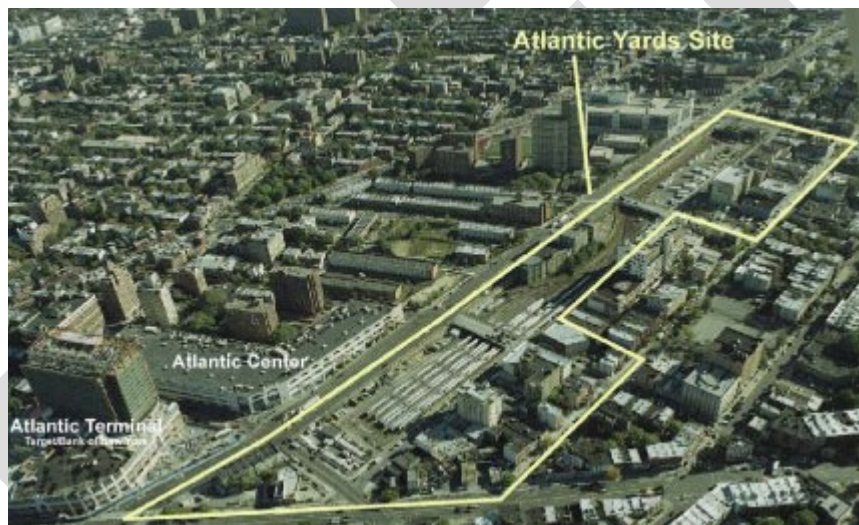

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

Review of Certain Cash Flows and Assumptions in Connection with Forest
City Ratner Companies Development of the

ATLANTIC YARDS

as of December 19, 2006



Source: www.atlanticyards.com

KPMG LLP
Economic and Valuation Services
December 2006



KPMG LLP

345 Park Avenue
New York, NY 10154

December 19, 2006

Neil Rock, Esq.,
Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, NY 10036

RE: Review of certain cash flow projections prepared by Forest City Ratner Companies

Dear Mr. Rock:

In accordance with our engagement letters dated December 15, 2006 and December 18, 2006, KPMG LLP's Economic and Valuation Services Practice ("KPMG") has assessed the cash flow projections prepared by Forest City Ratner Companies ("FCRC"), the developer, for the Atlantic Yards mixed use development project (the "Atlantic Yards") as of October 1, 2006 (the "Model Date"). This study was performed in accordance with the objectives, scope, and project approach described in our engagement letter to Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps").

We understand that our analysis is to be used solely to assist Skadden Arps in an additional review of the project cash flows prepared by FCRC. Skadden Arps is representing the Empire State Development Corporation ("ESDC") in the preparation and adoption of a modified General Project Plan ("GPP") for the Atlantic Yards Land Use Improvement and Civic Project. The ESDC is contemplating the committing of funds to various infrastructure improvements to the Atlantic Yards. No other use is intended or should be inferred. It is our understanding that our analysis will not be disclosed to any third parties. You have agreed not to disclose or discuss our findings in connection with other matters. This engagement is subject to the terms and conditions described in our engagement letter and the Limiting Assumptions described in Attachment I of this memorandum.

This memorandum is not intended to be used, nor should be used, in connection with any tax matter. In the event Skadden Arps uses this memorandum for or in relation to any tax matter, the memorandum is not intended or written by KPMG to be used, and cannot be used by a client or any other person or entity for the purpose of (i) avoiding penalties that may be imposed on any taxpayer or (ii) promoting, marketing or recommending to any other party any matters addressed herein. The accompanying memorandum and exhibits provide a detailed explanation of our analysis. All projections, related cash flows, and base assumptions of the Atlantic Yards have been supplied by FCRC.



Neil Rock, Esq.,
Skadden, Arps, Slate, Meagher & Flom LLP
December 18, 2006
Page 3

OPINION

Based on the facts, assumptions, and figures described in this memorandum, it is our opinion that the majority of the estimates used by FCRC in the model dated October 1, 2006, are reasonable. This letter summarizes the findings of our study.

In arriving at our conclusion, KPMG considered FCRC's representations of certain facts as part of the engagement.

KPMG relied on FCRC to fairly represent the facts and circumstances regarding its cash flow assumptions. In addition, KPMG has not independently verified the data obtained from certain databases and other third party sources of information utilized in our analysis. The results and conclusions presented in this memorandum may be materially affected to the extent that actual information differs from that which was provided to us.

KPMG has no present or contemplated future interest in the Atlantic Yards, Skadden Arps, or any other interest, which might prevent us from performing an unbiased opinion. We appreciate the opportunity to assist you on this project and appreciate your cooperation in promptly furnishing all materials needed to complete our study. If you have any questions, please contact Drew Smith at (302) 528-1203.

Respectfully submitted,

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this memorandum are true and correct.
2. The memorandum analyses, opinions, and conclusions are limited only by the assumptions and limiting conditions contained herein, and are my personal, unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this memorandum, and no personal interest or bias with respect to the parties involved. I am not aware of any such interest held by KPMG or any of the individuals involved in this review.
4. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this memorandum.
5. My analyses, opinions, and conclusions were developed, and the memorandum has been prepared in substantial compliance with the Uniform Standards of Professional Appraisal Practice.
6. The conclusion of opinion is based solely on work performed by me or by individuals working under my direction, as noted below.

Andrew W. Smith
Principal

F. Brian Johnson
Senior Manager

Assisted by:

Susan Sieger, Senior Manager
George Tobjy, Senior Manager
Sean Reilly, Manager
Anthony Ceretti, Manager
Jay F. Ross, Associate

SOURCES OF INFORMATION

1. Conducted interviews, phone conversations, and email correspondences with FCRC to understand its cash flow projections and the assumptions underlying its models.
2. Obtained assumptions and data from FCRC, included but not limited to: Site preparation costs summary, general project plan – project phasing, budgets on each tower and arena, summary of assumptions on each tower, T2 rental proforma, office proforma, T3 condo proforma, arena summary cash flow, mixed used development cash flow, and total rental program cash flow summary.
3. The Atlantic Yards website: www.atlanticyards.com.
4. Information gathered from various third party data sources, including but not limited to, the New York City Rent Guidelines Board, Marshall & Swift, Real Estate Board of New York, BOMA Experience Exchange Report, Dollars & Cents of Shopping Centers, and Korpacz Real Estate Investors Survey.
5. Information gathered from, and discussions with, local and national market participants.
6. Discussions with the ESDC and FCRC, including commercial and residential development personnel.

