



Mixed Use Development Virginia

This investment was to be the ground-up development of high end apartments with mixed use facilities, including a movie theater, office space, and retail parcels. It serves as an important case study in incorporating risk management into every investment.

Our joint venture began executing this project within the design parameters specified by the municipality. One requirement was the project must include a movie theater. Due in part to the looming economic downturn, several well established theater operators felt the site and timing was not right to build a new theater. As we proceeded with planning, our partnership requested an exception to this aspect of the plan. The municipality showed considerable inflexibility in approving this modification. Rather than proceed with a non-economically viable project, we exercised our termination rights under the contract.

While we did incur a loss of \$182,947 because of engineering and design costs, ensuring we had termination rights under the contract kept us from suffering a major economic loss.

Why would we show a case study where some amount of capital was lost? Clearly we

believe this case study demonstrates some critical lessons: First, projects must be protected from local governments driving business decisions. Second, risk mitigation measures must be included during the contracting phase to ensure bad situations do not become catastrophic. In this case, negotiating termination rights allowed us to minimize the loss of capital. And third, all projects look great on paper, but contingency planning and the foresight to terminate projects when critical assumptions are not met is key to ensuring the preservation of capital.

This case study is also relevant in that it points out that **ANY INVESTMENT CAN RESULT IN A LOSS OF CAPITAL**. There is no guarantee of performance with any investment, and managers cannot assume away risk in any business plan.

Investment Date: March 2007
Total Projected Cost: \$45,550,000
Total Invested: \$1,500,000
Disposition Date: September 2008
Funds Returned: \$1,317,053

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