

# A Critical Analysis of a Developing Subdivision



**THE MEADOWS**  
Primrose and Maple Avenue  
Lisle, Illinois

## From Cornfield to Homesite

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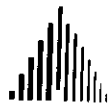
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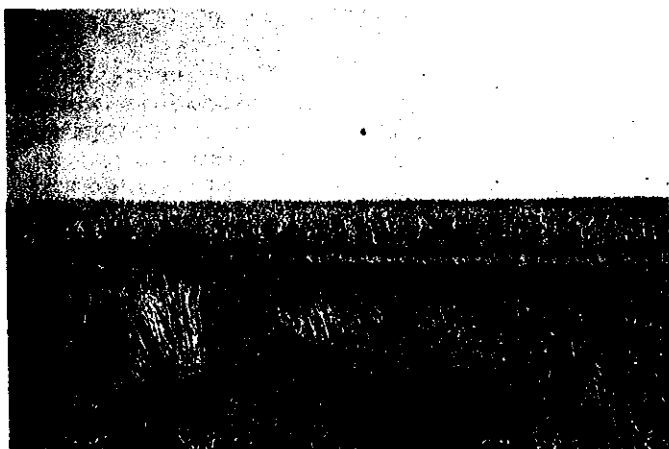
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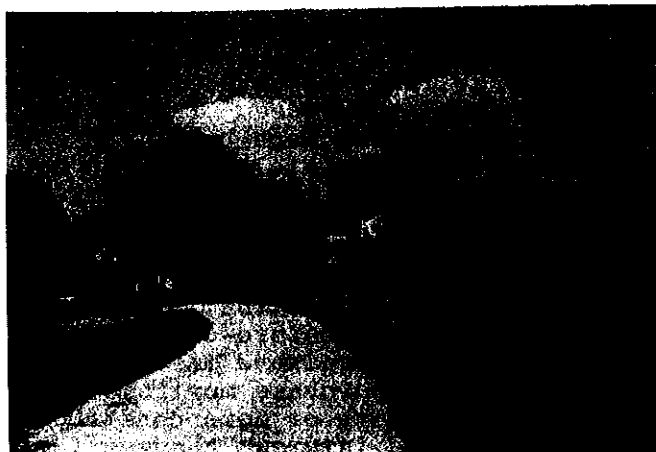
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## SUBDIVISION COSTS

This presentation is prepared to acquaint Realtors, real estate appraisers, and real estate developers with the problems which confront a developer of raw land into a salable subdivision of improved lots. The variance of location, material and labor costs, land condition, and the local code requirements makes this presentation subject to variables and should not be construed as applicable to every location in the United States. The basic procedure, however, is applicable and may be followed.



Cornfield



Farm houses

It must be understood that raw land costs, utility costs and class of subdivision operation appealing to income brackets, prices and character of houses, and public acceptance, will govern the final market of improved lots. The test of sales is basic in valuation procedure.

One purpose of this analysis is to establish a price at which improved land can be produced at an established acreage cost and under certain known conditions. A corollary to this purpose is to show that excess costs which accompany a development will have a bearing on final lot or front foot cost. The excess costs in this subdivision analysis may not occur in other developments. This treatise develops costs per lot and per front foot with and without consideration of excess costs. Another consideration illustrated is that the size and number of lots in a given number of acres will produce a unit cost per lot. Corners, side streets, and utilities made accessible to schools and churches are factors which have a final determination on lot and per foot costs on the lots used for homesites. Land has been purchased for a shopping center, but is not part of this project. The land is west of Route 53.

The purchase price of the farm land (and this term is used advisedly), in this subdivision was \$2,000 per acre. The land was purchased under contract with release clauses applicable over a period of three years. Within two years, the purchase price will be paid in full. Water was available within 100 feet. Storm and sanitary sewers were not available for connection. This caused an excess expenditure for sewers, which did not have immediate but does have future use. The topography of the land was rolling, with several knolls



Why new houses?



Completed subdivision



Quartet: Builders and financiers

which caused deep cuts. The land drained from north to south and east to west. The fall is in excess of 20 feet, and adequate for natural drainage. Storm sewers were installed in certain areas. The conclusions illustrate the difference in cost per foot and per lot to improve when part of the sewer installation is not used immediately, and when the entire main sewer cost is absorbed in future development. The sewer from South Road and Lenox Road to the disposal plant will always be an excess cost and chargeable to the entire tract, unless the portion on Lenox Road and River View Road is used by adjacent property owners. The excess sewer is under the exclusive control of the developers and is on land owned by them, except from the corner of Lenox Road and South Road to the disposal plant.

