DEVELOPMENT OPTIONS FOR A RESIDENTIAL PROPERTY

LOCATED IN NEW CASTLE COUNTY, DELAWARE

by

Jeanne M. Goucher

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Signature of the author ______________________
Jeanne M. Goucher
Department of Architecture
August 16, 1985

Certified by ______________________
James McKellar
Associate Director for Education
Thesis Supervisor

Accepted by ______________________
Lawrence S. Bacow
Chairman
Interdepartmental Degree Program in Real Estate Development

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Submitted to the Department of Architecture on August 16, 1985 in partial fulfillment of the requirements for the degree of Master of Science in Real Estate Development at the Massachusetts Institute of Technology

ABSTRACT

This thesis assesses the options available to the owners of a 170 acre piece of residential property to dispose of it and maximize its value in the transaction. The paper shows that the property can be developed as a Planned Unit Development but not as it is currently zoned. Given that rezoning can be accomplished and soil conditions permit development of the site, the best option for the owners is to joint venture with a developer for the development and sale of the property.

Thesis Supervisor: James McKellar
Title: Associate Director for Education

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INTRODUCTION

The purpose of this paper is to assess the options available to the owners of 170 acres of residential land to dispose of the property and maximize its value in the transaction. This paper attempts to answer the following questions: 1) Can it be developed? 2) What is the highest and best use for the property if it can be developed? 3) Should it be sold as raw land or after it is developed? and 4) If it is to be developed, how should this be accomplished?

The paper attempts to identify the major problem areas that could impede the successful development of the property, explore the risks and rewards of various steps of the development process and assess the relative value of the property, if developed.

The findings of this paper may not account for every contingency. Although very conservative projections and estimates were used in the analysis, at the time the property is developed unanticipated circumstances, such as increased development costs, changed market conditions or a change in the County's attitude toward residential development, could affect the development potential of the property.

Chapter One summarizes the findings and recommendations as to how the owners should proceed with the development and sale of the property. The succeeding chapters provide the background material and analyses supporting the recommendation.

Chapter Two provides a description of the property and the surrounding area. Chapter Three explores the physical attributes of the site and identifies the constraints that could impede development. Chapter Four identifies the property's highest and best use and Chapter Five summarizes the risks involved with rezoning the property to its highest and best use, and the risks involved in the subdivision process. Chapter Six summarizes market conditions in the area and provides a projection for sales absorbtion and lot prices as well as information on raw land comparables. Chapter Seven explains the methodology and major assumptions used in the financial pro forma and discusses the reurns for each scenario. Chapter Eight discusses the advantages and disadvantages of the various development options. Finally, Chapter Nine contains the conclusions reached in the paper.

CHAPTER ONE

EXECUTIVE SUMMARY AND RECOMMENDATIONS

The property is an excellent site for residential development provided the following potential problem areas can be resolved:

1. The site must be rezoned to accommodate development and rezoning is not assured. The property is feasible to develop as a Planned Unit Development at a density of seven units per acre but not as it is currently zoned. As shown in Chapter Seven, at a density of two units per acre development costs far exceed net income from the sale of lots. If the property cannot be rezoned, it would be best to continue farming it until conditions are favorable for rezoning.

2. Soil conditions could restrict development and this would affect the profitability of the project. As outlined in Chapter Three, approximately half of the site has questionable soils. Although this paper assumes that most of the area is developable, a comprehensive soils investigation will have to be performed before planning of the site can occur.

Given that the above items can be resolved satisfactorily, the owners have three choices: a) offer the property for sale as is, subject to rezoning being accomplished by the purchaser; b) develop the property themselves and sell finished lots; or c) develop the property by way of a joint venture with a developer and sell finished lots.

Placing the property on the market at this time is not recommended for various reasons. One is that the sewer moratorium will not be lifted for one to two years which means that the property is not developable until that time. Another reason is that the Planning District Plan for the County is being revised this year and there is a possibility the property's plan designation could be changed. If the County decides that the property should not be developed at this time and designates the area as agricultural, the chances of rezoning the property to a planned unit development are greatly reduced. This would discourage potential purchasers from spending the money required to try to obtain the rezoning. In addition, most developers would be reluctant to purchase a piece of property that could take up to 25 years to develop and sell. A project of this magnitude is generally purchased by a national or regional developer/builder and it appears most the County's builders operate on a local scale. If a purchaser can be found, they would probably want to option pieces of the property over a 10 to 20 year period.

The property could be divided and sold as two parcels but the limited access onto Old Baltimore Pike and the heavy concentration of trees in the rear of the property, coupled with the off site costs for extending sewer and water, makes subdividing it further undesirable. Even if the property is divided into two parcels, however, they are still larger than most builders would want to purchase at one time. Finally, residential development along Old Baltimore Pike has just started to happen after a ten year lull. In a few years, a large portion of these developments should be sold out which would make the subject property more valuable.

The financial returns are the greatest if the owners develop the property themselves but so are the risks. The property would have to be mortgaged to raise the approximately $50,000 needed to rezone and plan the project. If the rezoning is turned down, the project would be undevelopable and the borrowed money would have to be repaid or the land would be lost to the bank. Also, if the soils investigation shows that large areas of the site cannot be developed, the overall density of the project could be reduced and the development might not be as successful financially. Although a very conservative approach was used to project absorbtion rates, lot prices and construction costs, there is no guarantee that these are achievable. The County may decide that Old Baltimore Pike needs to be widened with the cost borne by the developer or construction costs could increase for a variety of reasons. On the other hand, actual costs could be much lower than projected and lot prices and absorbtion rates much higher. This would increase profits substantially over those projected.

The biggest problem with the owner's developing the property themselves is that their time and effort would be required to hire and supervise a project manager. The project would be interesting and challenging during the initial stages of rezoning and planning but thereafter it would become rather routine. Developing and selling 20 to 40 lots a year would not require someone's full time effort. A competent person with development and sales experience would probably not stay with the project for very long and finding another qualified person might prove very difficult. If a project manager is incompetent, the owners would be at his/her mercy because they do not know the development business. Also, if a project manager is hired to handle the rezoning phase of the development and the rezoning is turned down, his/her salary of $30,000 would be added to the losses. The management problem and the large amount of front end money at risk makes this alternative less attractive than a joint venture.

A joint venture makes good sense even though the potential profits are smaller than what the owners could achieve by developing the property themselves. Although the owners would have to put up the property as their investment in the joint venture and this would be used as collateral for any loans obtained on the property, any losses sustained by the project would be split between the partners. If the rezoning were disapproved, for instance, the owners' losses would be $25,000 compared to the $80,000 mentioned above. One of the biggest advantages of the joint venture is that the development partner would be responsible for management of the project with little or no participation by the owners. The owners would have to be careful about selecting a partner, however, because once the partnership is established it might be very difficult to dissolve in the event things do not work out.

CHAPTER TWO

PROPERTY AND NEIGHBORHOOD DESCRIPTION

The subject property is a gently sloping, partially wooded piece of property containing approximately 170 acres. It is situated in an area that is semi-rural and one of its best features is its location across the street from Iron Hill, a Delaware State Park. The property is bounded on the south by high intensity power lines buffered by a strip of trees. Just south of that there is a several hundred acre office/light industrial park called Pencader Industrial Park which was developed in recent years. The property is bounded primarily by rural land on its western boundary and the development of Four Seasons abuts the property on the east.

Another of the property's major assets is the convenient access to major highways. Interstate 95 is located only 1.5 miles northeast; U.S. Route 40, approximately three miles south; and Delaware Route 896, about one mile east. Proximity to these highways permits easy access to the cities of Wilmington (45 minutes) and Newark (20 minutes); Baltimore, Maryland (60 minutes); and Philadelphia, Pennsylvania (60 minutes). Also, there are currently no traffic congestion problems along Old Baltimore Pike in the area of the property whereas this is not so further east. A location map showing the property's location is attached as Exhibit A.

The property is owned free and clear by the Rosscommon Corporation, a family held company. There are no known encumbrances except approximately 75 acres are leased annually to a farmer who grows row crops and a 50 ft. by 900 ft. strip of land is leased to homeowners in Four Seasons. The latter lease can be terminated upon 30 day's written notice. The land has been subdivided and includes twenty-four 3/4 acre building lots and a 159 acre parcel. Fourteen lots have been sold and six have been developed with single family houses.

In the early 1970's the surrounding area was being developed residentially with large scale planned unit developments. Four Seasons was developed at this time and includes commercial uses, apartments, townhouses and single family homes on 7,000 to 10,000 sq. ft. lots. The development also includes sites for elementary and junior high schools and a church. Stone's Throw, another development of townhouses and detached houses, is located at the intersection of Route 896 and Old Baltimore Pike, about one mile east.

Almost no residential development has occurred in the area during the past ten years but this trend appears to be changing. There is currently a new single family housing development being constructed on Old Baltimore Pike adjacent to Four Seasons, and three other new housing developments are being constructed on Old Baltimore Pike about five miles to the east.

CHAPTER THREE

DEVELOPMENT CONSTRAINTS

The property has direct access at the periphery to all utilities except gas. There is a gas line in Route 896 but this could cost in excess of $100,000 to extend to the property line and given that gas is not necessary for developing the property, it was not included in the costs. All other utilities are either adjacent to or within a reasonable distance from the site.

Soil conditions could be the critical issue and the major impediment to development. Approximately 40% of the site has soils which could severely restrict development of single family homes; however, given that the single family section of Four Seasons was developed on similar soils, this study assumes that the proposed development can be constructed on these soils, but a comprehensive investigation will be required before any site planning is done.

