The logo for RCLCO is displayed in a large, bold, sans-serif font. The letters 'R', 'C', and 'L' are solid black, while the 'O's are white with a black outline. The logo is set against a light beige, textured arrow-shaped background pointing to the right.

RCLCO

SPECIAL REPORT

MASTER-PLANNED COMMUNITIES
2016

50

TOP-SELLING MPCs

HIGHER SALES
WITH SEGMENTATION

A LOOK BEHIND BEST STRATEGIES

CONTACTS

Gregg Logan, *Author*
(407) 515-4999 | GLOGAN@RCLCO.COM

Todd LaRue, *Author*
(512) 215-3157 | TLARUE@RCLCO.COM

Joshua A. Boren, *Director of
Business Development*
(310) 984-1757 | JBOREN@RCLCO.COM

RCLCO SENIOR EXECUTIVES

Gadi Kaufmann
Managing Director/CEO

Leonard Bogorad
Managing Director

Adam Ducker
*Managing Director/Director of
Urban Real Estate*

Bob Gardner
Managing Director

Charles Hewlett
*Managing Director/Director of
Strategic Planning*

Todd LaRue
Managing Director

Gregg Logan
*Managing Director/Director of
Community & Resort*

Taylor Mammen
Managing Director/Director of Institutional

Scott Price
Managing Director

MASTER-PLANNED COMMUNITIES 2016 SPECIAL REPORT

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ABOUT RCLCO

Now celebrating our 50th anniversary year, RCLCO (formerly Robert Charles Lesser & Co.) is the “first call” for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development. RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over 50 years and thousands of projects—touching over \$5 billion of real estate activity each year—RCLCO brings success to all product types across the United States and around the world. Learn more about RCLCO at www.rclco.com.



ABOUT THE AUTHORS

This RCLCO Special Report on Master-Planned Communities 2016 was co-authored by a team of RCLCO leadership, including Gregg Logan, Todd LaRue, and Brian Martin.

Since joining RCLCO in 1979, Gregg has helped clients make the best development, investment, and planning decisions for their real estate. As a market specialist, Gregg helped create ULI's *Ten Principles for Developing Successful Town Centers*, and is a contributing author of ULI's *Transforming Suburban Business Districts*, *Active Adult Retirement Communities*, and *Housing for Niche Markets*. He is an active public speaker and currently teaches Real Estate Economics at Rollins College Hamilton Holt School.

Todd joined RCLCO in 2004 and leads the Austin, Texas, office. He primarily focuses on providing strategic guidance for master-planned communities, high-rise mixed-use developments, resorts, and other complex land-use challenges. For these engagements, he conducts highest-and-best-use analyses, market opportunity analyses, economic development assessments, financial analyses, fiscal impact analyses, metropolitan growth trends analyses, and various other analytical tasks. Todd serves on ULI Austin's Advisory Board and the Community Development Council (CDC-Silver), and has been a guest speaker at numerous real estate industry events.

Brian is a Vice President at RCLCO and specializes in residential and commercial development. His expertise includes managing engagements in market feasibility studies for a wide variety of development projects. He provides guidance on financial modeling assignments to allow clients to understand the full financial implications and profit potential for their development projects.





BACKGROUND

In preparation for analyzing the 2016 MPC Survey results, we looked back at trends over the last several decades.

RCLCO's Master-Planned Community Survey is the longest running in the industry, and as such benefits from our unique and exhaustive historical perspective. Every year since 1994, RCLCO has conducted a national survey identifying the top-selling master-planned communities (MPCs) across the country. We recently conducted our 2016 MPC Survey to determine the 50 top-selling communities in the nation and examined key current and past trends.

Over the past two decades master-planned communities have tended to become smaller, due in part to the challenges of acquiring, holding, and financing very large parcels of land for development. So a key trend that emerged over the past 10 years has been the increasing number of smaller MPCs on the top-selling list, in contrast to 1994 to 2005 when larger communities dominated the lists.

From 1994 to 2005, the 10 top-selling MPCs in our survey achieved an average annual combined sales of approximately 16,000. Those years were dominated by large MPCs such as Highlands Ranch (22,000 acres), Summerlin (22,000 acres), Weston (17,000 acres), and The Woodlands (28,000 acres).

From 2005 to 2015, the top-selling communities sold an average annual combined 8,000 homes. During this time period, MPCs such as The Villages, Cinco Ranch, Irvine

Ranch, Providence, and Mountain's Edge dominated the rankings, with newcomers such as Lakewood Ranch, Nocatee, and Lake Nona gaining momentum over the past several years.

Increasing land and construction costs have driven developers to create smaller MPCs than those seen in the 1990s and early 2000s. For example, Lake Nona is 7,000 acres, in contrast to The Woodlands' 28,000 acres. New communities that are large by today's standards pale in comparison to the massive MPCs of the past decades. For example, Nocatee at 13,000 acres is one of the larger, recently developed communities, yet it is only one-half the size of The Woodlands.

The geographical concentration of the top-selling master-planned communities has also shifted over time. Since 2006, the share of top-selling communities that are located in Florida and Texas has grown substantially. Arizona, on the other hand, has seen its share of the 10 top-selling communities decline, particularly since the end of the Great Recession. However, Arizona continues to be a popular retirement destination and is prominently represented in our top-50 list for 2016.

In the 1990s, Texas accounted for only 10% of the 10 top-selling communities, but since 2010 it has increased its share to an average of 32%. Texas emerged from the Great Recession much quicker than Arizona and Florida, in part because the Texas economy was much less affected by the downturn due to the dominance of the energy sector and the less dramatic home price bubble prior to the recession. Lower land prices and the availability of large tracts for development close to employment centers have also contributed to Texas' increasing share of the top-selling MPCs. Even with oil prices considerably lower than a few years ago, strong in-state migration continues to fuel population growth, and along with it the demand for high-quality housing in highly amenitized MPCs close to major employment centers.

