

**MOSAIC CALGARY
BUSINESS PLAN**

by

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EXECUTIVE SUMMARY

MOSAIC has been a town house developer in the Vancouver area for over a decade. It has built its success with thoughtful design, urban densification and by giving a customer a very positive experience. The company has expanded its lines of business and wishes to take its knowledge and experience and tap into the Calgary market.

The city of Calgary has experienced urban sprawl and city officials are looking for densification. As the city with the most head-offices in all of Canada and a resurging energy sector, Calgary is predicted to have steady growth for the next couple of years. The city is not without its own experienced developers, but none has focused on densification.

The opportunity is to take the differentiated product that the MOSAIC brand carries with it and offer an alternative that many home buyers would value. The target markets are young professionals, first time buyers and foreign investors that see the value of being closer to downtown and do not want all the maintenance of a single family home.

A further opportunity is for MOSAIC to align itself with landowners in Calgary and use its development expertise to produce the property. Co-development projects could save substantially on land costs and enable the projects to be absorbed at an accelerated rate.

Any new venture will have its share of challenges. Going into a new market, like Calgary, poses problems of recognition and lack of supplier relations. Strategies are proposed to deal with these situations and minimize these threats.

Given the opportunity and the potential returns, the Calgary venture looks very attractive.

Keywords: Calgary; real estate; town house; densification.

DEDICATION

I would like to dedicate this paper to my family, who has supported me through the MBA program and who has borne a great many additional responsibilities during that time.

ACKNOWLEDGEMENTS

I would like to thank Professor Neil Abramson for his guidance and helpful comments during this process. In addition, I would like to thank all of my professors and the SFU EMBA administration and staff.

A big thank you goes out to my EMBA cohorts especially my team Links, you taught me a lot and you kept me sane. Your support and companionship kept me going. I am very grateful to you and hope that we will stay in touch.

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1: OVERVIEW

The subject of this business plan is the development of a residential multi-unit real estate complex in the Calgary, Alberta market; specifically a row home townhouse development. The purpose of the plan is to determine if the project is feasible. Feasibility will be determined based on a number of factors, such as demographics, land availability and location, financing, and support from the city. The scope of the analysis will include the industry as a whole and what segments within the industry can be targeted. If a target segment can be identified, then the question is whether the product can be differentiated enough to acquire the necessary market share to make the project profitable. To support this analysis, the full development cycle will be examined to determine if land can be acquired to provide a sufficient return.

1.1 The Industry

The Canadian real estate industry is a mature industry that has been around for decades. However, within the life cycle of the industry there are peaks and valleys that most developers have come to accept. These cycles are often due to the many economic factors that are involved with real estate.

The Canadian real estate market has remained relatively stable over the last couple of years and is forecast to remain steady in 2012. This is impressive, especially considering the credit crisis of 2008 and the global uncertainty in 2011. Canada barely experienced the recession that afflicted much of the rest of the world and experienced a V-shaped recovery in 2008. For 2011, signs of slow and steady growth were based on various economic indicators. With fundamental trends back to near normal levels, employment recovering, and banks having sound balance sheets, the trend for steady growth is evident. Housing starts in 2011 were active; 193,950 units. Housing starts are forecast to be about 190,000 for 2012 and 193,800 for 2013. Semi-detached or multiple

starts are expected to be moderate while detached or single starts will level off (CMHC, 2012). Table 1 illustrates the growth rates for housing, multiple and single starts in Canada from 2008 to 2011 and forecast to 2013.

Table 1 Growth Rates for Housing Starts – 2008-2011 (Canada)

	Housing Starts	Growth	Multiple Starts	Growth	Single Starts	Growth
2008	211,056	-8.2%	105,203	10.75%	93,202	-21.62%
2009	149,081	-29.36%	62,308	-40.77	75,659	-18.82%
2010	189,930	27.4%	84,370	35.4%	92,554	22.33%
2011	193,950	2.1%	111,558	14.56%	82,392	-10.98%
2012	190,000	-2.08%	107,300	-3.8%	82,700	0.4%
2013	193,800	2.0%	107,500	0.2%	86,300	4.4%

(2012 and 2013 forecast)

The resale market is expected to remain stable in 2012 and rise slightly in 2013. The 2011 resale market was slightly over 456,000 units, with 2012 expected to be 457,300 and 2013 around 468,200 units (CMHC, 2012). Prices should be stable in most markets; only modest price increases are expected. In 2011, the average price was just above \$363,000. Increases in 2012 and 2013 are expected to be about \$368,900 and \$379,000, respectively (CMHC, 2012).

Canada is a large and diverse country and each region has its own market conditions. Eastern Canada's six provinces are expected to see contraction in housing starts, but by 2013, Quebec and Ontario are expected to have modest growth. Western Canada will see growth in 2012, with Alberta leading the way. By 2013, all provinces, except Saskatchewan, will see positive growth (CMHC, 2012).

It must be pointed out that uncertainty is still prevalent in much of the world and Canada is not unaffected. A slower than expected U.S. recovery, slower growth in emerging countries, or continued uncertainty in Europe, could impact Canada's growth. On the upside, if the U.S. recovery is quicker than currently projected, then Canadian employment could benefit and help with Canadian growth.

1.1.1 Industry Geographic Segments

This section will present a discussion of a number of industry segments. Toronto and Vancouver remain two of North America's most favoured investment gateways. Toronto ejected Vancouver from the top ranking in the Emerging Trends report. Toronto's metropolitan area stands as the critical economic engine with Bay Street's impenetrable financial sector and diverse manufacturing industries along with immigration flows supporting growth and intensifying tenant demand. However, some of those interviewed for Price Waterhouse Coopers 2011 report on emerging trends in real estate were worried about flattening apartment rents as more condo investors lease out units (PWC, 2011).

Vancouver's office and condo markets remain "red hot", continuing from the surge of international visitors purchasing apartments after the 2010 Olympic Games. The city's ocean and mountain vistas may control development and attract investors; however, some interviewees were uneasy about a potent combination: "The market is artificially inflated; it's been hot for too long." (PWC, 2011). In addition, the Harmonized Sales Tax (HST) has cooled demand for mid-tier housing in some areas outside of Vancouver's core. Calgary is looking to recuperate from diminishing demand and some development bingeing.

