three main campuses: Bush Terminal; the Brooklyn Army Terminal; and Industry City. Together these make up a majority of the industrial space of Sunset Park, which is home to wide range of industries.

In recent years, the Economic Development Corp (“EDC”) of NYC has taken measures to increase the awareness and redevelopment of Sunset Park as a manufacturing and industrial backbone of New York City. Additionally, an initiative is underway to reincorporate the waterfront into the residential community, and create ample green and park space for pedestrians. The EDC is investing heavily in the local infrastructure, including railways, roads, and piers, to modernize the
area and provide greater functionality to businesses, as well as to improve freight transportation services. As an ideal location on Upper New York Bay, increased infrastructure investment, growing residential population, and access to the major transportation networks, Sunset Park will continue to be identified as a burgeoning waterfront destination. Evidence of early gentrification and transformation is apparent through recent construction; an uptick in the neighborhood’s leasing activity, residential condominium conversion as well as a recent infusion of private and institutional capital.

IV. BUSINESS STRATEGY

Savoy/601W plans to implement a two-phase business strategy upon acquisition of the Property, to maximize its value-add approach to its investment. Leasing efforts (through expansions and lease extensions with existing tenants), together with more prudent management will allow for an immediate increase in cash-flow. As current zoning permits an additional 900,000 square feet of development rights, Savoy/601W will aggressively market its ability to build new “as of right” structures on the site, ranging from 25,000 to 40,000 square feet each. Additionally, immediately after closing on the Property, Savoy/601W will begin the design and approval process to rezone this site and to redevelop it into a large-scale residential community.

PHASE I

With the Property nearly fully occupied, and anchored by three major tenants (Federal Express, Verizon, and Pro Build), the Net Operating Income will be sufficient to service the debt ($75,000,000) that is being used to purchase the Property. In addition, Savoy/601W has the ability to increase the Property’s cash flow over the next five years. Firstly, Savoy/601W plans to reduce some wasteful operating costs. For example, the current payroll and security costs total over $500,000 annually, a figure that can reasonably be reduced by 30%. Secondly, Savoy/601W will look to increase rents of existing tenants by $3 to $5 per square foot as their leases expire and are extended. Thirdly, Savoy/601W plans to increase the cash flow by capitalizing on the right to develop additional structures on the site, “as of right”. As comparable properties are achieving rents of over $15 per square foot on a NNN basis, Savoy/601W can construct modular single-story light-industrial facilities at a cost of $60-$70 per square foot, which equates to more than a 20% yield on cost. Furthermore, the structures will only be built after leases have been executed and not on a speculative basis. Modular, or prefabricated construction, is built at a 50% greater pace than typical construction, and with less disruption to current facilities. With utilities already running through the site, hard/soft costs are basically limited to steel-frames, tin-roof, and concrete flooring. This type of facility can be built off-site and delivered and configured once completed. Based upon a conservative projection of a lease-up of 60,000 square feet of new space, an approximate $900,000 to $1,200,000 could be added to the NOI in the next two years, which should then equal $6.0 – 6.5 million. This strategy will enable Savoy/601W to refinance and hold the Property as a cash-flowing asset for the next five to ten years (even if the current interest rates should rise significantly), while
it continues to develop its Phase II of this Business Plan without any financial pressures or disruptions.

**PHASE II**

Simultaneously with Phase I, Savoy/601W will undertake Phase II of the project, which will involve going through the process (approximately 36 – 48 months) of rezoning the Property through the city’s Urban Land Use Review Procedure (“ULURP”) process to allow for a larger development on

the site. As the Property is located on Brooklyn’s waterfront, it is a natural candidate for redevelopment into a residential and mixed-use community. The neighborhood is one of the last remaining stretches along the waterfront where the redevelopment has yet to take place. The transformation of the Brooklyn waterfront started in Greenpoint and Williamsburg, and has trended southward to Red-Hook, which sits directly north of Sunset Park. Pricing along the Brooklyn waterfronts have dramatically increased over the past two decades, as the neighborhoods has continued to develop and appreciate.

Over the past two decades, Brooklyn’s waterfront, once considered one of New York’s City’s most neglected assets, has been transformed into an urban campus of luxury high-rises and open parks. Brooklyn’s gentrification started in the late 1980’s as housing costs skyrocketed in Manhattan, thereby displacing many of the families and artists that populated areas such as SOHO and the East Village. These residents began crossing the river into Brooklyn for more affordable housing. Two primary examples of this trend, which led to significant gentrification of these areas, are the neighborhoods of DUMBO and Williamsburg.

