



The DANTER REPORT

Summer 1997

A Periodical of Commercial Real Estate Research

Who's the Victim of Antigrowth Regulation?

Over the last few years, as the real estate development market has picked up, so has opposition from local antigrowth groups. When faced with strong local antigrowth sentiment, we have noticed a tendency for many developers to consider themselves as a victim. This attitude is counterproductive. Instead, the industry as a whole must put the emphasis on who the real victims are: the consumers.

WHY DEVELOPERS FEEL VICTIMIZED

It's easy for developers to feel put upon when they're jumping through hoops—especially if the hoops are constantly moving. Caught between constantly changing environmental standards, widely varying local ordinances designed to control or stop growth, and punitive impact fees, it's easy for developers to feel like they have a target painted on their backs.

It is particularly frustrating to developers because they often get blamed for problems well beyond their control, particularly problems that have to do with how society is changing. Antigrowth leaders see themselves as defenders and crusaders, protecting a lifestyle or resource that they feel is endangered. They feel like they could lose or are losing something they consider valuable, and developers typically make an easy target. The school needs a new levy—blame it on the developers building new homes, never mind that the schools are old and falling apart and need replaced. Crime is increasing—it's those new developments bringing in those "undesirables."

Developers, on the other hand, often see antigrowth leaders as hypocrites or snobs

that are attacking them unfairly. "They moved here because they were attracted to the lifestyle," say developers about the antigrowth foes, "yet they don't want anyone else to share the benefits of that lifestyle."

WHY DEVELOPERS ARE NOT VICTIMS

Developers are not the real victims of antigrowth regulations for two simple reasons: 1) Developers pass the costs along to the consumer. 2) When it becomes no longer cost-efficient to develop in one community, a developer can develop somewhere else.

First, it is important for developers to get the message out that more regulation and higher fees result in higher home prices. Local governing bodies pass lot size regulations, park land set-asides, excessive tap fees, and high permitting fees because they think that they won't be paying for it. All those outsiders who are parachuting in here will be paying. Wrong—they're hurting their constituents, and also themselves.

All those fees get passed on to the home buyer, adding thousands of dollars to the cost of a new home. Our studies of mobility patterns indicate that a high percentage of new homes are bought by people who are already living in the same community. When young households get tired of that little ranch home built in the sixties with

INSIDE:

FOCUS ON FOR-SALE

2 Single-family marketing problems

4 Improving your bottom line through gap management

6 Is your landscaping helping you sell your residential units—or turning off potential buyers before you can turn them on?

AFFORDABLE HOUSING AND REGULATION

"Everybody wants to go to heaven," says the old line, "but nobody wants to die." If you were to rewrite that for real estate, it might go something like this: "Everybody wants affordable housing, but nobody wants to allow 60-foot lots."

As an industry, we need to be better at pointing out how their own regulations often interfere with a government's own intentions to facilitate affordable housing development.

9' X 10' bedrooms that worked as a starter home and want something new, they may find that they can't afford to stay in the area and have the home they want.

In addition, fees passed on to the consumer are paid for the life of the mortgage. That extra few thousand dollars added to the price of a home, over the life of a 30-year mortgage, is a lot of money going to a bank that could be enhancing the local economy.

When housing developers get tired of hassle and start developing elsewhere, they are typically followed by the other development that communities want. Most businesses searching to locate a new facility or relocate an existing facility will opt for a growing community with an abundance of quality, new housing *that their employees can afford* over a community without. By limiting growth, many communities essentially price themselves out of the market to compete for new businesses, with the end result being that their residents will have to travel elsewhere to work. Because "retail follows rooftops," they will also have to go elsewhere to shop. The result: loss of taxes and loss of convenience for residents.

WHAT CAN DEVELOPERS DO?

