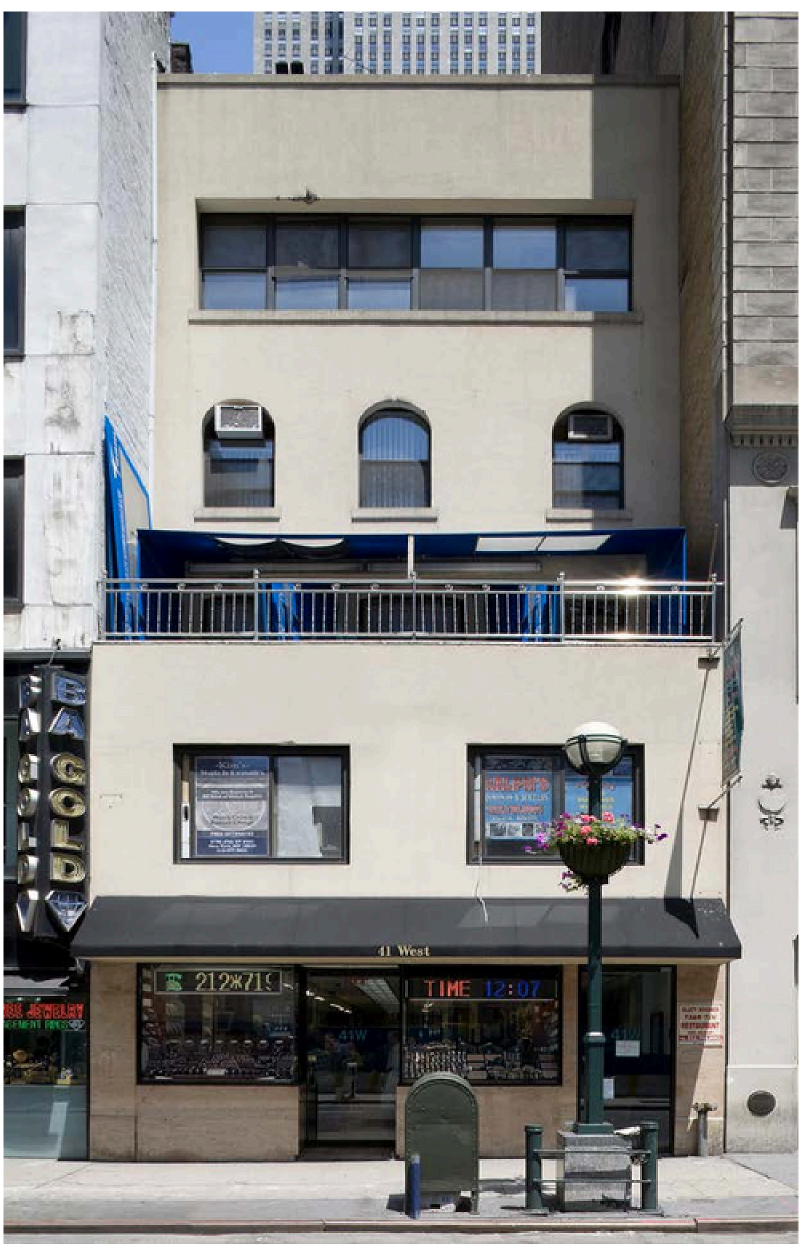
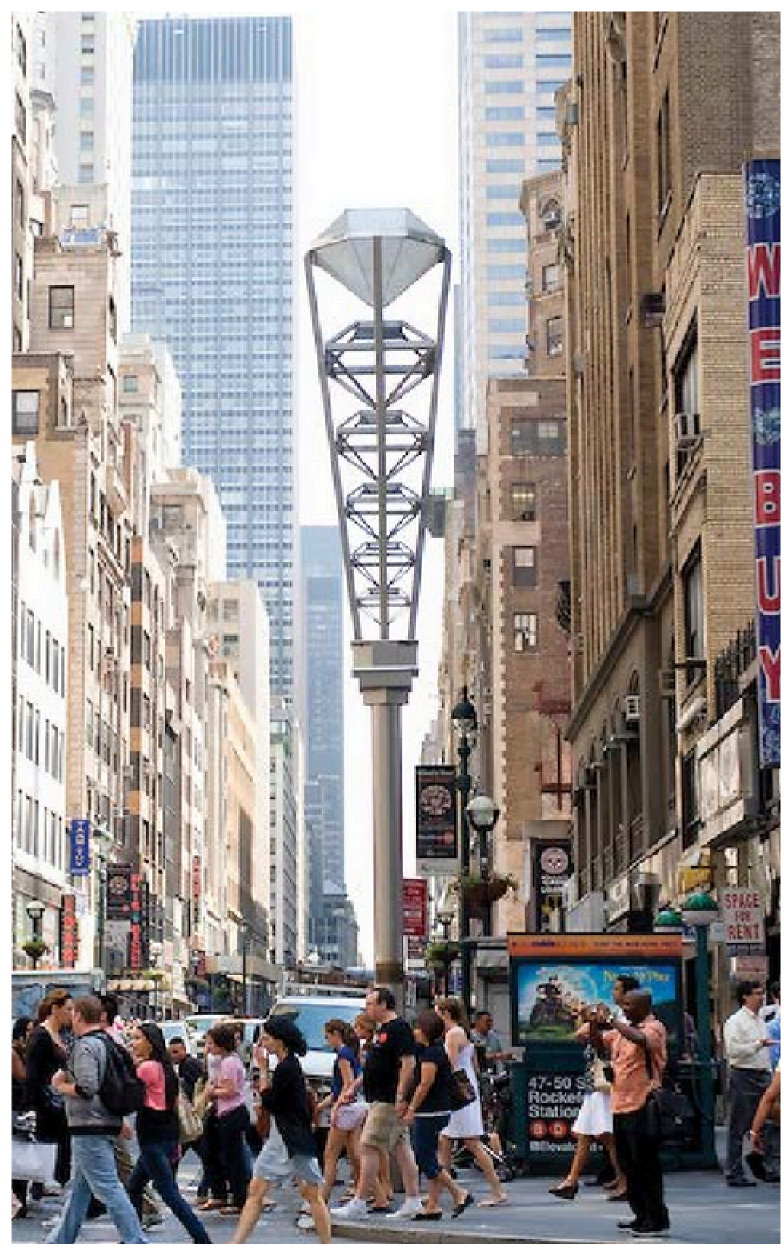
2003 Winner