Arizona's shrinking share of the 10 top-selling MPCs, dropping from a peak of 17% in the 1990s, is also shown in the chart below. The large 1990s Arizona active adult communities have been built out and have not been replaced. Meanwhile, Florida has increased its share from 15% during the 1990s to 25% in the 2010s. Nevada has remained fairly constant over the years, with between 17% and 24% of the 10 top-selling MPCs over the past two decades. California has seen its share of the 10 top-selling MPCs decline from 27% to 15% over the past two decades due to many large-scale communities nearing or reaching build-out. While many consumers are willing to pay a premium to live in master-planned communities, acquiring, financing, and executing them has proved challenging, particularly for very large communities. Although opportunities exist and demand is still strong, there has been a shift to smaller communities.

The largest communities have made the most appearances on our top-selling communities lists year after year. The

22%

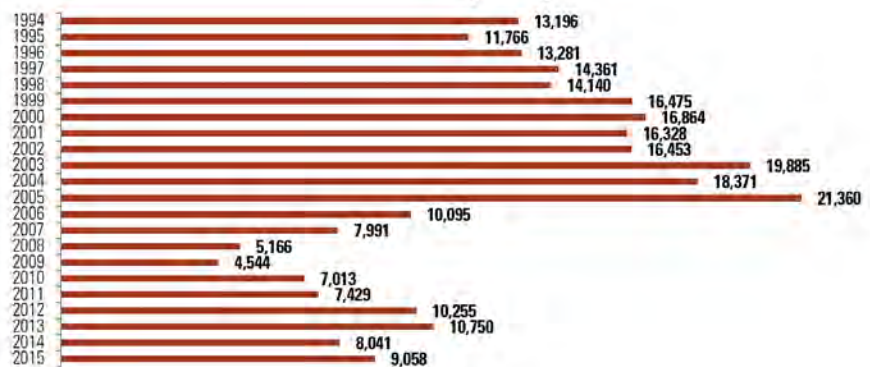
Increased Texas Presence of the Top 10 MPCs since the 1990s

10%

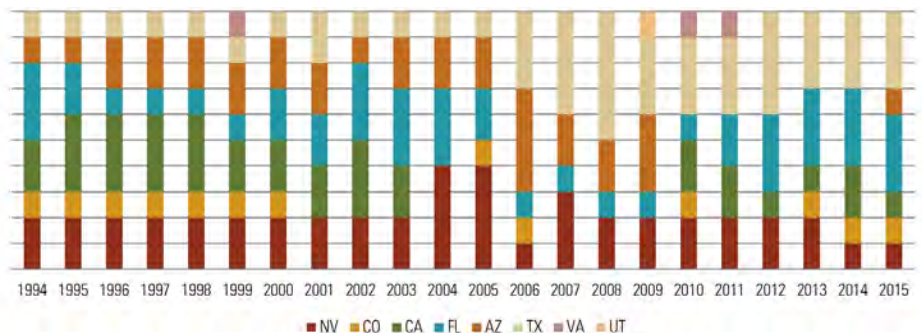
Increased Florida Presence of the Top 10 MPCs Since the 1990s

Woodlands leads the pack with 20 appearances on our list, followed by the Sun City communities with 17, Irvine Ranch with 16, and The Villages with 16. The staying power for these communities to appear in our top 10 rankings year-after-year is a credit to the excellent planning, design, location, scale, and execution that went into developing these communities. Regarding where 2016's 50 top-selling MPCs are located - Texas accounts for 36% of the communities, with 22% in Florida, 10% each in California and

