

Project Evaluation: Development phasing vs Marketing phasing

During the development and construction process, one area that should be evaluated in concert with the sales team are the marketing releases. In a common interest subdivision, marketing releases become a critical part of the approval process; they serve as the foundation for public report phasing . . . once the first sale closes in a marketing release, or HOA Phase, the assessments commence on all lots or units in that Phase.

The number and size of marketing phases are often determined by the improvements that are to be constructed, and the impact of the cost of maintaining those improvements on homeowner association assessments. In an effort to avoid subsidizing assessments, Subdividers typically tend to calculate the timing of construction of common area amenities, based on assessment fluctuations and marketability of the subdivision in conjunction with the association dues structure.

While major amenities must be bonded for or otherwise financially secured in order to obtain a public report, the cost of doing so may outweigh annexing the amenities into the development before the HOA can afford to comfortably support the amenity. Bringing in amenities early amounts to 'front loading' the HOA and can end up being burdensome for the marketing and sales effort, and also results in higher HOA assessments.

Not to be overlooked is the study of sales absorption and the Subdivider's obligations to pay HOA assessments on all unsold lots or units following the first sale closing. Weighing the costs of "carrying assessments" against the costs associated with an additional phase filing with BRE (filing fees, legal document and budget preparation) should

help you arrive at the right phasing decision.

A result of front loading is the need for Subdivider subsidies, which, while off-setting the amount of monthly dues their buyers have to pay, still has an impact on buyer's abilities to qualify for purchase loans. An additional consideration is the requirement that the subdivider continue to pay 100% of the HOA dues on the lots owned by them, *PLUS* the subsidy-per-lot for their buyers, subsidization becomes a complex issue.

Since the BRE approval process is the critical path for most subdivision sales efforts, it is important to establish your marketing program early, so that the public report filings can be structured accordingly. With particular emphasis on the timing of the BRE approval process, the decision to phase, and the structure of the phasing program should be decided in your early planning stages.

Each separate marketing phase would be covered under a separate public report, with a separate budget, which effectively limits the subdivider's exposure to HOA dues for unsold lots or units.

It is important to be sure that the HOA starts up successfully; as the public report filings continue through the remainder of the project, HOA financials must be submitted to and reviewed by the BRE. As a part of those subsequent filings, it is also important that the Subdivider dues are paid current in order to avoid any delays in processing of public reports.

One of the services offered by CBS is guidance and assistance in the evaluation of the phasing structure for your project.

Passing through the State without Stopping...

The Bureau of Real Estate Process is most often the Critical Path in a residential subdivision. With that in mind, we encourage our customers to initiate the process as early in the development planning as possible. Once a subdivision has been awarded tentative map approval, the project is viewed by the State as a viable project, and applications will be accepted.

With a tentative map approval in hand, the decisions become more focused on timing of site development and project marketing. While the subdivider focuses on the local agency, this is also the time to concentrate on the BRE process.

As in the phasing article above, the decision to phase the marketing is best made early in the development process. Bear in mind that every change made during the process can result in a 30-day review delay at BRE, it is wise to make solid decisions up front.

In order to avoid delays in the ability to deliver your residential offering, following are recommendations for reducing deficiencies from the State:

- ◇ If the ultimate selling entity is not in title yet, evidence of future vesting must be provided to BRE
- ◇ Be prepared to submit copies of the authority documents for the entities involved. If the entity includes layers of different entities, specific authority



documents must be provided to avoid a waterfall signature block.

- ◇ If your project is a common interest development, consider working with an attorney who maintains pre-approved "MMD's" (master management documents) with the BRE
- ◇ If your company develops multiple subdivisions, consider obtaining Statewide approval of your PSA
- ◇ If the project involves contractual agreements with adjacent developments, drafts of those documents should be submitted early
- ◇ If the filing is for a renewal of a common interest subdivision, a current HOA budget and financial statements must be submitted, along with a copy of the most recent reserve study

The approval process through the BRE can seem tedious, however attention to detail and a sound plan of action up front pays dividends by streamlining the process and avoiding deficiencies (stops) along the way.

The best case scenario with a BRE filing is for the Final Public Report to be issued as soon as possible after the final subdivision map (and/or condominium plan) records. Our office works hard to meet this goal on all of our filings, with as few "stops" as possible in the process.

Effective February 27, 2015 our office will be relocated to Suite 105



"We look for people who can quickly adapt to changes in the workplace."

2014 National & State CID Statistics

24% of US homes are located within community associations, or common interest developments (CIDs). Over 7 million Californians reside in CIDs.

An independent national survey of CID residents revealed some interesting new statistics, that California developers and real estate agents alike might enjoy hearing:

- 90% of residents rate their CID experience as positive
- 70% say they appreciate the rules that are in place in their association documents, to preserve the nature and character of their communities.
- More than 80% of residents oppose additional regulation of CIDs.

From security guards who limit access to strangers, to front yard maintenance, to golf courses or fitness centers, homebuyers in almost any city in California now have a diverse selection of home buying opportunities. More than just a new home, buyers enjoy the opportunity to buy a lifestyle change.

BRE News

BRE Staffing at crisis level

At the CBIA Conference in February, Asst. Commissioner Chris Neri announced that, while the BRE has recently added 7 new staff members, their staff level is still at a low point, due to 6 employees on personal or medical leave of "unknown duration." To add to the problem, February brought another retirement, and one staff member will go out on maternity leave in March. **Warning: The staffing issues will likely result in longer processing times at BRE...**