41 West 47th Street aka Gotham Book Mart





Robert T. Lawrence
Memorial Award
2003

The Sales Brokers Committee of
The Real Estate Board
of New York Inc.
extends hearty felicitations to

Robert A. Knakal

On successfully negotiating the realty transaction that has been deemed worthy of recognition by five distinguished judges.

For his outstanding achievement in a field of keen competition and demonstrated ability in overcoming problems involved with the

THE SALE OF THE GOTHAM BOOK MART
41 WEST 47TH STREET · NEW YORK · NY

The winner has displayed a level of ingenuity, perseverance and professionalism, that sets an admirable standard for fellow Brokers and Salespersons, and has benefited both the real estate market and brokerage practice in New York City.

April 15, 2004

Judges of Award

Sales Brokers Committee
The Real Estate Board of New York, Inc.

Chairman

SUBMISSION TO SALES BROKERS
COMMITTEE OF THE REAL
ESTATE BOARD OF NEW YORK
2003 MOST INGENIOUS
DEAL OF THE YEAR AWARD

PROPERTY ADDRESS: 41 WEST 47TH STREET
AKA GOTHAM BOOK MART

SUBMITTED BY: ROBERT A. KNAKAL
CHAIRMAN
MASSEY KNAKAL REALTY SERVICES
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MASSEY KNAKAL Realty Services

