203 Marion St, Brooklyn, NY 11233

Introduction:

Habitat for Humanity – New York City ("HFH-NYC") hereby seeks approval from its Real Estate Investment Commitment to enter into a purchase contract to acquire the property known as 203 Marion Street, a 6-unit, multi-family building (the "Property") located within HFH-NYC's approved NSP2 target area in Brooklyn, NY. HFH-NYC proposes to purchase the Property for $623,700 ($103,950/unit) and spend an additional $1,212,776 ($202,129/unit) to renovate the entire building over a 10-month period.

Property:

The Property is a 4,500 square foot (above grade) 3-story walk-up that was built around 1906 of brick construction. Each floor contains two apartments with almost identical floor plans, which HFH-NYC intends to renovate into 2-bedroom, 1 bathroom units. The 25 feet x 60 feet building sits on a lot of 25 feet x 100 feet. There are approximately 4,500 square feet above grade and 1,500 square feet in the unfinished cellar. The backyard will be accessible to all occupants via the basement, which will be finished as part of the rehabilitation work.

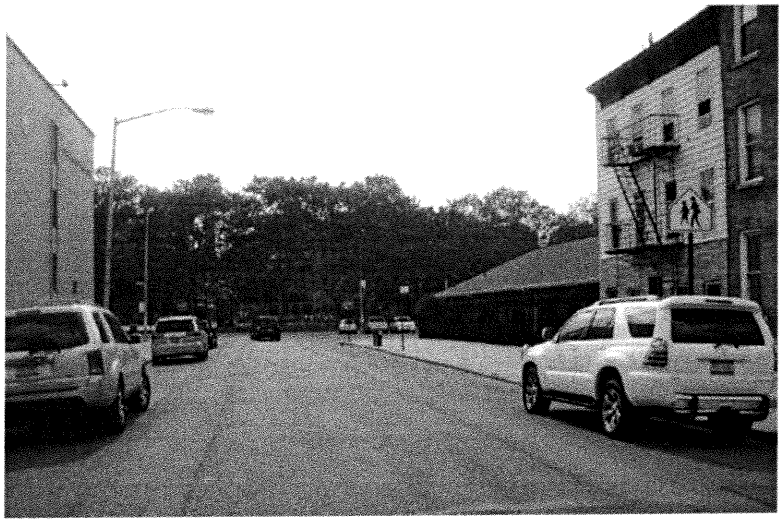
Front of Building

Additional pictures can be found in Exhibit A to this memorandum.

Location:

The property is located on the northern side of Marion Street between Ralph Ave and Howard Ave in the Bedford Stuyvesant neighborhood of Brooklyn (Block 1513, Lot 61, Census Tract 379, Community Board 3, City Council tract 41). Marion Street is mainly residential (2 and 3-story walkups). The area is zoned R6B Residential.

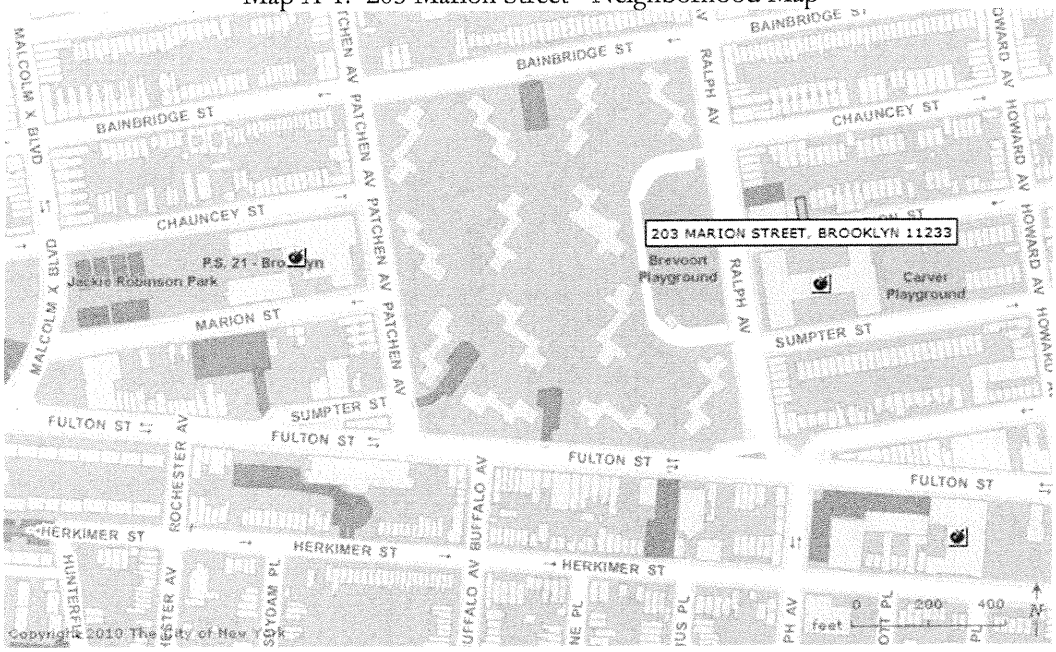
East and West views of Marion St.



The Property sits 3 buildings in from the northeast corner of Ralph Ave and Marion St. On the corner is a religious facility and across the street taking up ¾ of the block is Public School 040 and Carver Playground. The Property is also located across Ralph Avenue from Brevoort Playground, within a couple of blocks of Jackie Robinson Park and within several blocks of Fulton Park and Saratoga Square Park (See Map A-1 below). Brevoort Playground, located on the western side of Ralph Ave. is part of Brevoort Houses, a 17.26-acre NYCHA housing development that consists of 13, 7-story buildings with 894 apartments housing some 2,001 residents, built in 1955. Fulton Ave. two short blocks to the south is a major commercial corridor. The Property is 0.62 miles from the two nearest police stations at 30 Ralph Avenue (precinct 81) and 127 Utica Avenue (precinct 77) and 0.40 miles to the nearest fire station at 423 Ralph Avenue. The Property is easily accessible through the A and C Subway line at Ralph Avenue. The B47 bus line also runs along Ralph Avenue and the B25 bus line runs along Fulton Avenue. (See Map A-2 below).

