
LESSON 2 – LAND OVERVIEW

LAND TYPES

There are seven main types of land that we will review in this lesson.

The first is **RAW, UN-ENTITLED LAND**. This land is typically farmland or agricultural land and is considered the most basic form of land.

The second land type is **MASTER-PLANNED RAW LAND**. Municipalities generally have a master plan for their communities.

The third type of land is **ZONED RAW LAND**. Zoning defines the types of use that might be permitted on the land.

The fourth type of land is **PRELIMINARY-APPROVED RAW LAND**. The land is zoned, has gone through the necessary public hearings for subdivision or a site plan, and is approved for the intended use.

LAND TYPES

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The fifth type of land is **FULLY APPROVED RAW LAND**. Approved land, or “paper lots,” provides real value to the owners.

The six land type is **APPROVED AND FINISHED “SUPER PADS.”** These larger, finished tracts or pads are fully graded with all utilities functioning up to the site.

The final land type is **APPROVED AND FINISHED LOTS**. These are the ultimate land commodities. Finished lots mean that the land has been graded and public utilities and roads are in place.

SAMPLE TRANSACTION – RESIDENTIAL LAND

ASSUMPTION FOR A 50-LOT
RESIDENTIAL LAND ACQUISITION

		PER UNIT
Purchase price (including closing costs):	\$3,000,000	\$60,000
Development cost:	\$2,750,000	\$55,000
INTEREST RESERVE:	\$414,000	\$8,280
TOTAL CAPITAL STRUCTURE:	\$6,164,000	\$123,280
Loan request:	\$4,623,000	\$92,460
Total equity:	\$1,541,000	\$30,820
Construction cost:	\$17,000,000	\$340,000
Average home value:		\$600,000

SOURCES AND USES OF FUNDS

	AMOUNT	PER ACRE
SOURCES OF CASH		
Equity:	\$4,623,000	\$184,920
Loan:	\$1,541,000	\$61,640
TOTAL:	\$6,164,000	\$246,560
USES OF CASH		
Acquisition costs:	\$3,000,000	\$120,000
Rehab costs:	\$2,750,000	\$110,000
Interest reserve:	\$414,000	\$16,560
TOTAL:	\$6,164,000	\$246,560

SAMPLE TRANSACTION – COMMERCIAL LAND

Similar the residential land example, in this example, the greatest concerns are the purchase price and the development cost of the land.

However, other considerations need to be evaluated as well.

Unlike residential land that will likely be sold off to the individual consumers, commercial land will likely be leased to the tenants. You have likely seen the “build to suit” signs when commercial land is for sale.

In many instances, the investor/developer will build for the potential tenant and then lease the property at a certain amount.

This is usually determined in a lease rate of per square foot. Some of the considerations that are made for the pricing include location, competitors in the same area, and the need for the additional space.

THE LAND CONTINUUM

LEVEL	1	2	3	4	5	6	7
Land Status	Raw	Raw	Raw	Raw	Raw	Finished Super Pads	Finished
Approval Status	Agriculture Land	Master Planned	Zoned	Preliminary	Approved Entitled	Approved Entitled	Approved Entitled
Comment	All land starts as agricultural land by default	The municipality has overlaid general concepts for land use.	The specific property land use has been determined.	Public hearings approved general concepts.	Significant value has been created. Land has "achieved transferable development rights".	Valuable land. Finished lots have all utilities. No roads, but ready for development.	Finished lots are ready to build. A land commodity.
Capital Formation	Value as farm land. Financed based on crop output. Taxed as agricultural land at very low rates.	Financed as farm land, interim use or speculative future value.	When zoned, it is taxed as vacant land, at the same assessment rates as commercial property. Financed from cash flow as interim use or on a speculative basis of future use. Early equity capital seeks returns at 30% plus IRR. Debt is based on future value with credit support.	When zoned, land is taxed as vacant land, at assessment rates as commercial property. Finance from cash flow on interim use or on a speculative basis of future use.	Project is preparing for development. Terminating interim land use. Equity capital is more available. Bank financing is now possible.	Project is ready for vertical construction. Construction financing is available. Equity is plentiful.	Project is now a community. Most liquid stage of asset class. Debt/equity is plentiful.

LAND BASICS

The first type is **RESIDENTIAL**. Residential land is approved for unit housing, including single family homes, townhomes, cooperatives, and condominiums.

The second land transaction type is **COMMERCIAL**. Commercial land is approved for income-producing property, such as retail, hotel, office, industrial, or condominiums.

The third land transaction is **MIXED-USE**. Mixed-use land is approved for both residential and commercial. This land is the most difficult to analyze since there is not one clear path that could be taken.

LAND INVESTING CHARACTERISTICS

The first characteristic is **ILLIQUID**. Land is the most illiquid of all real estate investments and the market for land sales is significantly smaller when compared to retail, office, industrial, and multifamily investments.

The second characteristic is **NO CASH FLOW**. Land investments provide little to no cash flow (e.g. parking lots, lots for temporary uses, such as Christmas tree sales).

The third characteristic is **CASH REQUIREMENTS**.

The fourth characteristic is **MARKET-DEPENDENT VALUE**. Market conditions affect land values more than any other asset class.

The final characteristic is **TERMINAL VALUE ONLY**. Unlike commercial real estate, land does not provide an income stream. The cash-on-cash return comes at the time of sale.

LAND INVESTMENT STRATEGIES

There are two main strategies for land investing. The first strategy is **BUY LAND AND CHANGE THE APPROVED USE**. This approach generally has a large positive impact on the land values.

The second strategy is **ACQUIRE AND SUBDIVIDE LARGE PARCELS**. Subdivide larger parcels into smaller parcels. This strategy creates a zero basis in the remaining land and provides for instant equity in the remaining parcels.

LAND BY THE NUMBERS

1. Per Acre
2. Dirt Square Feet
3. Buildable Square Feet
4. Floor Area Ratio Square Feet
5. Lots
6. Land Conversion