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ATTACHMENT I: LIMITING ASSUMPTIONS

1 Project Overview

This memorandum presents KPMG LLP's ("KPMG")'s findings with respect to its review of the cash flow assumptions prepared by Forest City Ratner Companies ("FCRC"), the developer, for the Atlantic Yards mixed use development project (the "Atlantic Yards") as of October 1, 2006 (the "Model Date"). It is our understanding that Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps") needed an additional review of the project cash flows prepared by FCRC for representing the Empire State Development Corporation ("ESDC") in the preparation and adoption of a modified General Project Plan ("GPP") for the Atlantic Yards.

Our analysis required certain assumptions to be used in regard to the development of inputs to the arena and mixed use development models. We were not provided with FCRC's arena and mixed use development models. From October 10, 2006 to November 21, 2006, we attempted to reproduce FCRC cash flow estimates with data received from FCRC and verified its accuracy with FCRC to the extent possible. We based our analysis on assumptions provided by FCRC and went through the process of verifying the reasonableness of such assumptions from a consulting perspective. In verifying the reasonableness of the assumptions, we relied on, including but not limited to, available market data, as well as other research, and our experience in the industry.

1.1 Atlantic Yards

The Atlantic Yards comprises the construction of a mixed use development in the Atlantic Terminal area of Brooklyn, NY. Occupying an approximate 22-acre site, the project site is roughly bounded by Flatbush and 4th Avenues to the west, Vanderbilt Avenue to the east, Atlantic Avenue to the north, and Dean and Pacific Streets to the south. It also includes approximately 9-acres below-grade, the Long Island Rail Road ("LIRR") Vanderbilt Storage Yard and MTA storage yard for inactive NYCT buses (including the land under the 6th and Carlton Avenue Bridges).

As of the Model Date, the Atlantic Yards combines an 18,000 seat sports and entertainment arena (15,520 bowl seats and 2,480 premium seats), landscaped open space, a site for a 164,652 SF boutique hotel, 200,090 SF of ground floor retail space, 376,798 SF of rentable office space (355,653 gross SF), 4,500 units of affordable, middle-income, and market-rate housing, and 1,608 condominiums.



Source: www.atlanticyards.com

2 Arena Model Overview

2.1 Purpose of the analysis

The Arena model, representing the Nets Arena that will be built on part of the Atlantic Yards, was reconstructed from numerous conversations and meetings with FCRC. The goal in constructing the model was to replicate the model that FCRC possessed but would not provide KPMG. Once complete, the reconstructed model, absent KPMG's comments on the assumptions, was verified for its accuracy with FCRC. An internal rate of return ("IRR") was then determined.

The reconstructed model reflected an IRR of 7.64 percent. We note that FCRC indicated that the IRR was 7.66 percent in their in-house model. The in-house model was not supplied to KPMG.

2.2 Assumptions & Inputs

- Arena revenue and expense items were discussed and estimated. This included, but was not limited to: premium seating items (suites, loge boxes, and party boxes), event ticket/concession and novelty income from non-basketball events (i.e. concerts, family shows, fixed fee rentals, other events), sponsorship income, and other income items.
- Nets franchise revenue and expense items were discussed and estimated. This included, but was not limited to: Nets basketball ticket and concession & novelty income, pre season income, TV income, and other income items.
- Income items not associated with arena income and Nets franchise income were also included and estimated. This includes parking and the Urban Room (the entry area to the arena).
- Economic incentives, equity, and debt service were discussed and estimated.

To review the cash flow projections of FCRC, KPMG assessed the underlying assumptions of the arena model for reasonableness. This included, but was not limited to, the items on the following page.

Category	Revenues Received / Expenses Paid By		XXX Assumptions (2006)	Measurement	Market Range		Comments
	Arena	Team			Low	High	
Revenues:							
<u>Ticket / Building Rental:</u>							
NBA Games		X	\$51 - \$970	Price/Ticket	\$10 - \$950	Price varies on seat location/ market/amenities offered	Appears reasonable based on KPMG research
<u>Other Events:</u>							
Concerts	X		\$65	Price/Ticket	Varies by event/market		Appears reasonable based on KPMG research
Other Events	X		\$62,000	Per Event	Varies by event/market		Appears reasonable based on KPMG research
Other Sporting	X		\$28	Price/Ticket	Varies by event/market		Appears reasonable based on KPMG research
Family Shows	X		\$28	Price/Ticket	Varies by event/market		Appears reasonable based on KPMG research
<u>Concessions:</u>							
<u>NBA Games</u>							
Bowl		X	\$21 at 45%	Price/Person	Varies by facility/market/contract		Appears reasonable based on KPMG research
Premium Seating (Catering)		X	\$64 at 20%	Price/Person	Varies by facility/market/contract		Appears reasonable based on KPMG research
<u>Other Events:</u>							
Premium Seating (Catering)	X		\$26.50 at 20%	Price/Person	Varies by facility/market/contract		Appears reasonable based on KPMG research
Concerts	X		\$15.91 at 45%	Price/Person	Varies by facility/market/contract		Appears reasonable based on KPMG research
Other Events	X		n/a	n/a			
Other Sporting	X		\$4.21 at 45%	Price/Person	Varies by facility/market/contract		Appears reasonable based on KPMG research
Family Shows	X		\$5.83 at 45%	Price/Person	Varies by facility/market/contract		Appears reasonable based on KPMG research
<u>Novalty:</u>							
<u>NBA Games</u>							
Bowl		X	\$2.65 at 25%	Price/Person	Varies by facility/market		Appears reasonable based on KPMG research
Premium		X	\$2.65 at 25%	Price/Person	Varies by facility/market		Appears reasonable based on KPMG research
<u>Other Events:</u>							
Premium Seating - Concerts	X		\$15 at 10%	Price/Person	Varies by facility/market/event		Appears reasonable based on KPMG research
Premium Seating - Other Sporting	X		\$1.80 at 10%	Price/Person	Varies by facility/market/event		Appears reasonable based on KPMG research
General Seating - Concerts	X		\$15 at 10%	Price/Person	Varies by facility/market/event		Appears reasonable based on KPMG research
General Seating - Other Sporting	X		\$1.80 at 10%	Price/Person	Varies by facility/market/event		Appears reasonable based on KPMG research
<u>Parking</u>	n/a	n/a	n/a	n/a			Central Parking will be Owner & Operator
<u>Premium Seating</u>	X		\$58,000 - \$580,000	Inclusive Price	\$65,000 - \$450,000	Price varies based on facility/ market/suite location/amenities offered	Appears on the high end based on KPMG research
<u>Personal Seat Licenses (PSLs)</u>		X	\$20,000,000 (approx. 4,500 seats at \$4,500)	One-time premium	\$4,000 - \$7,500	San Antonio data for similar license fees	Appears reasonable based on KPMG research Note: PSL concept is more popular in stadiums than arenas
<u>Sponsorship/Naming Rights</u>	X		\$31,200,000	Yearly	n/a	n/a	Aggregate appears on the high end of KPMG research
<u>Ticket Surcharge</u>	X		\$2.50	Price/Ticket	Varies by facility/mgt		Appears reasonable based on KPMG research
<u>Other Arena Related Revenue</u>	X		\$2,700,000	Yearly	Varies by facility/market/mgt		Appears reasonable based on KPMG research
<u>Other Nets Related Revenue</u>		X	\$27,000,000 (\$4,000,000 playoff)	Yearly	Varies based on market/mgt		Appears reasonable based on KPMG research Many teams do not budget playoff revenue
<u>TV Revenue</u>		X	\$33,500,000	Yearly	Varies based on market		Contractual based
<u>Urban Room Income</u>		X	\$700,000	Yearly	Unique given nature of project		Appears reasonable based on KPMG research
Expenses:							
<u>Arena Operating Expenses</u>	X		\$25,400,000	n/a	Varies based on facility/market/mgt		Appears reasonable based on KPMG research
<u>Arena Event Related Expenses:</u>							
NBA Games	X		Varies	Price/Event	Varies based on facility/market/mgt		Contractual Based
Other Events	X		Varies	Price/Event	Varies based on facility/market/event		Contractual Based