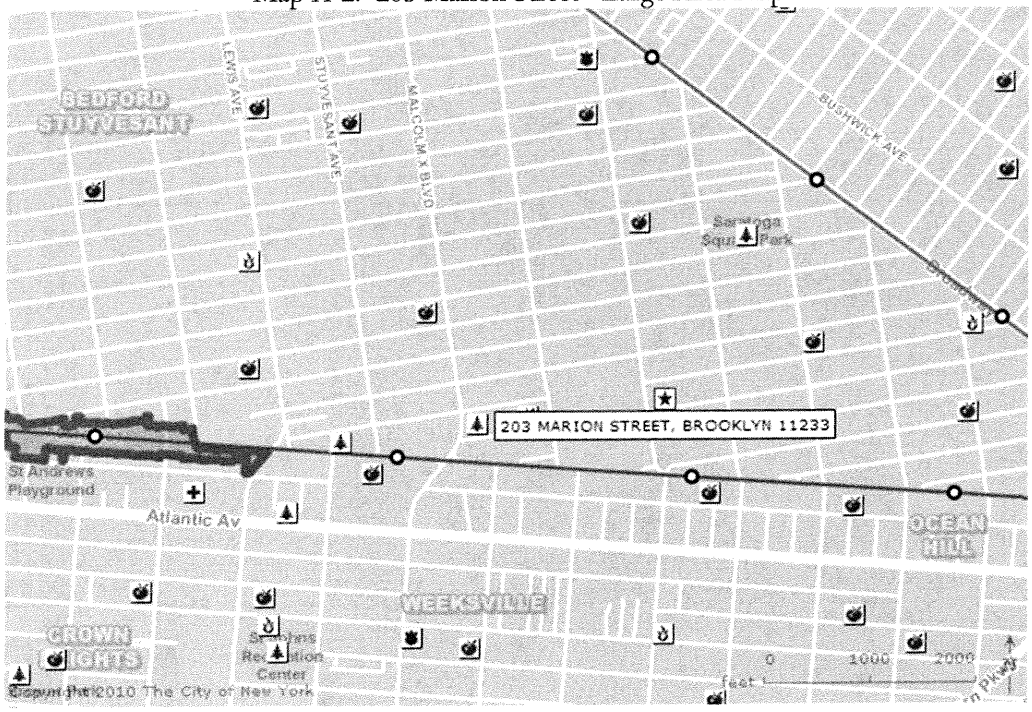
203 Marion St, Brooklyn, NY 11233

Map A-1: 203 Marion Street - Neighborhood Map



Public School

Map A-2: 203 Marion Street - Large Area Map



Park

Business Improvement District

Public School

Fire House

Police Precinct House

Subway

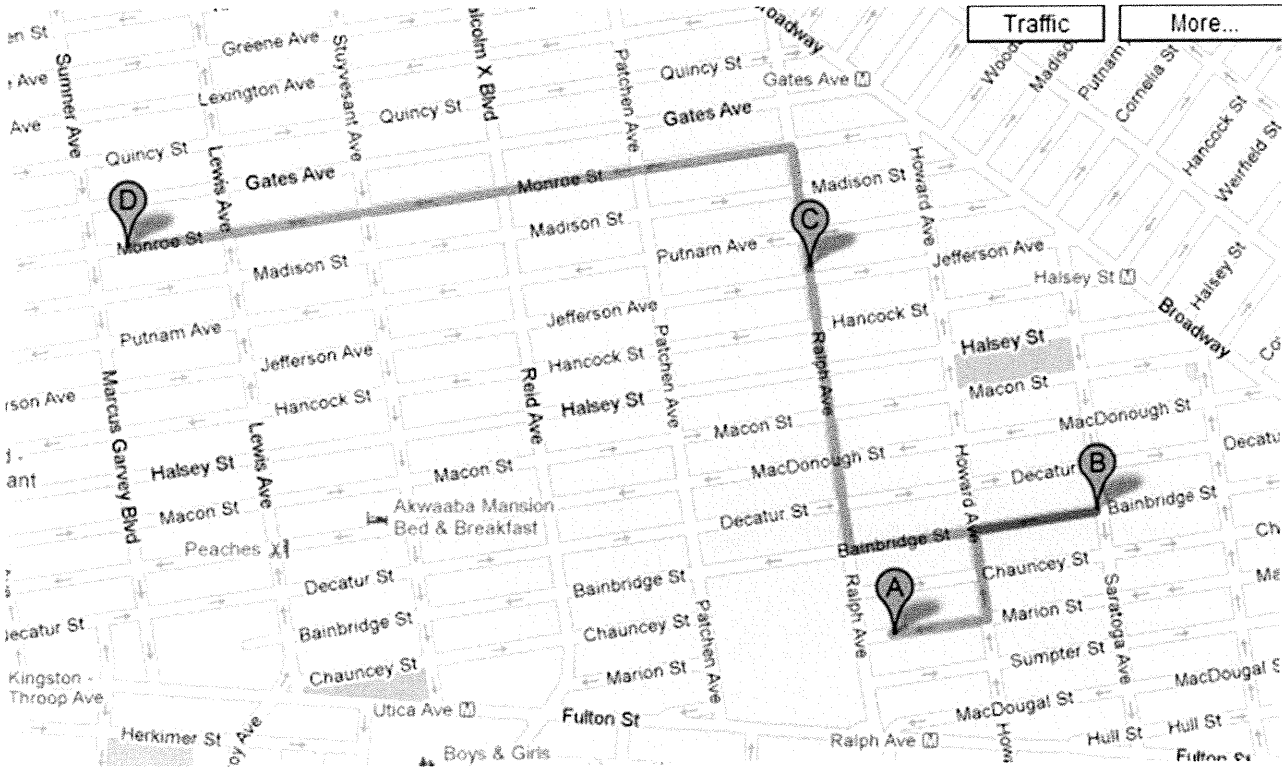
Current Status:

As per HFH-NYC's property acquisition policy approved by the Board and the Real Estate Investment Committee in August 2010 and pursuant to the Transaction Overview Memorandum regarding Habitat Bed-Stuy Homes dated August 16, 2010 and presented to the Real Estate Investment Committee during the August 24, 2010 REIC call, 203 Marion is a property that was first targeted for acquisition and inclusion in Bed Stuy Homes Condominium in late June 2010. An acquisition package was presented to the REC Committee in early July and HFH-NYC entered into a 60-day non-binding letter of intent to purchase that was accepted by the Seller on July 19, 2010. The 60-day due diligence period was extended by 60 days on August 30, 2010. As of this writing (10/27/10), HFH-NYC has received clearance from HUD to proceed as further detailed in this memorandum and all due diligence items have been completed except for Title review, which is expected in by Friday 10/29/10.

HFH-NYC proposes to purchase the Property from 203 Marion LLC., which is controlled by Mr. Issac Katz, a private investor active in the Bedford Stuyvesant market and the same owner for 475 Monroe. There are no current DOB violations. 203 Marion is classified by the City of New York as a "heretofore erected Old Law tenement." The building predates enactment of the 1938 code. A certificate of occupancy dated March 26, 1986 is on file. HFH-NYC expects to perform the rehabilitation of 203 Marion under an Alteration Type II permit which does not require an amended Certificate of Occupancy upon completion as the use, egress or occupancy does not change. This will require that building plans be submitted and approved and work performed under the 1938 Building Code, although plans will have to comply with current building code for mechanical systems and accessibility requirements, as well as current NYC Energy Code.

The Property has been entirely vacant for some time. HFH-NYC would be purchasing it based on this vacancy under NSP2 Eligible Use E.