The raw land was developed in units of 24 to 51 lots, and plats recorded as development proceeded. Except for the excess sewer, land improvements were installed as houses were built and sold. Sidewalks and the final blacktopping are completed immediately prior to occupancy by purchasers. Development capital is held at a minimum by this procedure, and interest and tax charges are kept within a chargeable six months period. Progressive payouts to contractors reduces interest charges. The entire development will be completed within four years from the date of land purchase. Two years' land cost interest is charged, and six months' improvement cost interest as well. The land was purchased one year before development started. Releases from the land and development mortgage were issued within one month after home development commenced. A land purchase mortgage was renegotiated as a land development mortgage. The rapidity of home construction and sales accelerated the release of lots and reduced interest charges to the developers. Home purchasers negotiated construction loans, or the developers negotiated construction loans which bore the interest and tax charges on the homesite. Purchasers' down payments provided funds for land released and equity construction costs. The average release cost per lot was \$600 for raw land. The raw land cost was \$2,000 per acre, and the lot release funds repaid \$1,800 per acre. The mortgage was less than \$1,100 per acre which, when paid in full, will give the developers over one third of the entire tract land free and clear except for development costs. The initial capital investment was approximately \$200,000.

The conclusion of this report is that land development has exceptional and oftentimes unknown risks. Careful analysis of market, topography, available utilities, and contingencies must be made, and only engineers and developers with experience in subdivision development should engage in this type of real estate operation.

#### STATISTICAL INFORMATION

Total acreage, including school site (6.4 acres) and church site (5.5 acres)	224
Net acres for improvement	212.1
Total number of available lots to improve	558
Church lot unimproved 5.5 acres	1
School lot unimproved 6.4 acres	1
Lots in subdivision Units #8, #9, #10, #11, including school lot #31 Unit #10	128
Total homesites to be fully improved through Unit #12	181
Homesites now being fully improved	159
Total front footage	13,375 ft.
Average frontage per homesite	84 ft.

Average depth	145 ft.
Lots in Unit #8	29
Unit #9	24
Unit #10, including one school lot	51
Unit #11	24
Unit #12	53
Lots in Units #8 through #12	181
Lots with sanitary sewer west of Iris Lane	190
Lots with main sanitary sewer available west of Iris Lane	30
Lots with sanitary sewer south of South Road not recorded	9
Lots with sanitary sewer only south of South Road, 2,150 ft.	31
Lots with water, sanitary sewer, storm sewer, available street curb walks	159
Lots with no improvements west of Iris Lane, south of South Road, and east of Elm	338
Excess sanitary sewer west of Iris Lane, including 30 lots not recorded	6,050 ft.
Excess sanitary sewer part of 6,050 ft., not within subdivision west of Iris Lane	4,850 ft.
Excess sanitary sewer south of South Road, including 31 lots recorded	2,150 ft.

All excess sewer computations are bare field costs.

School lot has connection rights to sewer and water.

Majority of lots are 75'x145' and 80'x145' with corners of various widths and depths, causing average size lot to be 84' in width.

Computations are made of 75' and 84' lot width to illustrate results in per foot cost with effect on lot cost.

Using the 84'x145' lot computation, 2.63 lots to acre is obtained. Maple Avenue and Route 53 have additional width which reduces number of lots per acre.

Interest and tax charges are not arbitrary selections, but actual costs.

Subdivision development from date of land acquisition is proceeding on schedule.

Two years' interest and taxes are computed as average time from date of mortgage to final release of mortgage by partial release of lots as development progresses.

Recapture of land investment estimated in three years.

It is estimated that the project will require four years from date of land purchase to liquidate in full, including land investment, improvements and excess sewer costs.

Sewerage disposal plant is owned by developers and is separate investment.

Computations on page 16 are made to illustrate possible sale prices of lots and raw land development profit.

TOTAL INITIAL INVESTMENT OF DEVELOPER

Cost Estimates and Reduction to Per Front Foot Cost

The following estimates are total costs which include the excess sewer installations which were necessary before home construction could start. As of September 1, 1961, the date of recapture of \$53,977.50 (see page 8) is unknown, and therefore these costs are illustrative of necessary investment before recapture. The 159 lots are in various stages of development. Units #8 and #9 have completed land improvements and occupied houses; Units #10, #11 and #12 have partial land improvements and houses in various stages of construction.

Bids and engineers' estimates, bare field cost (No overhead, profit, interest, etc.)	
Sanitary sewer	\$91,041.05
Water main	47,664.55
Storm sewer	49,762.50
Paving	64,894.48
Curb and gutter	38,340.00
Sidewalk	<u>47,925.00</u>
	\$339,627.58

This cost includes above improvements for 159 lots in Units #8, #9, #10, #11 and #12, plus one school lot. (See Plat 2.) This price includes 6,050 feet of excess sewer west of Iris Lane (see Plats 1 and 3), which is now a main service sewer, and 2,150 feet of sanitary sewer south of South Road (see Plat 4), which has immediate use, but not entirely in an area of recorded units.

Cost per foot based on above over-all cost,

including excess sewer with 159 improved lots absorbing all improvements

including corners and side street.

