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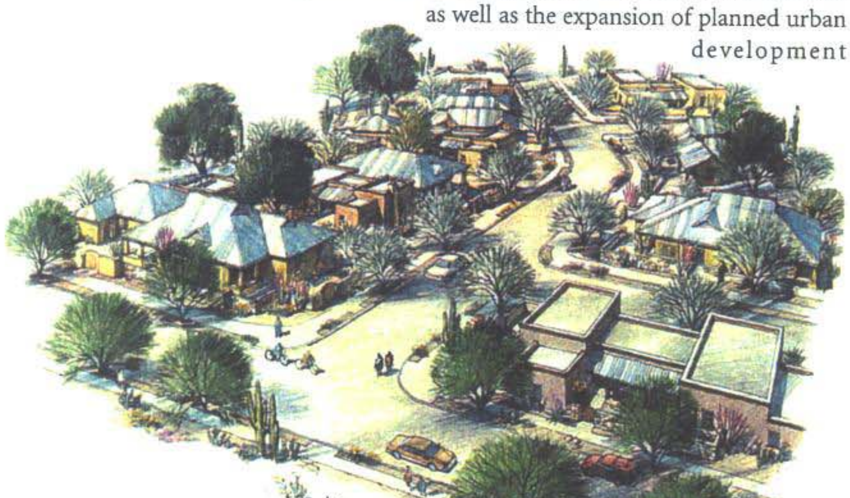
Making MPCs Profitable

A few proven practices can enhance the success of master-planned communities.

Years back, developing a residential subdivision was relatively simple: buy some land, hire a land planner to divide it into multiple parcels, put in some roads and utility infrastructure, and then sell off the lots to builders or individual homeowners who ultimately build homes and move into them. In the 1970s, with growing consumer acceptance of use restrictions and homeowner associations, as well as the expansion of planned urban development zoning regulations, community developers began to provide shared amenities including pools, clubhouses, and parks for the common use of residents and created mechanisms for protecting resale values in the community. Nowadays, though, homebuyers are demanding even more—such as an enhanced sense of "community" and greater attention to aesthetics in development. Developers who integrate these new consumer expectations into their master-planned communities (MPCs) may capture higher premiums on subdivided lots and sustain higher sales velocity.



There are tried-and-true methods for improving MPC profitability, some of which can be integrated into those MPCs already in the marketing phase.

Take complete control over sales and marketing efforts. In the past, many MPC developers focused their efforts on a development's initial planning and site work. Their objectives were to sell off lots *en masse* to homebuilders who would conduct their own marketing and sales efforts. In some cases, the MPC developer initiated a generic marketing campaign and constructed a welcome center where prospective buyers could collect brochures, floor plans, and other information about various models. However, such prospects would be given a map to find each builder's model homesite, where they would be greeted by yet another representative with a whole new stack of information.

As many MPC developers eventually learned, this traditional sales and marketing approach raised several problems. First, the developer's "vision" for a new community often was lost, if not completely ignored, by the builders. Builders had no incentive to sell the amenities or other features of the MPC since every lot benefited from the same communitywide amenities. Instead, builders focused on what distinguished them from the competition: their floor plans, custom interior options, and sales prices. Another problem was a lack of control, coordination, and cooperation with prospective buyer information and consumer responses to marketing campaigns paid for by the master developer. All this resulted in diminished price premiums placed on the lots within the MPC, slower sales velocity due to the failure to successfully match prospective consumers with housing products that satisfied their needs and price expectations, and increased likelihood that builders were aggressively competing on price and product to steal buyers from other builders within the same MPC.

A few MPC developers have found a solution to this problem: they have assumed responsibility for marketing and selling lots and homes within their MPC by converting their welcome center into the central sales office for the entire community. The primary focus of these centers is to sell prospective buyers on the MPC's lifestyle attributes. The process of selling consumers on a specific home product is secondary to selling the master developer's vision for the community. "Once prospective homebuyers envision themselves living within one of our communities, matching them to a housing product that fits their needs and budget becomes extremely easy," observes Randall Bone, executive vice president of the Sunrise Colony Company of Las Vegas, Nevada. "Homebuyers have made their purchasing decisions as a result of our success in differentiating the community on lifestyle attributes—attributes for which they are willing to pay a premium. Because many homebuyers no longer directly compare us on a price basis with our competitors, we are able to achieve significantly higher margins."

