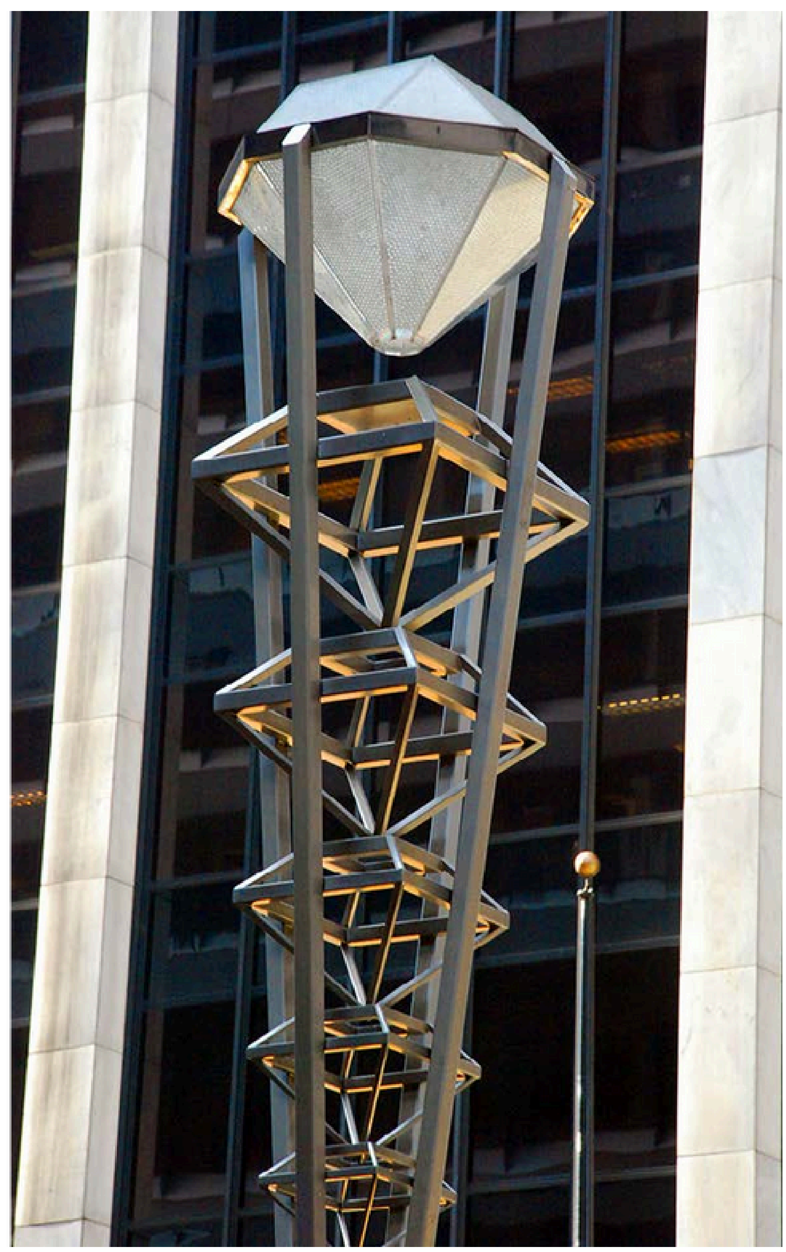
2009

26 West 47th Street



Submission to Sales Brokers Committee of the Real Estate Board of New York 2009 Most Ingenious Deal of the Year Award

THE SALE OF

26 West 47 th street

NeW York, NY

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

The ingenious aspect of this transaction was conceptualizing and utilizing a clever, cunning and imaginative solution to create motivation in a buyer who, while being the obvious choice, knew he was paying significantly more than anyone else. This tactic was conceptualized by Robert Knakal who implemented the tactic and the entire transaction side-by-side with Jonathan Hageman.

2) Briefly summarize the transaction.

The transaction consisted of the sale of a seven story office building which had it's air rights stripped off. The building, therefore, while in a high density zoning district, could only be sold to an investor or a user- buyer. The property was encumbered by a blanket mortgage and the lender set a very high release price forcing us to achieve atmospheric pricing in order to allow this transaction to move forward. We had an obvious buyer in hand (the retail tenant in the property) but that buyer was aware of the level of other offers and was dragging their feet for months after a contract had been sent to them. We needed to devise a strategy to induce the buyer to sign the contract and put up a substantial deposit while they knew they were paying significantly more than any one else would pay for the property (or at least so they thought, up to the point where the creative tactic came into play). Creating this incentive and motivation was the key to getting this transaction closed at the required price.

