RCLCO
ROBERT CHARLES LESSER & CO.

THE ADVISORY

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the big idea

MASTER-PLANNED COMMUNITIES: STRONG SWIMMERS IN ROUGH WATERS

RCLCO Releases Study of Master-Planned Community Performance in 2007

For the 14th year in a row, RCLCO has surveyed master-planned communities (MPCs) across the nation and analyzed trends in sales, performance, design, market positioning, and pricing. Every year, RCLCO also releases a list of the Top-Selling Master-Planned Communities in the country—to see rankings, please click here. RCLCO reached out to over 430 MPCs across the country to participate in this year's study, which details the performance and health of MPCs from 2005 through 2007, shedding light on how these projects have fared within the context of a challenging housing market. The report is scheduled for release in March of 2008. Click here to reserve your copy and ensure prompt delivery.

Are Town Center Communities the New Golf Course Communities?

For decades, golf courses helped define the success of MPCs. In fact, a golf course designed by Jack Nicklaus could be the key to success for many communities aiming to set the bar for prices, pace, and cachet in their local markets. Modern MPCs continue to leverage the strength of golf as a marketing tool—eight of the top-selling MPCs in the country offer golf courses within their community, and just under half of all communities surveyed include a golf course as a community amenity.

But in recent years, retail town centers have become the rage throughout America, and developers of master-planned communities have taken note. More than just a coffee shop or dry cleaner, a retail town center offers master-leased retail space to destination anchors and mini-anchors, along with supporting in-line space in a configuration (often open-air) that promotes walking, strolling, and social interaction while providing a high level of architectural and design detail. And they are popular, indeed: approximately 39% of all communities surveyed in this year's study have a retail town center. Notably, in 2007 master-planned communities with retail town centers achieved price premiums relative to MPCs that did not.

Nothing beats the best of both worlds, however. Communities that have both a golf course and a retail town center achieved significant price premiums relative to MPCs that have either only one or the other, or neither of these amenities.

Understanding the strategy for bringing these amenities on-line in a successful and market-supportable way, and learning from case studies of successful master-planned communities that have incorporated a retail town center, golf course, or both, can be a profitable endeavor for those currently in the planning stages of a master-planned community.

IN THIS ISSUE

Bucking the Trend

For the first time in decades, in 2007 the average American home lost value—according to the National Association of REALTORS, average sales prices for existing homes dropped 2% between 2006 and 2007. Those selling new homes have also experienced a troubled market, and many have been forced to offer robust incentives, or deal with droves of cancellations as price wars continued even throughout the year. In fact, according to the U.S. Census, prices of new homes were essentially flat between 2005 and 2007; the median price of a new home increased by 2.5% between 2005 and 2006 and only two-tenths of a percent between 2006 and 2007.

Despite this backdrop of a challenged housing market, master-planned communities were actually able to achieve price increases over the same time period. Data from the 2007 survey indicates that the median home price in master-planned communities actually rose 6% over the period of 2005–2007. Most of this gain came in 2005-2006 and stayed flat in 2006-2007. Some communities—such as Coral Canyon, Amberly, The Woodlands, Northwest Crossing, and Daybreak—posted price gains much higher than this; it is notable that these five communities all have retail town centers. With or without retail, the evidence suggests that MPCs experienced some success even in troubled market conditions, suggesting that this development paradigm continues to have some intrinsic value in the development sphere.

Outlook

The outlook for master-planned communities continues to be strong, both as a generator of value during the current downturn and as a leader in the ride to recovery once the housing market stabilizes. We've seen this before, in the mid to late 1990s, when the demand for "nice" second and primary homes (virtually in hibernation since the mid to late 1980s) began to awaken. At that time, very well-conceived projects were the first to see dramatic sales increases and price appreciation. Many others, similarly well conceived, overdeveloped, and over-amenitized because of the sluggish market of the 1980s, were often under struggling ownership and were offered at bargain prices to capital-flush entities. Many of these transactions were driven by fear and a low basis in the land (and in some cases in the amenities, if the project traded hands and was written down in the last down market cycle).