Sanitary sewer	\$6.04 per lineal ft. serves two sides of street	\$3.02 per front ft.
Water main	\$4.55 per lineal ft. serves two sides of street	\$2.27 per front ft.
Storm sewer	\$7.12 per lineal ft. serves two sides of street	\$3.56 per front ft.
Concrete curb	\$2.00 per lineal ft.	\$2.00 per front ft.
Concrete sidewalk	\$2.50 per lineal ft. 50¢ per square ft.	\$2.50 per front ft.
Paving, one half of frontage		<u>\$6.77 per front ft.</u>
Total		\$20.12

Total improvement cost

\$339,627.58

Cost per lot, 159 lots	\$2,136.00
Cost per front ft., 75' lots	\$28.45
Cost per front ft., 84' lots	\$25.45

Difference of \$3.03 per front foot illustrates effect of large corner lots on smaller lots when number of lots remain the same. When front footage of lot is changed, more lots must be obtained in order to reduce cost per foot.

Improvement costs applicable to 75' lot and 84' lot illustrates mathematical difference in cost per foot. Cost per foot also illustrates change in cost caused by number of lots in subdivision. If 200 lots of 70' were available, cost would be \$1,698 per lot, or \$24.27 per foot. The corner and side street costs are absorbed by more and smaller inside lots. Efficient design of subdivision, utilities and engineering will reduce these excess costs.



Curbing and corner houses under construction



Damage, 2% loss

ADDITIONAL COSTS TO DEVELOPER

Total bare field cost from estimates above	\$339,627.58
Engineering and supervision, 10% (includes fees, plats, staking, recording and inspection)	33,962.75
Interest, 6 months, 6%	10,200.00
Repairs, 2% (broken curbs, walks, sewers, street repairing, contingencies)	6,800.00
Developer's overhead and profit, 20% (includes office expense time, salaries of employees, supervision and reasonable profit for risk. No sales expense.)	<u>68,000.00</u>
	\$458,590.00

159 lots, per lot	\$2,883.00
159 lots, \$2.883 per lot average 75' lot, per ft.	\$38.40
159 lots, \$2,883 per lot average 84' lot, per ft.	\$34.32

Note Plat 1 for various lot sizes. Averages are used to illustrate problem, and proper lot sizes to absorb corner and side street costs.

If 200 lots of 70' were available, cost would be \$2,292.95 per lot, or \$30.27 per foot.

Bids were taken on engineers' design, using 159 lots for estimates, as bids received will complete all improvements on 159 lots. Sewer will serve 190 lots. A total of 181 lots are within recorded units. An additional 30 lots west of Iris Lane are on the main sewer line, but are not within recorded units.

### SANITARY SEWER

Net cost to 159 lots within recorded units of 181 lots

Total feet installed, 15,070 @ \$6.04 per lineal foot \$91,041.00

Excess sewer is sewer installed where water and other improvements are not immediately contemplated.

Main sewer to disposal plant was necessary to service subdivision east of Iris Lane and south of South Road.

Sewer excess installed west of Iris Lane was necessary to service east of Iris Lane. 6,050 ft.

1,351' (diameter 8") @ \$2.85 per ft. \$3,850.35

2,249' (diameter 8") @ \$8.50 per ft. \$19,116.50  
extra depth

2,450' (diameter 12") @ \$5.60 per ft. \$13,742.00  
pavement boring  
and special treat-  
ment of ground  
below pavement

