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Invest Confidently in Finished Properties

With the housing market showing signs of life, many investors are buying developed lots, anticipating that the market has hit bottom. Finished lots are generally seen as safe investments compared to raw or partially developed land, because many broader development issues are bypassed. There are risks involved, however. Certain practices will help minimize risk and ensure that purchased lots will work for the intended home product and prove attractive to buyers.



As with all investments, there is no shortcut around proper due diligence. The first step is gaining a solid understanding of city ordinances. If the site is a Planned Unit Development, knowing the PUD standards is also essential. Many times the standards put into place for the original home product do not translate well to others. For instance, a specific front setback allowance for living space areas would not apply to a garage-forward home design. Potential conflicts to watch out for include modified setbacks, impervious surface coverage, and special overlay district standards.

The second step is reviewing the Developer's Agreement for details on development

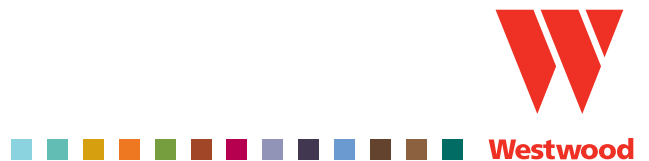
restrictions, architectural standards, and covenants and restrictions for homeowners associations. The fees to be collected merit special attention in these agreements. Near the end of the housing boom, many developers became strapped for cash and successfully negotiated delayed payments for costs such as park fees or sewer charges that typically would be paid up front. Awareness of these fees can help maintain the profitability of the purchased lots.

The next step is to review project as-built surveys and geotechnical reports. Having building pads already in place is an advantage only if they work for the intended home product and were properly completed so there are not future problems with settling or erosion. Common problems with pad preparation include insufficient compaction of backfill, improper sizing, and inadequate drainage measures. It is also important to make sure that the anticipated hold downs for the lots work for the intended product. It can get expensive importing or exporting material because building pad elevations or basement excavations have changed or because the pads weren't sufficiently prepared.

Finally, if a deal seems too good to be true, then it probably is. Additional steps include discussing the project with the city and the planning and engineering company that designed the site. It is also important to ensure there are no outstanding broader development issues that will impact the finished lots, such as stormwater permit compliance, wetland mitigation, incomplete streets and utilities, or other aspects of due diligence. If the firm that originally did the planning and engineering is no longer in business or does not want to discuss the project, the site contractors may be able to help. Another planning and engineering firm can also double check the findings and track down hard-to-find answers.

With competition growing to buy finished lots, conducting a thorough review of the project background can ensure a successful purchase and help you invest confidently.

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