We may be beginning to see a replication of this trend, as capital-flush entities are beginning to circle and hunt for master-planned communities that have solid programming and upside potential but, under current market conditions, are failing and driving the need for an immediate sale from current ownership. Meanwhile, our data suggests that existing well-executed communities have weathered the storm quite well and may be poised to see significant gains once normalcy returns to the market—a state that many now suggest will set in sometime between late 2009 and mid-2010.

REPORT ORDER FORM

This order form should be used for purchasing our latest industry research report, entitled:

Master-Planned Community Report

The cost of the report is $250. Once the payment is received, a hardcopy of the report will be mailed to your preferred address. Please complete the form below and mail it back to us with a check for the full amount or fax it back to us with your credit card information. Please print clearly.

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in sites

HOW TO GO GREEN AND STAY IN THE BLACK

In 2007, RCLCO (Robert Charles Lesser & Co., LLC) conducted a national survey of homeowners to gain an understanding of their attitudes toward green residential products. The survey yielded 1,011 complete responses from the continental United States. The survey was geographically stratified to mirror the geographic distribution of householders across the contiguous United States, and it targeted existing homeowners looking to buy a new home and with incomes of over $50,000 (or, in the case of retirees, those with an estimated net worth of at least $250,000). The results of this research are now available to the general public in a report entitled Measuring the Market for Green Residential Development, which contains over 50 pages of analysis and over 100 pages of cross-tabulated response results.

Based on this endeavor and further analysis—including deep dives into case studies of green residential projects to determine why some succeed and others struggle—here are five tactics for formulating a green residential development strategy. Executing such a strategy will ensure that your firm is using the current slowdown as a strategic opportunity to get ahead of the curve instead of being forced to play catch up once the market returns to normal.

1. The Market is No Longer Changing—*It Already Has*

Home buying is quite complex, and for most, green is just one of a multitude of factors that may influence their home-purchasing decision. In a crowded field of factors, such as schools, proximity to employment, and buyer-specific product and landscape desires, "green" can get lost in the crowd. In fact, data suggests that only 3% of the market is looking to purchase a home solely because of their desire to purchase a green home.

But there are many attractive facets of green homes that may be effective in bringing a proportion of all buyers to these homes and influence their purchasing decision, especially when these facets help distinguish two homes or communities that are otherwise evenly matched in the buyer's mind. These factors are important to buyers today, and if developers and builders capitalize on these motivations, they can make it possible to build green and make green.

Homebuyers increasingly want to manifest these sentiments in their home purchases: 17.3% of respondents strongly agree and 46.2% somewhat agree that it is very important that their home is compatible with the environment. Approximately 28% of homebuyers wanted more environmental features in their existing home and/or community, but these features were not available when they purchased; and another one-quarter wanted environmental features in their home and/or community, but they were uncomfortable with the cost of these features at the time they purchased.

2. Know Your Customer

The data reveal three primary buyer profiles that may drive demand for green homes:

> **Forest Greens–6.1% of Buyers**
> Buyers who consider some sense of environmental responsibility/stewardship to be their primary decision-making criterion in their next home purchase.
>
> **Greenback Greens–21.8% of Buyers**
> Buyers who consider energy savings—or, more importantly, the imputed cost savings due to lower energy bills—to be their primary decision-making criterion in their next home purchase.
>
> **Healthy Greens–8.5% of Buyers**
> Buyers who consider potential health benefits of green homes to be their primary decision-making criterion in their next home purchase.

