

Trends from Top-Selling MPCs

Each year, RCLCO invites over 400 master-planned communities (MPCs) to participate in a survey to determine the top-selling MPCs in the United States and to isolate key trends and strategies that influence their performance. In 2009, Newland Communities' Cinco Ranch (located west of downtown Houston) ranked number one with 887 net sales, a 14% increase over 2008, and the third best year for net home sales in the community's 19-year history. The Woodlands (Houston), Mountain's Edge (Las Vegas), Telfair (Houston), and Providence (Las Vegas) rounded out the top-five rankings for 2009.

2009 RANK	MPC NAME	DEVELOPER	MARKET	STATE	2009 TOTAL NET SALES	% CHANGE 2008-2009
1	Cinco Ranch	Newland Communities	Houston	TX	887	14%
2	The Woodlands	The Woodlands Development Company	Houston	TX	633	-16%
3	Mountain's Edge	Focus Property Group	Las Vegas	NV	596	-32%
4	Telfair	Newland Communities	Houston	TX	450	9%
5	Providence	Focus Property Group	Las Vegas	NV	388	-25%
6	Daybreak	Kennecott Land	Salt Lake City	UT	375	7%
7	Rancho Sahuarita	Rancho Sahuarita	Tucson	AZ	358	-29%
8	Anthem at Merrill Ranch	Pulte Homes & The Communities of Del Webb	Phoenix	AZ	294	41%
9	Vistancia	Shea Homes/Sunbelt Holdings	Phoenix	AZ	283	-29%
10	Sienna Plantation	The Johnson Development Corp.	Houston	TX	280	-24%

The total number of net sales in 2009 for the majority of the top-selling MPCs dropped from 2008 levels, with sales volumes declining by as little as 16% and as much as 32%. Some top-selling MPCs experienced sales gains in 2009, ranging from 7% to 41%. The distribution of home sales remained relatively even throughout 2009, but lot sales increased steadily throughout the year, from only 15% in the first quarter to almost a third (33%) in the fourth quarter. Overall, the number of sales in the top-ten MPCs have declined dramatically since they peaked at more than 20,000 in 2005, down to less than 5,000 in 2009.

The top-ranked MPCs share the attributes of being well-established primary-home communities that contain or are located near job centers. All were effective at attracting value-oriented buyers by offering a wide range of housing choices—often including smaller lots and smaller homes—with amenities and other lifestyle elements in place. Bob McLeod, chairman and CEO of Newland Communities, believes



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SPECIAL ADVISORY

MASTER-PLANNED COMMUNITIES



Cinco Ranch

that “Newland’s sales success at Cinco Ranch ... can be attributed to the product diversity our homebuilders offer, the [fact that Cinco Ranch is a] proven established community, and a highly focused marketing approach that speaks to our customer needs.”

While buyers in master-planned communities continued to show a preference for single-family homes—90% of all new home sales in the top 20 MPCs were single-family units—the survey revealed that both lot and home sizes are shrinking in many communities.



The Woodlands

Consumers seem willing to sacrifice lot and home size for better amenities and more open space. This trend is reflected in the distribution of home sales as compared to the distribution of lot sales: lots for single-family dwellings composed 80% of total lot sales in 2009, indicating that builders and developers are anticipating a greater distribution of higher-density housing types. (See “Distribution of Net Home Sales by Product Type” and “Distribution of Net Lot Sales by Product Type.”) The Woodlands has adapted its segmentation model to meet these new realities. Now in its 35th year, the number-two best-selling MPC has widened its selection of new homes to include a broad range of price points and lifestyle preferences,

from urban townhomes and condos in the Town Center to large single-family estate homes in the villages. “In the near future, we will continue to develop our ninth village, Creekside Park, which was designed for families who appreciate the outdoors and communing with nature. There’s also a considerable amount of land to develop in the Town Center area, where the East Shore Garden District and more urban residential offerings will be added for families, empty nesters, professional couples, and singles,” said Tim Welbes, president of The Woodlands Development Company.