2.3 Assumptions Check

To comment on FCRC's cash flow estimates, KPMG assessed the underlying assumptions of the arena model. Our research focused on testing the overall reasonableness of the financial assumptions based on several factors including, but not limited to, information and input provided by FCRC, market characteristics, available data on comparable new arenas, conversations with managers at other arenas, our experience in the industry, as well as other research. This included, but was not limited to, the items below.

Owner/Operator

It is anticipated that the facility will be owned by the ESDC and operated through a newly formed operating company affiliated with the Nets. This ownership/operating structure is a common approach used for arenas because it allows for certain tax and financing benefits while the team retains operating control of the asset. The majority of NBA arenas are privately operated by either the team or a private management company.

Utilization

In general, the utilization estimates prepared by FCRC appear reasonable assuming experienced and efficient arena management.

The number of home games for the NBA regular season is fixed at forty-one and each team typically plays three preseason home games. The attendance at NBA games appear reasonable in that FCRC assumes that all seats are not utilized (either through sale or complimentary tickets) for all NBA regular season games. In addition, actual turnstile attendance for events is not equal to the number of tickets sold. As such, the assumptions for such attendance are important in estimating revenue for concessions, catering, and novelty line items.

Utilization from non-NBA activities including, but not limited to, concerts, family shows, other sporting events, and local events such as graduations, is estimated to generate 179 events and approximately 1,800,000 in total attendance.

Ticket/Building Rental

The revenue generated from arena utilization is typically derived from two primary rental arrangements. Revenue generated from the rental of the facility at most professional sports events, as well as concerts, and other high attendance events is typically calculated by taking a percentage of the gross ticket sales for each event or a minimum rent per event, whichever is greater. The basic computation used for derivation of rent under this method is as follows:

$$\text{Arena rental revenue} = \{Total\ paid\ attendance\} \times \{Ticket\ price\} \times \{Percent\ of\ gate\ receipts\}$$

The second major method of deriving rental revenues from facility utilization is a base rental arrangement per event day. In most cases, this arrangement is used for events where the revenue generated by ticket sales is generally low. Under this arrangement, the arena rental is derived by the following computation:

$$\text{Arena rental revenue} = \{Number\ of\ event\ days\ for\ use\} \times \{Base\ rental\ rate\}$$

The inputs used to calculate arena rental for these two methods are attendance, ticket price, or base rental rates, and appropriate rental revenue capture rate based on a percentage of gate receipts.

A variation on these approaches recognizes that co-promotion may be used for some events.

In general, the ticket pricing structure assumed by FCRC for upper and lower bowl seats at NBA games appears reasonable based on the historical average ticket prices realized in the NBA and particularly those realized at arenas in larger markets. However, the average ticket price for courtside seats appears to be on the high end of that charged at other NBA arenas.

The average ticket prices assumed by FCRC for concerts, family shows, and other sporting events and the percentage split to the facility appear reasonable. However, the base rental rate for other events (e.g., graduations) of \$62,000 plus the estimated \$41,000 in event-related expenses appears to be high. Although these rates could change subject to actual negotiation with prospective users, it is likely that these rates may need to be further reduced to accommodate various civic groups that cannot afford "market" rental rates, particularly given the competitiveness of the market.

Concessions/Novelty Revenue

The operation and management of food and beverage concession sales are generally handled by one of two methods. The first method, which is typically the most common, allows an independent concessionaire exclusive rights to facility events with the facility and/or team taking a percentage of gross sales. The second method allows for the facility owner to own and operate the concessions. Under this method, the facility owner will capture 100.0 percent of concessions sales but will also incur expense items related to purchase and maintenance of equipment, labor costs and costs of goods sold. FCRC assumes that facility management will choose to contract for these operations.

The following formulas, as described above, are used to compute concession and novelty revenue:

$$\text{Concessions revenue} = \{\text{General admission turnstile attendance}\} \times \{\text{Per capita sales}\} \times \{\% \text{ to the facility/team}\}$$

$$\text{Novelty revenue} = \{\text{Total turnstile attendance}\} \times \{\text{Per capita sales}\} \times \{\% \text{ to the facility/team}\}$$

The assumptions used by FCRC for per capita sales and the percentage retained by the facility/team appear reasonable based on KPMG research.