DUMBO, which is located on Brooklyn’s waterfront under the Manhattan Bridge, is a former industrial and manufacturing hub that has transitioned from a virtual no-man’s land into a burgeoning mixed-use community through the adaptive reuse of former industrial and warehouse loft buildings into residential and commercial uses. As the 1970’s and 1980’s suffered from the decline of manufacturing in the City, artists began to occupy these former manufacturing buildings, and now call DUMBO home. The large floor plates of former industrial buildings were ideal for artisan uses, and with ample vacancy, landlords were inclined to provide discounted or even free workspaces. At first, these workspaces became illegal residences, as zoning predominately limited the usage for manufacturing and industrial purposes. Soon, however, variances were granted that enabled DUMBO to be legally used for residential purposes.

As the process of gentrification in DUMBO was evolving, and an increase in variances was needed, a district-wide rezoning was adopted in July 2009. As a result, part of DUMBO has been rezoned from M1 or M3 to a special mixed-use district (MX). This zoning code permits new residential and non-residential uses “as of right” within the same building, referred to as a mixed-use building. The zoning code pairs M (manufacturing) with an R (residential) (example; M1-2/R6). The new zoning code M1-4/R7A permits a 3.45 FAR (4.6 with inclusionary housing) for residential usage; while the M1-4/R8A permits a 5.4 FAR (7.2 with inclusionary housing) for residential usage. As a result
of the rezoning effort, DUMBO has delivered residential, business, and cultural institutions to the former undesirable and uninhabited neighborhood.

The early residential condominium conversions that were developed in DUMBO (in the late 1990’s) were achieving values of approximately $300 per square foot. Over the next decade, the prices rose to $600 per square foot, and in recent years they have spiked to over $1,400 per square foot. One of the last remaining industrial buildings in DUMBO (51 Jay Street) was recently acquired for $45,000,000 for the rights to build up to 150,000 square feet of residential condominiums (an 80,000 square foot structure is already on site). Additionally, the commercial districts in DUMBO began to flourish as well, with today’s rents at approximately $25 per square foot. Today, there is approximately 1,300,000 square feet of office space in DUMBO, and it is nearly fully occupied. There is a higher concentration of technology firms in DUMBO than in any other district in the Tri-State Area, and it is commonly referred to as “NYC Digital District”. There are roughly 500 tech or creative-type firms employing 10,000 people, with this number expected to grow to 650 firms with 18,000 people, by 2015. Along the waterfront, the City has invested millions of dollars into the renovation of the Brooklyn Bridge Park, and is now in midst of an expansion to link many of the isolated areas of Brooklyn’s waterfront.

Williamsburg, another similar neighborhood in Brooklyn, also exemplifies Brooklyn’s resurgence and gentrification over the past two decades. Like DUMBO, Williamsburg stretches along the waterfront facing Manhattan. As it is located just one stop on the subway from the Lower East Side, Williamsburg became an ideal destination for artists that were priced out of lower-Manhattan. In the 1960-1970’s, Williamsburg suffered from severe disinvestment and deindustrialization. All that remained were blocks of vacant warehouses and empty lots, especially along the waterfront. In the late 1990’s, an estimated 3,000 artists already resided in Williamsburg. Today, through rezoning and development, Williamsburg has been transformed with the development of luxury high-rises, art-galleries, and high-priced retail stores.

In May 2005, the New York City Council passed a large-scale rezoning of parts of Williamsburg, spanning 175 blocks, to accommodate dense residential development and mixed-use buildings. With anticipation of the rezoning, land values rose sharply. A study done by the Furman Center for Real Estate and Urban Policy, reported land costs in Williamsburg increased by 500% from 2002-2007. The results of the rezoning can be seen along the waterfront with such residential developments as North-Side Piers, The Edge and North 8. The rezoning intended to incorporate the waterfront into the surrounding neighborhood and permit high-rises along the water, with low-rises more inland. The City also wanted to create a contiguous stretch of waterfront parks and development for public-use.

Under this rezoning plan, the inland area was rezoned from manufacturing districts (M) to mixed-use districts, as was the case in DUMBO. A variety of zoning classes were implemented, dependent on the size of the block. Examples of current inland zoning are M1-2/R6 permitting an FAR of 2.2
(2.42 with 20% inclusionary housing) and M1-2/R7A permitting an FAR of 3.45 (4.6 with 20% inclusionary housing). Within residential districts, commercial overlays exist to promote retail and office space along certain corridors, such as Bedford Avenue. On the waterfront, more generous zoning was granted to permit high-rises with an affordable component. Williamsburg’s waterfront encompasses zones R6 and R8, and a blended R6/R8. R6 zones allow a FAR of 2.43 (2.75 with affordable) and R8 permit a FAR of 4.88 (6.5 with inclusionary housing). Blended, they permit FAR of 3.7 (4.7 with affordable).

