

# Land Development in SE Texas

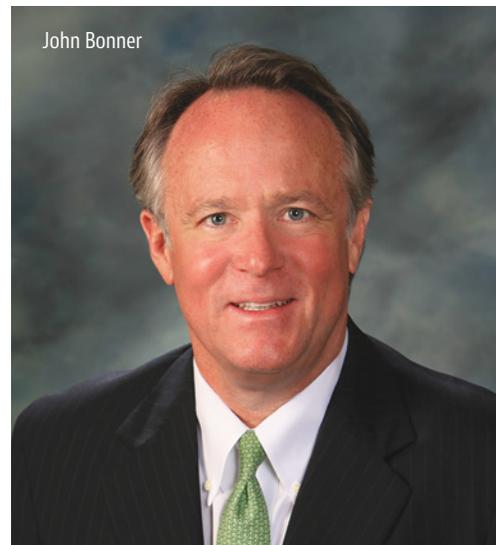
BY BRANDI SMITH



Danny Signorelli



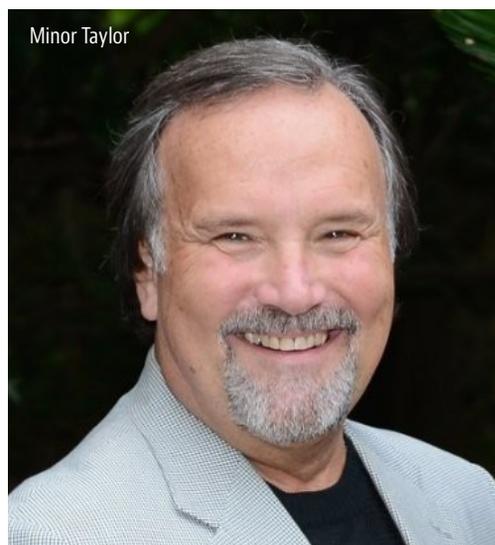
Duane Heckmann



John Bonner



Melanie Edmundson



Minor Taylor

For The Signorelli Company, its most recent success involves “chasing the corridor,” keeping up with the Grand Parkway as it expands access to new areas of Southeast Texas.

“It’s changed traffic patterns, the way people move, the way they shop, where they’re going. It’s making farmland convenient, and that has opened up a lot of opportunity for us,” president and CEO Dan Signorelli told the crowd gathered at The Briar Club for REDNews’ Houston & Southeast Texas Development / Redevelopment Summit in late June.

The most significant opportunity upon which Signorelli has seized may be the 1,400-acre Valley Ranch. His company bought the first parcel at the intersection of US-59 and SH-99 back in 1999. It took another seven years

before he’d assembled the full property needed for the master-planned community in Porter.

“We would rather take a methodical approach and hit that maximum benefit for how the pieces come together. We’re more interested in the longer-term returns,” Signorelli said. “We take a lot of pride in what we do.” Valley Ranch and its 240-acre Town Center are spurring new development in the area, long seen as too distant to be a viable Houston suburb. “We’ve created more than 3,000 jobs so far within the project, and we’ve only developed about 600 of the 1,400 acres so far,” Signorelli said. “The balance of the project will be density development: medical, retail, multi-family, Class A office, and hospitality. Whatever you would find in a typical central business district, that’s what we’re creating for that corridor.” The project has also helped the land development

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division of The Signorelli Company expand. Signorelli said it has nine projects spread around the greater Houston market.

## “... doing deals ...”

Addressing current opportunities in the land market, Signorelli was flanked by fellow experts: John Bonner, founder and president of First Continental Investment Co.; Minor Taylor, founder and president of Taylor Land Investment; and Duane Heckmann, MSA advisor with Land Advisors. They shared their views about what appears to be working.

“It’s a pretty simple process to figure out,” laughed Heckmann. “Wherever there’s a large piece of land on a new or improved road, that’s where development is going. We’re doing deals in Magnolia, Huffman, Manvel, Angleton, Fulshear.”

First Continental, meantime, is completing the final 900 lots of the 2,000-lot Harper’s Preserve, a master-planned community near The Woodlands, per Bonner. On the other hand, Taylor sees opportunities in pipelines.

“We’re seeing an increase in industrial sites for new refineries going in west of town,” he said. “New pipeline plans have been coming in, so we see these opportunities continually coming.”

## “... they don’t know what they’re looking into ...”

Scouting out potential is something these pros are, well, pros at.

“If you’re looking for land, you call Land Advisors. That would be our recommendation,” said Heckmann.

Taylor elaborated on the value of a land sales specialist, adding they don’t just “sell this piece of property,” as people have asked him in the past. He stressed that specialists like himself and the other panelists can identify issues and troubleshoot in a way most ordinary buyers can’t.

