

EPISODE 737

[INTRODUCTION]

[0:00:00.0] ANNOUNCER Welcome to the Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Niccolo Mastromatteo. Thanks for being on the show Niccolo.

[0:00:34.0] NM: Yeah, thanks for having me Whitney.

[0:00:36.0] WS: Yeah, awesome, well, I'm grateful to have you on the show. Niccolo is a commercial real estate developer, commercial real estate investment sales broker at Friedman Real Estate from 2017-2018, currently, the Principle at Pimpernel Developments. He's developing projects, I'm looking forward to hearing Niccolo transition from working at a brokerage firm to being a developer now and also, how that's helping him in a way of finding deals and closing deals that maybe you and I can't close in how he's taken advantage of that skillset.

Give us a little more about your background and then getting into the space, you know, why real estate, why the development, why syndication, and let's dive into your super power?

[0:01:18.0] NM: I got into real estate originally, 2016, I saw a documentary on a real estate developer fall 2016 and looked interesting to me, it's kind of left brain and right brain type of thing and I was kind of searching for what to do after graduating. I found a paid position in commercial real estate which isn't always the easiest thing to do for entry level and it was kind

of a position that I could look into, at a big company locally at least, in southeast Michigan, that's Friedman Real Estate.

I was a new business development so I got a look into construction and to brokerage, property management, the financing side, kind of every arm of the industry and kind of got a good feel for the different asset classes, this and that. Moved in to brokerage, about nine months after I started there, and did brokerage for I don't know, about a year.

And then, switched into development, left the company on very good terms and still talk with the guy who mentored me and, once in a while, other people at the company but I left for specific developments that I had actually called on originally. My first two calls as a broker are still the deals I'm working on now. I've gotten a lot of good experience in development and set in a lot of meetings that I otherwise wouldn't have if I didn't leave at that specific time, but meetings with the state economic development corporation, the county, the city, and the city politics.

The city's kind of notorious for having a hairy situation in that regard. The project on paper have gotten nowhere but in the background, everything's kind of really built to a crescendo and actually one of them in particular is just so happens to be a name.

Kind of like a do or don't do situation for the city, pretty complicated deal that, basically, I'm buying these two big office buildings that also include an agreement that is the result of six years of litigation between the owners and the city and that, what's called the settlement agreement, is terrible for the city. Financially, and in every other manner, now and going forward with liabilities and this and that.

Basically, I'm proposing to release them from that settlement agreement, in exchange for giving me the massive parking structure in between the properties and buying and for cash contribution and a bunch of incentives to redevelop the downtown area. Tonight, they either decide to move in favor of my proposal or they go off into what they're calling settlement default, which is factor receivership and emergency management and all that.

There's other proposals on the table that are not feasible so my challenge has been to communicate to the council that it really is either they go into default, their decision tonight is

either they default in a month and going to rededication, a court date is already been set or they sign my three party LOI with the seller. To push back that November 1 deadline and negotiate the details of my deal with the city.

[0:05:00.0] WS: You definitely perked my interest, and I know you've perked a lot of the listeners as well. I'd love to hear more about this project because I'm thinking, "Wait a minute, how did you underwrite something like this? How do you work into understanding what this settlement agreement involved in taking that on, and releasing the city of that?" Are you taking on liability, and all these different things that I'm thinking through as just from the details that you've shared there.

Can you back up a little bit and just share a little bit about this project and how you found it and why you would pursue it?

[0:05:31.2] NM: It's located in downtown Pontiac, Michigan. If this was the year or two ago, I might have been hesitant to say more details about where this and that, but I'm so ingrained in now, I'm not worried. Pontiac is about 30 minutes north of Detroit up Woodward avenue, which deadens in Detroit and Pontiac used to be called Pontiac road.

Pontiac's, if the county see, it's in the center of Oakland county, which is one of the most affluent counties in the nation. Pontiac is kind of the – I don't know how how to split it – like the city is last in the county so it's been a target, much smaller, more achievable target than Detroit has been. I'm sure most the listeners already know that Detroit's had a big turnaround the last five, 10 years. Pontiac is much smaller geographically and more doable to revitalize, but the political situation is horrendous, from what I hear. I don't have much experience in other cities, but the owner who is selling me this property has developed 200, 300, 400-unit apartment complexes and five states and a few different cities in those states. He says, he's never seen anything like this.

Really, it's the reason I was able to get in the position I'm in now, because nobody else wanted to put in the effort, just doing one day at a time, this and that, eventually started clicking.

[0:06:58.5] WS: How did you find this property? How did you know it was for sale and then you know, start to go into purchasing it?

