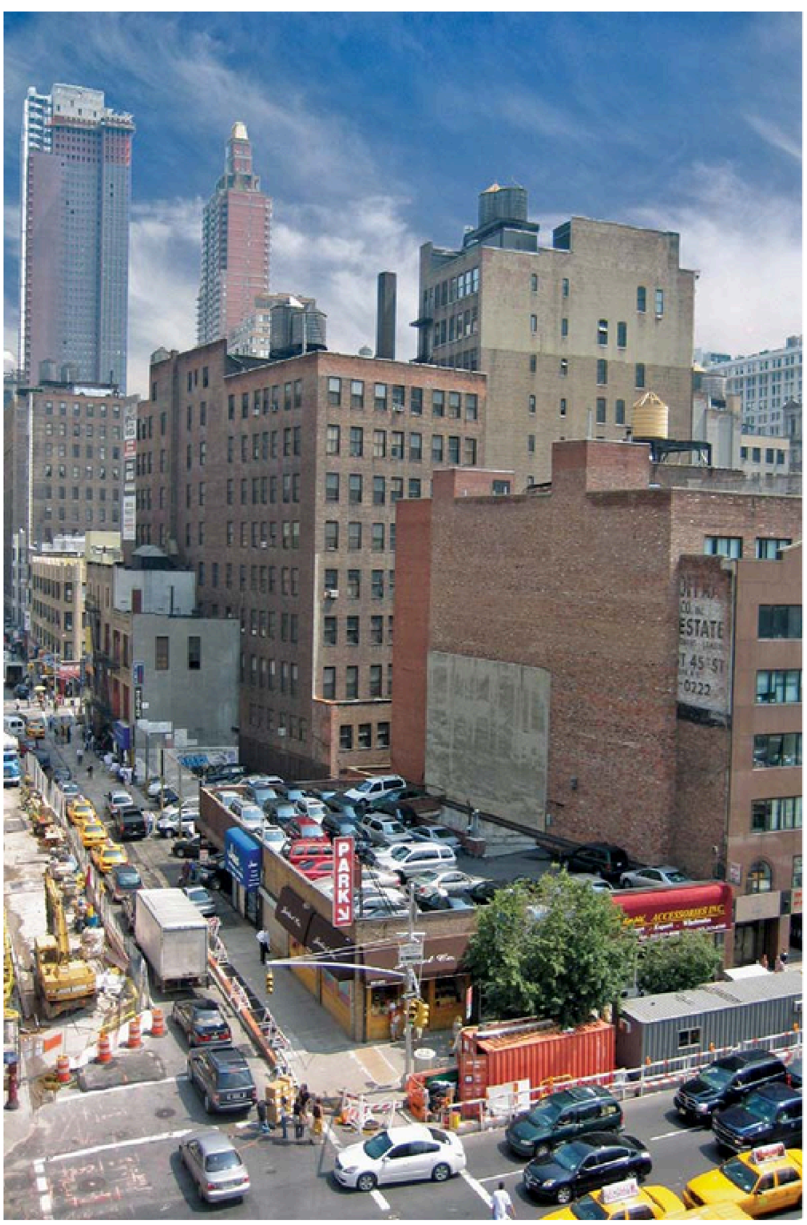
2014

The Eight Year Land Assemblage for

The Virgin Hotel &
The 846 Ave of the Americas Residential Condominium



REBNY Sales Brokers Committee

MOST INGENIOUS DEAL OF THE YEAR 2014

The Transactions for the Assemblage and Sale of
1205, 1225 & 1227 Broadway and 846 Avenue of the Americas

The Eight Year Land Assemblage for the Virgin Hotel and the 846 Avenue of the Americas Residential Condominium

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846 Avenue of the Americas Tax Map and 1227 Broadway Tax Map