Catering

Catering typically comprises the food and beverage service provided to the suite and club seat holders which may include in-suite catering as well as in-seat food delivery service for club seats. In most cases, premium seat catering is supplied by a contracted food service provider, similar to concessions and novelties, and a percentage of the gross sales is paid to the arena. Suite and club seat catering is estimated on a per person basis and is multiplied by the estimated attendance number for those select premium seating areas. Research indicates that the assumptions used by FCRC for per capita sales and the percentage retained by the facility/team appear reasonable based on KPMG research.

Parking

FCRC assumes that a parking garage will be built as part of the overall development project, but will be sold to a private entity that will operate the structure. Consequently, the profit is assumed to be realized by the sale of the parking garage rather than from the ongoing operations of the asset. As such, no parking revenue is assumed to be generated for the arena or the team on an annual basis.

Premium Seating

FCRC assumes that approximately 162 of 170 suites will be sold annually through a combination of first ring suites, second ring suites, courtside suites, and loge boxes. The suite price includes the price of tickets to NBA games and approximately 25.0 percent of other events held at the arena. In addition, it is

assumed that three of the four party suites, each with sixty seats, will be sold for all NBA games on an annual basis.

Given the competitiveness of the market, both the total number of suites and the average price per suite assumed by FCRC appear to be on the high end relative to other similar arenas. NBA arenas average approximately ninety suites. Facilities in Chicago, Detroit, Los Angeles, Dallas, Toronto, and Philadelphia are the only ones that offer more than 125 suites. Other than the Palace at Auburn Hills in Detroit, all of these facilities host both NBA and NHL teams. As a point of reference, there are approximately 1,100 suites currently in the New York/New Jersey market. In addition, several facilities/teams in the market (e.g., Madison Square Garden, Nassau Coliseum, Shea Stadium, New York Yankees, etc.) are considering improvements either through new or renovated/enhanced facilities which will further increase the competitiveness for corporate support in the form of premium seating, sponsorship, and naming rights revenue.

Suite prices at NBA arenas range from approximately \$65,000 to \$450,000. However it is important to recognize that suite prices vary by location and benefits to suite holders (e.g. tickets to sports tenant(s) only, tickets to all events, parking, etc.). Research indicates that many arenas are trending toward offering suites where the price is inclusive for all events held at the facility.

Personal Seat Licenses (PSLs)

Although Personal Seat Licenses (“PSLs”) have historically been used more often in stadiums than arenas, the Charlotte Bobcats Arena and the AT&T Center in San Antonio both utilized this concept. The terms and conditions associated with PSLs can vary significantly among facilities. In most cases, a PSL is a one-time payment that provides ownership of a season ticket. Season tickets must then be purchased by the PSL owner each year to keep the PSL. In most instances, if the PSL owner does not purchase season tickets for the designated seats by a specified deadline each year, the PSL terminates, and the PSL owner forfeits all monies paid to the arena, as well as all rights to buy season tickets associated with those seats for the upcoming season and all seasons that follow. Typically the facility has the right to resell the forfeited PSL with no obligation to the former PSL owner. In some instances, PSLs are transferable. PSL rights may or may not provide first right of refusal to purchase tickets to other events held at the facility.

FCRC’s assumptions for PSLs appear to be reasonable. FCRC’s assumptions give PSL seat holders the first right of refusal for events.

Sponsorship/Naming Rights

Sponsorship revenue is generally derived from a variety of sources. In recent years, some arenas such as Philips Arena in Atlanta, American Airlines Center in Dallas, and Staples Center in Los Angeles have chosen to limit the number of sponsors in order to provide more exclusivity while maximizing this revenue stream. FCRC proposes a similar approach through a founding partner’s concept.

Through a combination of naming rights, availability of box suites, preferential advertising treatment, and event sponsorship inducements, one or more private entities may be solicited for up-front or recurring annual commitments. The current arena concept allows the arena bowl to be scaled back to a more traditional theater setting to better accommodate concerts and other activity requiring a smaller seating capacity. As such, FCRC assumes that naming rights will be sold for both the arena and the theater.

FCRC’s assumptions for sponsorship/naming rights appear to be on the high end based on several factors including, but not limited to, the estimates for premium and courtside seating revenues, information on comparable arenas, and the competitiveness of the market.

Other Revenue

Other revenue consists of miscellaneous sources which typically include items such as box office charges and net charges for reimbursement of event services. FCRC's assumption for other revenue appears reasonable.

Ticket Surcharge

Some facilities impose a surcharge on ticketed events which can either be a flat fee, a percentage of the ticket price, or a tiered amount based on the ticket price. In many instances, revenues generated from a ticket surcharge are dedicated directly towards repairs and maintenance of or capital improvements to the facility. FCRC's assumption of \$2.50 per ticket appears reasonable.

Arena Operating Expenses

In general, FCRC's estimate for arena operating expenses appears reasonable assuming experienced and efficient management. However, its estimate assumes municipal ownership of the asset making it tax exempt. A change to this ownership structure could potentially result in significantly higher arena operating costs from items such as property taxes.

Event Related Expenses

Event related expenses are those incurred for event labor and services to host an event that are not charged back to the promoter or user and consequently are borne by the facility. In general, FCRC's assumptions for event related expenses appear reasonable. However, as noted previously, the combination of the estimated base rental rate and event related expenses for civic events such as graduations appears to be on the high end.

Reserve for Replacement Fund

To safeguard the public/private investment, it is ideal for the owner and/or operator of the facility to allow for an annual payment that is specifically designated as a reserve for replacements and repairs. This fund is intended to cover any extraordinary annual/future capital repairs, improvements, or expansion to the facility. A reserve of \$2 million a year represents FCRC's reserve for a dedicated fund for repairs and replacement in the team's operating budget, which appears reasonable.

2.4 Arena Sensitivity

To determine the impact of the IRR, when KPMG applied its findings to the assumptions estimated by FCRC, KPMG applied changes to assumptions where market data may have differed from FCRC. As explained above, KPMG had found two assumptions that are estimated to be different than that of the market.

Courtside Suites

Based on KPMG research, including information obtained from primary and secondary sources, a 20.0 percent discount was applied to the courtside suites. Application of this assumption resulted in an estimated fee of \$463,710 per suite.

Sponsorship

By use of KPMG research and current market data from primary and secondary sources, a 15.0 percent discount was applied to sponsorship revenue. Application of this assumption resulted in an estimated sponsorship amount of \$26,520,000, in aggregate.