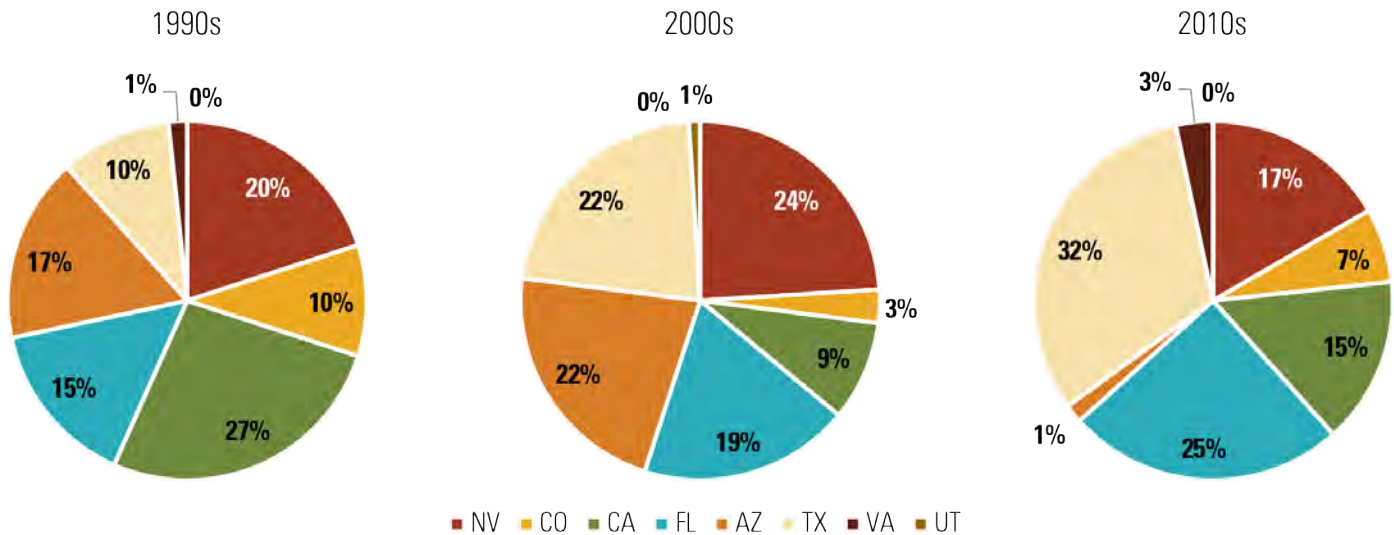
Total New Sales of 10 Top-Selling MPCs



Location by State for Top-Selling MPCs



Location by State for 10 Top-Selling MPCs by Decade



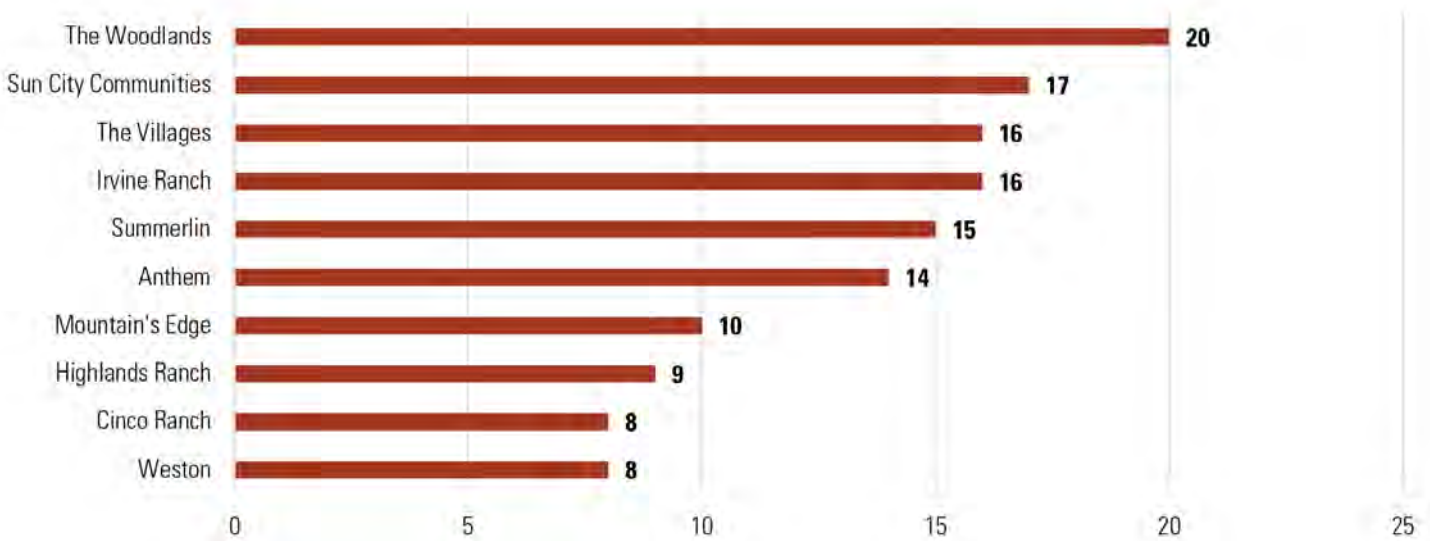
Nevada, and 8% in Arizona.

To be included in our ranking, MPCs must have a number of features. True MPCs are developed from a comprehensive plan by a master developer, and incorporate a variety of housing types, sizes, and prices, with shared common space, amenities, and a vital public realm. The best examples of MPCs are developed with a strong vision and comprehensive plan that guide development and unify the community through distinctive signage, wayfinding, entry features, landscaping, and architectural/design standards. Beyond the built environment, MPCs differentiate themselves from typical suburban subdivisions in that they provide a means for interaction among neighbors in the sense of the word “community.” They foster an environment within which generations can live better in terms of housing and the community environment, and

many offer educational opportunities, neighborhood shopping and services, and even employment centers to complement the residential neighborhoods. Although rooted in a vision, the most resilient MPCs have flexible master plans that are environmentally sensitive, market responsive, and nurture the lifestyles of their residents.

Given the above criteria, we do not include the collective sales of multiple, separate communities that are unified only through marketing efforts rather than a preconceived community vision, nor do we include communities that are a collection of subdivisions that have few unifying elements other than consistent signage and name.

Number of Times Appearing on RCLCO’s 10 Top-Selling MPC List

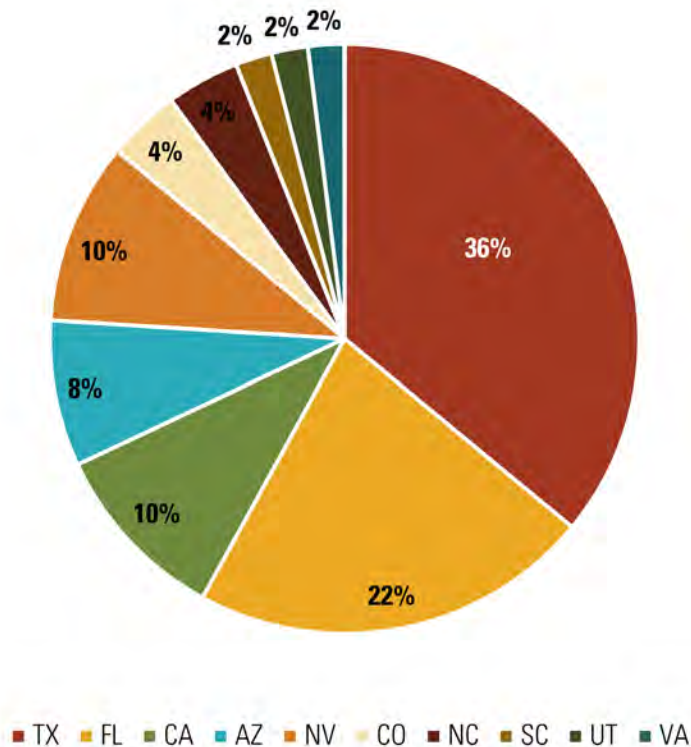


CELEBRATING 50 YEARS

As we commemorate a half-century of excellence and dedication to providing strategic, actionable insights, RCLCO is proud to present new initiatives that will honor the core values that have defined us as a firm. Learn more about these and explore an interactive timeline of our history at www.rclco.com/50-years.



Top-50 MPC Locations for 2016





THE TOP-SELLING MASTER-PLANNED COMMUNITIES OF 2016

Home sales at the nation's 20 top-selling master-planned communities (MPCs) surpassed 2015 totals by 6%, with 20% of communities experiencing more than 40% growth in sales. Texas, Florida, and California continue to be hot markets and accounted for 60% of the 20 top-selling communities with each state containing four of the top-selling MPCs. Orange County, California's Irvine Ranch sold 1,989 homes in 2016, marking the first time in 14 years that The Villages (Ocala, Florida) did not top our rankings.

MPCs that achieved increases in sales generally credit successful market segmentation—the targeting of various age, income, and household segments with appropriately priced and designed residential product types and lifestyle amenities. Developers of communities that experienced slower sales typically cited reduced lot inventories, upward pressure on prices, fewer moderately priced homes, and delays in home completions as the primary culprits. Communities generally anticipate 2017 lot and home sales to continue at a similar pace to 2016, with continued job growth as the strongest driver of home demand.