Sanitary sewer can be serviced through Four Seasons for only a portion of the development. A line will have to be extended to the Pencader Industrial Park to service the rest of the property. There is a water line in Four Seasons Parkway but it is not known if the supply is sufficient to serve the entire development. This paper assumes, therefore, that a water line will have to be extended to the industrial park to serve a majority of the site. The cost of these offsite sanitary sewer and water lines is estimated to be approximately $60,000.

Also included in the analysis is the cost of constructing approximately five acres of retention pond. This is the size of the Four Season's pond which has a similar density to the proposed development. Since the State Highway Department indicated they have no plans for improving Old Baltimore Pike, no costs were included for doing so. As the extension of Four Seasons Parkway is questionable, development costs include the cost of constructing this road. The following sections explain the development constraints in more detail.

Access

There are only two 60 ft. rights of way leading onto the property from Old Baltimore Pike but other access points may be allowed through the unsold frontage lots. There is access to Route 896 via Four Seasons Parkway which dead ends at the property's eastern boundary. A representative of the State Highway Administration indicated the State has no plans for improving Old Baltimore Pike adjacent to the property but they are in the process of evaluating existing and future traffic demands along Old Baltimore Pike in an easterly direction from Route 896 because of traffic congestion. Although this paper assumes no improvements will be made to Old Baltimore Pike, the State could require this some time in the future. The State is also considering constructing another east/west highway between Old Baltimore Pike and Route 40. Four Seasons Parkway may or may not be part of this highway but this paper assumes it will be required to be extended through the subject property.

Soils

According to a soil survey published by the United States Department of Agriculture, there are five major soils types found on the property. The Elkton Series has a high water table and slow permeability and is located primarily in the southern half of the property. The Soils Survey indicates this can place severe constraints on constructing streets and homes with basements. The Keyport Series which has impeded drainage and can cause moderate constraints for construction is found in the western central portion of the site. The Aldino Series also has impeded drainage and is usually four to six feet from bedrock which places moderate constraints on construction. This is found in the eastern central area of the site. Located in the northwest corner, the Matapeake Series has moderate to moderately slow permeability which places only slight constraints on construction. Finally, the Neshaminy Series, located in the northeast corner also has moderately slow permeability which places slight constraints on construction. Approximately 40% of the site contains questionable soils, most of which are Elkton soils.

The single family section of the Four Seasons development, which is adjacent to the subject property, was developed primarily on Elkton Soils. A local Soils Engineer indicated that there is a good possibility that the subject property can be developed on Elkton soils. A comprehensive soils investigation including soils borings and water table analysis will have to be performed to determine whether houses and roads can be constructed on the different types of soils. This should be done before any site planning is performed and the cost could range from $15,000 to $20,000. This paper estimates the cost at $17,000.

Topography

From a topographical standpoint the site appears well suited for development. The land is flat and relatively level and slopes from the north to the southeast from a high of approximately 120 feet to a low of about 90 feet. People who live on the property indicated the southeast corner is generally wet most of the year. Also, there used to be a small pond in the central portion of the property which may still exist but the area surrounding it was too overgrown for a visual inspection. These areas will have to be investigated to determine whether they can be developed. Approximately 90 acres is being used as farmland and another acres located on the southern half of the property is wooded. Construction costs include clearing all areas except those designated for open space. With proper site planning wooded areas could be left intact and clearing costs would be greatly reduced.

Utilities

water

The property is served by the Wilmington Suburban Water Company and there is a 12 inch water main located about 30 ft. from the property line in Four Seasons Parkway. Although representatives of the water company indicated there might be adequate capacity, they said they would need to know the density of the development before they could determine if the there is adequate water to serve the property. The Pencader Industrial Park, located approximately 1,200 ft. to the south of the property is served by the Artesian Water Company. A representative of that company indicated they had an adequate supply of water to serve the development if Wilmington Suburban could not do so. As the water companies have designated service areas, the developer would have to make a request to the Public Service Commission to gain approval if Artesian water is needed to serve the development. This paper assumes the first three phases of the development can be served through Four Seasons and the rest of the development through the Pencader Industrial Park. This would involve constructing an offsite line of approximately 1200 ft.

sanitary sewer

The property is serviced by the South Christiana Sanitary District which has been under a moratorium for the past ten years. The County has approved the construction start of an expansion of the treatment plant in January of 1986 and this is expected to be completed within 12 to 24 months. There will be more than sufficient capacity to serve the property upon completion of the expansion. There is an 8 in. sanitary sewer line in Four Seasons Parkway and a representative of the County Public Works Department indicated this line would be able to serve the first three phases or approximately 150 units in the subject development. A line, however, can be installed to connect with an existing line in the Pencader Industrial Park which could handle flows from the balance of the development. This would also involve constructing an offsite line of approximately 1200 ft. in phase four of the project.

easements

If sanitary sewer and water lines are to be extended to the Pencader Industrial Park, easements will have to be obtained from the owners of the industrial park and the owners of the land under the power lines. If the property owners prove uncooperative, a representative of the County indicated the County would be able to use its powers of condemnation to acquire the necessary rights of way.

storm water

The Public Works Department requires that no more storm water leave the property after it is developed than left it before it was developed. This means that retention ponds will have to be provided on site. The Four Seasons development which contains about 900 units has a retention pond of about five acres in size. This pond is stocked with fish every year and provides an attractive amenity for the development. This same type of amenity would enhance the value of the subject development. Construction costs include the construction of a small retention pond for phases one through three and the construction of another, larger one for the rest of the development.

CHAPTER FOUR

HIGHEST AND BEST USE

The property is currently zoned R-2 (Agriculture and General Purposes) which requires a minimum lot size of one-half acre for each single family dwelling. R-2 zoning permits various agricultural, institutional, recreational and residential uses. As the following information indicates, the property is best suited for residential development.

There is an abundance of industrial and commercial land in the County either zoned or master planned, all of which is better located than the subject property. A local builder indicated that industrial absorbtion is only 30 to 50 acres per year and there are thousands of acres of land that are master planned for industrial in the surrounding areas. Also, the Pencader Industrial Park, which is zoned for office and light industrial uses, has seen little or no activity since it was developed.

With the exception of a neighborhood retail center, the likelihood of a shopping center being developed on the site is very small. The Christiana Mall, a regional shopping center, is located just 6.5 miles from the property and there are numerous shopping centers in the Newark area. Also, with the sparce population to the west and south of the property and small growth rates projected for those areas, retail seems an unlikely use. In addition, there is a large area of commercial land adjacent to Four Seasons which has been vacant since the area was developed in the early 70's. If there was a demand for retail in the area, this property would have been developed.

At this time apartments are not economically feasible to develop. Rents in the area range from $320 to $395 for one bedroom apartments and from $405 to $495 for three bedroom apartments. With the above rental rates and interest rates at 12%, apartments are not a good investment. Even if rents doubled and interest rates dropped to 10%, apartments would not be feasible to develop.

In the County's 1980-1985 Planning District Plan, the subject property was designated "Post 1985 Residential" or future Planned Unit Development (PUD). A PUD allows mixed densities and uses so that a developer can take advantage of a property's topography, soil characteristics and existing vegetation to place buildings in the best possible locations. A PUD does not have to follow conventional zoning regulations with regard to lot sizes, setbacks, etc., but at least 20% of the total area in a PUD must be kept as open space and the maximum number of residential units permitted is seven units per acre. This density can be increased to nine units per acre if the development meets the bonus provisions for subsidized housing and/or open space.

A PUD would be the best zoning designation because of the subject property's topography, woodlands and questionable soils, and the PUD's allowable increased density. With this zoning, the developer would be able to preserve portions of the woods, avoid undevelopable soils and still attain an overall density of seven units to the acre.

The County plans to revise its Planning District Plan by the end of 1985. Although representatives of the the Planning Department indicated they expected the Plan to stay substantially as it is now, there is a possibility that the new Planning Director and County Council could decide that the property is best suited for another use such as open space or agricultural and the property's PUD designation could be changed. This poses a risk for anyone who might want to purchase the property at this time because rezoning has a greater chance of success if the rezoning classification is consistent with the Planning District designation. In recent years the County Council has rezoned properties for uses other than what was designated in the Planning District Plan but these may have been special circumstances and there is no guarantee they will continue to do this.

CHAPTER FIVE

REZONING AND SUBDIVISION PROCEDURES

Rezoning

There are many steps involved in the rezoning a piece of property to a Planned Unit Development (PUD) and the process takes approximately one year. The property owner must first submit a completed copy of a Preliminary Zoning Analysis Form to the Department of Planning along with an exploratory sketch plan. In addition, a statement of major objectives and assumptions of the PUD is required. The statement needs to address the environmental, economic and social impacts of the development which requires substantial time and effort by the developer to prepare.

Upon receipt of the above information, the Planning Department reviews the submission and approves it or makes recommendations for changes. This is a negotiated process and the County could make demands on the developer, such as widening Old Baltimore Pike, which would add substantially to the estimated development costs. After the plan is approved, the rezoning request may be introduced at a public meeting of the County Council. The rezoning ordinance is then referred to the Department of Planning who forwards copies of the exploratory sketch plan to those departments and agencies having an interest in the development. Any one of these agencies could impose additional constraints on the development.

The zoning request is also presented at a public hearing convened by the Department of Planning and Planning Board. This is when the public can voice their approval or objection to the development. All comments are taken into consideration by the Planning Department and will influence their decision.