2.5 Arena Opinion

To ascertain a reasonable opinion on the cash flows estimated by FCRC, KPMG utilized a sensitivity analysis. After adjusting the FCRC assumptions as outlined in the previous narrative, the IRR was reduced to 5.09 percent.

DRAFT

3 Mixed Use Development Model Review

3.1 Purpose of the analysis

The mixed use development model, to represent the mixed use development that will be built on part of the Atlantic Yards, was reconstructed from numerous conversation and meetings with FCRC. The goal in constructing the model was to replicate the model that FCRC possessed but would not provide KPMG. Once complete, the reconstructed model, absent KPMG's comments on the assumptions, was verified for its accuracy with FCRC. An internal rate of return ("IRR") was then determined.

The reconstructed model reflected an IRR of 9.86 percent. We note that FCRC indicated that the IRR was 9.60 percent in their in-house model. The in-house model was not supplied to KPMG.

3.2 Assumptions & Inputs

- The mixed use development revenue and expense items were assessed. This included, but was not limited to: apartment (market, medium, and low income), office, hotel, condo, retail, and laundry income.
- The proceeds from the sale of the parking spaces, the site for the hotel, and the residential condominiums were assessed. Expenses related to construction (excluding the hotel), lease-up, and disposition were also examined. FCRC indicated that they will not construct the hotel, but will sell the site to a hotel developer.
- Land, masterplanning, site, and infrastructure costs were discussed and estimated. This included, but was not limited to: land acquisition, LIRR track re-location, MTA air rights, hard costs, and soft costs.
- Economic incentives, equity, and debt service were assessed.

To review the cash flow projections of FCRC, KPMG assessed the underlying assumptions of the mixed use development model. This included, but was not limited to, items on the pages to follow.

Assumptions Check List

Note: Assumptions based on gross square footage unless identified

Assumptions	Forest City Ratner (2006)	Measurement	Market Range		Notes	
			Low	High		
Site Work						
Apartment	\$68	Zoning SF	n/a	n/a	Infrastructure & LIRR Re-Location, Land & MTA Air Rights, Masterplanning	
Condo	\$190	Zoning SF	n/a	n/a	Infrastructure & LIRR Re-Location, Land & MTA Air Rights, Masterplanning	
Office	\$35	Zoning SF	n/a	n/a	Infrastructure & LIRR Re-Location, Land & MTA Air Rights, Masterplanning	
Hotel	\$35	Zoning SF	n/a	n/a	Infrastructure & LIRR Re-Location, Land & MTA Air Rights, Masterplanning	
Condo - Block 1129	\$235	Zoning SF	n/a	n/a	Infrastructure & LIRR Re-Location, Land & MTA Air Rights, Masterplanning	
Construction Costs						
Apartment	301 - 616	Units	\$299	PSF	\$283 \$342	Marshall & Swift Check
	263,164 - 442,426	Total BLDG SF				
	665 - 714	SF/Unit				
Condo	162 - 336	Units	\$309	PSF	\$283 \$342	Marshall & Swift Check
	210,287 - 450,421	Total BLDG SF				
	1,008 - 1,072	SF/Unit				
Office	335,653 SF		\$295	PSF	\$214 \$355	Marshall & Swift Check (355, 282, 214)
Apartment Income						
Market	- 714 Avg. Size		\$45	PSF	\$33 \$50	From Rental Market Data
Band 1	- 665 Avg. Size		\$21	PSF	n/a n/a	n/a (Govern by HUD)
Band 2	- 665 Avg. Size		\$32	PSF	n/a n/a	n/a (Govern by HUD)
Band 3	- 665 Avg. Size		\$40	PSF	n/a n/a	n/a (Govern by HUD)
Low	- 665 Avg. Size		\$12	PSF	n/a n/a	n/a (Govern by HUD)
Cap Rate used for sell-off of building			5.75%	%	5.50% 9.00%	Korpacz (National Apartment Market)
Condo Income						
Avg. Price	\$856,800 - \$911,200	Unit	\$850	PSF	\$630 \$900	From Condo Market Data
Cap Rate used for sell-off			n/a	%	n/a n/a	n/a
Office Income						
Avg. Rent			\$39	PSF	\$27 \$35	From Office Market Data
Cap Rate used for sell-off			7.25%	%	6.75% 10.00%	Korpacz (National Office Market)
Retail Income						
Avg. Rent			\$30	PSF	\$30 \$55	From Retail Market Data
Cap Rate used for sell-off			8.00%	%	7.00% 10.00%	Korpacz (National Strip Shopping Center Market)
Parking Income						
Avg. Price for the year			\$3,000	Per Space	\$4,200 \$4,320	From Market Data
Avg. Price for the Month			\$250	Per Space	\$350 \$360	From Market Data
Cap Rate used for sell-off			10.00%		7.00% 8.28%	Based on Internal Database
Laundry Income						
Price per Unit			\$10	Per Month	\$12 \$20	Laundry (\$1.5 -\$2.5) (4 loads, Twice a Month, for 2)

Assumptions Check List*Note: Assumptions based on gross square footage unless identified*

Assumptions	Forest City Ratner (2006)	Measurement	Market Range		Notes
			Low	High	
Vacancy					
Rental (Market)	5.00%	%	2.90%	4.90%	REIS (Kings County) Mean to High
Retail	4.00%	%	3.00%	5.00%	Relative to office / rental market
Laundry	2.00%	%			N/a
Office	5.00%	%	6.00%	8.60%	Korpacz (National Office Market) - CBRE (Brooklyn Market View)
Expenses					
Apartment					
	17.00%	% of Rent	20.00%	30.00%	Based on Internal Database
Residential Operating Expenses	\$4,500		\$4,700	\$5,300	NYC Rent Guidelines Board Housing NYC: Rents, Markets and Trends 2006
Residential Management Fee	3.00%				
Residential Commissions (Market only)	4.00%	Unit/Monthly Rent	3.00%	5.00%	Calls with Rental Market Data
Other					
Replacement Reserve	\$250	Per Unit	\$330	\$350	REIS Comps
Tax Reserve	\$0.50				n/a (Arbitrary)
Retail					
Retail Operating Expenses	\$5.50	PSF	\$1	\$5	Dollars & Cents US Neighborhood Shopping Centers
Retail Management Fee	\$0.50	PSF			n/a (Arbitrary)
Office					
Total Market (sum of below expenses)			\$14	\$21	2005 BOMA Experience Exchange Report
Office Operating Expenses	\$5.50	PSF			Call with CBRE Broker 470 Vanderbilt
Office RE Taxes	\$0.50	PSF			OE \$4 - \$5 PSF, Taxes \$0.40 PSF
Management Fee	\$0.50	PSF			KPMG's figures are for total cost to operate in overall market
Structural Reserves	\$0.10	PSF			FCRC's figures are local specific and landlord responsibility only
Condo					
Legal Fees	\$1,000	Per Unit			To Represent a Seller \$1000 - \$1500 to Draft a Deed etc.
Sales Commissions	5.00%	Per Unit Sale	3.00%	5.00%	Calls with Condo Market Data
Space Absorption					
Apartment					
Market	6	Months Lease up	6	12	Two Trees Management on 125 Court.
Low	2	Months Lease up	6	12	About 50% Leased Before Open
Medium	2	Months Lease up	6	12	6 Mo. Till Building was Stable
Condo					
Market	8 - 4	Months Lease up	6	12	Broker for 180 Montague: Expect 3-5 in winter 13-15 in summer
Retail					
Market	100.00%	% Leased	90%	100%	Based on Internal Database
Office					
Market	95.00%	% Leased	90%	100%	Based on Internal Database

