ARCADIA LAND • COMPANY Newsletter

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Future Speaking Engagements

"Transferable Development Rights" *Fri., May 8- Pennsylvania Land Conservation Conference, State College, PA.* Jason Duckworth will be a panelist.

ULI Philadelphia Urban Marketplace
Thur., June 25- Chris Leinberger will be a keynote speaker.

Arcadia Book Corner

The Option of Urbanism
by Arcadia partner, Christopher B. Leinberger.

Americans are voting with their feet to abandon strip malls and suburban sprawl, embracing instead a new type of community where they can live, work, shop, and play within easy walking distance.

Views of Seaside
by Seaside Institute.

A book about the iconic community of the New Urbanism-- Seaside-- developed by Arcadia partner, Robert Davis.

Last Harvest
by Witold Rybczynski.

A book about American development told through the lens of Arcadia's New Daleville community in Chester County.

Greetings!

> "The days where we're just building sprawl forever, those days are over."
>
> President Barack Obama, February 10, 2009

The President is probably right. Far-flung suburban subdivisions have been hit harder during this housing downturn than infill developments. Homeownership rates have fallen from 69.2% in Q4 2004 to 67.5% in Q4 2008, as many Americans shift to renting, a more affordable choice which happens to be less land consumptive. Public transit ridership remains at all-time highs, notwithstanding the collapse in gasoline prices since last summer.

Long-term trends like the aging of America also seem support the President's forecast. In fact, Virginia Tech's Arthur C. Nelson suggests that demographic trends will result in a 22 million unit surplus of large-lot single-family homes by 2025 (see his analysis) as Baby Boomers, among other groups, downsize.

Furthermore, there's little doubt now that the Federal government is in the early stages of a long-term reduction of our nation's immense subsidy of automobile-oriented development, as evidenced by recent talk about a vehicle miles traveled (VMT) tax, congestion pricing concepts in Manhattan, and expanded road tolling here in Pennsylvania from Route 422 to I-80, not to mention likely climate change policies.

We think this is a positive direction. But it would be even more positive if it were as easy and as affordable to build in existing urbanized areas as it is to build on greenfields at the edge. (More on this next month.)

Best,

Jason Duckworth

Jason Duckworth
Vice President

Why land values are falling faster than house prices. Gulp.

The latest numbers from Case-Shiller US Home Price Index indicate a 26.7% drop from the housing market's peak in Q2 2006. Now take a deep breath... the fall in land prices has been even greater.

Here's an example. Let's assume that a conventional single-family house sold for $300,000 at the peak of the market. The builder of that house could afford to pay about 1/3 the value of the home for the finished lot (i.e., a graded lot with a street, utilities, stormwater management, etc.) or $100,000. To transform the land into a finished lot costs about $40,000, leaving a paper lot value of $60,000. Take away another 20% for the cost of the approval process, carry costs and the land developer's profit and one is left with a land value per lot of $48,000.

Now let's assume that house prices have fallen 15% (much less than Case-Shiller) but improvement costs are flat at $40,000 per lot. The builder who now sells houses for $255,000 can only afford $76,500 for the finished lot. Take away the improvement costs and 20% for approvals and profit and you're left with a land residual of $29,200.

That is, a 15% correction in the value of the home (from $300,000 to $255,000) results in a 39% correction in the value of the land (from $48,000 to $29,200), using these assumptions. (And there's a strong case to be made that improvement costs are actually higher than at the peak of the housing market. See report from AGC).

	Peak	Today	Change
House Price	$300,000	$255,000	-15%
Improved Lot Price	$100,000	$76,500	
Cost of Lot Production*	$40,000	$40,000	
Paper Lot Value	$60,000	$36,500	
Land Value (per lot)	$48,000	$29,200	-39%

Understanding the relationship between house prices and land values is essential for decision-making as builders, as bankers, and as leaders in government. We believe there are often ways to mitigate the hit to land residual in this downturn by improving the efficiency of land improvements, building more incrementally, and shifting plans to smaller (and less expensive) product types which demand less infrastructure both on and off-site.

A value-engineering effort we completed for a client last summer reduced projected improvement costs and improved the project's feasibility. (See case study). Let us know if this approach might have value for situations you're facing.