2003 Most Ingenious Deal of the Year Award

SUBMISSION TO SALES BROKERS COMMITTEE OF THE REAL ESTATE BOARD OF NEW YORK 2003 MOST INGENIOUS DEAL OF THE YEAR AWARD

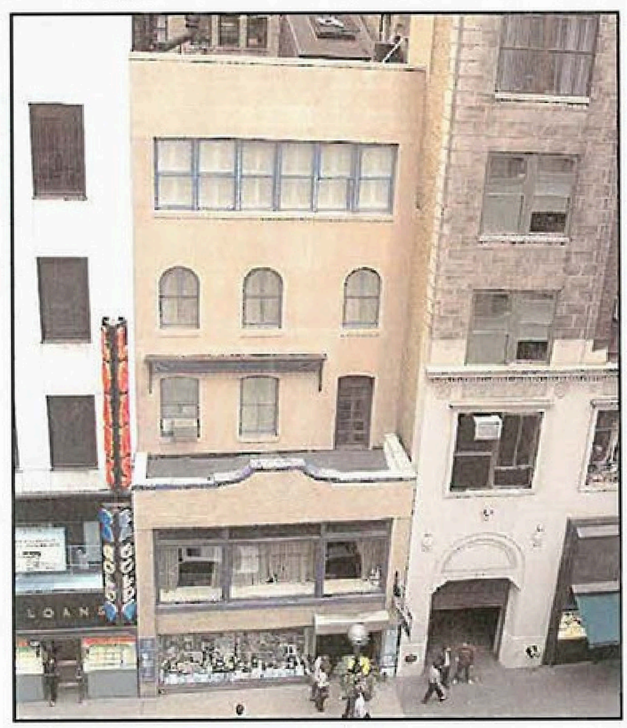
**THE SALE OF THE:
GOTHAM BOOK MART
41 WEST 47TH STREET
NEW YORK, NEW YORK**

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

The ingenious aspect of this transaction was the conception and implementation of a negotiating strategy that established leverage for the seller and brought a sale price from a "highest, best and final" high bid of $5,500,000 to $7,200,000, a 31% increase. The strategy was necessitated by the indiscrete nature of the prospects bidding on the transaction. Robert A. Knakal conceived the strategy and implemented it.

2) Briefly summarize the transaction.

This transaction consisted of the sale of the Gotham Book Mart building located at 41 West 47th Street in Manhattan. The building is a five story, 25 foot wide, 9,000 square foot walk-up building located in the heart of the Jewelry District on 47th Street between Fifth and Sixth Avenues. The building was occupied entirely by the Book Mart and could have been delivered vacant at the time of sale. It is one of the few non-jewelry buildings on the block. The building was zoned C6-4.5 which carries a 12 FAR with it which would allow for approximately 30,000 buildable square feet. A lack of arms-length data for this particular sub-market's comparable sales made valuing the property very difficult. Given the uniqueness of this particular block, aggressive assumptions were made



in our analysis and while the majority of those in the brokerage industry felt the building had a value in the $5,000,000 range (as did the owner) we were able to achieve a significantly higher price by virtue of the strategy implemented.

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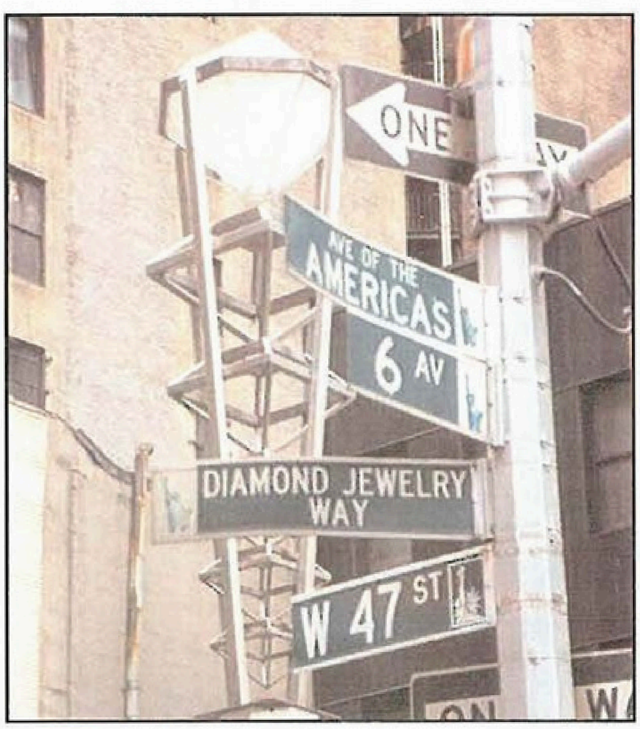
3) Describe the relevant parts of the process from your initial involvement to the consummation of the deal.