The Canadian Real Estate Association (CREA) predictions of sale prices for 2011 were accurate and they expect moderate price increases for 2012 in certain segments. They also expect sales activity to be higher in the mid-western provinces with Alberta leading the way at 6.9%. Table 2 below shows CREA's predictions by province.

Table 2 Predicted Sales Activity and Prices by Province

Average price forecast	2010	2010 Annual percentage change	2011 Forecast	2011 Annual percentage change	2012 Forecast	2012 Annual percentage change
Canada	339,049	5.8	362,700	7.0	362,700	0.0
British Columbia	505,178	8.5	563,500	11.5	553,400	-1.8
Alberta	352,301	3.1	356,900	1.3	364,800	2.2
Saskatchewan	242,258	4.0	257,900	6.5	259,100	0.5
Manitoba	222,132	10.3	234,600	5.6	246,000	4.9
Ontario	342,245	7.5	363,900	6.3	364,200	0.1
Quebec*	248,697	8.0	261,400	5.1	269,900	3.3
New Brunswick	157,240	1.5	160,200	1.9	160,200	0.0
Nova Scotia	206,186	4.8	210,900	2.3	212,000	0.5
Prince Edward Island	147,196	0.8	153,400	4.2	153,800	0.3
Newfoundland	235,341	14.0	250,600	6.5	254,800	1.7

Sales activity forecast	2010	2010 Annual percentage change	2011 Forecast	2011 Annual percentage change	2012 Forecast	2012 Annual percentage change
Canada	446,915	-3.9	453,300	1.4	451,200	-0.5
British Columbia	74,640	-12.2	76,600	2.6	75,200	-1.8
Alberta	49,723	-13.6	53,350	7.3	57,050	6.9
Saskatchewan	10,872	-2.0	11,650	7.2	12,100	3.9
Manitoba	13,164	0.6	13,650	3.7	13,800	1.1
Ontario	195,591	-0.1	198,000	1.2	192,900	-2.6
Quebec	80,031	1.2	77,000	-3.8	76,950	-0.1
New Brunswick	6,702	-4.3	6,650	-0.8	6,550	-1.5
Nova Scotia	10,036	0.1	10,100	0.6	10,400	3.0
Prince Edward Island	1,487	5.9	1,500	0.9	1,500	0.0
Newfoundland	4,236	-4.1	4,300	1.5	4,300	0.0

CREA News, November 15, 2011

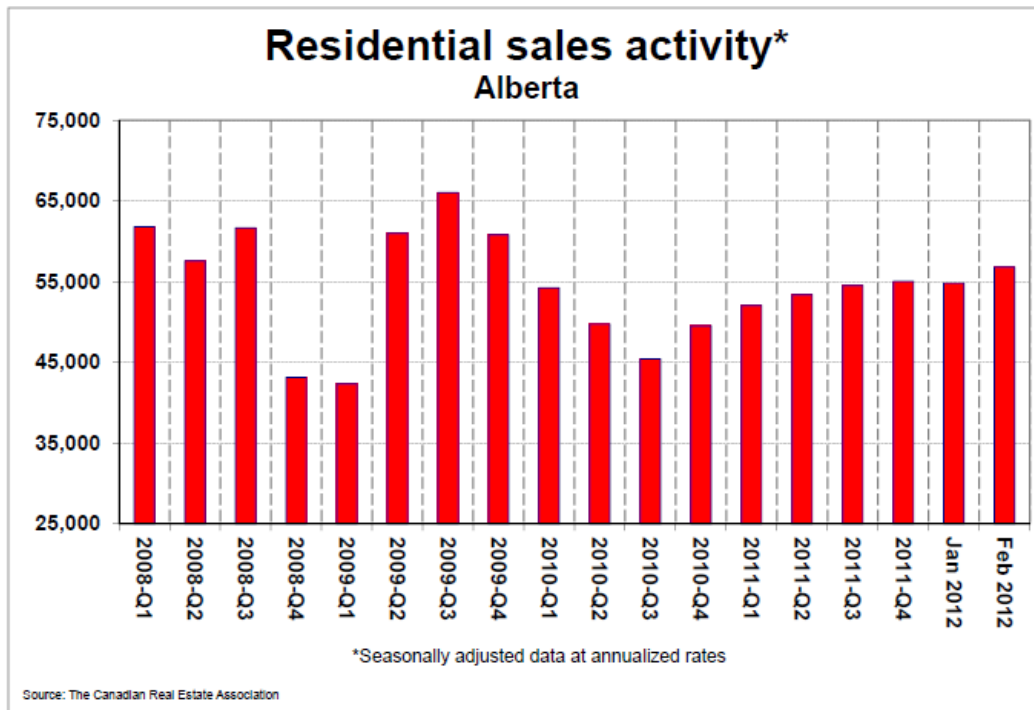
1.1.1.1 Alberta Market

Alberta's Gross Domestic Product (GDP) is expected to grow to 3.5% in 2012 and 3.3% in 2013. This is the strongest projected growth of all provinces in Canada. The energy sector should continue to grow despite low natural gas prices. There were also signs that the labour market expanded in 2011, which should mean more housing demand in 2012. Thus, single and multi-family starts are expected to rise in 2012 and 2013. In 2010, the province's sales activity declined, but 2011 and 2012 forecast sales

activity numbers are higher according to the CREA. Table 2 shows a forecast sales increase for 2012 of 6.9%.

Alberta is not insulated from the world around them. The general economic downturn in 2008 and the lower oil prices in 2010 are reflected in Table 3. Sales have been consistent for 2011 and the beginning of 2012.

Table 3 Residential Sales Activity - Alberta



A breakdown of housing starts for the province is presented in Table 4. It is evident that multiple starts have been increasing.

