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Real estate amenity: Good for developments or not?

June 12, 2008 - Appraisal & Consulting

In down markets, we are all aware of the problems that troubled real estate can cause for its neighbors. For example, a few condo unit owners can cause problems by not paying dues, or having lender problems, hurting units which are otherwise solid.

In this same vein, there can also be potential problems with "amenity oriented" projects. Amenities can be many things, including golf courses, marinas, equestrian centers, even hunting preserves. These amenities are there to attract real estate customers in most cases. This is where the trouble begins. Real estate combined with an amenity package can be rife with conflicts of interest. Essentially, the owners of real estate and the members of the amenity may be different and may have different agendas. Let's take the example of golf courses, the most common.

The golf course is built first, and members are enticed in at low rates. Real estate is developed around the course, and people wanting to live there often buy units and join the golf course. However, some do not join. Alternatively, some members of the course do not buy the real estate.

The first problems are relatively minor conflicts of interest which have to do with who is paying for what. For example, is the golf course maintaining the adjacent landscape and approach roads? Is the Home Owners Association subsidizing the club restaurants or security around the course? These issues can be relatively minor, and kept to a minimum through careful record keeping and accounting.

The more serious problem begins when there is softness in the real estate marketing, or in the alternative, a golf club problem. In the first, real estate sales are slow, and developers start offering "under priced" memberships in the golf course. Needless to say the existing members, particularly the ones that don't own real estate, take issue. On the other hand, they recognize the need for new members, most of whom will come from real estate owners, so they don't fight it. But it can cause problems for the club. Alternatively, if the club itself starts having financial problems, because there are not yet enough members, the lenders get nervous. The threat of bankruptcy and dissolution of the club looms. The club members face the potential of losing their membership value, as well as their ability to play golf. Worse, the homeowners overlooking the golf course face the threat of overlooking overgrown fields in the best of cases, or some potentially incompatible use proposed by a buyer at a foreclosure auction.

The permutations are endless. Different people with different agendas will vote differently, and chaos can ensue. Some people who are already over extended fold up the tent, quit the club, and hope for the best. Others with multi-million dollar homes try to fund the club, sometimes throwing good money after bad, in order to protect their amenity. The issue is essentially two different businesses stuck in a relationship. Once the success of the real estate development relies upon the success of another business such as the golf course, the frequent and ordinary problems of development are compounded.

The lesson is that basic elements of supply and demand ought to be the reason why developers build houses. To a degree, obviously, demand can be increased with an amenity. However, if the fundamentals aren't strong enough, the amenity can have problems, and so will the real estate. We need to build residential developments that have strong underlying demand and add the amenity package as a nice perk.

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