Overall, 36.4% of potential homebuyers can be classified as falling into one of the above buyer profiles, with significant variations in the depth of each profile evident on a market-by-market basis. Hence, approximately one-third of the market today may be swayed in the direction of purchasing a green home. Far from fantasy, this figure has been "stress-tested" through the use of a surveying strategy—respondents were asked about the trade-offs inherent in purchasing a green home when they next purchase, including but not limited to how "green" compares in value to:

BUILDING GREEN? Tell us about it! RCLCO is researching the market performance of green residential property and preparing case studies to highlight how green projects are competing in the marketplace. If you think your project or community should be featured in the groundbreaking research, please register HERE.

type of residential product and neighborhood, quality of school system, lot characteristics, specific features and finishes (such as ceiling fans and granite countertops), proximity to work/employment, and other factors.

3. Target the Sweet Spot

Positioning projects toward Healthy Greens, on average, presents the strongest market opportunity with the greatest capacity to capture potential demand and extract potential premiums in the near term. Make the most of this sweet spot in the market to build your practice today.

Much of the marketing of green residential has focused on the energy-saving benefits. For a variety of reasons, these marketing efforts may have reached their maximum impact potential, and those who are on the fence today may not have the incomes or desire to pay premiums that can drive the industry—after all, they're in the market to save money. Greenback Greens trend older and have lower incomes in general. They require a return on their investment within four years, whereas industry estimates on the payback period from lower utility bills typically ranges between six and eight years.

The altruism of the Forest Greens is encouraging, but their depth is questionable, as is their potential to pay premiums. Much of this segment is concentrated in late-stage Gen X and emerging Gen Y buyers, but these buyers do not represent the bulk of today's market and certainly have not yet reached their peak earning years, making targeting them a difficult proposition. As for the rest of the demographic, a huge information gap persists, limiting the power of "the environment" as a marketing position for green homes—to wit, when asked, more than 70% of respondents indicated that their home has no impact or an acceptable level of impact on the environment.

However, the data suggests what countless case studies in the market have confirmed: Healthy Greens have the highest incomes and the most proclivity to pay premiums in order to reap the perceived benefits of green buildings. Healthy Green buyers trend toward the well educated— 37% have college diplomas and 40% have graduate degrees. Moreover, they are wealthy. Approximately 37% have incomes over $100k, and over 60% of those with incomes over $250k indicated that they would pay more for health benefits without recouping the cost. There is also uniform distribution across age groups, indicating that the appeal of "health" crosses generational boundaries.

Appealing to the health sensibilities of the homebuyer may, therefore, be a very effective strategy. Doing so allows builders and developers to appeal to a segment of the market that is most interested in paying more for a green home in today's market—not only will builders and developers make money, but they will learn the skills and processes that will be absolutely necessary in tomorrow's market.

4. Put On Your Walking Shoes

Green homes can be built in a variety of environments, and many have argued that compact development, which reduces overall automobile usage, is a critical component of developing green. Recent analyses have suggested that the transportation energy (the energy used to get to and from structures) actually exceeds the site energy (the energy used at the building site, but excluding source energy) simply because of the impact of automobile usage. So—the greenest development prototype is one that minimizes VMT (vehicle miles travelled) and promotes the use of walking, bicycling, and public transit.

Coincidentally, the data and analysis suggest a strong, pent-up demand for these higher-density and walkable environments nationwide. For example, while only 7.6% of respondents classify their current neighborhood as a Traditional Neighborhood Design (TND) neighborhood, over 12.6% of respondents indicate that they would prefer a TND neighborhood in their next home purchase. Only 4.4% of respondents classify their current neighborhood as a traditional downtown, but 6.0% of respondents—and 10.4% in ME, NH, VT, MA, RI, and CT—indicate that they would prefer to purchase in a traditional downtown in their next home purchase. Meanwhile, while 68.1% of respondents classify their current neighborhood as a standard suburban neighborhood, only 49.6% of respondents indicate that they would prefer a standard suburban neighborhood in their next home purchase.

Across the nation, demographic shifts (85% of the household growth until 2025 is anticipated to be comprised of one- and two-person households) and changing consumer preferences (significant increases in preferences for density across age, income, and household sizes) are driving the growth in demand for these higher-density environments. Future demand for high-density residential products—units in structures with more than five units per structure—could potentially be 140% above the current levels of occupied stock. Most of this demand for higher-density residential products will be for homes in higher-density, walkable neighborhoods, which are green because of their impact on reducing vehicle miles travelled and, therefore, CO_2 emissions.