One of the most prevalent features of the top-selling MPCs is the inclusion of mixed-use districts, which tend to be heavily

food-oriented and typically include other convenience retail and services supportive of daily living. Another common attribute of the most successful communities is the availability of various healthy community features, including fitness classes, active lifestyle activities, and easily accessible parks and multiuse or dedicated paths and trails that offer a variety of experiences depending upon fitness level, use (biking, walking, running, hiking), and proximity to nature. A few of these MPCs also include a local farm-to-table component that capitalizes on the strong interest in healthy locally grown food, which serves as a means to bring community residents together and establishes a distinct community culture.

In terms of age segmentation, MPCs are targeting Millennials and active adults/empty nesters in roughly equal numbers, both with their product offerings and in their marketing efforts. Lakewood Ranch (Sarasota, Florida) is adding more urban and attached products specifically to increase their share of Millennials by offering both a lifestyle and price point attractive to this generation. Eleven of the 20 top-selling communities have active adult community components. Methods of outreach vary, with the active adult component advertised through traditional media channels, while marketing to

THE TOP-SELLING

MPC OF 2016

WITH 1,989 SALES IS...

IRVINE RANCH

Overall, the 20 top-selling MPCs sold 6% more homes in 2016 than in 2015.

11 of the 20 top-selling have active adult communities.

Millennials uses social media along with internet advertising in Millennial-targeted channels. Of course, Gen Xrs continue to account for a large share of MPC buyers.

Multigenerational products are also being offered at several MPCs to meet an increase in demand for home types suitable for several generations living under the same roof. Inspirada (Las Vegas, Nevada) offers multigenerational homes within their Bella Verdi neighborhood to accommodate the increasing number of Millennials living at home in addition to grandparents living with their children. Verrado (Phoenix, Arizona) also offers multigenerational homes that feature multiple master suites.

Single-family detached and attached rental products are also beginning to gain traction in some MPCs. Examples include the BB Living Luxury Rental Communities at Verrado and Vistancia (both in the Phoenix market), and the planned single-family rentals to be constructed around the elementary school at Tehaleh (Bonney Lake, WA) in 2017. These rental products



attract a wide range of consumers, from families ready to move out of an apartment who cannot yet afford to purchase a home, to downsizing empty nesters who like the low-maintenance option of renting but still desire the MPC setting. In addition to single-family and attached rental products, traditional multifamily rentals are a big part of MPCs, with 50% of our top-20 list offering apartments within their community. By having a variety of rental residential products, these MPCs are able to offer the MPC lifestyle that is attainable to renters, some of whom will ultimately convert to buyers within the community, while also diversifying the look and feel of residential neighborhoods. Furthermore, developers are able to accelerate land sales and add a source of recurring income for those who self-develop, own, and operate the units, such as Tavistock in Lake Nona (Orlando, Florida).

MPCs continue to creatively diversify their amenity offerings to attract buyers and retain residents. Excellent examples include:

- » Eastmark (Phoenix, Arizona), where the developer recruited children to design their own urban playground called the Orange Monster;
- » Lake Nona (Orlando, Florida), home to the United States Tennis Association's National Campus, which contains over 100 tennis courts;
- » Nocatee (Ponte Vedra, Florida), with a water park complete with a nearly 400-foot zip line located 35 feet off the ground where riders can reach speeds of 37 mph;



- » The Polo Club at Lakewood Ranch (Sarasota, Florida), which offers world-class polo fields along with three 24-stall barns and a clubhouse for members; and
- » Daybreak (Salt Lake City, Utah), which contains more than 300 gardening plots scattered throughout the community, along with six community gardens.

The following list ranks RCLCO's 50 top-selling communities of 2016, with a comparison between 2016 and 2015 new home sales shown for the top 20 communities. Irvine Ranch was the top-selling MPC in the country in 2016 with 1,989 sales, taking the top spot from The Villages which has garnered the number one ranking for the past 14 years. The reduced sales volume at The Villages is consistent with the trend line they have experienced over the last several years as they approach build-out. Another consistent star performer, Nocatee, remains in third place, with 973 sales, which is approximately 12% below last year's performance, but is attributed primarily to lack of home and lot inventory rather than a reduction in demand.

Overall, the 20 top-selling communities sold 6% more homes in 2016 than in 2015, with 13,732 sales this year compared to 12,975 last year. Lakewood Ranch, Inspirada, Rancho Mission Viejo, and Great Park Neighborhoods all experienced annual growth in sales by more than 40% over 2015.