When faced with antigrowth sentiment, developers have choices. They can continue to play the victim and make situations worse, or they can educate legislators and consumers about the true costs of the regulations. If home buyers were presented with an itemized invoice for their new home that indicated exactly how much their home cost for labors, materials and fees, they would

be shocked by the thousands of dollars those fees add to the cost of their home, especially over the life of the mortgage. We need to get this message to the consumers.

Developers can also work with antigrowth forces to help find solutions for environmental concerns—if the concerns are truly environmental and not a disguise to road-block development. Often, developers see land as an obstacle to be overcome, rather than an opportunity. Developers who expect opposition from environmentalists, should strive to make their developments as environment-friendly as possible, beginning in the planning stage.

Environmental advocates have to live somewhere, and they make up a potential market for a development that is particularly environment-friendly. A development that sets apart land for natural features (a pond, a woods, a park area) can use that as a selling point, and can recoup that money in premiums on all lots because of the project features and decreased density. In addition, lots with proximity to land features can have higher premiums. Incorporating environmental concerns into your initial plans can take much of the edge off the criticism you receive.

The bottom line is that developers need to recognize where antigrowth forces are coming from in order to combat them effectively. Dismissing them as troublemakers without listening to their concerns will not solve the problems. We need to listen to their concerns, mitigate them if we can, and educate antigrowth activists about the real consequences of their actions. ▲



Most of the households buying homes in your area already live there. They are looking to upgrade their housing situation. Antigrowth regulation hurts them as much as it hurts all those "outsiders" who are buying new homes.



Making it Easier to Buy a New Home

It's too hard to buy a new home; harder than it should be. As an industry, home builders need to examine their marketing practices to find areas where the process can be made easier.

The major culprit in making new home purchases difficult is the marketing process. Potential new home buyers must make a major commitment to buy a new home. They must find the subdivision and then

visit the model home, often at an inconvenient time because of limited model home operation hours. Anyone who walks in your model home has become self-qualified by being there. Our research indicates that many sales opportunities are wasted because consumers are not treated to a professional marketing program.

We recently completed a study in a Midwestern metro area in which our analysts



shopped model homes to evaluate sales agents' sales and marketing performance. Based on these reports, and shopping reports completed across the country, we have identified basic marketing problems with the potential to affect sales performance at model homes.

THE TELEPHONE

The first contact a sales representative will have with a potential buyer will most likely be over the telephone. A phone call from a potential buyer is not an interruption—it is a sales opportunity. The caller has driven past your model, read your advertisement, called information, or made some other effort to find out how to reach you about a new home. The least your sales representative can do is try to sell the caller on your community and treat him with courtesy and respect.

A telephone call is a sales opportunity. And don't forget to get your caller's name, phone number, and address so you can follow up.



When we shopped various communities in a Midwestern metro area by telephone and aggregated the results, we discovered the following:



- 80.0% of the sales representatives stated their name
- 60.0% made an attempt to schedule an appointment for the caller to see the subdivision
- 46.7% asked the caller's name
- 26.7% pointed out the benefits/highlights of the subdivision
- 20.0% made a follow-up phone call or mailing

A significant number of sales representatives are not making an effort to sell the community over the phone and *over half are not even getting the callers' names*. You can't follow up with someone you can't find.

The percentage of representatives who failed to secure an appointment (40.0%) is particularly alarming for two reasons. First, our callers were all eager to make an appointment and still failed. Second, the entire sales process for new single-family homes is predicated on getting the buyer to the model home. If your sales agents don't even try to set up appointments to

see prospective buyers, they are losing potential sales.

THE MODEL/PRESENTATION

The problems continue once a potential buyer arrives at your model. Several models we toured did not have the hours of operation clearly visible from a distance. Often, they were posted on the door so that potential buyers would have to exit their car and walk up to the door to find out whether the model was open. We also found models unattended during stated operating hours, one with the "Open" sign prominently displayed.