GOTHAM BOOK MART BACKGROUND

This transaction involves the sale of the Gotham Book Mart Headquarters at 41 West 47th Street. The building was of one of the few buildings on 47th Street between Fifth and Sixth Avenues that was not home to a jeweler or jewelry related tenant. Founded in 1920 by Frances Steloff, the Gotham Book Mart is the quintessential little book shop around the cor-



ner. In 1946, Mrs. Steloff purchased 41 West 47th Street from Columbia University for $65,000. Since its inception, the Gotham Book Mart has been a rich repository of literature, a place to locate new, old and out of print books, particularly fiction and poetry works by contemporary writers. In 1967 a clerk (Mr. Andreas Brown) at the Gotham Book Mart purchased the book shop from Mrs. Steloff as she was preparing to retire. Twenty years later, in 1987, Mr. Brown purchased the building from Mrs. Steloff for $1,000,000. After Mrs. Steloff died in 1989 at 101 years of age, Mr. Brown recalled that when he bought the book shop she told him "You are not the owner. You are the caretaker, the custodian". Given the longstanding history Mr. Brown had with the property, it was a painful realization that the building would have to be sold. Real estate taxes, insurance and other operating costs continued to climb, a hard money loan was obtained, and Gotham's business, while brisk for it's industry, would not support the costs associated with the operation of the building. In 1993 Mr. Brown converted the ownership entity from a C-Corporation to an S-Corporation which would enable him to sell the building with less tax exposure after the necessary ten year waiting period.

THE CAT WAS OUT OF THE BAG FAR TOO EARLY

Unfortunately, In 1993, Mr. Brown started to let people know he would be selling the building in 2003, after the S-Corp benefits

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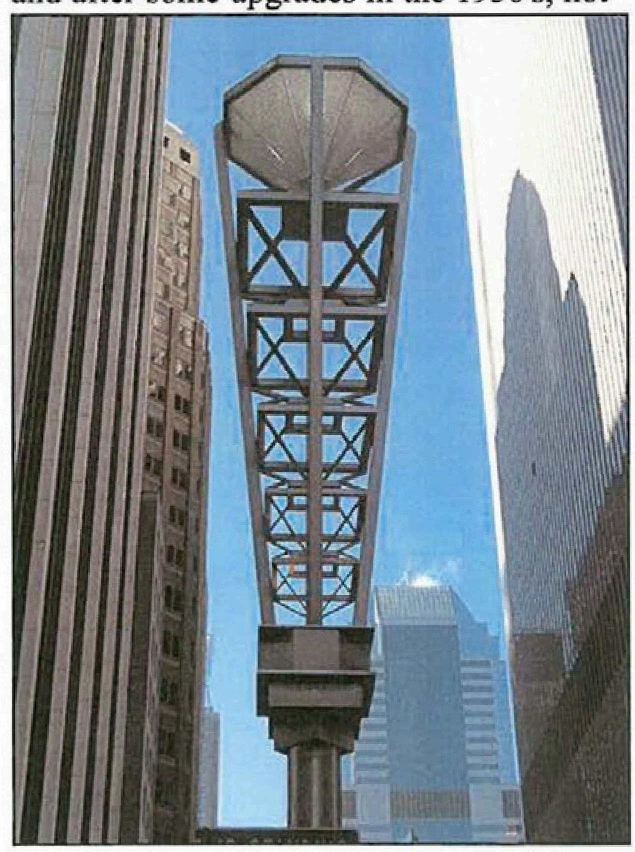
kicked in. For years he had potential purchasers coming into the shop trying to negotiate the sale of the property. Mr. Brown always told people to come back to him in 2003 but it did not dissuade potential buyers from repeatedly entering the shop. Given the nature of the potential purchasers, they tried to induce Mr. Brown to sell, before the S-Corp benefits kicked in, on a "tax advantaged" basis by paying with gold, diamonds, precious gems or cash in an overseas account. Naturally, Mr. Brown had no interest in this type of transaction. Given his strict dedication to his trade and the fact that his response to most people inquiring about the building was "I just sell books, leave me alone", Mr. Brown realized that he needed representation to deal with the onslaught of bidders that were sure to arrive. Massey Knakal's Chairman, Robert Knakal met with Mr. Brown and his attorney to discuss property value and marketing strategy in early 2001.

