

# The Villas at Freedom Place

## Project Configuration

The Village at Freedom Place is a Master Planned Community (the first MPC in Junction City, KS) incorporating residential and commercial development, and community amenities. The goal of our community planning at The Village was to develop a beautiful, sustainable neighborhood, while integrating features marketable to this specific demographic, being young military families.

The Master Plan for The Village at Freedom Place includes some of the largest attached homes in the region. The 4 bedroom homes are over 1870 square feet and the 3 bedroom homes boast 1700 square feet of livable area.

The planning for the residential portion of this community included generous community green spaces, but also personal, fenced front yards for every home. The yards were placed in front of the homes for security. The Village at Freedom Place is home to primarily Army families. This means at any given time a large number of our families have a spouse deployed for 12 to 15 months. This fact made planning for security essential. We wanted to develop the security features naturally into the community, and one way to do that was to front face the homes.



Also, while planning for the residential portion of this project we wanted to keep it maintenance free (another first in the Junction City market). The homeowners at The Village have landscaped, manicured lawns and community green spaces that are maintained by the Home Owner's Association. In Kansas it was also important to incorporate snow removal into the Home Owners' benefits as well. Snow is not only removed from the sidewalks and drives, but also all community parking spaces. The HOA carries contracts for general community cleanup and pool maintenance for the pool, hot tub, and children's pool that is part of this neighborhood.

A key component to making this MPC stand out in the region is the planned commercial space. The Village at Freedom Place is located on a major boulevard that enjoys a street scape complete with median lawns and blooming trees. We wanted to take advantage of the higher traffic flow by integrating a commercial aspect to the neighborhood. What this also does is create a large separation between the boulevard and the residential piece of the community.

The commercial piece of the project was planned to tie into the residential portion both in design and utilization. There is planned gathering spaces with 30 foot wide patios in front of the businesses, and a 20 foot water feature at the center of the development. Our desire for our residential area is for it to be easy for families to meet each other and cultivate relationships, and with the open and inviting gathering spaces in front of the businesses, that was carried over to the commercial development, not only for the residents of The Village at Freedom Place, but also the communities of Fort Riley and

Junction City.

The final piece of planning includes another residential aspect to the community and that is the for lease homes we think can integrate well into the community. Our research has shown this market supports for lease homes more than for sale homes. We have also found that incorporating both aspects into a properly designed MPC will create value for both the for lease homes as well as the for sale homes.

The for lease homes will be owned by individual investors, at no more than two homes in a 6 or 7 unit building being sold for investment purposes. This is the key to maintaining healthy appreciation in the value of the homes, a sustains the community as a “for sale” community.

The Village at Freedom Place is a first of its kind in the Flint Hill region. With a focus on community, safety, and family, we feel we have created a sustainable neighborhood that will be attractive to future homeowners and investors for many years.

### **Specific Market Data**

The Village at Freedom Place is a unique project to attack from a marketing perspective, but since it is so unique we have gained insight on marketing many types of neighborhoods to many different demographic sets.

With a new residential for sale phase and a commercial development phase, and the integrated investment homes, there are three different product types that required research and expert planning before going to market. With customers ranging from very young military families buying their first house, to retirees ready to settle into their dream home, to investors, to renters, to business owners, we have had to develop to market strategies for each specific customer set. Finally, being the first in the region to come to market with such a community, we had to teach our potential customers about our products and overall project.



We have enjoyed success at The Village at Freedom Place because we spent the time and money to learn where our customers came from, and where they went when they did not purchase or rent from us, and where they are while they are getting ready to purchase or rent from us.

We have been developing the “for sale” phases of The Village at Freedom Place since 2006. The Phase I portion of the project was completed in late 2006 and Phase II building started in 2007. The Phase II

model home opened in late June of 2007. The model home is the central point of traffic for The Village at Freedom Place, and is where we gather our data that goes into our marketing strategies.

Our marketing efforts at The Village at Freedom Place are a combination of traditional marketing and guerrilla style marketing. We take full advantage of all the resources available to present our message in the most effective manner. We continue to be the trend setter in this region for real estate marketing. The marketing for The Village at Freedom Place includes print, billboards, multimedia, web, and some radio. The bulk of the marketing dollars spent, go towards the local Fort Riley Post which is a weekly newspaper and a quarterly recreation guide that are both freely distributed on the local Army post. We also rely heavily on signs (from large billboard to smaller more localized signs), to create the perception that we are everywhere.