3.3 Assumptions Check

To review the cash flow projections of FCRC, KPMG assessed the underlying assumptions of the mixed use development model. Our research tested the overall reasonableness of these assumptions based on several factors including, but not limited to, information and input provided by FCRC, market characteristics, available data on comparable office, retail, and residential developments (“Real Property”), as well as other research, and our experience in the industry. This included, but was not limited to the items below.

- Visited the 22 acre site;
- Relied upon information provided by FCRC, public records, as well as discussions with local and national market participants.
- Consulted market reports for Real Property prepared by CB Richard Ellis, the Real Estate Board of New York, Marshal and Swift, and the Korpacz Real Estate Investors Survey;
- Performed independent market research to identify listings and sales considered comparable to the Real Property;
- Researched the cost per square foot to construct each structure;
- Conducted discussions with FCRC to gain a better understanding of the Real Property operating statistics and physical characteristics;
- Analyzed all the facts and data compiled; and
- Performed a sensitivity analysis of the Real Property utilizing data gathered from the market.

Site Work

KPMG held discussions with FCRC regarding the infrastructure, LIRR track re-location, land acquisition, MTA air rights, and masterplanning costs. FCRC had indicated that they currently control 90.0 percent of the 22-acre site and have met with the MTA to discuss the cost for the LIRR track re-location and air rights. Since these costs have either been negotiated or are in the process of being negotiated, coupled with the uniqueness of the site issues, we have considered them reasonable.

Construction Costs

Estimated costs to construct each building of the Atlantic Yards was researched by use of replacement costs for the assets by using the comparative unit method from the Marshall Valuation Service (MVS) Cost Guide, published by Marshall and Swift, LLC. Average and good building classifications were used to test the reasonableness of the cost per square foot for the apartment and condo structures. For the office structure, excellent, good, and average building class was estimated. The assumptions used by FCRC to estimate the cost per square foot is reasonable.

Income

KPMG researched and contacted market participants involved in the commercial and residential property sectors to obtain current market data as well as for their opinions regarding market rent levels and achievable sale prices for the various property components. KPMG considered proposed condition, utilization, and location of the applicable assets. Adjustments to the comparable data were considered for differences in property location, conditions of sale, market conditions, and physical characteristics relative to the Real Property. The Korpacz Real Estate Investors Survey was also used to estimate income and residual data for estimating a reasonable range for assumptions used.

Variations within the range are due to factors such as location, competitive position, age/condition, and anticipated future competitive supply/barriers of entry.

Overall, the assumptions used by FCRC to estimate the income from the different parts of the development appear reasonable. However, the capitalization rate applied to the garage components appeared to be slightly higher relative to the market.

Vacancy

Using applicable local New York market reports, coupled with a review of national trends, estimated vacancy rates for each component of Atlantic Yards (apartments, retail, laundry, office) were estimated. REIS market reports, Korpacz National Investors Survey, CB Richard Ellis's Brooklyn Market View, and local broker data were used to determine a reasonable range. In general, FCRC's estimates for vacancy appear reasonable. The exception is the office vacancy, which may be somewhat conservative.

Expenses

Expense assumptions for each component of Atlantic Yards were assessed. KPMG relied on its own internal database, the NYC Rent Guidelines Board's *Housing NYC: Rents, Markets, and Trends 2006*, REIS market data, BOMA Experience Exchange Report, Dollars and Cents of Shopping Centers, and local and national market participants to compile a reasonable range. In general, FCRC's estimates for expenses appear reasonable. The exception is the operating expenses for the apartments, which are considered conservative.

Space Absorption

The assumptions used by FCRC for office, apartments, condo, retail, and office space absorption, for the Brooklyn market, were assessed. By use of KPMG's internal database and conversations with local market participants, FCRC's time estimates for space absorption appear somewhat low. It is unlikely, although possible, that the apartments, retail and office will be pre-leased to the extent FCRC has estimated. It is also possible that 95.0 percent of the residential condominiums will be pre-sold. Overall, sensitivity analysis was applied to these assumptions.

3.4 Mixed Use Development Sensitivity

KPMG has completed a sensitivity model based on the spread in assumptions as outlined in the previous pages and Assumptions Check List.

Capitalization Rates

KPMG, through data compiled from our internal database, reduced FCRC's garage capitalization rate by two percentage points.

Office Vacancy

After review of the national market and the Brooklyn market, KPMG determined a three percent increase to FCRC's assumption. The change was based on a review of surveys and discussion with local market participants.

Residential Operating Expenses

By use of the NYC Rent Guidelines Board's *Housing NYC: Rents, Markets, and Trends 2006* coupled with our internal database, KPMG has estimated that expenses, when analyzed as a percent of income, are low for the Brooklyn market. KPMG, after some analysis, determined an estimated operating expense range net of real estate taxes of \$4,700 to \$5,300, compared to \$4,500 estimated by FCRC.

Residual Value

To take into account closing costs and expenses relating to the sales of the different components of the Atlantic Yards, a 1.0 percent fee was deducted from residual values. Although on a percentage basis the estimate appears low, the total dollar amount is reasonable. It is also estimated that certain economies-of-scale will be achieved.