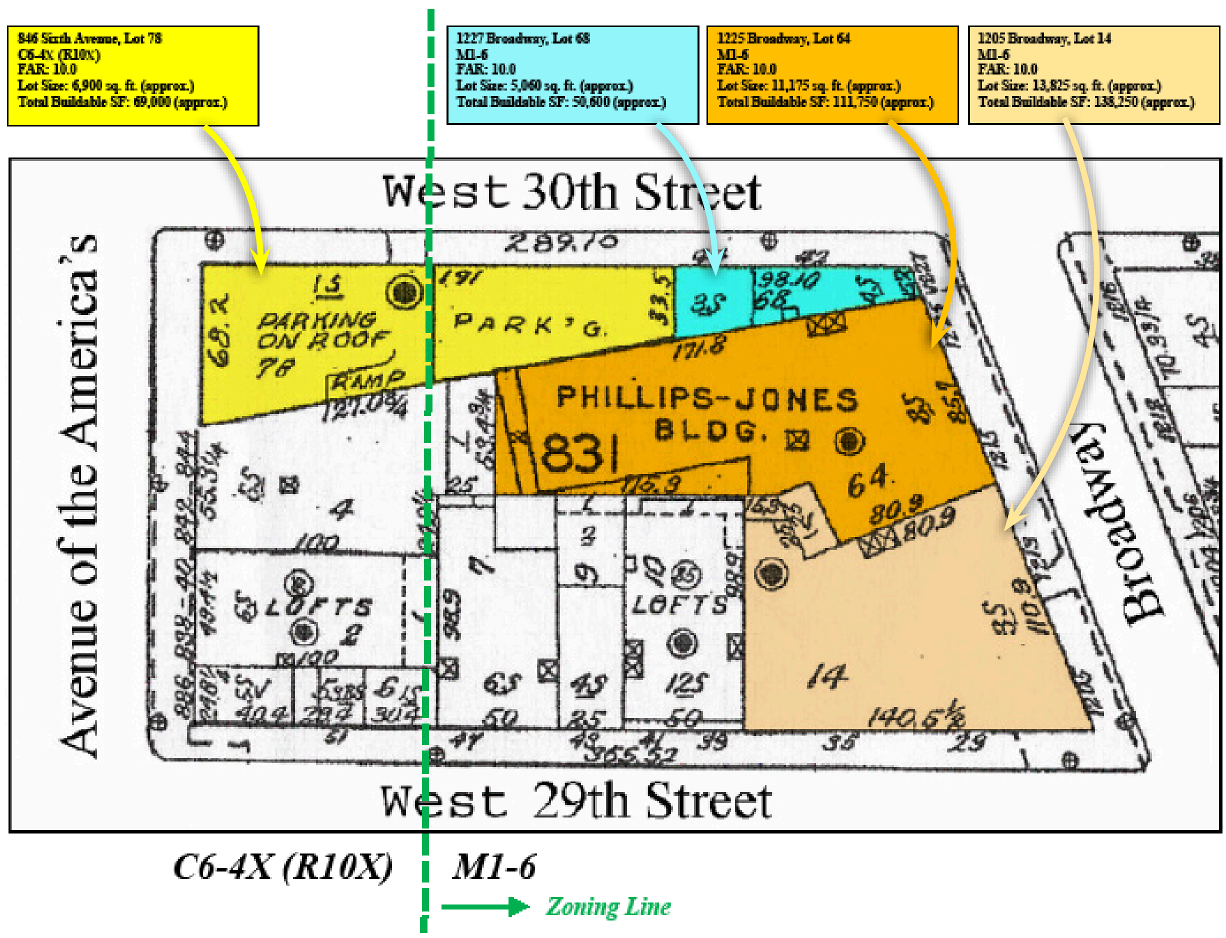
846 Avenue of the Americas

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

In land assemblage, the whole is usually worth more than the sum of its parts. In this transaction, due to an unusually shaped property, and different zoning districts, the sum of the parts were worth more than the whole. Suggesting a tax lot sub-division, and a joint venture development strategy leaving one of the obstructionist sellers with a retail condo interest, were the keys to maximizing value. Bob Knakal conceived of this strategy.

