
ZOEWE'S DOWNTOWN PLACE NEGOTIATION

Confidential Information for Zoewe's VP for Development

You are a VP for Business Development at Zoewe's LLC., the owner and operator of Zoewe's Theaters, a small Midwestern theater chain known for showing independent films and select mainline movies. When developing a new theater location, Zoewe's LLC. sometimes also purchases and then leases out adjacent real estate compatible with theater operations.

During your mid-MBA summer job at Zoewe's, your project was to analyze the demographics and entertainment preferences of people who rarely, if ever, come to Zoewe's movie theaters. You determined that significant numbers of aging baby boomers-empty nesters feel less comfortable in theater multiplexes with low-brow food and teen patrons. They are inclined to watch movies at home and spend entertainment dollars dining with friends at nicer restaurants or attending plays or concerts. Except for Met Opera HD live performances, they don't rush to current releases. Yet, they have considerable leisure time and often seek weekend places to go, especially when the weather is less than hospitable.

Based on your data analysis, you proposed urban and suburban strategies to create more elegant theater spaces with café table service options. Where Zoewe's suburban theater complexes have excess capacity, end spaces would be refitted and separate entrances created. Zoewe's would also seek to purchase older downtown movie theaters in urban areas with empty nesters and younger, affluent populations. Rebranded as Zoewe's Place(s), upscale food and beverages would be served before, after, and during movie classics, recorded theater and concert performances, and some newer movies. Screenings might be punctuated with breaks for food, drink, and conversation. Weekend shows might include interludes for dancing to Fred Astaire-ish movie segments or band performances.

That project led to your current VP job, putting these recommendations into action. Luckily, you learned from a web search that the old downtown Cincinnati Krugfeld building is for sale. It's in a perfect location, close to recently constructed or rehabbed condominium buildings full of empty nesters and professional couples. As a Cincinnati history trivia buff, you know that the Krugfeld building was originally built by Tobias Krugfeld as a theater for silent movies in the 1920s. It was converted to Kiwanis Hall in the '50s and then a shabby auction house in the '70s. A private developer bought it 20 years ago, but never really developed it. The building was used primarily for storage, with offices and retail on the ground floor. It now appears to be abandoned.

You have a budget of \$10,000,000 to put a Zoewe's Place in the Krugfeld building; that includes purchasing, rehabbing, equipping, and furnishing the space. Having walked through the interior with an engineer and a contractor, you know that approximately



\$5,000,000 will be needed to rehab, reconstruct, and outfit the space. It's a real bonus that the building was originally constructed as a theater with soaring open four to five-story height and wrap-around balcony areas. This means that the later-added interior floors are not part of the building's structural bones. It should be relatively simple to remove them and restore it to a theater. That's part of what kept the construction and fixture cost estimate to \$5,000,000. While you haven't done full research on furnishing and decorating, experience suggests a range of \$500,000 - \$1,000,000 depending upon how "classy" you go.

That leaves you with \$4,000,000 to \$4,500,000 to purchase the building. Of course, you'd like to get it as cheaply as possible to maximize funds for reconstruction, furnishing, and promotion. Promised city tax abatements and urban revitalization agencies' marketing support also boost this business plan.

If you can't get the Krugfeld building for under \$4,500,000, the plan is to spend \$7,500,000 to reconstruct, re-fit, and re-furnish space in one of Zoewe's suburban area multiplexes. You think it makes sense to spend somewhat more downtown where the nearby demographics are better and your idea will make a bigger splash. It may draw empty nesters from the suburbs too. However, above \$4,500,000 for the building/\$10,000,000 for the project and Zoewe's would opt to test your ideas in a suburban theater property it already owns.

You know that the Krugfeld building was listed several years ago for \$6,000,000; registry records indicate the owner had purchased it for \$4,000,000 some 20 years before. It went into foreclosure and was apparently bought at a foreclosure auction by the mortgagor, Sixth/Fourth Bank, for \$2,250,000 about a year ago. It was recently, listed on the bank's realtor's website for \$5,000,000. Is that serious or their pie-in-the-sky number? The building has been more or less empty for many years. While the tax assessment is \$4,000,000, you suspect that is largely based on square footage and doesn't take into account the building's dilapidated condition. On the other hand, given the neighborhood, you worry that a well-funded developer might pay a much higher price to develop it as a condominium and/or retail space.

You are now scheduled to meet with a representative of Sixth/Fourth Bank to negotiate a possible purchase of the Krugfeld building.