ECONOMIC IMPACT STUDY – COMMUNITY IMPACT STUDY

A 4-Story Elevator Loft Building Renovation
Victory Mills
42 Gates Avenue
Village of Victory, Saratoga County, New York 12871

REQUESTED BY

Town of Saratoga
12 Spring Street
Schuylerville, New York 12871

PREPARED BY

Fullowitz & Co.
26 Chadwick Road
Great Neck, New York 11023

DATE OF VALUE ESTIMATION

February 27, 2013

February 27, 2013

Thomas N. Wood III, Supervisor
Saratoga Town Hall
12 Spring Street
Schuylerville, New York 12871

Re: A 4-Story Elevator Loft Building Renovation 221 (d) (4)
Victory Mills
42 Gates Avenue
Village of Victory, Saratoga County, New York 12871

Dear Mr. Wood:

In accordance with our assignment and generally accepted guidelines as laid out by the Department of Housing and Urban Development for substantial rehabilitation, we have estimated the rental income and operating expenses for the above-captioned property as of February 27, 2013. The report states our opinion of the property's potential rent and expenses subject to Contingent and Limiting Conditions set forth in the addenda of this report. The physical inspection and analysis that form the basis of the report have been conducted by the undersigned. Our study goes on to cover housing need in the area as well as the prospect for adequate funding of this project.

The study further analyzes the financial impact on: (i) the Village of Victory; (ii) the Village of Schuylerville; (iii) the Town of Saratoga; (iv) the Schuylerville School District; (v) the Village Water/Sewer System; & (vi) the potential risk to the surrounding communities if the project fails.

Finally, this study measures the benefits to the community, particularly in light of the potential dissolution of the Village of Victory

The subject site contains 287,496 square feet and is located on the south side of Gates Avenue, between Pine Street and Route 4, in the Village of Victory, Saratoga County, State of New York.

The apartment units are to be divided as follows:

Unit Type	Total Number of Units	# of Rooms per Unit	Total # of Rooms	Square Footage	Total SF	Weighted Average SF
One Bedroom	18	3	54	1,275	22,950	1,275
Two Bedroom	65	4	260	1,278	83,070	1,278
Three Bedroom	15	5	75	1,809	27,135	1,809
Total/Average	98	4	389		133,155	1,359

Amenities in the building will include a fitness center and a pre-school. There will be indoor parking for 63 cars on the first and lower levels as well as storage areas for each of the tenants in the basement. There will be an additional 132 outdoor spots available for the tenants' use.

The building was originally constructed in 1918 and is currently a vacant shell. The single-story building adjacent to the north side of the building was constructed in 1965 and will be converted into an indoor garage with the possibility of using the roof for some outdoor space. The property will require a complete internal build-out and the areas to be utilized for parking will require all new landscaping and resurfacing.

Based on our inspection of the subject property and its present and anticipated use as a multi-family apartment building, and after carefully considering all available information concerning the subject property and all apparent factors affecting rental rates and expenses, it is our opinion that with the proper tax relief, as proscribed by New York State law, the project is economically feasible.

No rent concessions are evident in the subject's market area. Overall demand for renovated apartments appears strong at the present time. We are projecting a stabilized occupancy of 95% for the residential units. In addition to the apartment income, we are projecting additional commercial income of $3,000 per month, or $36,000 per annum. Please note that the expenses include a provision of $64,000 for replacement reserves.

We have further determined that, with the proper tax incentives as proscribed by New York State law, the project can obtain funding.

Finally, the study has concluded that the project will not place a strain on local resources and will instead act as a strong financial driver for the region.

This report was prepared to meet the specific requirements of the client for the purposes stated herein. No reliance is to be placed upon it for any other purpose. The accompanying report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice. Included, among other things, is a summary description and analysis of the real estate, all pertinent data, market comparables, supporting relevant exhibits, and addenda to the attached report.

Thank you for the opportunity to serve you.

Sincerely,

Michael Fuller

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Subject Property:

Victory Mills
A 4-Story Elevator Loft Building Renovation
42 Gates Avenue
Village of Victory, Saratoga County, New York

Tax Map Number:

Section 170.30, Block 2, Lot 27.1

Description:

The subject property consists of an existing 4-story, 230,223± square foot shell building including 29,128± square feet of basement space that is to be gut renovated into an elevator apartment building containing 98 apartment units with 151,727± gross square feet and 133,155± square feet of livable area. Upon completion, the building will have 268,274 gross square feet inclusive of a one-story building to be used as garage space as well as a pre-school. The developers intend to carve out two central light wells with skylights above to create a light shaft down to the first floor. The rental units are to be broken down into one-bedroom units (averaging 1,275± net SF), two-bedroom units (averaging 1,278± net SF), and three-bedroom units (averaging 1,809± net SF).

Location:

The subject site is located on the south side of Gates Avenue, between Pine Street and Route 4, in the Village of Victory, Saratoga County, State of New York, 12871

Site Area:

6.6 acres, or 287,496± square feet

Total Building Area:

268,274± square feet above grade including basement space and the adjoining single-story building (garage).

