



Investment Memorandum: 406 West 25th Street, NYC

A Distressed Asset Acquisition and Value-Add Opportunity in Prime West Chelsea

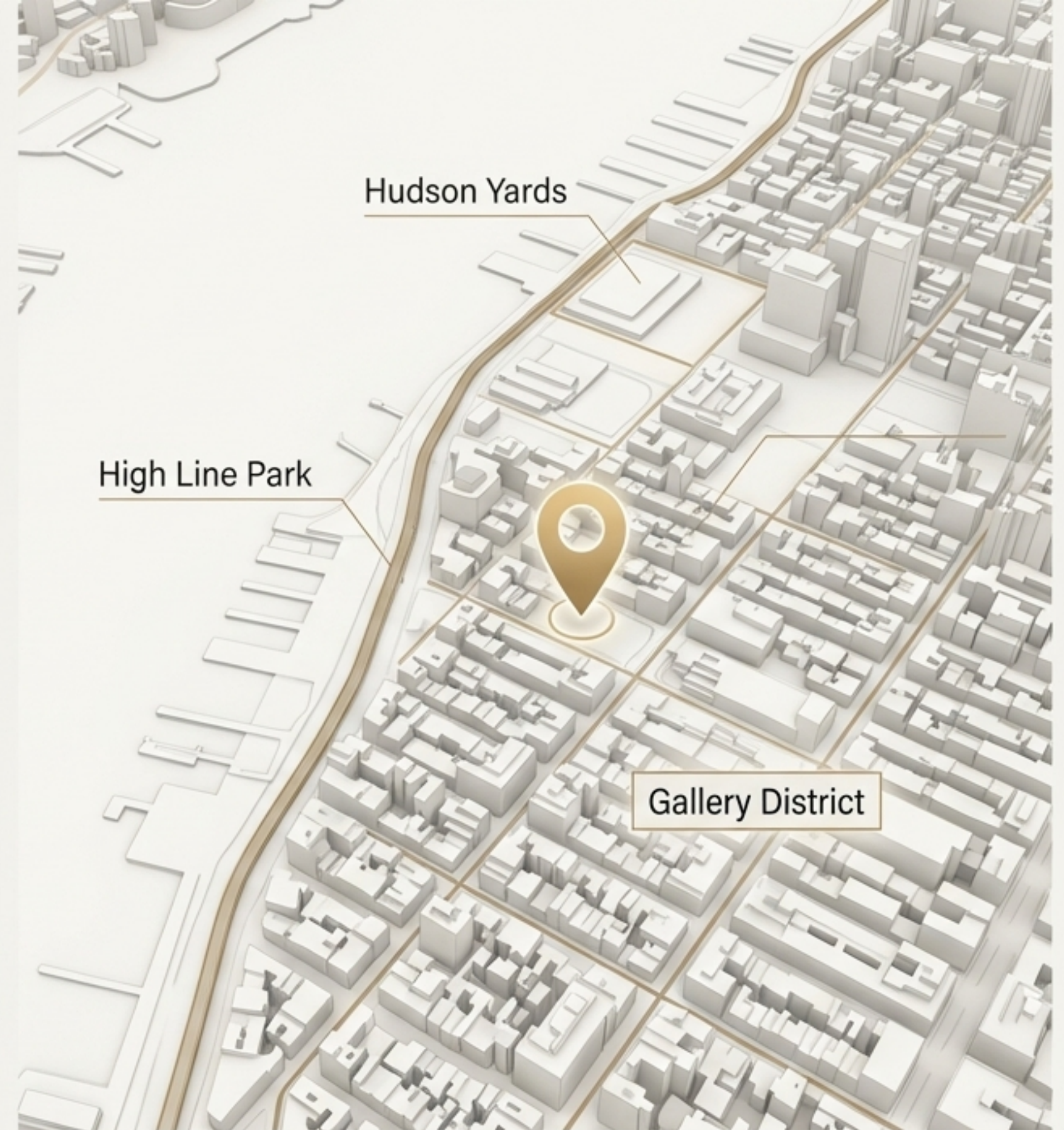
This memorandum presents a unique opportunity to acquire a historic, 25-foot-wide townhouse in a premium West Chelsea location through a distressed asset transaction. The investment thesis is centered on a significant arbitrage potential stemming from the property's current legal and physical entanglements, including holdover tenants, debt, and the lack of a Certificate of Occupancy. This situation has created a profound gap between the asset's current state and its true market potential. Our strategy involves acquiring the controlling legal entity ("Entity Sale"), resolving the encumbrances, and executing one of two distinct value-add business plans. The target acquisition basis is approximately \$8 million, a figure that represents a remarkable opportunity to secure a trophy asset at a land-value price point, with the potential to generate over \$16 million in profit while being supported by a strong defensive cash-flow alternative.

