

Real Estate Portfolio Strategy Services

The image features a promotional graphic for KLG. On the left, the KLG logo is displayed, consisting of three stylized, overlapping curved lines in green, red, and blue, followed by the text 'KLG' in a bold, black, sans-serif font. Below this, the tagline 'Strategy People Location Real Estate' is written in a smaller, black, sans-serif font. The background of the graphic is a light blue world map. In the foreground, a lush green field is shown with several white, modern-style office chairs arranged in a circle. To the right of the chairs, a black flipchart stands on a tripod, displaying a line graph with a green line on a white grid. The overall scene suggests a professional meeting or presentation in an outdoor setting.

KLG
Strategy People Location Real Estate

KLG is a consultancy dedicated to
aligning geographic location and corporate real
estate with overall strategic business objectives in
order to enhance revenues, minimize expense, and
maximize performance.

Case Study: Acquisition Pricing Strategy

Nailing the Purchase Price



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Shortly after the September 11th tragedy, a Manhattan headquartered financial services giant decided to diversify its geographic footprint by deploying some of its front office activities to a new suburban site. They quickly honed in on a former Fortune 50 headquarters property that was being offered for sale via a bid process. The market intelligence gathered through the brokerage, banking, and legal communities indicated the expected “winning” price to be in the \$60 to \$70 million range. Our client was determined to secure the facility, and asked KLG to independently validate an appropriate bid range.

KLG approached this pricing assignment by relying very little on the market buzz and heavily on hard research and analytical modeling. We soon discovered two relevant facts:

- [1] The property had unofficially been on the market for a number of years, and the owner had considered a number of disposition schemes, including renovating the facility to support multi-tenant occupancy.
- [2] The likely cast of competing bidders were all speculative developers, and there had been no significant interest expressed by corporate users that could consider utilizing the entire facility.

KLG contacted the owner and secured its internal files on the engineering, construction, and renovation scope as well as the costs associated with converting the property into a multi-tenant facility. With this data we now had “boxed” all of the factors that would determine the range in which the developers would bid. KLG knew the developers would have to proforma net income from leasing, estimate the cost of renovation for multi-tenancy, and project a desired ROE threshold. Further, knowing that a developer would be highly leveraged on this type of project, we were also cognizant of the fact that these assumptions would need to pass a lender’s review.

KLG modeled all of these factors and determined that the most likely scenario was that a \$55 to \$60 per square foot retrofit investment would yield net income producing a 10% to 15% return on equity (ROE) – using realistic assumptions for the lease-up schedule and net income flow. This indicated that the developers were boxed to bids between \$41 million at a 10% ROE and, more likely, \$33 million at a 15% ROE (see graph).

We recommended a bid of \$35 million, confident that our client’s credit worthiness and the certainty that they could close the transaction would seal the “win”. Our client upped our recommendation slightly and won on the first offer – confident that KLG’s advice saved them over \$20 million.