[0:07:05.5] NM: Well, Pontiac is the only real kind of like downtown area in Oakland county, there's a couple other smaller ones but it's just smack in the middle of the county, it's the county seat, there's not much going on there and I was a mortgage student development as a broker so I was poking around. This property was for sale, there's only a few big properties downtown and this is one of them.

It was on the market, so I started talking with the broker, and that kind of led to a relationship. I put a different deal up street under contract and that's the other one, I've been working on it forever. Then I got introduced into a developer who wanted me to start working with him and I told him we can get this other property under contract and start working on that so I'm mean, really, from there, just really kind of one thing led to another.

[0:07:50.6] WS: Yeah, tell me about this settlement agreement? How did you learn that there was something like that attached to this property, and just figure out what that means and sounds like you've – you're creating an opportunity for the city, you know, to get out of something that sounds negative to them, maybe you can shared some light on that as well?

[0:08:10.5] NM: Yeah, I mean, that settlement agreement is really the only reason this whole deal is worth it, because I can use that settlement agreement to get cash contribution and incentives from the city, but it also helps me look like the good guy, because I'm really – in doing that, it saves the city from going back into receivership, and emergency management, but that settlement agreement –

The property is two big office towers, mostly vacant. Big part of the reason they're vacant is because this huge parking structure in the middle, it was in litigation for six years, between the city and the owners, so no tenant wanted to sign a lease without guaranteed parking, and the deck needs a lot of work done to it, but basically, that settlement agreement orders the city to bring this parking structure up to code.

It's called the Phoenix Center. I'm buying the Ottawa Towers and the Phoenix Center is the parking structure in the middle. The city has to bring that garage up to code by this November one. Settlement was reached September – November 1, 2018, so two years ago. Bringing it up to code requires \$20 million from the city and it needs to be done and completed in just over a month here. They haven't started. Probably a part of the reason that they haven't started because I think they want to do this deal with me but they're just hesitant.

They have to spend \$20 million to bring it up to code, the garage is 2,400 parking spots, they have to give Ottawa Towers 1,800 of them for free. The city owns the garage. They have to give 1,800 free parking spots for 10 years, really, it's essentially free for 30 years. You're approaching demo time at that point. So, what it does is the city has to pay 20 million and they have no income on this asset and they have a never ending liability and obligation to fulfill the terms of this settlement agreement, which never goes away. So it is like a constant – I mean I don't know, massive weight on the city's back. It is just like they are constantly impending default. So what my deal does is if they go into default they are going to have to pay that \$20 million. They're also going to have to pay another \$10-20 million. Either way, they are going to have to owe about 40 million.

They don't have 40 million. They can't declare bankruptcy, so the penalty gets dispersed amongst the tax payers. Now the question becomes, can they pay? And then they could have a lot less than those in the counties statewide and nationwide. So where does that money come from sort of thing? My deal is basically instead of having to pay \$40 million and going into receivership, pay me \$20 million over time. They don't want to bond, so no bonding required.

Give me the Phoenix Center, per dollar, you can retain some ownership if you want. We will figure that out and a bunch of incentives, as your developer rights that sort of thing, and I have big name to partners with lots more development experience ready to do this deal with me, but I need the city to sign this letter of intent first. So that is where it's at and tonight they have a vote finally. I mean I put this under contract on November last year, to vote whether or not to move forward with my proposal.

One of four other proposals, which are all not viable. It's just hard to communicate to them, or they go into default. So really it comes down to the default, and they are going to owe 40 million,

and go into receivership, or they do this deal with me and the county is also on the hook for the settlement agreement, which I have kept very quiet, because I want the city to sign it and then I want to diplomatically go to the right people at the county. They should cover 50%.

So, it is really going to save the city from receivership and it provides the opportunity to start fresh and kind of build a new Pontiac downtown.

[0:12:19.8] WS: Wow, well I wondered what happens to the settlement agreement if they agree to move forward with you?

[0:12:25.8] NM: First, I'd close on Ottawa Towers and, contingent on the city transferring ownership of the Phoenix Center to me, and providing the other incentives, and this and that. So I close on Ottawa, I close on Phoenix, then I release them from the settlement agreement, and the declaration of parking easements, which nobody else ever talks about and it is a massive problem for the city.

So, I don't know how it is going to shake out but that is really the gist of it is they contribute the deck in X amount of dollars and incentives. I close on Ottawa and Phoenix, and then I release them from the settlement agreement.

[0:13:01.2] WS: You don't have to complete the upgrade to the parking structure by November 1st do you?