Total Residential Area:

133,155± square feet residential

Tear Built:

1918

Number of Units:

Unit Type	Total Number of Units	# of Rooms per Unit	Total # of Rooms	Square Footage	Total SF	Weighted Average SF
One Bedroom	18	3	54	1,275	22,950	1,275
Two Bedroom	65	4	260	1,278	83,070	1,278
Three Bedroom	15	5	75	1,809	27,135	1,809
Total/Average	98	4	389		133,155	1,359

Zoning:

MUVC (Mixed Use Village Center)

Flood Hazard Status:

Zone C, an area of minimal flooding per Flood Insurance Rate Map #3606260002B, effective June 5, 1985.

Occupancy: The subject is presently a vacant shell building that is 0.0% occupied.

HISTORY OF THE SUBJECT PROPERTY

According to a local historian, the subject building was originally built in 1846± as a cotton mill by the Saratoga Victory Manufacturing Company. By 1900, they had over 500 employees. The building was expanded several times, most notably in 1918. However, in 1928, the mill closed and the company moved to Alabama. In 1937, the mill facilities were acquired by the United Board and Carton Corporation and was used to make folding cartons. The mill and company changed hands several more times, and it was most recently used for cardboard manufacturing by the Victory Specialty Packing Company. In 2000, the empty building was acquired by three owners acting as Tenants-In-Common (TIC). These owners eventually fell behind in the tax payments and, in February 2008, Saratoga County sold the property at a tax auction to the current owners, Riverview Realty LLC, for the reported sum of $50,000. The current owners are attempting to convert the empty shell in to 98 luxury residential units, to be leased at market rates, together with a pre-school. The owners anticipate a 24-month development schedule. **As described below, the highest and best use of the property is luxury, residential rental loft apartments with ancillary commercial use, such as a pre-school.**

PROPERTY RIGHTS APPRAISED

The subject property will be analyzed under a hypothetical market rate scenario. The study assumes that the project will have no subsidized or affordable housing. The subject is currently vacant and appraised on the basis of a fee simple estate. A fee simple estate may be defined as the largest possible estate in real property, the owner of which has absolute use and the right to dispose of it as he or she pleases.

DATE OF THE REPORT

The effective date of this report is February 27, 2013.

DEFINITION OF MARKET VALUE

Market Value is defined in *Rules and Regulations* (Federal Register), Volume 55, Number 165, Page 34696 as:

"the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated.
2. both parties are well informed or well advised and acting in what they consider their own best interest.
3. a reasonable time is allowed for exposure in the open market.
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property, sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

ESTIMATE OF REASONABLE MARKETING TIME

The subject property is not on the market. Given the subject's present condition and location and the marketing times for similar shell buildings in Saratoga County, the estimated marketing time for the subject is within one year.

DESCRIPTION OF THE REAL ESTATE

Our description is based on our inspection as well as information provided by a set of building plans, the tax maps, and the tax assessor's office. The subject property consists of an existing 4-story, 230,223± square foot shell building including 29,128± square feet of basement space that is to be gut renovated into an elevator apartment building containing 98 luxury apartment units with 151,727± gross square feet and 133,155± square feet of livable area. Upon completion, the building will have 268,274 gross square feet inclusive of a pre-school and a one-story building to be used as garage space. The developers intend to carve out two central light wells with skylights above to create a light shaft down to the first floor. The rental units are to be broken down into one-bedroom units (averaging 1,275± net SF), two-bedroom units (averaging 1,278± net SF), and three-bedroom units (averaging 1,809± net SF). Upon completion, the subject will have generally excellent appeal in the primary market. Indeed, we were unable to find any other residential loft apartment building offering similar physical attributes.

A Phase I survey was presented to the appraiser. We saw no adverse site conditions except for those detailed below. The subject property's site and improvement characteristics are summarized as follows:

SITE ANALYSIS

Tax Identification Number:	Section 170.30, Block 2, Lot 27.1
Gross Area:	287,496 square feet , or 6.6+ acres
Location:	South side of Gates Avenue, between Pine Street and Route 4, Village of Victory, Saratoga County, New York 12871
Property Address:	42 Gates Avenue
Property Shape:	Irregular.
Parking:	There will be an asphalt covered parking lot containing 132 spaces that are assumed to be provided rent-free to tenants as is typical in the City of Victory.
Frontage:	737± feet on along the southeast side of Gates Avenue.
Topography:	The sites are essentially level at street grade and slope downward toward Fish Creek as you head southeast on the property. The site appears to have adequate soil/subsoil conditions to support development.
Site Suitability:	Good for residential use.

Utilities: Public water, sewer, gas and electric are available.

Site Easements: Normal utility easements may be in place and are assumed to have no detrimental affect on value. No encroachments are identified.

Surrounding Area: Residential and mixed-use properties surround the improved lot and residential, commercial, and industrial around the parking parcels.

THE IMPROVEMENTS AS PROPOSED

Gross Building Area: 268,274± square feet including basement space and the adjoining single-story building (garage). There will be 133,155± square feet of net livable area.

Year Built/Condition: Originally built in 1846±. Although the exterior shell appears to be structurally sound, the subject building is currently in poor condition. After gut rehabilitation, the subject will be in excellent condition with superior finishes to the majority of the housing stock in the subject's area.

Use and Occupancy: Shell building with a current occupancy rate of 0.0%.

Foundation/Structural: Concrete or stone.

Exterior: Concrete principle building with two adjoining brick stair towers and an adjoining single-story concrete masonry unit garage.

Roof: Built-up rubber membrane.

Windows: Will be casement windows in wood frames.

Entrances/Security: There will be a buzzer intercom system at the front entrance.

Heating and Hot Water: Tenants will have individual gas-fired heat and hot water systems.

