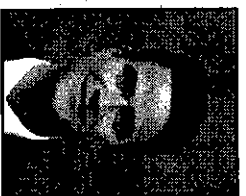


WESTERN PA

By Mike Sell, Grant Street Associates

Selling a distressed PUD is one of the trickiest deals of all



Mike Sell

Expectations are by far the most important characteristic when considering this assignment. For the investor, the expectations are about residential buyers in your market (at completion), the future level of construction costs, and a potential expected IRR. For the principal, the most important consideration is the current mindset; if nervous and emotional, the pricing expectations will most likely be unrealistic.

To give a brief background, the deal in question was a 60% completed, small planned unit development (PUD) in one of the hottest markets in Pittsburgh with sweeping city views that most would pay a premium to have. The units not only had exceptional city views, but they also had good layouts, integral parking in a cramped street parking environment, and the potential to list the units at reasonable prices to accelerate takedown.

The front four-unit structure was built-out, with only interior cosmetic finishes needing completion. The back three-unit structure required complete build-out. Estimated cost to complete the project was anywhere from \$700,000 to \$1 million with a projected per-unit sellout value of approximately \$375,000 to \$450,000.

This had the makings of a great development. Location was there. The site plan was there. And the units were acceptable for the market. Unfortunately, a group of inexperienced, first-time residential homebuilders made some mistakes, forcing completed construction to fall well behind loan draw expectations. To add to this dire situation, the principals wanted out, despite the project being 60 percent completed.

Once the decision to sell was made, there were four main factors that drove the sale prospect, both from the investor and developer mindset. These factors are what need to be considered when choosing a similar assignment, because this combination of scenarios is ultimately what made the campaign unsuccessful.

First, the principals wanted to be made whole in the situation. The construction loan

was almost completely drawn, and a substantial amount of equity was already invested in the deal to secure the construction loan.

Lesson #1: Developers, Contractors, and Wealthy Individuals ("Investors") don't care about the amount of equity in the deal. They care about coming in at the right price to solace the bank when they know the bank is thinking about taking over the real estate. All potential Investors with whom I talked were seriously interested in how much was drawn down on the loan, what the loan amount was and what the terms were (trying

to establish if it was a good as-sumable play, which it clearly wasn't). Once assuming the loan was out of the question, it became an all-cash game for most Investors, and the amount of injected equity was overlooked.

Second, in order to generate interest, I consulted with a residential agent and performed a financial analysis at the top of the values given. The recent sales comparables in the area justified these prices, and despite a small issue with access to the site, I do believe these homes could sell at the \$400,000 mark.

Lesson #2: Investors will always take the conservative route when estimating the sellout value of the finished residential product. These units were to be listed at \$425,000 to \$450,000 and were appraised at \$350,000 to \$385,000. Most Investors looking at this deal valued the units at \$300,000 or slightly lower, with high carry cost line items because of the residential market and high marketing costs.

Third, most residential developers and contractors who displayed interest wanted, at the very least, a 25 percent return for a project this risky. The asking price for the development, at the very best case takedown scenario, would warrant a 15 percent return. All of the developers balked at the asking price.

Lesson #3: Given merchant building, where the IRS taxes profits as ordinary income and not as capital gains, Investors would expect a 25% return at a minimum. This makes sense because the construction was only 60% complete, and it was somebody else's work and, thus, somebody else's mess. Additionally, each developer stated that they have their own conforming ways of building and developing;

continued on page 18C

Announcing

<p>\$2,150,000 Four Dollar General Stores - 37,113 SF Upsate New York</p>	<p>\$9,500,000 Tribune Building Office Glens Falls, NY</p>	<p>\$10,000,000 Hoyoke Park Apts 720 Units Greene, NY</p>
<p>\$6,000,000 Summit FCU Building - Office Latham, NY</p>		

NORTHMARK

Integrated Capital Market Solutions

DEBT
EQUITY
INVESTMENT SALES

www.northmarq.com

Upstate New York Regional Office
1800 One HSBC Plaza • Rochester, NY 14604 • 585.262.2100
Sam Berns • Michael James • Scott DeVinney • Nancy Vanlseghem • Tim White

WESTERN PA

Jones, Gregg, Creehan & Gerace, LLP renews lease CBRE completes lease at The Chamber of Commerce bldg.