Space Absorption

After review of KPMG's internal database and conversations with market participants a more conservative absorption period was applied to office and apartments (including laundry) income. An estimated stable absorption period of twelve to eighteen months was applied to each residential tower. For those buildings that are open for more than five months, once completed, in said calendar year, 80.0 percent absorption was applied; with pre-opening absorption anticipated. For those buildings that are open for five months or less, once completed, in said calendar year, 50.0 percent absorption was applied; with pre-opening absorption anticipated. For such buildings opened for five years or less, absorption of 80.0 percent was applied to the second calendar year that it was opened. Stable operations were estimated subsequent to the respective calendar years.

3.5 Mixed Use Development Opinion

After applying the above assumptions to the project cash flows of FCRC, an IRR of 7.28 percent was determined. This compares to the 9.86 percent reflected in the reconstructed FCRC model.

4 Atlantic Yards Incentives Review

4.1 Purpose of the analysis

The Atlantic Yards project represents a mixed use development, which due to its make up will be allowed to receive state and local economic incentives.

To review the cash flow projections of FCRC, KPMG assessed the underlying assumptions relative to the receipt of economic incentives. Our research tested the overall reasonableness of these assumptions based on several factors including, but not limited to, information and input provided by FCRC, local affordable market characteristics/goals, conversations with local government agencies, available market data on such incentives, and our experience in the industry. This included, but was not limited to the items below.

4.2 Assumptions

Incentives Check List

	Benefit Program	Benefit	Benefit Provider	Notes
<i>Residential</i>	Federal Low Income Tax Credits	\$95,000 to \$165,000	NYC HDC	Benefit is estimated per low income housing unit and is based upon a current market value of 95 cents on a dollar to sell the credit. Credit allocation assumptions are feasible.
	421-A Real Property Tax Abatement	25 Year Abatement	NYC	Full abatement on assessed improvements for 21 years and then declining to year 25. Does not include arena. Site is eligible and 20% of units for low income meets eligibility. Property tax benefit assumption is correct if the 50 cents on pro-forma is current assessment. Condo owners will realize same abatement for first 11 years and then a decline for years 12-15.
	Tax Exempt Benefit (50/30/20 Program)	1st and 2nd mortgage benefit	NYCHDC	2nd mortgage subordinate benefit that will enable developer to provide less equity up front. Benefit calculated at \$65,000, which essentially is a 1% interest only loan with balloon payment of \$65,000 at year 30. Assumption is feasible for both mortgages.
<i>Commercial</i>	IDA	Real Property Abatements Sales Tax Exemption Mtg Recording Tax Waiver	NYC / NYS IDA	A local development corporation will provide the benefits. Agreement in principal for 40 year PILOT structure, Mortgage Recording Tax Waiver and a Sales Tax Exemption on construction hard costs.
	ICIP	Real Property Abatements	NYC	Project is located in a special exemption area that qualifies it for a 100% abatement for 15 years and then declining for years 16-25. Development qualifies for benefits.
	Commercial Rent Subsidy	\$10 million	NYCEDC	The developer would first need to have a tenant to get the benefit. The developer is making this assumption based upon passed experience with Metrotech.
	NYC & NYS Infrastructure Support	\$200 million	NYC & NYS	NYC has allocated into budget. State status not yet known.

4.3 Assumptions Check

Federal Low Income Tax Credits

The program provides an incentive for the construction or rehabilitation of affordable housing by allowing owners of qualified apartment properties to claim tax credits annually over a ten year period thus reducing the cost of affordable housing construction.

Theoretically, the developer is eligible for the credit if it is setting aside at least 20.0 percent of apartment units for low income housing. FCRC is valuating the estimated benefit at a feasible \$95,000 - \$165,000 per unit using current market conditions for the sale of the credits which is ninety-five cents on the dollar. The allocation of the tax credits from the New York City Housing Development Corporation ('NYCHDC') is feasible due to the lack of demand for the credits.

421-A Real Property Tax Abatement

The development's residential Property is eligible to receive a tax abatement on the new value created by the construction. The abatement starts at 100.0 percent and is phased down to zero. Atlantic Yards is committing 20.0 percent of its apartment housing to low income families and therefore should receive a twenty-five year abatement of taxes at 100.0 percent of assessed improvements for years one through twenty-one; the abatement would then decrease 25.0 percent in each of the years twenty-two through twenty-five. In addition, the condo unit buyers would receive a pass through savings for the full amount of the increased assessment for years one through eleven; decreasing by 25.0 percent in each of the years twelve through fifteen.

Tax Exempt Financing Bonds (50/30/20 Program)

This benefit is available through NYCHDC's Mixed – Income Program which combines first and second mortgage financing vehicles to fund multi-family apartment housing, affordable to low and middle income families.

The Atlantic Yards development intends to meet the program eligibility criterion which stipulates that at least 20.0 percent of the units in a new development be reserved for low-income households. FCRC also intends to comply with additional rules that stipulate that the low income families earn less than 50.0 percent of the New York City median income (with at least 15.0 percent of these low-income units set aside for very low-income families earning less than 40.0 percent of median income).

First mortgage financing is funded through proceeds from the sale of variable or fixed rate tax-exempt private activity bonds. Second mortgages are provided through NYCHDC corporate reserves under its New Housing Opportunities Program ("New HOP"). New HOP provides \$65,000 to \$85,000 per unit, based upon rent levels, as a second mortgage at 1.0 percent for the low and middle-income units in the development. Based upon its estimated rent levels and discussions with NYCHDC, Atlantic Yards projects a per unit benefit of \$65,000. The second mortgage financing will allow FCRC to provide less equity by providing financing at 1.0 percent on an interest only loan for twenty-nine years with a \$65,000 per unit balloon payment at year thirty. The NYCHDC recognizes this program as the cornerstone of Atlantic Yards affordable housing initiative.

NYC Economic Development Corporation ("NYCEDC") Commercial Rent Subsidy

Atlantic Yards is projecting a \$10 million commercial rent subsidy to be used as a rent draw down incentive for a commercial tenant. This is a discretionary benefit that would be provided by the City. FCRC is projecting this benefit from past experience at its MetroTech development. A lead tenant would first need to be identified before approaching NYCEDC.