Air Conditioning: Individual HVAC systems in each unit.

Electric & Gas: All units will have switches, lighting fixtures, and outlets. Apartments will be individually metered for electric usage, cooking gas, heat, and hot water. Cold water and trash removal will be included in the rent.

Plumbing: Typical copper piping and cast iron drainage.

Elevators: Current plans call for 3 elevators. However, only the elevator at the south side of the building will reach the lower level.

Stairs: There are currently 6 staircases in the building. Based on the current drawings, several of these will be incorporated into the units, and 2 new staircases will be built running up the east and west sides of the interior of the building.

Common Area Finishes: High grade finishes suitable for luxury apartments.

Apartment Finishes: Wood floors in the living area, ceramic tile in the kitchen, painted walls and ceilings. Kitchen facilities include Energy Star appliances including gas-fired stove/ovens, refrigerators, dishwashers, and stainless steel sinks. Plastic laminate cabinets and luxury countertops.

Apartment Bathrooms: Three-piece bathrooms including sinks, toilets, and bathtubs with overhead showers. Ceramic tile floor and wainscot throughout.

Basement: The basement contains 28,222 square feet and is to include the building mechanicals, parking, and storage lockers.

Utilities Included in Rent: Cold water will be included in the rent. Tenants will pay for heat, hot water, cooking gas, and electricity. In addition, residents will be offered cable/internet and phone access with their rent.

Apartment Distribution: According to plans submitted by the developer, the subject's 98 rental apartment units will be broken down as follows:

Unit Type	Total Number of Units	# of Rooms per Unit	Total # of Rooms	Square Footage	Total SF	Weighted Average SF
One Bedroom	18	3	54	1,275	22,950	1,275
Two Bedroom	65	4	260	1,278	83,070	1,278
Three Bedroom	15	5	75	1,809	27,135	1,809
Total/Average	98	4	389		133,155	1,513

Parking: 195 spaces.

Laundry: Each unit will have its own laundry hook ups.

Outdoor Space: Residents will have access to the landscaped grounds, a patio in the rear overlooking the river, and possibly some space on the roof of the garage. In addition, the developer will be creating a beach along the eastern portion of the site that will allow access to the water.

Fire Safety: There will be smoke detectors in each unit, and the building will be fully sprinklered.

Highest and Best Use: It is assumed that the highest and best use, as improved, is its proposed use as a luxury rental apartment building with no subsidized housing and a pre-school.

Zoning: The subject buildings are located within a MUVC (Mixed Use Village Center) zoning district. For larger multi-family dwellings such as the proposed subject, a variance would be needed.

VILLAGE OF VICTORY ZONING LAW

APPENDIX A

Area and Bulk Schedule

DISTRICTS	MINIMUM LOT REQUIREMENTS			MINIMUM YARD REQUIREMENTS		
	Lot Area (Sq. Ft.)	Lot Width (Feet)	% Coverage (1)	Front Yard (Feet)	Rear Yard (Feet)	Side Yard (Feet)
Single-Family Residential 1	43,560	150	30%	50	50	30
Single-Family Residential 2	12,000	100	35%	30	30	20
Mixed Use Village Center	9,000	75	40%	25	15	15

(1) See the definition of Lot Coverage in Article 2-B of this Law.

(2) All dwelling units shall have a total floor area of at least one thousand (1,000) square feet and a minimum horizontal dimension of thirty (30) feet, exclusive of open porches, attached garages or other accessory structure.

(3) Maximum Building Height For All Distiicts is 35 feet

(4) Within all Residential Districts, where there are existing dwellings within fifty (50) feet on either side and within the same block, which are set back less from the front lot line than that required above, the minimum required front yard depth may be reduced the average set back of such dwellings, upon approval of an Area Variance by the Zoning Board of Appeals.

(5) Non-Residential or Residential Accessory Structure/Building or Garage (attached or detached is limited to 900 square feet) height shall not exceed fifteen (15) feet. Setbacks shall not be any closer than ten (10) feet from any side or rear property line.

REHABILITATION

Estimated Rents

We have listed the projected market rents based on the analysis of comparable rents that are delineated later in this report:

Market Rent								
Unit Type	Total # of Units	Average SF	Adjusted Comparable Range			Market Average Rent	Market Rent Conclusion	Market Rent Conclusion PSF
One Bedroom	18	1,275	$1,320	to	$1,755	$1,515	$1,500	$1.18
Two Bedroom	65	1,278	$1,515	to	$1,940	$1,669	$1,700	$1.33
Three Bedroom	15	1,809	$1,945	to	$2,640	$2,150	$2,150	$1.19

ASSESSED VALUE AND REAL ESTATE TAXES

CURRENT TAXES

The subject property is designated on the tax maps of the Village of Victory, Saratoga County, as Section 170.30, Block 2, Lot 27.1 . The total 2012 assessed value for the subject property is as follows:

Tax Lots	Assessed Value		
Section/Block/Lot	Land	Building	Total
Section 170.30, Block 2, Lot 27.1	$79,000	$191,000	$270,000

The 2012 tax rate for commercial properties in Saratoga County is $35.85 per $1,000 of assessed value. This tax is calculated as follows:

Type	Rate/1,000		Assessed Value		Taxes
County	3.66%	x	$270,000	=	$989
Town	1.64%	x	$270,000	=	$442
School	29.79%	x	$270,000	=	$8,044
Ambulance	0.76%	x	$270,000	=	$205
Totals					$9,681

In addition, the Village of Victory imposes a village tax. The village has assessed the property at $647,500.