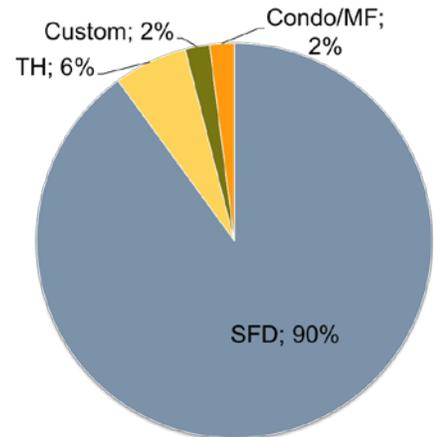
Luxury has fallen out of favor, at least for the time being. Consumers are opting out of formal living and dining rooms and high-end finishes and appliances, assuming that these can be added “down the road.” Buyers appreciate multifunctional space and are responding favorably to green features that help save energy (and money) or enhance wellness. (See RCLCO’s “Me Green” research concerning consumer attitudes toward green features in residential products http://www.rclco.com/pdf/Measuring_the_Market.pdf.)

Savvy developers like Kennecott Land are taking advantage of the economic downturn to introduce smaller, more energy-efficient homes (including some that incorporate solar and wind

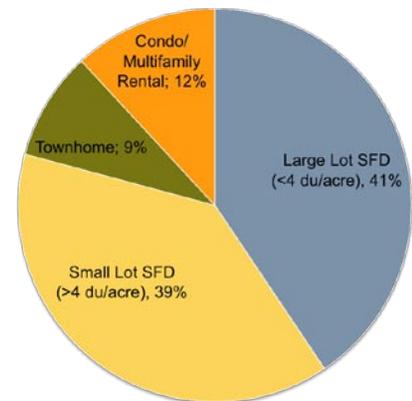


Daybreak

Distribution of Total Number of Net Home Sales by Product Type 2009



Distribution of Total Number of Net Lot Sales by Product Type 2009



power) with modern architectural styles that stand out from the competition. “The economic downturn has actually heightened buyers’ interest in living in a place like Daybreak, so we have found that the decisions we made early on... have placed us in the sweet spot of the new era we are entering. Key elements like a commitment to homes that save energy and water; providing transportation choices, whether they be biking, transit, or driving; and homes and yards that free up time to enjoy nearby parks all resonate with homebuyers in the current economic environment, where we are defining a fullness to life while living within our means,” said Ty McCutcheon, vice president of community development for Kennecott Land.

Communities that have focused on expanding their segmentation model are experiencing a nice compounding effect. By offering lower-priced, higher-density neighborhood and village homes, these MPCs are able to deliver more urbanized/amenitized environments (and a sense of place), which in turn leads to increased sales. Extensively themed communities that promise—and deliver—a “way of life” with appropriate lifestyle programming also are experiencing increased interest and sales. Not surprisingly, the most important factor homebuyers consider when evaluating a community is still the quality of the schools. (See “Most Important Factors Considered by Buyers.”) When asked which amenities are most important to them, buyers ranked relatively low-cost walking trails highest, followed closely by well-designed and well-programmed open space, town centers, and community gathering and learning spaces. Extending connectivity among home, work, recreation, schools, and shopping can be a key differentiator for MPCs. Daybreak residents are quick to note that over 70% of the community’s school-aged children walk or ride their bikes to and from school, and that transit is on the verge of arriving in their community to

support commuter needs, with light-rail service scheduled to begin in spring 2011.

MARKETING STRATEGIES

Perhaps one of the most interesting findings from this year’s survey was the heightened role that digital marketing plays in qualifying buyers and driving traffic to communities. Developers reported that they are spending as much as 95% of their marketing budgets on Internet-based marketing strategies, with a large emphasis on social media. Facebook is playing an increasing role in many of these strategies, and most communities have or are developing Facebook pages. The other common theme that emerged from this year’s survey—and from subsequent interviews with MPC executives—was the importance of listening, really listening, to the consumer. Surveying prospects and residents—both initially and over time—about what they like or dislike about a community helps developers discover new market needs and niches. The multigenerational household is one example of such a market niche; more and more MPCs—especially those in diverse markets like Houston—are addressing this niche with new housing configurations that may contain multiple master suites and/or prayer rooms.

