

CREATIVE SOLUTIONS FOR MARKETING AND SELLING RESIDENTIAL LAND DEVELOPMENTS IN OREGON

By: Gary Grottke, President, The Wheatfield Group

Many banks have been saddled with the unenviable task of assuming ownership and management of single family residential developments. Needless to say, these are very difficult times for home builders, let alone bankers who are forced into the business.

After the property auction fails to produce an acceptable offer for the project, what should the bank do? With the market in the doldrums, can anything be done to market and sell lots or houses at this point? Should the bank pursue a retail lot sale program? What about "spec" houses? Aren't they needed to generate sales? What about the option of sitting tight and waiting for the market to recover?

Unfortunately, the answers to these questions are difficult and depend upon numerous factors related to each individual project. Therefore, the bank must analyze the project, market and competition to answer these questions and determine a strategy.

Market Work: The analysis should begin with closed sales and listings in the local real estate market. The local market may include a town or several towns taken together or even a portion of a town. If uncertain about what to include, consult with local realtors.

Obtain a listing of the actual sales (closings) during the past 12 months (by month). Make sure to obtain the list price, # of bedrooms, # of baths, size of yard and of course address. Categorize this information by price, so you can clearly see the number of closings between certain price points.

Next obtain all current listings in the target market. With this information, calculate the number of months of inventory on hand for each price point. Obviously, this information can be very useful in determining where houses in the development can realistically be priced and the pace for absorptions (sales).

Are these figures an exact determinant of the future pricing and sales pace? Of course not, but they are critical factors to understand before making any judgments on how to proceed with the project.

Competition: Through the internet, discussions with several realtors and touring identify other new construction subdivisions in the target market. Visit each new subdivision and note the following:

- Is there a sense of arrival? A complete, landscaped entry with an entrance sign is a positive.

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- Are the roadways and infrastructure complete? Heavy equipment and pipes scattered throughout the project that are not being used are a negative.
- How many houses are under construction? New foundations and active construction work are a plus.
- Are new houses and home sites listed for sale and being actively marketed? Open house signs, cars parked out front and well maintained builder, lender and realtor signage are all positives and signs of an active development.
- Are existing houses listed for resale? This can be a significant negative, especially if the selling prices are discounted.

All of these factors, along with the location, go into determining the attractiveness of a subdivision to buyers.

Note that buyers will not purchase houses in subdivisions that do not appear to be moving forward. So evaluate each project in light of this axiom.

Summary and Conclusions: Based upon all of the above work, a subjective assessment must be made regarding the location of the project versus competitive developments. Factors to consider include: lot characteristics such as views, trees and size; access to transportation; proximity to stores, schools, parks, etc.; quality of schools; and distance to primary employment centers.

After reviewing the project location, market work and competition, the viability of the project should start to crystallize. If it doesn't, you may need help. There are real estate professionals that can be hired as consultants, bank clients with development experience or it may be worthwhile to engage a full-time real estate professional.

One option that the bank may pursue is a retail lot sale strategy called "rolling options". The purpose of this program is to get the subdivision moving forward again, and to get others (i.e., builders and realtors) spending money on marketing the subdivision.

To get a moribund development "jump-started", the bank will have to commit some of the lots at heavily discounted prices. However, in exchange, the bank should receive all of the following:

1. A commitment from the builder to make a "kicker payment" (i.e., a specified dollar amount) or "participation" payment (i.e., percentage of selling price above a specified house selling price) upon the ultimate sale of the house/lot package;
2. A commitment regarding signage and marketing;
3. Architectural approvals over house plans;

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4. A commitment regarding construction start and completion. (This may not be possible in very slow markets.)

Only 2-3 lots should be committed to any single builder at this start-up price. The bank can also grant options on future lots with escalating prices and kickers. It is important not to commit the highest quality lots in the initial sale.

Once the first builder is in place, try to get one to three more builders involved on the same basis. Each builder gets several lots to start with and then “rolling options” to purchase more lots as needed. Rolling because a builder cannot exercise the option for the next lot until one of his/her previous lots is sold, so the builder “rolls” through the neighborhood one lot at a time.

On lot pricing, the bank obviously has an investment in the project that it would like to recover. However, don't make the mistake that so many builders make, and price on a “cost plus” basis. Pricing out of step with the market will only result in a stalled project, period. The bank must price the initial lots to attract builders. Remember the bank's average investment in each lot is just that an average, so you can sell 50% of the lots below the average and 50% equally above the average and still come out whole.

The key in residential developments is activity. Many times the developer must seed that activity with low prices on the initial lot sales. The use of “rolling options”, “kickers” and “participations” may allow you to move your projects forward and recover your investment.



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