Type	Rate/1,000		Assessed Value		Taxes
Village	8.50%	x	$647,500	=	$5,504

The taxes for both the county and village will be released over the summer months. We will apply a modest 3% raise in the overall taxes for the 2012/13 tax years. Therefore, the taxes for the upcoming year are projected to be as follows:

Total Taxes		$15,184
Increase @ 3%	+	$456
Projected Taxes		$15,640

Taxes Upon Completion

Upon completion, the subject will be reassessed as a residential apartment building. In order to project taxes upon completion, we researched comparable properties at the tax assessor's office. According to the assessor, there aren't any comparable market rate apartment properties within the Town of Saratoga, the subject's taxing district. When asked how she would assess the property when it is completed, Vicki Hayner, the town assessor stated that she would probably look to the City of Saratoga Springs for guidance and might simply calculate the value herself using either a cost or income approach and then apply the assessed rate. Currently, this rate is 66% of market value. The difficulty with this approach is that in order to determine value using an income approach, real estate taxes typically make up the largest component of the expenses. Without a basis for what the taxes are, it would be difficult to accurately calculate a building's NOI and its ultimate value.

Therefore, we have research multi-family buildings within the City of Saratoga Springs to use as a comparison. The tax burden for these properties based on the 2010 assessments and our projected tax rate are as follows:

Address	Building Square Footage	Tax Per Square Foot	Number of Units	2009 Assessment	Taxes Per Unit
327-341 Broadway	145,965	$0.96	34	$9,687,600	$4,131
11 Kirby Road	35,430	$1.32	32	$3,223,400	$1,461
1 S Federal Plaza	115,702	$1.17	176	$9,327,600	$768
57 Ballston Ave	82,733	$1.16	111	$6,599,300	$862
9 Kirby Road	30,356	$1.32	32	$2,761,800	$1,251
Average		$1.19			$1,695

The tax burdens for the comparable market-rate properties range from $768 to $4,131 per unit with an average of $1,695. None of the comparables is within the subject's taxing district, but they are all within the subject's primary market. This development strives to reach the highest end of the luxury market with highest end finishes. Furthermore, banks when performing underwriting are required to leave a margin of error. Accordingly, bank loan officers ordinarily underwrite assuming above average assessments. We hasten to add that this does not necessarily reflect the true valuation or what the ultimate assessment should or will be. Rather, we leave the focus of our analysis on how a *bank loan officer* will underwrite the project and how that will impact on the project's prospects for obtaining financing.

With that in mind, we project taxes for purposes of bank underwriting at $2,250/unit. As to the pre-school, we project taxes for purposes of bank underwriting at $1.30/foot.

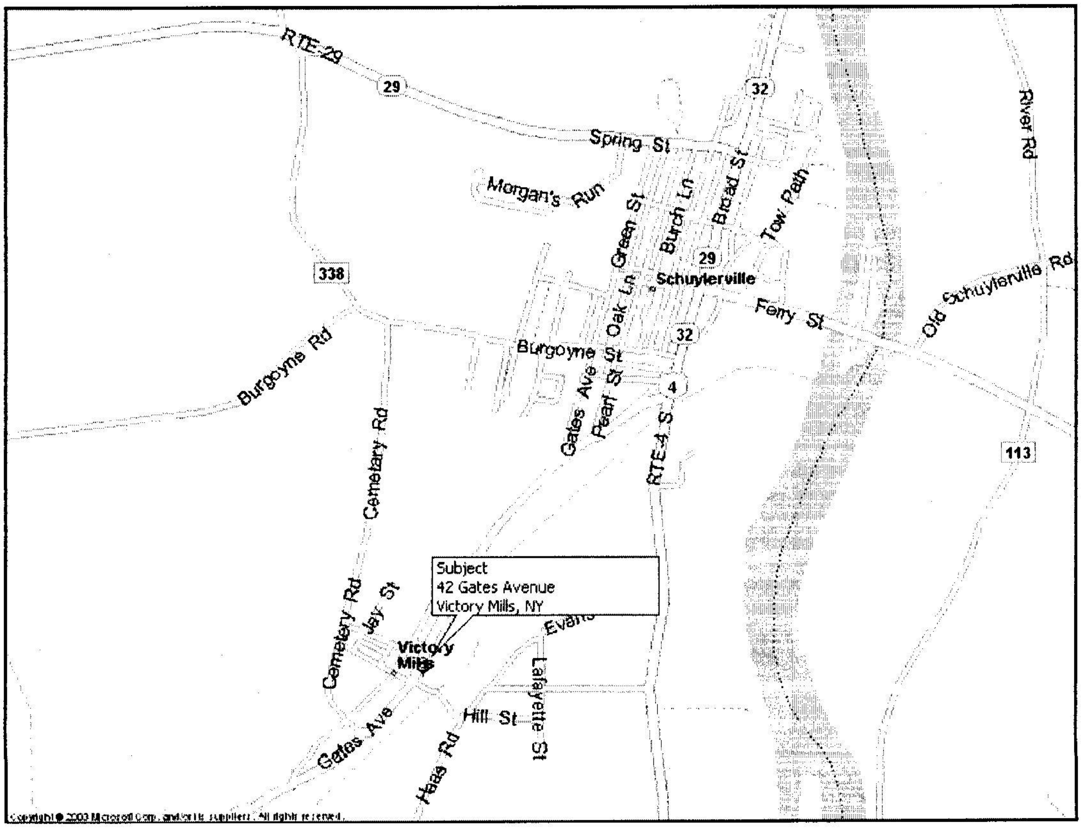
Accordingly, we conclude that unless the project receives tax relief as proscribed by New York State Real Property Tax Law Section 485-a, the tax burden will be underwritten at $220,500 for the 98 loft units and $10,400 for the pre-school for a total of $230,900.

