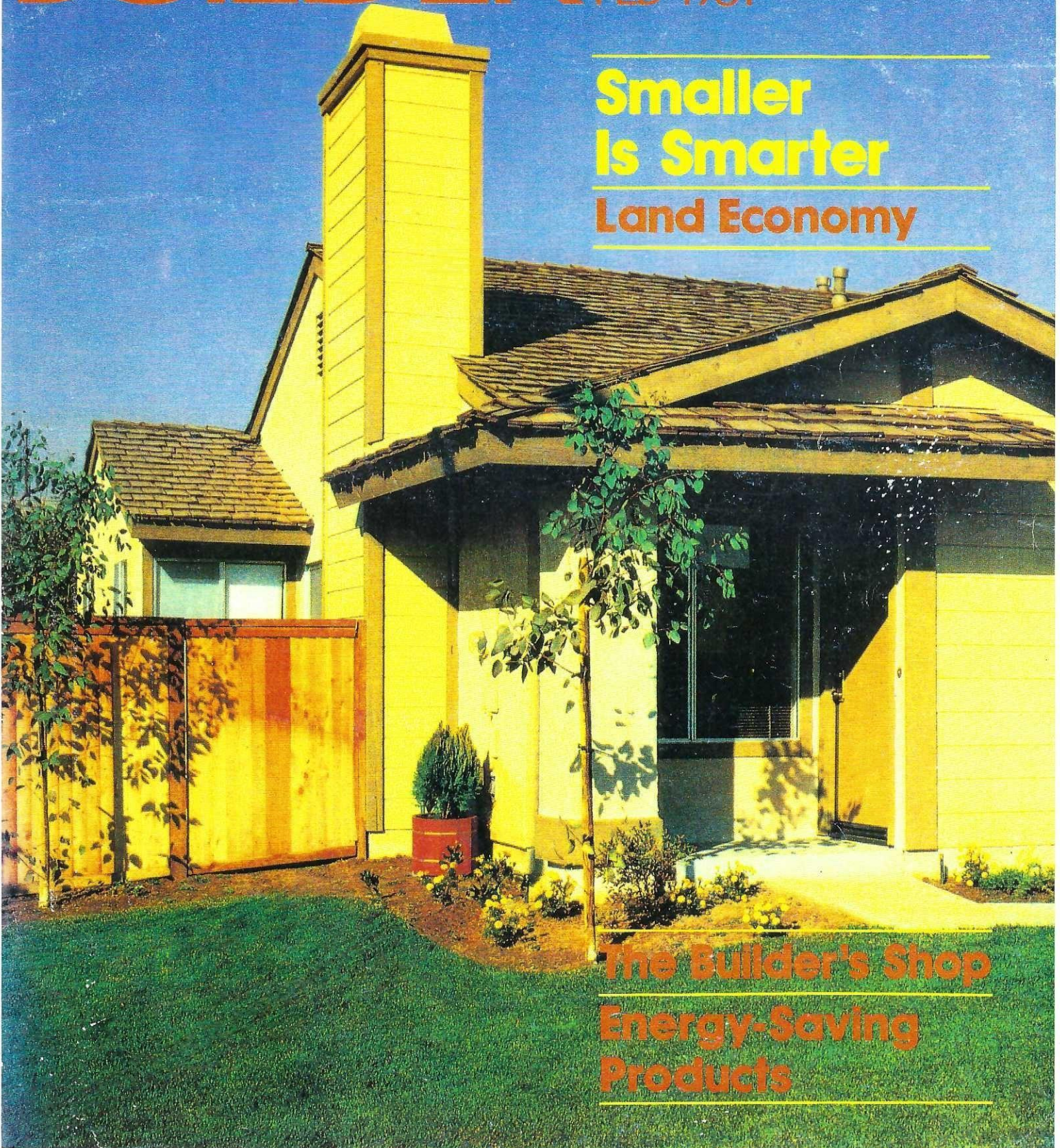


PROFESSIONAL BUILDER

APARTMENT
BUSINESS
FEB. 1981

**Smaller
Is Smarter**

Land Economy



The Builder's Shop

**Energy-Saving
Products**

FIXED PROFIT HOLDS COST AT \$25 A SQUARE FOOT

An adversary relationship between government officials and builders often hinders movement toward a goal both parties really want: smaller and more affordable housing.

