

Getting to the finish line through Bankers, Subcontractors and Brokers

Building and selling new homes has changed and there are three main parties making success an assured outcome.

PALM BEACH GARDENS , FL, USA, November 1, 2022 /EINPresswire.com/ -- The three-headed dragon in the real estate development business that makes our world go around are the following groups of support industries, means and methods. The names may change, but basically these are the three. Stephen Gravett offers a suggestion on how to improve your development experience by effectively dealing with Bankers, Brokers and Subcontractors.



The results speak for themselves

1. Bankers and Capital Stack money players. Banks and Equity Capital companies both supply money to our industry. Bank capital is just as it sounds. In simplistic terms when borrowing from banks for construction loans these loans can be leveraged to 75%-80% of the money needed at low interest rates. Banks generally do not include money for all land costs. They will provide a

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Equity Bankers can loan nearly 100% of the capital required for any given project, but with no skin in the game by the developer they are working for just over wages. ”

Stephen Gravett

portion of borrowed funds for land development and all necessary funds for home construction. Many developers purchase the land with their own cash- generally company equity is used. This equity is contributed at roughly 25% of the total project cost and is considered as the developers "skin in the game." Bankers will loan the remaining money (roughly 75%) for vertical (home) construction. In many cases builders who wish to leverage beyond the banks traditional 75% will seek out Equity capital sources. These lending sources come in a variety forms – Family office, hedge funds and source Equity. These groups provide the

Equity to purchase the land and, in some cases, they can even do 100% financing for construction as well. Because of the risk of low builder equity participation, Equity providers have very stiff return percentages and can put restrictions on the company they provide equity to. It is not unusual for an equity source to take 20-23% of the profits. In many cases leaving the developer partner with little more than wages for his work. Even these deals require some developer equity.

2. Subcontractors and trade partners. Gone are the days when builders have many of their own

trade employees. The most popular to be captive under the developers roof were their own rough carpentry workers. Today a builder or even a general contractor who builds for other people for a fee is more of a sophisticated trades broker. They hire subcontractors to build the parts and pieces of the vertical construction puzzle. Now as in the past, plumbers, electricians, HVAC contractors have always been the major skill players that were independent contractors. But today builder's employee independent subcontractors ("subs") down to the smallest jobs as well. For example, gutters, specialty items (toilet paper holders, shower enclosures, towel bars), low voltage providers and other smaller trades make up the list of subcontractors required to build and complete an entire home. This illustrates the moniker "broker of services" a developer/builder has actually become. Still, this is no small task and a developer earns every dollar he is paid for his services. "I rely on long term relations with my "subs" in order to illicit loyalty, quality and timely schedules," says Stephen Gravett.

3. Brokers- Real Estate Brokers are a huge positive for housing sales in builder's subdivisions and for one-on-one resales. Technology has given brokers many useful tools to expand their influence and gain new consumers. New websites like Zillow, Trulia, Realtor.com and expanded MLS websites give both clients and brokers better tools to examine listings and builder websites. A good broker can find a prospect desiring to buy a new home and can instantly see if they will qualify for the proper mortgage based on their credit score. With customers lingering on builder websites, the astute builder with a solid high-tech marketing plan can also solicit new buyers through his website using a variety of high tech means and methods. For example, links to their websites can be shown on their Facebook page, Twitter, LinkedIn, Geo-fencing around the project location and e-blasts from its CRM database containing people's past inquiries. COVID has caused builders and brokers to show every fact imaginable about their homes for sale, including pricing, premiums and closing costs. During COVID many sales offices were closed to the public using appointments only. This meant that builders and brokers had to show off what they had on line to entice home buyers to make visiting appointments.

These three groups can literally make or break a successful real estate development. Of course there are other specific groups and methods, but the bulk of the strategies and work resides here.

Stephen Gravett has been a real estate developer for over 45 years and was most recently CEO of Kennedy Homes for the past 11 years and is still CEO of Kennedy Development Partners (KDP) and full time Director of Operations for 5 Star Developers. He is also a state licensed broker and since 1980 a State licensed General Contractor Unlimited. He flew B-52's in the US Air Force during the Vietnam war.

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