Table 4 Alberta Housing Market Outlook

Alberta Housing Market Outlook (units and percentage change)											
	2007	2008	2009	2010	2011	2012(F)	2013(F)	2012Q1 (F)	2012Q2 (F)	2012Q3 (F)	2012Q4 (F)
Housing Starts:											
Single	28,105	14,716	14,344	17,851	15,193	17,300	18,000	16,300	17,100	17,600	18,200
%	-11.7	-47.6	-2.5	24.4	-14.9	13.9	4.0	5.8	4.9	2.9	3.4
Multiple	20,231	14,448	5,954	9,237	10,511	11,800	12,000	12,400	11,400	11,600	11,800
%	18.1	-28.6	-58.8	55.1	13.8	12.3	1.7	-16.2	-8.1	1.8	1.7
Total	48,336	29,164	20,298	27,088	25,704	29,100	30,000	28,700	28,500	29,200	30,000
%	-1.3	-39.7	-30.4	33.5	-5.1	13.2	3.1	-5.0	-0.7	2.5	2.7
Existing Home Markets:											
MLS® Sales	70,954	56,045	57,543	49,723	53,146	54,650	56,550	54,500	54,700	54,300	55,100
%	-4.1	-21.0	2.7	-13.6	6.9	2.8	3.5	1.6	0.4	-0.7	1.5
MLS® Average Price	357,483	353,748	341,818	352,301	355,808	363,650	372,300	359,900	362,800	365,200	366,620
%	24.9	-1.0	-3.4	3.1	1.0	2.2	2.4	0.1	0.8	0.7	0.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey), CREA

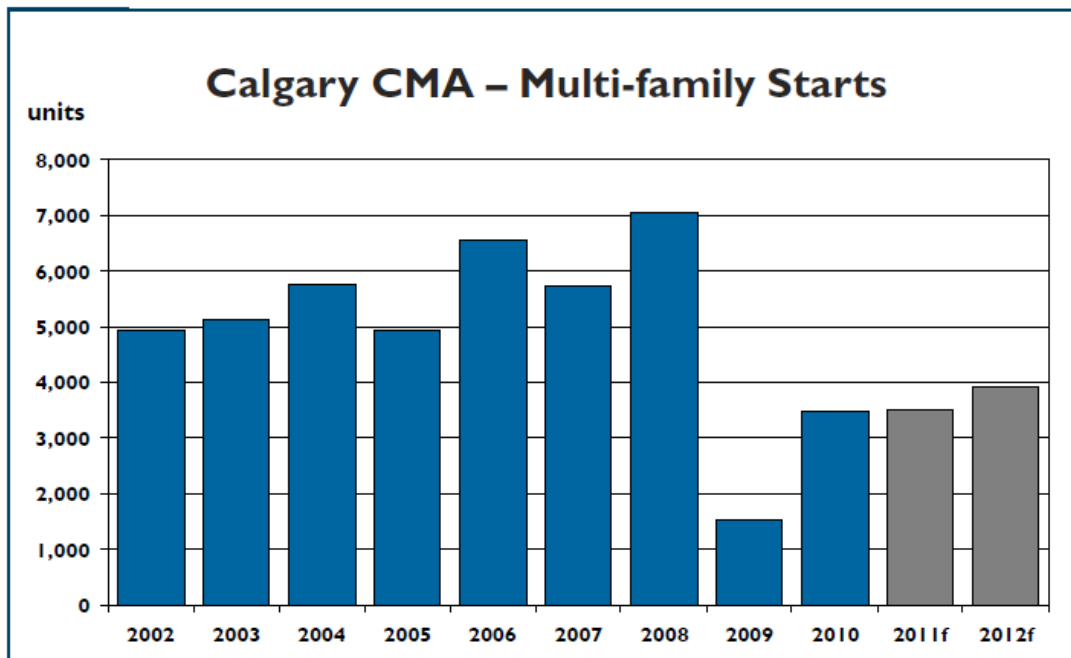
Calgary Market

Total single family homes sales for 2010 are included in Appendix E, along with a map of the city. Total sales are approximately \$5.5 billion with just over 12,000 homes sold.

The Calgary market for 2010 had a large spike in new home production. Builders were then faced with the challenge of moderating production for 2011, competing with a well-stocked resale market and dealing with elevated multi-family inventories. Some of these challenges may have resulted from the fact that the city suffered job losses from 2008 to 2009.

The city of Calgary saw a turnaround in housing starts in 2010, supported by a 126% increase in multi-family starts from the previous year. After that growth, 2011 was projected to be relatively stable and slightly higher starts were forecast for 2012. Table 5 below shows relatively steady growth for multi-family starts, with the exception of a noticeable dip in 2009.

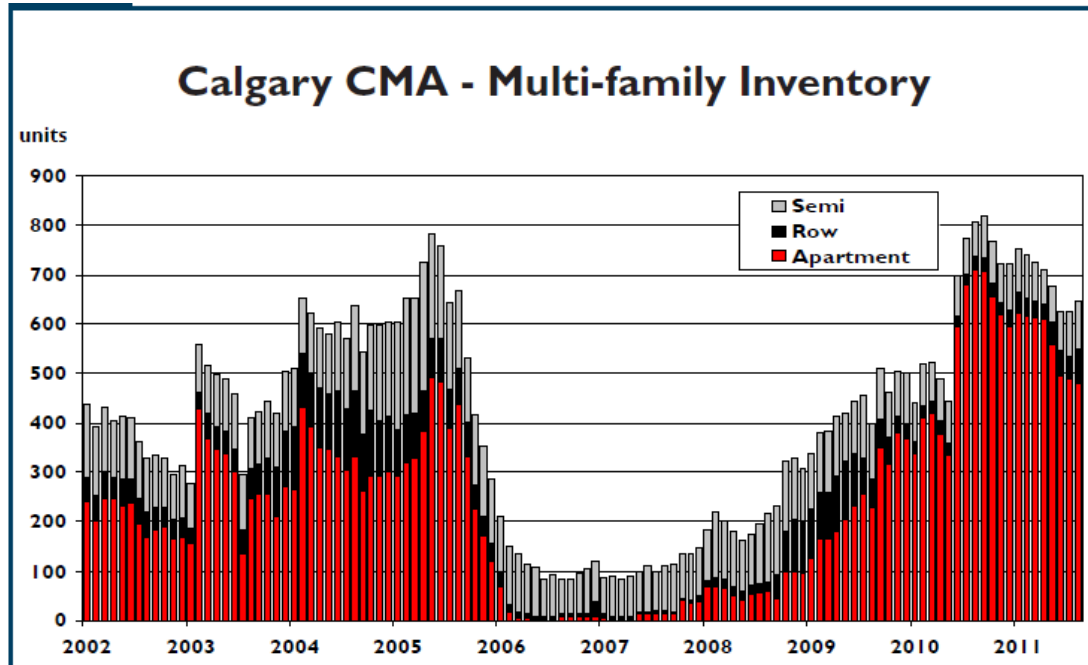
Table 5 Calgary CMA – Multi-family Starts



CMHC – Housing Market Outlook Calgary Fall 2011

The growth for multi-family starts is also supported by the fact that, after the high levels in 2010, inventory levels are declining. Most of the high levels of inventory have to do with slow moving apartments. While row home levels are higher too, they are low, compared to apartments, as indicated in Table 6.

