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Financing Land Development, Little Known Secrets

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There are alternatives to conventional bank financing for land development deals.

OPM, Others People's Money

But I know you've heard all that before, but there are little known secrets that Major Land Developers have been using for years which I want to share with you.

My clients are absolutely amazed when I share these secrets with them, they always respond "so that's how they do it."

So why would a commercial financial broker want to share these secrets with you?

The reason is very simple, at the opening page of this site I told you I wanted to educate you, and so I am.

Also if you're able to implement some of these strategies, you're eventually going to need capital to build out your project.

And we'll be here to help you. There are three ways in which you can secure your land development deal without closing a conventional loan. The last way you must seek professional accounting and legal assistance, and will not be discussed here.

Work Directly with the Seller

Use Options to Control The Property

Arrange a 1031 Exchange

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The above are three methods or ways to get a commitment to sell the property with little or no cash at time of opening an escrow.

Working directly with the Seller

By working directly with the seller you can help the seller solve many of their problems, and in return he becomes your partner in the land development transaction.

Sellers often believe that they can get a better price for their real estate if they carry the paper that evidences the debt themselves. Here are some of the reasons

Buyers may have qualification issues, and if that's the case you as a buyer may not be as concerned about the interest rate, price and terms and therefore the seller as the one assuming the risk will get a higher price and you get the deal that you were not bank qualified for.

The Seller will get greater after-tax profits.

By the seller carrying paper they will not be taxed on the amount of the sale, but their tax will be based on the installments paid over the years.

In other words a large capital gain may "push" them into a higher tax bracket, but if the sale is spread out over a period of years, the seller may not be pushed into a higher tax bracket.

Use Options to Control the Property

An option is an agreement specifying some future performance in exchange for a benefit.

Simply stated, give some money control the property!

You offer the owner a price for the option to buy the land. That price (the option premium) buys you the right to buy the land at an agreed upon price at a certain time in the future.

You can exercise the option by closing the sale at any time before the expiration date of the option. The seller must sell, when you are ready to buy, no matter how much the market value may have escalated during the holding period.

A more sophisticated approach is to acquire a rolling option for large land development transactions.

This is much more complex than a simple option agreement. Rolling option is utilized when there is a great deal of property that an individual needs to control. We usually see the use of rolling options in large master planned communities, where developers are planning to phase the development project into numerous phases with an absorption of the homes exceeding five years typically.

In a Rolling option the buyer controls the entire tract but

only puts up the option for the first portion of the land, after each execution of the options, the buyer is able to take down more land, until the developer controls all the property of the original contract.

If you do not exercise your rolling options as they come due, the entire contract is cancelled as to future property that is secured through the initial option agreement...and of course the seller retains the entire premium, and he can immediately offer the property to another buyer.

Benefit to the Buyer is that they can now plan an orderly development of the entire acreage, as well as knowing exactly what the land costs for the entire project are for the proforma and any Return on Investment calculations.

Benefit to the Seller is that the seller can get the price he wants for the property, and he knows that at the least he received a sizable option premium, and at the best he receives the price he wants for his land.

Harlan A. Friedman, Esq., is president of Lightning Commercial Funding Inc., a California mortgage broker. He has more than 25 years of experience as an investment banker and financial consultant, issuing municipal debt for his clients. Lightning Commercial Funding specializes in financing commercial projects exclusively, from the startup of new business to large commercial transactions. Reach Friedman at (858) 592-0659 or harlan@loanforbiz.com. Visit his company at <http://www.loanforbiz.com>.

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