Not every region is built to accommodate this demand, largely due to under-investments in high-density infrastructure, massive infrastructure subsidies for suburban sprawl, and the lack of availability of fixed-rail transit. But pent-up demand can chase supply, partially explaining the exodus of young people from the heartland and into amenity- and culture-rich coastal metropolitan areas, which offer a walkable quality of life that is exciting, diverse, healthy, and generating extraordinary real estate values (The Brookings Institution has suggested that walkable real estate can generate premiums of 20% to 40% over drivable real estate in the same market). If your company is not taking advantage of this tremendous pent-up demand for walkable environs—which can occur in downtowns, suburban town centers, master-planned communities, TND communities, or older Main Streets—it may be missing out on an opportunity to build green, and make green.

5. Check the Weather

Green buildings are sensitive to local climates and soil/water conditions. The same green building prototype is unlikely to be simultaneously effective in Tallahassee, Toledo, and Tucson. That can spell headaches for builders and developers looking to get into the market today. Instead, it makes sense to develop a green building prototype that is replicable in markets that have significant depths of the green buyer profiles mentioned above.

Fortunately, every county in the United States is classified into one of eight climactic zones, and there is ample information available from the federal, state, and local authorities on soil and water conditions. Begin by conducting a county-by-county analysis of your active markets to determine where the deepest pockets of green buyer profiles are. Then see what type of climate, soil, and water conditions prevail in these environs. From this, construct a green home prototype that addresses your target buyer profile's wants and needs—as well as "fits" within the environments present in your target markets—using similar building techniques, site planning considerations, marketing messages, suppliers, and contractors. You may find yourself looking at new product types, investigating different building techniques (such as Type II construction), and engaging with new realms of building industry professionals. But with in-depth knowledge of consumer behavior, you should have the advantage of targeting deep pockets of green home demand and be able to leverage this learning curve to carry your practice through until "green" is simply the new "normal."

on the ground

CUTTING-EDGE URBAN INFILL IN DOWNTOWN HYATTSVILLE, MD

Location:	Hyattsville, MD
Product Type:	Rowhomes, Live/Work, Condominiums, and Retail
Architectural Style:	Contemporary/Eclectic
Home Size:	800-2,700 SF
Home Prices:	$200,000’s to $700,000’s
Unit Count:	350 Rowhomes, 200+ Condominiums
Retail:	50,000 SF
Site Size:	25 Acres
Ground Breaking:	Spring 2006
Sales Opening:	April 2006

EYA is developing Arts District Hyattsville (ADH), a dynamic, mixed-use community that will significantly contribute to the continued revitalization of the Route 1 corridor. ADH provides a hip, new location for urbanites of all types, from members of Generation Y searching for their first home to empty nesters looking for an amenity-laden, low-maintenance lifestyle. The project includes significant neighborhood-serving retail, over 600 for-sale rowhomes and condominiums, and live-work units along Route 1. Busboys and Poets, an eclectic Washington, D.C., restaurant/bar/coffeehouse/bookstore/performance space, will anchor the retail with an 8,500 square foot “flagship” location and add to the quaint, main street feel of downtown Hyattsville. Tara Thai restaurant, a metropolitan area institution for Thai cuisine, will also be a part of the retail mix, combining with Busboys and Poets to anchor a restaurant row in downtown Hyattsville. Rounding out the retail will be neighborhood shops such as a grocery store/deli, coffee shop, hair salon, and additional restaurants.

To provide additional charm and convenience, EYA has renovated the historic Lustine Chevrolet auto showroom into a community amenity, with a lounge, fitness center, wi-fi access, and an art gallery that caters to the burgeoning arts movement taking place throughout the Route 1 corridor. Through innovative site planning, unique architecture, quality building materials, and the mix of uses, the project creates a vibrant, pedestrian-oriented community.

