

Entrepreneurialship



**ASSIGN
BUSTER**

THE BRIMMER STREET GARAGE Eliot Conviser, a young real estate developer, and his wife were finishing some egg rolls at the Golden Temple restaurant in downtown Boston in March 1979, when he spotted a familiar face at a nearby table. Wes Marins, a veteran broker in the real estate of Boston's downtown areas, had just paid his bill and was making his way over to the Conviser's table. "What a coincidence, Eliot," Marins remarked. "You were on my list of people to call this week. Want to buy a garage? Although buying a garage was the farthest thing from Eliot's mind—he, specialized in residential condominium conversions in Boston's Beacon Hill and Back Bay neighborhoods—he was curious about the opportunity. "Sit down for a minute and tell me more." "It's the Brimmer Street Garage," replied Marins, pausing to give his drink order to a passing waiter. "It will cost you \$450,000 and it has 110 spaces. I think it might be a conversion." Eliot Conviser had heard about the Brimmer Street Garage.

He knew it was located in Boston's fashionable Beacon Hill area, that it had been recently declared a historic site, that it had been built sometime during the early 1900s for a company that manufactured carriages, and that it was later converted into a hack stable. Since 1944 the facility was used as the only contract-rental garage on "The Hill," notorious for its lack of parking space, and its list of tenants were as exclusive as any club in town. The property had been acquired in 1961 by Mr. Edward Bennett who charged uncomplaining clients \$65-\$100 a month per car.

Parking was one privilege that even tight-fisted Bostonians were willing to pay for. Eliot did a rapid calculation in his head. 110 spaces at say, \$5,000 apiece, would be \$550,000 right there. Anything more...? "Sounds

interesting, Wes,” he replied casually, “ but what’s the catch? ” “ No catch, Eliot. Ed Bennett tried to convert it to condos a few years back but the renters weren’t interested. It’s a pain in the neck for him to manage, and Ed’s got better things to do with the money. If you’re interested, give me a call this week. ” “ I’ll do better than that, Wes.

I’ll meet you there tomorrow morning at 7: 00, and I’ll bring your check. If I like what I see, we can decide how to fill it out. And, speaking of checks–your drink is on me. ” On the way back to their own car, parked on a dark side street at some distance from the restaurant, Eliot turned to his wife “ What do you think? Say the place is structurally sound and it will cost a maximum of \$100, 000 to put it into good shape. Say we treat it like any condominium property and bill it as a good investment as well as a good place to park. Say we charge \$7, 500 per unit.

Why can’t we be in the black from day one on? ” “ I wonder why Ed couldn’t convert the units himself,” replied his wife, who participated actively in Mr. Conviser’s business ventures. “ I wonder how much earnest money we can afford to put up,” continued Eliot. “ I know the answer to that. No more than \$25, 000,” replied his wife. “ Then that will be the amount I write on the check,” said Eliot. “ How would you like to be part owner of a garage? ” In the dark, he couldn’t see the expression on her face. BACKGROUND OF ELIOT CONVISER Eliot Conviser grew up in the real estate/construction business.

His grandfather, a Russian immigrant, founded the first Jewish carpenter’s local in 1910. His uncle, trained as a lawyer, was a successful contractor all his life. His father, who had passed away the previous year, had built a

legendary business by innovating and building theaters. During his career, he had supervised the reconstruction of over 200 venerable showhouses in the Northeast including the Shubert, the Colonial, and the Metropolitan Center in Boston. Eliot received his education at Babson College located just outside of Boston where he attended a four-year undergraduate business degree program.

Eliot felt his education had provided him with a solid base of management and financial expertise to complement his hands-on experience in the construction industry. As a boy, he remembered going with his father to “ file the necessary papers” at the Boston building department and getting various permits and licenses expedited. He realized early the importance of knowing how to cut through what seemed endless amounts of red tape- approval for everything from electrical wiring to plumbing permits, to elevator installations. After graduating in 1960, Eliot immersed himself in work.

He assisted his father with theater renovation and began investing, modestly, in downtown Boston houses suitable for restoration and then conversion to condominium properties. “ On the side” he put together a line of Madras clothing accessories which he sold to retail outlets across the country. As it turned out, his sideline paid more than his full-time job. However, in 1965 he closed the door on his fashion career to devote all his time to real estate development. Business became better and better for Eliot Conviser as he developed a reputation for quality work which was completed on or before the deadlines he negotiated.

