STAFFORD
DEVELOPMENT COMPANY

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Ms. Wendie L. Kellington
Attorney at Law
525 3rd Street, Ste. 209
P.O. Box 159
Lake Oswego OR 97034

Re: *Land Acquisition Costs as a Percentage of Total Project Costs*

Dear Ms. Kellington:

Thank you for reaching out to me regarding your questions pertaining to land acquisition costs for residential development. As you know, I presently serve as in-house General Counsel and Land Development Manager Stafford Development Company, a premier Oregon-based development and homebuilding firm. Prior to this, I was as a licensed general contractor and residential home builder, and acted as a project manager for several civil engineering firms and regional home building companies where I managed more than several dozen residential and commercial development projects over a period of 15 plus years. I also served as an Administrative Law Judge and Program Coordinator for the State of Oregon Building Codes Division.

Specifically, you have related to me that you have stated to the City of Cannon Beach that if the City limits your client to a 600 sf dwelling on a lot valued at roughly 1 million (+/-) dollars, that such action would constitute a regulatory taking of your client's real property. You further noted that opponents have responded to your takings argument by noting two examples of Cannon Beach properties that sold in the last year, where the improvement value of those properties only represented 7.5-10% of the total property value. The opponents suggest that these two properties demonstrate that there is no taking of property if the city limits the landowner to building improvements which are 7-10% of land costs.

I looked up the two properties raised the opponents and noted the following information available from sources such as Zillow.com and Realtor.com:

Address	Sq footage	Land Value (2020)	Improvement Value (2020)	Description
4688 Logan Lane Cannon Beach, OR 97110	1112 sf. total (576 sf. ff 336 Loft 200 sf. Acc.) Lot Size .63 acre	$1,288,115. 00	$145,716.00	1966 Construction, two buildings 3 bdrm / 2 bath (second building is accessory dwelling with carport) 2019 sale for $1,215,000.00
285 W Tanana Ave, Cannon Beach, OR 97110	1065 sf. dwelling on 4,792 sf Lot	$1,074,487.00	$88,445.00	1911 Construction 3 bdrm / 1 bath 2020 Sale for $899,000

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Traditionally, the cost of a typical vacant residential lot with utilities has been roughly 25% of the total project cost. For example, if you have a total project budget of $400,000, you should expect to pay $100,000 of that amount for the vacant land (25% of $400,000 is $100,000.). This traditional ratio has changed in recent years due to factors such as increasing lot prices, escalating construction costs, permit and SDC fees, and the increased demand for smaller homes. Therefore, there are times where the cost of a vacant residential lot with utilities has been roughly 30-33% of the total project cost.

However, Cannon Beach is a destination location, and property values reflect the unique views of the ocean and of key viewing features such as Haystack Rock. Thus, vacant lot prices may command significantly higher prices, but only if they can deliver homes equivalent to the investment required to buy the lot. For properties in destination locations such as Cannon Beach, the lot value will often be at parity with, or somewhat below, the expected value of the improvement (i.e. dwelling) to be developed on the property. Examples of this can be found in the Chapman Point No 2 subdivision, where lot prices for oceanfront lots are valued between $1-2 million dollars, and improvement values (the value of the homes) are also are in that same range.

The dwellings on these two aforementioned lots are old: 1911 and 1966 vintage. From a development standpoint, we would view the lots set forth in the table above as candidates for teardowns. If those lots are valued at the 1 million dollar +/- price point, they would only be of interest to us if they could be developed with a reasonably sized home - 2000 sq ft or larger, with a garage to keep cars out of the punishing elements. As a general rule of thumb, a teardown is viable if it can support a new house with adequate amenities (i.e. a garage) worth an amount that is close to the value of the lot.

What your opponents fail to understand is that no rational investor would buy an undeveloped residential lot in Cannon Beach for 1 million dollars unless they could construct a home of at least 2000 sq. ft. +/- on that lot. Thus, if regulatory burdens make what would otherwise be a 1 million dollar lot either undevelopable or developable with a very small dwelling, the net effect of the regulations is to reduce the value of the lot to well below a 1 million dollar value. In the case of your client's property, applying the setback in manner that only allows the construction of a 600 sf dwelling would render the lot valueless to anybody except to your adjoining neighbor opponent, who might have an interested in increasing the size of their own lot.

Thus, in my opinion, these two referenced lots do not have any relevance as to whether building restrictions constitute a taking. The dwellings on these lots are 54 and 109 years old, which again makes them economically viable as tear downs. Retaining the existing dwellings would be irrational and make no financial sense. But to your question, if an investor were unable to tear down the old houses and replace them with new homes that contained a minimum of 2,000 sq. ft. of interior living space plus a two-car garage, I cannot envision any circumstances in which a rational investor would consider or be willing to pay 1 Million dollars or close to it for such lot. In other words, the lot value would be significantly reduced below the 1 million dollar value the County ascribes to it.

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Please feel free to contact me directly if you have any additional questions regarding this matter.

Very truly yours,

Bryan Cavaness
General Counsel
Stafford Development Company