



MICHAEL J. ROBERTS

NABIL N. EL-HAGE

Lance Johnstone: Developing 3000 North Broad

It was April, 2007 and Lance Johnstone and Corey Galloway were meeting, as they often did, at the Rainbow Cafe, a small coffee shop in North Philadelphia. The two men were reviewing the latest piece of news that threatened to derail their real estate development a few blocks north, at 3000 North Broad Street. Johnstone was a former NFL defensive end, who had played 5 seasons with the Minnesota Vikings and 6 with the Oakland Raiders. He had participated in an executive education program for NFL Players at Harvard Business School in 2005, where he had met Galloway, the proprietor of a business consulting firm in New York. Johnstone had been interested in real estate development for several years, and was seriously looking at property near his hometown, in downtown Philadelphia. He was particularly drawn to the area near Temple University, his alma mater, which suffered from a shortage of student housing.

Shortly after returning from HBS in the spring of 2005, Johnstone purchased the parcel of property at 3000 North Broad Street for \$185,000, with the intention of developing residential housing. He called his new friend Galloway, who agreed to help in return for some of the upside and a small retainer, and the two began working on developing a business case, working through the zoning and regulatory hurdles, obtaining financing, and purchasing the adjacent parcel of property from the city of Philadelphia. By early 2007, they had a fairly solid plan, approved by the city, as well as a general contractor on board, and a bank loan of \$1.9 million which, together with \$800,000 or so in funds Johnstone was prepared to commit, would cover the projected total cost of the project of \$2,700,000. This included a \$2,075,000 construction budget, "soft" costs of \$368,000 and the land (\$257,000, including the additional adjacent lots purchased from the city). Initially, Johnstone had very ambitious plans to pursue a \$20 million-plus development, but after looking at the numbers and discussing the project with Galloway, they agreed to pursue a pilot project and use this 3000 North Broad as the foundation for Johnstone's pursuit of later, more significant developments.

In April of 2007, however, the plan was dealt a blow when the bank pulled out of the loan commitment, citing the general contractor's ("GC") inability to pull together a detailed back-up for the capital budget they were loaning against. The men had worked to line up another bank, and had received a commitment from Clarion National Bank – but for only \$1.7 million, rather than the \$1.9 million the Franklin Federal Bank had committed. A few weeks later, the project was dealt another blow when the "final" construction budget came in at \$2,500,000, or \$425,000 higher than originally

Senior Lecturer Michael J. Roberts and Professor Nabil N. El-Hage prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2008 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.