LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

CASE STUDY
305 WEST 48TH STREET

CREATING A JOINT VENTURE FOR GROUND-UP CONSTRUCTION

POTENTIAL SCENARIOS

- Sell the lot and invest in a higher cash flowing property
- Borrow money and use the loan to provide the needed capital for construction
- Create a joint venture with a non-family member to infuse capital and bring construction knowledge
- Structure a long-term leasehold where the new lessee spends the money to construct a building in exchange for 99 years of control

THE MISSION

Three siblings own a vacant parking lot they inherited from their father, and they want greater income without losing control of the property or investing capital to construct a building

Ben Tapper was retained by the owners of 305 West 48th Street to run an analysis, and eventually a marketing process, to determine the best and highest use for this vacant lot. Ownership inherited this property, along with two of the four neighboring buildings, and who were operating an open-air parking lot. They also owned the adjacent building to the West, as well as one of the buildings to the East along 8th Avenue, giving them additional development rights that could potentially be transferred to increase the size of the to-be-built property at 305 West 48th Street.

We recognized a number of key factors at the outset of the engagement that dramatically influenced the value of the asset, as well as the best short-term and long-term financial path to pursue. The owners inherited all of these assets, and as such they had paid the estate tax associated with these properties. One of their goals was to shield the next generations from estate tax. Additionally, they wanted to achieve materially appreciation in value, increase cash flow of the asset, and not spend equity to reach these ends.

Given the irreplaceable location of the property in the heart of Times Square, the lack of contractual lease restraints with either residential or commercial tenants, and a desire to pass down generational wealth, we determined that the best course of action was to structure a long-term leasehold. As a part of the leasehold commitment, the lessee would be required to construct a building on the property within a pre-set period of time, and to a minimum level of finish. Additionally, the lessee's annual payments would escalate every five years and then reset to Fair Market Value after 35 and 65 years, so the next generation of owners would be able to recognize the appreciation in land value over time.

We vetted potential lessees, checking financial history, completed and in process projects, and references to ensure that ownership was getting a viable "partner" who had the experience and financial depth to complete the project. We successfully sourced a lessee who, with our guidance, grasped the complexity of the site as it related to air rights transfers, set back requirements, and zoning regulations. We were able to simultaneously negotiate the leasehold, ZLDA agreement for combining multiple tax lots, and security provisions to provide comfort that the income stream would continue uninterrupted for generations to come. All of this work and strategic guidance brought ownerships annual net cash flow from under $50,000 per year to over $1,400,000 per year, with contractual increases for 99 years .