

# Master-Planned Communities

## Texas leads the way

BY ANNE FARRELL PETERSON

Master-planned communities (MPCs) represent a large share of residential developments in eastern Texas metropolitan areas, according to two respected real estate consultants, and as demonstrated on popular real estate and relocation websites in Austin, San Antonio, Dallas-Fort Worth (DFW) and Houston.

### Texas Leads the Nation

John Burns Real Estate Consulting annually ranks the top MPCs, based on homes sold in the prior year. Texas MPCs garnered 17 of the top 50 spots in the 2015 rankings published in January 2016. Houston led the nation with nine MPCs on the list, while DFW made a strong showing with six.

Kirk Laguarta, a Houston-based broker with the national brokerage firm, Land Advisors Organization, said MPCs are thriving in eastern Texas.

**"We believe master-plans are very strong and very healthy and they will continue to be a good business model, as they have been in the past," Laguarta said.**

It's hard to pin down a reliable number of MPCs in each of the four major eastern Texas metro areas. What qualifies as an MPC varies, based on the region or the organization hosting the information. The Greater Austin Newcomer Guide lists 12 MPCs in the vicinity of Austin and San Marcos. The popular Houston Association

of Realtors, or HAR.com site, lists 93 MPCs in the greater Houston area. Realtor Dave Downs, on his website, names 50 MPCs within the North Dallas suburbs.

**"Dallas is super-heated right now. North Dallas and North Fort Worth have a huge amount of job growth fueling housing developments. The result is record lot prices and record home prices. It's the economy of supply and demand," he remarked.**

"The expression MPC is over-used, in my opinion," said David Jarvis, a senior vice president of consulting with the John Burns group. "Our definition in Texas is 1,000 or more acres under a single developer shepherding the property for mixed uses – homes, schools, retail, and in some cases, job growth."

Another real estate consultant, RCLCO, publishes an annual list of the 20 top-selling MPCs based on home sales reported from the prior year. In their list of the top MPCs from 2015, Texas accounted for seven of the top 20, down slightly from eight in 2014, when all eight were in the Houston market. RCLCO's latest list included five in Houston. DFW landed the other two Texas spots, with newcomers Westridge in McKinney at No. 11 and Paloma Creek in Little Elm at No. 14. Two MPCs in the northern DFW area – Phillips Creek Ranch in Frisco and Light Farms in Celina – narrowly missed the RCLCO top 20.

Jarvis is not surprised with the surge of high-performing MPCs in the DFW market.

Statistics support these Dallas market trends. The latest S&P/Case-Shiller Home Price Indices for May 2016 show 43.3% growth in home prices in Dallas in the past five years, and a 9.0% year-over-year increase from May 2015. Comparatively, the national 20-city composite index increased 5.2% in the past year.



David Jarvis



Kirk Laguarta



WestRanch - Courtesy Friendswood Development Company

Houston MPC activity is still strong, even if it has slowed slightly. Jarvis said MPCs actually maintain or increase their market share of total home starts during down cycles.

“MPCs are better financed,” Jarvis explained. “Their developers have the stability to come put houses on the ground. The private equity in non-MPC developments is not there.”

Job growth is the major factor that drives MPCs, Laguarta said. In DFW, companies such as Toyota North America, State Farm, JPMorgan Chase, Raytheon, Charles Schwab, and Liberty Mutual Insurance are among employers fueling job growth with expansions and new complexes.

In Houston, the petrochemical industry in the South and Southeast is experiencing job growth, but large land parcels for MPCs are not readily available in that area, Jarvis said.

## Montgomery County, Fort Bend County, and Brazoria County represent flourishing areas for MPC growth in Houston.

Jarvis described the Austin market as warm. “It’s not white hot like Dallas, but there is an increasing volume of home sales and demand. It’s a mild growth,” he said.

Sizeable MPCs in Austin include Belterra by Crescent Communities (1,600 acres); Rough Hollow by Legend Communities (1,800 acres); Sweetwater by Newland Communities (1,400 acres); and Avery Ranch by Waterstone Development (1,800 acres). Blake Magee Company lists three different Mayfield Ranch developments on its website, totaling about 1,000 acres and 3,000 homes. Mayfield Ranch ranked No. 36 on the John Burns list.

In San Antonio, land prices and lot prices have risen too fast, Jarvis said. “It’s outstripped home buyers’ ability to pay.”

The 3,000-acre Alamo Ranch by Galo Properties was No. 7 on the John Burns list, representing San Antonio’s only entry. Stillwater Ranch is another well-known San Antonio MPC recently in the news. It was purchased in July by RSI Communities LLC. It will include 2,300 homes at buildout, and covers 830 acres.

## MPC Developers

The John Burns top-50 list reveals several MPCs from the same developers achieving success. In the Houston metro area,

Johnson Development Corp. has four communities on the list and Friendswood Development Company has three. Republic Property Group has two top-50 MPCs in the DFW market. This is no accident, according to Laguarta.

“Regardless of the price of oil, Houston has produced no less than 18,000 home starts every year for the past 20 years,” Laguarta added. “No other market in the nation can boast that many home starts. This year, we are on track for 24,000 or 25,000 home starts. Phoenix or Atlanta would love that.”

“The MPC business is a highly, highly specialized field. Someone who is used to developing 200 or 300 acres can’t automatically transition to 1,000 or 2,000 acres. You must have a broader perspective and a grander vision, plus a plan for the long-term reach. The real money people know this,” Laguarta said.

The 41-year-old Johnson Development Corp., in Houston, has 17 MPCs in some stage of development, primarily located in the greater Houston area. Four of its MPCs have been developed in partnership with Tricon Capital Group, Inc., including two

in the DFW market – Viridian in Arlington and Trinity Falls in McKinney. Trinity Falls, a 1,700 acre MPC, was purchased in July by Johnson-Tricon from Castle Hills Partners.