The most successful MPCs also are empowering their residents to act as the “sales office of the community” by engaging prospective homeowners in community clubs and activities. The growing challenge, many developers tell us, is that sales staff must constantly sharpen their knowledge of all elements of the community—as well as the competition—in order to keep up with well-informed buyers. Recognizing consumer needs is central to the success of most high-ranking communities. Bob McLeod is convinced that adapting to consumer needs has been pivotal to Newland’s success. “Buyers’ needs have changed and they will continue to

Most Important Factors Considered by Buyers in Evaluating a Community

FACTORS	%
Good Schools Nearby	83%
Parks	43%
Variety of Housing	39%
Proximity to Employment	30%
Housing Value	22%
Development Controls	22%
Community Pool	22%
Reputation of Developer	22%
Golf Course	13%
Town Center	13%
Organized Recreation Programs	13%
Playground	9%
Clubhouse/Community Center	9%
Security	9%
Tennis	4%
Proximity to Shopping	4%
Marina	4%

change. The communities Newland creates will continue to adapt to meet those needs. Value doesn't just mean a lower price or a smaller home, it means what fits their family and lifestyle needs. The way we market our communities, taking time to really understand our buyers and engaging with them on a more personal level, has changed as well."

When asked about the future, approximately 60% of respondents predicted that home sales to end users will increase moderately in 2010; 30% anticipate no change and 10% believe that home sales will decrease. (See "Home and Lot Sale Predictions for 2010.") A majority (70%) of respondents anticipate that prices will rebound and start to increase in 2010, while 10% believe that there will be no change and 20% predict that prices will continue to decline. The outlook for lot sales to builders in 2010 is slightly less optimistic, with 43% of respondents predicting that the number of lot sales will increase while an equal proportion believe that there will be no change and 13% say that the number of lot sales will fall. Builders, while still cautious, are becoming slightly more aggressive and are slowly taking down lots—not necessarily

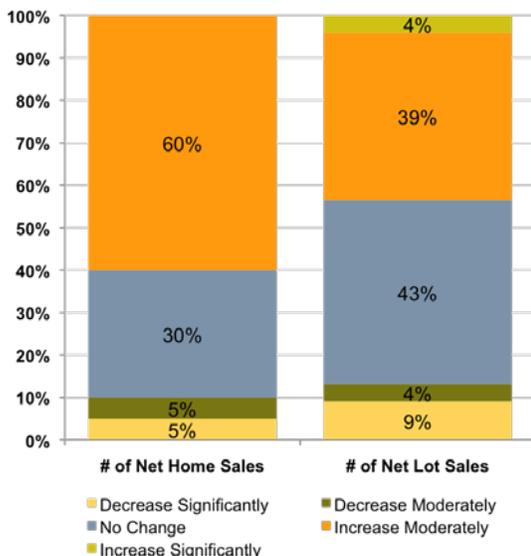
because of cash constraints, but rather as the result of corporate decisions.

None of this surprises Gadi Kaufmann, MPC expert and CEO of RCLCO. "We are working with MPCs across the United States, including many on the top-20 list," notes Kaufmann. "Much of our MPC work in 2010 focuses on revisiting market segmentation models and repositioning product offerings, pricing and marketing strategies, and amenity programming to better capture existing and future demand. In many instances, we advise our clients to introduce new residential product types that allow the developer to push up prices by as much as 20%, recapturing some if not all of the land value lost during the downturn."

FINAL OBSERVATIONS

- Lot/house ratios are going down—where good amenities and open space exist, consumers are sacrificing lot size and/or house size
- Luxury is out—consumers are opting out of formal rooms (living and dining) and high-end finishes and appliances
- Green sells with the right marketing message—features and amenities that promote energy savings and wellness are valued by consumers
- Necessity is the "mother of all invention"—savvy developers are using downturn to introduce/explore with innovative, smaller, more modern product types
- Greater segmentation—lower priced, higher density, greater intensity at neighborhood and village level, leading to more urbanized/amenitized communities which helps sales
- Digital marketing reigns—developers are spending up to 95% of marketing budgets on web/digital marketing strategies; social media, especially Facebook, are huge
- Consumers have the answers—developers who listen to consumers/residents uncover market needs; leverage residents to help

