

# THE DIRT ON LAND SALES

## TIPS FROM LAND EXPERTS



### STORY HIGHLIGHTS

Local expertise is essential. What you don't know really can hurt you.

Diversify. The healthiest portfolios hold several classes of assets.

Build relationships with tenants and landlords.

Look at the big picture, rather than a parcel-by-parcel approach.

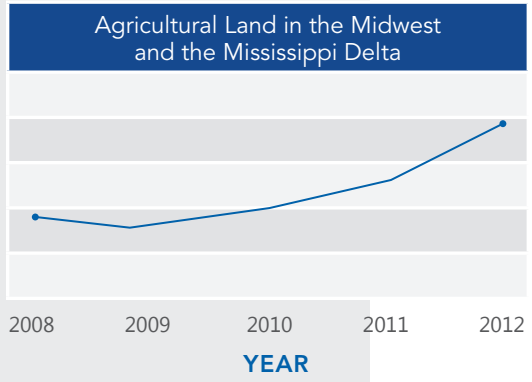
*"Buy land—they aren't making it anymore."*

Mark Twain

Increasing your value on a commercial property is not that simple. As an asset, land purchase has many subtleties that require keen analysis, local knowledge and an eye to the faraway horizon.

Dean Saunders, ALC, CCIM, of Coldwell Banker Commercial Saunders Real Estate in Lakeland, Florida, is one of the top land-sale brokers in the United States. Dean Saunderson's experience is long and wide. He stresses that a knowledgeable, local professional is critical to a successful purchase. A local professional will have a network of useful relationships and a thorough understanding of political and/or environmental issues that are unique to the location. You have to know the right questions to ask in order to fully evaluate a potential transaction. Saunders maintains that understanding land purchasing is primarily a matter of economics and covering the basics. "The basics" means doing the research on the obvious (the title is clear, the land has been surveyed) and thoroughly investigating what he calls "the three constraints to value: political, physical and market."

"You make your money when you buy land," he says. "You realize the profit when you sell. If you know you bought it right, then you know you will make money on it." But what is the right price? This is where careful analysis benefits potential investors.



Agricultural land in the Midwest and the Mississippi Delta tripled from 2007 to 2013. A combination of high commodities prices and low interest rates is making farmland attainable, which in turn is driving prices. [USA Today](#) reported, "In Iowa, where rich soil, favorable weather and ethanol and livestock production help foster demand for limited growing space, farmland values have soared 90 percent since 2009. An acre of farmland that a decade ago sold for an average of \$2,275 now sells for \$8,700."<sup>1</sup> This is a very attractive return on investment, by any measure.



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Fred Schmidt, president and COO of Coldwell Banker Commercial Affiliates, believes recent demand on agricultural land as an investment is putting pressure on prices. "Prior to the 2008 recession, that had not been the case," he says. Additionally, land is attractive to overseas buyers. "The United States is number one in property rights. Conveyances of property by deed with the chain of title available for investors to see in the United States helps to drive secure investment in the United States. International investors are looking at secondary and tertiary markets for sound investments, and for opportunities to convert them into revenue-producing vehicles."

Saunders recounts the past decade's land-market turbulence. The boom prices in Central Florida and other parts of the country were sky high and highly speculative in late 2006. By 2008, the market corrected and prices went down dramatically—in his opinion, below where they should be, creating potentially profitable opportunities. "There is art in knowing when and for how much. Buying land, assuming it will always go up in value, is simply not realistic," says Saunders. In the heady speculative days of 2007, buyers paying over-the-top prices were validated by lenders who were willing to lend on the sky-high prices. Many were badly burned. Whether you are a buyer or a lender, "Don't neglect the basics, and be diversified," says Saunders.

## DO THE GROUND WORK ON LAND

Saunders says that basic research includes understanding the water rights, road access and frontage, taxation, zoning, power sources. All are important factors. "Is it in the path of progress?" asks Saunders. "Look at fundamental demand: Where is the growth going to be? Is it logical?" He talks about three "constraints to value." He says the first constraint is physical. "What can actually be built on the property? What are the physical characteristics of the land?" For example, does it have wetlands, and if so, where; what soil types do you have; and what can you grow on them? The second constraint is political. "What does the government say I can do on the land?" Saunders cites land use and zoning, water and sewer lines, endangered species, tree ordinances etc. Then there are market considerations: "Is there demand for what you want to build? Will they come if you build it?"

Saunders stresses that having a knowledgeable professional on your team is key. Your consultant should be able to tell you what is in the public record, and also what is in the wind, as it will likely pertain to future legislation or other projects in the same locale. Those subtleties will be invisible to someone who does not have in-depth local knowledge. Expensive missteps occur when potential buyers do not know the right questions to ask. "Hire the best counsel you can," he says. "You need someone on the beach who can tell you whether it is safe to be in the water right now. All real estate is local."

