2021

Sale of a

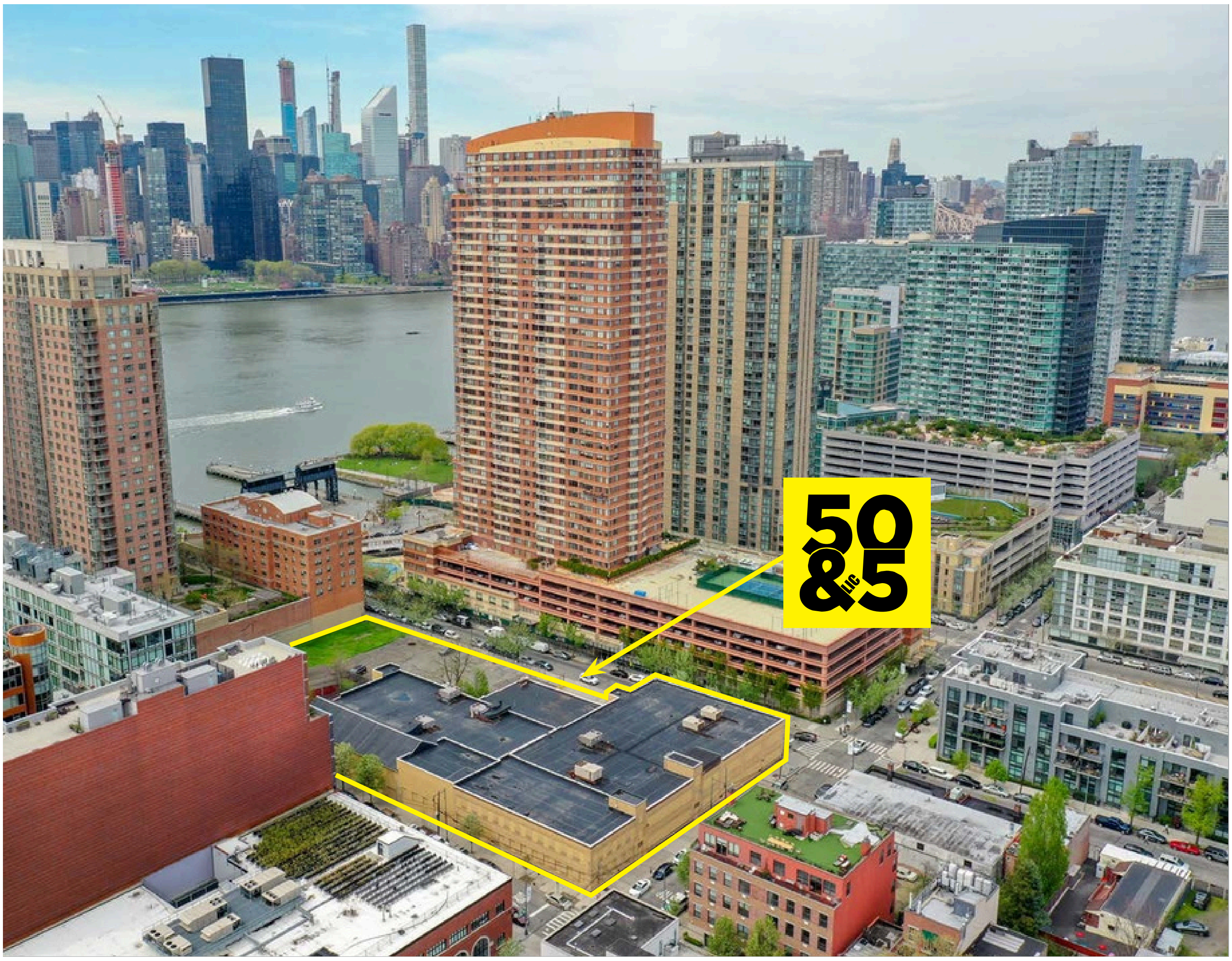
Long Island City Development Site

REBNY Sales Brokers Committee

MOST INGENIOUS DEAL OF THE YEAR 2021

Sale of a Long Island City Development Site

Submitted by:
BOB KNAKAL

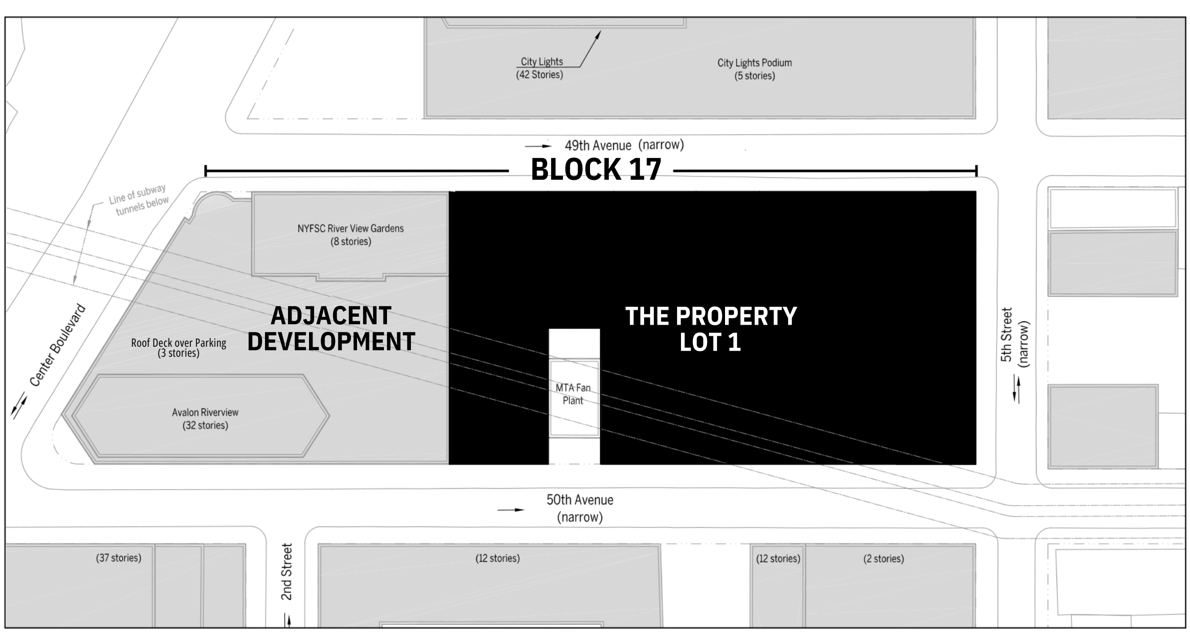


1)In no more than 50 words on page one, identify the ingenious aspects of the transaction and who was responsible for that ingenuity.

The ingenuity within this deal revolved around convincing the seller to retain JLL based upon intimate knowledge of the Board of Standards and Appeals and convincing the seller to perform an extraordinary amount of up front due diligence to make the property more marketable based upon a unique characteristic of the property. Bob Knakal and Jon Hageman were responsible for these actions.

2)Briefly summarize the transaction.

This transaction involved the sale of a 76,000 square foot development site in Long Island City with 444,000 buildable square feet. The site had a subway tunnel under the site which created a significant obstacle as a portion of the site could not be economically developed upon, creating a circumstance under which the full ZFA could not be massed under the height restriction in the zoning district. To effectively market the asset, a comprehensive case would have to be made as to how a developer could prove this condition was a hardship and convince the Board of Standards and Appeals to grant a variance to exceed the height restrictions. This would enable the full ZFA to be used. Bob and Jon were able to help the seller craft a case for the hardship by enlisting the help of several third party professionals who made compelling arguments for the variance. Given the competition that the seller put the brokerage community through, getting retained was a key part of this transaction and being able to obtain key information from BSA and using that information to their maximum advantage helped secure the exclusive listing for JLL from the seller. The genesis of this transaction began in 2018, saw Amazon come and go, had to get through the pandemic and, like most transactions, had its share of twists and turns. For most transactions, the key moments are near the end of the process. In this transaction, many of the key moments were towards the beginning.



3)Describe the relevant parts of the process from your initial involvement to the consummation of the deal.

In September of 2018, the owner of a development site at 2-33 50th Avenue in Long Island City called Bob Knakal to suggest that the ownership of the property (a "Private Family" located out of state), which had operated a business out of the property for decades, were considering a sale of the property. The family was shutting down the art storage business that was operating out of the property and had the ability to deliver the property vacant to a developer. The site makes up the entire westerly blockfront on 5th Street between 49th and 50th Avenues. It was a 76,000 square foot lot which was in a split zone with 56,000 square feet in an M1-5/R8A zone and 20,000 square feet in an M1-4/R7A zone. This site had a maximum zoning floor area of 444,000 square feet.