PITTSBURGH, PA — Jones, Gregg, Creehan & Gerace, LLP, a Downtown law firm, has renewed their lease under long-term arrangement for 12,500 s/f at the Chamber of Commerce Building at 411 Seventh Ave. This announcement follows the recent engagement of CB Richard Ellis to market the available space for new tenants as well as negotiate renewals on behalf of 411 Seventh Ave.

Associates, LP, who acquired the 330,000 s/f property in late 2007. The long-term lease extension is expected to further solidify the building's tenancy. Duquesne Light is the anchor tenant. Jeremy Kroman, executive VP and Andrew Miller, associate, of CB Richard Ellis negotiated the lease on behalf of the landlord. Since its founding in 1962, Jones, Gregg, Creehan & Gerace, LLP has exemplified excellence in litigation, transactional work, and business planning. They provide comprehensive, high quality legal services at an affordable cost to public and private

corporations, the insurance industry, financial institutions and individuals.

CB Richard Ellis announced locally that one of their Pittsburgh commercial real estate brokers has been recognized nationally as one of the top 5 in the United States. Jeremy Kroman, executive VP of CB Richard Ellis was recognized in the June issue of the national Real Estate Forum magazine as one of the top 5 commercial real estate brokers in the United States. With transactions for over 1.7 million s/f, the aggregate value of those deals was in excess of \$430 million. Included in those transactions was the Westinghouse Global Headquarters lease at Cranberry Woods, which was also recognized by Globe Street as the largest office lease in the country last year, and by the Pittsburgh Business Times as the #1 transaction in Pittsburgh in 2007.

Jack Norris, Pittsburgh managing director for CBRE, said, "CB Richard Ellis has attained a dominant position in overall Pittsburgh market share of landlord office buildings, with responsibility for over 12 million s/f of representation."

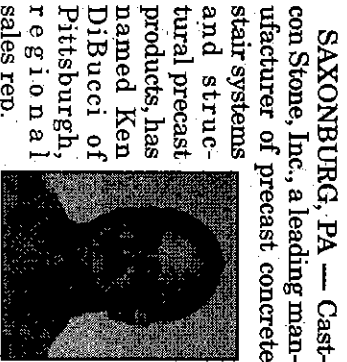
In addition to the Westinghouse deals, the Kroman

honor was awarded based upon the other 1 million s/f of transactions Kroman and his team closed in Pittsburgh in 2007 achieving an overall average occupancy level of 95% for the Commerce Court office building, National City Center office building, 564 Forbes office building, #4 Smithfield Street office building, ONS Building and 2000 Park Lane office buildings.

Kroman said, "This is one of the top 3 office markets in the United States in terms of forecasted growth in office rents thru 2009, according to CBRE Toro Wheaton Research. We have demand matching or pushing the supply, and a strong diversified employment base. While locally Pittsburghers are always aware of it, this City is the envy of a lot of other markets around the country!"

He also said, "of course we are flattered by the recognition, but I am part of one of the hardest working teams in Pittsburgh, and fortunate to work with such dedicated and skilled professionals as Dan Slinger, Andrew Miller, and Theresa Fabrizi. Combine that with the CB Richard Ellis global platform, and we will continue to strive to exceed our client's expectations." ■

Castcon Stone, Inc. adds Ken DiBucci and Case Donchez to sales team



SAXONBURG, PA — Castcon Stone, Inc., a leading manufacturer of precast concrete stair systems and structural precast products, has named Ken DiBucci of Pittsburgh, regional sales rep.

In this role, Ken DiBucci will be responsible for selling Castcon precast stair and landing systems in the Midwest region. His territory will include Western PA, West VA, OH, MI, IN, IL, MO, KY and TN. DiBucci brings more than 20 years of sales experience to the company and looks forward to helping facilitate Castcon's growth strategies.

For more than ten years, DiBucci was a partner in Tom DiBucci Concrete, a cast-in-place concrete company ser-



ving Western PA. He also worked as a territory manager for Klingspor Abrasives, Inc. located in Hickory, NC. DiBucci holds a bachelor's degree in Communications from the University of Pittsburgh.

Case Donchez President and CEO of Castcon Stone, Inc., Laura Huch-Kerckhoff said, "We are really pleased to welcome Ken to our team. He brings the kind of sales experience and knowledge of concrete and the building industry that will help us grow and pursue new opportunities."