50 Top-Selling MPCs In 2016

RANK	MPC	MSA	LOCATION	STATE	2016 SALES	2015 SALES
1	Irvine Ranch	Los Angeles–Long Beach–Santa Ana	Orange County	CA	1,989	1,674
2	The Villages	Ocala	The Villages	FL	1,966	2,294
3	Nocatee	Jacksonville	Ponte Vedra	FL	973	1,105
4	Lakewood Ranch	North Port-Sarasota-Bradenton	Sarasota	FL	775	535
5	Summerlin	Las Vegas-Henderson-Paradise	Las Vegas	NV	769	602
6	Great Park Neighborhoods	Los Angeles–Long Beach–Santa Ana	Irvine	CA	590	282
7	Cane Bay Plantation	Charleston-North Charleston	Charleston	SC	569	520
8	Inspirada	Las Vegas-Henderson-Paradise	Las Vegas	NV	564	389
9	Westridge	Dallas-Fort Worth-Arlington	McKinney	TX	528	472
10	Paloma Creek	Dallas-Fort Worth-Arlington	Dallas	TX	515	450
11	Eastmark	Phoenix-Mesa-Scottsdale	Mesa	AZ	502	554
12	Lake Nona	Orlando-Kissimmee-Sanford	Orlando	FL	495	500
13	Stapleton	Denver-Aurora-Lakewood	Denver	CO	471	665
14	Rancho Mission Viejo	Los Angeles–Long Beach–Santa Ana	San Juan Capistrano	CA	458	302
15	Vistancia	Phoenix-Mesa-Scottsdale	Peoria	AZ	453	466
16	Daybreak	Salt Lake City	South Jordan	UT	452	415
17	Baker Ranch	Los Angeles–Long Beach–Santa Ana	Lake Forest	CA	443	355
18	Riverstone	Houston–The Woodlands–Sugar Land	Fort Bend County	TX	441	609
19	Aliana	Houston–The Woodlands–Sugar Land	Fort Bend County	TX	426	443
20	Verrado	Phoenix-Mesa-Scottsdale	Buckeye	AZ	413	338
21	Bridgeland	Houston–The Woodlands–Sugar Land	Cypress	TX	399	
22	Cross Creek Ranch	Houston–The Woodlands–Sugar Land	Fort Bend County	TX	377	
22	Wildwood at Northpointe	Houston–The Woodlands–Sugar Land	Tomball	TX	377	
22	Miramasa	Houston–The Woodlands–Sugar Land	Cypress	TX	377	
25	Siena*	Austin–Round Rock–San Marcos	Fort Bend County	TX	366	
26	Woodforest	Houston–The Woodlands–Sugar Land	Montgomery	TX	365	
26	Phillips Creek Ranch	Dallas-Fort Worth-Arlington	Frisco	TX	365	
28	Brunswick Forest	Wilmington	Leland	NC	363	
29	Providence	Las Vegas-Henderson-Paradise	Las Vegas	NV	360	
30	Sienna Plantation	Houston–The Woodlands–Sugar Land	Missouri City	TX	359	
31	Summerlake	Orlando	Winter Garden	FL	348	
32	Ave Maria	Naples-Fort Myers	Naples	FL	342	
33	Cadence	Las Vegas-Henderson-Paradise	Henderson	NV	335	
34	Tradition*	Port St. Lucie	St. Lucie	FL	321	
35	Bartram Park	Jacksonville	Jacksonville	FL	318	
36	Towne Lake	Houston–The Woodlands–Sugar Land	Cypress	TX	316	
37	Waterset	Tampa-St. Petersburg-Clearwater	Apollo Beach	FL	315	
37	Mountain's Edge	Las Vegas-Henderson-Paradise	Enterprise	NV	315	
37	Harvest	Dallas-Fort Worth-Arlington	Argyle	TX	315	
40	Briar Chapel	Raleigh	Chapel Hill	NC	314	
41	Viera	Melbourne-Palm Bay-Titusville	Viera	FL	313	
42	Leyden Rock	Denver	Arvada	CO	310	
43	FishHawk Ranch	Tampa-St. Petersburg-Clearwater	Lithia	FL	300	
44	Mayfield Ranch	Austin–Round Rock–San Marcos	Round Rock	TX	298	
45	Light Farms	Dallas-Fort Worth-Arlington	Celina	TX	291	
46	Teravista	Austin–Round Rock–San Marcos	Georgetown	TX	287	
47	Craig Ranch	Dallas-Fort Worth-Arlington	McKinney	TX	283	
48	Brambleton	Washington-Arlington-Alexandria	Brambleton	VA	278	
49	Valencia	Los Angeles–Long Beach–Santa Ana	Valencia	CA	273	
50	Estrella	Phoenix-Mesa-Scottsdale	Phoenix	AZ	270	

* = estimate



TEXAS IN-DEPTH

AFFORDABILITY

PAIRED WITH ORIGINALITY

IN DESIGN & SERVICES

LEAD TO HIGHER SALES

What works and what doesn't in the Texas MPC market.

Although the oil and gas sector continues to contribute to uncertainty in the Houston market, pricing and sales volume remain fairly consistent in the top-selling MPCs over 2016, which may be a surprise to those outside of Houston. Although Houston's economy is still largely energy-dependent, the downstream oil and gas industry is helping to mitigate the large job losses incurred in the exploration and production, or upstream, side of the business. However, multi-billion dollar downstream projects are approaching completion as we head into 2017, which will likely result in further job losses in the construction industry.

A bright spot in the Houston economy is the health services sector, which is growing rapidly as Houston's population continues to increase, though incomes associated with these jobs and other locally serving industries are significantly lower than the jobs lost in the energy industry.

With that said, the energy industry is largely believed to be past the worst of this oil cycle, and strong population growth has supported impressive new home sales in Houston, with two Houston communities ranking in the top-20 (Riverstone and Aliana), and seven other communities in the top-50: Bridgeland, Cross Creek Ranch, Wildwood

at Northpointe, Miramesa, Woodforest, Sienna Plantation, and Towne Lake.

Looking back, Houston was among the first cities to emerge from the economic downturn and occupied eight of the top-20 in 2012 and nine of the top-20 in 2013, but as other markets across the country recovered more recently (or delivered an abundance of new product in supply-constrained Southern California), MPCs elsewhere began eclipsing the performance of many of Houston's MPCs. Other than communities that are built out or approaching build-out, Houston's top-selling communities that were previously represented in the top-20 have maintained sales velocities slightly lower than 2016

despite the economic downturn. Riverstone is the only top-selling Houston community that has experienced a precipitous decline in sales, though this can be attributed to declining inventories at more affordable price points as the community focuses on higher price points in its last remaining development parcels. These top-selling communities in the region continue to be successful with either sophisticated segmentation strategies or an emphasis on more attainably priced products in this environment of more moderate job growth.

Interesting new products and services are emerging from the Houston market. Rise Development Company, developer of two newly launched MPCs (Cane Island and Meridiana), has created air-conditioned “street pantries” attached to each custom home in the estate neighborhoods. The air-conditioned street pantry is code operated, and allows temperature-sensitive packages, laundry, and food to be delivered and kept safe. The same developer has partnered with local farms to deliver fresh produce to the community, a service that is in line with the overarching theme of promoting a healthier living environment.

In the Dallas market, both Westridge and Paloma Creek are in our top-20 list and turned in strong performances for 2016 by offering a variety of more affordably priced products in one of the nation’s most rapidly appreciating housing markets. In addition, four other Dallas communities made our top-50 list: Phillips Creek Ranch, Harvest, Light Farms, and Craig Ranch. These communities are increasingly catering to Millennial buyers, many of whom already live in suburban areas or desire to live in a suburb when they make their next move, according to the just-released ULI and RCLCO report titled *Housing in the Evolving American Suburb*. Since Millennials are increasingly raising families, MPCs that offer family-friendly amenities, as well as attractive price points for more price-conscious buyers, are garnering larger market shares in an area that has experienced a 40% price

increase in the past four years.