In the next step, the Planning Department and Planning Board submit their reports and recommendations to the County Council which reviews the information and presents it at another public hearing where people again have an opportunity to state their views regarding the development. The owners should be aware that people may resist the rezoning and development of the property. Of special concern are the homeowners in the Four Seasons Development who may oppose the project. A representative of the Community Association indicated the community had strong feelings against the extension of Four Seasons Parkway because it would increase traffic through their development. The owners who are leasing a 50 ft. strip of land along the property's eastern boundary could oppose the project because they could lose the use of that land. The development schemes included in the paper assume, therefore, that the leased area will not be part of the proposed subdivision but will be sold to the people who now lease it. Also, the property owners to the north along Old Baltimore Pike might oppose the development because of traffic, obstruction of views and the possibility the County may require them to pay to connect their houses to public sewer and water systems. People who oppose the project could ban together to try to convince the Planning Department and County Council to vote against rezoning the property. Since the Council is make up of elected officials, they will seriously consider comments made by the general public. If the Council approves the rezoning, the people against the project could institute a law suit which could tie up the property for years and cost thousands of dollars in legal fees. All of these people will have to be approached to find out their feelings regarding the project. If they are against the project, the developer may have to make some compromises regarding the planning of the development to gain their support.

After the hearing, the Council approves or rejects the rezoning ordinance. If the County Council disapproves the request, the decision cannot be appealed. Also, in accordance with section 23-6 of the Zoning Code, a new request for rezoning may not be submitted to County Council within three years from the date the request was disapproved.

Subdivision Procedures

After the Council approves the PUD zoning, the next step involves the submitting a preliminary development plan to the Department of Planning. If the Department disapproves the preliminary plan, its decision can be appealed to the County Council. At this time the developer must create covenants, conditions and restrictions for the project including Community Association Bylaws and procedures and method of payment for common areas and open space.

Upon approval of the preliminary development plan by the Planning Department, a record plan is submitted to the Department for review and approval. This plan can cover all or stages of the development and the process can take up to one year to accomplish.

After the record plan is approved by the Department of Planning, the Planning Director endorses it and forwards it to Council requesting they adopt a resolution approving the plan. Once Council approves the record plan, it is recorded. The developer can then sell the property undeveloped with the new owner constructing the improvements or construct the improvements themselves and sell parcels. If the improvements are not constructed within five years from the date of approval of the record plan, however, the Council can void the approval.

CHAPTER SIX

MARKET DATA

An analysis of the market data shows that development and sale of the property could take between 10 to 25 years depending on its density. This is based on the projection that the property could capture a 1% to 2% share of the projected new housing market for the County and sell 16 to 20 lots to one or two builders per year. It is projected that single family houses in the development could be sold for an average price of $77,000 and townhouses for $67,000 in 1985. Lot prices are projected to be 25% of the sales price of the houses or $19,000 for single family lots and $17,000 for townhouse lots. The price of the retail lot is equivalent to the sale of 16 townhouse lots or $3.10 per sq. ft. If future research determines there is no demand for retail uses in the development, the lots could be sold for townhouses.

If the property were to be sold undeveloped, comparable sales point to a value of $680,000 to $1,000,000.

Subdivision Comparables

Information about residential subdivisions was obtained through newspaper advertisements, a field survey made in 1985 and information provided by builders. It is estimated there are approximately 35 residential subdivisions being developed in New Castle County. There are at least 11 subdivisions currently being developed in the Mill Creek area of New Castle

County and sales prices in this area range from about $80,000 to $100,000 for townhouses and $100,000 to $175,000+ for single family homes.

There are approximately seven housing subdivisions under construction in the corridor between Route 40 and Interstate 95, where the property is located. Prices in this area range from $50,000 to $84,000 for townhouses and $70,000 to $85,000 for single family homes. Although asking prices for detached houses currently under construction along Old Baltimore Pike adjacent to Four Seasons are $60,000, these houses appear to be of much lower quality than comparable houses in the area and have no site amenities. This price, therefore, was deleted from the price range mentioned above.

This paper projects that prices for homes in the proposed development will be comparable to those in the corridor. Builders generally construct houses in the same price range as surrounding houses and resales of single family houses in Four Seasons are estimated to be between $65,000 and $75,000. Prices for houses in the subject property are estimated to be $67,000 for townhouses and $77,000 for single family homes. If the site is professionally planned to take advantage of its natural attributes and offers amenities such as wooded areas and water views not available in comparably priced subdivisions, house prices could be higher and/or absorbtion rates faster than projected.

Several builders indicated they prefer to spread their risk over several areas and usually construct only 20 to 30 houses per year in any one development. They also indicated that they rarely purchase more than a two year's supply of lots. This means only 20 to 30 lots can be sold per year if one builder is involved in the development and 40 to 60 lots can be sold per year if two builders are involved.

Demographics

The subject property is located in Census Tract 148.04 which is bounded on the North by I-95, the south by Route 40, the east by Salem Church Road and the Christiana River and the west by the Maryland-Delaware Line. A study dated October 1983 and revised June 1985, prepared by the Water Resources Agency projects demographics and housing starts for the Census Tract and the County. The study uses population projections prepared by the Delaware Population Consortium, a coalition of public and private agencies and organizations which shows that total population in the census tract is 5,131 and is expected to increase to 10,118 by the year 2010. Population in the County is expected to increase from 400,000 to 470,000 by 2010.

The study indicates there are currently 3,850 single family houses in the census tract, 86% of which have a value of $30-80,000. These values, however, were derived from real estate tax assessments and properties have not been reassessed since 1970. The new assessment should greatly increase this range which would bring assessed values in line with the projected values in the development. The study projects that 358 houses will be built in the census tract between 1985 and 1990, 402 between 1990 and 1995, 314 between 1995 and 2000, 324 between 2000 and 2005 and 598 between 2005 and 2010. This is an average of 80 houses per year, compared to a projected average of 2,076 houses per year for the County.

New housing starts during the past six years are summarized in the following chart which lists the building permits issued for new tract homes and townhouses and apartments. The chart was derived from information provided by the Development and Licensing Division of the Department of Public Works.

Year	Tract Homes	Townhouses	Apartments	Total Units
84-85	1028	358	310	1696
83-84	931	206	424	1561
82-83	811	80	567	1458
81-82	346	27	-	373
80-81	470	-	-	470
79-80	497	4	46	547

According to the Water Resources study, the new housing market is not dependent so much on population increases as it is on people moving from one area of the County to another. From 1970 to 1980 new housing starts were greater than during the 1960's when the increase in population was six times greater. During the past two decades population has shifted from the center of the County primarily to the north and west, where the subject property is located. Given the projected increase and continued shift in population and the number of houses built during the past several years, the projection of an average of 2,076 new housing units per year over the next 20 years appears reasonable.

Although the new housing projections for the County seem appropriate, the way the study allocated new housing starts by census tracts seems faulty. One of the assumptions used is that future demand for housing in a census tract is projected based on development currently happening in an area. As the population is shifting, historical projections are not a good indicator of future growth. Also, the study does not take into consideration location and market factors which could have a large impact on absorbtion rates in a census tract. For instance, the subject property has the best residential location within its census tract and because of its location and natural amenities, it could conceivably draw market share from other census tracts.

For these reasons absorbtion rates for the development were estimated as follows: For the two unit per acre scenario it was projected that there would be one builder developing 20 single family homes; and, for the PUD development it was projected there would be one builder constructing 20 single family houses per year and one builder constructing 16 townhouses per year. Absorbtion of 20 to 36 houses per year is only a 1% to 2% share of the projected new housing for the County which is a conservative projection.

Raw Land Comparables

Based on comparable sales in the area, it is estimated that the subject property could be sold undeveloped for $4,000 to $6,000 per acre for a total price of $680,000 to $1,000,000.

Information was provided by a local realtor on raw land sales from mid-1982 through late 1984 in the general area of the subject property. Sales of parcels of R1b/R2 land between 25 and 180 acres ranged from $1,000 to $5,000 per acre. Three parcels of land that sold for $4,000, $4942 and $4838 per acre, are located closest to the subject property. Although smaller in size (41, 24 and 89 acres), two of the parcels are master plannned for Agricultural/Rural Residential and the other for open space. Also, two of the parcels are located adjacent to Interstate 95 and it appears that sewer and water lines would have to cross Interstate 95 to service the property. This makes the subject property more valuable because of its potential for much higher densities and available utilities. Three other parcels of 101, 50 and 41 acres sold for $3,000, $1,000 and $3,000 per acre. These properties are master planned for Planned Unit Developments but have locations near Route 40 which is a much inferior location to the subject property. Three other parcels of land master planned for agricultural/rural residential or single family in the Route 40 area sold for $2100 to $2600 per acre. Again, their locations and the risks involved in obtaining higher densities makes the subject property more valuable.

CHAPTER SEVEN

FINANCIAL ANALYSIS

As the following chart indicates the property is not feasible to develop at a density of two units per acre. It would not be profitable even if interest rates fell to 10% and lot prices doubled. On the other hand, the property has very good potential for development as a Planned Unit Development. The most profitable option, in relative magnitude, for the owners is to develop the property themselves. This would provide them with an income stream of $10,119,413 dollars over 25 years or a net present value of $2,622,843. The next most profitable alternative is a joint venture which provides $10,532,770 over 25 years or a net present value of $2,559,704. The least profitable alternative is a bulk sale which would net the owners $1,000,000.

Comparison of Financial Returns Of Development Alternatives

	Net Present Value	Total $ Over 25 Years
Owner/Developer:		
2 units/ac.	$ (245,739)	$ (721,784)
7 units/ac.	$2,622,843	$10,119,413
Joint Venture	$2,559,704	$10,532,770
Sale	$1,000,000	n/a

The above returns were developed on the basis of the following analysis. First, site plans were drawn for a density of two units per acre (Exhibit 2) and for a PUD or seven units per acre (Exhibit 4). The next step involved the development of financial pro formas for these two scenarios. The major assumptions used in the analysis are summarized in Exhibit 7. The proforma for the two unit per acre development is attached as Exhibit 3, the one for the PUD is attached as Exhibit 5. Each pro forma includes seven schedules. The Income Statement (Schedule 1) summarizes the information contained in the succeeding schedules. The other schedules are explained in the following section along with the methodology used in formulating the pro forma and the major projections and assumptions used in the analysis.