As described in the August Transaction Overview Memorandum, it is HFH-NYC's intention to add the Property's 6 units to the Habitat Bed-Stuy Homes Condominium, which will ultimately contain approximately 30-40 dwelling units, including 8 units within 100 Ralph Ave, 8 units within 475 Monroe St, and 3 units within 491 Bainbridge St. previously (or in the case of Bainbridge, about to be) approved by the REIC. The Property's location in relation to these other properties is shown in the map below. 475 Monroe (D) is the furthest from the Property (A), located 1.4 miles to the northwest. Bainbridge (B) is 2 blocks north and east, and 100 Ralph (C) is approximately 8 blocks to the Property's north.



The Purchase Agreement has been drafted and a summary of same, prepared by HFH-NYC counsel, Russ Kivler of Hirschen Singer & Epstein, is appended below:

CONTRACT SUMMARY

203 Marion Street, Brooklyn, New York

Premises:	203 Marion Street, Brooklyn, New York (between Ralph and Howard Avenue in the Bedford Stuyvesant neighborhood)
Seller:	Marion Lodge LLC, controlled by Issac Katz
Purchase Price:	$623,700
Downpayment:	$31,185 (5%), held by Purchaser's attorney, Hirschen, Singer & Epstein LLP, or Purchaser's title company.
Number of Units:	6
Condition:	The building will be conveyed vacant. Purchaser will undertake a complete, gut rehabilitation of all 6 units. The Property will be purchased AS IS. Environmental Report reveals mold, asbestos and lead paint. The Environmental Report has been approved by HUD per the NSP guidelines and the rehabilitation will include a remediation effort.
Appraisal:	Appraised value of $630,000.
Title:	Title has been ordered. To be updated when report is received.
Property Tax Exemption:	Purchaser to apply for J-51 exemption.
Due Diligence Period:	No due diligence period.
Seller Consents:	N/A.
Transfer Taxes:	Seller to pay State transfer tax. The transfer is exempt from City transfer tax as a transfer to a not-for-profit
Service Contracts:	N/A
Broker:	Imagine Marketing. Paid by Seller.

At execution of the Purchase Agreement, HFH-NYC would make a 5% deposit ($31,185). Closing would then occur within 30 days, on or about December 1, 2010. Title has been reviewed and a new survey undertaken.

DUE DILIGENCE RESULTS

Valuation:

HFH-NYC received an appraisal from Neglia Appraisals, Inc. of Brooklyn, NY. The appraisal, dated as of August 26, 2010, estimated the as-is market value to be $630,000 (equal to HFH-NYC's original offer), resulting in a reduced purchase price, at 99% of this appraised amount, of $623,700 or $103,950 unit. To arrive at this value, the appraiser analyzed 5 recent sales comparables and concluded an adjusted price per square foot of gross building area in the amount of $140, which when applied to 4,500 SF of net building area renders a value of $630,000.

Project Development Costs/Plan:

HFH-NYC commissioned a Property Condition Report ("PCR") from KOW Building Associates of Smithtown, NY. The final report, dated August 27, 2010, notes that the Property requires a complete interior renovation. HFH-NYC also commissioned ALC Environmental to test for lead paint and asbestos containing materials (ACM's). They found an abundance of lead paint and some ACMs, which will all have to be carefully removed. HFH-NYC intends to carry out a full "gut" renovation, completing the project according to LEED for Home standards; a highly qualified Energy Consultant will be hired to guide HFH-NYC through this process as well as a qualified lead paint and asbestos removal contractor.

The Property contains two apartments on each of its three floors with a center staircase. Each apartment contains 2 bedrooms, kitchen, bathroom, and living room and measures approximately 600 SF. The bedrooms are at the front and back of the unit with the common space in between, linked by an open corridor. We do not have as-is layouts, however, the units are similar to another building that we are pursuing (849 Halsey) for which we do have layouts (see Exhibit B for as-is layouts of 849 Halsey). The building is also very similar to 830 Halsey, a 6-unit building renovated by the Property's Seller. As-renovated floorplans as well as as-renovated interior photos of 830 Halsey are attached in Exhibit B to give the reader an idea of what is possible for the subject space. We may also consider duplexing the ground floor units with a portion of the cellar area as was done at 830 Halsey.

As can be seen in the below chart, HFH-NYC has budgeted $174,304 per unit for hard and soft costs including a 10% hard cost contingency ($68,182) as well as a 10% soft cost contingency ($26,893). Because this building has less than 8 units, the Davis Bacon prevailing wage law does not apply. Based on a purchase price of $623,700, the total project cost is expected to be $1,836,476. The permanent equity of -$7,012 will be used to initially fund the Property's operating reserve.

DEVELOPMENT BUDGET

CONSTRUCTION SOURCES	PER UNIT	TOTAL	%
NSP	$ 146,918	$ 881,508	48%
CASH EQUITY	$ 159,161	$ 954,967	52%
TOTAL	$ 306,079	**$ 1,836,476**	**100%**
USES			
ACQUISITION	$ 103,950	$ 623,700	34%
PROJECT COSTS			
HARD COSTS	$ 113,636	$ 681,818	37%
HARD COST CONTINGENCY (10% of hard costs)	$ 11,364	$ 68,182	4%
SOFT COSTS	$ 44,822	$ 268,930	15%
SOFT COST CONTINGENCY (10% of soft costs)	$ 4,482	$ 26,893	1%
SUB-TOTAL	$ 174,304	$ 1,045,823	57%
DEVELOPER'S FEE	$ 27,825	$ 166,952	9%
TOTAL	$ 306,079	**$ 1,836,476**	100%
PERMANENT SOURCES			
GROSS SALES PROCEEDS	$ 160,330	$ 961,980	109.1%
PERMANENT EQUITY	(1,169)	(7,012)	-0.8%
NSP	146,918	881,508	100.0%
TOTAL	**$ 391,993**	**$ 3,135,943**	**100.0%**

A detailed breakdown of the soft cost budget is attached as Exhibit D to this memorandum.

Habitat Equity:

The $788,015 in HFH-NYC required cash equity for Marion ($954,967 less developer fee of $166,952) will be paid for out of HFH-NYC's Capital Construction Reserve.

Total Available from Capital Construction and Acquisition Rehab Reserve a/o 10/26/10	$3,600,000	(1)
Fundraised Funds	750,000	(2)
	$4,350,000	

	Cash Equity Needed	Money Spent to Date	Cash Needed to Date
Equity Needed for Marion St	$ 788,015	$ 7,700	$780,315
Equity Needed for Bainbridge St	$ 492,904	$ -	$492,904
Equity Needed for Monroe Avenue	$ 1,332,148	$ 8,300	$1,323,848
Equity Needed for Ralph Avenue	$ 1,186,223	$ 107,840	$1,078,383
Sub-Total	**$ 3,799,290**	**$ 123,840**	**$3,675,451**
Net Amount of Capital Reserve Remaining in the Reserve			$674,549

(1) Funds from this reserve will be replenished from sales proceeds at project completion, effectively creating a revolving loan fund.
(2) In addition to the revolving loan fund/existing capital reserve, we anticipate raising $750,000 in new funds for the Habitat Bed Stuy Homes project. We currently have received $85,000 and have prospects identifed for an additional $427,420. As we complete this calendar year and move into 2011, we will continue to identify further prospects as well as receive funds to meet the $750,000 goal.
(3) Equity calculation assumes that HFH-NYC's portion is 52%; however, we are working with HFHI on a strategy to start out at a lower percentage and work our way up over time, so that sales proceeds from the first 5 projects can be used to fund higher leverage requirements on future projects. This strategy will be presented to REIC in full detail at a later date. In addition, it should be pointed out that the Marion and Monroe projects have no HFH-NYC cash requirement at acquisition. The HFH-NYC is invested slowly over the remaining 8 month period.