21 manholes @ \$175 each \$3,675.00

Y's \$151.15

Excess sewer south of South Road in Unit #12

1,175' (diameter 8") @ \$ 2.85 per ft. \$3,348.75

984' (diameter 12") @ \$10.25 per ft. \$10,093.75  
extra depth  
and strength

Total excess cost \$53,977.50

Net to 159 lots \$37,063.55



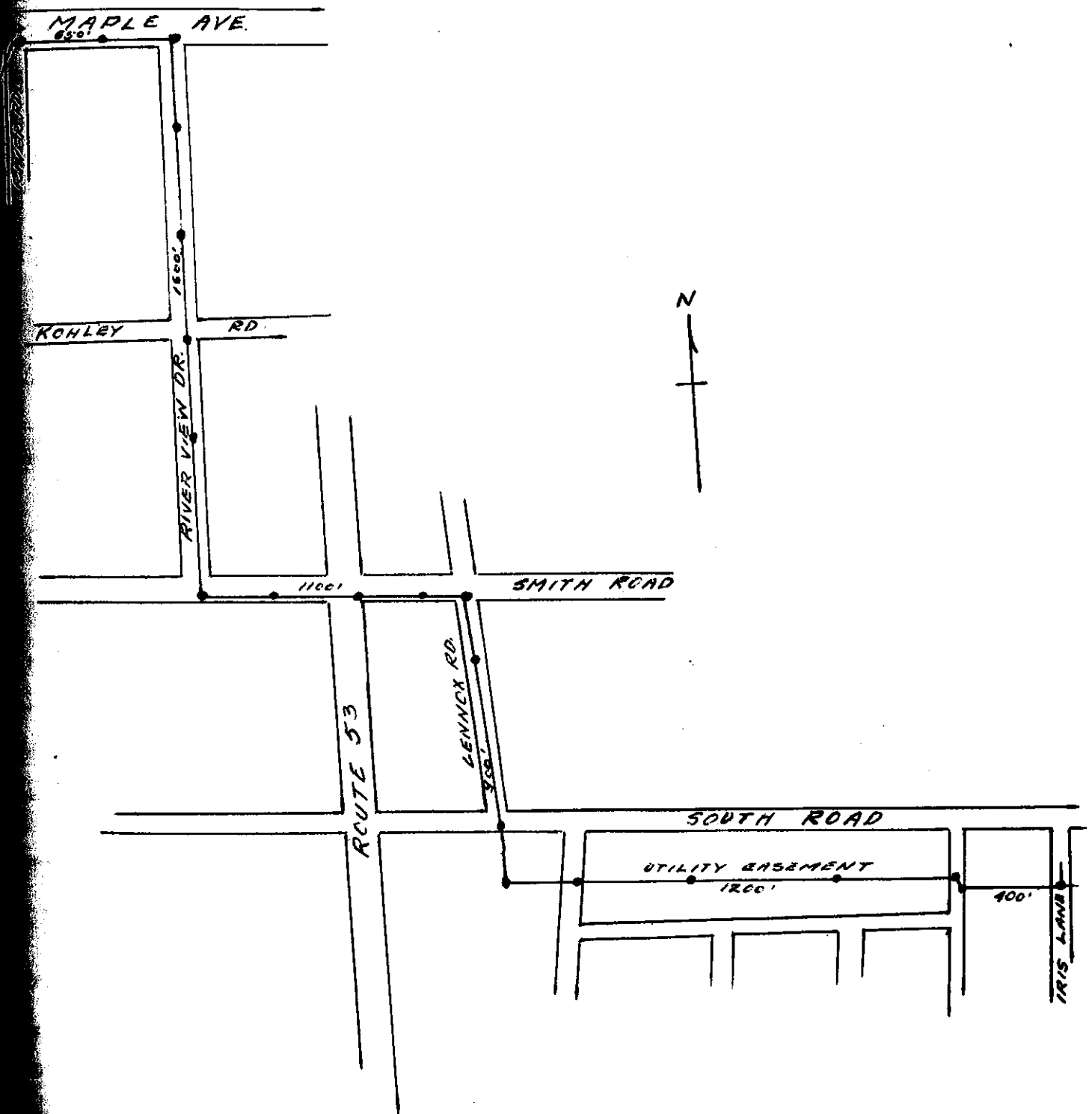
Cut and grade



Corner, Lenox Road and South Road,  
excess sewer cost



EXCESS SEWER  
WEST OF IRIS LANE



RIVER RD

CENTRE

KING

MAPLE

AVE.

ROAD

ROAD

AVE.

ROAD

KOHLEY



LENOX

ESSEX

KINGSTON

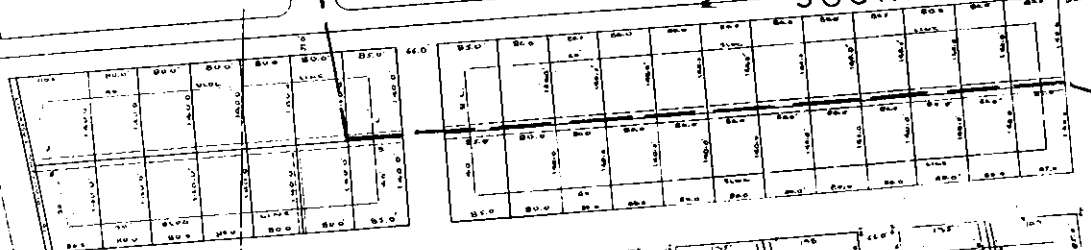
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ROAD