HOUSING NEED - MARKET AND SUBMARKET AREA DEFINITION

In order to analyze the market for the proposed facility, a market area must first be established. In the case of occupied rental housing, the market area should be established through market data, demographic analysis, and generally accepted valuation techniques. In less dense communities found in Saratoga County, a portion of potential residents can come from outside of the immediate area; thus a demographic analysis of the market area may not accurately indicate the true potential pool from where the subject development may attract its residents. We will, however, show trends in population and income levels that help define the subject's primary market, as well as overall housing market conditions.

The Specific Subject Location and Primary Market Area

The subject is located in the Village of Victory within the Town of Saratoga in the western portion of Saratoga County, State of New York. The specific address of the building is 42 Gates Avenue. Gates Avenue is a secondary, two-way, east/west thoroughfare improved primarily with one- and two-story residential homes and several single-story commercial buildings. In the immediate vicinity of the subject are several single-family homes and vacant wooded areas. Just south of the property is a small tributary called Fishers Creek that runs into the Hudson River further east. Enel SpA is the local utility, and they have a small hydroelectric generating plant along the waterfront just southeast of the property. There is a small 4-story structure that belongs to the mill property but that is sitting on land owned by the utility that is slated for demolition.



The Village of Victory is a small suburban/rural community with mostly modest and executive type homes. The village adjoins the Village of Schuylerville and the Town of Saratoga. The Village was incorporated in 1849 and has historical significance in that the Saratoga Battle Monument is within the Village. In addition, the General Phillip Schuyler House and Saratoga National Historical Park and National Cemetery are all located within the village.

There is virtually no retail within the immediate area, but there is an abundance of shopping choices in Schuylerville located just one mile to the northeast of Victory and in Wilton, approximately 8 miles northwest of Victory. There are limited mass transit options in Victory, but there is a bus stop 2 blocks west of the subject site. Virtually all residents in the area own their own cars and use them to commute and shop. Train service is provided by Amtrak and is located in Saratoga Springs 11 miles to the west.

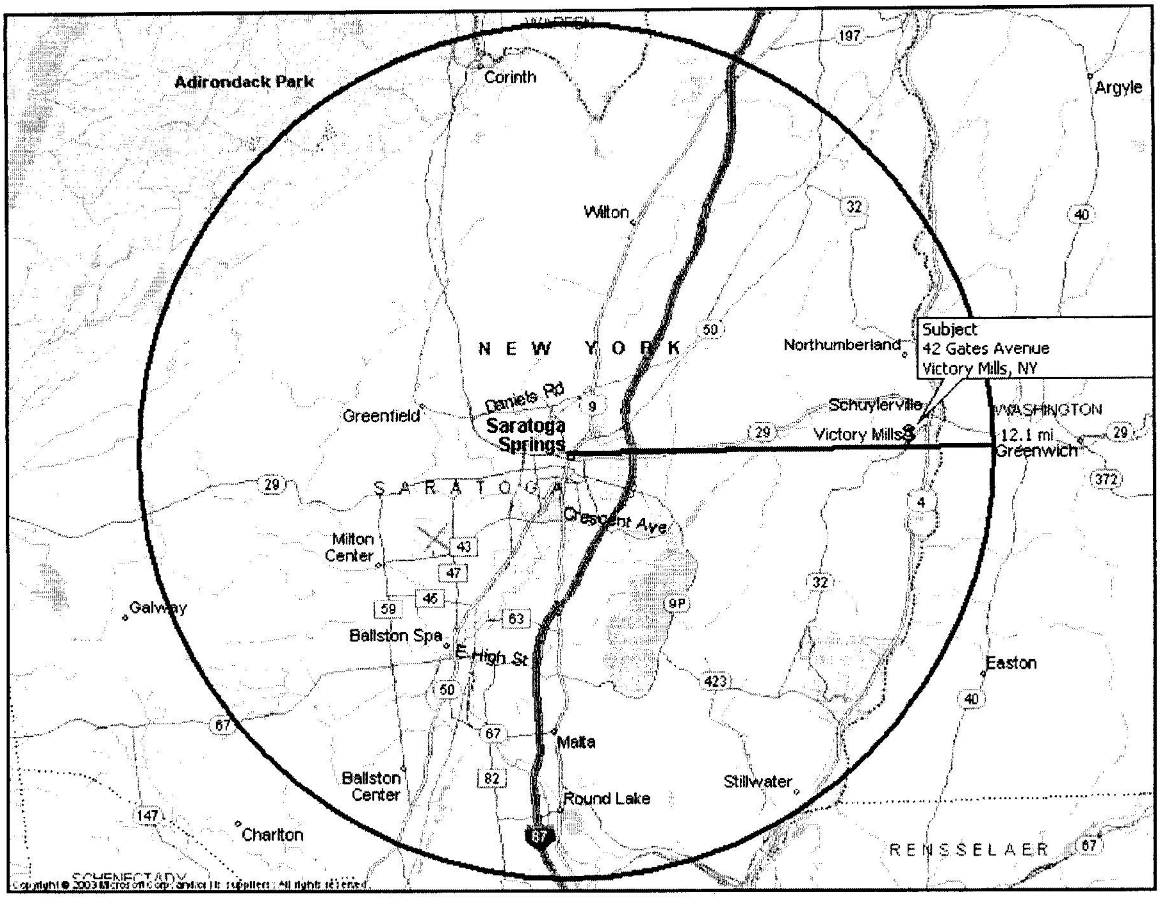
The Town Hall for Victory in located on Pine Street, 3 blocks northwest of the subject, and the Town Hall for Saratoga is located at the intersection of Routes 4 and 29 in Schuylerville, approximately 1.5 miles north of the subject.

