



Land Developments

*¹Malluri Srinivasa Rao, ²D.Manovikas

*¹Research Scholar A.N.U,India.

² Research Scholar A.N.U, India.

Note: * Indicates corresponding author

ARTICLE DETAILS

Article History:

Received Date: 14/03/2019

Revised Date: 22/03/2019

Accepted Date: 30/03/2019

e-First: 10/04/2019

Keywords

Land development
passive income, property

*Corresponding Author

(Malluri Srinivasa Rao)

ABSTRACT

The **land development process**, for one reason or another, is viewed as a complex investing strategy; one that only experts should consider taking on. And for what it's worth, developing land is a complex strategy. However, that doesn't mean nobody can do it successfully. In fact, I would argue that new investors can invest in raw land if they mind due diligence and are prepared for more work than tradition exit strategies have become synonymous with. If for nothing else, developing land comes with more steps. There is no shortage of opportunity in the real estate industry as an investor. From investing in residential, multifamily and commercial properties, the real estate industry offers scores of options to take advantage of for those that are willing to take them. One of the more under-utilized investment opportunities is raw land investing, and there is no reason to ignore it anymore. Raw land investment generally consists of purchasing a parcel of land with the intent of either developing it and constructing some type of building on it, or holding onto it for long-term appreciation value. Raw land investing has an array of configurations, but will essentially provide a multitude of advantages from other types of investments, whether it be from selling the property, renting it out for passive income, or simply earning appreciation while performing little to no work. For those considering raw land development, the following highlights the benefits of this investment approach, as well as the six steps to getting started in raw land investing.

1. Introduction

There is no shortage of opportunity in the real estate industry as an investor. From investing in residential, multifamily and commercial properties, the real estate industry offers scores of options to take advantage of for those that are willing to take them. One of the more under-utilized investment opportunities is raw land investing, and there is no reason to ignore it anymore. Raw land investment generally consists of purchasing a parcel of land with the intent of either developing it and constructing some type of building on it, or holding onto it for long-term appreciation value. Raw land investing has an array of configurations, but will essentially provide a multitude of advantages from other types of investments, whether it be from selling the property, renting it out for passive income, or simply earning appreciation while performing little to no work. For those considering raw land development, the following highlights the benefits of this investment approach, as well as the six steps to getting started in raw land investing. The attraction to the land development process is easy to see; this undeveloped asset not only costs less to purchase than a developed lot, but is generally less expensive to own over time, including lower mortgage payments and maintenance costs. There is more to like, however: it offers appreciation potential, whether or not the vacant area is improved upon. While there are many risks and rewards in real estate investing, raw land is one of the more secure investments to make. To gain a better understanding of the investor appeal, here are the three main advantages to raw land investing:

Relatively Inexpensive: In comparison to acquiring a developed property, buying raw land is very inexpensive to acquire and own. It not only has minimal carrying costs, including lower property taxes and insurance, but maintenance costs are modest. In fact, performing maintenance on undeveloped land isn't required, as a vacant lot can be purchased and held on to until appreciation rates reach a level where it can be sold for a profit. In addition,

undeveloped land owners are generally highly motivated to sell because they are typically absentee owners with little-to-no emotional connection to the property. That said, the right property can provide immense upside for investors with a strategy in mind for the land.

Competition Is Low: Unlike regular real estate investments, which are currently experiencing higher-than-normal competition in most markets, raw land has virtually no competition to deal with. In most cases, investors are looking for established properties such as residential or commercial properties that provide an immediate source of income. Unless optimized to do so, undeveloped land will generally not earn income on a regular basis.

Opportunities Are Wide Open: As an investor, the allure of raw land investing is in the opportunity it holds. Aside from earning long-term appreciation, this land can be developed into further possibilities, like a single-family, multifamily property, and condominium. Although zoning and building codes may limit an investor's opportunities depending on the location, raw land offers the ability for investors to choose and develop their own investment path from scratch.

2. Objectives

The main objectives of this paper are –

1. The Economic Feasibility
2. Acquire The Land
3. Obtain Proper Zoning Permits
4. Secure Financing
5. Begin The Construction Process
6. Start Marketing The Property
7. The Subdivision and Land Development Ordinance
8. Administrating the Subdivision and Land Development Ordinance

2.1 Economic Feasibility

The first step to raw land investing is its economic feasibility. Like any real estate investment, it's critical to determine your desired return on the property before getting started. Having a set profit in mind before developing the raw land is essential to the success of an investor because it will not only lessen the uncertainty of the market, but it will also provide a model of the costs versus profit aspect to your investment. Although the numbers will simply be an estimate, understanding the feasibility of your project, including the estimated costs, revenue and overall return will better assist investors to succeed in their endeavor.

2.2 The Acquisition

Once you understand the costs you're likely to encounter, including what you should receive in return, you can better determine the offer price. It's important for investors at this stage to have contractors submit actual bids for the project. This will not only provide estimated costs for the project, including the numbers of what you're expected to spend, but also provide a max price land offer.

2.3 Zoning

Stage three of raw land investing deals primarily with the design of the land. In essence, this pertains to what type of property should be constructed on the parcel, including taking a look into local zoning codes. Depending on the type of property you're looking to construct, or how you intend to present the property to buyers, zoning will play an important role in how you proceed. Zoning codes will essentially determine what types of properties, whether single-family, multifamily, condominium or commercial, can be built on the lot. As an investor, this could ultimately hinder your investment approach. When getting started in raw land investing, it's vitally important to understand the zoning laws in the area.

2.4 Financing

Like all real estate investments, the way in which you intend to use the property will dictate the type of financing you obtain. The one aspect investors should care the most about is the “loan-to-cost” ratio (LTC). In essence, the LTC is the amount of money the lender will provide for the project, which will generally depend on the type of construction and use of the property. Although the majority of lenders will only provide a percentage of the overall costs (generally between 80-85 percent), owner-occupied homes are eligible to get standard bank financing.