He was interested in three segments of the market: development of small tracts of land; residential condominium and commercial construction work; and income apartment management. He soon was active all three of his targeted segments and, despite difficult economic conditions, his company Chestnut Development was turning a profit thanks in part to Eliot's ability to sell the residential condominiums he had already converted. "I had never thought of myself as a marketing man," he remarked "but that's what you have to do to stay alive nowadays. He and his wife were working seven days a week, supported by an office staff of five. FURTHER BACKGROUND ON THE BRIMMER STREET GARAGE

Aside from its historical significance, the Brimmer Street Garage provided the only safe and convenient indoor parking on Beacon Hill, a charming and historic community of old townhouses owned by socially and financially prominent Bostonians." (The nearby underground parking facility beneath the Boston Common was considered unsafe overnight". Exhibit I provides a map of the area. For the last 18 years; under the ownership of Ed Bennett, the Garage had been run by Bill (no one bothered with his last name), a personable-fellow who knew all his "clients" by name, and provided special services such as obtaining gasoline during occasional shortages for a price. Many of the tenants were genuinely fond of Bill, and few ever batted an eye at the \$100/month rental fee or the large bills for monthly gas. In addition to his clients, Bill had a number of "transient friends," who were happy to pay him by the day for the privilege of having a place to park.

Bill kept the garage staffed 24 hours a day with a variety of friends and relatives, and the place—though far from pristine—was passably tidy. In

short, the Brimmer Street Garage and its management were accepted as a kind of Beacon Hill institution. In the mid-1970s Mr. Bennett described by a friend as “ a man who was nearly always too early or too late, but made a good living at it” hit upon the idea of converting the rental garage into a condominium arrangement—failing to turn a profit at pure garage management, conversion was a way out. He proposed that the clients buy their parking spaces outright and pay a nominal monthly maintenance fee.

He made his intentions known in a letter to his 60-odd clients. His proposal was to sell the tenants their spaces at \$6, \$12, or \$18 thousand apiece, depending on the layout of the spaces. (See floor plan in Exhibit d.) Because of the layout, Mr. Bennett felt that he could not sell single units because there were no “ easement” for the back one or two spaces when cars were parked in two or three solid rows. However, many of the tenants rented two or three spaces, so selling them as a single unit was possible. The day after the letters were received by the Garage’s tenants, his telephone rang off the hook.

The clients were outraged. To have to pay as much as \$18, 000 in a lump sum for a service which now cost them \$100 per car per month was unthinkable! Even to some of Boston’s finest financial minds, Ed’s counter-arguments about equity interest and actual cost-savings in the long run were dismissed out of hand. Parking space was considered a rental item and that was that. Mr. Bennett shrugged his shoulders and wrote another letter. “ Out of respect for the tenants wishes the Brimmer Street Garage would remain a rental property and the matter was dropped.

Subsequently, 6 months of effort produced 10-15 “contingent buyers” not enough for success. Suggestions to tenants about how well it was going were dismissed handily. Bennett had no poker face and belief in successful conversion and subsequent loss of rental space never tempted renters—they played better poker. THE DECISION Upon returning to his house in Brookline, Eliot Conviser went straight to his desk and began to make a list of all the considerations which would bear on the successful conversion of the Brimmer Street Garage to a condominium property. It was late when he set his alarm for the next morning.

A few minutes before seven, Eliot arrived at the Garage and watched as Bill greeted several early-rising clients whose cars were waiting for them at the entrance. Some minutes later Mr. Marins and Mr. Bennett arrived and together they made a thorough inspection of all three floors. Eliot’s practiced eye took in every detail and he made notes along the way. The structure seemed sound. The elevator was balky. The lighting was dim on the second and third floors and non-existent in the stairwells. The sprinkler system looked inadequate and the water pressure in the lavatory was low.

But above all, the place was dirty; years of grime, oil, and exhaust fumes caked the floors and walls. An hour later, Eliot had completed the tour and received some additional information. On a yellow-lined pad, he estimated renovations costs as follows: rewiring, \$20, 000; elevator repair, \$20, 000; cleaning, painting, window replacement, \$30, 000; miscellaneous, \$15, 000—total, close to but less than \$100, 000. (See Exhibit 3.) He thought again about the risks involved, including the fact that he had never managed a garage, and he thought again about the potential profit (See Exhibit 4.

Finally, he thought about the \$25, 000 he and his wife had worked hard for and set aside for investment, and then he made up his mind. For the reader's convenience, Exhibit 4 is reconstructed to show information actually drawn from several sources and points in time some from Eliot's calculations the previous evening; some from information provided by Marins and Bennett that morning; and some from Eliot's observations on the tour.

ASSIGNMENT QUESTIONS 1. Should Eliot Consider buy the Brimmer Street Garage? Why? Why not? 2. Assuming he buys it, should he convert it to a garage condominium?