We also found that potential buyers were often asked to tour the model unaccompanied by the sales agent. While this allows prospective buyers to tour the home at their leisure, the sales agent passes up the opportunity to point out the model's best features, to demonstrate spaciousness and storage space, and to guide the presentation and show the home in the best possible manner. The sales agent also loses the opportunity to deal positively with negative perceptions that a potential buyer might have *at the time*. In addition, during the tour the agent may be able to get to know that particular potential buyer and his specific situation, in order to better shape a sales strategy.

Many sales representatives were also unwilling or unable to discuss financing options. Even if all your financing is done by an outside lender, your sales agent should be able and willing to qualify a shopper, or calculate from a few questions about a shopper's income and expenses a rough estimate of the size of loan for which a shopper may qualify.

IN CONCLUSION

These sales concepts are all pretty basic. When we talk to marketing people, they tell us that all these procedures are part of their basic marketing strategies. However, our surveys find that there is often a significant gap between a marketing plan and its consistent implementation. It is critical that builders and marketing professionals understand the shopping process – and take precautions to prevent breakdowns. ▲

How important is that follow-up note or phone call thanking your prospect for calling or visiting your community? Four out of five communities we visited made no attempt to follow up with a phone call or mailing. Your potential buyers will notice when you take the time.



Gap Management and For-Sale Housing

In an optimal world, residential real estate sales would be proportionate across unit types, with all unit types available for the majority of the absorption period. Gap management is the process of fine-tuning sales prices to achieve optimal absorption and maximum return on investment.

Although many of these principles will apply equally to for-rent real estate, this article focuses on for-sale housing (condominium and single-family).

A market study can recommend a fairly specific unit mix. However, a market study is a starting point, with projections based on probabilities and past performance. It cannot predict all contingencies. Changes in the area's economy, such as a plant closing or opening, or new highway construction, can impact the conclusions of a market study. Because changing the unit mix to respond to such factors is impractical and costly once the approval and construction processes have begun, the best response is to adjust pricing.

Gap management is based on the principle that increasing or decreasing the gap between the price or rent between unit types influences the rate of absorption. A larger price gap encourages absorption of the lower-priced unit, while a smaller price gap encourages absorption of the higher-priced unit.

WHAT IS A UNIT TYPE?

In gap management, unit type represents distinctions between units or lots for which a premium could be charged. Unit type does not solely equate with number of bedrooms or square footage. For example, condominium units with a one-car garage are of a different unit type than those with a two-car garage, and otherwise identical units may be of a different unit type if one has a wooded view and the other does not.

Given the choice between a unit with a one-car garage and a unit with a two-car garage, people will typically opt for the two-car garage if the price difference is not significant. Then, if an adjustment is not made,

all the units with two-car garages will be sold out and the sales staff is left with the difficult task of trying to sell its least-popular units without having its most-popular unit types available to bring potential buyers through the complex.

Lack of desirable units will slow down the overall absorption. While increasing the price on the more-featured units will slow the absorption of those particular units, the fact that they are still available keeps the potential buyer base as broad as possible for as long as possible, thus enhancing the potential for overall absorption. Also, the additional money obtained for the more valuable units allows for price reductions for the least popular units with minimal or even no impact on gross income.

For single-family development, gap management applies to lot sales, as opposed to selling the individual homes, since homes are typically built to the buyers' specifications. If no desirable lots are left toward the end of the sales period, the base of potential buyers shrinks dramatically, particularly since builders are less willing to risk a spec home on a less-desirable lot.

THE TRICK TO GAP MANAGEMENT

The trick to gap management is finding the point where the price difference is significant enough to encourage those who don't really need or want a feature to settle for the lower-priced unit, but not so high as to



Raising the price on more valuable units enables you to reduce the price of the least valuable level, thereby speeding absorption



Selling out your most popular unit types at the beginning of the absorption period extends absorption, as sales agents must sell the least popular units to a smaller target market.



EVERY SHOPPER IS A MARKET STUDY

In addition to the demographic information from the guest card, it is critical to track visitor comments and reactions to determine response to your sales presentation. One of the best ways is by asking for response during the presentation.

