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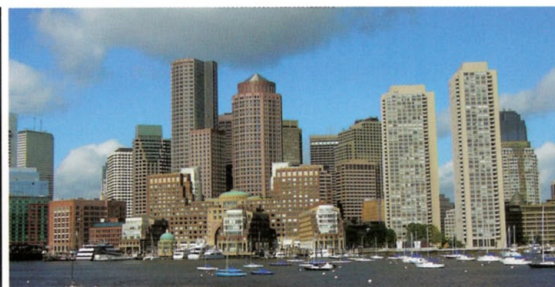
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Review Your Profitability Now

Slowdowns in the market often provide a great time to reassess project profitability.

By Barry Gross

The land grabbing euphoria that occurred between 2004-2006 has left many developers "stuck with land." During the good times it seemed buying as much as possible as fast as possible was the way to go but now developers perceive that they have little or no hope of achieving a profitable return on the investment. The alternatives are simple: sell now (possibly at a loss) or hold on to the land until the market returns.

When facing this critical decision, developers first need to evaluate how deep in the hole they find themselves. Do they have the financial means to maintain control of the property for an additional year or two? Real estate, as we all know, is cyclical and this current downward trend will inevitably reverse, so selling while land values are lowest may not be the best solution. With the financial means to hold a property through the downturn, a developer can position a project until better times return.

While waiting out the market, developers must not sit idle. This break can provide time to refocus on sound planning and development principles. The frantic and frenzied land development environment of recent years created an atmosphere where the objective was to complete deals quickly (and in some cases at any cost), thus many projects were not planned as efficiently as possible. Developers should use this slow period to re-examine projects to reduce development costs and increase sales revenues.

Although reducing costs may sound like basic common sense, a careful review of any subdivision can unearth significant cost savings. For example, in one project, the transfer of 40 units from one side of a 3,000 unit master-planned community to the other side reduced a road improvement requirement, saving the developer \$5 million. In another case, a slight reduction in the

number of units enabled a developer to pay school impact fees instead of building a new elementary school, resulting in an \$8 million savings.

In addition to using this time to reduce costs, developers need to review their plan to ensure it maximizes project revenues. During planning, house premiums are often neglected, only to be addressed during sales. These premiums are viewed as "gravy" to cover cost overruns. Premiums such as view corridors, cul-de-sac lots, and adjacent open space are a significant source of revenue and often do not add

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to costs. Planned properly, this increase in revenue is achieved with little or no increase in costs. Additionally, modification of a plan by reducing the unit count (while not reducing the land residual value) means that the sellout period would be reduced, resulting in both reduced carrying cost and overall project risk. Other areas worth reconsidering include unit mix, house size, amenities and project phasing.

However, not all developers have the luxury of sitting on a project and waiting for better times. Many are facing mounting costs in addition to cash flow issues. There are multitudes of reasons to sell, so with hungry speculators beginning to circle, owners are asking, "What can I get out of this deal if I sell now?" The answer may be little to nothing, if you neglect the importance of planning and



Dirt Cheap Dirt?

tim- ing. To maximize immediate sales value under unstable market conditions, a professional review of a project's requirements is essential. This review will provide the developer with the ability to assess current property value and determine what changes can quickly be made optimizing sales value.

Unfortunately for many developers, a direct sale of a project may not terminate their financial obligations. Developers often sign agreements with local governments when a final map is recorded, which guarantee timely completion of public improvements. Unless the public agency permits a transfer of this obligation, the developer will still be responsible for completion of the improvements. If this is the case, defaulting on the loan and transferring title back to the lender does not extinguish this obligation. The developer has a contingent liability until the improvements are completed by a new owner.

Landowners and developers have an opportunity to reevaluate their current situation and come out more efficient as a whole- we can all learn a lot in times like this.



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