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

6. Real Estate Finance/Mortgage Banking/Mortgage Guaranty Insurance

i. "Land Loans", no date

Land Loans

I. ~~Land loans and new capital sources are appropriately related for~~ ~~as~~ As the scale of land development has increased from twenty acre parcels to new towns on 20,000 acre parcels, the scale of finance and the sources had to explode correspondingly.

A. The developer must finance the purchase of the land, extensive capital improvements, ~~caring~~ carrying charges, and the operating budget of planning, construction, and sales.

B. The first two items will require an outlay equal to forty or fifty percent of the eventual sales price of the lot, while sales administration and operating expenses will take another twenty-five or thirty percent. A forty lot subdivision with sewer and water in Madison will cost at least $65 a front foot and will sell between $90 & $100 a front foot. Even a fifty lot subdivision with sixty feet of frontage will represent a capital requirement of $3,850 per lot, or $192,000 for the whole subdivision.

C. Increase the scale of development to a new town and the situation is similar to a fire engine they have in New York City. It features a high power water tower which can blast water through a brick wall to reach the interior of burning tenaments and loft buildings. It is followed by a semi-trailer truck which can run hoses to as many as twenty different hydrants in twenty different blocks to prevent the pumper on the water tower from sucking the water main dry. The problem is the same in land development. How does one diffuse the capital requirements to avoid sucking credit sources dry as well as avoiding insolvency.

II. It may be possible to break the problem into land, capital improvements, and operating budgets.

A. Financing the land.
   1. The land contract with release clauses.
   2. The option and the rolling block option.
   3. The land lease with development rights.
   4. The joint-venture and consenting corporation.
   5. Land banking with cumulative interest or repurchase formulas.

B. Development money with or without subordination.
   1. Municipal financing through special assessments.
   2. Bank loan on other collateral.
   3. Bank loan with pick-up guarantee.
   4. Subordination and dedication requires cooperation of land owner. It is often easier to consolidate all financing into a development loan.
   5. Creation of special districts to sell bonds as an outgrowth or in California.
   6. Internal financing through staging.
   7. Internal financing through packaging and selling portions of the project as pads in a shopping center or as in Lake Redstone.

C. Operating capital
   1. Absorbing costs within another operating entity such as a home-building company or mortgage finance operation.
   2. Deferring certain trade expenses in exchange for small equity positions.

3. Commission schedules tied to closing and sale of accounts receivable.
4. Equity capital of the developer (front money).

III. Since land development has a high degree of variances in both its capital budgeting and its operating expenses not to mention absorption rates and revenue, financing plans need a high tolerance for the surprise potentials. Large corporations have many of the financial characteristics necessary to finance capital and operating charges on the scale required and many have large amounts of surplus land.

A. Major corporations secure bank lines which eliminate need for complex land contracts and mortgage analysis.
B. Operating corporations can bury development staffs in other operating departments.
C. Large corporations can utilize large ~~xighx~~x write-offs in the early years.
D. Large corporations can take a five to twenty years time line on profit horizons.
E. Returns in manufacturing have fallen so low that the opportunity cost of equity capital is relatively low.
F. Internal operations of the corporation can be directed to produce supplementary increases in land value as in the case of Chrysler, employers, or McCullough.