2) Briefly summarize the transaction:

This was a multiple property land assemblage transaction which involved four properties, two ownership groups (one of which was at odds) a lot subdivision and the negotiation of a joint venture development agreement. One of the ownership groups owned two adjacent, end-to-end, properties which created an extremely odd, triangular shaped property with 68.2 feet of frontage on Avenue of the Americas, 290 feet of frontage on West 30th Street and just 15 feet of frontage on Broadway. The other ownership group owned two buildings which were class C office buildings occupied mainly by tenants that produced and sold counterfeit handbags and accessories. It was clear that the highest and best use of these properties were as development sites but how to get there was the question. This process started in 2006 and the last piece of the puzzle closed in 2014. 1205 & 1225 Broadway were sold to a developer. In order to complete the blockfront assemblage on Broadway, a sub-division of an Avenue of the Americas property had to be undertaken. The remainder of the Avenue of the Americas property had one of three partners who was a reluctant seller. A joint venture agreement was negotiated to buy out the willing sellers and leave the reluctant seller with a fee interest in the retail condo in a new development there. These efforts resulted in four separate transactions, the result of which will produce the new Virgin Hotel on the entire blockfront on the west side of Broadway between 29th and 30th Streets and a new residential condominium project at the southeast corner of Avenue of the Americas and 30th Street.



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

In early 2006, with the development market in full stride, a long-time Massey Knakal client decided to sell 1227 Broadway and 846 Avenue of the Americas. These were two adjacent properties making up the entire southerly blockfront of West 30th St. between Avenue of the Americas and Broadway. The ownership group was named Pater . Their two properties formed a very unusual triangular shaped property with 68.2 feet of frontage on

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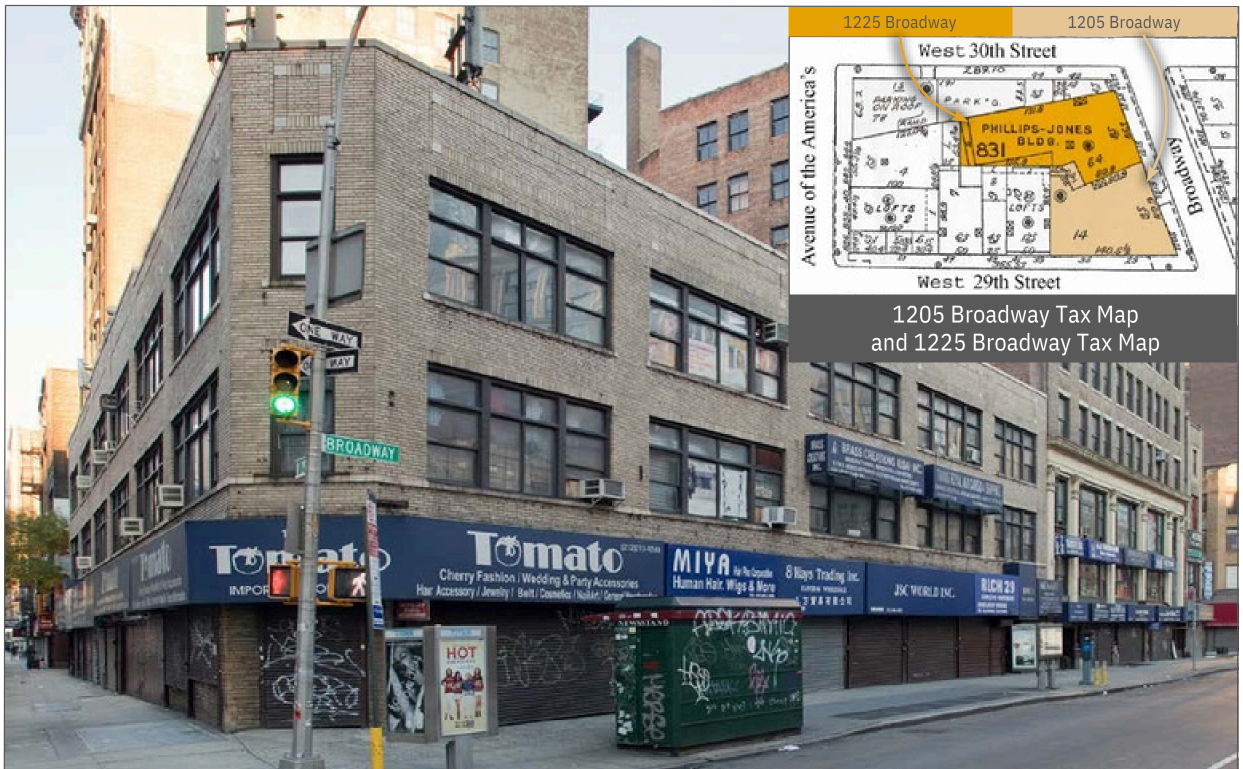
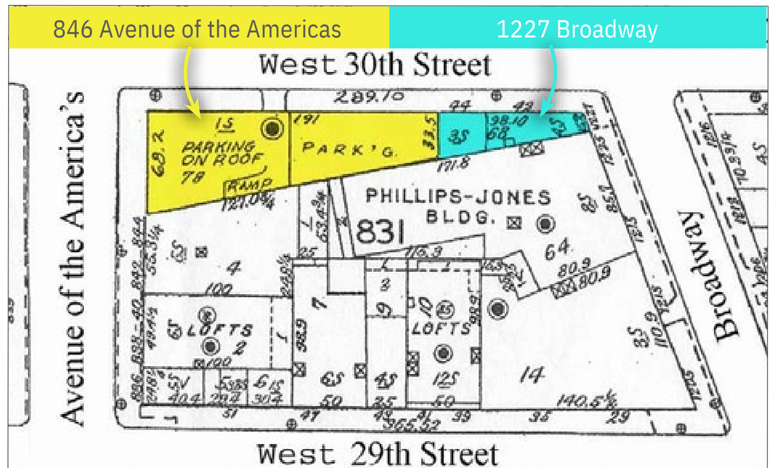


