

with more lots will be lower,

If the community is contemplating expansion of its sewer services, this procedure can take years to complete. In one instance, a fast growing community in the southwest suburbs of Chicago did not plan adequately and ran out of sewer capacity. It took city officials three years to get themselves back on track.

That's the dirt on buying land for residential purposes, but what if your aspirations lie in the commercial sector? Let's talk numbers to start.

Land suitable for commercial development is generally priced from \$2.50 per square foot up to \$8 per square foot. Since there are 43,560 square feet in an acre, that correlates to a price per acre of approximately \$100,000 to just under \$350,000. The local economy and the old fashioned supply and demand curve for land will dictate exact prices, but you can see how the price per square foot adds up quickly.

With that in mind, you can use commercial property as a springboard for a great deal of residential land if

the current zoning fits your development's specifications. Let's say you locate an 80-acre parcel that can be zoned for commercial and residential with 20 acres set aside for commercial and 60 for residential. If your ultimate goal is to build a subdivision or other type of residential development, that commercial space can help you to stave off some of the upfront costs. Here's how:

You can get the parcel zoned and annexed and even before closing on the deal you can "flip" out (i.e., sell your right to purchase) the 20 commercial acres, which will lower the overall per unit cost on the remaining residential property. Suppose the landowner is willing to sell the entire 80 acres to you for \$25,000 per acre or a total price of \$2 million. The residential portion, for purposes of this example is zoned for 2-1/2 homes per acre.

The final value of the land is then calculated as follows: the 20 acres of commercial land that you can sell at \$2.50 per square foot would bring you \$2,178,000 after the flip. The 60 residential acres, set at \$25,000 per

acre, runs \$1,500,000. But since you sold off the commercial land for the above-mentioned \$2.1 million, you've just acquired 60 free acres capable of handling 150 homes, and you made money in the process.

When you're looking for land, the bottom line is that there are good deals to be found if you know where your development fits into the bigger picture for the community. The future use plan will be a big factor in your ultimate decision to buy, or it may require you to alter the plans for your development. Since land prices are still on the upswing, this is a great time to be in the market.

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## building business

BY JOHN BATES

# Developing rural land

## The right strategy makes a big difference

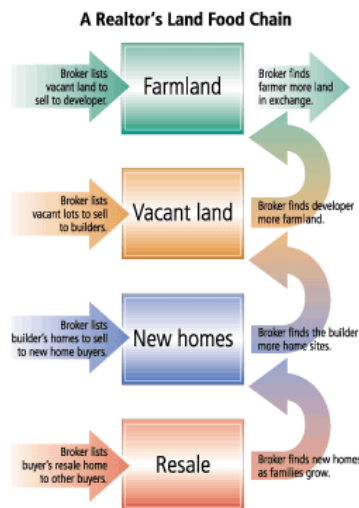
Building contractors and builders in rural areas in particular, often find themselves with the opportunity to develop parcels of land. The prospect of becoming a developer brings both greater risks and potentially higher rewards.

Builders looking to purchase parcels for development should understand some fine points of the real estate trade, and are well advised to look carefully at local future use plans, zoned density, and access. In addition they should understand techniques such as "flipping" that can lower up-front costs by selling purchase rights for zoned property

In general, land is at a premium these days, since demand is rising while the supply remains fixed. But prices around the country are not rising at the same rate; local level economic factors ultimately determine prices. Since a good portion of the overall cost of a development is tied to the dirt it sits on, it's important to understand the value of the land and to make sure that you're getting a good price from the seller. There are a number of means to this end.

For starters, it helps to begin your search for land by selecting a community with a "future use" plan. Then you can see if the available land fits your development vision. The city officials may have ideas already in place for residential, retail, industrial manufacturing, open space, parks, and so on. If they have a plan and you fit their criteria then it becomes almost a rubber stamp process from start to finish in the zoning and annexation of the property. If they don't have a plan, then you may very well become the visionary pioneer in the development

of the property.



Each new development can be well received if it is a win-win situation for all parties involved. If they have a plan and you don't fit, you will have an uphill battle to get your subdivision approved. Again, the win-win procedure is the best course of action to take. If you think your plan is more suitable, you will need to bring other people on board that may be affected by the development, such as the school, park, fire, and police districts. Once there's a consensus that backs your proposal, you will sway the vote in your favor.

Access to your development — or lack thereof will be the next issue to consider when looking at potential land purchases. If you're looking to build a retail store, your proximity to a main highway and the ease of getting on and off will be key. Residential developments also benefit from being near highways but your exact location is much more sensitive. Homeowners generally prefer to be relatively close to major roads for their daily commutes

but no one wants it running through their backyard.

If residential development is your plan, then the zoned density will be a major factor in the price per acre. If your goal is to squeeze in eight homes per acre, you may be willing to pay between \$7,500 and \$12,500 per home site. This could translate into a price per acre of \$60,000 to \$100,000. If there is an "estate" type of zoning for the land, then the value would be substantially lower, since estate zoning is usually only 1 to 1.8 units per acre, or a value substantially less at \$7,500 per acre to \$22,500 per acre. It all comes back to the future use plan for the community, which will hold the pertinent information on the planned density.

Availability is the next factor to consider, what is already in place" What is required? What needs to be added to suit the development, whether it's residential, commercial, or industrial? Density is an issue again here. Residential developments like subdivisions may require sewer services if the homes are tightly packed. The most cost-effective approach would be to select land based on the availability of utilities, rather than purchase land and then go back and run electrical, water, and sewer. Land without those services or any lesser combination of the three, will carry less value and could still be a good financial deal for you if you can work within the parameters. Remember that running roads, water lines, and sewer services have a basic cost per foot. Whether you have one house per 200 feet of frontage or three, the costs are going to be relatively the same. The development cost per lot