Case Study: Distressed Note Purchase and Development
Project: The Horizon at Fleetwood
Location: 550 Locust Street, Mount Vernon, NY

Opportunity:

In 2004 an inexperienced development team commenced a 71-unit luxury condominium project in the Fleetwood section of Mount Vernon, New York. This project soon faced significant challenges: the developer had overpaid to acquire the project site, had planned more expensive finishes than the local condominium market could support, and the national economy was deteriorating. In its haste to complete construction as the real estate market collapsed, the developer allowed its contractors to rush the project toward completion, resulting in significant construction defects.

The approximately 60% completed projected was halted and foreclosed upon in 2008. After two years of inactivity, the partially completed site was brought to bankruptcy auction in 2010.

Common Area – Acquisition Condition

Challenge:

Determine the highest and best use for the distressed project in the still-depressed real estate environment of January 2010; determine a maximum price to bid at auction.

New Developer:

Petro Real Estate Development, the nascent development division of a closely held construction company with a strong history in Mount Vernon, teamed with Glenmark Partners to jointly acquire and complete the project. Petro brought an intimate knowledge of the local market and strong relationships with key local stakeholders, including

contractors already familiar with the project. One of these contractors was highly valuable in assessing the cost to complete construction**.** Glenmark Partners brought a deep expertise in New York Metro Area market rate multifamily and condominium development to the partnership. Glenmark was also highly experienced in the type of vertical, "heavy" construction that would be required to complete the Project.

Roof – Acquisition Condition

Strategy: The new development team hired a contractor to evaluate the state and quality of the partially constructed structure, and prepared a new budget for project completion. The Weitzman Group was commissioned to conduct a market study and the developers underwrote the project based on a rental rather than condominium market analysis.

The Partnership saw a major opportunity in the Fleetwood section of Mount Vernon, despite the fact that only one new market rate development had been built there in the past 50 years. Although the Fleetwood submarket was unproven, the site's close proximity to a Metro-North rail station expanded the project's marketability beyond the immediate area surrounding the site to encompass the whole of southern Westchester

County; this market insight allowed the Partnership to bid aggressively at auction and close in 30 days. The Partnership purchased the property for a price of 25 cents on the dollar and obtained clean title.

Project Completion:

Upon assuming control of the Project, the new Developer engaged a design team to refile the now-expired building plans. This team included Fogarty Finger Architecture, which was tasked with re-envisioning the Project's ill-conceived interiors.

The Developer proceeded to renew its permit and close on construction financing in September 2010. Over the next eight months, the Developer drew upon its extensive distressed property experience in guiding the project from a 60% as-built state with significant defects to completion.

Completed Roof Deck

While the Developer underwrote the Project as a rental, by the time it was completed in spring 2011 the southern Westchester County real estate market had partially recovered and there was a significant demand for condominiums. In response to market conditions, the Project was initially marketed as a condominium, however, despite high interest, the end loan market was so burdened that previously qualified buyers were unable to obtain approval for financing. In August 2011, in response to the unfavorable financing conditions faced by potential buyers, the Developer converted the Project to luxury for-rent apartments.

Stabilization:

The Development team designed a rental stacking plan and lease-up strategy featuring rents approximately 50% higher than the competitive, albeit older and non-amenitized, existing rental units in the Fleetwood community. The Project was extremely wellreceived and lease-up was completed in June 2012. After stabilization, the Developer was able to further enhance its rent roll by converting 4,000 square feet of ground floor professional space to its highest and best use: four additional apartment units.

One year after stabilization, the Project was refinanced at a 5.25% cap rate valuation on the basis of its 99% stabilized occupancy rate, strong Transit-Oriented location, and top of market rents. With these proceeds the Developer was able to pay off all existing debt and take out a significant portion of invested equity.

Completed Lobby