DIFFICULTIES WITH THE PROPERTY

While well located, the building itself was in very poor condition. To enter the retail space you have to step down two steps thus reducing its value. Some purchasers looked at the feasibility of raising the floor to be at grade but the low ceiling heights would not permit this without raising the second floor also. The upper floors of the building were historically used as a combination of residential and commercial by the owners. Therefore, it was one of the few buildings on the block that did not have an elevator. The structure was built in 1910 and after some upgrades in the 1950's, not



much had been done to the property. A gut rehabilitation would clearly be needed. These physical liabilities did not bode well for the value of the property.

DIFFICULTY WITH COMPARABLES

Because many of the transactions which occur on this block involve payments in forms other than recordable cash, it was very difficult to look at comparable sales to

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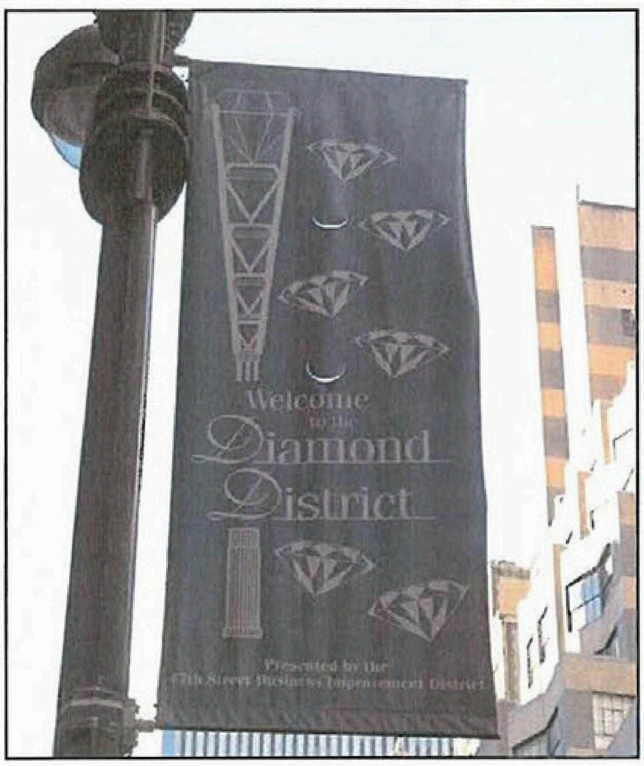
determine the value of the property. Moreover, sales occurring one block north, one block south, one block east or one block west were of no consequence as the subject block truly is a market unto itself. Using an income approach to value, a development approach to value and primarily a gut feel, our opinion of value report to Mr. Brown indicated the property was



worth $7,000,000. He had received two valuations from other brokers, both of which determined the value was in the $5,000,000 range. Mr. Brown was, at first, skeptical as our valuation of over $775 per square foot was something that he did not believe was achievable. The other valuations, at just over $550 per square foot were more in line with general market averages and on a development basis was approximately $166 per buildable foot, a very high but within the ballpark value at that time. We convinced Mr. Brown that our marketing strategy would produce a significantly high number of offers to ensure that a top of the market value was obtained. Part of this strategy was to physically visit and deliver marketing materials to every jewelry business or jewelry related business within a two block radius of the property. Mr. Brown liked the marketing strategy and retained Massey Knakal exclusively to represent him. Our asking price was $7,900,000.

