

**JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS**

**V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM**

**I. Other Presentations In Which Either The Date And /  
Or Sponsoring Organization Is Missing**

**1. Risk Management/Investment Related Topics**

- m. "Public/Corporate Real Estate Money", no  
date**

/Corporate  
Public/Real Estate Money

- I. Changes in real estate finance in part depend in changes in the organization of the building and real estate industry. There are those who believe that planning, the need for heterogenous development in PUD, the trend toward satellite towns and neighborhoods means that the housing industry will undergo substantial change in its structure and thus in its financing.
  - A. Some draw a parallel between the emergence of the large auto companies from many small car companies and the appearance of large building-development corporations.
  - B. Merchandising of conventional homes is yielding to planning of better merchandise in the form of a complete land-home-neighborhood package.
  - C. Large scale sales requires multiple location of project. This in turn requires strong financing for the long term. Four different patterns are emerging:
    1. Giant corporation with spare cash or income requiring tax shelter are turning to real estate such as Alcoa, Reynolds, Sunset International, Humble, and General Electrid.
    2. Some large tract companies have turned to the stock market for equity money at least 50 building and land development companies are traded on the market in sufficient volume to justify quotations in House & Home, etc. Less than 10 years ago only three of these companies were publicly held.
    3. Some builders established joint ventures with money rich manufactures of building material.
    4. Some mortgage banking firms are becoming all purpose real estate companies with subsidiary investment, management, brokerage, and insurance operations.
- II. To date the major public corporations are concentrated in growth areas on the east coast, in the southwest, and in California. 75 corporations are involved in the development and construction of entire cities. The principle business of all of these firms is land development. However the sale of a lot and a house is a one shot transaction which in turn generates a large volume of continued consumer expenditure, for utilities, for furnishings, for home improvements, and for neighborhood shopping.
  - A. Scale requires capital; diversity requires capital; diversity requires long term operations and the price for equity capital from insurance companies etc. had been 50% of the profit.
  - B. The building business has the highest rate of return on equity capital of any business in the world. If equity capital can be attracted through the annuity income generated by new

*At least*

neighborhoods then the speculative profits on land can be used to increase market value of public stock. Therefore the stock market first offers the builder capital for growth at a price ~~lower~~ <sup>lower</sup> than that required by individual angels.

- C. A broad stock base then allows the sale of industrial debentures at a rate cheaper than builders have been able to obtain front money before.
- D. Of course leverage works both ways and the basic problem of development companies is to generate sufficient cash each year to cover debt service as well as operation and to produce appreciation of holdings at a rate in excess of debt service. In late 1960 cash short builders used to say "go broke, or go public!" Some went public and then went broke such as Eichler Homes.

III. When land development, construction, furnishings, and related items are the product of the firm individual financing for construction is eliminated and the construction financing process simplified and less costly. Where the builder anticipates long range returns from insurance, debt servicing, and shopping centers he may sell the homes at cost to create a captive market.

- A. Where the homebuilding process can be shifted to the factory or completed on site within 30 to 45 days, financing can be shifted back to manufacturers, suppliers, and independent contractors.
- B. Moveable buildings can be financed as personal property or leased for office space, schools or housing.
- C. If you combine moveable building units with land development and simply lease the building and the land, it would allow the builders to change ~~the~~ <sup>the</sup> land to a higher intensity use in 20 years, relieve the home owner of maintenance problems, and substitute a penalty fee for the brokerage problems of resale in the event the buyer should be relocated. ~~It~~ In such event home financing would take an entirely different form than present mortgages. Yet it would recognize that the consumer of a home is only nominally the owner, likely to move before he collects inequity, and rapidly changing in his tastes so that a permanent 40 year structure of frozen design potential would be a poor investment. In short planned obsolescence as in the car industry may be the order of the day with housing capital supplied by public development corporations speculating on increased land prices while covering a 20 year holding period with a shelter-service organization.

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