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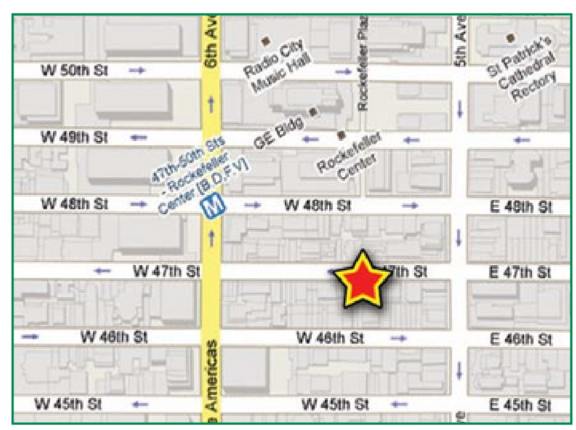
3) Describe the relevant parts of the process from your initial involvement to the consummation of the deal.



26 West 47th Street is a twenty foot-wide, seven story office building containing a total of 11,410 square feet. The building was 90 percent occupied by nine office tenants and a jewelry retailer on the ground floor. Based upon the zoning district, the property initially had 12,691 square feet of development rights above the existing building. The property is situated on the South side of West 47th Street between 5th and 6th Avenue on a street commonly referred to as "Diamond Way." Nearly all retail and office tenants on the block are in or related to the diamond and jewelry business. This street is truly a market unto itself as almost all the participants in the district not only know each other personally, but are also intimately familiar with each other's businesses

Massey Knakal's initial involvement with the property began in early 2007 when we were approached by the attorney for the Skrill Family which wished to sell this property along with another one of their holdings on West 46th Street. At the time they asked us to analyze the property we were aware that Extell Development was assembling many properties on the block for the construction of their Diamond Tower development (This is scheduled to be a 885,000 square foot commercial condominium building). Taking this into consideration, we knew we had to analyze the property from a

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development perspective in addition to looking at it as an investment property and a potential user property.

Diamond Tower Development Site

Knowing that Extell would likely be the buyer, we assumed we would have to obtain some credible bids from users in order to achieve the highest possible price from Extell. We were able to procure two user buyers who pushed the bidding on the property and Extell ultimately prevailed with a $16 million dollar offer which closed on September 18, 2007. This price was approximately $1400 per square foot for the existing building, $664 per buildable square foot and, based on the property's income, was a 2.32% capitalization rate. From any perspective it was a very aggressive price.

We had discovered that Extell needed the property to serve as a conduit to transfer air-rights from the east, through the property. The amount of air that was going to be transferred through number 26 was undetermined at the time, therefore, it was impossible empirically calculate the value to Extell of this conduit role.

Fast forward to 2009: By the beginning of last year, Extell had completed the acquisition of all the properties that it could assemble for it's Diamond Tower development. There were three properties that they considered "excess real estate" from which Extell had stripped air-rights and could not incorporate the land under the three buildings into the plot for the Diamond Tower. We were approached by Extell at the beginning of 2009 to provide valuations and marketing proposals on three assets: 31 West 46th Street, 33 West 46th Street and 26 West 47th Street.

As is normally the case, and was here, the valuations we arrived at did not meet the seller's expectations. Notwithstanding this difference of opinion, we convinced Extell that we could maximize the sales prices and we were retained exclusively to market the three properties.

(While not part of this submission, it should be noted that in 2009 we did close on the sale of 31 West 46th Street for $2.85 million and also closed on the sale of 33 West 46th Street $11 million. These were relatively straight forward sales.)

The marketing of 26 West 47th Street was more difficult. It was challenging due to the

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very unique nature of West 47th Street between Fifth and Sixth Avenues. Almost everyone in the Diamond District knows each other and gossip seems to be a favored pastime. I became acutely aware of this fact when I sold the Gotham Book Mart building at 41 West 47th Street several years ago.

At that time, the Book Mart building was one of the few buildings on the block that did not contain jewelry or jewelry-related tenants. We received over 50 offers for that property and, given the tremendous level of interest, decided to have third round bids delivered in a sealed bid fashion. We did this because people seemed to be aware of what everyone else was offering and whenever they would say to us, "I understand Mr. X. is going to offer $4 million, so I will offer $4.1," they were almost always correct. We had initially suspected a leak from an employee at the book mart who may have been telling people what the bids were (the seller's preferred method of receiving offers was via fax). We though the sealed bid nature of the third round of bidding would eliminate this problem. On the day that the final round of sealed bids were due, the owner of the building went to Berger's Deli (a 47th Street institution) for lunch and as he was paying his check the cashier said to him, "Mr. Brown, I understand that your bids are due today and that your high bid is going to be $5.5 million." Sure enough, even though the bids were not due until 5pm, the two high bids were both $5.5 million. I bring this up only to describe how incestuous business dealings on the block are.