2.5 The Construction

The second-to-last stage of raw land investing is the construction. In most cases, this will consist of first horizontal development, like grading for roads, curbs and utilities, and then gradually erecting the property from the foundation up. One element investors also need to be aware of is the construction financing aspect of the project. Generally speaking, contractors will be paid in increments of duties performed, including phases of the project. In many cases, construction lenders will hold back approximately 10 percent of the construction loan until the project is completed.

2.6 Marketing

The final step to the land development process is marketing. This is where stage one is of critical importance, as your research into the neighborhood, the market price, and demand for rentals will pay off. Investors should also have a marketing plan in place to attract attention to the property. This may include advertising in newspapers, online listings, the MLS, and even social media.

In the end, the *land development process* is a unique and immensely undervalued opportunity to succeed in real estate. Have you thought about raw land development for your future strategy? Let us know what you think about this less-common approach in the comments below.

2.7 The Subdivision and Land Development Ordinance

The subdivision and land development ordinance (SALDO) is the most commonly used development control mechanism in Pennsylvania. It provides basis standards for subdivisions, which is the creation of new property lines and land development which is the construction of public or private improvements. Development of land today affects the future tomorrow. Ensuring that land development is orderly and provides necessary improvements is essential to implementing the goals of any community.

The primary purposes of subdivision and land development regulations are:

- to provide adequate sites for development and public use;
- to maintain reasonable and acceptable design standards; and
- to coordinate public improvements with private development interests.

SALDO do not provide the same level of control on development as zoning ordinances. SALDO offer a degree of protection against poor planning by assuring the placement of public improvements, such as roads, sidewalks, public utilities, and storm water controls at the time of development. SALDO do not control where uses may be located or the density at which they may be established. A SALDO strictly deals with how activities relate to the land they take place upon.

The MPC provides definitions for both “subdivision” and “land development”. These terms are normally included within municipal subdivision and land development ordinances as well. The MPC defines a “subdivision” as: The division or red vision of a lot, tract or parcel of land by any means into two or more lots, tracts, parcels or other divisions of land including changes in existing lot lines for the purpose, whether immediate or future, of lease, partition by the court for distribution to heirs or devisees, transfer of ownership or building or lot development: Provided however, that the subdivision by lease of land for agricultural purposes into parcels of more than ten acres, not involving any new street or easement of access or any residential dwelling shall be exempted.

As defined, most subdivision applications involve the creation of new lots or parcels from existing tracts of land. The size of lots is determined by the underlying zoning district, but the SALDO may have restrictions on layout and orientation. A subdivision also occurs if lot lines for existing properties are changed. For example, if two property owners agree to adjust a common lot line, that would be considered a subdivision by the MPC.

Land development is defined by the MPC as any of the following:

- (1) The improvement of one lot or two or more contiguous lots, tracts or parcels of land for any purpose involving:
 - (i) a group of two or more residential or nonresidential buildings, whether proposed initially or cumulatively, or a single nonresidential building on a lot or lots regardless of the number of occupants or tenure; or
 - (ii) the division or allocation of land or space, whether initially or cumulatively, between or among two or more existing or prospective occupants by means of, or for the purpose of streets, common areas, leaseholds, condominiums, building groups or other features.
- (2) A subdivision of land.
- (3) Development in accordance with Section 503 (1.1).

As evidenced by the MPC definition, a land development can occur through a variety of activities. For any of the construction activities above, a land development plan would be required. The only exception is that subdivisions do not require a separate land development plan but are handled through the submission of a subdivision plan.

2.8 Contents of Subdivision and Land Development Ordinances

The MPC provides a list of contents that should be included within a subdivision and land development ordinance. At a minimum, a municipal SALDO should include:

- Plan submission and processing requirements, including payment schedule for charging of review fees
- Certification as to the accuracy of plans
- Layout standards
- Uniform provisions for minimum setback lines and lot sizes based on availability of water and sewage facilities where there is no zoning
- Design specifications
- Standards for streets
- Standards for other public improvements located on site
- Provisions for phased developments
- Provisions to encourage flexible and innovative layout and design
- Administrative procedures for granting waivers of modifications where literal compliance with mandatory standards is not possible or reasonable, or alternatives are available
- Provisions to encourage the use of renewable energy systems and energy conservation building design
- Provisions for public dedication of land for recreation purposes
- Provisions for exclusion of certain development from the definition of land development

While the previous list contains a list of suggested contents of a SALDO, municipalities can include fewer or additional requirements as deemed necessary to meet the needs of the community.

2.9 Adminstrating the Subdivision and Land Development Ordinance

Planning Commissions play an important role in administration of the subdivision and land development ordinance. The two primary components related to the administration of the SALDO are procedures and standards. The MPC defines the procedures and time limitations for reviewing subdivision and land development applications. These timeframes must be adhered to and should be closely monitored by municipal staff. Failure to review plans within the timeframe prescribed by the MPC can result in automatic approval of a subdivision or land development plan.

The standards outlined in the SALDO are specifically designed to ensure that subdivision and land development is taking place in an efficient and orderly manner. Each of the Centre Region municipalities either employ or contract for professional planning services, and municipal planners will typically review a subdivision or land development plan for consistency with the SALDO. Copies of review letters should be provided to and reviewed by Planning Commissioners prior to a public meeting to discuss a land development proposal. Planning Commissioners should also have a degree of familiarity with the SALDO and be prepared to discuss any SALDO or planning related issues with staff and applicants.

A subdivision and land development ordinance should provide criteria for all plans submitted as well as standards for improvements, such as roadways, utilities, and parkland.