[0:13:05.5] NM: No because I would own that settlement agreement and, really, my goal with all of this is – so, Pontiac has a loop, five lane one-way highway loop around downtown. They county has had plans for 10-20 years to convert that to two way traffic, hasn't been able to do it. I would like to convert that loop to two way traffic and I know I can do that with this deal with the city, as kind of a side note, but I do want to reconnect Woodworth to downtown Pontiac too, which will require demoing at least part of the Phoenix Center, if not the whole thing. I need to get detailed assessments done of the Phoenix Center, shortly after the city signs my LOI.

[0:13:48.2] WS: Wow, and I know we can't dive into every detail of a deal like this but it is so creative and out of the box. Talking about and helping the listener hear something like this. It is

not just your typical deal in the beginning. How did you look at this and say, "Wait a minute, you know here is something that we can make some money on," you know, it may take us a year or two years or whatever, dealing with the city, but it is going to be worth that much time and weight.

[0:14:14.5] NM: Well, there is only a few buildings downtown, and we were under contract to do the development on the tallest building downtown, 1920's built beautiful structure type of building. So this one, one of the other few large properties that is for sale on the markets. So I started looking into it and then started trying to figure out a way to put it under contract with the seller. He'd never sign an agreement, learned about this settlement agreement.

Learned about this learned about that, just thinking about on the side with the other development that is 28th north is the focus, but this Ottawa-Phoenix thing, the more that was learned about the settlement agreement, the more creative thinking started happening in discussions with others where the idea is kind of just built on each other. I think the idea first is to sell that settlement. First, it is what got under contract. So we found out we needed –

The owner wanted to sell everything and get out of Pontiac. He owns other properties too. So now I got to buy these three schools I don't want, and these Ottawa Towers I don't necessarily want it. You want the settlement agreement. So you get all of it packaged. It helped us get it under contract but while doing that, just found out a way to monetize it.

[0:15:28.9] WS: Nice, well, that is very creative. I know most wouldn't stick it out and figure all of that out but I wish we could be or had to show tomorrow so we could know what the council decided, but Niccolo, what has been the hardest part of your commercial real estate career?

[0:15:44.4] NM: Working with the city. I don't blame them but they have lots of – they have some real deep rooted trust issues that I think go back to well before this. The litigation started in 2012. It is a really hairy political situation and they have a license coming up. They are a year behind everyone else but navigating the politics, the city politics has been extremely difficult. Just getting it on the agenda for tonight took a year.

[0:16:11.9] WS: In one sentence, what is some advice that you have for the listener who is dealing with the city or you know a city council or something similar to this?

[0:16:20.5] NM: I don't know. Listen as best as you can, trust nobody. I have listened and talked with everyone. I tried to keep a low profile, not be seen in public with anyone, because I don't know who is going to jump to conclusions about anything, this or that. They tell you to go get X, you go get X. They don't think you can get an X, and you go get a X and you come back to them and then they say, "Go get Y." So, it is a lot of dancing and trying to find the true leverage because I don't know how else to get it.

I mean being a nice guy doesn't always work. I am not out to hurt the city, I am trying to only benefit the city, but because of their trust issues, they are constantly – sometimes if you are trying to do something for the right reason, they just don't believe it. As far as advice, I feel the longer I am in this, the more I learn, the less advice I have to give.

[0:17:10.7] WS: What is the number one thing that's contributed to your success?

[0:17:14.4] NM: Persistence and a positive outlook. It leads to creative thinking to find the right solution.

[0:17:22.1] WS: And how do you like to give back?

[0:17:23.7] NM: That is something I have been thinking about doing if this ever finally goes through but really – I guess, in the process, I have giving back. I left a very reputable firm, strong position. I have turned down offers, unsolicited offers for jobs, so the income stream has been lacking for two years due to my obsession with this project, but the way that helps me keep going is to remember that I am doing it for the people in the city.

There is a very strong pride with the city and to keep that going. So, I guess it is kind of giving back while doing this or at least that is what helps me be motivated.

[0:18:05.1] WS: Yeah. Well Niccolo, it has been a pleasure to get to know you a little bit and hear your story and really hear about this property, this project is so unique. There is so many

different things about it. Your desire to push forward and to keep pursuing this project and everything you had to do to make it happen. So, I am grateful for your time today and grateful for just you sharing that with us. I think it is probably opened the eyes of the listeners somewhat to think about deals that are outside the box and getting creative.

So thanks again. How can the listeners get in touch with you and learn more about you?

[0:18:36.7] NM: One way is my cellphone, I don't mind sharing it, call or text, 248-464-5373. I would prefer to let me know who is calling and why.

My email is niccolo.mastromatteo@gmail.com. Other than that, you can find me on LinkedIn or just Google.

[END OF INTERVIEW]

[0:19:08.1] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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