Hyattsville, MD, is an eclectic neighborhood located in the heart of the D.C. metropolitan area. This new neighborhood is two miles from Washington, D.C., one and a half miles from both the West Hyattsville and Prince George’s Plaza Metro Stations, one mile from the Riverdale Park Marc Station, is in close proximity to the University of Maryland, and is convenient to job centers in Maryland and the District. The project is a key component in revitalization efforts in this emerging part of Prince George’s County. The project builds upon the momentum of recent efforts, such as the rejuvenated Franklin’s Restaurant two blocks south of the site and the development of the University

Town Center, a mixed-use development at the Prince George's Plaza Metro featuring over 1,000 residential units, ample office space and retail tenants including a Target, new restaurants, and a 14-screen movie theatre. Arts District Hyattsville has been awarded both a Smart Growth Recognition Award from the Coalition for Smart Growth and the Maryland Governor's Priority Places Award for adhering to the principles of high-quality development.

Arts District Hyattsville brings residents, artists, businesses, schools, and government together to create a livable, walkable, and exciting community. Sales for the West Village, the first phase of development, began in spring 2006 and over 70 units are sold. Retail development will begin in mid-2008 with the first shops opening in early 2009. Because of its proximity to the District and the University of Maryland, its overall superb location, the community-driven plan and architecture, and the unique mix of homes and retail offerings, Arts District Hyattsville is on the cutting edge of urban-infill development and will make the perfect home for residents looking for the next great urban place.

For further information, please call Aakash Thakkar, EYA Vice President, at 301-634-8617, or write to athakkar@eya.com.

minding your strategy

WHAT CAN MPC DEVELOPERS AND BUILDERS DO TO IMPROVE CURRENT PERFORMANCE AND PREPARE FOR THE NEXT CYCLE?

1. **Remember the Golden Rule**
   - For the next several years, it will be about the customer—are you customer driven?
   - Rethink the product, the price, the place, the promotion, and the people in that light
   - This is NOT a short-term problem—the time to act is NOW!

2. **Shed excess inventory**
   - Recognize the inventory "overhang" as being at the core of current market stress
   - Reduce inventory and change offerings and prices to meet market expectations
   - No specs, please!

3. **Play nice—you are partners now**
   - Get over your grievances—it is a new day and who is at fault will not help
   - Build shared goals to find creative ways to structure deals and make profits (or minimize losses)
   - Recognize who has the current leverage to make the deal work, depending on the stage of the market cycle
   - For the foreseeable future, forget cash and liquidity until the house sells

4. **Stop doing what doesn't work—introduce new products**
   - Discontinue, don't discount
   - Replace bigger homes with smaller ones, maintain flexibility to introduce larger plans later
   - Think about segmentation—"value" vs. "jewel box"
   - Realize that you'll be selling smaller homes on relatively larger lots
   - Return to the basics: refocus on location and product types
   - Invest in research to re-learn who your customers are and what they want
   - Revisit project amenities; understand what buyers truly value
   - Time to "Think Green": understand the green consumer and adopt new business and marketing strategies accordingly
   - Understand demographic trends and consumer demands (Generation Y, Boomers, and Echo Boomers)

5. **Stop doing what doesn't work—reinvent marketing and sales**
   - Marketing and sales are a joint responsibility—everyone needs to step up efforts and dollars
   - What's your value proposition? Not the aspirations—what is it worth today?
   - Make sure you define and deliver the customer experience—your competition will
   - Work together to define meaningful and consistent marketing messages and share costs
   - Invest in research to re-learn who your customers are and what they want
   - The Golden Rule: he with the cash rules (and right now it is the consumer)

6. **Work on your "strategery"**
   - Be prepared for strategic opportunities during and after the downturn
   - Test and rewrite your corporate strategy—be realistic about what you are really good at

