

16th
Year

Heatley Capital's
DFW Land Advisory
The Tell-It-Like-It-Is Letter for Real Estate Speculators
December 2003 Issue

IN THIS ISSUE:

- There's a new kid in town & his name is Bryan Crow (insert)
 - Next big play for D/FW real estate
 - Big Lesson of the Year. Arm Yourself. Politics Rule.
 - Updates: Richardson/Breckenridge, Lewisville/Valley Ridge, Southlake/Oak Lane Phoenix, Flower Mound/Town Center Lewisville/I-35E... much more...
-

*"We and the world, my children, will always be at war.
Retreat is impossible. Arm yourselves."*

Leif Enger
from his novel *Peace like a River*

How Does a Five-Star Development Plan Become a City's Worst Nightmare?

You've heard about road rage, shopping cart rage, air rage and now web rage. But zoning rage? Sit down a minute, we need to talk about this...

From:
Dallas, Texas
Tuesday, 9:48 a.m.
December 2, 2003

Dear Subscriber and Fellow Speculator:

Most of this letter was actually written in July... *but*... it's been one thing after another. For one, never in our history have we had this much acreage under contract all at one time. Two properties recently closed, one is under contract, and two more are working their way toward the title company. The enclosed flyer tells more (web readers click UPDATES in table of contents box above).

For another there's Bryan Crow. This being the season for gratitude, this is one of those interruptions I am very thankful for. Bryan came on board in September to tackle one of our most urgent business problems, namely an aging inventory needing immediate attention. Making money only to pass it on to our investor's heirs is not my idea of expanding our customer base. Bryan was perfect for the assignment. In less than two months JVs were ferreted out that can be converted to immediate income rather than waiting until the cows come home for a buyer. Since Bryan signed on it's been anything but normal around here, in case you needed an explanation for why I have been derelict in my newsletter duties.

The topic of this letter should have been brought to the front many issues ago: abject stupidity.

Abject in the sense of *disastrous*.

I am about to lay upon you a frightening example of political correctness gone haywire. A tale of misguided homeowners and power-obsessed authorities ending up on the losing end of a rock fight each side had mistakenly calculated they would win.

One thing before we start. This story is true. And, it also happened recently. Hence, no names are mentioned, never mind that the perpetrators of this folly so much deserve the recognition. Off we go...

A developer presents a plan for a 96-acre estate-style home development. This developer has been very successful with this product over the years and, successful at it... in this very city. The layout was 84 lots averaging a tick under an acre (.87 acres to be exact), priced at \$115,000 for homes \$725,000 and up, and included a monstrous amenity package: 12 acres of public open space, four common areas, two parkland dedication areas, an eight-foot hike and bike path, lavish 10 and 20-foot landscape buffers, winding streets, an entry way lavishly ensconced with 20 accent trees, 30 canopy trees (big oaks, elms), 100 shrubs, wrought iron fencing and, in short, the answer to...

A Move-Up Homebuyer's Dream!

Any city would've been jumping to put this one in the trophy case.

Now, pay attention because this is important: one of the hallmarks of a quality residential development is lot size. Variety is king. That distinguishes classy residential subdivisions from the notorious production-builder ones laid out in a grid pattern so that the lots all look more or less the same. The tombstonish look that turns buyers off instantly. Lost you there? Draw lines for a game of tic-tac-toe and you've got a grid.

NOW: of the 84 lots, 44 were over an acre and the largest of those was nearly two acres (1.8 to be exact). All of these king-sized lots were thoughtfully situated at the entry to the development and around its perimeter.

Is this important? Oh, yes. Marketing-conscious developers know that ringing their site with these XXL-sized lots gives the development a more exclusive, palatial look which inevitably sucks realtors and homebuyers in like a black hole at the center of a super nova. The more people that turn into your development, the more homes you sell, simple as that.

The remaining 40 lots averaged roughly 2/3 of an acre and were scattered about in the interior of the development. These were cleverly mixed in so that driving through the development, you wouldn't be able to tell unless you had a plat in front of you that these were smaller than the larger ones surrounding the development.

Truly ingenious.

OK, drop any silly notions you may have about living in a sane world and back slowly away from the page. We can't afford having anyone infected with the insufferable stupidity about to be unleashed.