The local school district is located in Schuylerville and considered one of the best in the region. However, as explained below, families tend to be drawn to houses rather than rental apartments so this is not expected to be a demand driver for the project.

The subject property is in a unique position in that, upon completion of the conversion into 98 units, it will be the only multi-family building greater than 10 units within the entire town of Saratoga. In fact, it will be the only multi-family building with greater than 10 units for about 10 miles in any direction. This is both a blessing and a curse. Due to its location and uniqueness as a mill conversion with 18 foot ceilings and original woodwork dating back to 1918, it will have a certain drawing power that none of the newer developments could hope to match. However, because there are no other buildings to compare this to for 15 miles, finding a truly comparable set of buildings with which to compare it to is very difficult.

It is projected that the primary market for this development will be people who want to live within a short distance of either Saratoga Springs to the west or Malta to the southwest (home of Advanced Micro Devices, AMD). Most of the comparables we will discuss later also lie on the outskirts of Saratoga Springs and Malta as these are the two areas primarily driving the local economy. For that reason, we have determined our primary to be an area that encircles roughly 12 miles around Saratoga Springs. However, this area is roughly equivalent to and includes most of Saratoga County itself. Therefore, we are projecting that the development's primary area is all of Saratoga County and the secondary market is the greater Capital Region, made up of 8 counties--Albany, Montgomery, Rennselaer, Saratoga, Schenectady, Schoharie, Washington, and Warren.

PRIMARY MARKET AREA MAP



Local employment centers in the area include local hospitals, office complexes, schools, and shops throughout Saratoga County. However, the main center of employment is within Saratoga Springs. Other area employment centers include Malta (10 minutes south) and Albany (30 minutes south).

New development in the subject's market has been primarily wood frame structures that resemble garden-style or townhouse structures rather than mid-rise building such as the subject. They are generally of average to good construction quality and appeal to a demographic that wants to live in a complex that offers amenities such as attached garages, a clubhouse with gym, and other services. We will go into more detail later in the report. In general, the properties are leasing out quickly and, as one managing agent pointed out, "we are leasing them as quickly as we can build them."

According to area real estate professionals and a local market study conducted by Leitner Group, the overall vacancy rate within Saratoga County remains below 5% for larger apartment complexes. Local professionals are quick to point out that due to a lack of supply, newly renovated or constructed properties exhibit an even higher demand and are currently enjoying occupancy rates averaging close to 98%. This market survey will be presented later in this report, which concentrated primarily on newly constructed properties.

INCOME/TARGET MARKET

Saratoga County has a diversified population with people from multiple income levels. Claritas, a national provider of demographic information based on census data, provides 2000 census income information and estimates household income levels for 2010 and 2015. Income levels projected for the subject's primary market are as follows:

Description	2000 Census	%	2010 Estimate	%	2015 Projection	%
Total Household Income	78,226		87,806		91,364	
Income Less than $15,000	7,710	9.86%	5,754	6.55%	5,383	5.89%
Income $15,000 - $24,999	8,668	11.08%	6,995	7.97%	6,308	6.90%
Income $25,000 - $34,999	9,555	12.21%	7,734	8.81%	7,267	7.95%
Income $35,000 - $49,999	13,627	17.42%	12,180	13.87%	11,743	12.85%
Income $50,000 - $74,999	17,758	22.70%	18,984	21.62%	18,433	20.18%
Income $75,000 - $99,999	10,518	13.45%	13,741	15.65%	14,191	15.53%
Income $100,000 - $124,999			9,118	10.38%	10,291	11.26%
Income $100,000 - $149,999	7,180	9.18%				
Income $125,000 - $149,999			5,053	5.75%	6,567	7.19%
Income $150,000 - $199,999			4,822	5.49%	5,963	6.53%
Income $150,000 - $249,999	2,530	3.23%				
Income $200,000 - $499,999			2,899	3.30%	4,396	4.81%
Income $250,000 - $499,999	510	0.65%				
Income $500,000 or more	170	0.22%	526	0.60%	822	0.90%
Average Household Income	60,618		80,028		89,027	
Median Household Income	49,507		64,802		70,318	

As the following table shows, the 2010 average household income for the subject's primary market is estimated to be $80,028 per year compared to an estimated $79,157 for the State of New York as a whole and $71,071 for entire country.