Table 6 Calgary CMA – Multi-Family Inventory



Source: CMHC

The largest groups of potential customers are as follows:

1. Young single professionals working downtown;
2. New migrants to the province, looking for low maintenance homes;
3. First time buyers;
4. Young families getting into the market; and
5. Potential foreign investors.

Generally, customers want to avoid long commute times to get to and from work. Young professionals do not want the burden of taking care of detached homes

with yard maintenance. In a townhome, these chores are looked after by the strata. Also, young families that are starting out can save money by buying a more affordable townhome and moving into a detached home later.

1.2 Industry Dynamics

Many factors affect the real estate development business. In the product development life cycle, the obvious place to start is land. Being able to secure land at reasonable prices is critical to a profitable project. The supply of land depends on where in the country you are working, i.e., Vancouver, as opposed to the rest of western Canada. Another key factor is being able to minimize construction costs. Often you have to have been in the market for some time before you can identify competent contractors who will perform up to your standards. Certainly the design of the homes is a key factor in consumers' choices of homes. In the present market, the consumer is more concerned about functionality and practicality than they have been in the past. In order to get the required absorption, the customers' needs must be addressed. How the product is marketed is also becoming more important, especially in a new market. Contemporary marketing demands the wider use of social media. Finally, in order to have a prolonged impact on the market you must have a dedicated staff to help with deficiencies and warranties. Prompt and careful attention to these aspects of a sale are crucial for establishing a good reputation in the market. Building on this reputation will help future projects in the same market.

Developers that have not succeeded in the business have not been able to establish a product that is in demand and, because they did not target the right consumers, have not been able to build on their reputation.

Figure 1, taken from the Canadian Mortgage and Housing Corporation (CMHC) Q1 2012 Update, illustrates the key factors and their effects on housing starts.

Figure 1 Key Factors and their Effects on Housing Starts

TRENDS AT A GLANCE

Key Factors and their Effects on Housing Starts

Mortgage Rates	Short-term mortgage rates and variable mortgage rates are expected to remain near historically low levels. The outlook also assumes that mortgage rates will remain flat through most of 2012 and start increasing moderately in late 2012 or early 2013. This will continue to support housing demand.
Employment	In the 12 months to December 2011, employment grew by 1.2 per cent while the unemployment rate stood at 7.5 per cent. Over the December-to-December period, full-time employment rose by 1.5 per cent (+207,700), while part-time work declined 0.3 per cent (-8,600). Employment is forecast to grow by 1.3 per cent in 2012 and 2.0 per cent in 2013. These positive employment results will continue to support Canada's housing sector.
Income	Growth in incomes is expected to continue, albeit at a moderate pace due to continued uncertainty in global economic markets. As a result, income will grow more modestly in 2012 and 2013. Despite this, growth in incomes will be supportive of housing demand.
Net Migration	Relative to other countries, Canada's economy is expected to be a better performer. Canada is thus expected to attract more immigrants (net international migration), which will push net migration up. This will have a positive impact on housing demand in the medium to long term.
Natural Population	The low birth rate is the major factor in the slowing of growth in the natural population (births minus deaths). This will lessen the demand for additional housing stock in the medium and longer term.
Resale Market	Market conditions for most of 2012 and 2013 are expected to be balanced. Such market conditions will mean less spillover demand for new homes and more moderate housing starts compared to sellers' market conditions.
Vacancy Rates	Moving forward, it is expected that there will continue to be modest purpose-built rental construction and strong rental demand due to high immigration. This, however, will be partly offset by an expanding rented condo market. As a result, vacancy rates across Canada's metropolitan centres will remain relatively stable this year and next.

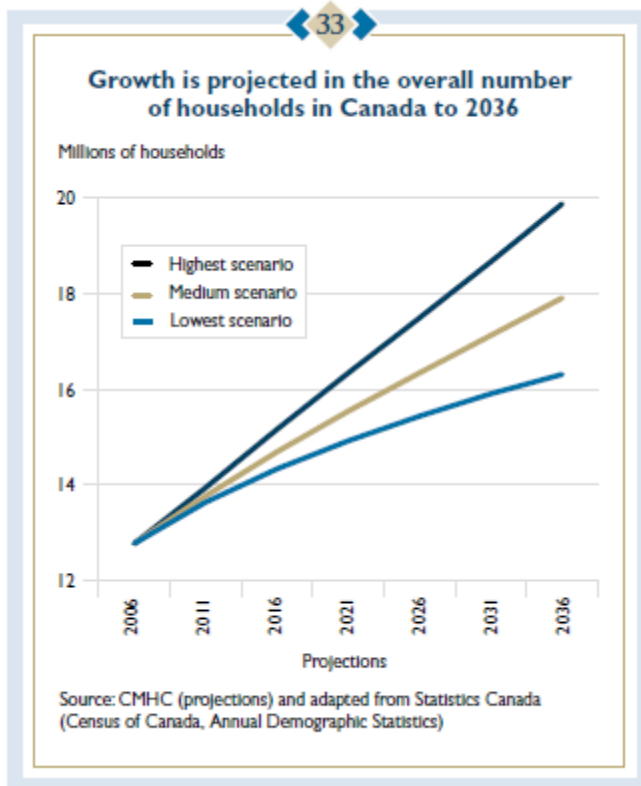
Housing Market Outlook, CMHC, First Quarter 2012

Figure 1 indicates that the most significant factor influencing housing starts seems to be mortgage rates. Historically low rates have made housing more affordable in the short term. If the Bank of Canada leaves rates low, consistent with what the U.S. has announced they intend to do, then housing will continue to be affordable. If the Bank of Canada's prime rate continues to be low, one and five year mortgages will remain flat. With that said, a rise in mortgage rates could have a significant effect on affordability for new home buyers and could even impact existing owners. The current

Canadian Finance Minister of Canada and the Governor of the Bank of Canada have both warned Canadians about rising household debt and have been quoted as saying that the debt is mainly mortgage related.

