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Cutting out the Middleman

The recent sale of the trophy Knickerbocker Hotel building for more than \$100 million included a twist that few brokers like to hear: The buyer and seller cut a deal quietly without a broker and, naturally, no commission.



Rob Bennett for The Wall Street Journal

Former Knickerbocker Hotel site at Broadway and 42nd Street

FelCor Lodging Trust Inc. purchased a 95% stake in the building at 42nd Street and Broadway from a partnership led by private-equity investor Walton Street Capital, hotelier Highgate Holdings and Crown Acquisitions Inc. The commission on the deal, usually paid by the seller, would likely have been at least \$1 million if a broker had been used, according to industry estimates.

But that expense was spared partly because the buyer and seller were close before the deal. "All I can say is that [one of the sellers] and I have been good friends for a long time and we have been looking to see if we could do something together," wrote Rick Smith, chief executive of FelCor, in an email. The seller "said they wouldn't market the property if FelCor could achieve the seller's objectives. We did."

Fortunately for brokers, most owners feel the 1% to 3% commissions they pay on sales of commercial property are well worth it. Brokers help smooth clashes of egos and often achieve a higher price, they say.

"They police the transaction. The buyer knows he will see this guy again," says Glen Siegel, founder of Belvedere Capital Real Estate Partners, who recently sold his stake in Chelsea Market to his partner, Jamestown Properties, with Douglas Harmon of Eastdil Secured as the broker.

Peter Hauspurg, chairman of Eastern Consolidated, cites a recent example, when his firm was marketing a building on Greenwich Street, across from the World Trade Center. Sam Zell's Equity Residential initially bid \$14.5 million, but the broker brought in a wealthy buyer from Queens, who ultimately paid \$19.6 million.

"We more than paid for our 3% fee by finding the person" that would pay the most for property, Mr. Hauspurg says.

Norman Sturner, chief executive of Murray Hill Properties, says the best part of using a broker is you only pay them if they bring home a deal. "I love my brokers. They're the least expensive part in any single deal" because "you don't pay them unless it's successful," he says.

\$0 Commission Paid on Sale of Knickerbocker

Property: Former Knickerbocker Hotel site at Broadway and 42nd Street

Buyer: FelCor Lodging Trust

Seller: Venture led by Highgate Holdings

Price: \$109 million