	Saratoga County	Capital District	New York State	USA
Average HH Income	$80,028	$70,745	$79,157	$71,071
Median HH Income	$64,802	$55,655	$56,452	$52,795
Per Capita Income	$32,416	$29,048	$29,759	$27,034
Average HH Size	2.45	2.38	2.61	2.59

On a comparative basis, it is clear that the subject's primary market is considered a middle-to-high income area by Capital District standards. Comparatively, the average household income in the subject's primary market is 13% above that of the rest of the Capital District and 1% above the rest of New York State. Per capita income levels in the primary market are 11.5% above that of the rest of the Capital District and 9% above the rest of New York State.

Description	2000 Census	%	2010 Estimate	%	2015 Projection	%
Nonfamily Households	24,427		27,440		28,466	
1-person household	19,135	78.34%	23,021	83.90%	24,504	86.08%
2-person household	4,435	18.16%	3,708	13.51%	3,338	11.73%
3-person household	541	2.21%	474	1.73%	411	1.44%
4-person household	229	0.94%	162	0.59%	142	0.50%
5-person household	64	0.26%	54	0.20%	50	0.18%
6-person household	15	0.06%	13	0.05%	13	0.05%
7 or more person household	8	0.03%	8	0.03%	8	0.03%

An analysis of overall economic conditions and the regional and secondary markets follows along with further analysis of the primary market and information regarding specific comparables. As stated previously, one must consider throughout the analysis that there is an additional market segment, those migrating from other parts of the Saratoga County, as well as outside of the area, from which the subject will attract potential renters.

CURRENT NATIONAL ECONOMIC CONDITIONS

U.S. Economy

The emerging consensus is that the U.S. recession ended in the middle of 2009. Since then, real GDP has grown, albeit at a sluggish pace, slower than in past recoveries. Real income and spending growth remain in the doldrums. The labor, housing, and financial markets have exhibited signs of stability, but apprehension remains about their future growth path, and the ballooning public debt burden presents additional challenges. Under these mixed conditions, recovery is expected to be muted with real GDP rising 2.9% in 2013 and optimistic assessments calling for slightly accelerated growth of 3.7% in 2014.

After declining by an average of 2.4% since the beginning of 2008, real GDP has rebounded by an average of 3.9% during the second half of 2009. Much of that growth, especially in the last quarter of '09, was boosted by changes to inventory. Early in 2009, businesses curtailed production at a much higher rate than was warranted by falling demand. As a result, the ratio of business inventories to sales hit a cyclical low of 1.25. The inventory cycle has now turned around and will continue to be the main force behind GDP growth in the early stages of the current recovery. This means that as the recovery matures and inventories return to equilibrium, real GDP growth must eventually be determined by the economy's traditional engine of growth--demand.

Underlying aggregate demand growth will depend on job gains, improved consumer and business confidence, and stable financial markets. The labor market appears to be responding very slowly to the improvement in the economy. Not until March 2010, after 3 quarters of GDP growth, was there a significant gain in U.S. employment. The jump in average weekly hours in the first quarter of 2010 and the phenomenal 5.25% average year over year rise in productivity during the second half of 2009 indicate that businesses have wrung additional output from their existing employees. While the productivity trending has been flat since then, it is expected that hiring will soon need to increase because businesses will not be able to ramp up output by increasing productivity and hours indefinitely. Employment growth is anticipated to accelerate from the beginning of next year in almost all sectors. However, in spite of the forecast of 3% and 3.7% growth in overall employment in 2013 and 2014, the pre-recession employment peak is not expected to be reached again until 2015 at the earliest.

Signs that labor markets have stabilized have prompted consumers to increase their expenditures. Retail sales data suggests that real consumption spending grew at a much higher rate in the first quarter compared to 1.6% in the fourth quarter of 2009. Purchases of discretionary items like motor vehicles, electronics and appliances, and household furnishings improved the most. This occurred even though wage earnings rose only 1.8% over the past year, suggesting that increased consumption was due to the release of pent-up demand rather than higher discretionary income.

Unfortunately, the impact of the pent-up demand may not last. Households remain constrained by the massive loss of net worth and sluggish growth in labor income. With home prices still down about 30% from their peak, households have lost over $7 trillion in real estate wealth. Moreover, credit conditions remain prohibitive; outstanding debt tumbled to a new low in February 2010. Domestic demand will also be hampered by higher tax bills since some of the tax cuts enacted in 2001 and 2003 will be allowed to expire at the end of 2012. Overall, real consumer spending is forecast to increase by only 2.4% in 2013 and average 2.7% in the following 2 years.

On the business side, the ability to ramp up production through increased productivity boosted profit margins. Financial and non-financial businesses have reaped sizable profits and added to their cash balances in the second half of 2009. The rise in productivity and cash positions of businesses explain the 19% rise in spending on equipment and software in the fourth quarter of 2009. Residential fixed investment is assumed to have bottomed out in 2009 and has steadied since the second half of 2010. Inventory levels of both single- and multi-family homes have fallen significantly, but rebuilding is still dependent on a pickup of household formation and job growth. Investment in commercial structures will continue to act as a drag because of the overhang of retail, office, and hotel space. Occupancy is these segments of the market will not rise until the job situation improves next year.

The ongoing revival of financial and credit markets should aid the economic recovery. However, gains have been uneven. While larger financial institutions are benefitting from the Federal Reserve's continuing low interest rate policy, smaller banks continue to suffer from exposure to the weak economy. Similarly, larger non-financial firms have been able to access capital markets through corporate debt issue while small businesses, which rely primarily on bank loans for financing, face tighter borrowing constraints. Nevertheless, the overall outlook is for a gradual return to more sustainable growth.

