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October 19, 2009

Mr. Joel Rivera
Councilmember
Bronx NYC Council
1901 Southern Boulevard
Bronx, NY 10460

Dear Council Member Rivera:

I am writing on behalf of my client, The Related Companies, to bring you up-to-date on our efforts to redevelop the Kingsbridge Armory and – with our ULURP application now moving to the City Council – to address some of the issues and questions that have recently been raised in relation to the project.

First and foremost, you should know that we are extremely excited to have the opportunity to transform the long-vacant Kingsbridge Armory into a vibrant and productive amenity for both the surrounding community and all of The Bronx. We were honored that our development proposal was selected in the City's RFP process and we have been working closely with the Armory Task Force and local community stakeholders over the past year to make this project the best it can be. In addition, we were proud to have earned the overwhelming approval of Community Board #7 and the support of the NYC Planning Commission.

This development represents a \$310 million investment in the borough that will create 1,000 union construction jobs (Related is a long time union builder), more than 1,200 permanent jobs, provide neighborhood groups with tens of thousands of square feet of affordable community space and deliver many other significant benefits. Despite the very serious challenges represented by developing a project of this scope during an historic and unprecedented financial crisis, we remain committed to working with you and other stakeholders to make it a reality. (And in a borough facing 12.5% unemployment and in which a nearby Applebee's restaurant recently received 6,000 applications for 250 new jobs, we recognize just how important this effort really is.)

We thought it was important for you to hear directly from us about the status of the project and to understand the objective realities behind some of the development's components and Related's positions.

Community Benefits

One of the key issues that I am certain you have heard about in recent weeks is the matter of community benefits. You should know that we have never said no to the concept of codifying this project's significant benefits in an enforceable fashion and that we have met with a number of elected officials and stakeholders to discuss this very issue (and, as you know, Related has negotiated extremely successful community benefits in The Bronx previously).

Among the issues on which we are confident we can achieve some sort of common ground are:

- Subsidized community space for critically important uses such as a computer learning center
- Local hiring through the creation of a first-source hiring program
- Contracting opportunities for local and MWBE businesses
- Contributing to the maintenance, upkeep, and improvement of adjacent and neighborhood public spaces and parks
- Using environmentally sensitive and energy-efficient technologies to build and operate an green building
- Working with the community, DOT, and the MTA to develop an effective traffic and transportation program, both during construction and during operation
- Effective enforcement mechanisms and/or remedies for any agreement

However, we have been clear from the outset that we can only make commitments that we are sure we can live up to and that will not undermine the viability of the project. And while it should be clear that the Armory's redevelopment will, in fact, generate significant, quantifiable, enforceable benefits for the community – a point underscored by Community Board 7's overwhelming approval – the fact of the matter is that several of the proposed 'CBA principles' recently presented to us would render this project completely un-buildable and un-financeable for Related or any other developer. We wanted you to have a full understanding of the reasons why several of these proposed items are, for all intents and purposes, non-negotiable.

Living Wage and Union Neutrality

The issue of "living wage" is a good example of how demands that no doubt come from sincere and good motives ultimately fail to acknowledge the realities of commercial development and financing within the current economic climate. The fact of the matter is that requiring retail tenants to agree to specific wage and benefit demands as a condition of their tenancy will prevent us from finalizing leases with virtually any retailers in this location. (We know this for a fact because we are in the retail leasing market every day with other projects and we

have explored the issue.) With no credit-worthy tenants willing to commit to leases with such restrictions, this \$310 million project is immediately and completely un-financeable.

While living wage is obviously a laudable goal – and, you should know, Related has committed to paying living wage to every employee on this project in their direct employ – it simply isn't something retailers will agree to. (For example, why would a national retailer commit to one pay and benefits structure in Kingsbridge, when it does not have to do the same for an existing store they may have in another part of The Bronx? Every retailer has the option of many other spaces in The Bronx, in other boroughs, and in Westchester, and would not choose the one space that imposes more severe economic terms than the others.) And while some have suggested that “a living wage of \$10 or \$12 dollars an hour isn't too much to ask,” even if we agree with that notion, the point is that the actual dollar amount for a “living wage” is completely moot. It's the unlikelihood that commercial tenants will sign leases with wage requirements that makes the project unviable, not the actual wage amount itself.