People just want to go out and buy a 1,000-acre farm. They don’t really know what they’re looking into,” Taylor said.



“Next thing you know, you have mineral issues. We’re seeing water issues now as well.”

Water rights, he said, are now being treated like mineral rights in Harris County, which he called “almost unheard of 10 years ago.” However, that’s been common practice in West Texas, so he has experience negotiating that part of a deal.

## “... one of our biggest issues right now ...”

Those rights are certainly an aspect of the price of land, but location still reigns as the No. 1 factor.

“If you’re within a 50-mile or 60-mile radius of Houston, we’re seeing land prices just skyrocketing based on development. A lot of it is industrial development, lot of commercial, lot of residential as well,” Heckmann said.

He told summit attendees that Land Advisors has been hired by county and economic development organizations to help them find land for clients who need rail, power or paved roads.

“Five years ago, we were selling class-A land at \$2,500 an acre,” said Heckmann. “I don’t think you can buy anything less than \$4,500 now, even way outside of Houston. Inside Houston, it could be anywhere from \$10,000 to \$50,000 an acre for large tracts.”

Buyers are gobbling up lots faster than they come on

the market, which is driving those prices up. “There’s a lot of money out there right now in the land business. In this past year, I’ve had a 1031 guy with \$300 million looking for farmland. That’s not an easy thing to find in this country. I had to move up to Illinois,” Taylor told the crowd. “So I would say good quality property is one of our biggest issues right now.”

“The population is booming, so demand for housing is up there. It’s a tight supply for lots, and it’s a long period from taking a raw piece of land to delivering a lot on the ground. It’s 12 to 18 months,” explained Signorelli. “They’re all running around frantically, trying to put together positions for 2021, 2022. It’s a function of numbers.”

Some of the lag time in turning these lots around comes down to overregulation by local governments, said the panelists.

“Zoning, drainage, Atlas 14, ETJ, Rule 76. These are all things that have got to go through a governmental process, and it’s getting slower, longer, more tedious to get anything done,” Heckmann lamented.

Signorelli backed him up, saying with every new wave of elected officials, there are new folks who need to learn how change impacts the development process.

“If we’re not careful with who we elect to create regulations and bureaucracy, then we can eliminate some of the advantages that are reasons that our population is growing,” he said.

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As prices increase, developers are forced into performing a balancing act, said Signorelli: paying more for real estate means alienating the bulk of potential homebuyers who are looking for a home around the \$200,000 mark.

"When you're out there paying \$40,000 to \$70,000 an acre for farmland, that's impossible," Signorelli said. "We would like to do an awful lot more homes in that target price range, but we just can't because it's difficult to find those parcels."

Interest rates are another significant factor when it comes to the price of a home, Bonner pointed out. Six months into 2019, they're down 75 to 80 basis points compared to 4Q 2018.

"Everything's rosy again," he said. "I think we've reached a pivot point on interest rates. They are going to be a big part of our home builders' volumes and

profitability moving forward."

Taylor added to that: "As interest rates go down, it increases the purchasing power of those homeowners. That can move a homebuyer up from a \$180,000 price point to \$210,000 very quickly."

## "... moving plateaus ..."

Financing is another bureaucratic hurdle land developers are running into as banks are under more of a regulatory burden than ever before.

"Banks don't love land. It's a security thing. It's a dirty word. I don't know if that's some scar from a down cycle," said Signorelli.

The reality, he argued, is that land prices consistently go up, making property an excellent investment.

"Land prices are like moving plateaus," added Taylor. "Typically, land will go up in price. It'll plateau for a little while, then it goes up again."

The fear, with which we are all familiar, is that a significant burden of debt can bite a lender should a down cycle hit. That's why Heckmann said so many buyers are skipping the banks altogether.

"Almost all of our major land tracts sold since 2012 have been in cash. No bank financing. It's an institutional fund. It's a high-net-worth individual just coming in and dropping quite a bit of cash on the deal," he said. "It's really hard to get hurt when you don't have debt on you."

Another option available to buyers and lenders is non-recourse financing, a loan secured by collateral. In this case, the lender would seize the property, but not be able to pursue the borrower for any additional funds.

"The significance of non-recourse financing is that when you go through these cycles, when you do put some debt on your land, you can hang on to your net worth," Bonner clarified. "Depending on the length of your deal, if you were to hold onto your net worth, non-recourse financing is very important in our industry."

While the land market faces challenges, overcoming them is part of the thrill of being a land specialist, according to Bonner, Taylor, Signorelli, and Heckmann. Every deal holds the promise of a region-changing development, like those that have already made a mark on the Houston area.

"Look up in the life cycle of Kingwood, Cinco Ranch or The Woodlands. Look at the job creation, the economic impact and the quality of life that those types of development create over time," said Signorelli. "It can be pretty special for an area." ■