On the first call, Bob thought the caller was a different investor who had a similar name to the owner. That investor who had a similar sounding last name was a pain in the neck and had recently wasted a tremendous amount of Bob's time bidding on another property Bob was marketing and that investor continued to change his offer, ask for the same information over and over and rarely gave Bob and his team straightforward answers to basic questions. So when Bob heard that the head of the Private Family was calling, mistakenly thinking it was the pain in the neck, waste of time, investor he told his assistant to take a message. When Bob saw the written message and saw that the call was about "a property in Long Island City that the caller wanted to sell", it was clear it was not the pain in the neck investor and the call was returned immediately.

When Bob spoke to the seller, the seller said, "I own the best development site in NYC and want to interview you to sell it for me". They discussed the site and he told Bob that he would be coming to New York to interview "several firms" and set up a time for an initial interview. In October of 2018, JLL assembled a team, analyzed the site and prepared a valuation and marketing presentation. The initial interview was set up and Bob, Jon and their team reviewed the valuation and proposed marketing program with the head of the Private Family, his wife and son. The meeting seemed to go well and the JLL team was feeling confident based upon how the meeting went. The JLL valuation at that time was a range of about $80 to $90 million. Then the seller told the JLL team that they were interviewing 7 other firms in their initial round. Ugh!

Weeks later, on November 4, 2018, Amazon announces that New York City is among the final – final contenders for its HQ2. On November 13th, 2018, Amazon makes it official stating that Long Island City would be the location of HQ2.

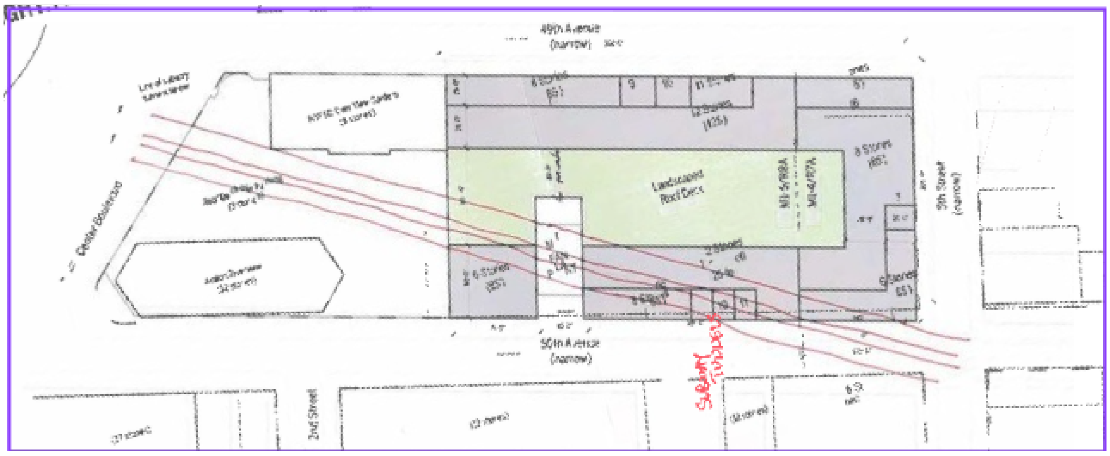
The Private Family feels like they hit the lottery as their site is only a few blocks away from the new HQ2.

On Friday, November 23rd, the seller sent an email to the JLL team informing them that they would be considered a "finalist" and wanted a written proposal submitted by the following Thursday, November 29th at noon. However, they had some additional information that they wanted the finalists to consider. This information, of course, included the impact of Amazon's new HQ2 on the valuation.

And then they revealed a key component and potential hurdle to maximizing this site's value:

"The 7 train tunnel (Steinway Tunnel) a 1915 vintage, unreinforced concrete structure beneath the site, creates a hardship that **probably** makes it financially infeasible to develop a building, which fully utilizes the permitted zoning square footage under current zoning regulations, directly above it. The orientation of the tunnel beneath the southern half of the site means that no footings for a building can be situated there and cantilevering a building directly above the path of the tunnel would **likely** be financially prohibitive. Accordingly, the hardship offers developers a high degree of likelihood for achieving a height variance, which permits construction of a taller structure with far better views than the sites as of right massing allows."