Our marketing staff has determined that over the course of the project, over 70% of our model home traffic was generated from these 3 sources. We have also invested heavily in our website. The prospects that inquire via phone or email are directed to the website for follow-up. Because of this, it is important the site be easy to read and reflect the feeling we want our prospects to have about the neighborhood.

We also invested in a professionally produced promotional video and a video kiosk that was placed in the Fort Riley Housing Office. This is a central location for incoming soldiers to learn about housing opportunities in the area. The kiosk runs the video during working hours and has generated considerable interest in this project. We also market using some radio to highlight our already existing advertising or to spotlight a promotion as well as using newsletters for existing home buyers (featuring advertising for a referral program as part of the newsletter), real estate agents, and prospects that are still in the pipeline.

A key feature to all of our advertising is that we don't market strictly to people looking to buy a home. We keep the advertising generic enough that a potential prospect may be looking for something to rent and then visit the model home to inquire about leasing.

This does two things for our marketing efforts. First, and most important, it gives our sales staff the opportunity to convert the possible renter into a home buyer. A surprisingly high percentage of buyers at The Village at Freedom Place came in looking to rent (nearly 20%). Secondly, it allows the marketing staff to track trends. We are able to determine how many people come in looking to rent or looking to buy during any specific time period, and change our sales and marketing efforts (and even our building efforts) to better take advantage of the current market dynamic. The statistics below will reflect the importance of tracking this information.

From July 1, 2007 to July 15, 2008 the model home was host to 264 visitors. Of those 264, 169 came in looking for a place to rent. So we know over the past year 64% of our traffic was possible renters. We also know that we can convert these possible renters into buyers with some success. A model home presentation was tailored specifically for these prospects.

From another perspective, we also know that there are a tremendous number of people looking for nice, large homes for lease. Getting this information gave us the insight to adjust our building plan to make a limited number of our homes available to investors for lease. By keeping our marketing generic in terms of whether our homes are for sale or lease, allows us to pass rental leads to our property management company. This keeps their marketing costs down, allowing them to pass on the discount to our investors by way of a discounted property management fee.

We also know that we are going to encounter many prospects that are not going to qualify to purchase a home, either because of credit scores or ratios. Because we track this information in house as well, we are able to adjust our sales efforts on the fly to either produce more sales by finding an aggressive lending partner or offering down payment assistance, or turning the sales prospect into a lease prospect until the financing issues have been resolved and they can become a buyer.

Because of our detailed tracking, we have knowledge that from the time period shown above, 31 prospects have made the decision to buy at The Village at Freedom Place and have subsequently not qualified or have had programs changed after being qualified, but before final approval. 15 of those prospects filled out a qualification application in house which was distributed to preferred lenders, the other 16 went directly to a preferred lender. I suspect there are quite a few more than the 31 we have records for that left the model, attempted to get qualified, and could not. Even though our information gathering is very good, we do lose information on some individuals that do not respond to follow-up attempts.

We also know how we compare in the market to similar projects. If we start losing market share, we can immediately see find out to where and why. For example, in the time period we have been working with, The Village at Freedom Place captured 67% of the sales of town homes. We are also able to see if there are other types of homes in the market that are taking our potential buyers away from us and why, and adjust our marketing efforts to recapture that market share as well. This comes back to knowing where our prospects go when they leave the model home. If we see a shift in our prospects going to a single family development after leaving here, and eventually buying there, we know to focus on specific strengths of this project that turn the spotlight back here, such as the maintenance free feature, the community feature, the abundant amenities, the features that a standard subdivision does not possess.

Because of our prospect tracking, we know where our prospective customers have been and where they are, allowing us to use the best resources to find them and bring them in for the first time, or bring them back in until they buy or lease in this project.

## **Rental Comps**

We researched the largest apartment complexes in the Junction City market before finalizing our marketing efforts for the investment portion of our development. The three communities that currently provide the most rental units are The Bluffs, Hunter's Ridge, and Eagle's Landing. These are also the rentals that represent fairly new construction.



The Bluffs and Hunter's Ridge are traditional apartment buildings with units stacked 3 or more stories. The Bluffs features 3 bedroom floor plans at 1230 square feet for \$1050 a month. Renters can add a single car garage for \$65 per month. Hunter's Ridge is more affordable with 1280 square foot 3 bedroom units renting for \$980 (no option for a garage).