## IMPORTANT RESEARCH FACTORS

Understanding the water rights

Road access & frontage

Taxation

Zoning

Power Sources



## DEEP IN THE HEART OF TEXAS

The pivotal role of working with a professional who has local expertise is echoed by Beau Tucker, CCIM, a commercial land specialist at Coldwell Banker Commercial Rick Canup in Lubbock, Texas. Tucker specializes in all aspects of land, build-to-suits and commercial real estate investments. He maintains an inventory of more than \$100 million in land and investments and is among the most active land brokers around. He does a lot more than help buy and sell tracts. "I help landowners get the most out of their land." Tucker invests a lot of time and talent in building relationships with potential tenants as well as landowners. He knows what commercial buyers/tenants want and need. Perhaps their businesses depend on being near multifamily dwellings or offices or Lubbock's large college community. Through his extensive networking activities, Tucker considers himself as much a matchmaker as a commercial real estate adviser. He brings project partners together to their mutual benefit.

"Strategize the Big Picture."

For instance, he worked closely with a large land developer to strategize the "big picture" for 500 acres. Rather than simply transacting sales of parcels, together they created the vision for a retail corridor that houses a synergistic mix of tenants and links major transportation routes through the city. The whole was greater than the parts. It elevated the value of the land, the value of the economic activity and the value to the community.

## COMMERCIAL REAL ESTATE AND PHYSICS

Saunders says that the economics of land purchase is the same as the laws of physics. What goes up must come down. Every action has an equal and opposite reaction. When there is money to be made, everybody wants to jump in, causing the market forces to rebalance. Among the reasons farmland is expensive now is that corn prices are high, as it is being used to produce ethanol for fuel. Inevitably, higher prices for corn will mean that more growers in the United States and overseas will find corn economically viable. More supply will cause corn prices to moderate. The land that is being used to grow it will be affected, too. Similar forecasts are echoed in [Agricultural Commodity Markets Outlook 2011 – 2020](#), which states, "Current high commodity prices result in a supply response which puts downward pressure on prices, easing from current high in nominal terms."<sup>2</sup>



On the other hand, burgeoning demand from China for agricultural products will support demand. Former Senator Thomas Daschle told the U.S. Department



of Agriculture's 2013 Agricultural Outlook Forum, "To keep up with this rapidly rising demand, we will need to [increase global food production](#) 70 percent by mid-century."<sup>3</sup>

"These are the kinds of susceptibilities that must be observed with caution," says Saunders.

## EVERYTHING OLD IS NEW AGAIN

Schmidt emphasizes the central role of accessibility and transportation in the future of land values. In the industrial sector, accessibility to rail is re-emerging as a desirable factor. "The rail siding is coming back. It is part of the long-term planning, as a hedge against high fuel costs. We haven't seen that in the past 15 to 20 years," said Schmidt.

"There is a trend toward adaptive reuse around urban markets and exurbs, repurposing older factories and obsolete buildings into mixed-use developments. In part, it is a demographic shift, because millennials are looking for high-density living," Schmidt notes. "Developing commercial land and high-density residential carries a higher degree of risk because there is not an immediate revenue stream. It is predicated on approvals, zoning, financing. It requires a sophisticated knowledge base and astute advisers."

## WATCHING FOR RISK FACTORS

The economy of West Texas fared well through the Great Recession. It has been growing at a rate between 2 percent to 5 percent in various cities for the past several years. In 2013, housing inventory was at pre-recession levels, signaling robust health and opportunity for retail, hospitality and health care. Yet it takes an expert with local knowledge to keep a cautious eye on market pressure and risk factors.

Tucker says the market dynamics in West Texas have changed dramatically over the past few years. Development is raging. Reasons include the region's stability throughout the economic downturn, historically low interest rates, an oil boom, the growth of Texas Tech University, major medical districts and a population shift from small towns to the larger cities.



4 Acres of developable land in West Texas

Low interest rates have been major drivers in land sales and development growth. They have allowed developers to build, get the returns they need and still charge rents that are reasonable in the West Texas market. Some of Tucker's

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investors are doing [1031 tax deferred exchanges](#) into new investment properties to get better returns. Tucker's expertise in doing financial analyses steers them toward the best solutions.