RESISTANCE TO OUR PRICING

The marketing of the property met with significant demand from the purchasing community however, we were maligned for asking $7,900,000 for a 9,000 square foot walk-up building in poor condition. The front page of Real Estate Weekly quoted Richard Bronsky of Brown Harris Stevens as saying "I'd say the owner could get $4,500,000 for this building". The article went on to quote Gene Meer of NAI Lawrence Group as saying "I could see the owner selling this building for $5,000,000, his timing might be off since the market is so flat right now". The cover story in the Diamond District News quoted the owner of a popular jewelry exchange as "expecting the final deal will not be much higher than $5,000,000". Given the unique char-

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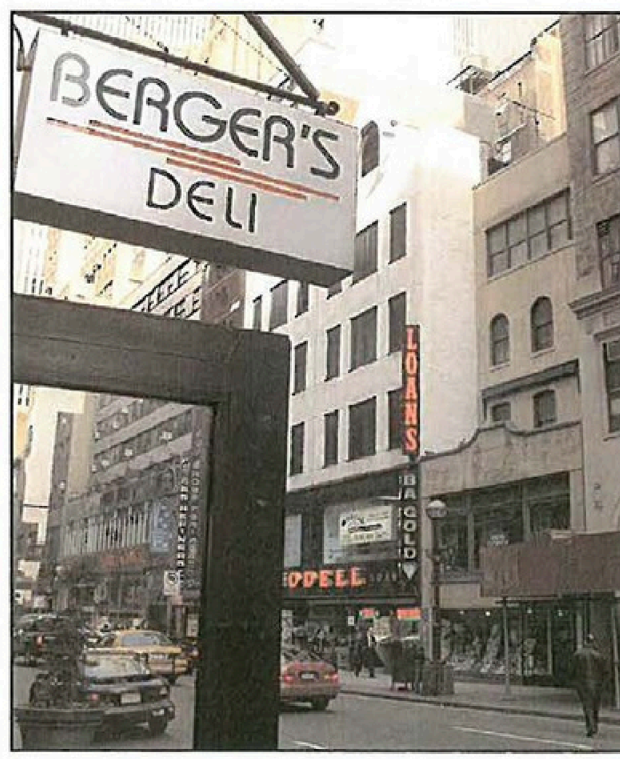
acteristics of the property and our strategy of hand delivering marketing packages (247 to jewelry and jewelry related businesses in the area) we obtained 114 offers for this property during the marketing campaign.

EVERYONE KNOWS EVERYTHING

Curiously, most prospects who were bidding seemed to be aware of what other prospects were bidding. We suspected that bidders were having brothers, cousins and other shills bid on the property a few hundred thousand dollars below where they were bidding to make their bids look better. Remarkably, all of the top prospects were aware of what other top prospects were bidding for the property. It wouldn't be unusual to have "Mr. Smith" call and say "I know "Mr. Jones" offered $4,500,000 so I will offer $4,600,000". The amazing thing was that "Mr. Smith" was almost always right about what "Mr. Jones" had bid. At the conclusion of our first phase of marketing, the 114 bids produced a high bid of $5,000,000. At this point Mr. Brown was intent on getting the $7,000,000 that we had promised and was feeling a little uneasy as all of his relocation options were analyzed assuming a $7,000,000 price would be obtained. We decided to implement the strategy of calling for "final, best and highest bids" from the top 15 potential purchasers. When the final bids came in, there were two offers at $5,500,000 and a few offers just beneath this level. One of the $5,500,000 bids was from the neighbor who consistently throughout the marketing period told us that no one would ever pay more than his $5,000,000 offer for the property.