Government officials many times suspect that any cost cutting measures will add as much to the builder's profit as they will cut the sales price of a house.

But Acacia Construction Co. has found a way to remove those suspicions. Jim Soules, president, agreed to fix the firm's profit on a 33-unit project called Portola Place to a maximum of \$6000 per unit or 8.4 percent of the sales price. He also agreed to make an item by item

cost breakdown public.

The detached units at Portola Place range from 1096 to 1290 square feet and sold for \$66,900 to \$73,900.

The fixed fee concept was the catalyst that made this project possible, Soules said. Since the city of La Habra knew that any cooperative effort would benefit the home buyer "the company's status changed from a speculative developer to a professional builder," he emphasized. The result was a reduction in cost per house of between \$3000 and \$4000, Soules said.

In addition to letting the city check that the profit did not go higher, the public



disclosure provided an opportunity for Acacia to educate city officials on what factors contribute to the cost of a house. Acacia showed city officials that the actual material and labor to construct the houses at Portola Place accounted for 42 percent of the average sales price.

The cost was \$24.70 per living square foot. This public accounting demonstrated that the majority of the costs were variable costs such as fees, public improvements, financing and carrying costs, Soules said. This kind of public accounting can open up a good market opportunity for builders in the present uncertain economic times. The risk is

relatively low since buyer demand for affordable houses is great.

After Acacia received 446 applications during three weeks, the company held a lottery in the latter half of last year on the steps of city hall to sell the 33 units.

A restriction forbidding resale for two years was utilized to discourage speculators. Purchasers were limited to an income of under \$30,000, and they were not allowed to own other residential property.

Financing came from HUD section 245 graduated payment mortgages. The interest rate was the standard FHA figure of 13.5 percent. No government

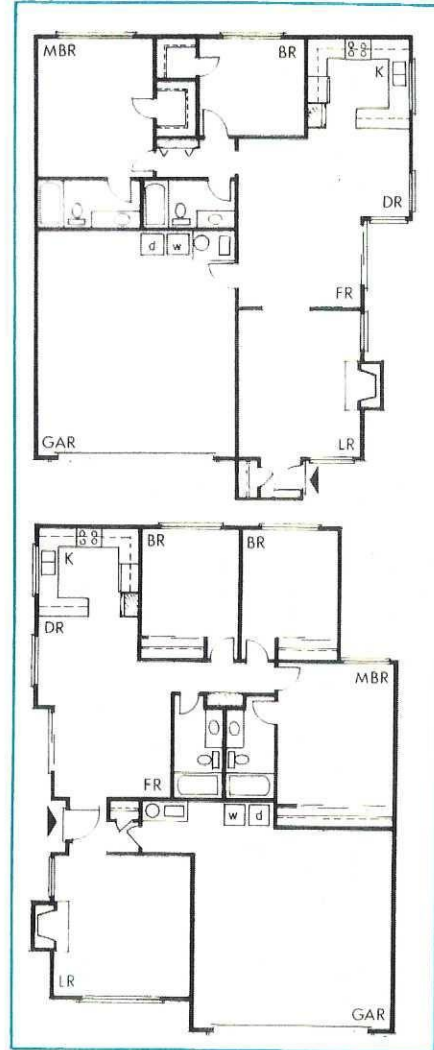
subsidy was involved.

The land price of \$9544 per house, or \$63,438 per acre, was an essential factor in the feasibility of Portola Place, Soules said. The Union Pacific Railroad sold the project site to Acacia with the understanding that an affordable housing project approved by the city of La Habra would be built.

Since sales prices were set prior to all costs being known, additional savings were passed on to the buyer after the close of escrow in the form of a payment applied to the loan principal. That turned out to be \$618 per house, compared to the originally projected \$491. □



PHOTO: DAVE ROSS



Affordable houses at Portola Place in La Habra, Calif. included such quality features as shake roofs. But to eliminate association maintenance expenses Acacia Construction used a conventional subdivision with 55 by 80 foot lots and zero side yard design. The density was 6 units per acre. Floor plan sizes range from 1096 square feet (top) to 1255 square feet (above) to 1290 square feet (not shown).