Tracking potential buyers' responses helps to determine which units and features have the most and least favorable responses. It also helps in situations where more than one agent may be dealing with a potential buyer. Close tracking of visitor responses, in addition to allowing you to maximize return based on buyer preferences, also allows you to modify the sales presentation to maximize a unit's strong points and minimize its weak points.

▼
The market study can give the best estimate of a project's potential performance based on projected market conditions and past performance, but maximizing absorption requires the skill to adjust to the actual market conditions and buyer response.
▲

discourage those who need or want the more featured unit. The only way to find that point is by adjusting prices based on close tracking of unit/lot sales and by really listening to your potential buyers.

In close sales tracking, it is important to remember not to react too quickly. Two or three sales of a given unit type in a month may represent a statistical anomaly rather than a trend. If you react too quickly, you have the potential to increase the unit price beyond what the market will bear, discouraging potential buyers and forcing you to eventually drop the price.

Careful unit tracking can reap big benefits. Our market study projected that, at a condominium development at a local golf course, the units adjacent to the golf course could expect to achieve a premium of approximately \$10,000. However, as the developer began selling units, it was soon obvious that our projection was an underestimate. On-course units eventually brought a premium of \$18,000. The extra \$8,000 per on-course unit represents profit made *exclusively* through proper gap management.

MORE ABOUT UNIT TYPES

Following are some of the items you should consider, in relation to the total number of units, when differentiating units by price

Condominiums:

- Number of bedrooms
- Number of garages
- Proximity to pool
- Proximity to landscape feature (i.e., pond)
- Proximity to highway
- Floor plan differences

Single-family lots

- Frontage
- Depth
- Proximity to land feature (pond, woods)
- Proximity to project amenity
- Presence on cul-de-sac
- Proximity to highways

▼
How do you determine whether a few sales are a trend or an anomaly? You've got to listen carefully to what your visitors are telling you
▲

In order to determine whether a few sales are an anomaly or a trend, it is critical to listen to feedback from potential buyers. The market study is based on the tendency for what is popular at one project to be popular at other projects. This is not always the case. When we examined one local condominium site, we anticipated that the units with wooded views would be extremely popular based on our experiences at other developments. However, these units ended up being the last ones to sell. Why? The project's empty-nester target market felt that the units were less secure because of the presence of the woods. What we thought was an incentive turned out to be a disincentive. The only way you can find out how your project is performing is by really listening to your visitors.

Every visitor should be a market study. The sales presentation involves both transmitting and receiving information. Too often, we are more interested in transmitting the set sales pitch than in designing the sales presentation around the information we receive from the visitor. Unsolicited comments about the development are a great way to track visitor reaction and preferences: they should be recorded and reviewed regularly to help determine trends in visitor preferences.

In addition, each conversation ought to be "debriefed," with significant comments and events recorded for future review. It is particularly important to note visitor reactions in writing if a development has more than one salesperson. When one salesperson is working with all prospects, it is relatively easy for that salesperson to spot trends. However, with multiple salespersons and no written records to fall back on, trends may go undetected until too late.

IN CONCLUSION

Gap management is a proactive method for decreasing the absorption period by maintaining the widest variety of product for the longest period. Gap management also enhances profits by maximizing premiums for feature units. A combination of close unit tracking to determine sales patterns, verified by visitor feedback, will allow for price adjustments that create maximum performance. ▲

Enhancing Condominium Absorption Through Landscaping

A well-planned landscaping program can significantly impact sales for your condominium development. The Danter Company has done a significant amount of research into the factors people consider in deciding where to live. Consistently, people indicate that landscaping is an important factor in making their decision. For example, our research on upscale apartment shoppers indicates that 95.4% rated landscaping as “very” or “somewhat” important, the second-highest rating, just behind washer/dryer hookups (see table).

Why is landscaping so important? First, landscaping is a key component of the first impression your community makes on potential residents. As a popular commercial says, “You never get a second chance to make a first impression.”