DON'T TALK TOO LOUDLY AT THE DELI

The day final bids were due Mr. Brown went to the Bergers Deli, across the street from the building, for lunch and the cashier at the deli told him that he understood that



the high offer he was going to receive was $5,500,000. Everyone on the street was talking about this transaction and everyone seemed to know what was going on. Mr.

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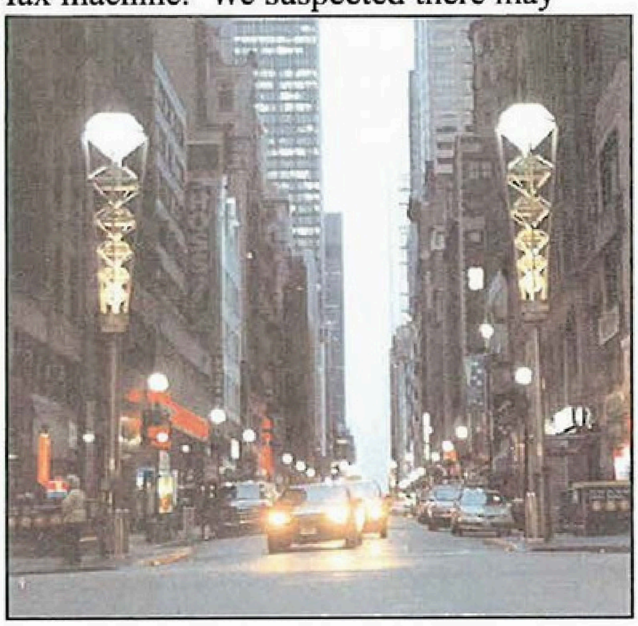
Brown, distraught by having the cashier disclose what offer he was about to receive (and actually did receive two hours later) requested that all correspondence between Massey Knakal and his office be via hand delivery only. We were no longer to use the fax machine. We suspected there may



have been a mole working in the bookstore. Based on the "incentives" that were offered directly to Mr. Brown and me, we believed that workers in the bookshop may have been approached about an incentive to relay information regarding the status of the transaction. On three occasions when I was meeting with potential buyers, I was offered a "bonus" if I could swing the deal to them. The bonuses consisted of a five carat diamond, $100,000 in cash and gold bars. Upon each offer, I relayed the conversations to Mr. Brown, who laughed and commented that that particular party had made similar offers to him. These offers were made to induce me to let them know exactly what the status of the bidding was.

WHAT TO DO NEXT?

So we were faced with having several offers for the property with everyone seeming to know what everyone else was bidding and very little control over the ability to create a fair, arms length, negotiation. **As the two highest offers were both $5,500,000, we came up with a strategy of going back to all 15 high bidders and telling them that they "were not *the* highest bid", that we were "going to be preparing a contract" and if the deal fell apart, we would get back to them.** With Mr. Brown's cooperation, we then decided not to speak to anyone for two weeks to see what would happen. During this time we instructed Mr. Brown's attorney to start drafting a contract that could ultimately be used for the transaction. During the first week we received no communication from anyone, then on the 8th day I received a call from one of the bidders, whom I informed accurately that "a contract was being prepared". In the days to follow, 9 of the prospects called asking what was going on. It seemed to be driving them crazy that no one in the market knew what was happening and they would ask me directly if so-and-so was the one getting the contract. My only comment to them was that a contract was being prepared and