Many of the financial measures that signaled duress during the credit crisis have settled back to values last seen prior to the turmoil and recession. The difference between LIBOR and the 3-month Treasury—the TED spread—peaked at 450 basis points in the middle of the crisis and declined steadily to 15 basis points in April, 2010, or about half of the 2006 level. The yield spread between risky and safe commercial paper, which spiked at over 600 basis points at the end of 2008, fell to only 11 basis points in 2010. Corporate bond yields are approaching normal levels again. Spreads (relative to 10-year Treasuries) of Baa rated corporate bonds fell to 250 basis points in April, 2010, down from a peak of 600 basis points at the end of 2008. Prior to the crisis, spreads averaged 170 basis points.

The return to normalcy is also being reflected in equity markets. In mid-2010, the CBOE Volatility Index, which reflects short-term expected volatility in the S&P 500 index, declined to a value of 16, the lowest level since July 2007. This is substantially below values in the low 80's recorded during the credit crunch. Likewise, the proportion of S&P 500 trading days with changes in excess of 1%--the trading days ratio—declined to about 25% in the first quarter of 2010, down from a high of 87% in October 2008. In the 5 years prior to the turmoil, this measure averaged around 20%. All of these factors have contributed to the market's strong price appreciation. The Dow Jones and S&P 500 have regained all or substantially all of the value lost during the recession.

While larger institutions are optimistic about the future, smaller regional and local banks continue to take a beating from their exposure to economically frail sectors such as residential and commercial mortgage lending. In addition to the uncertain health of regional banks, there are many potential potholes on the road to recovery. As of the end of the third quarter in 2012, most of the Federal Reserve's extraordinary measures to support credit markets were wound down. Of particular note, the Fed has completed its planned purchases of $1.7 trillion worth of agency mortgage-backed securities, agency debt, and U.S. Treasuries as part of its quantitative easing program. The Fed has also closed most of its special liquidity facilities created during the crisis. These programs assisted a wide array of credit market sectors including primary dealers, money market mutual funds, commercial paper, foreign central banks, and securitization markets. Moreover, the Fed has started to normalize its lending to commercial banks. In February, it ended its Term Auction Facility and tightened up lending conditions for banks seeking funds through the discount window. One risk is that long-term interest rates overreact to the expected Fed tightening and execution of the Fed's "exit strategy." In addition, long-term interest rates will eventually start to reflect rising federal debt. Publicly owned federal debt is currently at an all-time high of 155% of GDP and expected to grow due to the projected federal deficit of close to $1 trillion in 2013. As this goes to press, there is no way to predict how the Sequestration crisis will play out. What can be said with certainty is that a significant jump in rates would hamper a nascent housing market recovery and would present a headwind to recovery in other sectors.

The Federal Reserve continues to face a daunting task in managing price stability while protecting the economic recovery and fragile banking system. In recent testimony before Congress, Chairman Bernanke reiterated that, despite closure of the Fed's special lending facilities, the outlook for monetary policy remains unchanged. In particular, he called the current policy "very accommodative" but emphasized that the weakening impetus from the inventory cycle, waning fiscal support, and weak job market still justified an indeterminate delay before any change in policy stance. When the time comes, however, execution of the exit strategy will be tricky. Not only will it require balancing the economic recovery against potential inflationary pressures, it will also entail the management of a $2 trillion balance sheet—including a glut of excess reserves held by member commercial banks. To effectively control this risk, the Fed has four new tools in its arsenal—interest on reserves, reverse repurchase agreements, a term deposit facility, and outright asset sales. While these offer the Fed flexibility in how it unwinds its positions, it also adds uncertainty about the sequencing of its actions.

Past Recessions in New York State

The table below presents the business cycle dates--including the starting (peak) and ending (trough) months--for recessions occurring in the nation (as defined by the National Bureau of Economic Research) and in New York State (as defined by the department's Index of Coincident Economic Indicators) since 1970.

Over the last 40 years, there have been 7 distinct recessions (including the current economic downturn) in the U.S. and New York State. Recessions in New York have tended to be significantly longer than their national counterparts. This trend has become more pronounced over the past 20 years. The last three recessions in New York State (dating back to 1981) have averaged more than 2½ years in length while the last three national recessions have averaged less than one year in duration.

Comparison of U.S. and New York State Recessions

Dates in U. S. (Peak-Trough)	Length (months)	Dates in NYS (Peak-Trough)	Length (months)	NYS Change in Jobs	
				Net (in 1000s)	Percent
Dec. '69-Nov. '70	11	Oct. '69-Nov. '71	25	-318.8	-5.3%
Nov. '73-Mar. '75	16	Mar. '73-Nov. '75	32	-396.1	-6.7%
Jan. '80 - Jul. '80	6	Feb. '80-Jul. '80	5	-67.1	-1.1%
Jul. '81-Nov. '82	16	Sep. '81-Jan. '83	16	-88.5	-1.5%
Jul. '90-Mar. '91	8	Mar. '89-Nov. '92	44	-544.7	-8.0%
Mar. '01-Nov. '01	8	Dec. '00-Jul. '03	31	-329.6	-4.6%
Dec.'07 - ?	?	Feb.'08 - ?	?	?	?

Sources: National Bureau of Economic Research (U.S. dates) and New York State Department of Labor, Division of Research and Statistics (New York dates).

REGIONAL AREA MAP