Demographics influence the rate of housing starts. If the number of households rises, it is reasonable to expect that the number of housing starts will also rise. Table 7 shows household growth in Canada from 2006 projected to 2036.

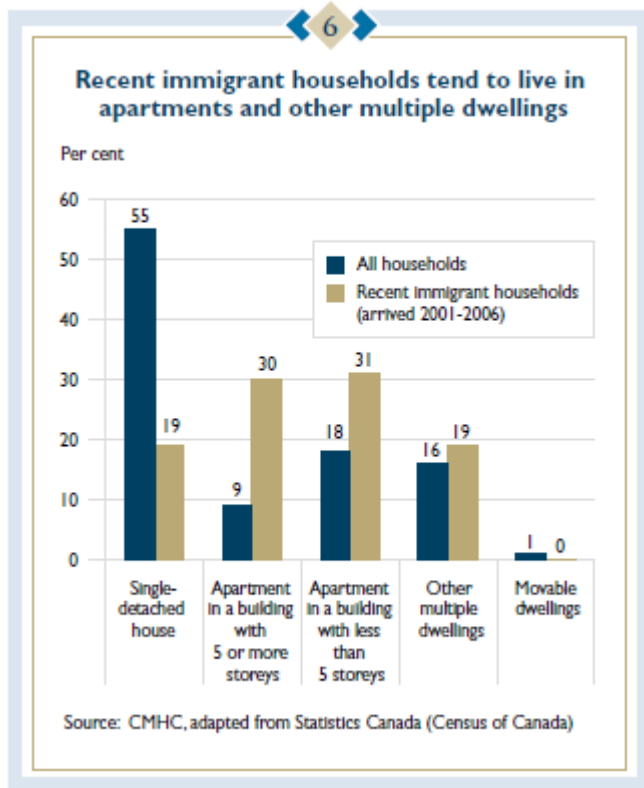
Table 7 Projected Household Growth in Canada to 2036



Canadian Housing Observer 2011, CMHC

Household growth is closely related to immigration and it is important to consider the statistics that indicate most recent immigrants live in apartments and other multiple dwellings. Table 8 illustrates this point.

Table 8 Recent Immigrant Households Choice of Residence



Canadian Housing Observer 2011, CMHC

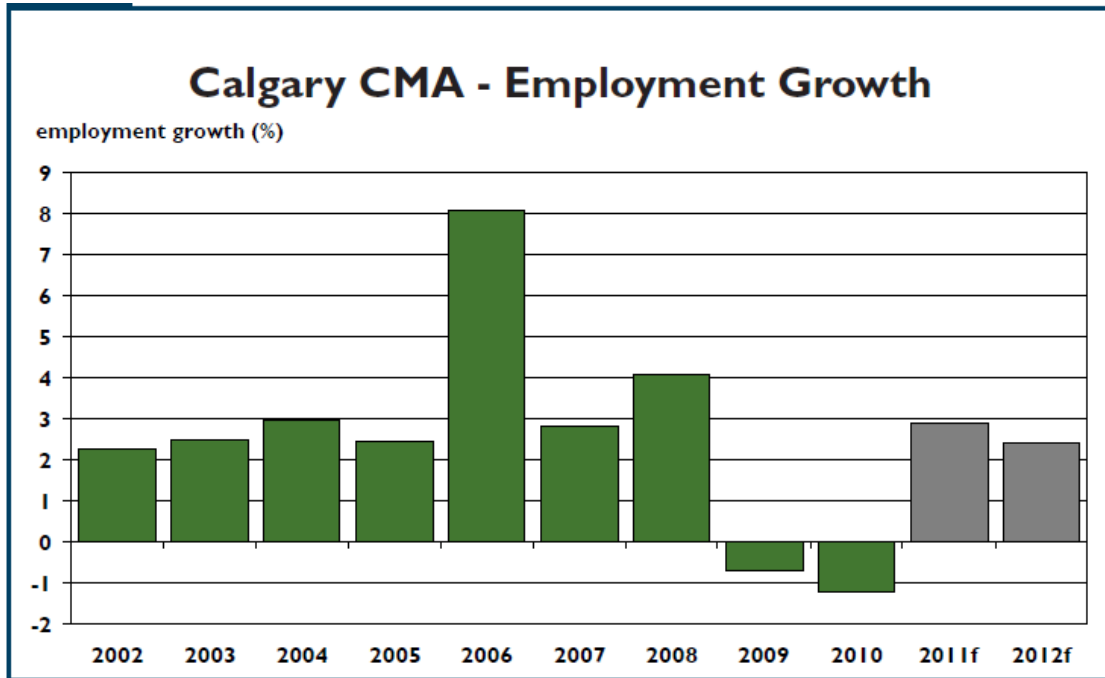
Government’s borrowing restrictions on major banks also affect the housing market. Recently the Canadian government has changed the regulations to require a minimum 20% down payment and restricted mortgage terms to 25 years. These rules were brought in to ensure that Canada does not go through a credit crisis like the one experienced in the United States in 2008.

1.2.1 Calgary Factors

The economic conditions forecast for Calgary for 2012 indicate an improved employment situation. After the economic slowdown, employment grew, mainly as a result of elevated oil prices, which stimulated the energy sector. When the energy sector is thriving, other industries benefit and there are generally more employment opportunities. In a robust economy with a buoyant job market, income levels are also expected to rise. This, in turn, stimulates migration and the resale market. However,

any down turn in the oil and gas sector could have an effect on the Calgary real estate market as the economy in Alberta as a whole is heavily reliant on this sector. Table 9 shows employment growth trends from 2002 to 2010, with projections for 2011 and 2012.