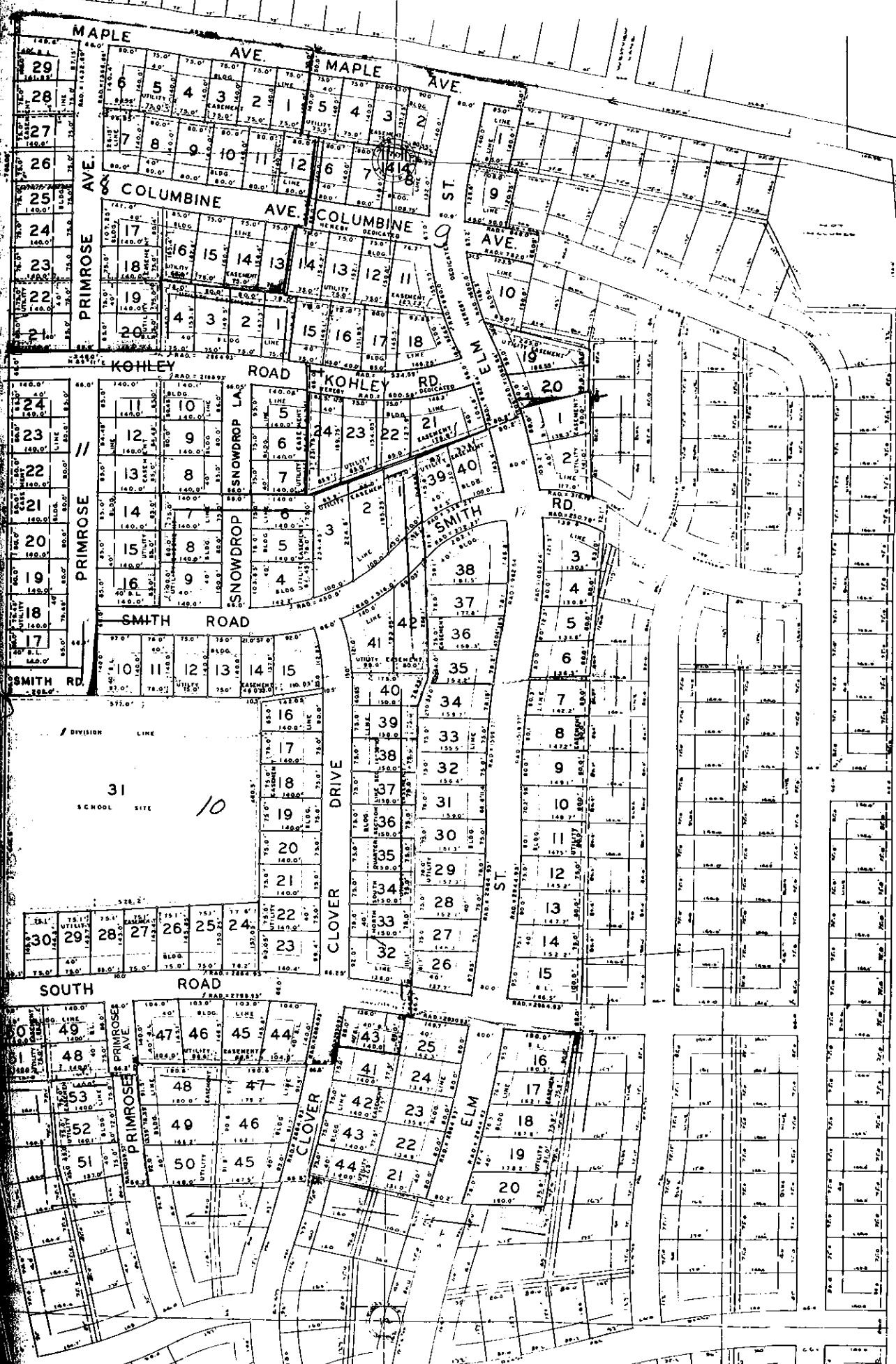
SMITH

ROUTE

SOUTH



TRINITY LUTHERAN CHURCH



EDISON CO.  
COMMONWEALTH

Cost per lot (lot width average is 84') \$233.00

Each lineal foot serves 2 lots.

84' x \$2.77 per front ft. \$233.00

All computations are bare field cost.

While the excess sewer cost of \$53,977.50 is recaptured by future development and excess sewer cost is absorbed in future lot sales or homes built on unrecorded lots, the net cost to the 159 lots will be \$233 per lot. It is obvious that the sewer cost of lots now recorded is less than the cost of the excess sewer. This is noted in the cost of certain cuts and size of sewer tile. Pavement must be bored on Route 53. Extra depth is noted in the topography and cut maps.

Unit #12 has two lots not served by sanitary sewer. Nine lots south of South Road have sanitary sewer, but are not in recorded unit.

Installation of sewer and water has followed a master plan for improvement of the entire subdivision, and sewer and water lines follow the contour of the land for the most economical construction. Recorded plats do not follow these installations, and therefore all improvements are not within recorded plats. At a later date, installation of improvements and recorded plats will coincide except for the main sewer which runs from the corner of South Road and Elm Street. This is outside the recorded plats and property owned by the developers.

#### EXTRA SANITARY SEWER

##### Cost to be carried until recaptured

From present subdivision west of Iris Lane to disposal plant

1,351' (diameter 8") @ \$2.85 per ft.	\$3,850.35
2,249' (diameter 8") @ 8.50 per ft.	19,116.50
2,450' (diameter 12") @ 5.60 <sup>+</sup> per ft.	13,742.00
21 extra manholes @ \$175 each	<u>3,675.00</u>
Total, 6,050' as above @ \$6.70 per ft.	\$40,383.85

Sewer installed for immediate future use partly within present recorded units, south of South Road

1,175' @ \$2.85 per ft.	\$3,348.75
984' @ \$10.25 per ft.	<u>10,093.25</u>
Total excess	\$13,442.50
	\$53,977.50