Site Plans

The site plans depict standard subdivisions and were drawn primarily to determine development costs. The plans are not exactly to scale and their accuracy is far from exact but they are adequate for gaining a general idea of the roads and utilities required for each type of development and for phasing purposes. With the exception of phases one and four, which require offsite construction, the size of the other phases can be increased or decreased depending on market conditions.

As previously mentioned, before a proper site plan can be designed, soils tests have to be taken to determine the feasibility of developing in certain areas of the site. Also, the developer should undertake a more extensive market study to determine lot sizes and quantities, whether amenities such a a swimming pool and town center should be developed, and how much retail space should be included in the development. A site plan would best be designed by a professional land planner who could plan around the natural amenities of the site and design a development that is of higher quality than most subdivisions found in the area. Site planning costs are included in the engineering fees.

Construction Costs

Costs were obtained through information provided by the State of Delaware Department of Transportation, "1985 Means Guide to Land Development Costs", and general parameters provided by a Boston developer. Engineering fee estimates were provided by a Delaware engineering firm and fees for rezoning and subdivision processing were obtained from the County zoning and subdivision regulations. Costs and other variables are listed in Schedule 2 of the pro forma.

Construction quantities were developed from the site plans for the various phases of the development and are included in Schedule 3 of the pro forma. Phasing of the development was derived by taking the absorbtion rate for lot sales (Schedule 4) and deducting that from the number of lots allocated to each phase. This was done to determine in which year subsequent phases might be developed. Construction costs (Schedule 5) were then developed for each phase. Costs were increased by 4% per year starting in 1986 to account for rising costs and inflation. The construction cost estimates are conservative by assuming worst case conditions and include a 10% contingency. The reader should note that these are rough estimates and that more exact numbers cannot be obtained until formal engineering studies are completed.

Sales Absorbtion

The absorbtion rate for the two unit/acre development assumed there would be one builder constructing 20 houses per year. The seven unit/acre development assumes one builder constructing 20 single family houses per year and another builder constructing 16 townhouses per year. Single family lot prices start at $19,000 each and townhouse lots at $17,000 per lot and escalate 4% per year from 1985. These prices are 25% of the projected sales prices of the houses which is conservative given builders are paying between 25 to 30% of the cost of the house for lots. It was assumed that the land leased to the Four Season's homeowners would be sold to them in Phase 1 at a price equivalent to a single family lot.

The retail lot was given a price of $370,000 which is the equivalent of 16 townhouse lots. This price was chosen because the site could be developed with 16 townhouses if future research shows there is no demand for retail land.

Financing

Schedule 6 outlines the cash flow from the project to determine how much cash will be generated to pay off the loan. Schedule 7 indicates the loan amounts, points and interest required for each year of the development. This paper projects that separate loans would be obtained for each phase of the development and that a bank would finance the rezoning and subdivision phases provided the land is used as collateral for the loans. Current market rates of 12% plus two points were used for construction financing. It is assumed that a bank would require that 80% of the net income from the sale of the lots would be used to pay down the outstanding loan balance.

Taxes

It is not known whether the property owners will remain as a corporation or dissolve it before the property is developed and/or sold so only before income tax returns are shown for the owners.

Regarding real estate taxes, the property is taxed under the Farmland Assessment Act which allows the abatement of property taxes if a parcel of land of 10 or more acres is farmed commercially. As the subject property is being farmed, taxes of approximately $2000 per year are paid on the frontage lots and taxes of approximately $2500 per year are abated. The rent received from the farmer covers the payable taxes on the property. The Farmland Assessment Act provides that if the land is used for any purpose other than farming, then five year's back taxes become due and payable. According to the Tax Assessor's Office, zoning classification or ownership of the property does not matter; if the land is farmed, then the property owners are eligible for the tax abatement. The Assessor's Office also indicated that properties are not generally reassessed if they are rezoned; this is usually done when they are subdivided.

The County Assessors office is currently reassessing all properties within the County which are assessed at 1970 values. The new assessment will raise taxes beginning in 1986, but it is not known what the new assessment will be. As long as the property is being farmed, however, payable taxes will be minimal. This paper projects that undeveloped phases will be farmed until they are subdivided and constructed at which time the property will be reassessed and back taxes will be paid.

CHAPTER EIGHT

ADVANTAGES AND DISADVANTAGES OF DEVELOPMENT OPTIONS

Develop Two Units Per Acre

As shown in Exhibit 4 the property is not feasible to develop as zoned. Over a ten year period it would cost approximately $8.1 million to develop the property. Financing increases this amount to $9.2 million which is substantially more than the $8.5 million the lots can be sold for.

Sell the Property Subject to Rezoning

If the owners desire to sell the property at this time they should be able to get approximately $1,000,000, or $5,882 per acre, providing the property can be rezonedby the potential purchaser. As shown on Exhibit 6, which compares the financial returns for the various PUD development options, this would enable the purchaser to obtain a 16% before tax and a 10% after tax return on his or her investment, which appears to be reasonable for this type of investment. The price is also consistent with comparable sales of raw land in the area.

Placing the property on the market at this time is not recommended, however, for the following reasons. Sewer may not be available for two years which means it could not be developed until then. A purchaser would not want to buy the property until it was able to be developed. The Route 40/Interstate 95 Corridor is just now beginnning to develop. Subdivisions along Old Baltimore Pike near Christiana Mall are more desirable because of their proximity to the Mall, Newark and Wilmington. In a few years a large portion of this area will be sold out and the subject property's location will be more desirable.

Another consideration is that the owners may not be able to find a buyer who is willing to purchase such a large piece of property. The best candidate would be a national or regional home builder. Most, if not all builders in the County are local people who build on a small scale. They probably cannot afford to purchase the property all at once and might require a terms purchase or an option to buy portions over a 10 or 20 year period. The owners could divide the property into two separate parcels but subdividing it further would be unfeasible because of the limited access onto Old Baltimore Pike and the large amount of wooded area. If the easterly half is sold, the other half could not be developed until utilities were extended to the property line.

Finally, the owners might be foregoing much greater financial rewards by not developing the property. On the other hand, selling the property now would eliminate all the future risks involved in developing the property.

Develop a Planned Unit Development

If the owners develop the property themselves, they could make approximately $10.0 million before taxes over a 25 year period. Assuming that the income received from the project would be invested in Treasury Bills or stocks and bonds, this income stream was discounted by 8% per year to give a net present value of $2.6 million before taxes. This is outlined in the Owner/Developer section of Exhibit 6. The owner, however, would have to bear all the risks of development.

Although the construction estimates provided in this report are conservative, further exploration could uncover constraints that would increase costs. Also, even if the project is properly planned and marketed, absorbtion rates could be lower than projected. Construction costs could increase at a faster rate than housing prices but this risk can be minimized by phasing the development. If market conditions or interest rates are unsuitable, construction of new phases could be delayed for a year or two. Another risk is that the County could change the zoning designation of the property or place additional constraints on the property some time in the future. To obtain financing, the property would have to be used as collateral for the loan. The risk is greatest during the rezoning and subdivision phases. If the rezoning is disapproved, the property would not be feasible to develop and approximately $80,000 in costs for going through the rezoning process would have to be paid or the land would be lost to the bank. This risk can be minimized, however, by obtaining assurances for rezoning from the County prior to obtaining a loan.

On the upside, with careful planning and marketing, the development could be far more successful that projected. If housing prices are higher than anticipated, construction costs are lower and sales absorbtion faster, profits would be substantially higher.

If the owners decide to develop the property themselves, they would need to hire someone who is trustworthy and has substantial experience in the development business. To attract the right person, they would have to pay them a salary of approximately $30,000. This method of developing the property would require time and effort by the owners but unlike a joint venture partner, a project manager could be replaced in the event he or she does not work out. If the project manager is incompetent, however, the damages he or she could cause could be substantial. Also, it is doubtful that one person will stay with the project for very long and finding a replacement could prove very difficult.

Joint Venture a Planned Unit Development

The owners face many of the same risks with a joint venture partner that they face with developing the property themselves. The property would have to put up as the owner's investment to be used as collateral for any loans and the developer would contribute his or her expertise and experience to develop the project. With this type of arrangement profits are usually split 50/50 but this is negotiable. The developer partner usually assumes control of the development with little or no participation by the owners. The owners would have to be very careful about selecting a partner because once the partnership is established it might be very difficult to dissolve in the event things do not work out. If the owners decide to go this route it is recommended they obtain expert legal advice before drawing up a partnership agreement. The net present value of the profits in a 50/50 partnership would only be $63,000 lower than what the owners could achieve if they developed the property themselves. This is because the development partner would be responsible for salaries and overhead. Also, the financial risks would also be substantially lower. During the riskiest stage of the development, the rezoning phase, the owners' risk would be reduced to about $25,000 compared to $80,000 if they developed the property themselves.

CHAPTER NINE

CONCLUSION

The best alternative for the owners is to form a joint venture for its development. The joint venture provides a somewhat lesser return to the owners than if they developed the property themselves, but this is minimal compared to the owner's reduced financial exposure during the early phases of the development and the absence of management problems. The joint venture partner would be responsible for the day to day operation of the development and the owners would not have to get involved except on a very limited basis. The joint venture also provides the owners with much greater profits than they might get if they marketed the property at this time.

Although it is recommended the owners not place the property on the market now, this does not say that they should not sell it if someone approaches them with an unsolicited offer to purchase it for $2 million or more. If someone were to option the property, they would assume all the risks for rezoning and soils investigation. Even if the sale did not go through, the owners would have the benefit of this information at no cost to them. Also, the owners would not have to bear any of the future risks associated with the development of the property.