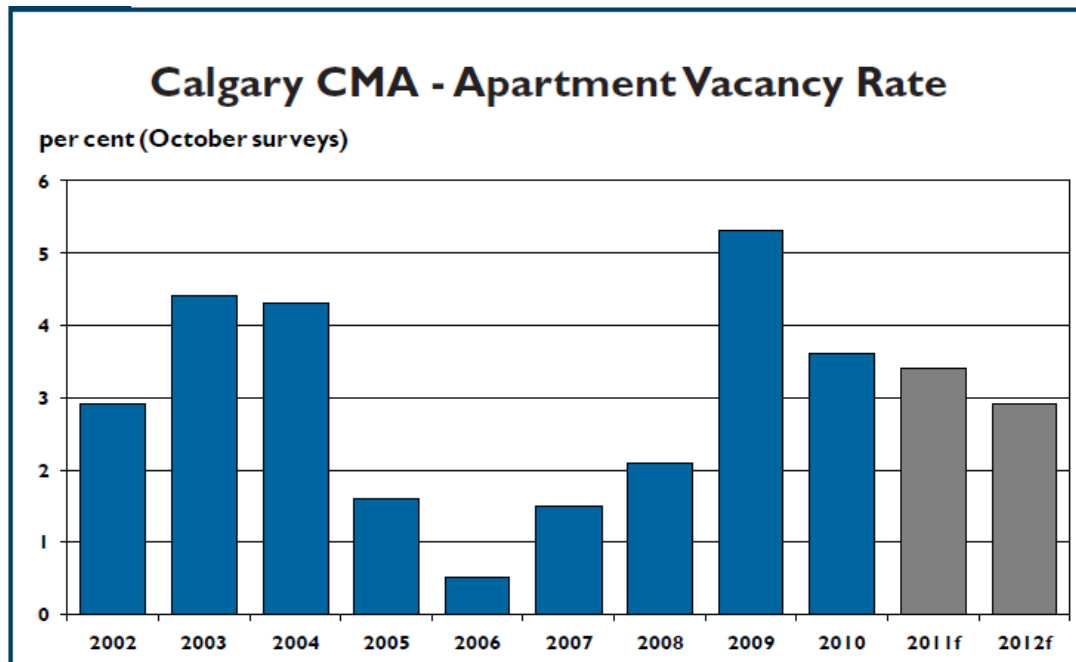
Table 9 Calgary CMA – Employment Growth



Source: Statistics Canada, CMHC Forecast (f)

In addition to the positive economic indicators, two other factors suggest that housing starts in Calgary are likely to increase in the near future. The CMHC predicts that net migration will rise to just below 40% in 2012. As well, apartment vacancy rates having been declining and are predicted to continue to decline in 2012. Table 10 charts vacancy rates from 2002 to 2009 with projections for 2011 and 2012.

Table 10 Calgary CMA – Apartment Vacancy Rate



Source: CMHC, CMHC Forecast (f)

1.3 Industry Structure

Real estate development is a multifaceted business, encompassing activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the resale of raw or improved land. Developers coordinate the activities, converting ideas on paper into real property. Real estate development is different from construction, although many developers are also involved in construction. Most construction work is done by contractors that have been hired by developers.

Developers buy land, finance real estate deals, build or have builders build projects, create, imagine, control and orchestrate the process of development from beginning to end. Developers usually take the greatest risk in the creation or renovation of real estate—and receive the greatest rewards. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design the units, obtain the necessary public approval and financing, build the structures, and lease, manage, and ultimately sell them. Developers work with many different counterparts along each step of this process, including, but not limited to,

architects, city planners, engineers, surveyors, inspectors, contractors, and leasing agents.

The industry can be divided into two markets. In the first, developers compete on price. These low cost developers focus on products that have fewer frills and higher end upgrades and target customers that have smaller budgets. In the other market, developers produce a differentiated product that customers may value more and expect to pay a higher price.

1.3.1 Mosaic Overview

MOSAIC was founded in 2000 in Vancouver by two partners, both of whom had been in the development business for most of their careers. They had worked at large companies for a while and thought they could do the same thing, but for themselves. They did three projects together and realized it was possible but that they needed more expertise. In 2002, two additional partners were added and the base of MOSAIC was formed. They established their company values, created a purpose statement, and were strategic about what, where and how they would build.

Many developers are only around for a few years; only a few have longevity. MOSAIC plans to be around for a long time. The prospect for longevity is supported by clearly stated and practiced goals:

- Do the right thing
- Do work to be proud of
- Be the best
- Be profitable
- Be a great place to work.

These goals support the simple purpose statement: thoughtful and urbane densification.

As MOSAIC was just starting out in the development business, no institution would lend them money, except at very high interest rates. At that time, they had little cash and had two-three employees, some of whom were not even paid. They borrowed

money from their RRSP's and friends and family and started to develop row townhouses, as that model provided for quicker sales and more efficient repayment of debt. Slowly over the years, with successful project after project, they were able to build and grow their financial and reputation capital, and build a quality product that sold. In 2008, they were the largest townhouse developer in British Columbia's Lower Mainland., out selling giants like Polygon Properties, BOSA Properties and ONNI. Through the years, they have been able to stay true to their values and purpose.

Though many developers focus on low costs to be successful, MOSAIC has been able to differentiate their product to the point where customers recognize the value and quality of the MOSAIC product. One of the marketing slogans used is "driven by design". Practicality and appeal of the homes has driven the design process. This differentiation is the cornerstone of MOSAIC's success. Though costs are tracked and maintained as best possible, it is the "beyond" simple development and construction that the company focuses on.

In order to have stayed competitive in the market, MOSAIC must have gained an advantage in various areas of its business. This advantage has come through creating value for its customers. Thus, the real story is in the homes they build. The thoughtful design of the homes makes them popular and valued.

MOSAIC has never been a complacent organization; it is always looking for new product or market opportunity. After starting out as a very successful row townhome developer, they have branched out into single family homes, low rise apartments, mixed-use buildings and will soon venture into high-rise developments.

These new products have all been developed locally, but what about new markets? The focus of this paper will be on opportunities that MOSAIC could capitalize on in other markets outside of the Lower Mainland. The Calgary market will be analyzed to determine if similar developments can be produced there. Going into any new market poses some challenges, whether it is demographics, resources or building conditions.