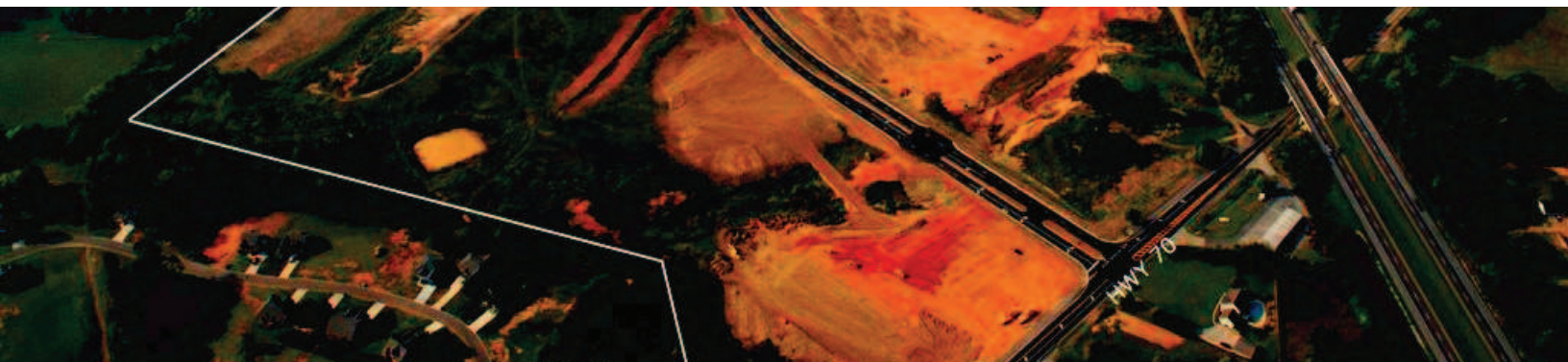
The role of keeping or transferring mineral rights along with property has become infinitely more important in land-sale negotiations in the Lubbock area within the past five years, although other cities in Texas have dealt with it for a long time. At the same time, buyers need to make sure that they have 100 percent of the surface rights so there are no unpleasant surprises in the future.

Tucker has his eye on potentially higher interest rates and how that will affect the volume of commercial real estate activity. He believes CAP rates will follow the interest rates and make the industry more attractive to cash buyers; higher interest rates have the potential to slow down some investors. He believes that in rural subdivisions, making sure that there is sufficient, sustainable well-water is going to be increasingly important. While West Texas has ample room for development, Tucker thinks it needs to be done in a thoughtful and deliberate way. A land professional will help make sure that happens.

"Every single land sale requires a specialist in that area," he says. But it isn't only in flat, mineral-rich West Texas. "In East Texas and Oklahoma, where there is timber or other issues pertinent to the area, professionals in that particular market are the best equipped to advise on this particular issue. Buyers need to seek out a professional in each market," he says.

Unquestionably, transacting land is both an art and a science. Thorough research and the best advisers will help you see the potential in all aspects of the deal. That's rock solid.

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FRED SCHMIDT



**Fred Schmidt** is president and COO of Coldwell Banker Commercial Affiliates. He is a veteran commercial real estate professional with more than 30 years of experience in the industry. He is a member of CoreNet Global, the leading professional association for the corporate real estate industry, as well as IAMC and ICSC.

DEAN SAUNDERS



**Dean Saunders** owns Coldwell Banker Commercial Saunders Real Estate (land sales) and its new division, Coldwell Banker Commercial Saunders Real Estate | Forestry (timber land and management), and Coldwell Banker Commercial Saunders Ralston Dantzer Realty (commercial property) in Florida. He has more than 30 years and millions of acres of land-sales experience. He is an ALC (Accredited Land Consultant) and a CCIM (Certified Commercial Investment Member). [dsaunders@cbcworldwide.com](mailto:dsaunders@cbcworldwide.com)

BEAU TUCKER



**Beau Tucker** is a top land-sales representative for Coldwell Banker Commercial Rick Canup in Lubbock, Texas. He is a CCIM (Certified Commercial Investment Member), a Member of Realtors Land Institute, Member of International Council of Shopping Centers and a Member of (ULI) Urban Land Institute. [btucker@cbcworldwide.com](mailto:btucker@cbcworldwide.com)

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<sup>1</sup>Doering, Christopher. "Farmland prices: Is the bubble about to burst? USA Today 24 March 2013 USA Today.com. Web. 30 July 2013.

<sup>2</sup>Organisation for Economic Cooperation and Development (OECD) & Food and Agriculture Organisation (FAO); Food and Agricultural Policy Research Institute (FAPRI); United States Department for Agriculture (USDA). Agricultural Commodity Markets Outlook 2011-2020, A Comparative Analysis, DG Agriculture & Rural Development: Agricultural Trade Policy Analysis Unit, September 2011. Web. 30 July 2013.

<sup>3</sup>Thomas A. Daschle, "Plowing Ahead: Farming, Food Security and the Future" (2013 Agricultural Outlook Forum: Managing Risk in the 21st Century, Arlington VA, 21 February 2013)