



Due diligence on 100+ acre land in Princeton, TX



Goal: The goal of our due-diligence effort is to help our investors make an informed decision. Due diligence leading to contract termination is many times more valuable than the one leading to a deal closing.

Property Description: We contracted to purchase a great piece of investment property near the beautiful Lake Lavon in Princeton, TX. The property has convenient access to US 380 via a well paved, FM Road. The property has a frontage on an unimproved County Road. Survey provided by the seller did not show major flood zone impacted areas within the property. Location and the site geometry allow development of either a single family home sub-division or an estate lot sub-division. During the due-diligence period, we performed extensive study of the site and terminated the contract. A brief summary of our due diligence is as below:

End Use and Zoning: We studied new home permits for the past year; population growth projections by the city; and availability of and demand for new homes. We observed that a national homebuilder is selling more homes in Princeton than they could build. We had a formal pre-development meeting with the engineering staff at the City of Princeton. The City validated our views on demand for new homes in Princeton. The city believed that the demand for housing continues to grow over the next few years. Given the size of our lot (100+ acres), we gained the comfort that it would be feasible to develop a sub-division. Based on this determination, we prepared a very detailed financial model for the development of sub-division and determined that the profitability is very good. Our investors liked the financial model and the deal secured full funding commitment from the investors.



Estimate of Off-site Costs: The site lacked utilities, and paved road frontage. Development of this off-site infrastructure is a major cost driver. The City indicated to us that they would provide both water and sewer connectivity. Since, our sub-division when developed, will contribute to tax base, the City indicated that they would provide impact fee credit. The possibility of impact fee credits could reasonably offset our off-site expenses, so the land passed our due-diligence from a financial feasibility perspective

Interaction with the County: We communicated with the County engineering department to understand the possibility of a county funded road widening and paving. We presented our ideas to develop a sub-division and asked if the County could fund paving of road fronting our property. In a strange coincidence, the County approved budget to pave the road and immediately requested right-of-way dedication from the impacted property owners. The County confirmed to us that the road paving and expansion has been approved and scheduled for summer of 2016. The County's decision is a significant morale booster during the due-diligence process.

Flood Zone Study: The property lies in the close vicinity of Lake Lavon. Survey provided by the seller did not show any major flood zone impacted area within the site. However, in view of the location, as a matter of abundant caution, we obtained the services of an engineering expert who confirmed that the property is not impacted by flood zone.

Title Inspection: A careful reading of the title commitment provided by the title company referenced to “**flowage easements**” which were not shown on the survey submitted by the seller. The flowage easements date back to several years and the easement document being very old, was very hard to read. Since flowage easements could potentially impact our ability to profitably develop a sub-division, we hired a surveyor to update the survey on the basis of title commitment benefit. Updated survey clearly showed the areas impacted by flowage easement. An area of approximately 6 acres is under flowage easement but nearly 10 to 12 acres of land just east of the flowage easements will be impacted. We determined that it would be expensive to make beneficial use of 12 acres east of flowage easements and hence insisted for a price reduction on a proportionate basis.

Conclusion: The seller did not accept price reduction corresponding to area impacted by flowage easement. So, we terminated the contract. The result of our due-diligence effort was clearly communicated to all the investors. Each of the investors appreciated our sincerity, commitment, knowledge, and wisdom which saved the group from investing into a land that could potentially fall short of investor expectations.

It Is Our Pledge to Place Our Investor Interests above Ours