The Epicenter of Culture and Luxury: West Chelsea

The property is situated at 406 West 25th Street, in the very heart of West Chelsea's most desirable gallery block between 9th and 10th Avenues. This micro-location is irreplaceable, defined by its immediate proximity to world-class cultural and lifestyle anchors, including the High Line Park, the global art galleries that define the neighborhood, Hudson Yards, and Chelsea Piers.

The area consistently commands premium real estate values, with comparable renovated properties trading in the range of **\$2,500 to \$3,000 per square foot**.

The market is also characterized by an extremely limited supply of wide townhouses; the 25-foot width of this asset makes it a **true "unicorn" property**. This scarcity, combined with the unceasing demand from global ultra-high-net-worth individuals for homes in this specific enclave, establishes a powerful and durable fundamental value proposition.





The Asset: A Foundation of Unlocked Potential

Building Specifications

The subject of this opportunity is a historic 5-story building constructed in 1910, possessing a rare and highly coveted **25-foot-wide facade** on a 2,469 square foot lot. The current structure encompasses approximately **9,800 square feet**, configured as 20 residential units, the majority of which are currently vacant.

Distress Factors & Hidden Value

Critically, the building operates without a Certificate of Occupancy (CoO), a key factor contributing to its distressed status.

However, beneath these challenges lies immense untapped value. An **existing elevator shaft** provides a significant structural advantage, dramatically reducing the cost and complexity of a future luxury conversion.

The property also includes a **basement with high ceilings**, ideal for creating a duplex commercial space.

Furthermore, R8A zoning provides for a total of approximately **14,800 square feet** of development rights, leaving a valuable remainder of roughly **5,000 square feet of air rights** available for vertical expansion.

Acquisition Structure: Capitalizing on Distress via Entity Sale

Our acquisition is structured as an “Entity Sale,” allowing us to take control of the asset at a basis that is fundamentally disconnected from its intrinsic market value.

This method involves purchasing 100% of the shares of the LLC that owns the property, a strategic approach that maximizes leverage against existing creditors and minimizes transactional costs like transfer and mansion taxes.

The total capitalization is structured to resolve all current encumbrances.

Total Acquisition Basis

Cash to Seller: **\$4,000,000**

└ For 100% of LLC shares.

Assumed Debt: **\$3,700,000**

└ Represents a negotiated 50% discount from the original debt principal.

Closing & Buyout Costs: **\$380,000**

Total Acquisition Basis: **\$8,080,000**

\$820 Per Existing Square Foot

A staggering **60% discount** to the market value of comparable assets.

Alternative A: The Yield Play (Stabilization & Cash Flow)

Alternative A represents a conservative, low-risk strategy focused on capital preservation and rapid stabilization. This 'Yield Play' prioritizes generating immediate cash flow by forgoing the development of air rights and focusing on the existing structure.

The plan involves a swift cosmetic renovation of the building's 20 units, budgeted at \$65 per square foot, to bring them to market-rate rental condition.

Value Creation Summary

Total All-in Investment
\$8.78 Million
(Acquisition + Cosmetic Renovation)

Projected Annual NOI
\$808,000
(Net Operating Income Upon Stabilization)

Stabilized Market Value
\$17,000,000
(Based on a conservative 4.75% cap rate)



This strategy creates approximately **\$8.3 million** in "on-paper" equity, offering powerful downside protection and a clear path to value creation with minimal execution risk.

