

The Key to Developers' Hearts: Sellers

By helping developers work with sellers, brokers can build relationships that pay off

By **Harlan A. Friedman**, president, Lightning Commercial Funding Inc.

MOST COMMERCIAL BROKERS want to be the source that major land developers call when their next need for financing arises.

Brokers who want to start working with developers should encourage developers to work directly with sellers. By doing so, you can help them get a commitment to sell the property with little or no cash at time of an escrow opening. This can make financing the transaction easier for them in the long-run.

By simplifying the process, you can make a name for yourself with this lucrative clientele.

To work directly with the sellers, developers can offer an option agreement for the land. This gives an individual who pays an initial deposit the first right to buy a property during a specified time.

Here's an example: The sellers sign an agreement with the buyers that says the buyers will pay for a small percentage of the land upfront (this payment is called the option premium) and will buy the property within a year for an agreed-upon price.

The sellers must sell when the buyers are ready to buy, no matter how much the market value may have escalated during the holding period. If the buyers do not follow through, they forfeit the percentage they put down. If they still wish to proceed after the option expires, they must renegotiate a new option contract.

During the year when the contract is enforced, the developers essentially "control" the property. The contract gives them permission to start on development details, such as the mapping process and entitlements.

With larger land-development transactions, your clients may wish to use a rolling-option approach. Rolling options occur when there is a significant amount of property to control, such as with large master-planned communities with several phases of development.

In this type of rolling-option scenario, the developers only put up the option premium once for all portions of the land. They purchase more land at each development phase until they control all the property.

Sellers often believe that they can get a better price for their real estate if they carry the paper that evidences the debt themselves and assume that risk. They also can receive a sizable option premium and their desired price for the land.

Further, they may not be taxed on the full amount of the sale. If the sale is spread over a few years, the seller also may not be pushed into a higher tax bracket, as they would if they'd had a large capital gain.


By signing an option agreement with the sellers, your clients can plan an orderly development of the entire acreage, in addition to knowing the costs for the entire project. They also may become a partner in the land-development transaction.

Most important, banks will be more likely to fund the land-development deal if the developer has signed an option. Without such a contract in place, securing funding can be challenging, given the high risk.

The contract demonstrates to the bank that there is a formal agreement to buy the property. Because the agreement allows your clients to start working on early development processes, lenders can see the deal as more promising.

Essentially, helping developers work with

sellers is the first step to getting land-development financing. Then when the time comes for the developer to purchase the property, you will be there to offer your services.

While this type of arrangement requires patience for the broker — given that you won't see any points until the financing portion of the transaction — it can be a good way to establish yourself with land developers. 



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