Assuming SONYMA first mortgages under the Habitat/SONYMA mortgage program, this budget allows us to sell the 6 homes to households of 2-3 people with an average area median income of 65.3% and home prices ranging from about $99,000 to $200,500 ($160,330 weighted average). HFH-NYC is projected to receive a full return of its equity in addition to receiving its full developer fee of approximately $167,000.

	Family Size	AMI %	Household Income	Max Affordable Purchase Price
Unit 1	3	50.0%	$ 35,650	$ 98,711
Unit 2	3	69.0%	$ 49,197	$ 200,520
Unit 3	3	68.6%	$ 48,912	$ 198,377
Unit 4	2	68.0%	$ 43,112	$ 154,790
Unit 5	2	68.0%	$ 43,112	$ 154,790
Unit 6	2	68.0%	$ 43,112	$ 154,790
Total				$ 961,980
Weighted Avg.	3	65.3%	$ 43,849	*$ 160,330*

Building Operations:

The Homeowner's Operating Budget of $230,330 (detailed below) is based on a condominium association of 31 units, which is then proportioned equally (for budgeting purposes only) among the 6 dwelling units at 203 Marion. At a later date, the Homeowners' unit shares will be further refined based on unit size (square footage) and adjusted to accommodate affordability so that the projected common charges plus mortgage costs will not exceed 33% of each homeowner's gross monthly income. Because two of the condominium's five buildings do not pay for cooking and heating gas in the individual dwelling units the operating budget will specially allocate a portion of the common charges; the separately sub-metered tenants (representing 8 units at 100 Ralph and 3 units at 491 Bainbridge) will pay their own cooking and heating gas and will not pay the portion of the common charge associated with gas. The households that are not sub-metered will pay for gas as part of their common charge. The common charge will be determined by first dividing the cost by the number of households that are not separately sub-metered and then adjusted for square footage and affordability as mentioned above.

	Homeowners Operating Budget		
	Total Budget	/du/yr	/du/mo
Electricity	$20,150	650	54
Water Charges and Sewer Rents	$34,100	1,100	92
Maintenance and Repairs	$5,000	161	13
Supplies and Extermination	$5,000	161	13
Service Contracts - Sprinkler, Fire, Security	$10,000	323	27
Insurance	$22,000	710	59
Management Fee	$14,880	480	40
Legal	$12,000	387	32
Accounting and Audit Fees	$10,000	323	27
Capitalized Expenditure Reserve	$17,050	550	46
Labor (1 porter, inc. 10% payroll expense)	$18,150	585	49
Common Gas for Laundry and Cooking	$13,950	450	38
Gas for Space and Hot Water Heating	$48,050	1,550	129
Property Taxes (current Assessed Values)	$0	-	0
Total	**$230,330**	$7,430	$619

1. The Marion Operating Budget assumes that the individual dwelling units are metered separately for electricity, but that the condo association pays gas for cooking and heating, as well as common electric, and water/sewer. Labor is based on one porter receiving $275/building/month = 275*5*12 = $16,500 + 10% payroll costs = $18,150

2. HFH-NYC fully expects that 203 Marion will qualify for partial real estate tax exemption under 11-243 (formerly Sec J-51). We will obtain a J-51 tax abatement prior opinion letter from a qualified consultant, which will quantify the amount of the exemption. For budgeting purposes, we have projected that we will receive a full abatement on the taxes attributed to the increased assessed value due to the renovation, but the homeowners will continue to pay taxes on the current assessment, which is equal to an annual tax liability of $3,637 (included in the development budget).

3. The soft cost budget includes $14,863 to cover 10 months of carrying costs during development ($248/unit) and $3,715 in Homeowner Subsidy ($619/unit), which represents the cost to carry the unsold units after the first two units have sold, assuming an absorption rate of 2 units per month. In addition to the $14,863 budgeted to cover operating costs during the 10 month development period and the 4 month absorption period, sales proceeds of roughly $7,000 will be set aside as an initial operating reserve for Marion.

Sweat Equity and Volunteer Opportunity:

Since 203 Marion Street entails a major rehabilitation, it should provide ample opportunities for volunteer work and allow future homeowners to complete their required sweat equity.

Environmental Review:

HFH-NYC engaged ALC Environmental of New York, NY to perform a Phase I Environmental Assessment of the Property. The report, dated August 27, 2010, recognized the following environmental conditions that will require remediation post acquisition:

- Lead-based paint on the interior and exterior (door and window casings) of the property
- Asbestos containing materials in pipe insulation and roofing materials (and may be present in other areas too)
- Solid waste (mainly household items) throughout the property
- Extensive mold and water damage were observed throughout the building. At the time of the inspection, ALC observed an active leak in the basement of the property.

An environmental review report was sent to HUD on September 28, 2010, and was approved by HUD on September 29, 2010. In anticipation of the purchase of the Property, HFH-NYC is preparing a request for proposal in relation to the architectural services, and will formulate and begin implementing an affirmative marketing strategy.

Risks and Mitigants:

Risk: It takes longer for HFH-NYC to find family partners and get them through the closing process than the 13 months anticipated.

Mitigant: Purchase prices for the homes have been set at a significant discount to market, as they are affordable to Habitat families earning 50 to 80% of Average Median Income. This includes a large band of people potentially interested in the homes. HFH-NYC is ready to commit 100% of its family partner staff to the task of finding qualified family partners and getting them efficiently through the sweat equity, loan application, and closing process. The marketing strategy for 203 Marion Street is in process of being formulated but will include an updated link on the organization's website, advertising to draw traffic to the updated website and broad grassroots community outreach. Approximately $50,000 of the soft-cost budget has been allotted for marketing. A large banner will be put up on the building the day after closing and press releases will come out in a variety of publications. Scheduling assumptions are conservative and are based on HFH-NYC's actual experience in marketing homes in the area (most recently for the Hart-Lafayette project, also in Bedford-Stuyvesant). A carrying cost budget of approximately $18,500 has been factored into the total project cost along with a 10% soft cost contingency of about $27,000 and a $50,000 marketing budget (includes advertising/website, family partner department salaries, and cost of the required homeowner counseling). In addition, the budget allows for an initial capital reserve of approximately $7,000 to be established by HFH-NYC from sales proceeds.

