Chuck's Wagon

Confidential Role Information for C.D. Brown, Owner of Chuck's Wagon

You have been in the catering business for the past ten years in your small town, and have established a sterling reputation. You cater for very upscale establishments and you do some large functions in town for the leading businesses. You have no full-time employees, and you don’t want any. You have never been interested in expanding, you prefer to run the business and do the cooking yourself with part-time help. You average about one job a week, turn a modest profit every year, and this is enough. You enjoy a lifestyle with tremendous freedom and flexibility.

You are looking for a new home for “Chuck’s Wagon,” your catering business. You have been renting from a private club that has a Class III commercial kitchen. It’s been a friendly arrangement, but they’re expanding operations and will be using the kitchen full time. They’ve been very flexible about when you move out, but you know it needs to be soon.

You have already lined up a possible site on Whitestone Avenue. The Whitestone property is in a commercial neighborhood on the north end of town. It has a one-story building, 800 square feet, sitting on a small lot of about 2900 square feet. Adjacent to the building is a short driveway leading to a parking lot. The lot has enough space for two cars. You’d use one for your own car, and the other for your delivery van. The building itself used to be used as the office for an autobody repair shop. The shop sat on the lot next to this one, and it was sold off and demolished about five years ago. It’s now a 24 hour convenience store.

Your catering business requires a Class III commercial kitchen. If you buy the Whitestone property, you’ll have to renovate, bring the wiring and plumbing up to code, and install commercial kitchen equipment. The renovations would run around $16,000. The equipment would cost $32,500, installed and guaranteed. You know people you would trust to do the work to your specifications.

You know the owner of the Whitestone property, and it was easy to negotiate a fair price for the property. You met last week and settled on $115,000, and

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she agreed to give you until midnight tonight to make up your mind and give her a deposit. If you don’t act by the end of the day, she’s got another buyer lined up and you’ll lose the property.

Just after you met with the owner of the Whitestone property, however, you were out walking close to downtown and you saw a property on Beechwood Drive you really liked. It didn’t have a “For Sale” sign on it, but it looked vacant. It was ideal: A small building, just the right size for your kitchen, room for a driveway and parking, and — this is a big plus — it sits next door to a park. Because it is a bit secluded, compared to the Whitestone property, not only do you prefer it but you figure it should be less expensive. Your business does not benefit from foot traffic (people walking by and coming in). You make the food and deliver it. You would definitely enjoy having a park next door, instead of a convenience store. Having a nice working environment is very important to you. You asked around and discovered that the owner was A.B. Hayes, a small-time real estate developer in town. Hayes owns not only the property you’re interested in, but also the lot with the park next door. It’s apparently not an official park, but the neighbors have planted grass and maintain it. They have even put up a hand-lettered sign that says “Beechwood Park” and brought in some benches and lawn furniture. It’s a very peaceful oasis.

You immediately called Hayes and asked about the property. Hayes said she’d consider selling the property, and you talked about some of the details. It turns out that the property is actually two small lots, side-by-side. Lot 234 is about 3000 square feet and has the building, which is 775 square feet. It has no curb cut (necessary for a driveway), and no space for parking anyway. You’d never get zoning approval to add a driveway to Lot 234. Lot 232 is a strangely shaped piece of land between Lot 234 and the park. It’s too small to build on, but it has a curb cut and just enough room for a driveway and two parking spots. You want to buy both lots so that you can use 232 for parking. It would cost $4500 to put in a driveway and two parking spots.

Parking is important. There’s no on-street parking in the neighborhood. If you can’t get Lot 232, your only other option would be renting two spaces in a garage a block away. It’s not a big deal to walk a block to your car, but it is a real hassle carrying the food that far to the delivery van. Some of it is delicate and most of it is heavy. Plus, each space would cost $175 per month. The cost, plus the hassle factor, make it important to be able to buy both lots together.

The Beechwood building would cost exactly the same to renovate as the Whitestone property. The two buildings are almost exactly the same size, and need the same work. However, there is one difference. With the Whitestone property, you’d have to contract out the work yourself, and oversee it. This is
a big hassle, although you are assured of having everything done to your specifications. With the Beechwood property, however, there is the possibility that Hayes, as the seller, would do the renovations and install the kitchen equipment as part of the sale. You’d pay for it, of course. In fact, you’d pay a premium ($3000) over the estimated renovation costs just to have someone else deal with the headaches. Plus, as long as it was done to your specifications, you’d pay a premium ($1000) over the estimated cost of the equipment and installation to have her purchase and install the kitchen equipment for you.

The main reason you’re willing to make concessions to Hayes to get this property is because of the park. You asked about the lot with the park, and she said she had no immediate plans for it and was pleased the neighbors were enjoying the space. You could have lunch in the park, meet friends there, and look out at the park from your kitchen. It would be worth a little extra. If you had to put a financial value on having the park next door, it would be worth an extra $5000, compared to having a commercial building like the convenience store next to the Whitestone property.

Over the phone, Hayes mentioned something about not wanting a big commercial sign out front. You’re not sure if that’s because of zoning restrictions or to maintain the character of the neighborhood, but once you buy the property you figure you can do whatever you want. You don’t want a big sign anyway, but you would like to put up a small sign, because this will be the first time in ten years you’ve owned your own catering kitchen. If it’s important to Hayes, you would be willing to agree not to put up a small sign—for a small price. It’s not that important to you, so you’d give up the sign for $500.

You are meeting with Hayes to see whether you can negotiate a deal for the Beechwood property that would satisfy your interests at least as well or better than the Whitestone property. You’ll have to decide today, though, because your option to buy the Whitestone property expires tonight. If you cannot reach a deal with Hayes in today’s meeting, you will call the seller of the Whitestone property and arrange to drop off a deposit this evening.
Appendix B—Recent Sales of Comparable Properties

City-wide average annual real estate appreciation
Last year: 3% per year
Last five years: 2.5% per year
Last ten years: 4% per year

City-wide average annual commercial real estate appreciation
Last year: 2.5% per year
Last five years: 1.75% per year
Last ten years: 2.5% per year

Recent commercial property sales
A. 472 Whitestone Avenue
   Lot size: 2400 sq. ft.
   Blg. Size: 950 sq. ft.
   Foot traffic: medium/high
   Parking: no
   Sale Price: $96,000
   Date: Two years ago

B. 412 Crestwood Street
   Lot size: 5125 sq. ft.
   Blg. Size: none
   Foot traffic: medium
   Parking: no
   Sale Price: $124,000
   Date: Six years ago

C. 416 Crestwood Street
   Lot size: 3000 sq. ft.
   Blg. Size: 1000 sq. ft.
   Foot traffic: medium
   Parking: no
   Sale Price: $114,000
   Date: Last year

D. 210 Beechwood Drive
   Lot size: 4000 sq. ft.
   Blg. Size: two, totaling 1800 sq. ft.
   Foot traffic: low
   Parking: four spaces
   Sale Price: $245,000
   Date: Last year