Home and Lot Sale Predictions for 2010



sell community; and sharpen their own marketing teams

- Builders still cautious—while cash positions have improved, builders are slow to take down lots until market conditions settle
- Multigenerational households growing trend—especially in demographically diverse immigration gateway markets

IDEAS FOR 2010-2011

- Revisit segmentation model—explore new niches and innovative product types
 - » Attached: Consider Condos, 25' Towns, One- or Two-Story Duplex; Big House/ Paired Home Concepts
 - » Detached Condos: Tiny Lots; Zipper lots from 45' to 90'
- Use prime location to locate smaller, clustered product types where buyers will trade off size for amenities
- Coordinate marketing efforts with resident groups, builders, realtors, businesses, and institutions
- Create events that attract residents and friends to gain visibility and traffic
 - » Repeating “legacy” activities and events year round
 - » Festivals, art shows, market days, etc., draw traffic into the community
 - » Link philanthropy with marketing – walks, races, cycling events, volunteering
 - » Cooking and gardening are in—find a way to celebrate and promote both
- Increase internet advertising and web-based marketing via social networking vs. more generic internet/web comments—create a Facebook page

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ABOUT THE SURVEY:

RCLCO has been releasing its top-selling MPC rankings since 1994, when it first undertook this effort to gain greater insight into the master-planned community industry. To see survey results from prior years, visit our MPC Knowledge Bank.

SHOULD YOUR MPC BE ON OUR LIST?

If you are involved with an MPC actively selling in 2010 (with a minimum of 200 closings), please register with us online so that we may send you an invitation to participate in the 2010 survey, which will be available in November 2010.

RCLCO'S MPC RESEARCH AGENDA FOR 2010-2011

As the leader in MPC applied research, RCLCO seeks to identify trends and address issues of relevance to investors and developers of large scale communities. We are developing our research agenda for 2010-2011 and welcome ideas for research topics through September 1, 2010. Please forward research topic requests to Laura Cole at lc@rclco.com or contact her at 240-396-2340.

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A Tale of Two Successful MPCs

TELFAIR AND DAYBREAK

A look at two of the best-selling MPCs of 2009, Telfair (number 4) and Daybreak (number 6), demonstrates how developers of large-scale MPCs can experience similar levels of success using different strategies. In the Houston area, Newland Communities is developing Telfair as a community of entirely large-lot (less than four units/acre) single-family detached (SFD) homes. In the Salt Lake City area, Kennecott Land has planned Daybreak to include a much wider range of product, including large-lot and smaller-lot SFDs, townhomes, and condo/multifamily units. Large-lot SFDs made up only 13% of Daybreak’s home sales in 2009; small-lot SFDs (33%) and townhomes and condominiums (27% each) all were more widely represented. The difference in lot sales figures is even more dramatic; SFDs made up less than a third (29%) of all lot sales at Daybreak in 2009, and all of those were small lots (less than four units/acre); half of all lot sales were for condo/multifamily projects, and 21% were for townhomes. The two communities also differ in their builder/developer structure.