Neighboring homeowners to this planned subdivision went on a rampage, surrounding both developers and city like Indians around Custer. After month upon month of being hounded like the top three on the Most Wanted Terrorist List, the developers threw in and then, to its eternal shame, the city council laid down and rolled over. The plan was dumped like it was nothing more than one of the millions of disposable Dixie Cups that litter our landscape.

What were these people thinking?

Exactly this: Remember those 40 interior lots less than one acre? Well, there you are. They had it in their mind that this would set a precedent wherein the sky would fall on their cherished one-acre standard, and the one-acre standard, by jove, is the last line of defense from ugly, high density developments.

We must digress. High density to these folks is not apartments, town homes, or duplexes like it is to normal folk. It isn't even your Main-Stream-America 60-foot wide single family lot. What it is... is anything *less* than one acre.

In the end, this misguided logic snowballs into the ill-fated fixation that one acre is the one and only formula for beauty in a residential development. I am certain these people are new to this planet, or were sent here from California as infiltrators to bring mayhem upon us laid back don't-over-analyze-it North Texans. The I-want-beautiful-developments- same-as-you-we-gotta-work-together reasoning never tugged at the corner of their alleged brains.

I guess some things really *aren't* debatable, are they?

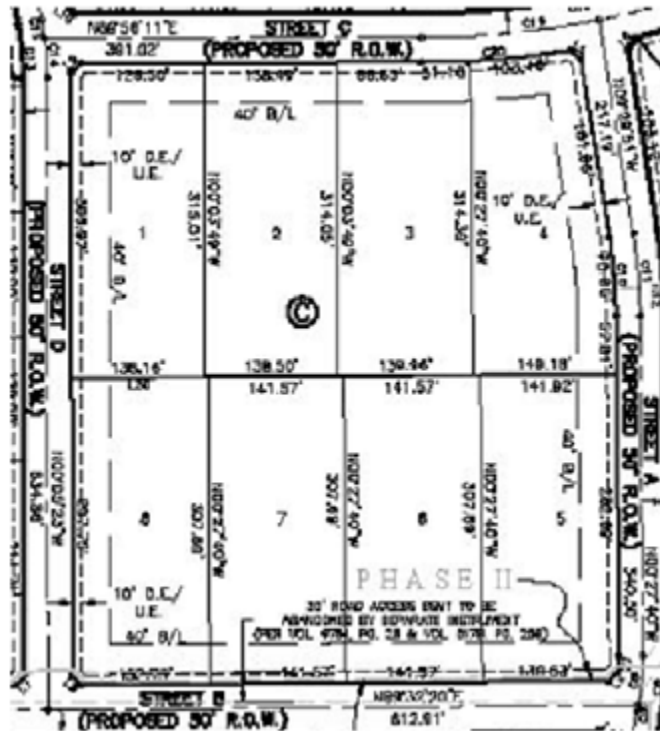
Now, behold what this one-acre-or-else mantra begat. The developer, now rendered helpless by the ruling, is forced to revamp the layout to pound out the maximum number of one-acre lots using bare minimums allowed by city code. This, of course, comes at the expense of what is sensible, practical and visually palatable. The get-out-alive equation is now in control.

SO: gone are the overly generous 12 acres of parks, jogging trails, wrought iron fence, canopy trees, winding streets etc., to make room for those interior lots upsized to one acre. But also gone are the 44 king-sized lots encircling the development, now *downsized* to one acre.

OK, reach for the dark glasses, because this next can be permanently injurious to the eyes.

In a well designed one-acre subdivision, a typical lot will be roughly 1/3 deeper than it is wide, something like 180 X 240. In fact, most of the one-acre-and-over lots in the plan that bombed were fashioned in just such a way. In a few cases some came out slightly narrower and deeper, but this is the exception. Developers know that lots straying too far from that one-third ratio will take a hit on marketability.

Now, it so happens that the minimum width allowed under this city's code for one-acre lots is not 180 feet. Or 160, 140 or even a squinty 120. Nope, it's 100 feet. What gave birth to such goofiness is hard to fathom, but I am sure the Californians were involved. Going by this, it's possible to end up with cluster of fairly ridiculous looking lots like this:



Isn't that clever?

Onward.

I don't know how much attention you've given the drive thru esthetics of a subdivision, but in the well-thought-out ones, the developer makes every effort to keep the houses situated some distance from the street, enough so that you get that plantation feel as you pull into the drive. This also dictates that the drainage ditch along the side of the road be as narrow, tight and well manicured as possible. Done right, you really shouldn't be aware of its existence. Both of these are very important to a lot's "curb appeal."