So, when it came to marketing 26 West 47th Street, we knew that we had a difficult task in terms of trying to keep information relatively discreet about bidding activity. We went out to the entire market and initially identified the retailer in the ground floor (R&R Jewelers) as a logical buyer. As the property was stripped of its development rights, the buyer would either have to be an investor purchasing the property for cash flow or a user who could potentially use the ground floor of the property.

Diamond Tower rendering

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Shortly after Extell bought the property in 2009, they signed a five-year lease with R&R. At the time the lease was signed, Extell did not know whether they would be able to successfully acquire enough properties to incorporate the land under 26 West 47th Street into their development site. So they negotiated a 4 month termination clause in the lease. This gave us the ability to offer the property to user buyers who could exercise the termination provision and take over the ground floor space. It also placed R&R in the difficult position of potentially having to move within 120 days.

We went to the market with a $10 million dollar asking price and, as expected, most of the offers were in the $6 million range with the top offers maxing out at $7 million. At this point, the property showed a net income, with projections for some vacant space, of $422,000. At our $10 million dollar asking price, the cap rate was only 4.22%. Based upon this relatively low cap, we were not surprised that offers were in the $6 to $7 million dollar range.

Considering that the market for similar properties in the area (but not on the block) were selling for about $300-$350 per square foot, we felt that our offers at $550-$675 per square foot were inclusive of a premium for the 47th Street location. The retail tenant expressed interest in the property and made an initial offer of $6 million dollars. This was eventually negotiated up to $9 million and Extell agreed to send R&R a contract of sale.

This was when the fun really began.

After the contract was delivered to R&R's attorney, we didn't hear back from R&R or their attorney for three weeks. In a yet another follow-up call to R&R, they indicated that they knew that the next highest bid we had was $7 million and why should they pay $9 million? We again indicated that $9 million was the bottom line and that the seller indicated they would not sell

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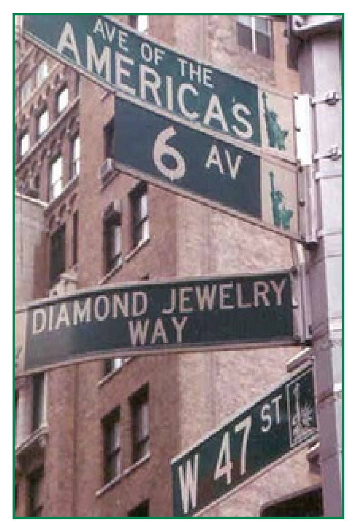
for anything less than that. We also had a constraint in that, the financing for the property was via a blanket mortgage on many of Extell's properties on the block. The release price that the bank established for the asset was $8 million, so we knew that if we did not achieve a price at that level or above, we would likely not be able to sell the property. We simply had to make a deal with this user. Six more weeks went by with little movement from R&R other than a few superficial calls from their attorney to Extell's attorney going over some contract points but they were clearly moving in a half-hearted way.

So these were the circumstances we were facing: 1) We needed to sell the property for at least $8 million and did not have any other buyers at or above that price level, 2) We had a user buyer who thought he knew that the next highest bid was $7 million (this was indeed the level of the 2nd place bid), 3) We had very little leverage other than to threaten to not sell the property to the buyer if he wouldn't pay the $9 million dollar price, 4) We also had very little tour activity at the property because many of the potential buyers were familiar with the property as they had done business with tenants in the building. For this reason, the owner of R&R (who was in the store most of the time) was aware that people were not coming to look at the building.



Somehow we had to convince him that there was a chance that another buyer would pay a higher price than he was willing to pay. After over two months of getting nowhere with the contract out to R&R, we decided it was time to take action.

One afternoon, my Sales Team Manager, Jon Hageman, walks into R&R and says to the owner, "I am here to meet 'the buyer', did he show up yet?" The tenant had a very puzzled expression on his face.

Enter: Elli, "The King of Broadway."

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Elli, "The King of Broadway"