Within this context, I also think it is important to address one other issue we have heard raised time and again by opponents of the project: “Living wage is possible if Related simply recognizes they have to accept less profit.” Again, based on the above, it should be clear that this has absolutely nothing to do with Related's profit and everything to do with the willingness of national retailers to agree to restrictive economic conditions. Without tenants, there is no financing and no commercial viability. And at the end of day, there is no profit, no project – and, therefore, no community benefits – at all if there are no tenants.

Finally, it should be pointed out that the issue of “union neutrality” – in which retail tenants would be required to agree to specific “labor peace” provisions above and beyond what is currently required by law – represents exactly the same type of barrier to leasing. While we expect all of our tenants to conduct themselves in accordance with the laws of the United States, New York State and New York City, for the reasons outlined above, if we want to get this project built we simply cannot expect them to agree to conditions that do not exist across the street, elsewhere in The Bronx, or anywhere else in New York City.

“Public Subsidies” for the Armory

Another issue that has generated a great deal of rhetoric and misunderstanding is the suggestion by some project opponents that all of their demands are justified by the “public subsidies” they have argued are going to the developer. While the issue of “subsidies” is obviously a complicated one that I would be happy to discuss with you in further detail, allow me to share two key points:

1. While it is true that this project is anticipating the use of IDA tax abatements and historic tax credits to make it financially viable, these programs are necessary specifically because of the unprecedented costs

involved in building an entire retail development within the shell of an existing landmark building. In fact, the cost differential between building a retail center within the Armory (with its unique site conditions) vs. building it as a stand-alone development is estimated to be close to \$100 million, which is why Related – or any other developer, for that matter – would not likely even consider taking on a project such as this without such programs. We have made it perfectly clear to all of the stakeholders with whom we have discussed this issue that we would be asking for absolutely none of these benefits were it not for the objective economic challenges presented by construction within the Armory.

2. Additionally, it should be noted for the record that opponents are now characterizing the \$30 million spent several years ago by the City to repair the Armory's deteriorating roof as money "going into the developer's pocket." Unfortunately, while these types of rhetorical leaps might make good fodder for blog posts or press releases, they do little to move the process toward the type of honest, fact based discussion and negotiation that the residents of The Bronx deserve. The fact of the matter is that the City had to spend this money to stabilize the roof and address the dangerous condition of the building, regardless of whether there was a development project or not.

Supermarket

Finally, I would like to conclude by addressing the reasons for the inclusion of a supermarket study in the project's environmental review. While there has been a great deal of energy expended decrying "Related's plans to build a 60,000 square foot supermarket," you should know for the record that we have never said we plan on building a supermarket in the Armory. Nor have we said we aren't. We simply agreed – at the direct request of Community Board #7 – to study the potential impacts of a supermarket as part of our environmental review. Furthermore, the fact that we utilized a specific square footage number in our studies was not the result of some hidden agenda or plan (as some conspiracy buffs have publicly accused us), but rather was the result of the need – under the legal requirements of the EIS – to study a "worst-case scenario" to ensure that all potential impacts of the project were accounted for.

The reality is that right now, at this point in the process, there are actually zero tenants with signed leases and we anticipate talking to anyone and everyone who might be potentially interested in coming to this new retail center. That said, will our eventual tenant roster reflect the desires, interests and needs of the surrounding community and stakeholders? Of course – it will have to in order to be commercially successful (although, we must admit, the interests of the community on this issue aren't particularly clear to us at this point, as the Community Board was directly and vociferously in favor of a supermarket.)

We sincerely hope that community benefits are not being used here as a backdoor attempt to fatally cripple development through unobtainable demands and conditions, because we look forward to working with you to ensure that the Kingsbridge Armory fulfills its economic promise for a borough that needs and deserves this investment. Related remains ready and willing to negotiate in good faith to ensure that significant community benefits from this project are guaranteed for the community. It's a commitment we are proud to have made – and upheld – on projects throughout New York City.

You well know the history of this glorious building, for you and other leaders have sought over the years to have it developed, to change it from an unproductive vacant structure to a valued community asset. You also know, therefore, just how difficult that has been to advance. The history of the last decade makes clear just how challenging and complex the economics for this undertaking will be (a fact reinforced by the very limited response to the City's RFP, which was available to every developer in New York). This is not an easy project, but Related believes it has the unique ability and track record to make it work. The time is now.

We would be happy to meet with you at your convenience to address any questions or concerns you may have, so please don't hesitate to contact me at 212-909-9500. Thank you for your consideration.

Sincerely,



Jesse Masyr

CC: *Hon. Ruben Diaz, Jr.*
Bronx Borough President