- Test your portfolio and balance sheet
- Water all around, but not a drop to drink—where's the liquidity?
- It is only worth whatever someone else is willing to pay for it—can you afford your portfolio, or will it drag you down?
- Do you have a viable exit strategy?
- Right size (people, businesses, projects, and assets)—NOW!
- Get the right people on board: critically evaluate your human capital and seek opportunities to hire talent as others shed staff
- Get creative—someone is willing to pay you for your expertise (look for fee income)
- Get your dry powder ready
- During the downturn, someone else's pain can be your gain
- Be prepared for when the market turns around: MPCs, with existing infrastructure and amenities, will likely be better-prepared to supply lots and housing
- Cash is king—where's yours?

upcoming events

February 2008

Gadi Kaufmann
February 14, 2008
RCLCO Breakfast: Making Money in a Down Market
Los Angeles, CA

Shyam Kannan
February 22, 2008
ULI: Tampa Bay Lunch 'n' Learn Program
Speaker
Maestro's Restaurant at the Tampa Bay Performing Arts Center
Tampa, FL

Gadi Kaufmann
February 25-26, 2008
ULI: Developing Resort, Second Home, and Golf Course Communities Conference
Arizona Grand Resort
Phoenix, AZ

Adam Ducker
February 25-26, 2008
ULI: Developing Resort, Second Home, and Golf Course Communities Conference
Arizona Grand Resort
Phoenix, AZ

Terrye Underwood
February 29, 2008
ULI Sacramento: Greenfield Development without Sprawl
Speaker
Radisson Hotel
Sacramento, CA

March 2008

Gadi Kaufmann
March 10, 2008
International Council of Shopping Centers Conference
"Residential Slowdown-What Does it Mean For Retail and Real Estate"
Panelist
Washington, DC

Gregg Logan / Todd Noell
March 11, 2008
RCLCO Breakfast Meeting
Capitalizing on Market Shifts: Real Estate Opportunities in Atlanta and Beyond
Keynotes
Atlanta, GA

Troy Palma
March 12, 2008
Looking Forward: Trends, Insights, and Opportunities for the Active Adult Market
Bethesda, Maryland

Gadi Kaufmann
March 26, 2008
Pension Real Estate Association Conference
"The Residential Housing Liquidity Crisis"
Moderator
Boston, MA

Gregg Logan
March 27, 2008
Orange County Infill and Redevelopment Conference
Speaker
Orange County Convention Center
Orlando, FL

April 2008

Gregg Logan
April 7-8, 2008
ULI: Developing & Investing Green
"Creating Value Through Sustainability"
Speaker
Charlotte, NC

May 2008

Gadi Kaufmann
May 8, 2008
ULI Spring Council Meeting
"To Do Something Or Not To do Something, That Is The Question."
Dallas, TX

Gadi Kaufmann
May 9, 2008
ULI Spring Council Meeting
"Managing the Enterprise During Uncertain Times"
Moderator
Dallas, TX

knowledge link

Visit our knowledge link to download recent presentations from RCLCO experts.

Recent additions

- MPC Press Release
- Making Money in a Down Market
- Trends in Central Florida Demographics
- ULI Arizona Real Estate trends Conference: Phoenix MPC Market Outlook

about RCLCO

Since our founding in 1967, RCLCO has been at the leading edge of real estate trends and issues. Our impressive record of accomplishments has made us the “first call” for clients seeking strategic advice. We can help you with everything from market research to product programming; financial sourcing to deal structuring; conceptual design to development strategies. We set the highest industry standards by partnering with our clients to answer key questions and solve complex issues--offering strategic guidance that is always market driven, analytically based, and financially sound. Our real estate advisors help clients make the best decisions about property development, planning, and investment, so they can seize the right opportunities for tomorrow ... today. We are real estate consultants, analysts, financiers, developers, and designers--and we are dedicated to offering end-to-end solutions.

In 1985, RCLCO published its first Advisory Newsletter. Since then, subsequent issues have come to represent significant milestones in our intellectual history. Today, our e-newsletter provides over 5,000 real estate professionals with free research, tips, and original articles on various industry trends and issues.