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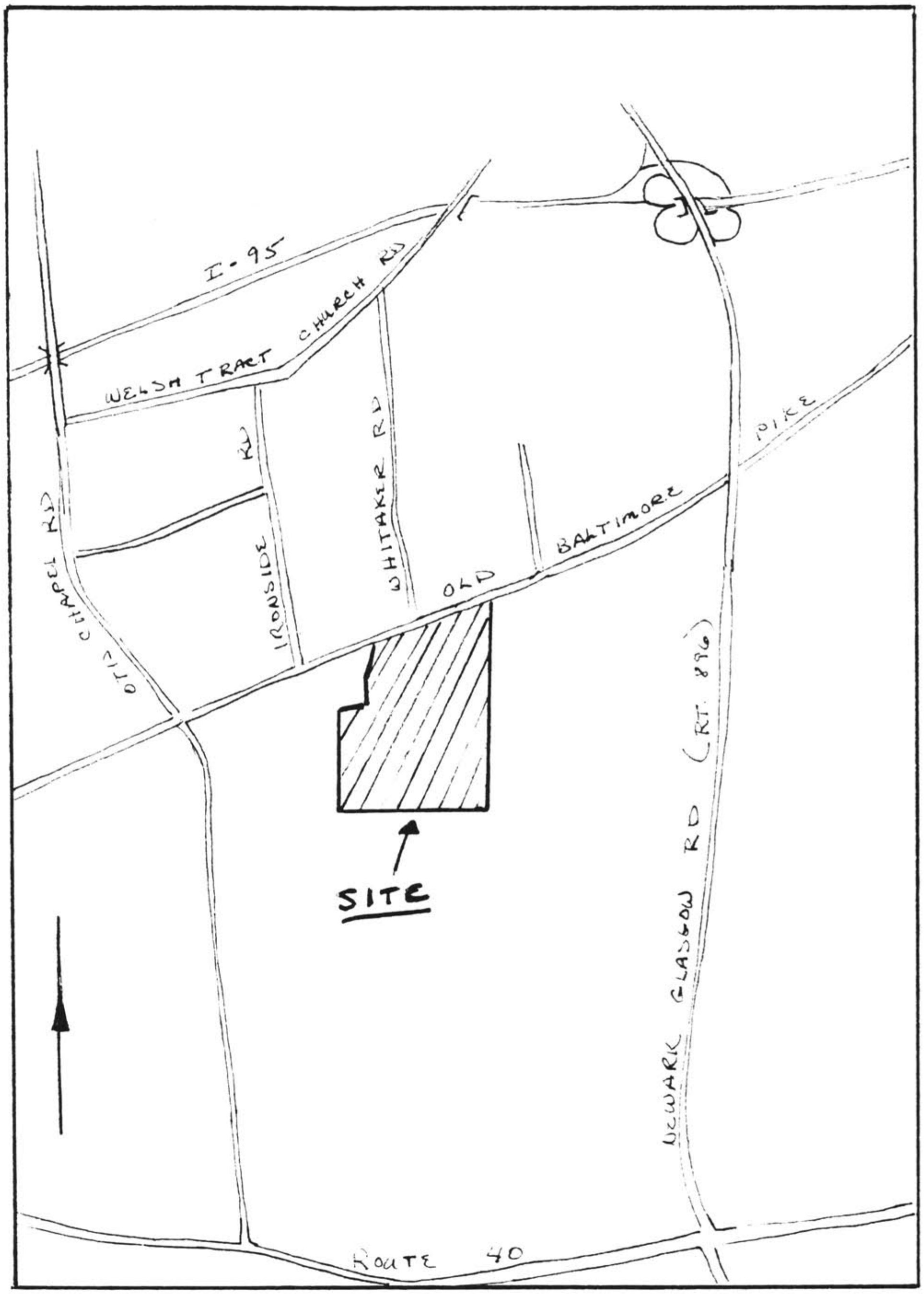

EXHIBIT 1
SITE PLAN
1" = 1/2 mile

EXHIBIT 2

SITE PLAN

TWO UNITS / ACRE

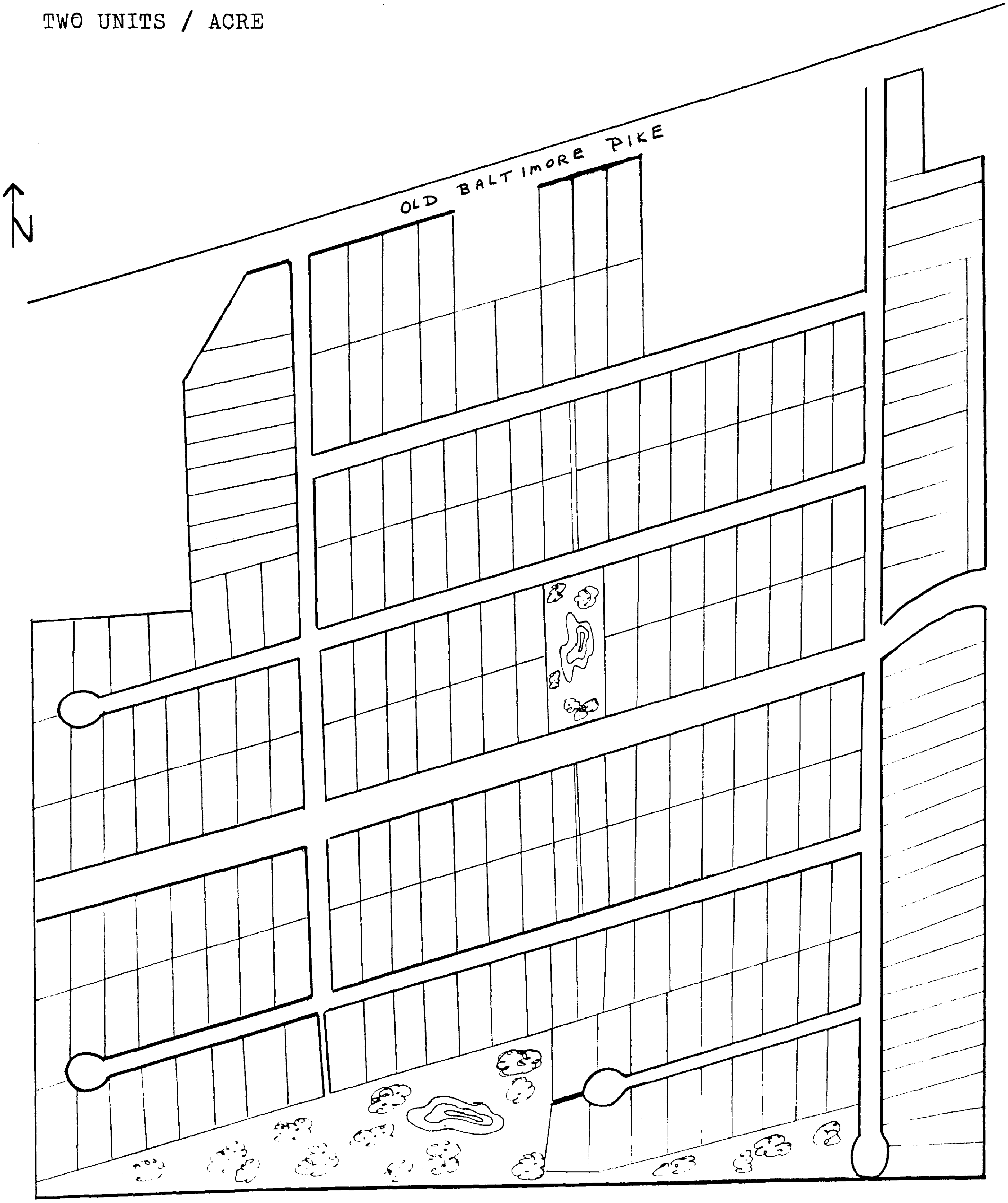

EXHIBIT 3

PRO FORMA FOR TWO UNIT PER ACRE DEVELOPMENT

SCHEDULE 1
INCOME STATEMENT
TWO UNITS PER ACRE

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross Sales			542640	562400	608000	490200	699200	744800	790400	836000	881600	927200	972800	967480	
Less Mktg. Costs			27132	28120	30400	24510	34960	37240	39520	41800	44080	46360	48640	48374	
Net Sales			515508	534280	577600	465690	664240	707560	750880	794200	837520	880840	924160	919106	
Less :															
Back Taxes			4400	1600	2000	1600	3400	4000	4400	1800	2000	1400	26600	0	
Current Taxes			6400	5000	4000	2800	6200	7000	9800	5800	8200	4200	4000	3600	
Net Income Before Debt Service			504708	527680	571600	461290	654640	696560	736680	786600	827320	875240	893560	915506	
Less Financing:															
Points			1558	19831	9042	7752	8223	25080	22090	0	24677	0	19149	11143	
Interest			13435	59492	59717	52803	53429	93090	124657	89261	121453	80582	90351	76735	
Loan Repayment			504708	527680	571600	461290	654640	696560	736680	786600	827320	875240	893560	915506	-721784
Net Income Before Taxes			0	0	0	0	0	0	0	0	0	0	0	0	-721784

NPV @ 8% -245739

SCHEDULE 2
VARIABLES

$/l.f. roadway	60	$/ac. clearing	3500	interest rate	0.12
$/l.f. storm drains	25	$/unit record plan	5	term	0.5
$/l.f. sanitary sewer	20	$/acre back taxes	200	points	0.02
$/l.f. water	20	$/lot current taxes	200	contingency	0.1
$/l.f. electric	5	$/lot grading	500	inflation rate	0.04
$/l.f. telephone/cable	5	$/l.s. ret. pond	30000		
$/ea. fire hydrants	2300	$/s.f. lot	19000	marketing as a	
$/ea. manhole	1100	$/th lot	17000	% of sales	0.05
$/ea. catch basin	1100	$/com. lot	250000		

