

# perspectives

## Selling Homes, Not Loans

Smart Planning Can Create Value in New Communities



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We all know the bad news: Land developers and homebuilders are caught in the midst of one of the worst housing-market meltdowns in history.

Now for some unexpected good news: It's time to reposition your project, and then start selling homes again.

That's right. Because when the housing market was at its hottest in recent years, many customers were just buying cheap loans — not homes. That meant developers and builders didn't have to stretch much beyond building homes and communities according to old land-planning templates that were tried and true.

Now many of those templates just look old and tired.

But an unprecedented opportunity exists now to modify and resubmit stagnant development plans with the sole purpose of increasing the residual value of the land. There are techniques to optimize improvement costs by avoiding unnecessary costs. It is also possible to maximize potential lot value while decreasing lot costs.

This shift in thinking has many elements to excite customers, and many will be willing to pay a premium for that excitement.

Developers can tap into the trend once they understand the risks and rewards of submitting an improved entitlement to a new discretionary process. And they should be able to quantify those results with confidence before moving forward.

To get started, here are six basic principles of increasing value and revenue while decreasing costs.

### **Principle 1: Use Vision and Creativity**

Six years ago, golf-course communities were

hot. But newer market studies show people would rather have 100 feet of common space behind their 120-foot deep lot in the form of a trail system, rather than 300 or 400 feet of common space in the form of a golf fairway.

That presents a developer with a tremendous opportunity to redraw a community and tap into that customer preference, while at the same time recapturing valuable land for more streets and more home lots.

Development of a sustainable community with understated elegance, architecture, planning and landscape will provide memorable features and experiences.

This type of community should have preserved, natural open space, a rich mix of amenities and adaptability to a variety of life stages. It should also provide a sense of community with gathering places and community centers.

Customers are showing a preference for minimalist homeowner association communities. There is a shift away from huge, expensive clubhouses and toward more passive recreational amenities such as parks and open spaces for barbecues and picnics.

So land set aside for parks is not a liability. Instead, it is a substitute for luxurious common buildings, and a draw for consumers who will be willing to pay more to live in the community.

### **Principle 2: Understand Constraints, Opportunities Early**

Development should conform to the design of the site while minimizing grading impacts and preserving hillsides and natural drainage basins.

Many land planners and engineers have not been respectful of the land, and ultimately it has cost them. There's no need to



re-channel every creek or pave over every square inch. And by the way, there may be more money doing it the low-impact way.

A classic example is the single-loading of houses on one side of the street in a hill-side community. Sure, many engineers will argue that providing the same road, sewer and drainage infrastructure to fewer lots will drive up costs by as much as \$8,000 to \$10,000 per lot.

But there also might be savings of \$6,000 to \$8,000 in grading costs for each lot eliminated from the plan. And that means borrowing less money from the bank.

Happy customers will be willing to pay as much as a 10 percent premium for the better views that single-loading affords. So each \$500,000 house built, for example, may suddenly be worth \$550,000.

### **Principle 3: Think, Design, Build and Market Concurrently**

A sequential approach to a project means it is designed, built and brought to market one phase and product type at a time. All the lots and homes of that size and shape are sold at the rate of, say, five per month, and then the developer moves on to the next product type. Amenities come online bit by bit.

A concurrent approach means all product types are available at all times, tapping into the market for three or four or five buyer profiles at once — and creating the potential to sell as many as 20 homes per month instead of just five.

Marketing a community also includes selling a lifestyle with a diverse and unique character. Common areas and amenities can be more front-loaded so that character and appeal are evident from the beginning.

When all development disciplines — designers, builders and marketers — work as a team, the result is a balanced and viable plan that maximizes benefits through a well-thought-out design. The developer must understand the costs and benefits of different design decisions and identify where the greatest value can be achieved at the least expense.

### **Principle 4: Promote Sustainability, Walkability and Diversity**

Sustainable communities are designed to minimize their ecological footprint and achieve a balanced lifestyle for their residents. This includes water management, reducing the carbon footprint and conservation. Sustainability also includes smart irrigation technology, California-friendly landscaping, and development of a maintenance program to help ensure efficiency and long-term beauty.

Pedestrian-oriented communities should use traffic circles and context sensitive design. The streetscape should serve a range of users such as pedestrians, bicyclists, transit riders and automobiles. In addition, homes should be centrally located near the heart of the community. Looping trails connect destination points.

A diversity of neighborhoods and a variety of parks and gathering places create a cohesive community.

And it all adds up to more marketability — and greater value per lot.

### **Principle 5: The Balance Between Housing and Jobs**

A balance between jobs and housing in a community means there is an adequate supply of homes to house the workers employed in the community. Alternatively, the balance can be defined as an adequate supply of employment opportunities in a community to generate enough local employees to fill the housing supply.

In California, that typically means 1.25 jobs for every house that is built.

For those lucky enough to have a project near an existing job center, the math is favorable. But where does that leave the developer of a more remote project — particularly in this age of high fuel costs and cash-strapped commuters?

It might mean giving up some control — in the form of more land set aside or sold for retail, office or industrial development. But think about the potential upside.

Maybe the current plan involves selling customers on the idea of budgeting \$500 a month for a long commute. But what if a redrawn plan encourages creation of a job hub near the project, and cuts that customer's monthly commuting budget to \$100? Suddenly, there is a more attractive community to market and prospective homebuyers have \$400 more available to budget for a larger monthly house payment.

### **Principle 6: Passion and Conviction**

Developers and builders should love what they do, and believe in it. Through smart planning, we can create high quality, high value, sustainable communities where people want to live and work, while still reducing development costs.

If you are a developer and really believe in the product, your project is going to become more popular. If you have a true passion for the community, it will spread to each customer you attract — and those customers, in turn, will convince others to follow.

And guess what? You will be selling homes again. ☑