159 lots, excess cost, each \$339.50

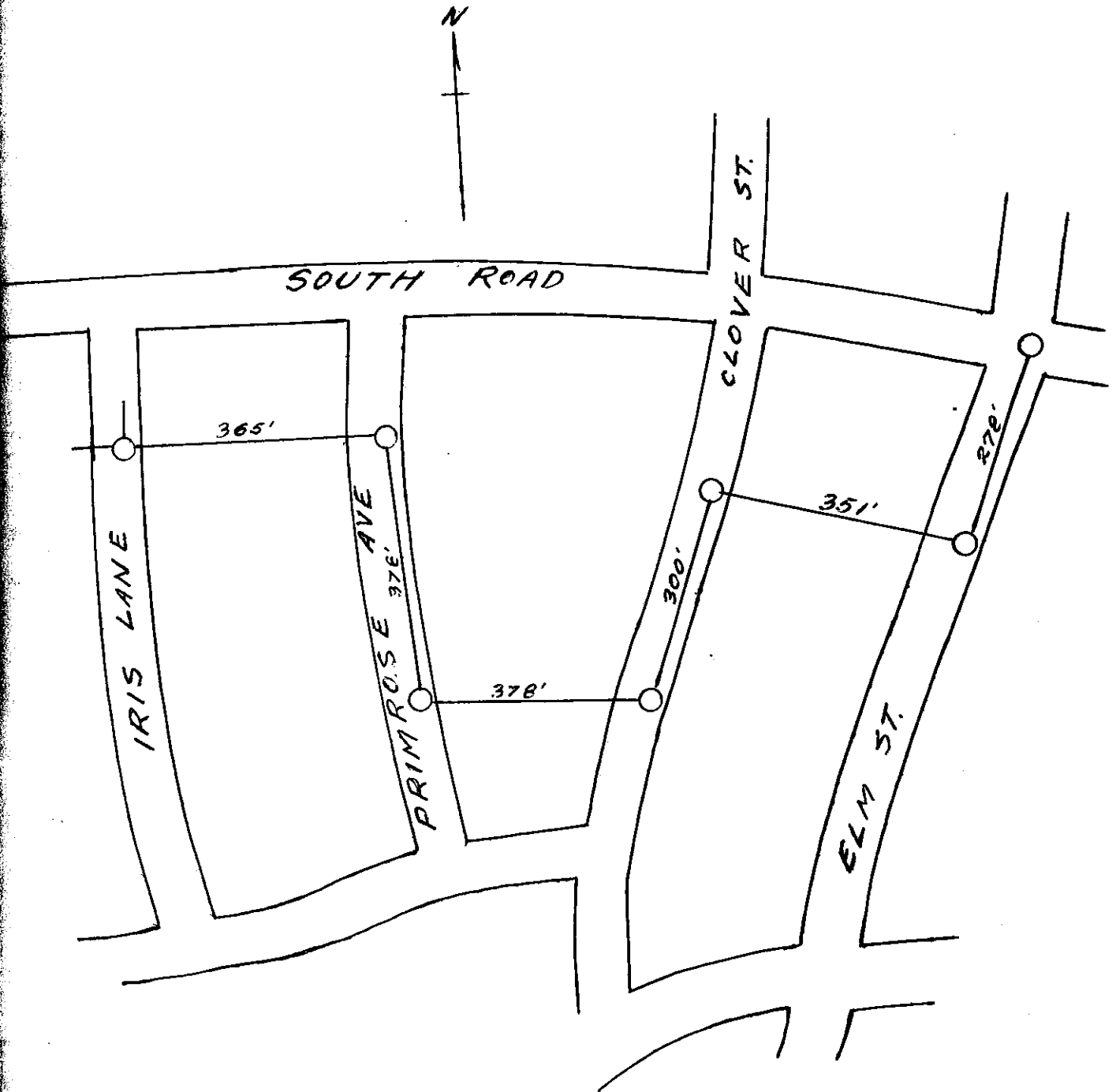
Lot width average 84'

84' x \$4.04 per ft., each lot \$339.50

Cost of sewer excess to be recaptured per lot, \$339.50, or \$4.04 per foot.

This computation is made to reduce the excess sewer cost to its burden on the recorded lots. All computations are bare field cost.

EXCESS SEWER  
SOUTH OF SOUTH ROAD



The excess sewer west of Iris Lane is necessary as it serves the entire subdivision.

The excess sewer south of South Road serves lots in Unit #12 plus nine lots not recorded.

The lots south of South Road will be the last to be developed within present recorded units. Development may be within one year. This portion of excess sewer cost will be the first to be recaptured.

The sewer from South Road and Lenox Road to the disposal plant, a distance of 4,850 feet at \$6.70 per foot, or \$32,490, must be absorbed in the 558 lots, at \$58 per lot. This credit may be given as sales progress, but is not given credit in the calculation of the 159 lots now being improved. This sum also may be recaptured from tie-ins on Lenox Road and River View Road to the disposal plant. The end result could be profitable.