In this escalating-price environment, developers and builders are focused on building higher-density, for-sale products that allow communities to hit price points where the market is deep while also offering a low-maintenance lifestyle for buyers seeking less yard upkeep.





FLORIDA IN-DEPTH

THE KEY LOCATION FOR

RETIREES & TOURISM

Florida has continued to see strong growth in new home sales in 2016, with communities such as The Villages, Nocatee, Lakewood Ranch, and Lake Nona remaining among the top-selling communities in the country and in our top-20 list for 2016. An additional seven Florida MPCs reached our top-50 list: Summerlake, Ave Maria, Tradition, Bartram Park, Waterset, Viera, and FishHawk Ranch.

Relocating retirees account for a large share of new home sales statewide, as the much-anticipated wave of retiring Baby Boomers has arrived in force. This is true not only of retiree-only developments such as The Villages, but also at Nocatee, Lakewood Ranch, Tradition, FishHawk Ranch, and Ave Maria, which feature active adult communities as part of the larger master plan. Although Florida's population growth overall is below the peak of the early 2000s, its age 65+ population growth is as strong as it has ever been. Florida remains the top retirement destination nationally, capturing 20% of Americans aged 65 to 74 who moved out of state for retirement last year.

20%

**of Americans Aged
65-74 Who Move Out of
State, Retire in Florida**

Tourism continues to play a strong role in boosting the state's economy, with over 57 million tourists visiting the Sunshine State in the first half of 2016.

In addition, Florida continued to experience strong, but fluctuating, foreign investment in 2016, though the election and talk of restrictions on immigration raised concerns. It is too early to gauge long-term effects, but foreign investors seem to still believe the U.S. is a good place to invest, and South Americans in particular are expected to continue to be a

force in the market. However, they were somewhat less prominent in 2016 due to economic challenges at home, which have resulted in slowing sales in markets most dependent on that segment, such as Miami.

To read more about the Florida housing market, please check out RCLCO's Third Quarter Florida Housing Market Update in *The Advisory*.



WEST IN-DEPTH

As California retirees stay on the west coast and foreign buyers increase, the West sees success with 15 top-selling MPCs.

PERFORMANCE TRENDS FOR CA, AZ, NV, UT, & CO

Las Vegas appears to be well on its way to recovering from the Great Recession. Both Summerlin and Inspirada made our top-20 list. Inspirada experienced an impressive 45% increase in new home sales for 2016, and the addition of new villages and mixed-use areas helped Summerlin increase its sales by 28% over 2015. Three other Las Vegas communities achieved our top-50 list: Mountain's Edge, Providence, and Cadence.

In Phoenix, Eastmark, Verrado, and Vistancia made our top-20 list. Eastmark's prime location in the center of East Mesa's gateway corridor, one of the fastest-growing and economically strongest areas of Phoenix, contributes to its success. Entering its fourth year of sales, Eastmark has around 2,000 residents, and will soon be introducing two new types of home options in early 2017—higher-density, single-family housing, and large-lot gated neighborhoods—which will help to attract new market audiences. Approximately 50% of Verrado's sales are to out-of-state buyers, with 80% of those coming from California. In addition, approximately 25% of Verrado's total sales are at Victory

at Verrado, their active adult community. Many of Vistancia's residents rebuy within the community, whether to move up or to downsize, because they enjoy the community feel and amenities offered by Vistancia.

Irvine Ranch in Orange County has finally achieved first place on our top-20 list, with 1,989 new home sales in 2016, an increase of 19% over 2015. In addition, three other Southern California MPCs made our top-20 list: Great Park Neighborhoods, Rancho Mission Viejo, and Baker Ranch. Great Park Neighborhoods experienced an 88% increase in sales from 2015, driven by strong sales to foreign buyers from Asia, and expects



sales to increase even more in 2017 as its new urban community, which contains a commercial district including hotels, shops, and restaurants, comes to fruition. Rancho Mission Viejo experienced a 52% increase in sales in 2016 and attributes its growth to increased sales of 55+ products priced under \$600,000. Their newest neighborhood, Esencia, integrates 55+ households into an



all-ages community while still dedicating specific amenities for only the 55+ households to use. Both Great Park Neighborhoods and Rancho Mission Viejo expressed concern that a potential rise in mortgage interest rates and increasingly higher CFD fees may adversely affect affordability for entry-level buyers.

New home sales in the Denver area continued to increase in 2016, with many communities attributing their success to strong growth in high-wage employment within Colorado's tech core. Stapleton has once again earned a spot on our top-20 list, with 471 new home sales for 2016. This is actually 29% fewer sales than in 2015, but the drop in sales was caused by a limited home supply

and delay in lot deliveries rather than weaker demand. Stapleton continues to drive sales with its dynamic and diverse product line, which includes an active adult component and small lots designed for affordability.



MPCs DRIVE HIGHER SALES WITH BETTER PRODUCT SEGMENTATION

Evaluating successful tactics and recent RCLCO strategic projects.

Many of the communities in RCLCO's 50 Top-Selling Master-Planned Communities (MPCs) of 2016 cited their product segmentation strategy as one of the reasons for their high-volume sales success.

Top-selling communities are launched with a well-thought-out strategy based on: research and analysis of the home types and prices to be offered in their community; the competition; and target-buyer preferences. Nevertheless, product segmentation remains a moving target throughout the life of the community. Although rooted in a vision, MPCs that stand the test of time have flexible master plans that are sensitive to their environment and responsive to the lifestyles of their residents. Product and market niche opportunities evolve over the life of the community, and the developer's success with implementing the strategy is influenced by exogenous factors, such as development costs and the degree

“

As part of our segmentation strategy, we have focused on providing a variety of product opportunities that cater to the diverse needs, lifestyles, and budgets of younger buyers.”

Malee Tobias, Newland

of cooperation with its builder partners (who sometimes stray from the script).