In a press release issued July 16, Larry D. Johnson, president and chief executive officer of Johnson Development Corp., stated, “Trinity Falls is an established master-planned community with a proven track record in a dynamic, fast-growing market. This was a unique opportunity to acquire one of the region’s premier large-scale master-planned communities.”

Jarvis noted, “Johnson purchased the existing MPC to do what they do – to take that community and do an excellent job of molding it into a first-class MPC. They did not buy the asset to do more of the same.”

In another partnership, Allegiant Realty Partners is a joint venture formed in 2013 of Siepiela Interests and Taylor-Duncan Interests. Since then, Allegiant has purchased 2,200 acres in North Texas and the Austin area, with intentions to develop 5,500 home lots.

Besides Light Farms and Phillips Creek Ranch, which ranked No. 23 and No. 25 on the latest John Burns list, Republic is planning a mammoth MPC west of Fort Worth. Walsh is a 7,200-acre community projected to include more than 18,000 homes upon buildout, which will come decades down the road, according to the company’s website.

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### ALLEGIANT REALTY PARTNERS MASTER-PLANNED COMMUNITIES

MPC	Market	Area	Acres	Lots
ArrowBrooke	DFW	Denton County	410	1,750
Bozman Farms	DFW	Wylie	600	1,285
Caliterra	Austin	Dripping Springs	600	580
Crosswinds	Austin	Kyle	445	1,400
Bluffview	Austin	Leander	179	515

### JOHNSON & TRICON MASTER-PLANNED COMMUNITIES

MPC	Market	Area	Acres	Lots
Cross Creek Ranch	Houston	W. Houston/Fulshear	3,200	7,000
Grand Central Park	Houston	Conroe	2,000	550+ (TBD)
Viridian	DFW	Arlington	2,000	3,00
Crosswinds	DFW	McKinney	1,700	4,000

Recent examples of developers and investors forming joint ventures to purchase big tracts of land or existing MPCs does not jeopardize opportunities for other developers, according to David Jarvis of John Burns Real Estate Consulting. “None of the actions by MPC developers has had a negative effect. The market is just so big, there is room for everyone,” he said.





## Evolution of an MPC

“For a new MPC to succeed, it requires a large land parcel that offers good access, within a good school district,” Laguarta said.

Besides good schools and good access, it’s important to have experts who know the area. He mentioned Larry Johnson and Doug Goff at Johnson; Ted Nelson and Alan Bauer at Newland Communities; Travis Stone at Aliana Development Company; Dan Naef at Rise Communities LLC; and Fred Caldwell and Peter Barnhart with Caldwell Companies as commercial real estate professionals who know the ins and outs of the regions where they build.

And, Laguarta added, the source of money drives the MPC. One struggle right now in Houston is attracting outside investors for new MPCs.

“The Wall Street perception of Houston is not a reality,” Laguarta said. “Where we are in the cycle, now is absolutely the perfect time to enter the market. Those who live in Houston know this.”

The Greater Houston Partnership reported in March that Houston’s natural population increase, based on 95,000 births and 35,000 deaths annually, adds 60,000 people per year. Even without economic drivers, the population will continue to grow.

Financing an MPC is a capital-intensive endeavor, Jarvis agreed, and banks are not in

the business of financing these communities. “You need cash or private equity for the land. You need additional cash and private equity before banks will give money to start construction.”

From a homebuyer’s perspective, buying a home in an MPC is a good value. The homes tend to hold their value and the communities are filled with amenities that people want. Commercially, they also represent a good value, both experts agree.

“You know the developer is going to build the rooftops to support the commercial development,” Jarvis said.



Stillwater Ranch - Courtesy WS-SAS Development



Caliterra - Courtesy Allegiant Realty Partners

It has to be in the proper order, Laguarta stressed. “Before retail or commercial development, you have to have the bodies. No one is going to buy one thousand acres on the periphery of a community without customers in the area. You get the bodies coming first; once you get to critical mass, commercial development starts to take off.”

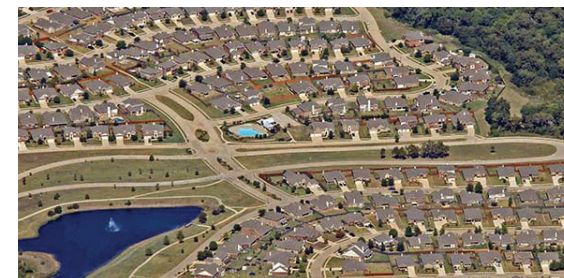
Towne Lake in Cypress and Cross Creek Ranch in Fulshear are two examples of MPCs at the commercial expansion stage of development.

## MPC Trends

Regardless of the hundreds of MPCs in DFW, Houston, Austin and San Antonio, Laguarta said, “There is always room for more. It is predicated by a good location and execution of a very good plan.”

Demand for homes is at an all-time high. In its Texas Quarterly Housing Report released on August 1, the Texas Association of Realtors® reported 91,418 homes sold during the second quarter of 2016, a 4.4% increase from the same period in 2015, and the highest volume of Texas home sales ever in a single quarter.

Those figures support the potential for even more Texas MPCs. Over the next three to four years, John Burns Consulting predicts that Dallas, San Antonio, and Austin will experience a rising market with more housing demand, more sales, and more home permits issued, according to Jarvis. In Houston, they forecast a tamer market, with 2017 lower than the current year, but are hopeful that next year will mark the low of the current market cycle. “We are not prognosticators of oil prices,” Jarvis said, but with the price of a barrel being the catalyst for job growth and home sales, the two go hand in hand. ●



Bozeman Farms - Courtesy Allegiant Realty Partners



Light Farms - Courtesy Republic Property Group