Table 11 below shows MOSAIC's corporate strategy (cost vs. differentiation). The purpose of the grid is to determine where MOSAIC current strategy fits and to identify what areas need to be improved to execute the strategy they have chosen. It seems clear that the company's strategy is to differentiate its product and the way it does business. This is true for many different levels of the company, not just its product. Everything from marketing to design to construction to customer care exemplifies differentiation in the products and services provided.

separate entryways. The competition has tried to copy the strategy but they have not executed on the whole plan. While MOSAIC is strong in this area, continued improvements need to be made. Improvements may take involve the product itself or the MOSAIC experience that a customer goes through.

The way projects are marketed has also evolved over the years. With more and more overseas' investors, projects can often be presold. There have been instances where a single realtor has bought five to ten units for foreign investors. Display homes are also becoming more innovative with large touch-screen display panels that illustrate various unit styles and provide up to date information about the units that are available.

1.3.1.2 Research and Development

Not many developers have formal research and development (R&D) costs. If they do, it tends to be for a onetime project on a new product line, for example, building wood frame three – four storey apartment prototypes. However, what does seem to be the norm is that developers continuously look to improve on style, over-all design features, and floor plans. This is more of a labour intensive process rather than involving capital expenditures. With that said, to compete in the market with a differentiated strategy, there are costs and time need to spent to come up with different ideas for an innovative product. As we will discuss in later chapters, to compete in the Calgary market, MOSAIC has to be ahead of the curve in terms of its product.

1.3.1.3 Structure/Decision-Making/Labour

Most of the planning and decision-making are done at head office. Decisions about planning and development are made centrally, with site supervisors and construction managers following head offices lead. Critical decisions about design are often made by the owners after a site visit. This seems to be a “nature of the business” kind of situation; the developer’s lead contractors and internal people execute plans that have been developed centrally.

If MOSAIC is to succeed in through differentiation, strategy decision-making must be more decentralized. MOSAIC will hire experienced individuals who can be trusted to make appropriate decisions. A side benefit of this decision-making freedom is that the culture of the organization will be more entrepreneurial.

As mentioned, one of the key ingredients in a new business is having qualified staff. MOSAIC has had a strict hiring policy and tried to hire the best people available. This has been evident, not just on the development side, but also for other supporting roles like finance, tax and legal advisors. External advisors have been brought in when needs cannot be fulfilled internally.

If a new market is contemplated, as it is in Calgary, new contacts and relationships will have to be built up to get access to qualified labour. These people will play a critical role, not just doing the development, but also ensuring that the products are differentiated from those of the competition.

1.3.1.4 Production Services

Product services is not a significant issue for MOSAIC; they have been consistent over the years. In the last two years, new products, in the form of single family and mixed-use buildings, have hit the market; however, these operations are still in the start-up phase. More attention could be paid to the service side of the development cycle. This would include sales service, using technology more in sales offices, telling more of the MOSAIC story, and making customers feel more confident that they are dealing with a reliable developer. Also servicing a customer after purchasing is a great way to differentiate yourself from the competition. Too many competitors are just happy with the sale and do not do a good of a job following up with customers.

The product must be considered when venturing into a different climate, like Calgary. Colder temperatures, snow and high winds will necessitate different building materials and codes, not to mention building conditions. These are issues that must be considered for any new market.

The plan for Calgary is to establish row town home developments first. After a couple of projects have been completed, then different products, like apartments, detached homes or duplexes, could be considered

1.3.1.5 Marketing

MOSAIC has been able to differentiate itself in the marketing dimension. They have typically used a stealth approach to branding and marketing. They let the product speak for itself. You will not hear about MOSAIC's projects on the radio or TV. You will see smart ads like billboards in front of old and new projects, ads in real estate magazines and other high traffic media that attracts many buyers.

MOSAIC goes beyond the traditional ways of marketing by contacting realtors with foreign investors. It is not uncommon for one agent to buy 20 apartment units for foreign investors. However, more could be done to attract foreign investors; this could be an area of greater focus.

The use of social media is another way to differentiate a product and buying experience. More sophisticated selling techniques could be used in the future.

1.3.1.6 Risk Profile

The nature of the industry dictates that the risk profile of a developer is significant. The number of items at risk from a finance and product point of view can be significant. Personal financial guarantees are often required, which adds risk. The risks associated with the product are clearly demonstrated by the extensive press coverage and legal cases dealing with the "leaky condo issues" in the Lower Mainland.

Despite these issues, MOSAIC has been strategic in its view of risk. Sites have been picked that only generate a certain percentage return, and, in rare cases, MOSAIC has walked away from deposits due to changes in market conditions. But are these strategies leaving MOSAIC out of bigger profits or new markets? What about a new market like Calgary?

In the Vancouver market, MOSAIC is entertaining the possibility of developing high-rises. This is certainly a riskier venture than previous projects with much more capital and resources at risk. These types of risk can only be assumed after a company is comfortable in the market. For now, venturing into row homes in Calgary has enough imbedded risk.

1.3.1.7 Leverage

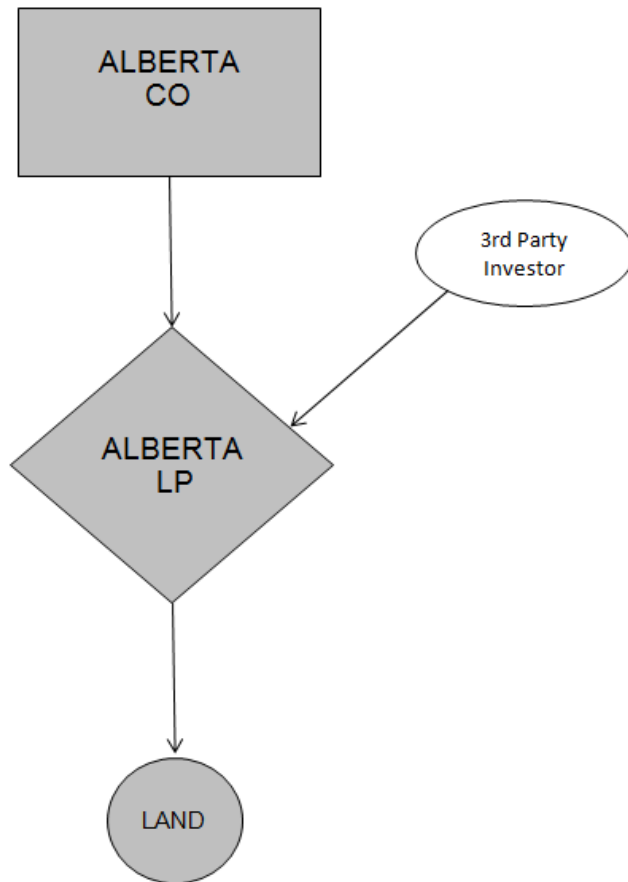
Similar to the risk profile, leverage associated with land acquisition and construction financing is a norm for the industry. Unless you are a developer that has been around for years and has millions to spare, leverage is always needed.