The top communities use a variety of knowledge and information resources to identify underserved market and product gaps. Identifying and filling these gaps leads to superior outcomes in terms of pricing, absorption, and market share, but it's a challenging process that requires monitoring and adjustment along the way. Land prices may make it difficult to implement broader price segmentation, even when the demand is there. Although the emerging Millennial buyer is clearly an opportunity, many communities still struggle with how to accommodate more attainable price points. Even when all the research points to specific feasible opportunities, some developers encounter resistance from builders who are accustomed to doing things a certain way. Nonetheless, as demonstrated by many communities in RCLCO's Top 50, a great segmentation strategy can be rewarding.

Segmentation strategies are conceived with the end users in mind, but the multiproduct community developer's customer is the home builder, who buys lots from the developer to take advantage of the developer's investments in place-making and amenities. The builder's preference is to have a protected niche within the master-planned community to more easily capture buyers seeking a residential product, price, and lifestyle. The successful segmentation program provides some protection for the builder by targeting specific opportunities and managing competition within the MPC while also seeking to maximize consumer appeal and choice. The most successful segmentation strategies include residential product lines that are differentiated from one another, not just by price and size, but also by the unique purchase motivations of diverse consumer segments. When well executed, there can be multiple variations on a theme that increase overall market penetration and total sales velocity. Relative to the variety of home types and size ranges, there will be some home-size overlap between product lines. For example, the consumer may have the choice of buying the largest of the entry-level product line, or the smallest of the move-up product line, among other options and choices. This creates a reasonable level of competition, even if there are only one or two builders in a product niche. Developers find that if builder competition is well managed it helps drive product innovation, assuming the market is sufficiently deep to ensure each builder garners sufficient sales to justify its investment in the community. Some overlapping of lot and home sizes may work out fine if other differentiators are present.

Enhancing Performance Through Targeted Segmentation Strategies

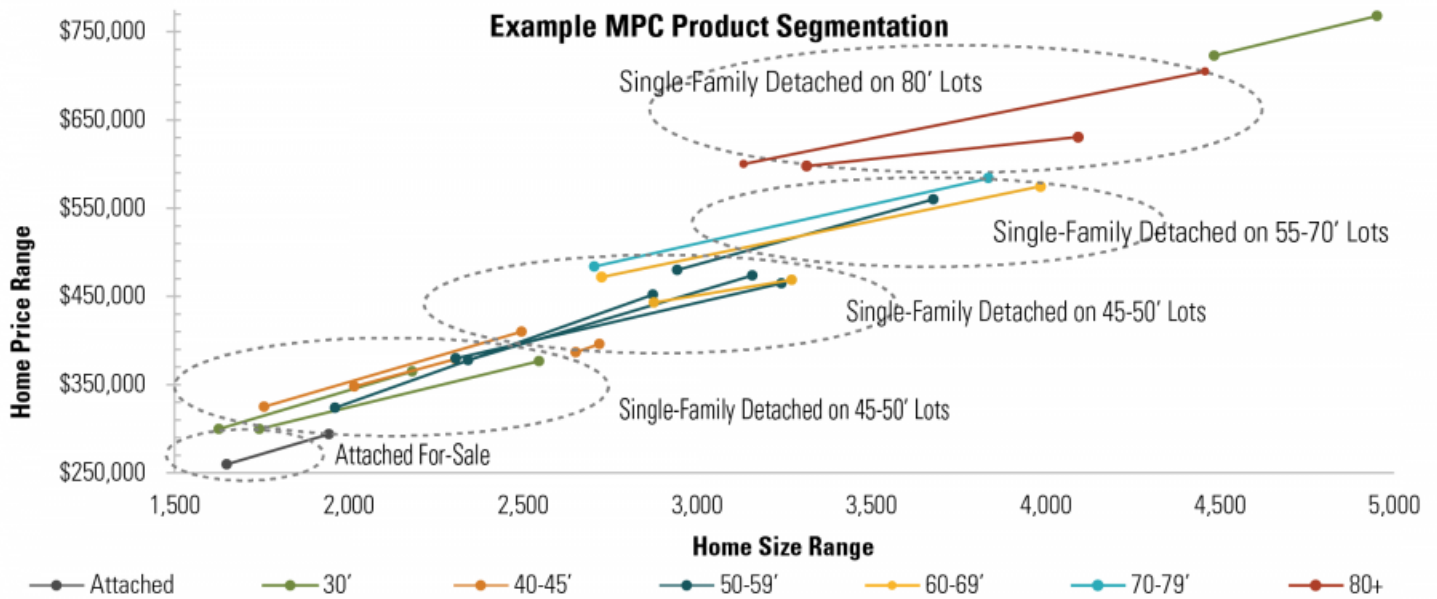
A top master-planned community developer in Texas recently acquired an established, successful MPC, and challenged RCLCO to help create a segmentation strategy to further increase sales.

The community was already achieving about 400 sales per year, so this was no small task. The developer asked RCLCO to help them further diversify the product mix to increase overall sales without negatively impacting any existing product programs. To accomplish this, an analysis of 10 distinct homebuyer segments currently active in the market was conducted, identifying which of these buyer segments were under-represented in the community, and comparing current product offerings with the potential demand from these homebuyer segments. RCLCO found that although the community offered a broad range of products, some buyer segments were under-represented in the community relative to their presence in the active market. To enhance the community's appeal to these buyer types, specific additional product opportunities that have proven successful in similar environments were identified and recommended. Over the next five years these new products are expected to increase sales by as much as 50%. RCLCO's previous experience with segmentation strategies at Summerlin in Las Vegas, and The Woodlands in Houston, demonstrate that such results require thoughtful execution but are achievable.

A well-thought-out segmentation strategy does a good job of aligning specific product lines with consumers' lifestyle needs—not just their wallets. For example, a developer might have several product lines in a specific price band, but the product types offered in that price band may vary significantly to include a range of home configurations suitable for different household compositions and lifestyles. Within a \$50,000 price band, a developer may offer three different lot types: narrow across the front but deep, square-shaped, and wide and shallow. All three of these lot shapes may be the same size, but they accommodate different house footprints that allow for a variety of floorplan configurations. This helps address the challenge multiple builders might have delivering highly differentiated product types in similar size/price bands on the same lot shape/size. Alternatively, a developer might build a higher-density product in the same price band as a larger lot product, but increase the overall level of finish to appeal to consumers seeking a high-quality, but low maintenance, home at a similar price point as a larger home on a larger lot.