SCHEDULE 3
CONSTRUCTION QUANTITIES
TWO UNITS PER ACRE

YEAR	1988	1989	1990	1991	1992	1993	1994	1996	1998	1999	TOTAL
PHASE	1	2	3	4	5	6	7	8	9	10	
L.F.:											
STORM DRAINS	3050	1200	800	700	2200	2400	2350	1500	750	850	15800
SANITARY SEWER	3050	1200	800	700	3700	2400	2350	1500	750	850	17300
WATER	3050	1200	800	700	3700	2400	2350	1500	750	850	17300
ELECTRIC	3050	1200	800	700	2200	2400	2350	1500	750	850	15800
TELEPHONE/CABLE	3050	1200	800	700	2200	2400	2350	1500	750	850	15800
CURB & GUTTER	2750	1200	800	700	2200	2400	2350	1500	750	850	15800
NO. ACRES:											
CLEARING	2	0	0	4.8	3	18	22	7	7	15	78.8
TAXES	22	8	10	8	17	20	22	9	10	7	133
NO. LOTS/UNITS	32	14	15	14	32	24	34	32	19	18	234
RETENTION POND	1				1						

SCHEDULE 4
SALES ABSORBTION SCHEDULE
TWO UNITS PER ACRE

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	TOTAL
Single Family:													
Lots Carried		11	5	0	-1	11	15	29	9	21	1	0	101
Lots Built	32	14	15	14	32	24	34	0	32	0	19	18	234
Lots sold	21	20	20	15	20	20	20	20	20	20	20	19	235

SCHEDULE 5
CONSTRUCTION COSTS
TWO UNITS PER ACRE

PHASE	A	B	1	2	3	4	5	6	7	8	9	10	TOTAL
YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1996	1998	1999	
Soils Testing	17000												17000
Pre. Title	5000												5000
Engineering:													
Exploratory Plan	2000												2000
Preliminary Plan	10000												10000
Record Plan		24834	9524	7256	6489	22749	18408	19705	14225	7593	8040		138821
Fees:													
Rezoning	4000												4000
Record Plan			160	70	75	70	160	120	170	160	95	90	1170
Legal Fees	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	60000
Total Soft Costs	26000	29834	14684	12326	11564	27819	23568	24825	19395	12753	13135	5090	220991
Paving			183000	72000	48000	42000	132000	144000	141000	90000	45000	51000	948000
Storm Drains			76250	30000	20000	17500	55000	60000	58750	37500	18750	21250	395000
Manholes			16775	6600	4400	3850	20350	13200	12925	8250	4125	4675	95150
Catch Basins			16775	6600	4400	3850	12100	13200	12925	8250	4125	4675	86900
Sanitary Sewer			61000	24000	16000	14000	74000	48000	47000	30000	15000	17000	346000
Water			61000	24000	16000	14000	74000	48000	47000	30000	15000	17000	346000
Fire Hydrants			17538	6900	4600	4025	21275	13800	13513	8625	4313	4888	99475
Electric			15250	6000	4000	3500	11000	12000	11750	7500	3750	4250	79000
Telephone/cable			15250	6000	4000	3500	11000	12000	11750	7500	3750	4250	79000
Clearing			112000	49000	52500	49000	112000	84000	119000	112000	66500	63000	819000
Retention Pond			30000	0	0	0	30000	0	0	0	0	0	60000
Grading			16000	7000	7500	7000	16000	12000	17000	16000	9500	9000	117000
Total Hard Costs			620838	238100	181400	162225	568725	460200	492613	355625	189813	200988	3470525
Total	26000	29834	635522	250426	192964	190044	592293	485025	512008	368378	202947	206078	3691516
Contingency	2600	2983	63552	25043	19296	19004	59229	48502	51201	36838	20295	20608	369152
Total Construction Costs	28600	32817	699074	275469	212260	209048	651522	533527	563208	405215	223242	226685	4060668
Overhead	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	360000
GRAND TOTAL	58600	62817	729074	305469	242260	239048	681522	563527	593208	435215	253242	256685	4420668
Inflated	65632	77893	991540	452094	387617	411163	1254001	1104513	1233873	957474	557132	564708	8057638

SCHEDULE 6
CASH AVAILABLE FOR MORTGAGE PAYMENT
TWO UNITS PER ACRE

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	TOTAL
Gross Sales:															
S.F. lots			399000	380000	380000	285000	380000	380000	380000	380000	380000	380000	380000	361000	4465000
Inflated			542640	562400	608000	490200	699200	744800	790400	836000	881600	927200	972800	967480	9022720
Less:															
Mktg. Costs			27132	28120	30400	24510	34960	37240	39520	41800	44080	46360	48640	48374	451136
Back Taxes			4400	1600	2000	1600	3400	4000	4400	1800	2000	1400	26600	0	53200
Current Taxes			6400	5000	4000	2800	6200	7000	9800	5800	8200	4200	4000	3600	67000
Less financing:															
points			1558	19831	9042	7752	8223	25080	22090	0	24677	0	19149	11143	148546
interest			13435	59492	59717	52803	53429	93090	124657	89261	121453	80582	90351	76735	915004
Total			37932	34720	36400	28910	44560	48240	53720	49400	54280	51960	79240	51974	571336
Cash Available For Mtg. Payment			504708	527680	571600	461290	654640	696560	736680	786600	827320	875240	893560	915506	8451384

SCHEDULE 7
MORTGAGE SCHEDULE
TWO UNITS PER ACRE

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Loan Balance		70883	146018	0	543183	492435	479317	297493	973104	1487684	790345	1343028	548370	721784	451287
New Mortgage	65632	65632	77893	991540	452094	387617	411163	1254001	1104513	0	1233873	0	957474	557132	
Points	1313	1313	1558	19831	9042	7752	8223	25080	22090	0	24677	0	19149	11143	
Interest	3938	8191	13435	59492	59717	52803	53429	93090	124657	89261	121453	80582	90351	76735	
Total	70883	146018	238903	1070863	1064035	940607	952133	1669664	2224364	1576945	2170348	1423610	1615344	1366793	
Less cash available for repayment	0	0	504708	527680	571600	461290	654640	696560	736680	786600	827320	875240	893560	915506	