1205 Broadway Tax Map
and 1225 Broadway Tax Map

1205 and 1225 Broadway

Avenue of the Americas, 290 feet of frontage on West 31st St., and 15 feet of frontage on Broadway. Given the unusual shape of the property, it would be very difficult to find a developer to mass a building on the site given contextual requirements, particularly given that the properties were in two different zoning districts. The Avenue of the Americas frontage could accommodate a residential and retail property but the "tail" of the property was not worth much to the Avenue of the Americas potential. Actually, 1227 Broadway was fully in the M1 – 6 zoning district while 846 Avenue of the Americas was partially in the C6 – 4X zone and partially in the M1-6 zone. The MK team was retained exclusively to represent Pater. The total buildable footage of the two properties was about 120,000 square feet. We anticipated a price of about $400 per buildable square foot for the 69,000 square feet, which was in the residential zone, and about $300 per buildable square foot for the 50,600 commercial square feet.

Given these realities of the Pater properties, and the difficulties that this would create for a developer of these two properties independently, the MK team approached the owner of the adjacent properties located at 1205 & 1225 Broadway. The owner of these properties was Mocal Enterprises. These were two commercial buildings occupied by short-term office tenants (one-year maximum term) with short-term retail tenants (three-year maximum terms) on the ground level. The MK team suggested to Mocal that by putting the properties on the market, they could take advantage of the strong development market and, with the potential to join forces with the neighbor to the north, could deliver the entire block front on Broadway between 29th and 30th Streets to a developer. Mocal agreed to retain the MK team exclusively to market the two buildings. Now the MK team was able to offer the entire blockfront to developers. A couple of months after going to market with both offerings (two properties each), the owners of the Pater parcels had a falling out and decided to withdraw their property from the market. The marketing of 1205 and 1225, however, was progressing well so Mocal decided to stay the course.