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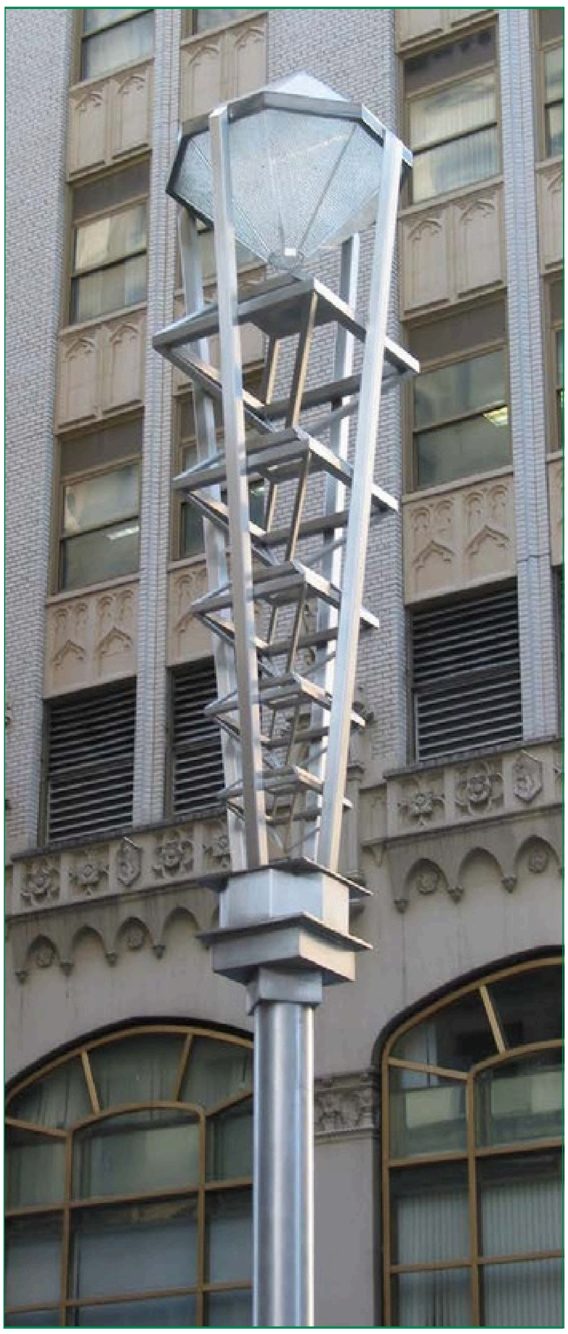

The definition of "ingenious" includes being characterized by originality or resourcefulness. We needed to induce the tenant to execute the contract of sale without **lying or telling an untruth**. This <u>was an extremely important</u> component of our thought process. We needed to create the impression that there was significant other interest in the property and that there was a buyer willing to outbid R&R.

To create that impression, I had my assistant, Erin Mitchell, get on the internet to Google "Actors – New York City."

Yes, Elli, the self-proclaimed "King of Broadway" is a character actor that was obtained online. His list of roles is extensive having been on shows like *The Sopranos* and many other well known T.V. shows, movies and Broadway plays (A copy of his resume is at the back of this submission). Clearly, from the picture on the previous page, you see that Elli looks very much like he could be a jeweler on 47th Street. He was, however, a "jeweler" that no one on the block knew.

Jonathan and I arranged to meet Elli at the southwest corner of 47th Street and Fifth Avenue at 3 p.m. one afternoon, knowing that the owner of R&R would be in the store. We explained to Elli what the circumstances were and that we simply needed him to go into the space on the ground floor, walk around and act as if it was the perfect space for his jewelry business.

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Jonathan went into the space alone at first and asked if the "buyer" had shown up yet. He then came outside and the three of us entered the store. As we entered the space, the owner of R&R immediately called me over to speak with him. Clearly, the tenant was disturbed. He said to me, "What is going on here? I have a deal with Extell and I am buying the building."

I told the tenant that, as far as we were concerned, we didn't think he was sincere and that we were going to have to "move in another direction." I explained that the contract had been out to him for over two months and his responses were not indicative of a serious buyer. He was obviously agitated and then Elli went into a wonderful performance of inspecting every square foot of the ground floor exclaiming that his watches would look great over here and he would put his engagement rings over there and, all the while, nodding his head with an ear to ear grin on his face. "This is perfect for me," he said. He then turns to me and says, "You're sure the asking price is only $10 million?" It was absolutely perfect.

After a few minutes of looking at the space, Jonathan, Elli and I went out in front of the building and stood on the sidewalk looking up at the façade. Elli was pointing to different parts of the front of the building showing where he would put his signage etc. We could see the tenant through the front window. As soon as we left the space, he was on the phone, I'm sure either calling Extell or his attorney. The next day the contract was executed and a $2 million contract deposit was delivered.

The transaction closed in December of 2009. We accomplished our objectives without lying and without telling any untruth. We simply created an illusion that produced tremendous motivation for a buyer to act. A $200 dollar investment in an actor produced a $9 million transaction. Long live "The King of Broadway."

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

If you go to a thesaurus and look up "ingenious," you see a list of words that include: imaginative, resourceful, cunning, skillful, shrewd, sly, original, crafty, clever and innovative. While not a tactic we have ever used before, it was exactly what we needed to get the sale closed. We hope you think this conceived strategy lives up to the words above.


DIAMOND JEWELRY
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