EXHIBIT 4

SITE PLAN
PUD

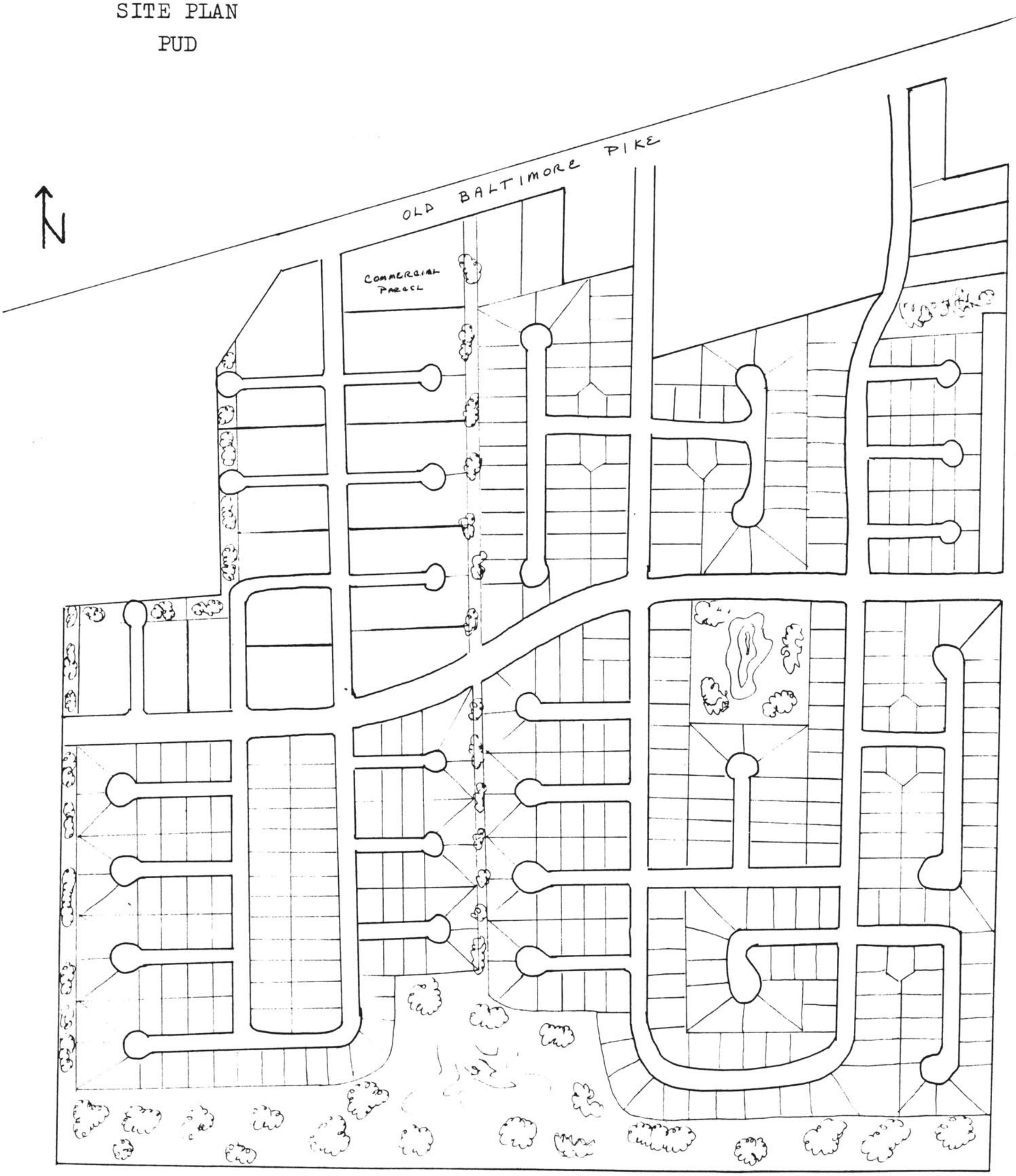

EXHIBIT 5

PRO FORMA FOR PLANNED UNIT DEVELOPMENT

SCHEDULE 1
INCOME STATEMENT
SEVEN UNITS PER ACRE

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Gross Sales			494760	516800	562400	608000	653600	699200	744800	1356160	1434400
Less Mktg. Costs			24738	25840	28120	30400	32680	34960	37240	67808	71720
Net Sales			470022	490960	534280	577600	620920	664240	707560	1288352	1362680
Less Oper. Exp.:											
Back Taxes			2760	1440	2040	1900	1120	1240	2640	1040	1800
Current Taxes			8800	4600	6000	10200	6200	8800	4800	19600	22200
Net Income Before Debt Service			458462	484920	526240	565500	613600	654200	700120	1267712	1338680
Less Financing:											
Points			17036	0	13767	12725	0	25227	0	17008	19406
Interest			61778	48283	71523	93650	77995	132647	118296	148491	163733
Loan Repayment			303718	349309	352760	367300	428484	397060	465459	881771	924432
Net Income Before Taxes			75930	87327	88190	91825	107121	99265	116365	220443	231108

YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross Sales	1512640	1590880	1669120	1747360	1825600	1903840	1982080	2060320	2138560	2216800
Less Mktg. Costs	75632	79544	83456	87368	91280	95192	99104	103016	106928	110840
Net Sales	1437008	1511336	1585664	1659992	1734320	1808648	1882976	1957304	2031632	2105960
Less Oper. Exp.:										
Back Taxes	1720	1440	1380	1280	2020	1080	920	25820	0	0
Current Taxes	15000	7800	17600	10400	10200	21800	14600	11800	14600	28200
Net Income Before Debt Service	1420288	1502096	1566684	1648312	1722100	1785768	1867456	1919684	2017032	2077760
Less Financing:										
Points	0	0	34040	0	14211	40390	0	13386	27854	13956
Interest	119256	63961	102119	41623	42633	121169	52900	40158	83561	41867
Loan Repayment	1040826	1150508	1144421	1285351	1332205	1299368	1451645	1492913	1524493	1617550
Net Income Before Taxes	260206	287627	286105	321338	333051	324842	362911	373228	381123	404387

YEAR	2007	2008	2009	2010	2011	2012	TOTAL
Gross Sales	3245440	1681680	1022720	1055360	1088000	527680	34338200
Less Mktg. Costs	162272	84084	51136	52768	54400	26384	1716910
Net Sales	3083168	1597596	971584	1002592	1033600	501296	32621290
Less Oper. Exp.:							
Back Taxes	0	0	0	0	0	0	51640
Current Taxes	23400	16200	11200	8000	4800	1600	308400
Net Income Before Debt Service	3059768	1581396	960384	994592	1028800	499696	32261250
Less Financing:							
Points	12253	0	0	0	0	0	261259
Interest	36759	0	0	0	0	0	1662401
Loan Repayment	2408605	0	0	0	0	0	20218178
Net Income Before Taxes	602151	1581396	960384	994592	1028800	499696	

SCHEDULE 2
VARIABLES

$/l.f. roadway	60	$/ac. clearing	3500	interest rate	0.12
$/l.f. storm drains	25	$/unit record plan	5	term	0.5
$/l.f. sanitary sewer	20	$/acre back taxes	200	points	0.02
$/l.f. water	20	$/lot current taxes	200	contingency	0.1
$/l.f. electric	5	$/lot grading	500	inflation rate	0.04
$/l.f. telephone/cable	5	$/l.s. ret. pond	30000		
$/ea. fire hydrants	2300	$/s.f. lot	19000	marketing as a	
$/ea. manhole	1100	$/th lot	17000	% of sales	0.05
$/ea. catch basin	1100	$/com. lot	250000		

SCHEDULE 3
CONSTRUCTION QUANTITIES
SEVEN UNITS PER ACRE

YEAR	1988	1990	1991	1993	1995	1995	1996	1999	1999	2001	2002	2002	2004	2005	2006	2007	TOTAL
PHASE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
L.F.:																	
STORM DRAINS	3200	2200	1700	1900	650	700	1950	800	2000	900	1400	1550	700	1950	600	650	22850
SANITARY SEWER	3200	2200	1700	3600	650	700	1950	800	2000	900	1400	1550	700	1950	600	650	24550
WATER	3200	2200	1700	3600	650	700	1950	800	2000	900	1400	1550	700	1950	600	650	24550
ELECTRIC	3200	2200	1700	1900	650	700	1950	800	2000	900	1400	1550	700	1950	600	650	22850
TELEPHONE/CABLE	3200	2200	1700	1900	650	700	1950	800	2000	900	1400	1550	700	1950	600	650	22850
PAVING	2900	2200	1700	1900	650	700	1950	800	2000	900	1400	1550	700	1950	600	650	22550
NO. ACRES:																	
CLEARING	1	0	1	10	2	2.5	6	3.4	3.6	7	8	0	6.4	3.7	0	4.6	59.2
TAXES	13.8	7.2	10.2	9.5	5.6	6.2	13.2	5.2	9	8.6	7.2	6.9	6.4	10.1	5.4	4.6	129.1
NO. LOTS:	44	27	41	33	4	30	49	3	37	35	30	4	22	50	8	12	429
NO. UNITS	44	27	41	33	64	30	49	48	37	35	30	64	22	50	104	12	690
RETENTION POND	1			4													

SCHEDULE 4
SALES ABSORBTION SCHEDULE
SEVEN UNITS PER ACRE

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Single Family:																			
Lots Carried		23	3	10	31	11	24	4	14	43	23	3	20	0	15	25	5	7	37
Lots Built	44	0	27	41	0	33	0	30	49	0	0	37	0	35	30	0	22	50	0
Lots sold	21	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Townhouses:																			
Lots Carried									48	32	16	0	32	16	0	48	32	16	0
Lots Built								64	0	0	0	48	0	0	64	0	0	0	104
Lots Sold								16	16	16	16	16	16	16	16	16	16	16	16
Balance																			
Commercial:																			
Lot Built																			
Lot Sold																			

Year	2007	2008	2009	2010	2011	2012	TOTAL
Single Family:							
Lots Carried	17	9					324
Lots Built	12	0					410
Lots sold	20	10					411
Townhouses:							
Lots Carried	88	72	56	40	24	8	528
Lots Built	0	0	0	0	0		280
Lots Sold	16	16	16	16	16	8	280
Balance							
Commercial:							
Lot Built	1						1
Lot Sold	1						1

SCHEDULE 5
CONSTRUCTION COSTS
SEVEN UNITS PER ACRE

PHASE	A	B	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TOTAL
YEAR	1986	1987	1988	1990	1991	1993	1995	1995	1996	1999	1999	2001	2002	2002	2004	2005	2006	2007	
Soils Testing	17000																		17000
Pre. Title	5000																		5000
Engineering:																			
Exploratory Plan	2000																		2000
Preliminary Plan	10000																		10000
Record Plan		20924	13894	11279	21878	5506	5199	13657	6292	13384	7143	10218	10689	5585	13355	5722	4830	0	169553
Fees:																			
Rezoning	4000																		4000
Record Plan		220	135	205	165	320	150	245	240	185	175	150	320	110	250	520	60	0	3450
Legal Fees	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	90000
Total Soft Costs	43000	26144	19029	16484	27043	10826	10349	18902	11532	18569	12318	15368	16009	10695	18605	11242	9890	5000	301003
Roadway			174000	132000	102000	114000	39000	42000	117000	48000	120000	54000	84000	93000	42000	117000	36000	39000	1353000
Storm Drains			80000	55000	42500	47500	16250	17500	48750	20000	50000	22500	35000	38750	17500	48750	15000	16250	571250
Manholes			17600	12100	9350	19800	3575	3850	10725	4400	11000	4950	7700	8525	3850	10725	3300	3575	135025
Catch Basins			17600	12100	9350	10450	3575	3850	10725	4400	11000	4950	7700	8525	3850	10725	3300	3575	125675
Sanitary Sewer			64000	44000	34000	72000	13000	14000	39000	16000	40000	18000	28000	31000	14000	39000	12000	13000	491000
Water			64000	44000	34000	72000	13000	14000	39000	16000	40000	18000	28000	31000	14000	39000	12000	13000	491000
Fire Hydrants			18400	12650	9775	20700	3738	4025	11213	4600	11500	5175	8050	8913	4025	11213	3450	3738	141163
Electric			16000	11000	8500	9500	3250	3500	9750	4000	10000	4500	7000	7750	3500	9750	3000	3250	114250
Telephone/cable			16000	11000	8500	9500	3250	3500	9750	4000	10000	4500	7000	7750	3500	9750	3000	3250	114250
Clearing			3500	0	3500	35000	7000	8750	21000	11900	12600	24500	28000	0	22400	12950	0	16100	207200
Retention Pond			30000	0	0	120000	0	0	0	0	0	0	0	0	0	0	0	0	150000
Grading			22000	13500	20500	16500	32000	15000	24500	24000	18500	17500	15000	32000	11000	25000	52000	6000	345000
Total Hard Costs			523100	347350	281975	546950	137638	129975	341413	157300	334600	178575	255450	267213	139625	333863	143050	120738	4238813
Total	43000	26144	542129	363834	309018	557776	147987	148877	352945	175869	346918	193943	271459	277908	158230	345105	152940	125738	4539815
Contingency	4300	2614	54213	36383	30902	55778	14799	14888	35294	17587	34692	19394	27146	27791	15823	34510	15294	12574	453982
Total Construction Costs	47300	28758	596342	400217	339920	613553	162785	163764	388239	193456	381610	213337	298604	305698	174052	379615	168233	138311	4993797
Overhead	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	540000
GRAND TOTAL	77300	58758	626342	430217	369920	643553	192785	193764	418239	223456	411610	243337	328604	335698	204052	409615	198233	168311	5533797
Inflated	86576	72860	851825	688348	636262	1261364	424127	426281	970314	598862	1103114	710545	998957	1020523	669292	1392691	697782	612653	13222377

