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## Developers bulk sale vs. slugging it out

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Over the last few weeks, I have been working on a consulting assignment for a large residential development community. Like many, the project had been started in the boom years, and stalled out close to 2007 as the market slumped. The residents who had moved in during the housing boom were very pleased with the development, enjoyed the many amenities included, and were intent on waiting for the market to come back rather than panicking and selling out.

While the project was not in trouble, the developers were asking whether they should market a large group of lots in a bulk sale, or individually over the years as had been recent history. The parameters of the analysis were clear, including a good history of lot revenues during both the good and the not so good times, and all the attendant expenses of holding the lots. To give it a little context, a breakeven over holding costs required at least two lots sales per year, which was happening, and three lot sales to make any profit.

The obvious question was, why make the bulk sale if the history of two sales per year could potentially sustain the property into better times? My quick answer was that a bulk sale was often better than the net present value of lengthy drawn out sales, because of the market swings that could occur, the uncertainty of assumptions in a net present value analysis, and potential fluctuations in holding costs. In other words, a bulk sale would transfer all those risks to a different buyer. The answer for not doing it was the potential for missing out on increasing lot prices as the market improved.

Would a simple net present value calculation give us the answer? On the surface, yes, assuming valid market based metrics. However, it was also clear that certain exogenous issues needed to be considered. These issues are not always obvious to the quantitative analyzer. Let's review a few less quantitative, more qualitative issues.

First, a bulk sale of property can stigmatize a development. It potentially signals weakness on the owner/developer's part, and makes people nervous about the developer's staying power. Secondly, it adds a new buyer group to mix of this fairly well established community, and potentially several buyers if groups of lots are sold to smaller groups. For example, if smaller builders ran into problems, they could potentially cut cost, or quality, or reduce pricing just to stay competitive. Worse, they could run into more serious financial problems, including foreclosure, putting a very dark heavy cloud over the whole development.

A bulk sale also potentially worries existing homeowners, for similar reasons cited above. They may sense weakness in the future, causing them to sell out, adding to supply and potentially lowering pricing. Nervousness could extend to homeowners association's budgeting for amenity and infrastructure costs, adding to the lack of cohesiveness within the community.

It can cause impacts on later stages of infrastructure, road finishes, timing of construction and sequencing of all of these events without the overview of a master developer.

Finally, there can even be worries and/or confusion among employees within the community that service the amenities, provide back up to the homeowner association, man sales offices, etc.

All of these issues can have significant impact on the ongoing success of the project. As stated, these are qualitative issues which can lead to heavily quantitative impacts. They are very difficult, if not impossible, to predict. However, they may have as much effect on success as more historically known parameters such as holding costs, pace of sale, etc. Bulk sales versus longer absorption period is a common question in larger developments. The next time you are asked for advice, keep these broader, more global issues in mind.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540