

COMMENTARY

Here to Stay

Contrary to the fears of Realtors, new research shows that homes in TND communities steadily appreciate in value. **BY JOHN RYMER**

“WILL THIS HOME TURN OUT to be a smart purchase when I get ready to resell?” It’s a major concern for virtually every home buyer, and the question looms especially large in traditional neighborhood design (TND) communities. The concept is so new to most consumers that they wonder whether it’s merely a fad that will have passed when they’re ready to sell, devaluing the premium they pay in TND neighborhoods today.

Morrison Homes has championed TND communities, currently operating in eight such locations across the country and planning to build in more. Our research shows that resale concerns are a significant hurdle for potential TND customers and an even larger obstacle for their Realtors. We discovered this when we noticed that TND

communities were receiving fewer Realtor visits than conventional communities with comparable locations and price ranges. After digging a little deeper, we found that some Realtors actually steered customers

Our research shows that resale concerns are a significant hurdle for potential TND customers and an even larger obstacle for their Realtors.

away from TND neighborhoods because of a perception that they had poor appreciation potential.

TND disciples view this belief—that appreciation in TND communities suffers by comparison with that of conventional neighborhoods—as pure nonsense. They argue that, while a single TND home perched in a field with an alleyway and a front porch may be no more appealing than a conven-

tional neighborhood home, the true allure is found while driving down a street of completed homes, where families are congregating on the front porches and spending time together in community parks.

Still, perception often *is* reality, and the fear of resale values is costing sales. The issue is too big to ignore. So, we decided to test the theory of lower appreciation potential.

THE NUMBERS

To do that, we needed two bases for comparison: one, several TND communities that had existed long enough to have substantial resale homes and,

THE BFILES

two, conventional communities, located near the selected TND communities, that were selling new homes within approximately the same time span and price range. These criteria were selected specifically to prevent any bias that location differences might create and to use sample sizes large enough to ensure the study's reliability.

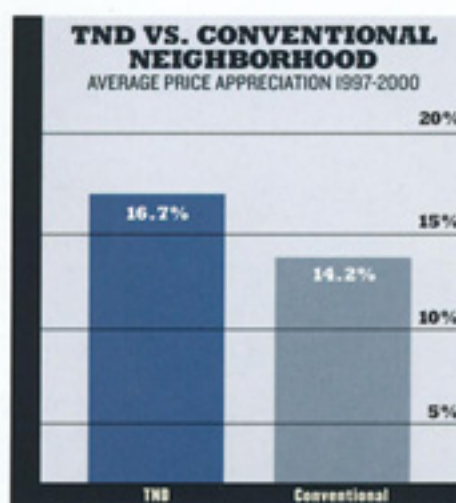
In addition, we specifically chose primary-home communities in geographically dispersed markets. Our intent here was to minimize any appreciation biases that regional issues might create. And, while we believe that TND communities are well suited for resort destinations, the specific nature of recreational amenities and locations in these developments makes community-to-community comparisons difficult. Therefore, TND resort communities, like Seaside, Fla., were not included.

Developing the methodology to study the comparison was easier said than done. The challenge was to find TND communities with a substantial number of closed homes that were at least three years old. Remember, TND has been around far longer as a concept than as a product available to the home buying public.

After an intense review process, we selected three TND communities: Celebration in Orlando, Fla.; Laguna West in Sacramento, Calif.; and The Kentlands in Southern Maryland (suburban Washington, D.C.). While both Laguna West and The Kentlands had experienced financial problems early in their life cycles, we concluded that each had overcome initial difficulties and had gained strong acceptance in their respective marketplaces. To guard against any bias in this area, we excluded from the study all homes sold during periods when developer problems could be considered an issue in determining value.

Selecting nearby conventional communities proved a bit easier. Even so, we had to move a bit farther from the subject communities than we had hoped. We chose Hunter's Creek in Orlando, Lakeside in Sacramento, and Cloppers Mill West in Southern Maryland.

Our first objective was to learn what premiums, if any, home buyers in these communities paid to live in TND neighborhoods. While many issues affect the comparisons in community sales value, it was decided that, for purposes of the study, the "dollar-per-square-foot sales price" would be used as the sole comparison. As you can see in the "Original Pricing—TND vs. Conventional

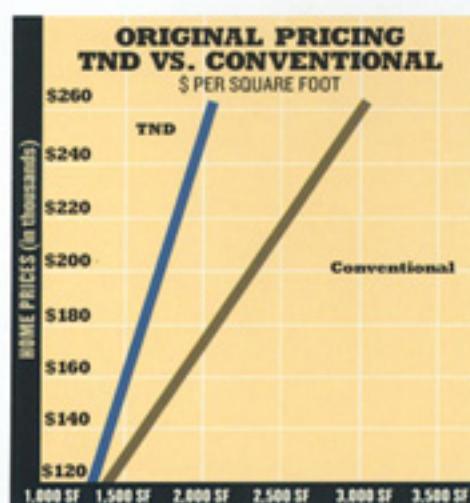


Neighborhood" chart, above right, buyers in the TND communities initially paid about 28 percent more on a dollar-per-square-foot basis to live in their communities than did their neighbors in the comparable conventional neighborhoods.

SIDE BY SIDE

The notion that home buyers are paying a premium to live in TND communities should come as no surprise to builders, developers, or new-home customers. Infrastructure, amenities, and construction hard costs in TND communities all combine to increase the sales prices in these communities. In the book *Valuing The New Urbanism*, authors Mark Eppli and Charles Tu come to similar conclusions, although theirs are based on far more comprehensive data and more sophisticated analysis.

The next issue was to determine whether the homes purchased in TND communities appreciated any differently than those in nearby conventional communities. Earlier consumer research indicates that the vast majority of potential home buyers to TND communities would be pleased merely to break even with their conventional home buying friends on home appreciation. However, the study shows that appreciation for homes in the three target TND neighborhoods was 16.7 percent during the study period, while their neighbors in nearby conventional communities averaged 14.2 percent during the same time period.



It's difficult to account for all the factors that influenced these TND communities' higher appreciation levels, but two appear to have played important roles: continued acceptance of the concept by the home buying public and the added consumer appeal as these communities mature.

The results of this study are good news indeed for current and potential TND homeowners, as well as for Realtors. But there are important lessons to be learned.

THE RIGHT PITCH

Welcome centers in TND communities should focus on displays showing the ultimate streetscape and amenities of a mature community. While this may be Marketing 101 for many developers and sales teams, it becomes doubly important to emphasize these areas when merchandising a TND community information center. The same potential appreciation message should be emphasized in sales staff presentations and hammered home in marketing to the general realty community.

Finally, developers must understand the additional impact that "critical mass" has on valuing homes in TND communities. The added appreciation potential means that residual land values will escalate more quickly in a project's later years. While this has gotten many land developers into trouble with their financial partners, the issue and expectation are too important to ignore when developing the financial model for a TND community. ■

John Rymer is vice president of national sales and marketing for Morrison Homes. Morrison Homes, ranked No. 29 on the BUILDER 100, operates in 12 cities across the United States.

GOT A BURNING ISSUE?

E-MAIL JOHN RYMER AT:
jrymer@morrisonhomes.com