



DEEPAK MALHOTRA

Hamilton Real Estate:

Confidential Role Information for the Executive VP of Pearl Investments (SELLER)

You are Executive Vice President of Pearl Investments, a holding company that specializes in real estate investments. Earlier in the year, key executives of Pearl Investments held a meeting in which a number of strategic initiatives were adopted. Among these was an initiative aimed at divesting land and property in certain geographical regions. Among your many real estate holdings is a large piece of property located in Hamilton, a mid-sized town at the outskirts of a large metropolitan area. The Hamilton property is among those that are to be sold. Because the Hamilton property is by far the largest piece of real estate earmarked for divestment, you are personally responsible for negotiating its sale.

One of the first decisions that you made with regards to the Hamilton property was to sell it in its entirety rather than piecemeal – you will not break it apart and sell separate parcels of land. Virtually every expert appraisal and valuation suggests that the real estate will fetch a higher selling price if the property is sold in its entirety to one buyer. While this is likely to maximize sale price, it also limits the number of potential buyers for the land.

How much a potential buyer will pay for the Hamilton property depends on a number of factors, including the buyer's ability to pay, their degree of desperation, and the planned use for the property. Each of these factors is critical. For example, your experts have estimated that if the land were developed for commercial use (e.g., a set of office buildings), the land might be worth 1.5 to 2 times as much as if it were developed for residential use (e.g., apartment buildings).

While property value would be maximized if the land were developed for commercial use, there is probably no interest for the property among commercial developers. The reason is that the zoning laws in Hamilton do not allow for commercial development of the property. While there has been some talk among local politicians of allowing commercial development in Hamilton over the last few years, no action has been taken. As a result, Hamilton has fallen off the radar for commercial developers.

Over the last few weeks you have entertained offers from a few potential buyers. Every one of the offers has come from someone planning to put the land to residential use. This was expected. However, all but one of these offers has fallen substantially short of your expectations. The one offer

Professor Deepak Malhotra prepared this exercise as the basis for class discussion.

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that is of interest to you is from Quincy Developments, a developer who is planning to construct a set of high-end apartment buildings on the Hamilton property. The offer is for \$38 million.

Apart from being the highest offer you have received, this deal is of interest to you because Quincy Developments has a reputation for high quality development. You were the one who championed the purchase of the Hamilton property seven years ago and you would now like to see it divested in a way that ensures it will be put to good use. Furthermore, the developer has been in business for a long time and has a reputation for bargaining in good faith. This gives you some confidence in the reasonableness of the offer. This is not to say that you are ready to accept it as is. You expect that you could negotiate the price up an additional 10 – 15% if you chose to pursue this offer from Quincy. (You are virtually certain that Quincy Developments would not go any higher than that.)

For now, however, you are not going to negotiate with Quincy Developments. The reason is that Estate One, a premier real estate company in the region, has just sent word that they are also interested in the Hamilton property. While you had anticipated an offer from Estate One earlier (they usually move pretty quickly), even their delayed interest in the property is good news. This is because your best estimate is that Estate One will develop the property for the construction of luxury condominiums (that is what they do with virtually all of their properties). You should be able to negotiate a higher selling price for the property if the land is to be used for luxury condominiums rather than for apartment buildings. While the call from Estate One came surprisingly late, their CEO sounded extremely enthusiastic about the prospect of purchasing the Hamilton property. This is good news.

You have decided that you will meet with the CEO of Estate One and try to negotiate a deal for the sale of the Hamilton property. However, you have made it clear that time is of the essence. If you do not reach an agreement by the end of the week, you will take your business elsewhere. You have not given Estate One any specific information regarding your other offers, but if the upcoming negotiation with Estate One is not successful, you plan to go back and finalize the deal with Quincy Developments. You will not wait for other offers. The deadline is real: Quincy Developments has said that their offer expires at the end of the week.

Here is what you know about Estate One: They are a mid-sized real estate company and they invest primarily in residential properties. Indeed, Estate One is one of the biggest names in residential real estate. The CEO of Estate One has been with the company since its founding twenty years ago and is known to have an eye for opportunity and for maximizing value potential in every deal. The CEO is also known to be extremely well connected politically, and is linked to knowledge brokers at all levels of state and local government. Estate One is not a competitor of yours.

You will be meeting with the CEO of Estate One shortly. If you are ever going to sell the Hamilton property to Estate One, it will have to be now. To prepare for the negotiation, you have collected as much information and data as possible. The following information is public knowledge, and you are sure that the CEO of Estate One also has this information.

- Pearl Investments purchased the Hamilton property seven years ago at a price of \$27 million.
- Since the purchase, land value in the town of Hamilton has increased substantially. An evaluation of the sale prices of 4 somewhat comparable properties that have been recently sold in the area suggests that the Hamilton property could be worth between \$36 million and \$44 million. This assumes that the land is developed for residential use.
- If the land is used for the construction of luxury condominiums instead of apartment buildings, it is probably worth an additional 20%.

Your goal in this negotiation is to get the best price possible for Pearl Investments. The only issue that you are to negotiate is price.