A recent example of the continued growth of Williamsburg is the redevelopment plan for the Domino Sugar Factory, an 11-acre site on the waterfront. It is zoned R8/C6-2, which allows for a mix of commercial and residential use, and has an FAR of 6.01, but will be increased through incorporating affordable and moderate-income housing. The development team plans to convert this former industrial plant into a large-scale mixed-use complex. This development exemplifies the continuance of this trend of repurposing former manufacturing uses along the waterfront into more practical uses.

In addition to the ever-rising residential prices (residential condominium prices commonly approach $1,400 per square foot), the demand for office and retail space in Williamsburg has also increased, with current rents topping out in the low $40’s per square foot, and prime retail along Bedford Avenue is now priced around $100 per square foot. In less noteworthy, more inland, sections of Williamsburg, land prices have surpassed the $150 per square foot mark. A recent building placed on the market located at 850 Metropolitan Avenue is being marketed as a loft conversion, and its owner is asking $9,750,000 for a total of 25,000 buildable square feet. This equates to a staggering $390 per buildable square foot. Today, Williamsburg is regarded as the new “SOHO”, with residential developments geared towards the young, chic and affluent crowds. Any remnants of Williamsburg’s industrial past are quickly snatched up for development, with limited inventory and ample demand in the marketplace.

With land-prices at current levels, a majority of new construction and conversions are being developed as condominiums, which further tightens Brooklyn’s rental market. With pent-up demand and an influx of residents being priced out of more established Brooklyn markets (such as Park Slope, which has always rivaled Manhattan as a family-friendly haven), the neighboring communities are benefiting. Today, areas such as Bushwick, Sunset Park, Crown Heights, and the Gowanus are experiencing the gentrification that DUMBO and Williamsburg underwent a decade ago. Of all the transitioning areas of Brooklyn, few offer the large waterfront component that Sunset Park provides. Sunset Industrial Park is just 1-mile to the heart of Park Slope, 3.5 miles to DUMBO, 6 Miles to Williamsburg, and only 4-miles from lower Manhattan. Sunset Park has recently attracted private investors, and lately even institutional capital. Most notably, Jamestown has just acquired a controlling share of Bush Terminal at a cost of nearly $400,000,000, with plans to develop the properties through an additional capital investment of $100 - $200 million.
If ownership is successful in rezoning the Property into a mixed-use or residential district, such as R8, the FAR could increase to 6.0, from the current 2.0, which would then permit up to 3,600,000 square feet of development rights. At a price of $150 to $200 per buildable square foot of waterfront property, Sunset Industrial Park would be valued at more than $500,000,000 to $700,000,000, a value of worth more than four to five times the acquisition price. Sunset Industrial Park offers the rare opportunity to develop a campus-style environment just minutes from Downtown Brooklyn and Lower Manhattan, in a neighborhood poised for redevelopment.

V. CAPITAL FINANCING PLAN

Savoy/601W plans to capitalize the deal at $140 million, including $65 million of equity and $75 million of debt. The acquisition costs and closing costs will total $130 million, and the balance will be used for the development and redevelopment of the Property ($5 million for the rezoning process of the Property over the next several years; and $5 million will be used towards the expansion of the existing buildings to enhance the NOI in the near-term.)

VI. SPONSOR PROFILE

The principals of Savoy/601W oversee one of America’s leading private real estate acquisition, ownership, and management portfolios in the country. Over the past two decades, Savoy/601W has acquired a number of substantial and well-known commercial properties throughout the country, aggregating 28 million square feet, with a collective value in excess of $5 billion. In relation to these transactions, Savoy/601W has raised well in excess of $1 billion in equity, mostly from private investors, and has consummated transactions involving forty major office buildings, including 11 in Manhattan. Savoy/601W has developed, and repositioned a number of office buildings around the country. It is perhaps best known for its remarkable and creative transformation of the Starrett-Lehigh building in Manhattan, from a 2.3 million square foot manufacturing and warehouse behemoth into the premier office building in West Chelsea, focused on new media, fashion and technology tenants, including Polo, Martha Stewart, Hugo Boss and McGarry Bowen.
APPENDIX

SITE PLAN
TAX MAP
AERIAL MAP