First impressions are particularly critical because the sales process is incremental. The sales process is already well underway by the time the prospect walks into your sales office. The sales process began at the landscaped entry, and continues as the potential buyer enters the community, scopes out the project on the way to the sales office, and then enters the sales office for the presentations.

The incremental sales process is even more pronounced in condominium sales than in multifamily leasing, as the potential buyer is more likely to return several times before making a commitment. The landscaping, the architecture, the sales office itself, the brochure, the tour, the sales presentation, and the follow-up contact are all building blocks of a sale.

In that respect, lack of a landscaping plan or cutbacks in landscaping can be particularly harmful. The first impression is the building block on which the rest of the sales

process is built, and landscaping is one of the key elements in creating a good impression. “If this development doesn’t look first-class from the outside,” a potential resident may think, “how can I expect any better from the units? And what will my friends think about this place when I invite them over?” Often, no amount of good sales technique can overcome a poor first impression, just as a bad foundation may cause a building to collapse.

Because landscaping is the first element a potential buyer sees, it works in conjunction with architecture, layout, and signage, to create an image and identity for a development. A well-landscaped development reflects favorably on the quality of life of-



As the commercial says, “You never get a second chance to make a first impression.” Your landscaping makes that first impression before a visitor even steps into your sales office.



TABLE 1

How Important are the Following Amenities?			
Amenity	Very Important	Somewhat Important	Not at All Important
Washer/Dryer Hookups	90.6%	8.2%	1.2%
Plush Carpeting	81.1%	14.4%	4.5%
Storm Doors/Windows	74.7%	19.0%	6.4%
Balcony/patio	70.7%	23.5%	5.7%
Larger Unit	67.5%	22.8%	9.7%
Project Landscaping	63.0%	32.2%	4.5%
Frost-Free Refrigerator	60.5%	28.1%	11.4%
Cheaper Prices	53.4%	32.2%	14.4%
Self-Cleaning Oven	53.1%	30.3%	16.6%
Closer to Employment	49.1%	30.0%	20.9%
Swimming Pool	44.2%	29.6%	26.1%
Garage	41.2%	34.5%	24.1%
Recreational Facilities	36.7%	30.0%	20.9%
Better School District	32.0%	7.2%	60.5%
Closer to Shopping	31.2%	42.4%	26.5%
Fireplace	30.5%	29.0%	40.5%
All First-Floor Units	28.1%	22.9%	48.7%
Microwave Oven	26.8%	15.2%	58.0%
Ceiling Fan	26.1%	30.0%	43.7%
Vaulted Ceilings	12.8%	25.3%	61.8%
Smaller Unit	3.7%	6.4%	89.9%



▲
Landscaping can decrease a potential buyer's perception of density at your project, which is particularly critical if you are targeting former home owners.

fered by your development. It creates a sense of neighborhood and community. A prospective resident with a positive first impression of your development based on its landscaping and overall appearance is more apt to be influenced by your sales presentation, thus enhancing absorption/sales.

In essence, landscaping functions as both an attraction and retention amenity. Quality landscaping not only presents your community in its best light to potential residents, but also makes existing residents feel good about where they live, enhancing their feeling of belonging to a community and helping you keep them longer.

▲
▼
So, make your landscaping part of your sales process. As you tour the community with a prospective resident, reinforce the quality of your landscaping by stressing key landscaping features, such as trees, flowers, and buffers from nearby development.

Landscaping is often the first thing cut back if construction runs over budget. However, given the critical importance of landscaping to the sales process, cuts in landscaping have the potential to cost more in lost sales and slower absorption than they save up front.

SPECIAL CONSIDERATIONS

Landscaping for condominium development has some dimensions that differ from apartments. The first thing quality landscaping does in a for-sale multifamily environment is affect a potential buyer's perception of the project's density. Condominiums typically respond to an increased need for housing density, and often perform best in markets with a shortage of quality housing sites. Quality landscaping can decrease a potential buyer's perception of project density.