Now let us turn our eyes again upon the newly rearranged subdivision. If it weren't for the area consumed by the drainage ditch, there wouldn't be a front yard. This is because #1-the drainage ditch is three times wider than normal (I had no idea ditches this wide existed anywhere except along freeways) and because #2-all of the houses are at the exact minimum distance from the street. No, I haven't checked on what that exact minimum is, but it doesn't matter. Let's just say it would be hard to imagine a Chevy Suburban doing a U-Turn in this front yard without taking out the front door, porch and part of the living room.

The back yard. Oh, bejeeze. Remember how way back when, you brought something home to your wife you thought was really neat, then she goes "Oh Honey, how swe-e-e-t, this is really nice... uh... what is it?"

These back yards are *that* something.

First, the back fence is so far away it takes a pair of binoculars to locate it. Remember, these lots are 300+ feet deep and the houses are practically sitting on the curb. This leaves a back yard that will actually accommodate a regulation 40 X 70-yard

**Soccer
Field!**

I was relieved that some creative individual had soccer goals installed at each end of the model home's back yard. What a pregnant idea. Regrettably it was the only sign of creativity in the entire project.

One inescapable highlight of the back yard is the fence that surrounds it. It's wooden, it's on wooden posts and there's more than 700 feet of it. Backing up, of course, to another just like it, and on and on. You've heard "nothing but net." Dude, this is nothing but fence.

The finishing touch was garage doors. Street smart architects are careful to position them so you don't see them as you drive into the development. These architects are not those architects. These face so that it's the very first thing you notice. Well, except for the wood fence, that is.

I would go on, but I can see you're busy having a seizure, so the best I can do is try and end this as fast and humanely as possible.

Remember how we began with 84 lots, and how the one-acre mob was going to save our future from density pollution? Well, when I first glanced at the revised plan that finally was approved, I thought I had mistakenly been sent the wrong version. The number of lots in the approved plan and the rejected one is a difference of...

One Lot!

This can't be, can it? I called the engineer to verify. Game over, and don't bother pressing the restart button because this one really *is* over. Only way this one will ever look any better will involve the services of a creative photographer proficient in Photoshop.

Epilogue: the city ends up with tax revenues from 83 homes valued at \$350,000, that could have been revenue from 84 homes valued at \$750,000, meaning a tax base loss of around...

\$33 Million!

Ouch.

And, neighboring homeowners who could have ended up next door to a trophy development ended up next to something that should have been trimmed in yellow police ribbon.

Ouch.

One last stick in the eye. The city is now buying an easement from this same developer for the open space park area, which previously had been donated... *for free*. Yes. The same blessed hike n bike trail that originally had been donated under the original plan that was axed is now costing the city upwards of...

\$250,000!

Ouch.

Was there a winner in of all this?

The fence dudes. They must've hit the big one.

Big Lesson of the Year: In times past politics were another routine step in the development process. These times are not those times. No matter how noble your intentions or how sensible your proposition, seeking approval is like trial by jury—the outcome is a crap roll. You can't forecast stupidity. You can't predict emotion. You can't reason with those whose job description is to enforce absolute compliance to a regulation, never mind that the

regulation could cost the city and its citizens financial pain and embarrassment. Arm yourself. It's you in one corner, the exploding cigar of human nature in the other. Politics rule.

Time to push this one out the door and make way for the rest of the year.

Sincerely,



Mike Heatley

P. S. It's valued at \$1.3 trillion (with a t), makes up 15% of gross domestic product (GDP), and has taken a D/FW company from \$6 million to \$20 million in two years. It's the subject of our next newsletter and there's a special bulletin on our web site to tell you how you can make the most of this explosive growth industry...

Introducing Bryan "New Guy" Crow...

Many of you have met Bryan, so we may as well make it official. Bryan grew up in Salt Lake City. His first at bat in real estate was acquisitions manager for Chase Realty Advisors. He holds a degree in Finance from the University of Utah and a Masters of Business from MIT in Boston. He also has two years experience in corporate finance. Bryan has a lovely wife, two great looking kids and a third due on December 26. Bryan is here to answer one simple question for HCC investors: How can we make more out of what we've already got? It will soon become evident that Bryan is well on the way to figuring this out.