Risk: The development costs are under budgeted and HFH-NYC incurs cost over-runs in order to complete the project.

Mitigant: HFH-NYC's Director of Real Estate and Construction walked through several similar gut rehabilitation projects with a general contractor experienced in rehabilitation work of this kind. He gave us an idea of what our cost estimates should look like. In addition, the soft cost items were run by architects, attorneys, and consultants that we have worked with in the past, and we used real estimates, whenever possible. In addition, the development budget includes a 10% hard cost contingency ($68,182) as well as a 10% soft cost contingency (approximately $27,000) and approximately $18,500 in estimated operating costs during the development and absorption period.

Recommendation:

HFH-NYC strongly recommends the purchase of 203 Marion Street as it meets all the criteria of NSP2 and will provide affordable, attractive and safe housing to 6 new homeowners.

Next Steps and Approximate Timing:

- Purchase Contract is finalized and signed by all parties – Nov.7, 2010
- A good faith deposit of $31,185 (5% of purchase price) is escrowed with buyer's attorney – Nov 7

- HFH-NYC purchases property insurance to go into effect day of closing, estimated as Dec 7, 2010
- HFH-NYC enters into security contract (windows to be boarded, etc) to go into effect day of closing.
- Arrangements are made to have utility contracts transferred into our name - week of Nov
- Closing documents are drawn up and reviewed, including HUD RESPA (settlement statement). – Week of Nov 22.
- About three weeks prior to closing, HFH-NYC submits an acquisition draw request to HFHI.
- HFHI submits draw request to HUD.
- HUD approves draw requests and remits funds to HFHI, who in turn remits to HFH-NYC.
- On day of closing, HFH-NYC wires funds into its attorney's escrow account.
- Closing occurs. Documents are signed and monies are disbursed.
- Deed is recorded.

Approval:

Approval to enter into a purchase contract, put down the aforementioned good faith deposit and acquire the Property is hereby granted by the HFH-NYC Real Estate Investment Committee as of this _____ day of November, 2010.

Signature

Signature

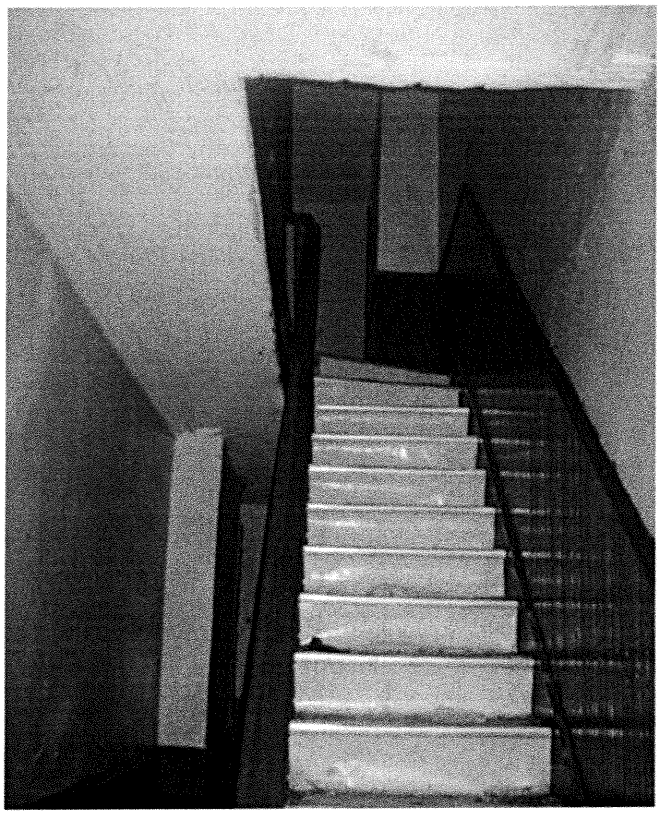
Signature

Signature

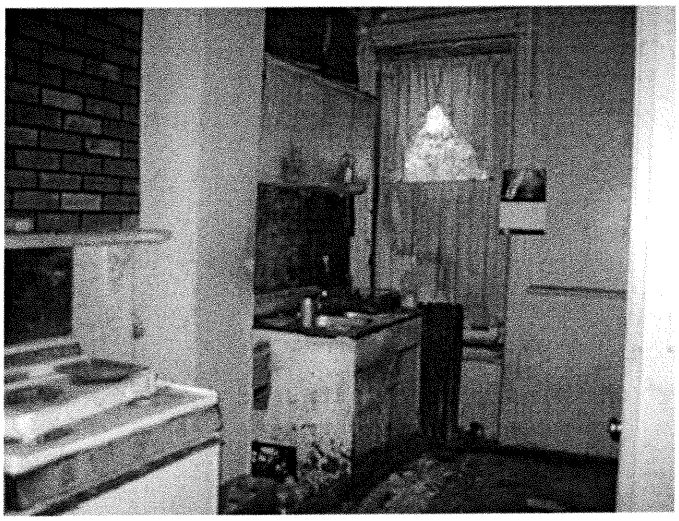
Signature

EXHIBIT A: ADDITIONAL PICTURES

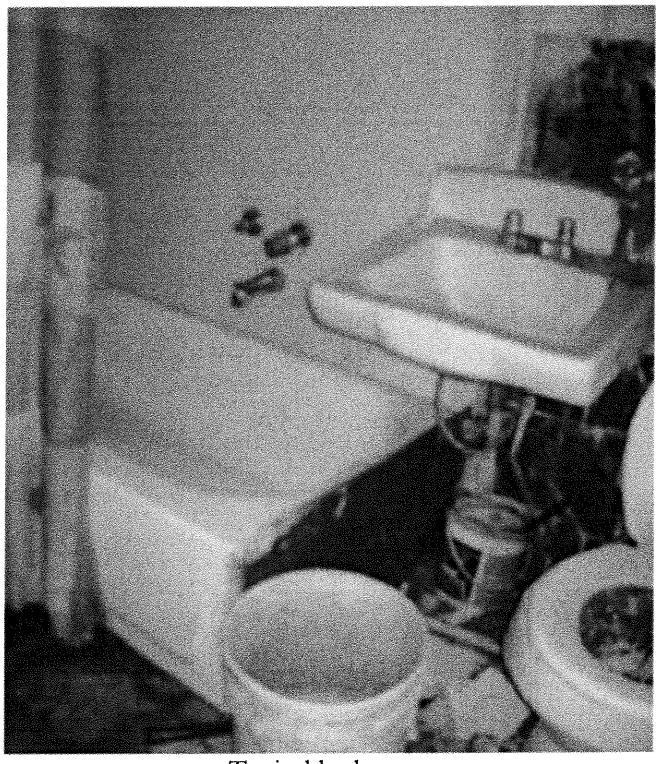
Side of property. Housing Partnership developed property next door.