NYS and NYC Infrastructure Investments

\$200 million in infrastructure investment were pledged by the City and State for the Atlantic Yards development. This benefit is based on project commitments from the City and State. FCRC will be able to draw down on these funds as infrastructure improvements are made (and with respect to city funds, for land acquisition costs). FCRC states that the city has already incorporated its share of the improvements into its budget.

PILOT (Industrial Development Agency Payment in Lieu of Taxes)

According to FCRC, it has negotiated a forty year Payment in Lieu of Taxes ("PILOT") which provides for the payment of debt service on the bonds used to finance the development of the arena. The state has agreed in principal to create a Local Development Corporation to provide: the PILOT, a mortgage recording tax waiver; and a sales tax exemption on construction hard costs.

ICIP (Industrial and Commercial Incentive Program)

This program provides an abatement of property taxes (100.0 percent for fifteen years, declining to full value years sixteen through twenty-five) for eligible industrial and commercial buildings that are built, modernized, rehabilitated, expanded, or otherwise physically improved. To be eligible for benefits for commercial new construction, applicants may be building anywhere in New York City except in Manhattan, south of the centerline of 96th Street and north of Murray, Frankfort, and Dover Streets.

The project is located in a “special exemption area” that qualifies it for a 100.0 percent abatement for fifteen years that continues at a declining rate for years sixteen through twenty-five.

4.4 Incentives Opinion

After assessment of the above assumptions of the Atlantic Yards, the estimates by FCRC are reasonable.

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5 Summary of Assumptions

Based on the facts, assumptions, and methodologies described in this memorandum, it is our opinion that the project cash flows by FCRC, as of the Model Date, are generally reasonably other than what we have discussed above.

In arriving at our opinion, KPMG applied generally accepted procedures based upon economic and market factors. As previously mentioned, we used data supplied by FCRC in our review of the models and have considered FCRC's representation of certain facts as part of that review.

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LIMITING ASSUMPTIONS

- 1. Report Distribution** -- This report has been prepared solely for the purpose stated and should not be used for any other purpose. Except as specifically stated in the report, neither our report nor its contents are to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document without our prior written approval. A copy of this report may be provided to your auditors expressly for review as part of their audit procedures under Statement of Auditing Standards (“SAS”) 73 – Using the Work of a Specialist. Further, you agree to ensure that your external auditor agrees not to distribute our report to any other third parties. In addition, except as set forth in the report, our analysis and report presentation are not intended for general circulation or publication, nor are they to be reproduced or distributed to other third parties without our prior written consent.
- 2. Scope of Analysis** -- The appraisal of any financial instrument or business is a matter of informed judgment. The accompanying appraisal has been prepared on the basis of information and assumptions set forth in the attached report, associated appendices, or underlying work papers, and these Limiting Assumptions.
- 3. Nature of Opinion** -- Neither our opinion nor our report are to be construed as a fairness opinion as to the fairness of an actual or proposed transaction, a solvency opinion, or an investment recommendation, but, instead, are the expression of our determination of the fair market value of the subject assets between a hypothetical willing buyer and a hypothetical willing seller in an assumed transaction on an assumed valuation date. For various reasons, the price at which the Subject Assets might be sold in a specific transaction between specific parties on a specific date might be significantly different from the fair value as expressed in our report.
- 4. Going Concern Assumption, No Undisclosed Contingencies** -- Our analysis: (i) assumes that as of the Valuation Date the Company and its assets will continue to operate as configured as a going concern; (ii) is based on the past and present financial condition of the Company and its assets as of the Valuation Date; and (iii) assumes that the Company had no undisclosed real or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business, nor had any litigation pending or threatened that would have a material effect on our analyses.
- 5. Lack of Verification of Information Provided** -- We have relied on information supplied by the Company without audit or verification. We have assumed that all information furnished is complete, accurate and reflects management’s good faith efforts to describe the status and prospects of the Company at the Valuation Date from an operating and a financial point of view. As part of this engagement, we have relied upon publicly available data from recognized sources of financial information which have not been verified in all cases.
- 6. Reliance on Forecasted Data** -- Any use of management’s projections or forecasts in our analysis does not constitute an examination or compilation of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants (“AICPA”). We do not express an opinion or any other form of assurance on the reasonableness of the underlying assumptions or whether any of the prospective financial statements, if used, are presented in conformity with AICPA presentation guidelines. Further, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected and those differences may be material.
- 7. Subsequent Events** -- The terms of our engagement are such that we have no obligation to update this report or to revise the valuation because of events and transactions occurring subsequent to the Valuation Date.
- 8. Legal Matters** -- We assume no responsibility for legal matters including interpretations of either the law or contracts. We assumed that all required licenses, permits, etc. are in full force and effect. We assume no responsibility for the acceptability of the valuation approaches used in our report as legal evidence in any particular court or jurisdiction. The suitability of our report and opinion for any legal forum is a matter for the client and the client’s legal advisor to determine.
- 9. USPAP** -- Unless otherwise stated in our report, this report is in substantial compliance with USPAP (“Uniform Standards of Professional Appraisal Practice”).

10. **Verification of Legal Description or Title** -- We have made no investigation of legal description or title and have assumed that owner(s) claims to property are valid. No consideration will be given to liens or encumbrances which may be against the property except as specifically stated as part of the financial statements you provide to us as part of this engagement. Full compliance with all applicable federal, state, and local zoning, environmental, and similar laws and regulations is assumed, unless otherwise stated, and responsible ownership and competent property management are assumed.
11. **Verification of Hazardous Conditions** – We will not investigate the extent of any hazardous substances that may exist as we are not qualified to test for such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation or other hazardous substances or environmental conditions may affect the value of the property, the value will be estimated predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility will be assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.
12. **Condition of Property** – We assume no liability whatsoever with respect to the condition of the subject property or for hidden or unapparent conditions, if any, of the subject property, subsoil or structures, and further assume no liability or responsibility whatsoever with respect to the correction of any defects which may now exist or which may develop in the future. Equipment components considered, if any, were assumed to be adequate for the needs of the property's improvements, and in good working condition, unless otherwise reported.
13. **Zoning** – It was assumed that all public and private zoning and use restrictions and regulations had been complied with, unless non-conformity was stated, defined and considered in the report.
14. **The Americans with Disabilities Act (“ADA”)** – The ADA became effective January 26, 1992. The valuation professional will not make a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the valuation professional has no direct evidence relating to this issue, he will not consider possible non-compliance with the requirements of the ADA in estimating the value of the property.