SCHEDULE 6
CASH AVAILABLE FOR MORTGAGE PAYMENT
SEVEN UNITS PER ACRE

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Gross Sales:											
S.F. lots			399000	380000	380000	380000	380000	380000	380000	380000	380000
TH lots										272000	272000
Com. lot											
Total			399000	380000	380000	380000	380000	380000	380000	652000	652000
Inflated			494760	516800	562400	608000	653600	699200	744800	1356160	1434400
Less:											
Mktg. Costs			24738	25840	28120	30400	32680	34960	37240	67808	71720
Back Taxes			2760	1440	2040	1900	1120	1240	2640	1040	1800
Current Taxes			8800	4600	6000	10200	6200	8800	4800	19600	22200
Less financing:											
points			17036	0	13767	12725	0	25227	0	17008	19406
interest			61778	48283	71523	93650	77995	132647	118296	148491	163733
Total			115112	80163	121450	148875	117995	202874	162976	253947	278860
Cash Available For Mtg. Payment	0	0	379648	436637	440950	459125	535605	496326	581824	1102213	1155540
Less 20% profit	0	0	303718	349309	352760	367300	428484	397060	465459	881771	924432

YEAR	1997	1998	1999	2000	2001	2002	2003	2004
Gross Sales:								
S.F. lots	380000	380000	380000	380000	380000	380000	380000	380000
TH lots	272000	272000	272000	272000	272000	272000	272000	272000
Com. lot								
Total	652000	652000	652000	652000	652000	652000	652000	652000
Inflated	1512640	1590880	1669120	1747360	1825600	1903840	1982080	2060320
Less:								
Mktg. Costs	75632	79544	83456	87368	91280	95192	99104	103016
Back Taxes	1720	1440	1380	1280	2020	1080	920	25820
Current Taxes	15000	7800	17600	10400	10200	21800	14600	11800
Less financing:								
points	0	0	34040	0	14211	40390	0	13386
interest	119256	63961	102119	41623	42633	121169	52900	40158
Total	211608	152745	238594	140671	160344	279630	167524	194179
Cash Available For Mtg. Payment	1301032	1438135	1430526	1606689	1665256	1624210	1814556	1866141
Less 20% profit	1040826	1150508	1144421	1285351	1332205	1299368	1451645	1492913

YEAR	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL
Gross Sales:									
S.F. lots	380000	380000	380000	190000	0	0	0	0	7809000
TH lots	272000	272000	272000	272000	272000	272000	272000	136000	4760000
Com. lot			270000						270000
Total	652000	652000	922000	462000	272000	272000	272000	136000	12839000
Inflated	2138560	2216800	3245440	1681680	1022720	1055360	1088000	527680	34338200
Less:									
Mktg. Costs	106928	110840	162272	84084	51136	52768	54400	26384	1716910
Back Taxes	0	0	0	0	0	0	0	0	51640
Current Taxes	14600	28200	23400	16200	11200	8000	4800	1600	308400
Less financing:									
points	27854	13956	12253	0	0	0	0	0	261259
interest	83561	41867	36759	0	0	0	0	0	1662401
Total	232943	194863	234684	100284	62336	0	0	0	3852657
Cash Available For Mtg. Payment	1905617	2021937	3010756	1581396	960384	1055360	1088000	527680	30485543
Less 20% profit	1524493	1617550	2408605	1265117	768307	844288	870400	422144	24388434

SCHEDULE 7
MORTGAGE SCHEDULE
SEVEN UNITS PER ACRE

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Loan Balance		93502	177801	804722	503696	924573	1299911	949421	1971599	1624436	1758573
Construction Costs	86576	72860	851825	0	688348	636262	0	1261364	0	850408	970314
Points	1732	1457	17036	0	13767	12725	0	25227	0	17008	19406
Interest	5195	9982	61778	48283	71523	93650	77995	132647	118296	148491	163733
Total Loan	93502	177801	1108441	853006	1277334	1667211	1377906	2368660	2089895	2640343	2912027
Less cash available for repayment	0	0	303718	349309	352760	367300	428484	397060	465459	881771	924432

YEAR	1997	1998	1999	2000	2001	2002	2003
Loan Balance	1987594	1066024	0	693713	0	0	881671
Construction Costs	0	0	1701976	0	710545	2019480	0
Points	0	0	34040	0	14211	40390	0
Interest	119256	63961	102119	41623	42633	121169	52900
Total Loan	2106850	1129986	1838134	735336	767389	2181038	934571
Less cash available for repayment	1040826	1150508	1144421	1285351	1332205	1299368	1451645

YEAR	2004	2005	2006	2007	2008
Loan Balance	0	0	0	0	0
Construction Costs	669292	1392691	697782	612653	
Points	13386	27854	13956	12253	0
Interest	40158	83561	41867	36759	0
Total Loan	722835	1504106	753604	661665	0
Less cash available for repayment	1492913	1524493	1617550	2408605	

EXHIBIT 6

COMPARISON OF FINANCIAL RETURNS FOR DEVELOPMENT OPTIONS

EXHIBIT 6
FINANCIAL RETURNS
SEVEN UNITS PER ACRE

OWNER/DEVELOPER																			
Net Income Before Taxes	0	0	75930	87327	88190	91825	107121	99265	116365	220443	231108	260206	287627	286105	321338	333051	324842	362911	373228
NPV @8% 2622843																			
JOINT VENTURE																			
Overhead:	30000	34944	40703	47411	55224	64325	74925	87273	101656	118409	137922	160652	187127	217966	253887	295727	344463	401231	467354
Net Income Plus Overhead	0	0	116632	134738	143414	156150	182047	186538	218021	338851	369031	420859	474754	504071	575225	628779	669305	764142	840582
Less Joint Venture 50%	0	0	58316	67369	71707	78075	91023	93269	109010	169426	184515	210429	237377	252036	287612	314389	334653	382071	420291
Net Income Before Taxes	0	0	58316	67369	71707	78075	91023	93269	109010	169426	184515	210429	237377	252036	287612	314389	334653	382071	420291
NPV @ 8% 2559704																			
SALE																			
Net Income Before Taxes	0	-1000000	75930	87327	88190	91825	107121	99265	116365	220443	231108	260206	287627	286105	321338	333051	324842	362911	373228
IRR 17.11%																			
Net Income After Taxes	0	-1000000	37965	43664	44095	45912	53561	49633	58182	110221	115554	130103	143813	143053	160669	166526	162421	181456	186614
IRR 10.67%																			

EXHIBIT 6
FINANCIAL RETURNS
SEVEN UNITS PER ACRE

OWNER/DEVELOPER

Net Income Before Taxes	381123	404387	602151	1581396	960384	994592	1028800	499696	1011941

JOINT VENTURE

Overhead:	544374	634086	738584	860303	1002080	1167223	1359582	1583641	1101107
Net Income Plus Overhead	925497	1038474	1340735	2441699	1962464	2161815	2388382	2083337	2106554
Less Joint Venture 50%	462749	519237	670368	1220849	981232	1080908	1194191	1041668	1053277
Net Income Before Taxes	462749	519237	670368	1220849	981232	1080908	1194191	1041668	1053277

SALE

Net Income Before Taxes	381123	404387	602151	1581396	960384	994592	1028800	499696	911941
Net Income After Taxes	190562	202194	301076	790698	480192	497296	514400	249848	405970

EXHIBIT 7

SUMMARY OF MAJOR ASSUMPTIONS

A. Development Assumptions

1. Soil conditions are adequate for development.

2. The County will require that Four Seasons Parkway be extended through the development but will not require any improvements to Old Baltimore Pike.

3. The County will complete the expansion of the South Christiana Sewage Treatment Plant by January 1988.

4. Phases one, two and three of the development will be serviced with sewer and water through Four Seasons. The balance of the project will be serviced through Pencader Industrial Park.

5. Easements can be obtained for off-site sewer and water construction at a cost of approximately $5,000.

6. Five acres of retention pond will be needed for the development. One small pond will be constructed for Phases one through three, and a larger pond will be constructed in Phase four to handle the rest of the development.

7. A contingency of 10% was added to construction costs.

8. Construction costs were inflated by 4% per year starting in 1986.

B. Marketing Assumptions

1. Prices of single family lots are $19,000 and prices of townhouse lots are $17,000. The retail lot is priced at $270,000. These are escalated 4% per year from 1985.

2. Marketing costs are 5% of sales.

3. The developer will sell 20 single family lots and 36 townhouse lots per year. The retail lot will be sold in Phase 5.

C. Financial Assumptions

1. Separate loans will be obtained for each phase of the development at an interest rate of 12% plus two points.

2. 80% of the sales price of the lots will be used to pay down the loan.

3. Back property taxes are $200 per acre. Current property taxes are $1.13 per $100 of the market values of the lots.