#### NET COST OF LOT IMPROVEMENTS WITHOUT EXCESS SEWER

##### Recapitulation

Sanitary sewer cost	\$91,041.05
Excess cost	<u>53,977.50</u>
Sewer cost net to 159 lots	\$37,063.55
Sewer cost net to 159 lots	\$ 37,063.55
Water main	47,664.55
Storm sewer	49,762.50
Paving	64,894.48
Curb and gutter	38,340.00
Sidewalk	<u>47,925.00</u>
Total cost of improvements, net	\$285,650.00
Net cost to 159 lots, each	\$1,797.00
Per front foot average 84' lot	20.39 per ft.
Excess sewer cost	\$53,977.50
Lots remaining to serve	399
Recapture value of each lot	\$135.30
Recapture value per 84' lot	\$1.61 per ft.
FURTHER POSSIBLE RECAPTURE (PROFIT)	\$32,490.00

Sewer from Smith Road and Lenox Road to disposal plant, 4,850 feet, of which 3,500 lineal feet may serve existing lots. If 7,000 front feet were served, charge would be \$4.64 per foot. All computations are bare field cost; no carrying charge, fees, interest, overhead or profit added.

## RECAPITULATION

Cost to improve 159 lots

Sewer, water, curb, streets and walks, with excess sewer cost withheld,	\$53,977.50
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Sanitary sewer	\$37,063.55
Storm sewer	49,762.50
Water main	47,664.55
Street paving	64,894.48
Curb and gutter	38,340.00
Walks	<u>47,925.00</u>
Total	\$285,650.08

Net to 159 lots	\$1,797.00 bare field cost
Cost average 84' lot	\$20.39 per ft.
Excess cost sewer (page 12)	<u>\$4.04</u> per ft.
Total bare field cost	\$24.43 per ft.

COMPUTATION AS HOME DEVELOPMENT WITH LOTS IMPROVED  
WITH RECAPTURE OF EXCESS SEWER COST

Recapture of lots with sewer, water, street, curb, walks and storm sewer

Cost of improvements (see page 14)	\$285,650.00
Engineering and supervision, 10%	28,565.00
*Interest, 6 months, 6%	9,426.00
Repairs and replacements, 2%	6,284.00
Developer's overhead and profit, 20%	<u>57,000.00</u>
	\$386,925.00

\*Time, 1 year, 1/2-year average investment

Improvements, 159 lots per lot, average lot size 84.1'x145'	\$2,435.00
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Excess investment

31 lots with sewer only, 2,150' in present subdivision	\$13,442.50
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Excess sewer for future subdivision, 6,050' west of Iris Lane	<u>40,535.00</u>
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Investment to recover. Sewer required to serve 159 lots fully improved and necessary to serve total subdivision of 558 lots	\$53,977.50
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Partial completion

Cost of land and improvements per foot after recovery of \$53,977.50

Land cost (page 17)	\$867.00	average 84' lot	
Improvement cost	<u>\$2,435.00</u>	average 84' lot	
Summation	\$3,302.00,	or \$39.30 per ft.	
Sales price, 75'x145'@ \$65 per ft=	\$4,875.00	84'x145'@\$65 per ft.=	\$5,460.00
Cost to sell, 10% on land portion	<u>487.50</u>		<u>546.00</u>
Net to developer	\$4,387.50		\$4,914.00
Cost to developer, 75'@\$39.30 per ft.	<u>2,947.50</u>	84'@\$39.30 per ft.	<u>3,302.00</u>
Profit	\$1,439.50		\$1,612.00

Selection of average cost of \$2,435 for land improvements and same land price may distort profit. Additional lots are not reflected in reduced per lot cost, and at same sales price per foot will cause less profit. This error in computation should be avoided. If the average lot is 84 feet and the cost to improve per lot is \$2,435, then the cost per foot of \$29 per foot must be used. The size of the lot does not change basic cost per foot. The sales price per foot can change with lot size according to the lot size requirement as a unit of land suitable for the house which is to be constructed.

Examples:	<u>Lot Size</u>	<u>Price</u>	<u>Per Foot</u>
Lowest	70'	\$4,900	\$70
Average	84'	5,460	65
Highest	100'	6,000	60

Purchasers are willing to pay higher prices per foot unit price for adequate size lot and usually less per foot unit price for larger parcels. The market will govern.

Profit Computation:

<u>Lot Size</u>	<u>Cost</u>	<u>Sales Price</u>	<u>Cost to Sell</u>	<u>Net</u>	<u>Profit</u>
70'x145'	\$2,751	\$4,900	\$490	\$4,410	\$1,659
84'x145'	3,281	5,460	546	4,914	1,633
100'x145'	3,930	6,000	600	5,400	1,470

The necessity for proper distribution of lot sizes is illustrated. Land planning must be carefully studied.