846 Avenue of the Americas Tax Map
and 1227 Broadway Tax Map

There were complications involved in offering the Mocal properties due to the nature of many of the tenants in the office spaces. In the mid-2000s, counterfeit handbags, belts and shoes were a big business and seemed to be headquartered in this immediate neighborhood. Although the city was constantly raiding these buildings to evict counterfeiters, the property owner had difficulty removing these tenants from the properties. Additionally, liability was potentially falling on property owners that harbored such tenants. A combination of these factors created some hesitation on the part of many developers from making an aggressive offer on the buildings. Notwithstanding these difficulties, the marketing program produced a buyer that was willing to wait for tenancies to expire and would deal with the potential liability. A contract was signed in mid-2007.

Although the buyer was willing to close within 60 to 90 days, Mocal requested a nine-month closing period in order to provide more flexibility to effectuate a 1031 tax-free exchange. The contract price was $92 million, or $368 per buildable square foot, an enormous price at the time for an M-zoned piece of land. The buyer put up a $9.2 million contract deposit which he agreed to release from escrow. The release was required by the seller as Mocal did not trust the buyer due to constant renegotiation tactics the buyer utilized. A couple of months before the closing was scheduled, the contract vendee approached the MK team to see if they could shake the Pater properties loose. The Pater partners had no interest in selling at that time.

Two weeks later, the Pater partners called to say they changed their minds (something that would happen over and over again with these guys) and would now consider a sale. Negotiations began and the contract vendee was aggressively pursuing the Pater parcels. However, the closing date was rapidly approaching and the contract vendee on the Mocal properties asked Mocal for an extension of the closing date for 90 days. Given the perspective Mocal had towards the vendee, they seller declined to extend the closing. The negotiations for Pater

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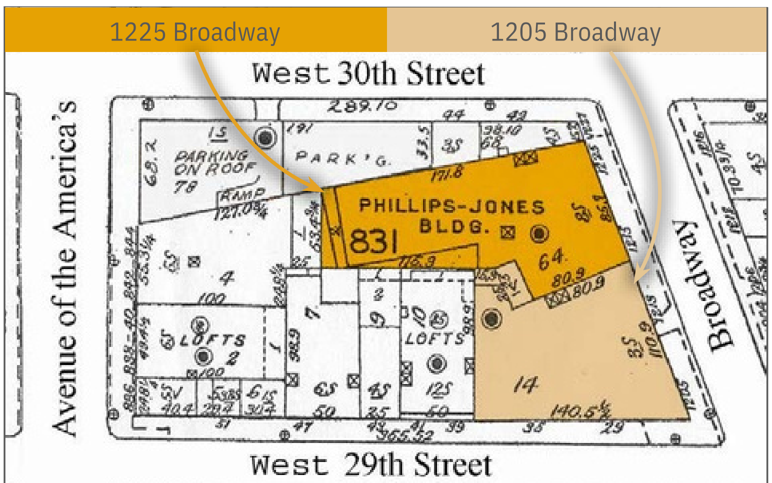
had caused the vendee to take his eyes off the ball and the seller was holding him to the time-of –the-essence closing. The vendee defaulted and lost the $9.2 million deposit. The vendee sued Mocal for the return of the deposit. This attempt was unsuccessful but caused an almost 2 year delay in the sales process. After Mocal won the litigation, they decided to sit on the asset until the market improved.



1205 and 1225 Broadway Tax Map

By early 2011, the market was improving. The MK Team approached Mocal to see if they were interested in putting the property back on the market. They were and the MK team was exclusively retained again to market the property again. Being gluttons for punishment, the MK team approached the Pater partners to see if they would have any interest in joining the sales process. We explained that Mocal retained us to sell their properties and that it would make sense to try to sell their unusually shaped property with the adjacent balance of the Broadway block front. They were not ready to go back to the market at this time.

The interest in the Mocal property was very significant as the development market had started to recover significantly. Most of the prospects who were interested in the Mocal property wanted the Peter properties also. While those properties were not on the market, most prospects made unsolicited offers through the MK team to the Pater partners. None of these buyers were allocating a significant enough value to the Pater properties to compel the partners to sell them. Pater was not on the market actively but buyers for Mocal all knew that the Pater properties were previously available and asked us to make bids on their behalf. After weeding through several of the top bidders, the Lam Group was identified as the top bidder for the Mocal properties. They were not concerned about the tenancies and signed a contract in the spring of 2011. That sale, now at $71.9 million, ($287 per buildable square foot) closed in August of 2011.

