

CASE STUDY



The Pavilion

The Washington-Baltimore Multi-Housing Team combined forces with CBRE | Melody during the sale of The Pavilion, a 432-unit high-rise condominium conversion in the heart of the popular Maryland suburb of Rockville.

CHALLENGE

In January 2005, Home Properties of New York engaged William Roohan, Andrew Boyer, Michael Rudolph, Michael Muldowney and Patricia Bonebrake of the Washington-Baltimore Multi-Housing Group to determine the best condominium conversion candidates in its portfolio of over 42,000 apartments. After the team provided a detailed evaluation and presentation, Home Properties decided to proceed with the sale of The Pavilion in Rockville, Maryland (a 432-unit, 417,010-sq.-ft., 16-story apartment building). Prior to 2005, condo conversion and sales to converters had been very limited in Montgomery County due to the stringent codes regulating rental housing and conversions. With the difficult statutory and political climate in the county, investors and lenders were reluctant to enter the market. Home Properties' decision to sell followed the sale of the first condominium conversion sale in Montgomery County, Maryland.

The Washington-Baltimore Multi-Housing Team estimated the intrinsic value of The Pavilion as a condo conversion to be 50% greater than that of an income-producing property. Given this and the county's hostile regulatory environment, the team had to particularly focus on finding a buyer that would not only close, but also be integral in navigating the conversion process. After an extensive marketing campaign, the Washington-Baltimore Multi-Housing Team determined that the lead bidder (and eventual buyer) was financially strong and highly successful in the single family home business, but was relatively inexperienced in condo conversions.

SOLUTION

After much deliberation, Home Properties decided to accept an offer from the sponsor, who was a converter, based on the deposit offered and fast closing schedule. CBRE | Melody was tapped to place the high-leverage debt and joint venture equity for the buyer. Maury Zanoft, Senior Director of the Washington, DC office of CBRE | Melody, and his team—CBRE | Melody's Joe Donato and Matthew Williams—aided Home Properties throughout the process. CBRE | Melody was responsible for structuring \$130 million in acquisition and construction financing and \$35 million in joint venture equity. In order to become competitive in the condominium community, these funds will be used for a thorough renovation program including a building reskin, interior upgrades, and life safety and structural improvements.

After extensive due diligence, the deal became too large for the initial construction lender based on their major condominium exposure in DC, who subsequently was forced to drop out. CBRE | Melody's involvement was instrumental. Not only did it save the deal, but its control of the sponsor parlayed it into an opportunity to originate

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and structure a stronger deal. Within one week, CBRE | Melody was able to bring in a new lender and close the transaction only nine days later than originally anticipated.

RESULT

The Washington-Baltimore Multi-Housing team and the Washington, DC office of CBRE | Melody worked effectively and efficiently with each other to provide maximum value to both the seller and buyer. Since the sale, the team's relationship with both the seller and buyer has grown exponentially. The project in Rockville has been lauded by the local press and is expected to win awards. All involved parties were pleased with the transaction, which has yielded additional deals. Additionally, John E. Smith, Chief Investment Officer of Home Properties, had this to say in a recent letter to the team:

"This letter is to compliment the efforts of Bill Roohan and the entire Baltimore Team...The whole team, from Bill to Mike Muldowney to Trish Bonebrake, et al., are the best I've ever done business with."

TEAM

William S. Roohan

Vice Chairman
Investment Properties – Institutional Group
410.244.3122
bill.roohan@cbre.com

Andrew C. Boyer

Executive Vice President
Investment Properties
703.734.4737
andy.boyer@cbre.com

Michael D. Rudolph

Senior Associate
Investment Properties
410.244.3121
michael.rudolph@cbre.com

Michael E. Muldowney

Executive Vice President
Investment Properties
410.244.3144
mike.muldowney@cbre.com

Maury E. Zanoff

Senior Director
CBRE | Melody
202.585.5645
maury.zanoff@cbremelody.com

Joseph W. Donato, Jr.

Senior Director
CBRE | Melody
202.585.5505
joe.donato@cbremelody.com

Matthew J. Williams

Vice President
CBRE | Melody
202.585.5603
matthew.williams@cbremelody.com

Patricia C. Bonebrake

Director of Operations
Investment Properties
410.244.3141
trish.bonebrake@cbre.com