▲
A decreased perception of density is particularly critical when your potential buyers are former homeowners who have been used to having a yard and some separation from neighbors. Anything which lowers the perception of density for this group makes them easier to sell on the condominium lifestyle.

A second key landscaping factor for condominium development is the entry. The first chance a potential buyer has to form a first impression is at the entry. Therefore, how you landscape that entry is critical. Our

research indicates that entries that project a sense of security and exclusivity are particularly effective. Features that enhance such an impression include a gatehouse (unmanned), wing walls, and extensive plantings.

Another important consideration for condominium development involves trees. A typical for-rent multifamily community will plant a larger number of small trees. These trees will continue to add value to the developer/owner of the community as they mature because the community will experience continual turnover.

However, a condominium development only experiences absorption once. Therefore, a large planting of small trees, which is not going to add significantly to initial absorption, is not cost-effective for the developer. Rather, planting fewer, larger trees will provide a better return on the landscaping investment, since they will be more impressive to your initial buyers. Should the condominium association decide that more trees would enhance the property, the association can plant them after the community is established.

The condominium association is also important in planning condominium landscaping. On the positive side, quality landscaping indicates to potential buyers that they will receive value for their condominium fee. On the negative side, since the association will control such issues such as landscaping, it is often harder for the developer to maintain landscaping as more units are sold. Given the choice between raising the condo fee to maintain the level of landscaping or cutting back on landscaping, many associations will cut back on landscaping, unaware that the cost of a lower level of landscaping is reflected in a lower resale value.

Landscaping is often the first thing cut back when construction runs over budget. You might save a few dollars up front by making those cuts; however, it can have a devastating impact on your sales figures. ▲



<http://www.danter.com>

The Danter Company is pleased to announce our new World Wide Web address: <http://www.danter.com>.

WHAT'S IN IT FOR ME?

The Danter Company's web site is filled with useful information for real estate professionals. In addition to all the information that you need to know about The Danter Company and its methodology and people, we have provided a wealth of free information.

First of all, nearly our entire catalog of back issues of *Apartment Resources* and *The Danter Report* is provided online for you to reference. Ten years of keen insight into real estate market performance is online, free for you to download.

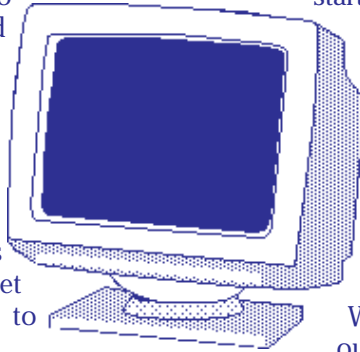
In order to enhance the experience, we have chosen to use Adobe Acrobat. Adobe Acrobat allowed us to

keep nearly all of the original formatting of the newsletters, including the charts and graphs that set these publications apart.

In addition to the back issues of the newsletters, we have chosen to move our popular StartsWatch feature online so that we may bring you the most complete starts information as soon as it's available. Our

new online format has allowed us to expand our coverage to include mapping and coverage of information at the state level, as opposed to the regional level. We think StartsWatch will be the place to start when tracking down changes in permitting activity nationwide, regionwide, and now statewide.

We have also posted detailed descriptions of our methodology and the products and services we offer, as well as more about our analysts and their qualifications. Visit us online and find out more about how The Danter Company can help you.



30 SPRUCE STREET
COLUMBUS, OHIO 43215

BULK RATE
US POSTAGE
PAID
COLUMBUS, OHIO
PERMIT NO. 2836
ADDRESS CORRECTION
REQUESTED

The Danter Report is published by The Danter Company, 30 Spruce Street, Columbus, Ohio 43215. Kenneth Danter, President and Publisher, Greg Grant Editor. Phone (614) 221-9096; Fax (614) 221-4271. Second-class postage paid at Columbus, Ohio. Reproduction in whole or in part is prohibited without written authorization. Send all address changes to 30 Spruce Street. Copyright 1997, The Danter Company.