Another benefit of the centralized sales and marketing approach is the developer's ability to create a brand and to

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develop a marketing campaign that fully leverages brand awareness to entice prospective buyers to an MPC. "Perhaps the greatest attribute of brand advertising is its capacity to effect the suspension of ordinary consumer due diligence, creating preference that invariably results in higher premiums for otherwise comparable housing product," explains Philip Motta, CEO of the Motta Company, a Los Angeles, California–based company specializing in MPC marketing campaigns. "This translates into greater margins and return on investment for developers and builders."

Once at an MPC's central sales office, visitors complete information cards that are put into a database and used to evaluate the effectiveness of recent marketing efforts. Using the demographic and "psychographic" consumer profiles generated by the database, MPC developers can modify future advertising materials and even redesign housing products to respond more quickly to market conditions.

Finally, having a centralized marketing campaign and sales center offers the added benefit of eliminating the taking of sales by competing builders. A developer can have greater leverage and control in keeping each preferred builder within a defined product niche, which can result in higher profits for everyone.

Centralization of sales and marketing efforts carries with it additional expenses and administrative burdens for the master developer. However, the developer can recover these expenses in multiple ways. First, a fixed "marketing fee" can be added to the sale price of every lot. Second, depending on the degree of involvement of the developer's sales personnel in the home purchase transaction, part of the sales commission can be obtained. But, most significant, the MPC developer will realize higher per-lot sales premiums. Many master developers report net profits in the range of 20 to 25 percent, which is strong for an industry that averages returns of less than 10 percent. At the heart of any such centralized sales and marketing program is a master developer agreement that outlines and clearly establishes the respective responsibilities and duties of the master developer and of each builder, and the manner in which the master developer will recover its marketing expenses.

Develop soft infrastructure amenities. Building jogging paths, swimming pools, tennis courts, and other hard infrastructure amenities is the norm for most MPC developers. However, today's homebuyers want more: they seek "community." Some "85 to 90 percent of all homebuyers want a community where they can get to know and talk to their neighbors and feel like they are part of a small town," notes Robert Santos, division president of Lennar Communities in Mission Viejo, California. These consumer preferences largely are driven, he says, by factors such as a lack of quality time in households in which both parents work and the increased mobility among working professionals.

One way to create this sense of community at the beginning of an MPC development and sales cycle is to develop soft infrastructure amenities. For example, DC Ranch, a community in Scottsdale, Arizona, provides features like mandatory broadband connections and a secure computer Intranet site. These features allow residents to share information about themselves, their families, and their personal interests with other residents; to coordinate social and recreational activities, such as Little League schedules or the time of the next yoga club meeting; and to provide residents with a chat room where they can meet neighbors outside of scheduled social gatherings.

Other examples of soft infrastructure amenities include community-sponsored clubs, shared-interest groups, and sport leagues; civic and volunteer programs and initiatives, such as a Habitat for Humanity project; and alliance relationships with local providers of health, education, banking, and other consumer services that assist new homeowners with their transition into the neighborhood.

"You must support all of these initiatives with a paid community services liaison if they are going to flourish initially and succeed in the long term," emphasizes Brent Herrington, vice president of DMB Associates, which developed DC Ranch. "The level of support for each program is minimal but necessary from day one, since the level of satisfaction of the first 100 buyers will define your community for those who follow," he says. The cost for the liaison position and seed money for many of these activities can be recouped from annual homeowner association assessments, according to Herrington, while properly established user fees can be collected directly from those who take advantage of the offered programs and services. Moreover, alliance relationships can be leveraged to defer some of these expenses to one's outside partners. Using the above model, DC Ranch realizes annual profit ratios in excess of 20 percent, he reports.

All of these soft infrastructure amenities need to be properly organized and funded within the community's governing documents (i.e., the declaration of covenants, conditions, and restrictions, and the homeowner association's bylaws). There also are ways to take advantage of a special tax-exempt status or nonprofit classification to help fund and maintain many of these amenities.

Deliver an aesthetically pleasing environment to the consumer. "We are in an 'age of aesthetics.' No longer does form follow function. In today's society, we desire aesthetically pleasing forms and consider the product's functionality as a given," observes Virginia Postrel, editor-at-large of *Reason Magazine* and author of *Look and Feel*, an upcoming book on the rising importance of aesthetics in business and society. Many products, appliances, and fixtures used in new home construction already have incorporated these visual considerations into their design. The challenge for MPC developers is finding ways to take advantage of these consumer expectations to support higher lot premiums and to create greater sales velocity.

One approach is to incorporate aesthetic trends observed in other retail environments into the home sales center and to try to create a complete customer experience based on all of the human senses—not just sight. On a national scale, Starbucks stores provide an example of a retailer that has taken into consideration all these senses with regard to customers' buying experience. As many retailers have learned, the longer customers are kept in a store as a result of sensory gratification, the greater likelihood they will make a purchase and return to make additional purchases.