Product and Community Innovations

Product innovations that respond to changing market needs are important elements of a good segmentation strategy. This is a responsibility of both the builder and the developer, as demonstrated by Newland Communities and Garman Homes at Wendell Falls, a 1,115-acre master-planned community in Wendell, North Carolina. Newland is one of the largest and most successful developers of MPCs in the U.S. and is recognized for its excellence in innovation and residential development. Wendell Falls is located on the east side of Raleigh, an emerging area with limited new development.



- » Each line on the chart represents an individual product program.
- » Products can overlap in size yet hit different price points due to differences in finish levels, lot sizes, location in the community, and target market audience.
- » Each product line may represent anywhere from 18 to 40 sales or more per year, with the number of points of sale highly correlated to total annual sales in a well-segmented community.

Malee Tobias, Senior Vice President, Marketing & Research, at Newland, says that “Through our deep research and customer intel, we understood the tremendous potential of Millennials as a major segment of the buyer profile at Wendell Falls, given the demographics of the buyer pool, the community’s close proximity to downtown Raleigh, and relatively affordable pricing. Of course Millennials are not a monolithic group, so as part of our segmentation strategy, we have focused on providing a variety of product opportunities that cater to the diverse needs, lifestyles, and budgets of younger buyers.” Fresh Paint by Garman Homes at Wendell Falls is a good example of a product opportunity that increased sales by expanding the segmentation to cater to a specific market niche. It is specifically designed to appeal to Millennials, offering an attractive mix of affordable pre-built homes with the opportunity to personalize by choosing from a variety of interior design packages prepared by Garman’s professional staff. Alaina Money, Division President of Garman Homes, says that “Fresh Paint is inspired by the idea that we can build a production home that looks and feels more like a boutique or custom home. Our approach is to prioritize simplicity; we curated whole home design packages, minimize the decision-making process, and boil it down to just a few easy choices.” Since introducing their Fresh Paint brand, Garman has doubled their sales in the Raleigh market area. Empty nester boomers have also been attracted to the concept. “Smart builders look for interior design ‘hooks’ that appeal to the consumer, thus separating their homes from the competition at a ‘finer’ level of segmentation. The consumer and

demographic research builders and developers are undertaking with companies like RCLCO provides insight for designs that live the way consumers envision their next house,” says Nick Lehnert, Executive Director of Design with KTG Architects.

Demographic changes are driving the need for more sophisticated product segmentation. Millennials currently represent a third of all home buyers, and their share of the market is growing. They are motivated to buy new homes with better designs and new home technology, and they seek opportunities to make the home theirs even if true customization is out of their price range. Aging boomers are another major market segment with evolving needs and preferences. Thus, conventional home designs and neighborhood or “village” plans within MPCs need to be reconsidered relative to how retiring baby boomers want to live at this point in their lives.

Innovative community concepts or enclaves located within larger master-planned communities are also gaining traction in response to these changing demographics, and offer additional opportunities to appeal to varying lifestyle needs of different buyer segments. Active adult communities within master-planned communities have long been implemented as separate gated communities at large MPCs, but more recently smaller active adult communities within the community are also being introduced. This is due to the recognition that segments of both the empty nester and retiree market audiences, while not interested in conventional

large-scale retirement communities, are attracted to smaller-scale communities designed for them within a larger MPC. David Weekley's 240-unit Encore active adult enclave at Newland's FishHawk Ranch near Tampa, Florida, is a good example of this—55+ homebuyers can utilize the larger MPC's amenities but still have homes designed specifically for them, with their own separate pool, clubhouse, and programming.

Canyonside, a detached condominium garden home neighborhood developed by Ash Creek Homes in the Falconhead West MPC west of Austin, Texas, is another successful example of a unique enclave offered within an MPC. Canyonside is Ash Creek's fourth detached condominium home enclave in Falconhead/Falconhead West, and is primarily targeted to empty nesters, but also appeals to professional singles/couples and some families seeking a low-maintenance lifestyle. These communities are positioned as lock and leave developments, with all yard maintenance and upkeep covered by the HOA, and typically feature a small amenity center containing a pavilion, fire pit, and small swimming pool. These communities offer single-family homes at five to seven

units per acre on unconventional lot sizes, and shapes that allow for interesting sightlines and privacy given the varying home orientations on each lot. In addition, the interior finishes are much higher than comparably sized homes (1,400-2,000 square feet) in value-oriented communities and are also built to green standards, which keep utility bills low for residents.

Conclusion: Adding Value through Segmentation

Builders and developers have many opportunities to diversify development programs and expand market share by responding to the unique characteristics of the market audiences being served. RCLCO is pleased to have the opportunity to collaborate with many master plans around the country to prepare and translate research into actionable product segmentation strategies that maximize sales absorption and value.



“

Our approach is to prioritize simplicity; we curated whole home design packages, minimize the decision-making process, and boil it down to just a few easy choices.”

Alaina Money, Garman Homes

Images, courtesy of: Aliana, Baker Ranch, Eastmark, Garman Homes, Lake Nona, Paloma Creek, Riverstone, The Woodlands, Verrado, and Wendell Falls.

7200 Wisconsin Avenue
Suite 1110
Bethesda, MD 20814

221 W. 6th Street
Suite 2030
Austin, TX 7870

11601 Wilshire Boulevard
Suite 1650
Los Angeles, CA 90025

964 Lake Baldwin Lane
Suite 100
Orlando, FL 32814

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www.rclco.com

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COMMUNITY & RESORT ADVISORY GROUP

RCLCO's Community & Resort Advisory Group provides trusted market and strategic analyses to developers, builders, landowners, and investors engaged in planned community, active retirement, and second home development. Clients seeking clarity on the depth of opportunity for development assets rely on us to recommend the optimal development program, pricing, product and market segmentation strategies, as well as forecast sales absorption potential. RCLCO utilizes unique methodologies to understand the market in ways that can be directly applied to evaluating specific and targeted opportunities, thereby enhancing clients' success with actionable market intelligence.

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LEADERSHIP



GREGG LOGAN
MANAGING DIRECTOR
P: (407) 515-4999
E: GLOGAN@RCLCO.COM



TODD LARUE
MANAGING DIRECTOR
P: (512) 215-3157
E: TLARUE@RCLCO.COM



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