Communal stairs / hallway



Typical unit kitchen



Typical bathroom

Typical bathroom mold

Living Room Unit 1L

Bedroom Unit 2R

EXHIBIT B: AS-IS FLOOR LAYOUTS (849 Halsey St – similar to 203 Marion)

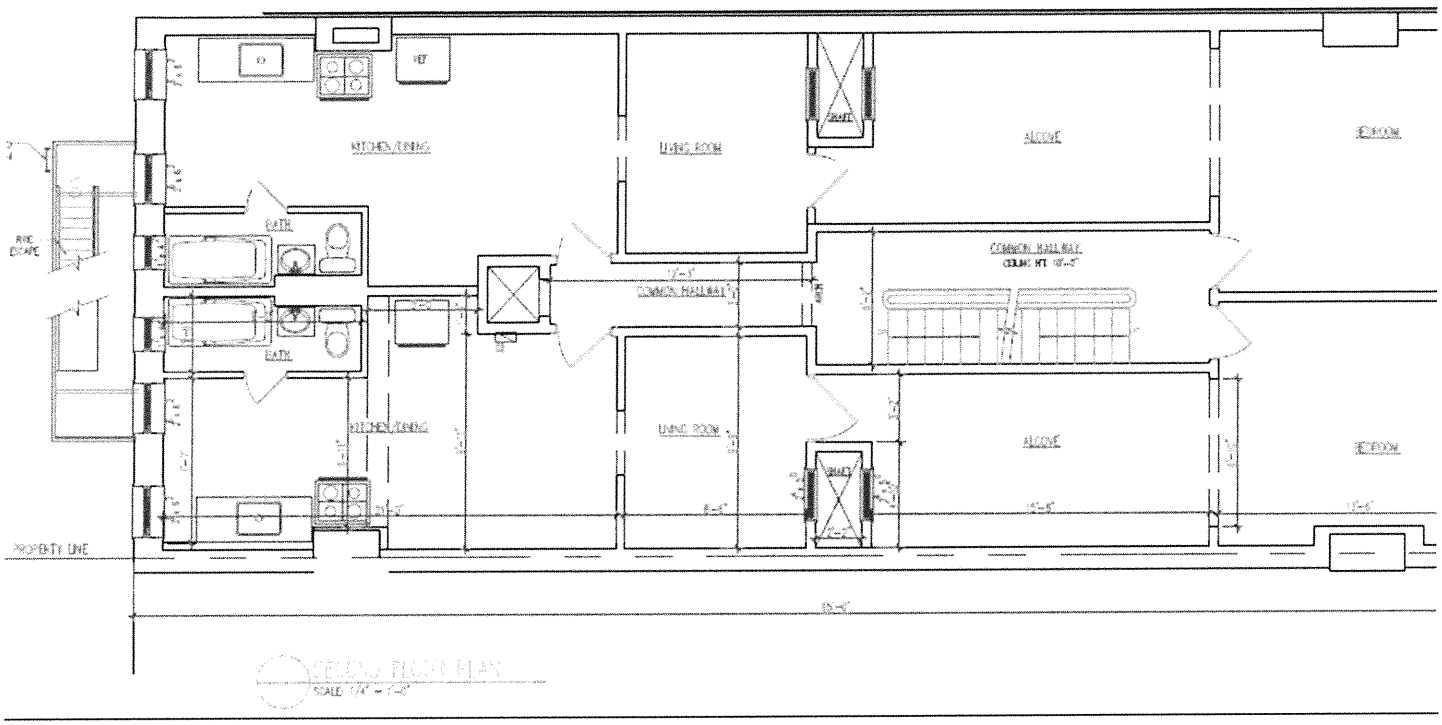
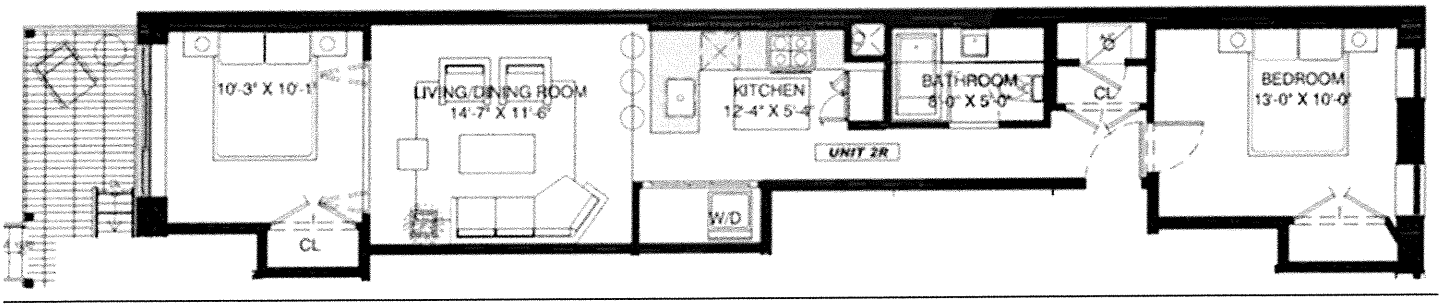
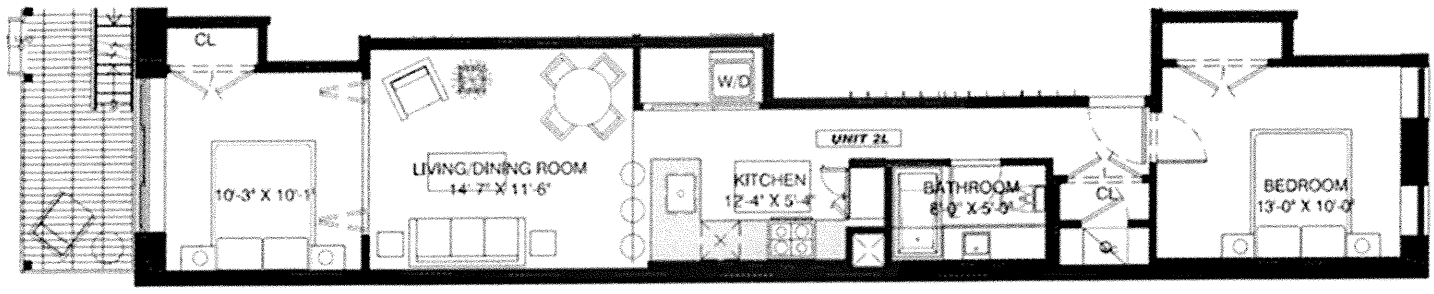
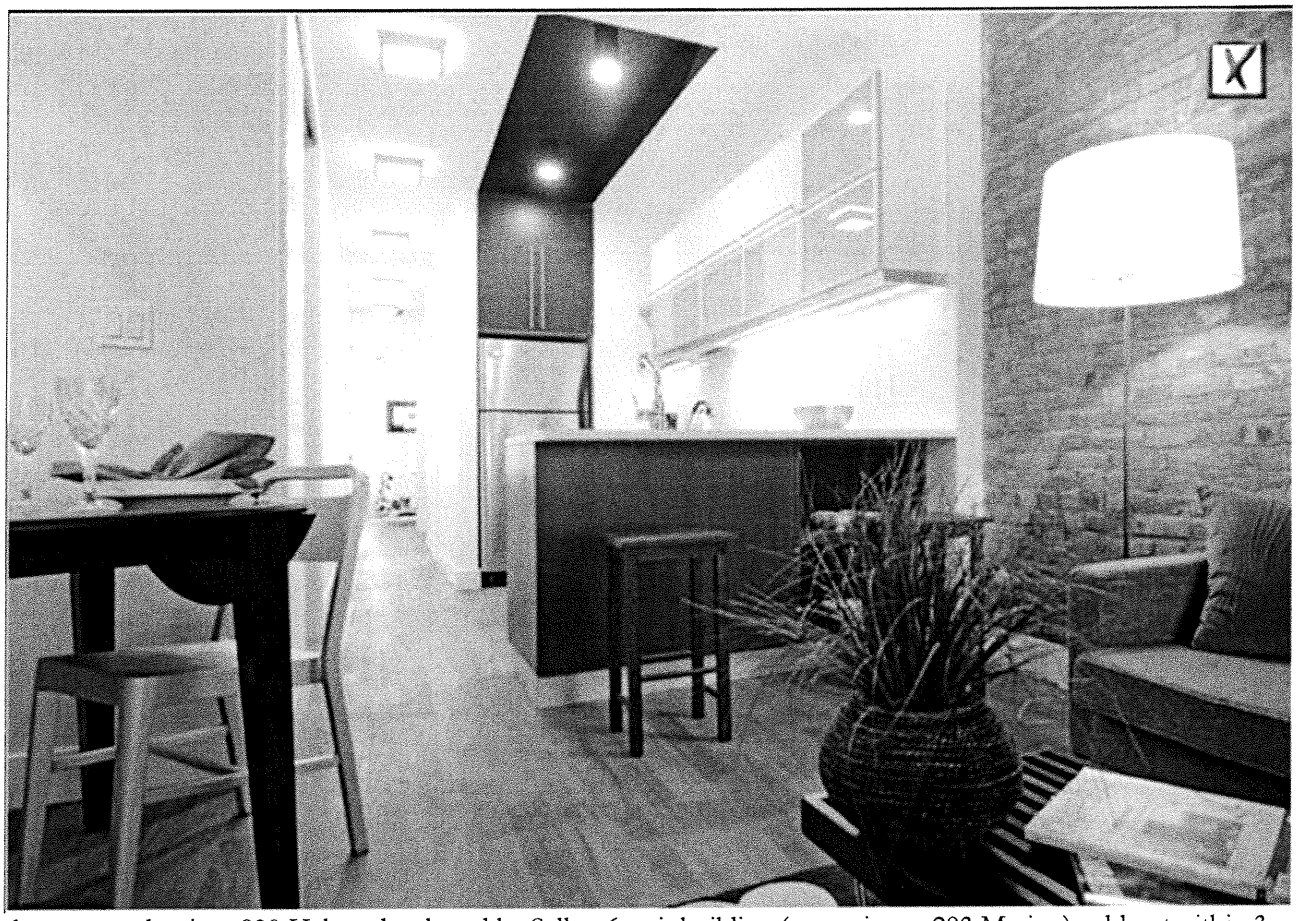