Now that Mocal was sold, the owners of Pater were somewhat at the mercy of Lam as they controlled the balance of the blockfront on Broadway. As such, they were able to potentially attribute the highest value to the Pater property. Unfortunately, Lam was not willing to pay an acceptable price for the Pater properties because they were going to build a hotel on the site. The value of Pater was significantly higher because of the residential zoning that existed on the western part of the Pater site. Lam had no interest in any of the residential air-rights as they are only hotel developers. After months of trying to negotiate an acceptable transaction between the two parties, it became clear that Lam was just not willing to purchase the Pater properties at an acceptable level.

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1205-1225 Broadway

Feeling that they may have missed an opportunity, the Pater partners retained the MK team once again exclusively to market their properties. In order to sell the property, the MK team had to figure out how to deal with the awkward shape of the combined lots.

The Pater properties were two separate tax lots. Lot 78 (846 Avenue of the Americas) extended east from Avenue of the Americas 191 feet along 30th Street. Lot 68 (1227 Broadway) extended West from Broadway by 98'10" along 30th Street. The property at 1225 Broadway had 171 feet of depth on Broadway so selling just lot 68 to Lam would help him by having the whole blockfront on Broadway but wouldn't be the most efficient transaction for the Pater owners. It would also leave the owners of the Pater properties with an irregularly shaped parcel which was in two different zoning districts. Bob Knakal suggested to the owners of the Pater properties that they subdivide lot 78 along the zoning district boundary such that the eastern part of the site, which was entirely in the commercial district, could be sold to Lam along with lot 68 which had Broadway frontage. They loved the idea. The MK team floated this past Lam and they loved the idea as well. This approach would also leave a more reasonable development site, fully in the residential zone, to be sold to a residential developer as the MK team knew that Lam had no interest in that residential footage.

The MK team negotiated an acceptable contract between the parties to sell the eastern sub-division of lot 78 along with lot 68 to Lam for $16,000,000, or $316 per buildable square foot, a higher price than Lam paid for the

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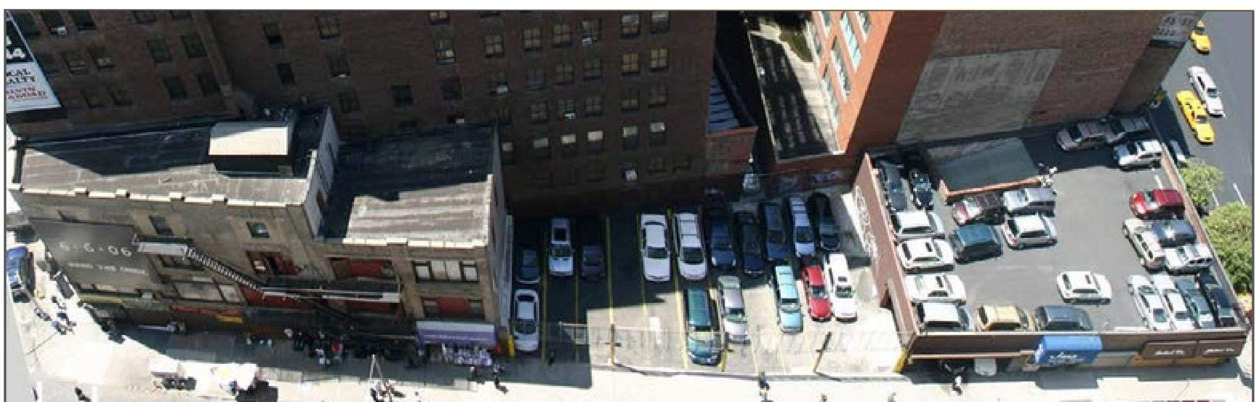
Mocal properties. This contract was contingent upon Pater completing the sub-division. This transaction closed in November 2012.