What else can he do with it? 3. Assuming he goes ahead with the concept of a garage condominium, what must he do to realize a successful conversion?

Put together a detailed plan of action. [pic] [pic] [pic] [pic] Exhibit 3 Brimmer Street Garage Condominium WORK NEEDED TO BE DONE 1. Roofing: Check and renew roof and flashing where necessary. Contractor's five (5) year warranty on the entire roof will be delivered to the Condominium Trust. 2. Heating: Renew all steam supply and return lines as necessary. Add five(5) new heater blowers throughout the garage.

Repair or replace, as necessary, heating facilities in the office, lavatories, and storage areas. 3. Sprinklers: Repair sprinkler system so as to be fully operational and without leaks. 4. Fuel pumps: Install two (2) reconditioned gasoline pumps. 5. Lighting: Wash and relamp all fixtures. Install additional lighting in the pump area, hallways and office areas. Install emergency lighting in the hallways. 6. Communications: Install new two-way intercoms and telephone extensions to all floors. 7. Blacktopping: Repave or patch

blacktopped areas where needed. 8. Painting and cleaning: Power wash and paint all walls and ceilings.

Power wash all floors. Replace all broken glass. Stripe and identify all individual units. 9. Elevator: Fully inspect elevator and reactivate safety gates on every floor. 10. Garage doors: Install remote control door opening system. 11. Comfort facilities: Refurbish waiting room, lavatories and office. 12. Exterior: Repair exterior brick as needed, and repaint exterior sash and trim

Exhibit 4 Brimmer Street Garage Condominium Estimate of Annual Condominium Common Area Charges ESTIMATED EXPENSES Utilities (a)\$7,000.00 Garage Payroll (b)42,000.00 Maintenance, Repairs ; Garage Supplies (c)1,800.00 Management (d)9,200.00 Bookkeeping, Payroll ; Office Supplies (e)2,100.00 Insurance (f)6,000.00 Elevator Maintenance (g)1,500.00 Security (h)920.00 Permits ; Licenses (i)140.00 Water/Sewer (j)600.00 Trash Removal (k)220.00 Legal ; Accounting1,000.00 Reserve for Contingencies, Improvements and Replacement2500.00 ESTIMATED INCOME Transient Parking Fees (l) \$22,000.00 Net Income from Sale of Gasoline (m) Car Wash Fees (n)3,000.00 Net Income from Sale of Miscellaneous Supplies, and Services, including Motor Oil, Transmission Fluid, Recharging4,000.00 Batteries. ,000.00 Total Estimated Income30,000.00 Amount to be used to compute individual unit net common area charge \$42,780.00 FOOTNOTES a. Utilities are comprised of electricity and oil for heating. The estimated expense for utilities shown above represents a 30% increase over the amount represented to me as having been expended for utilities in 1978 by the prior owner. b. The estimate for garage payroll, which includes employer's tax and insurance contributions. represents a 15%

increase over the amount represented to me as having been expended for payroll in 1978 by the prior owners. c.

The estimate for maintenance, repairs and supplies does not include the expenses to be paid by me in connection with the condominium conversion.

d. Cost quoted by Pilgrim Parking, Inc. , Boston, Massachusetts, for managing the garage under a self-extending one (1) year agreement, cancelable by either party on notice given at least sixty (60) days prior to the contract anniversary date. e. Includes \$1800 cost quoted by Pilgrim Parking. Inc. for bookkeeping services, plus \$300. 00 estimated annual amount for office supplies. f. The insurance premium as is currently quoted by an independent agent. . Actual cost of \$600 per year in accordance with existing annual contract with F. S. Payne Co. , plus \$900. 00 estimated annual amount for parts and labor not covered by contract. h. Actual cost per existing annual contract with Burns Electronic Security Services, Inc i. Estimated expense based upon amount represented to me as having been expended for permits and licenses in 1978 by the prior owners, including Garage Keepers' License, License to Store Gasoline and other Flammable Materials, Elevator Permit, and Fire Inspection Certificate. j.

The estimate for water and sewer represents a 50% increase over the amount represented to me as having been expended for water and sewer in 1978 by the prior owners. k. Actual cost per existing contract with Charles Lee Disposal Inc. l. Estimated income from transient parking fees is based on receipts of approximately \$60. 00 per day from transient parkers. m.

Estimated net income from gasoline is based upon a \$0. 15 per gallon profit

for 20, 000 gallons per year. n. Estimated net income from car washes is based on two (2) washes per day. ————— Exhibit 1 Exhibit 2