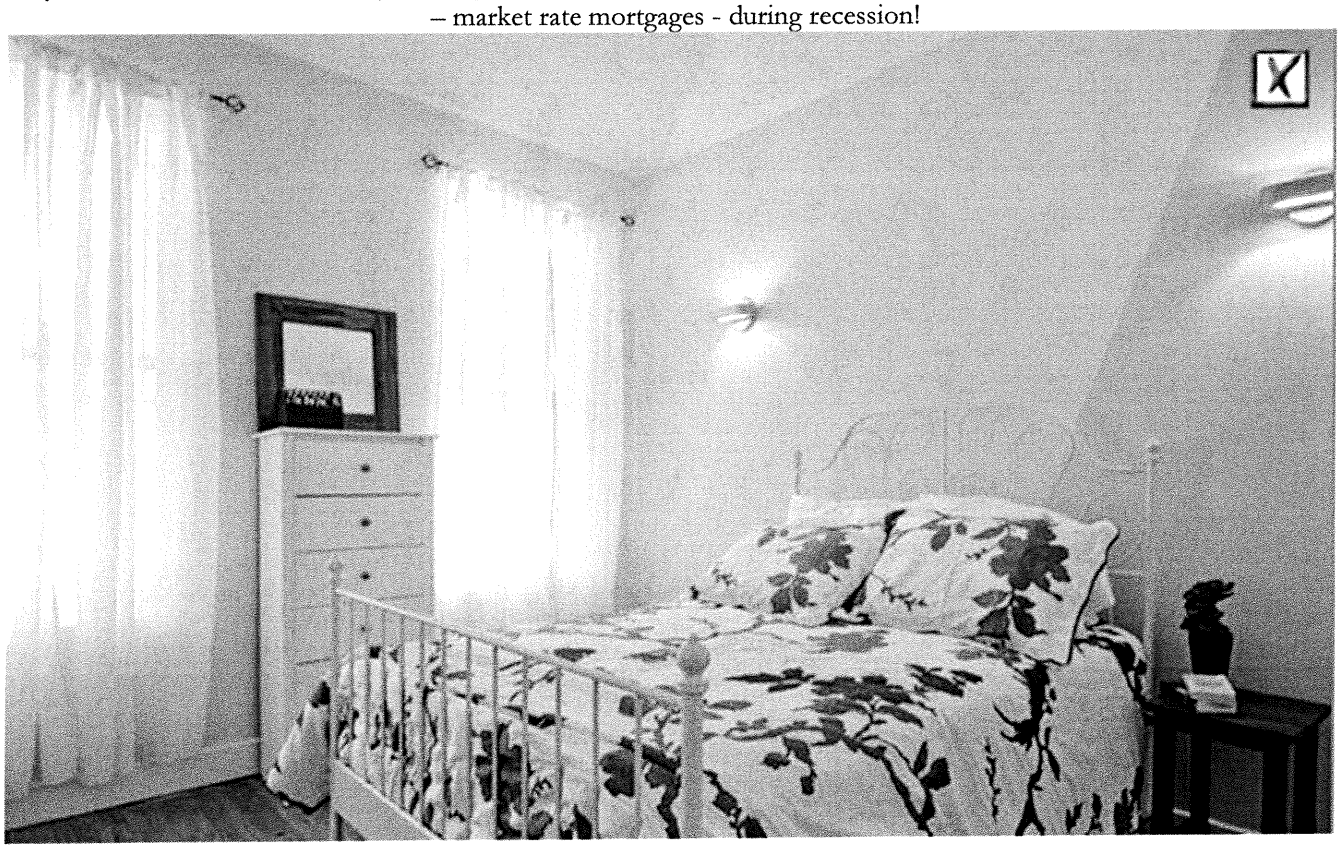
EXHIBIT C: AS-RENOVATED FLOORPLANS OF UNITS 2A AND 2B AT 830 HALSEY FOLLOWED BY AS-RENOVATED PHOTOS OF 830 HALSEY