Telfair



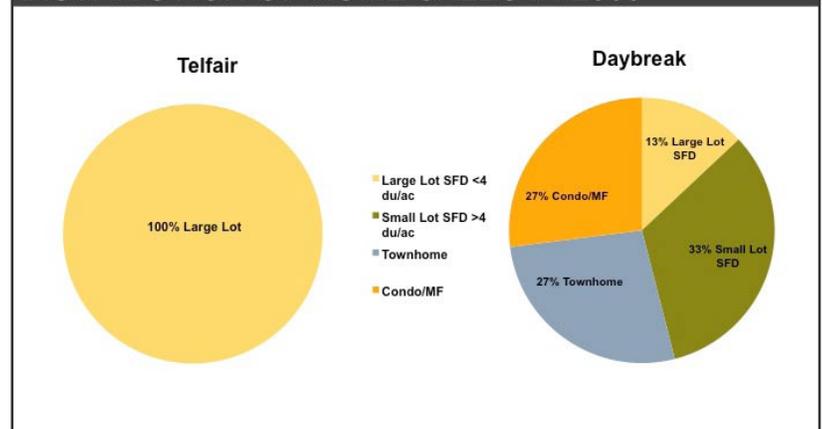
Daybreak

Yet Telfair and Daybreak also have much in common. Each is being developed by an owner with a steadfast, long-term vision and commitment. Both are strongly committed to listening to their homebuyers and prospective homebuyers, to uncovering unmet needs and unfilled niches, and to addressing those needs and filling those niches. Both offer a wide range of residential product; although Telfair features all large-lot SFD homes, it contains many different types of homes, at many different price points. Both contain significant commercial and civic elements. And both are represented by sophisticated, state-of-the-art websites with search engines that enable prospective homebuyers to search for homes by a variety of criteria.

Both Telfair and Daybreak also incorporate significant “green” features, including abundant open space, trail networks, and Energy Star–certified homes. Daybreak, as a showcase community for sustainable ideas and technology, is blazing new trails in this area, by participating in the Solar Salt Lake City project to increase the use of photovoltaic panels, encouraging residents to purchase wind-generated renewable power, and exploring net-zero-energy home designs.

As developers of master planned communities respond to the economic forces and demographic shifts afoot, they must be willing to innovate without undermining the marketability of their communities. Achieving this balance is not easy. Cinco Ranch and Daybreak have been successful (both experienced increased sales year-over-year of 14% and 7% respectively) in translating national trends into local opportunities by listening to their customers and responding sensibly.

DISTRIBUTION OF HOME SALES IN 2009



Innovative Residential Product Types to Meet Current Demand

The days of people buying more home than they need and, more importantly, than they can afford, are over at least for now. Buyers are rethinking home sizes, lot sizes, and what they want in their home—and builders and developers must respond to this market shift, or risk obsolescence. What does “smaller” mean to today’s homebuyers? Have buyers shifted their preferences in the direction of townhomes and condos? Actually, RCLCO’s 2009 Master-Planned Communities survey shows that 90% of home sales within MPCs were of single-family detached product. So how are single-family homes becoming smaller, more affordable, and more efficient?

Our research has uncovered a growing supply of single-family homes on lots narrower than 50 feet, with some detached home sites as narrow as 27 feet. In several cases, homes on smaller lots have



28'x 95', Single Family
Baxter Village, South Carolina

outperformed larger, more conventional lots and homes on both price per square foot and sales pace. A smaller home comes with a smaller price tag, which often allows the builder to achieve a premium price per square foot—compared with larger homes in the area—at a lower absolute price.

While buyers are much more willing to consider smaller lots and homes than they have been in the past, developers must take extra care to identify the correct location within the community for these lots, as well as the optimal mix and phasing to align with current and future market demand. Doing so requires strategic land planning to provide proximity or direct access to open space, trails, and other amenities, to offset smaller lot and home sizes. These considerations vary by product type and the corresponding market audiences. Likewise, builders must retool their plans to create smaller homes that use space more efficiently, provide ample natural light and include higher ceilings that make the homes feel more spacious.

RCLCO has been engaged in several product studies to evaluate who today’s homebuyers are and what housing products best align with their tastes, preferences, needs and financial means. Our research suggests that innovative small-lot product—such as 1,200-square-foot, rear-loaded homes built on 27-foot wide lots—can outperform front-loaded single-



42'x72' Zipper Lots
Evergrene-Palm Beach Gardens, Florida

family homes by over 20% on a price per square foot basis and sell twice as fast. These homes have captured buyers seeking an alternative to townhomes, as well as those looking for one-story detached living on low-maintenance lots.

What will the future bring? Keep an eye out for the baby boomers. They have had to delay relocating or retiring because of the downturn, but over the next few years we will see a greater portion of this generation in the market. Similarly, expect Gen Y to enter the homeownership phase. These buyers will re-shape and influence demand for innovative floorplans as they move into the downsizing and starter-home stages of life. All signs suggest creative innovators will win. We predict this is not a passing trend.

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