Sales centers can incorporate these same principles into the consumer experience by asking the following questions: How much emphasis has been placed on the materials, textures, and colors used in the interior and exterior of the sales center? Does the sales center environment reflect the vision for the MPC? What has been done to keep prospective buyers in the center longer? Have comfortable and inviting couches and chairs been added so that homebuyers can browse through brochures? Can a coffee bar or a soda counter be added? Have exterior spaces been used effectively? Can fragrant plants and flowers and a water fountain be added to a patio area? Designers experienced with retail environments in one's market can be a good resource for help with such aesthetic details.

A second approach is to focus on the aesthetics beyond the entry features and sales center. Most developers realize that a homebuyer's first impression of a community is important in the sales and marketing process. This realization is reflected in landscaped entrances enhanced with sculptures and other design elements to give prospective buyers a sense that they have *arrived*. But then, what is done to follow through on this aesthetic packaging throughout the rest of the community? Community aesthetics should be addressed from the same vantage point as that of a prospective homebuyer—namely, at four feet off the ground, moving 25 miles per hour in an automobile. Attention to visual details includes integrating architectural designs and exterior building materials throughout all product types in the community for a consistent appearance (for instance, a small cottage home design should complement, not detract from, the most expensive executive home); holding back from immediate sale certain lots to promote vistas and to allow for a sense of "space" as the community is built out; restricting lot clearance until absolutely necessary for new construction and then clearing only to the extent necessary; requiring builders to submit detailed landscaping plans for approval using a preapproved pallet of trees, plants, flowers, and grass species to maintain a uniform, aesthetically pleasing appearance; and providing for detailed streetscapes that integrate the design and material selection of sidewalks, driveways, roadways, landscape features, streetlights, and streetsigns to promote a balance between pedestrian and vehicle uses as well as a sense of flow from one phase of the project to the next. All of the foregoing visual details must be well documented in the community's governing documents and any master developer agreements, and they must be closely monitored and enforced to ensure a realization of the benefits (profit or otherwise) from such aesthetics.

Integrated architecture to permit adaptability to changing market conditions. Integrated architecture is important for the aesthetic appearance of an MPC and also because it will allow one to "plug in" different product types as market conditions warrant or as site-specific conditions allow. "It is not unheard of for us to build a $400,000 home next to a $1 million home, since their respective designs and architectural detailing complement each other," says Randall Bone, executive vice president of the Sunrise Colony Company of Las Vegas, Nevada. "There are several benefits in product mixing that more than offset the added cost of architectural detailing. First, by offering smaller homes in high-premium areas and, conversely, larger homes in lower-premium areas, we are effectively broadening our product offering and increasing absorption," he notes. "Second, such plotting flexibility allows us quickly and efficiently to change the mix of housing products offered based on changing consumer demands and market conditions. And product mixing actually adds value to our communities by enhancing the streetscape diversity and providing the appeal of a custom-home neighborhood," adds Bone.

To provide further streetscape diversity, some developers advocate placing a smaller home on a smaller lot next to a larger home on a larger lot; this arrangement can produce greater yields on a square-footage basis for the smaller property. (Essentially, one is borrowing a sense of space from one's neighbor.) Conversely, this approach provides the larger home with a better sense of dimension and context on its lot, while at the same time avoiding the impression that the most expensive products are glorified tract homes.

At Florida's Celebration, the concept is taken to the next level. All development options remain open in the community, emphasizes Perry Reader, president of the Celebration Company. For example, an apartment complex may be built where the first-floor units are preprogrammed to be converted easily into future retail space as rental rates and market conditions warrant. Similarly, he says, a duplex housing product may be added to an existing single-family development phase to realize greater profits through higher-density land use.

Maintaining developmental flexibility through integrated design requires forethought and careful planning from the beginning of the planning process. Developers need to plan and build in compliance with local zoning regulations, and the plan approved for their planned unit development must adequately address the issues necessary to reprogram space and uses within the development in the future.

In addition, careful attention should be given to drafting the community's governing documents not only to provide the developer with sufficient flexibility to plug in different housing and commercial product types, but also to provide relevant legal disclosures necessary to accomplish these initiatives without the threat of lawsuits. The pace at which property becomes subject to the community's governance scheme also becomes relevant. Once land falls under the governance of the development's declaration of covenants, conditions, and restrictions, it may be difficult in the future to address product-specific restrictions and covenants needed to make the new use work. Finally, sales and marketing staff need to be trained to avoid misrepresentations about the plans for future development phases. ■