

Numbers and Operations: Property Development Manager

L.B. Industries, Inc.

Job Description: Locate potential sites, negotiate purchases, coordinate analysis of attorneys and engineers, coordinate pre-purchase due diligence, determine lot configuration and pricing, oversee development of sites, and negotiate sales.

Problem:

The Eagle Land Company has the opportunity to purchase 76.80 acres of land in Boise, near the Cole/I-84 Interchange, for \$20,000 an acre. The property is zoned for light industrial and retail use.

Developed property of this sort is currently selling for \$3.50 a square foot. As configured, it appears that 415,000 square feet of the land will need to be dedicated as non-sellable roadways, sidewalks and median strips.

Engineering fees and improvements (including sewer lines, telephone, electrical power, curbs and gutters) will cost the company an additional \$1,250,000.00.

To receive an adequate profit after salaries, interest charges, realtors' fees and other fixed costs, the Eagle Land Company must receive a mark up of at least 150% above the dollar amount of its purchase and development costs (250% of the total cost of the development.)

Commercial lots are generally sold on a square footage basis.

1. What is the minimum price Eagle Land Company must receive, on a square footage basis, for the land in this subdivision? (Hint: An acre contains 43,560 square feet.)
2. Does it make economic sense for Eagle Land Company to purchase this property? Support your conclusion.

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See problem page for details.

Solution:

1. What is the minimum price Eagle Land Company must receive, on a square footage basis, for the land in this subdivision?

Cost of land: $76.80 \text{ acres} \times \$20,000/\text{acre} = \$1,536,000$

Total cost to develop the subdivision equals cost of land plus cost of engineering and improvements: $\$1,536,000 + \$1,250,000 = \$2,786,000$

The total minimum price equals total cost to develop the subdivision times 250%:
 $\$2,786,000 \times 2.50 = \$6,965,000$

Total square footage in the development equals total acres times square footage per acre: $76.80 \text{ acres} \times 43,560 \text{ sq ft/acre} = 3,345,408 \text{ square feet}$

Total sellable square footage equals total square footage in the development less square footage to be dedicated as roadways, sidewalks and median strips:
 $3,345,408 \text{ sq ft} - 415,000 \text{ sq ft} = 2,930,408 \text{ sq ft}$

The minimum sales price per square foot equals the total minimum sales price for the subdivision divided by the sellable square footage in the development:
 $\$6,965,000.00 \div 2,930,408 \text{ sq ft} = \$2.3768021 \text{ or } \$2.38/\text{sq ft}$

2. Does it make economic sense for Eagle Land Company to purchase this property?

Yes, this land can be sold for \$3.50 per square foot and \$2.38 per square foot will insure an adequate profit. If the land is sold for \$3.50 per square foot, the Eagle Land Company would receive an additional profit of \$1.12 per square foot above the amount it deems to be an adequate profit.

At 2,930,408 square feet of sellable land in the entire development, the additional \$1.12 per square foot would result in an extra \$3,282,056.90 in profit on property that cost \$2,786,000 to develop.