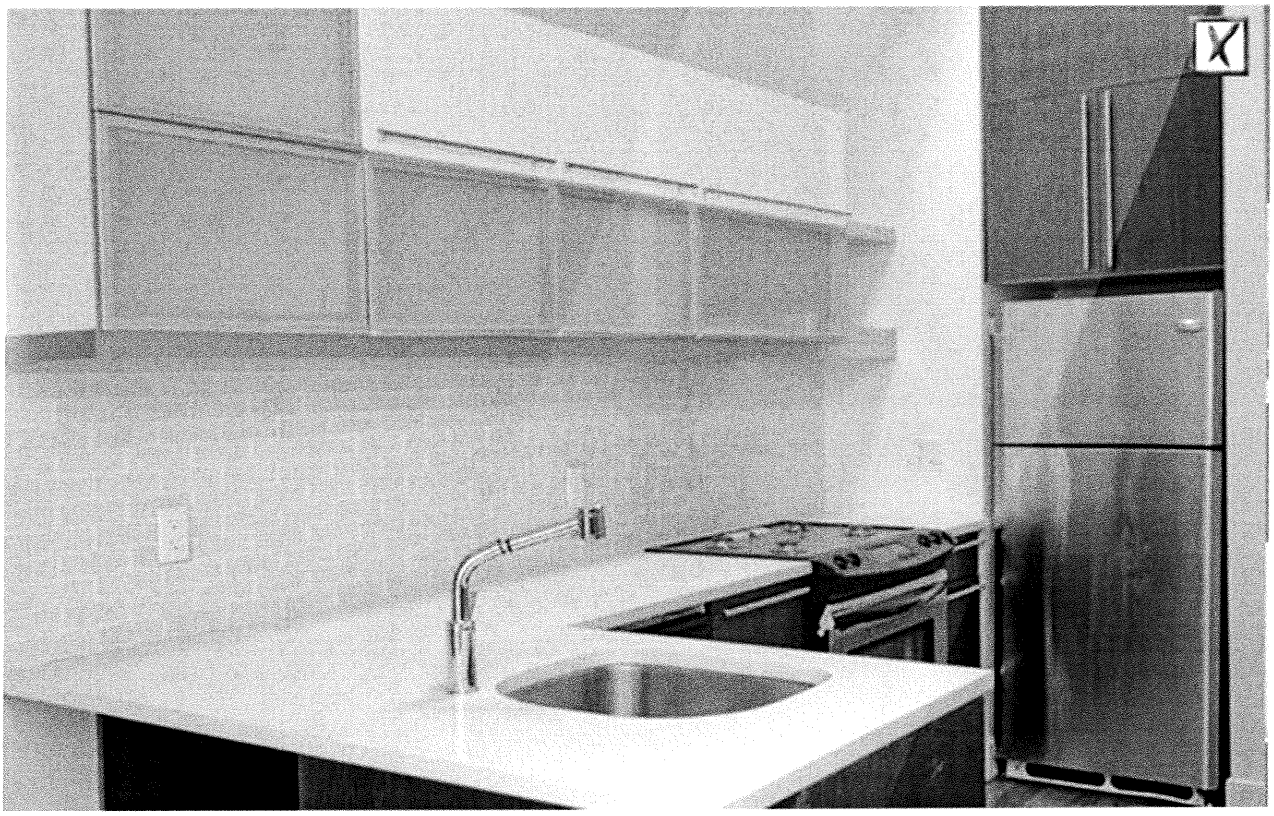




Recently renovated unit at 830 Halsey developed by Seller. 6-unit building (same size as 203 Marion) sold out within 3 months – market rate mortgages - during recession!



Front Bedroom at 830 Halsey



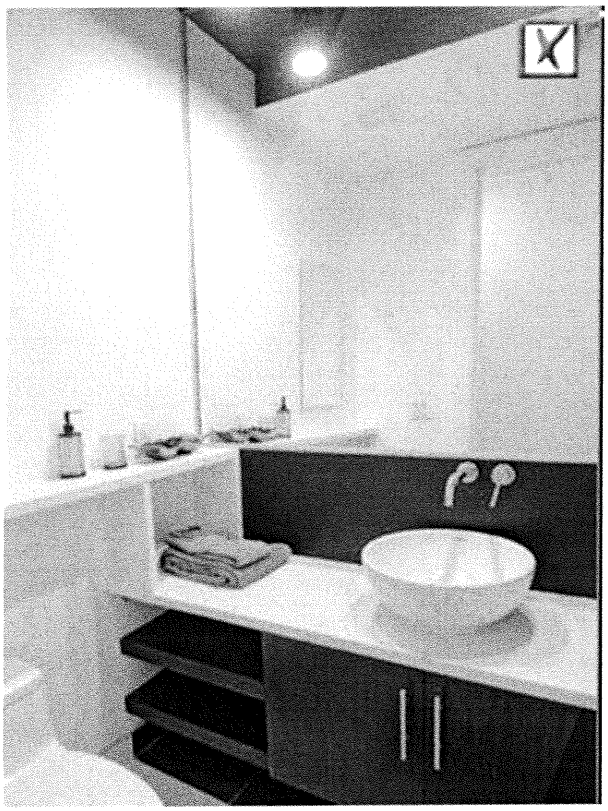


EXHIBIT D: Soft Cost Budget

SOFT COST DETAIL	Total	Per Unit	% of Total
Phase I Environmental Assessment	$ 1,550	$ 258	0.52%
Appraisal	2,000	$ 333	0.68%
Inspections	4,150	$ 692	1.40%
Title	15,000	$ 2,500	5.07%
Legal	30,968	$ 5,161	10.47%
Carry	14,863	$ 2,477	5.02%
Real Estate Transfer Tax	2,495	$ 416	0.84%
Permits & Filing Fees	20,000	$ 3,333	6.76%
Architect/Expeditor	75,000	$ 12,500	25.35%
Controlled Inspections	25,000	$ 4,167	8.45%
Technical and Design Services	12,000	$ 2,000	4.06%
Green Consulting	5,000	$ 833	1.69%
Tax Consultant	4,000	$ 667	1.35%
Developer HOA Subsidy	3,715	$ 619	1.26%
Surveys	2,500	$ 417	0.85%
Advertising	10,000	$ 1,667	3.38%
SOFT COST CONTINGENCY	26,893	$ 4,482	9.09%
Homeowner Counseling/Training	2,500	$ 417	0.85%
Family Partner Dept. Staff Salaries	38,190	$ 6,365	12.91%
	$ 295,823	**$ 49,304**	**100.00%**