It turned out that the tunnel was not in great shape given its vintage, unreinforced nature, and the fact that it was a shallow tunnel not too deep below grade.



JLL had less than one week to research the issues. Bob immediately called the Private Family to get as much information as possible. It was clear that the seller was open to suggestions about how to best position the property for the market and the seller was also asking many questions about the Board of Standards and Appeals, the variance process and the likelihood of being able to get the height variance waived such that the full ZFA could be massed on the site.

In the submission to the seller, JLL:

•Addressed the perceived impact on value the Amazon announcement would have on the market value of the site.

- This was done using residential rental values and condo values in areas where major new developments / rezonings were announced.
- The JLL team used value trends in the Hudson Yards district within the years after the rezoning was announced.
- The JLL team used value trends in the Atlantic Yards district within the years after the rezoning was announced.
- The JLL team used value trends in Williamsburg within the years after the rezoning was announced.

•Encouraged the Private Family retain a geotechnical engineer to fully diligence the below grade conditions around the subway tunnel and the impact of the water table in LIC.

•Encouraged the Private Family retain a supportive excavation engineering firm to fully diligence the below grade conditions around the subway tunnel.

•Encouraged the Private Family retain a foundation structural engineer to determine the foundational requirements to cantilever the foundation over the tunnel.

•Encouraged the Private Family retain a superstructure engineering firm to determine what additional costs would be incurred based upon the subsurface conditions.

•Investigated several of the hardship applications for height restriction variances in NYC. •Spoke to the BSA commissioner to get some insight into how BSA would view the variance application.

All of this was done to help build a case to convince developers that the all-important variance was possible.

The submission was provided to the seller and a subsequent meeting was set up as the seller wanted to come into NYC to meet with the finalists one more time. The seller called Bob to ask for recommendations for each of the third party vendors and was particularly interested in "who is the best?" He wanted to know what JLL knew about the variance process and who the best attorneys were. The Private Family was obsessed with wanting to know who the best of the best were as they wanted to do everything possible to get the best result possible.

Knowing how important the variance was on the value of the property, Bob reached out to Margery Perlmutter who was the commission of the BSA at that time. Bob had worked with Margery, when she was a practicing attorney, on arbitration work and they had a good relationship. In the conversation with the seller after the November 23rd email was delivered, the seller asked several questions about Margery and how the BSA operates. "I heard she is really a tough cookie and hard to get to," the seller said. Bob mentioned that he knew Margery and that he would try to get some insight.

In the subsequent days, Bob reached out to Margery and was able to get a complete breakdown of how BSA would look at the hardship issue, which lawyers knew the ins and outs the best and who made the best presentations to the BSA and were the most successful in obtaining variances. Had it not been for Bob's relationship with Margery, the detail with which she conveyed information would not have been possible.

A final face-to-face meeting was scheduled with the members of the Private Family. In that meeting, JLL reviewed all of the data points that could be extrapolated to estimate the impact on the site's value that Amazon moving into the neighborhood would have. JLL also reviewed all of the data that would be helpful in demonstrating the hardship created by having to "build around" the subway tunnel which would be the rationale for BSA approving the variance to build above the height restriction.

After an exhaustive discussion about all of the what-ifs, the conversation turned to the likelihood of getting the BSA variance. The seller was of the opinion that they would go through the BSA process themselves and deliver the site to the market with the variance in place. **I then told the Private Family that I had a comprehensive conversation with Margery Perlmutter and knew exactly what she was looking for in a presentation to obtain the variance and who her "favorite" attorney was that presented in front of the Board.**

At that point the patriarch of the Private Family, his wife and son all moved to the edges of their seats, leaned forward and asked who that attorney was and what components of the presentation were the most important. Bob replied, "Hire me as your exclusive agent and I will tell you". Everyone in the room laughed but Bob didn't say another word. Later that day, the seller called Bob and told him that the Private Family was going to retain JLL to represent them.

In early January of 2019, JLL was retained and the marketing materials were put together. Based upon the Amazon effect, the pricing guidance was going to be $120 million, up significantly from the $80 - $90 million that was estimated to be the pre-Amazon value.

