MacRo Report
Blog

John Doe's 10 Ac Lot

Weighing the Risk -- Development Options

	1 Lot *Owner incurs Dev Costs on Raw and sells lot as 2 Building Lot* Budget			4 Lot Minor Subdivision *Owner sells Raw Lot to Investor who develops and resells as 4 Building Lots* Budget			15 Lot Major Subdivision *Owner sells Raw Lot to Investor who develops and resells as 15 Building Lots* Budget		
Revenue:									
	Value/Finished Lot		Total	Value/Finished Lot		Total	Value/Finished Lot		Total
Gross Sales	$ 325,000	$	325,000	$ 175,000		700,000.00	$ 125,000.00	$	1,875,000
Closing Cost of Sales (incl brokerage)	Owner/user no resale >	$	-			(49,000.00)		$	(131,250)
Total Net Revenue		$	325,000			651,000.00		$	1,743,750
Development Costs:									
Surveying		$	-			(15,000.00)		$	(15,000)
Engineering (DW, SWM, SEC, public imp)		$	-			(15,000.00)		$	(70,000)
Forest Conservation (on site)		$	-			(10,000.00)		$	(10,000)
Common Driveway Construction		$	-			(50,000.00)		$	-
County Road and SWM		$	-			-		$	(200,000)
Road improvements		$	-			(10,000.00)		$	(300,000)
Sewer connection fees		$	(7,000)			(28,000.00)		$	(105,000)
Water		$	(5,000)			(18,000.00)		$	(60,000)
Government Fees		$	-			(7,500.00)		$	(75,000)
Legal		$	-			(7,500.00)		$	(35,000)
Development Mgmt		$	-			(9,000.00)		$	(35,000)
Carrying cost on loan		$	-			-		$	-
Subtotal		$	(12,000)			(170,000.00)		$	(905,000)
Contingency (5%)		$	(600)			(8,500.00)		$	(45,250)
TT Development Costs		$	(12,600)			(178,500.00)		$	(950,250)
Revenue after Development (available for profit and acquisition)		$	312,400			472,500.00		$	793,500
Less Developer profit (% of Dev Costs)	0%	$	-	30%		(141,750.00)	$ 0.50	$	(396,750)
Available for total acquisition		$	312,400			330,750.00		$	396,750
Less Cost of acquisition (10%)	N/A	$	-			(33,075.00)		$	(39,675)
Land value		**$**	**312,400**			**297,675.00**		**$**	**357,075**
Difference between NET RETURN on 1 Lot:		***$***	***-***			***(14,725.00)***		***$***	***44,675***

Sometimes the perception of a significantly higher return from maximizing subdivision rights don't always pan out in actuality.

Mr. Doe owned a raw undeveloped 10-acre lot within a residentially zoned area. New subdivisions had been popping up over the forty years that they owned the property. They had been holding on to this raw land for that period, just waiting for the time when this small project could be looked upon as a residential "infill" subdivision with the idea that this property could be worth substantially more than its current condition.

Despite the above, on the back of an envelop it appeared that a very nice 15 lot major subdivision could be laid out within the confines of the boundaries.

As an alternative, if development costs ended up being higher than hoped, the back up plan would be to pursue a 4 lot minor subdivision, which typically does not require that a public road be constructed into the property and therefore a small dollar amount of site improvement costs. But is the smaller dollar of improvement costs offset by the proportionate loss in revenue?

Digging deeper into the details of the property, some issues begin to surface that could change the initial perception.

The property itself had about 1,000 feet of road frontage along on a county road along its northern boundary. In addition, topographical contours gently sloped down to a small pond along its western edge. With existing public sewer and water lines running through the land, this makes the cost to deliver public utilities less than having to bring in a line from somewhere offsite.

On the other hand, even with a sufficient amount of road frontage, there is a curve in the road that limits safe sight distance for those who would be entering and existing the property. It will probably not be an issue if the subdivision was just four lots, or even just one. However in the case of the major 15 lot project, it is likely that the developer will be faced with having to commit to a mixture of shoulder grading, constructing an extra lane in the county road to create safer ingress and egress in and out of the project.

After careful analysis and working with a local engineer, the outcome presents an interesting decision for the owner.

If he connects to sewer and water and sells the lot as a single building lot, it is estimated that he will net $312,400 (after all costs of development and sale are deducted).

Following the same process and increasing costs (and projected revenues) the net from a 4-lot minor subdivision is estimated to be a surprising $297,675.

And in the case of the 15-lot major subdivision, the net return is projected to equal $357,075.

With only $44,675 difference between the one lot and 15 lot projects, Mr. Doe's dilemma is to consider the level risk associated with getting the slightly higher return from pursuing the major subdivision.

As a footnote this proforma assumes that the subdivision scenarios are sold to a developer who would purchase the property subject to gaining all the approvals he would need to proceed with the plan. This means time, and in some cases up to two years longer than just selling the property as a single lot … and time is money.

If you were Mr. Doe, what would you do?