Eagle's Landing is a town home style for lease property, closer in style to The Village at Freedom Place homes. Eagle's Landing rents 1200 square foot 3 bedroom

homes for \$895 and no option for a garage.

There are no communities in Junction City that provide 4 bedroom homes for rent. Our research shows a strong need for this size of home. A large percentage of the “looking to rent” traffic through the model home came in looking for a 4 bedroom plan. In many cases, they had already looked for a 4 bedroom at the other communities with no success and came here ready to spend more per month than they had planned, just to meet their housing needs.

We have seen our homeowners have considerable success in renting their homes at The Village at Freedom Place from \$1,295 to \$1,550 per month (depending on mortgage, final price, and desired cash flow for each home). These homes are approximately 1870 square foot, 4 bedroom, 2.5 bath homes!

Since opening we have sold primarily to military families, they purchased their homes to live in them for a short while since they will typically only be stationed in one area for 2-3 years. Our more savvy homeowners then intend on leasing their homes for 3 years after they are stationed elsewhere, then selling for a profit. Basically, they are purchasing their first investment property.

### **The American Dream Development Investment Concept**

We are currently putting together a joint venture executive property management group. Our research has indicated and our activities have proven the need for executive level rental units in military markets. For instance, at Fort Riley in Junction City, Kansas, there is a 30 month waiting list for officers for on-post military housing. This has created a drastic need for higher quality, more luxurious rentals, as most are geared toward junior enlisted personnel. This has been enhanced by the current financial environment, both restricting and deterring home ownership by the offer group that would have previously purchased. This also holds true for senior enlisted personnel. The shortage of provision of Executive level rental units has driven cost as high as \$1800/month.

### **What we propose;**

American Dream Development is currently building a project, The Village at Freedom Place, that has both a for sale and rental component. Last year alone we received over 250 units of rental traffic for our limited 12 rental units. Most units are rented prior to completion and bring significant premiums over other rentals in the market, as high as \$1550/month. The rental units that are currently available at The Village at Freedom Place are purchased by individual investors and are managed by a local property management partner.

In the 4<sup>th</sup> quarter of 2008 we intend to expand the depth of the rental pool at The Village at Freedom Place. We intend to add a total 40+ units over the next 12 months. We will be producing these units for a cost of approximately \$134,000/each in groupings of 14, with a total initial capital investment of \$1.9M. What we intend to do is seek a joint venture partner to assist us in the development of this model. American Dream Development will match up to \$20,000/unit for a like share of ownership in the developed units. Example; A JV partner or partners contribute \$20,000/unit or \$280,000. This amount would be matched with a contribution of \$20,000/unit or \$280,000 for a total initial interest in the project of \$560,000; bringing the total leveraged amount to \$94,000/unit or \$1.3M. At this rate, ownership would be 50/50, less a 10% portfolio management fee. This will result in 43% coverage on the debt. At \$1.3M on a 20 year note with a rate of 7%, the debt service payment will be approximately \$116,295 per annum, or an interest expense of \$81,936. At a mean rent of \$1300 at 90% occupancy, the rent revenue will be approximately \$218,400. The current expense rate is 10% or \$21,840. Total pre-tax return is projected at approximately \$114,624. This would result in a year over

year, cash on cash of 10% for the investor. With a CAP Rate of 7.7 the project value would be \$2.55M, this is primarily due to builder equity. The return from sale without rent escalation is projected at \$650,000 or a return of 80% for the investor ,or over a 3 year period 26%. This brings the total return potential per our projections to 36% year over year.

If absorption becomes an issue, reduction of the mean rent could be as low as 20% to \$1040/month to receive a return of 11% year over year. **The project has a 10 year 95% property tax reduction approval!**

Completion of the 40 units on the initial projections would result in a 3 year return of approximately \$2.66M on a \$1.6M total investment in which American Dream development contributes \$800,000 for a 50% ownership stake. American Dream development would also accept an arrangement for an additional 7% preferred return, equal to debt service, for an investor that provides the balance of the construction costs in lieu of financing or \$1.3M on 14 or \$3.64M on 40 units.

We thank you for your review,

Jeffrey Burton

President

American Dream Development