In late January of 2019, the marketing campaign was launched and the property was very well received.

On February 14, 2019 Amazon announced that it was pulling out of the LIC location due to the political pushback it had received. The seller's lottery ticket disappeared. The seller believed that the Amazon withdrawal was a negotiating tactic and needed time to let the reality kick in that they weren't coming back.

The property was removed from the market for a period of time as the third party reports were completed and the seller allowed the dust to settle from the Amazon fallout. During that time, the seller decided that they would not go through the process of getting the variance themselves and would provide all of the information to the buyers and have the buyers assess their chances of getting the variance and being able to build the full 444,000 square feet.

The information obtained from the third party professionals made a very compelling case that the subway tunnel created a hardship. The reports showed that cantilevering over the tunnel would be necessary and over 20 times the amount of concrete normally used would be required. Bob and Jon also conveyed the details of the conversation with the BSA commissioner to the top prospects. A combination of these factors left many of the developers confident that the variance would be obtained and massing the full 444,000 square feet on the site would not be a problem.

A contract of sale was signed with a buyer which provided time for the buyer to get well into the variance process. The contract was not contingent upon getting the variance and there was significant hard money deposited on the contract. The significant hard deposit was critically important as when the pandemic kicked in during March of 2020, many contracts were defaulted on and this transaction was not immune from negative impacts, but with minor modifications, mainly impacting timing, the transaction stayed on track. The transaction closed on September 20, 2021 at a price of $88.5 million.

4)Highlight the distinctive characteristics that qualify the transaction for the award.

Positioning an asset for the market can be just as important, or even more important, than the closing of the transaction. In this case, given all of the complexities and potential obstacles that this site faced, positioning the asset for the market was a key component to getting a great result for the seller. Convincing the seller that JLL was the best choice to represent them based upon track record and, importantly, knowledge of the BSA process and BSA preferences, and using that knowledge to maximum advantage, was the first component that was distinctive. The second was convincing the seller to undertake the extraordinary amount of due diligence that was done which enabled the brokers to make a compelling argument to potential buyers that the zoning variance, that was critical, was likely to be obtained.

Testimonial From "L & S" (The Private Family Seller of the Property)

"Dear Bob,

I am writing to thank you for the outstanding results that you created for my wife and me in connection with the sale of our Long Island City property during the past thirty months - in the midst of one of the most draconian real estate environments in memory.

Our site had two major, but opposing characteristics: a) it benefitted from having arguably the best remaining location in Long Island City, only a block from the 7 train, and a block from the East River with fabulous views of Manhattan; and b) it was challenged because a section of the property was directly above the 7 train tunnel.

You helped us meet the best land-use lawyer in New York, to help us navigate the complex issues involved with the subway, with the potential of obtaining a variance, and the various ways to market our property with maximum effect. No one could imagine the extremely difficult market conditions that ensued right after we signed our agreement with you. Amazon would announce a site only three blocks from ours, as its major new business hub in the eastern United States, and then would retract that decision all within a few months of our going to market. That reversal was greatly compounded by the overarching start of the pandemic in March of 2020 that shut down New York business entirely. You brought us one buyer during the Amazon period, who fell away when Amazon left; then you brought us another buyer who was on the verge of finalizing the PSA when his own real estate properties went into a Covid related tailspin.

In the face of all that, and going through the debilitating experience of having Covid yourself when so little was understood about it, you were undaunted. Each time, you and we had to pick ourselves up and start the marketing process all over again - no small undertaking. One finds out what a person is made of during times of adversity, and you deserve highest praise for your actions. You never wavered, and kept us informed during our weekly meetings about the opportunities that you unearthed during that exceptionally difficult environment, and how to interpret and act upon their multiple nuances.

The third time was a charm. Remarkably during a long and complex negotiating process, you were still able to attract a buyer to pay a record price per square foot of land area. Now the market has changed for the better. New clients should know how good you are in the toughest of times, which informs them of how good you really are. These times as the market is rebounding, are a cakewalk in comparison.

My wife and I are eternally grateful for the professionalism that you and your team consistently demonstrated through this drawn out transaction. The closing is complete. Success is finally at hand. Through all of that, you are now a friend, far beyond the great work that you did for us."

- **L & S, Sellers - 2-33 50th Avenue**