COMPUTATION AS LOT IMPROVEMENT DEVELOPMENT  
BEFORE RECAPTURE OF EXCESS SEWER COSTS

Lot cost	\$2,000 per acre
Interest, 2 years, 12%	\$240 per acre
Taxes, 2 years	<u>\$40 per acre</u>
	\$2,280 per acre, 2.63 lots to acre
2.63 lots to acre, 84'x145'	\$867 per lot cost

Lot size		
	75'x145'	10,875 sq. ft.
Street	75'x35'	2,625 sq. ft.
Corner	8'x35'	280 sq. ft.
	Average 11 lots to block; streets and corners balance out.	

Land use per 75' lot,	13,780 sq. ft. + 1,320 sq. ft. = 15,100 sq. ft.
Land use per 80' lot,	14,680 sq. ft. + 1,320 sq. ft. = 16,000 sq. ft.
Excess Maple Avenue and Route 53	1,320 sq. ft. per lot
Average 3 lots to acre	43,560 sq. ft. per acre
88/100 of an acre	14,374 sq. ft.

Illustrates smaller lot gives more lots per acre.

Average size lot, 84'x145'	12,180 sq. ft.
Street, 84'x35' balance out	2,940 sq. ft.
Corner, 8'x35' balance out	280 sq. ft.
Total lot area	15,400 sq. ft.

Excess Maple Avenue and Route 53	1,320 sq. ft. per lot
Total square feet per lot	16,720 sq. ft.
2.63 lots x 16,720 square feet per lot	43,973 sq. ft.
1 acre square footage	43,560 sq. ft.

## RECAPTURE, Raw land improved cost and profit

Cost	\$867 per lot
Profit	\$867 per lot
Sales cost	\$175 per lot
Improvements (Page 7)	<u>\$2,883</u> before recapture of sewer excess
84' lot	\$4,792 = \$57 per ft.
Sales price of average 84' lot	\$5,500 = \$66 per ft.

Corner and larger lots will average out.

Lots in home development (Page 7) contemplate recapture of sewer investment by future development. Recapture of improved investment in home development does not have same risk as land development.

Sales price of \$5,500 gives developer over-all profit of \$1,575, to wit: land \$867, profit \$708, against \$1,612 for home developer. Land developer may recapture profit in sewer excess cost. Home developer must recapture \$53,977.50 in land profits. A land developer who sells to builders rarely sells out 100%, whereas a home builder who develops will continue the construction of homes until the subdivision is sold out completely. A subdivision with a home building program is more attractive to the public, and as building progresses, sales will continue until completion. A land development and sales project loses its impetus after 80% of the lots are sold unless a building program can maintain interest.

The hazard and proof that profit lies in the last lots sold is illustrated as follows:

Sales price, 558 lots at \$5,500 each	\$3,069,000
80% sales income	\$2,455,200

Cost of 558 lots improved is:

Land	\$867 per lot (see page 17)	
Improvements	<u>\$2,883</u> (see Page 7)	
Total	\$3,750 per lot	
Total investment, 558 lots at \$3,750 per lot		\$2,092,500
Potential profit less carrying charge		\$353,020



## CONCLUSIONS

From the foregoing analysis and statistical information on the cost to develop unimproved land to improved homesites, several conclusions may be drawn. The following are the more important:

1. A complete analysis of the proposed project by competent engineers should be made, and the cost to make utility installations should be obtained, prior to the purchase of land. The cost to obtain estimates and the cost of an option to purchase land are well worth their cost for the opportunity to carefully study the project before proceeding.
2. The topography of the land can cause the installation cost of principal water mains and sewers to be excessive, and cause an average cost of installation per front foot which may not be compensated in the sale price of improved lots.
3. The adjacent utilities may require connections which are costly. The cost to cross or bore through concrete highway improvements is excessive in relation to the cost to dig. The replacement of concrete highways requires special treatment, fill and fees.
4. Available utilities must be adequate in size to take care of additional loads; and if not adequate in size, must be increased at a cost which is a burden to the property.
5. The developer must consider the most profitable use of his project. The project may be treated as a subdivision for the sale of improved lots to builders at a retail price, or as a development which plans a home building project. Both projects have hazards peculiar to each type of operation.
6. Land development requires a keen perception of the future market for homes and homesites. A project which extends over a period of years has the hazard of changing markets and economic conditions.
7. The profit margin used in this analysis is a minimum. The hazards of land development are proportionately greater with the size of the project and the time expectancy for development. The carrying charges of interest, taxes and overhead expenses rapidly absorb normal expected profits.
8. Prior to the purchase of land, the developer should ascertain the location of existing utilities. If water and sewer connections and storm drainage are not adjacent to the property, the excess cost to make distant connections and the time to recapture this excess expense causes extra charges which reduce profits to a minimum.
9. Land development and sale of vacant improved lots have a market for use rather than for speculation. The public is well acquainted with the speculative excesses of former years and is not inclined to purchase land for profit opportunities. Land with an immediate use is purchased by the public, and not for land enhancement or speculation.