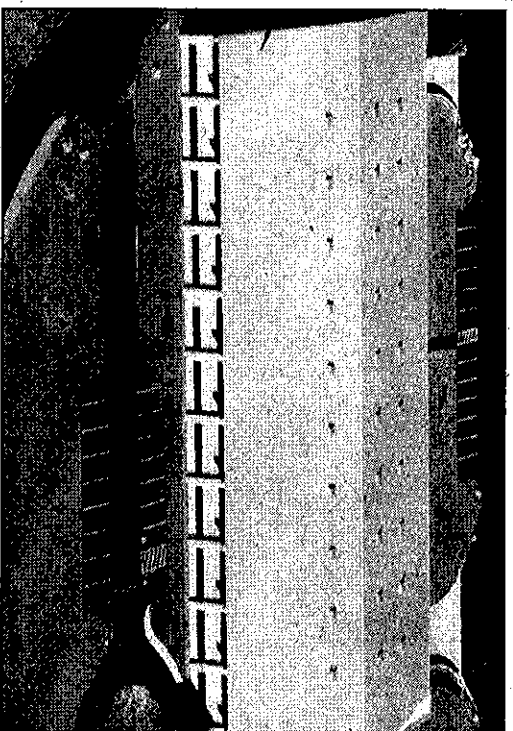
In addition, Case Donchez has joined the sales team of Castcon Stone, Inc. In this role, Donchez is responsible for selling Castcon precast

stair and landing systems in the Mid-Atlantic region. His territory includes Eastern PA, NYC, NJ, DE, MD, Washington DC, and VA.

Prior to joining Castcon Stone, Donchez has held various sales positions in the biotechnology market. His most recent position was a laboratory safety equipment sales specialist with Thermo Fisher Scientific in Pittsburgh. Donchez holds a bachelor's degree in Organismal Biology from Denison University in Granville, OH.

According to Laura Huch-Kerckhoff, president and CEO of Castcon Stone, Inc., "Case is extremely detail oriented and has the ability to be consultative with contractors. He is able to help them understand the benefit and value of using precast concrete and we are very happy to have him on board." ■

Bilyak & Adams rep Matamatic in transaction
NAI Pittsburgh Comm'l rep
seller of 45,000 s/f ind. bldg.

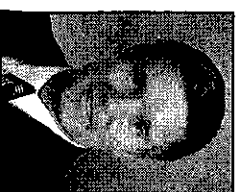


230 Westech Dr.

MT PLEASANT, PA — NAI Pittsburgh Commercial announced the sale of a 45,000 s/f light industrial building at 230 Westech Dr. John Bilyak, director of industrial brokerage and Jeffrey Adams, associate, of NAI Pittsburgh Commercial, represented the seller, Matamatic, Inc., in this transaction.



John Bilyak



Jeffrey Adams

The Buyer was 80sTelcom, Inc., which is currently located in North Hurlingham. "We are excited to bring this to a complete transaction and are confident that the buyer will be thrilled with the new location," said John Bilyak of NAI Pittsburgh Commercial. ■

Selling a distressed PUD is one of the trickiest deals of all...

continued from page 11C
and it would be very difficult to remedy the mistakes and adapt their style to the completed portions of the project. This only further devalued each Investor's bid estimates. The sidebar to the right shows a quick analysis that was provided by an interested Investor.

And fourth, given the state of the market, most Investors were extremely pessimistic about the sale prospects. For an asking price of \$1.75 million, most were willing to offer \$650,000 to \$800,000, which is less than half of what the principals were hoping to get. Of course, the asking price was very unrealistic, but it was quite an eye-opening experience to see interest at that level and that level only.

Lesson #4: Distressed real estate acquisition and development is a skinning game. Investors will take their shots because they can smell the blood in the water, and they want guaranteed money for the added risk they are taking. It's unfortunate because the principals are usually in trouble and the potential buyers know this,

thereby lowering their offer. One word: Capitalism.

In conclusion, if you have distressed PUD with a ration principal, the assignment can be extremely rewarding. When a principal understands the situation and is willing to take a loss to get the property sold you are starting with a great foundation to help all participants. In the end, a successful campaign can prove to be genuine humanitarian. On the opposite of the coin, situations like these can be devastating. Individuals, especially when loans are fully guaranteed, you walk into the assignment with an already emotion and unrealistic principal that is not reasoning correctly. You will find yourself to be nothing more than a mouse on a wheel. This is what makes a distressed PUD one of the trickiest executions in brokerage.

Mike Sell is an investment sales associate with Grant Street Associates, a C&E Alliance Member Firm in Pittsburgh, PA. He holds the Series 7 and 63 licenses and is a candidate for the CCIM designation. ■