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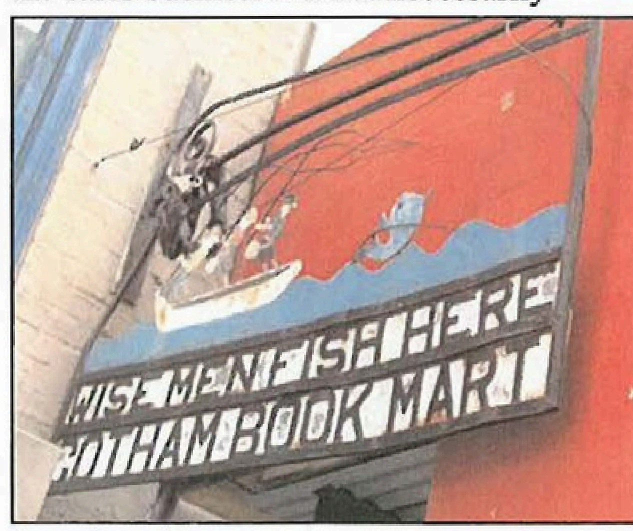
I would let them know if things fell apart. One by one the bidders started to increase the level of their offer saying "If I raise my offer $300,000 or $400,000 would I get a contract"? We met with three different prospects to discuss the situation and in each case told people that we were negotiating with them on a "back-up basis". This strategy seemed to make each of the bidders frantic and with each successive conversation the offers were rising.
Ultimately, we negotiated a transaction with the next door neighbor at $7,200,000. Given the significant amount of leverage that we had, we were able to structure extremely advantageous deal terms for the seller providing him with the ability to stay in the building on essentially a rent-free basis for up to one year post-closing and to take the $1,200,000 contract deposit out of escrow and use the money immediately after contract execution. These funds would allow the Gotham Book Mart to operate, pay off the hard money loan and provide for relocation expenses and other costs to be incurred prior to closing. I believe the strategy used in the final phase of marketing enabled a significant premium to be obtained for the property and allowed us to obtain the proper price level for the building. The funds will allow a great New York institution to stay in business and continue to operate at a new location where their ongoing operation will be secure and permanent.

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

I believe that the reason this transaction qualifies for the award is that in the building sales business there are relatively few concepts that are truly ingenious. Short of coming up with the first cond-op, the first subordinated ground lease or the first air-rights transfer, the things that brokers do in the sales business are not necessarily



ingenious but sometimes are simply a matter of trying to maneuver around obstacles or creating leverage where none exists. In this case, everyone in the market knew that this building was going to be sold and it almost appeared as if the buyers were colluding to have the property trade at a lower than market value. Everyone knew what everyone else was bidding and even people not in the real estate or jewelry industries were aware of who the high bidders were and how much they had placed on the

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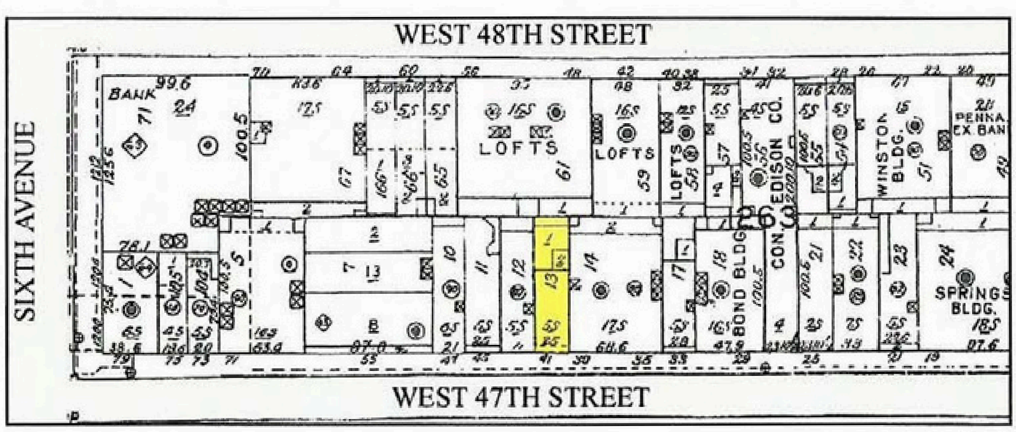
table. Taking a position in which the owner had no leverage and creating a significant amount of leverage for him enabled the transaction to take place at a significantly higher price than would have otherwise been obtained. It also allowed for terms (A $1,200,000 contract deposit (17%), the ability to stay in the property for up to 12 months post-closing on a free rent basis and the release from escrow of the contract deposit) which were significantly better than market averages and enabled a New York institution to continue its operation on a profitable basis.



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41 West
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MATINEE JEWELRY
ENGAGEMENT RINGS
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