Alternative B: The Development Play (Luxury Condominium Conversion)

Alternative B is the entrepreneurial strategy designed to unlock the asset's maximum potential through a full-scale luxury condominium conversion. This plan involves a complete gut renovation of the existing structure and the strategic utilization of the property's **5,000 square feet of available air rights** via the addition of two new floors. This vertical expansion would create a spectacular **duplex penthouse**, crowning the building. The plan also includes the excavation of the high-ceilinged basement and its integration with the ground floor to create a premier, **double-height commercial gallery space** befitting the neighborhood.

The final product will be an exclusive boutique condominium building featuring four full-floor residences and the stunning penthouse, delivering a product that is in exceptionally high demand and short supply in West Chelsea.



Financial Analysis: Quantifying the Upside of Strategy B

Project Pro-Forma

Total Project Cost (All-in): **\$16,330,000**

(Includes acquisition, hard & soft costs for gut renovation and new construction)

Projected Net Sellout: **\$32,900,000**

(After all marketing and closing expenses)

Net Development Profit: **\$16,570,000**

Return on Total Cost: 101%

Marginal Value of Air Rights (5,000 sq ft)



This single component is projected to generate approximately **\$10.7 million** in profit, demonstrating the immense value unlocked by executing this comprehensive development vision.

Risk Mitigation: A Proactive Approach to Managing Key Variables



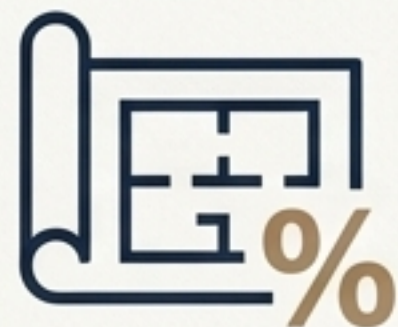
Holdover Tenants

A dedicated budget is allocated for "cash for keys" buyouts, which is the preferred and most expedient path. A clear legal plan for holdover proceedings is prepared as a contingency.



Lack of Certificate of Occupancy

This is not a risk but a planned-for component of the development play. The budget and timeline for securing a new CoO are fully integrated into the project's soft costs.



Construction Uncertainty

To account for unforeseen conditions in the 1910 structure, a 10% contingency is included in the hard costs budget.



Market Risk

The viability of **Alternative A (The Yield Play)** serves as the ultimate downside protection. In the event of a severe downturn in the for-sale market, the project can be pivoted to a stabilized rental, ensuring all debt service is covered and capital is preserved.

Comparison & Recommendation: A Tale of Two Strategies

This investment offers a unique duality: a low-risk, cash-flowing asset and a high-upside development project contained within a single acquisition. The choice between the two alternatives presents a clear trade-off between risk, timeline, and the scale of return.

Parameter	Alternative A (Rental Play)	Alternative B (Development Play)
Required Equity	~\$5.0 Million	~\$6.0 Million
Risk Level	Low	Medium
Time Horizon	Immediate (Cash Flow)	30 Months (Exit)
Potential Profit	\$8.3 Million (On Paper)	\$16.5 Million (Realized Cash)

Recommendation: Alternative A provides a robust safety net and a strong return profile. However, given the exceptional physical attributes of the asset and its premier location, our primary recommendation is to pursue **Alternative B**. The Development Play is poised to generate a significantly higher, fully-realized cash profit that captures the true, unlocked potential of this irreplaceable property.



Conclusion: Seizing a Generational Opportunity

The 406 West 25th Street project represents a rare and compelling opportunity to capitalize on a complex, distressed situation and forge an asset of exceptional value. The combination of a deeply discounted acquisition basis, the building's unique physical advantages—most notably its 25-foot width and existing elevator shaft—and an irreplaceably prime location makes this one of the most attractive investment opportunities in the current New York City real estate market.

Current Status & Next Steps:

- ✓ A Letter of Intent (LOI) to acquire the asset has been submitted.
- ✓ In-principle approval for bank financing has been received.
- The immediate next steps are to complete final due diligence and execute the purchase agreement.

We invite you to join us in seizing this extraordinary opportunity.