Now the question was what to do with the balance of the Pater site. This property was now put on the market at an asking price of $400 per buildable square foot, or $27,600,000. After months of marketing and negotiating with several prospects, and coming close to a deal, the sellers once again changed their minds about selling and decided to withdraw the property from the market. We were very disappointed, not surprised, and determined to figure out what the heck was going on with these guys. We found out that there were three families involved in the ownership of Pater, not two which is what we thought. To protect the guilty, let's call them Family 1, Family 2 and Family 3.



846 Avenue of the Americas & 1227 Broadway

Families 2 and 3 were unified and wanted out of the property immediately. Unfortunately, their interests in the property totaled just 37%. Family 1, the majority owner with 63%, did not want to sell. During our marketing, Ken Horn from Alchemy emerged as the most interested party. We then convinced Family 1 that they could satisfy their partners by having them bought out and could do a joint venture with Alchemy to develop the property and could end up with a fee interest in the retail condo on a tax efficient basis. (The MK team had nothing to do with the tax structure of this transaction). The parties all agreed and a deal was successfully negotiated to have Alchemy buy-out Family 2 and Family 3. This transaction would insert Alchemy into the existing entity that owned the property. Through the process of liquidating distribution, the venture would then divide their interests with Family 1 obtaining the retail condo, consisting of two stories of retail space plus basement, and Alchemy owning the rights to the residential space above the retail. The MK team did a tremendous amount of work to demonstrate to Family 1 that the space they were getting was worth approximately what their share of the purchase price would have been.

So the parties agreed to this complex structure. Unfortunately, the number of people working on this complex transaction was very large and the documents very voluminous. As the documents were just about ready to

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Rendering of Virgin Hotel at 1205-1227 Broadway

be finalized, Alchemy reached agreement with a private equity fund to provide equity for the venture. Unfortunately, the fund required several changes to the documents. This process was a very lengthy one to get down on paper. Meanwhile, the market was continuing to improve at a rapid rate and after several months of negotiating the documents, Family 2 and Family 3 were no longer interested in making a deal at $27.6 million ($387 per buildable square foot).

Bordering on massive bad faith, they asked the MK team to go back to Alchemy and ask them if they would increase the price to $450 per square foot. Alchemy reluctantly agreed. Several additional months then passed as the parties tried to get the documentation finished. Amazingly, Family 2 and Family 3 renegotiated once again. This time they want to the price to be increased to $500 per foot. After much back and forth, kicking and screaming, Alchemy agreed to this new price once again. Families 2 and 3 also stated that they would not sign a contract to sell their minority interests until Family 1 had finalized their venture agreement with Alchemy. This was a complicated negotiation due to all of the tax input that was required. Essentially, Alchemy was buying into the existing ownership entity through the acquisition of the minority owners' interests. This required amending and restating the operating agreements. Upon Department of Buildings approval, two condo units will be created with Alchemy's interest in the entity being liquidated via a conversion of his interest into fee ownership in the residential condo and Family 1 getting title to the retail condo. With additional time passing as the lawyers and tax experts continued to work on structuring and papering this deal, Family 2 and Family 3 came back to the MK team once again asking to raise the price to $550 per buildable square foot. This was too much for Alchemy to swallow so the MK team suggested an all hands on deck meeting. At this meeting we agreed on a final price of $36,808,610 or $533 per buildable square foot. All documents were signed shortly thereafter.

The sale of the minority interests and the joint venture transaction were closed in July of 2014 concluding what was a very complicated process that evolved over an eight-year period.

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

Subdividing lot 78 (846 Avenue of the Americas) and formulating the joint venture strategy is what allowed these four transactions to occur. There were many different objectives among all of the players and the strategies implemented here allowed all of these objectives to be met. On the Broadway frontage the new Virgin Hotel will be constructed. On the subdivided lot 78 on Avenue of the Americas, a new residential condominium building will rise and Family 1 will have a fee interest in the retail condominium. The total consideration for the four transactions was $124,708,610.

Rendering of Virgin Hotel at 1205-1227 Broadway