Venturing into a new market like Calgary will still require leverage, but new bank and financial relationships will have to be developed. The company's excellent record with local Vancouver financial institutions will mitigate these potential difficulties and ease the development of new relationships. However, personal guarantees may also be required again.

1.4 Calgary Business Venture

The focus of this paper is a new business venture in Calgary. The venture will be run primarily by two principals and be supported by MOSAIC and established industry relationships (mainly in Vancouver). One of the principals will have a real estate developer's background while the other has a financial background. A new company will be incorporated in Alberta. Given the history of lawsuits in the industry, a separate company is warranted. There will be no formal linkage to MOSAIC, which will protect it from potential legal action, and the two principals will be protected by the incorporation. Specifically, the structure may be a limited partnership with a newly incorporated company as the limited partner. (See Figure 2 below.)

Figure 2 Corporate Structure



The corporate structure may vary, depending on how the land acquisition can be structured and if a third party needs to be involved. If a third party is needed, they could participate in the limited partnership. A limited partnership confers tax benefits in real estate ventures because the land can be transferred on a tax-deferred basis. One of the first steps in the development is to secure a land site and operations will start with this step. The head office will be in Calgary. At the outset, a home office could be used (relatives), but eventually an office would need to be rented.

The idea for the business first came when helping a relative, who lives in Calgary, find an apartment. Driving around the city, it was easy to see that most of the townhome developments lacked character. They had simple exteriors with basic doorways; one could only imagine what they looked like on the inside. Figure 3 presents two pictures of typical townhomes in Calgary.

Figure 3 Typical Townhomes in Calgary



The core concept for the Calgary venture is upscale, quality townhomes at a reasonable price, closer to downtown. The value to the customer is being able to buy a home that is affordable and not out near the city limits where most of the new developments are occurring. More and more of the city is suffering from “urban sprawl”. The city recognizes the issue and much research has been done to determine why the city continues to expand into suburban areas. A University of Calgary study by Max Foran, professor of Canadian Studies, documents the issues. Foran has also written

a book on the issue. In an article published on the University of Calgary’s website, Foran stated that “the city did not offer alternatives to single family dwelling and did not create high density residential communities” (University of Calgary, UToday, 2009). Townhouse development is the perfect solution as densification can be maximized, making optimal use of available land. With a steadily growing real estate market, such as Calgary has been experiencing, this is an opportunity to build a quality product with reasonable returns. Calgary is Western Canada’s business centre and has more head offices per capita than any other Canadian city. Its key economic drivers are financial services, energy, transportation and logistics, information and communication technology, manufacturing, and film and creative industries (CED, 2009).

1.4.1 The Product

Figure 4 shows examples of the type of townhomes that is envisioned.

Figure 4 Type of Townhomes MOSAIC Envisions





Compare this to what is on the market today; there is no comparison. The townhomes envisions for Calgary will have different styles and vary in size. The size of the homes will range from two to three bedrooms. Each size of home (2 or 3 bedroom) could have slightly different floor plans to give the buyer some choice. The uniqueness of the product will come from the experience of building and learning from experiences in the Vancouver market. The homes will be designed to make proper use of space; as townhomes are smaller compared to detached homes, it is important that there is very little wasted space. Appendix A lists the unique features, which currently offered homes do not have, that could be included.

One of the drawbacks of introducing this style to the Calgary market is that copy cats will follow. The new company may not be able to block new entrants but it is prepared to compete on execution of the interior space and the whole selling process. Others may try to copy the exterior, but real value will be in the interior. Also, if land

can be acquired at reasonable rates this will certainly provide an additional advantage. As well, securing preferred contractors may help in limiting new entrants.

After the initial townhomes project is completed, there may be an opportunity to get into the single family detached home market. These homes could be located adjacent to a townhouse development, which would increase the breadth of products that could be offered. The depth of this product line could vary from three to four bedrooms.

Calgary will be the general target market, but specifically where in Calgary will depend on the location of the sites that can be acquired. The inner city is expensive; outside of the downtown core, developments can be done with more affordable prices. The goal is to hit a price point that can maximize absorption.

As a direct participant in this venture, I see our operations having one or two projects on the go at a time within five years. The market is not large enough to make more than that many feasible. In five years, we will have built a reputation for quality and well thought out products. The business will not grow at a fast pace; it will develop through steady, well-considered, projects.

This chapter has described the Canadian real estate industry in general, explained how MOSAIC operates in that context and focused on the company's history and future. Certain national real estate segments look good for future growth. Specifically, Calgary looks like there is a good opportunity for MOSAIC. The challenge is in addressing the key differentiation strategies and determining if they can be executed in Calgary. The Vancouver market has been kind, but venturing into Calgary involves significant differences in demographics, geography, product and climate.

2: EXTERNAL ANALYSIS

This section will look at the external considerations that influence the real estate industry. Porter's Five Forces will be used to anchor the strategic analysis of the venture. From this analysis, specific key success factors will be derived, identified and ranked. These key success factors will be compared to competitors in the competitive analysis that follows. Opportunities within the real estate industry that competitors have not fully capitalized on and threats from competition will be examined to determine if the new venture can compete. The industry analysis will reveal key competitive advantages and key success factors that are applicable throughout the industry. This understanding will help with implementation and to avoid the obstacles that any new business venture may face.

2.1 Porter's Five Forces

A five forces analysis provides a framework to analyze an industry and business strategy. The five forces can help determine the competitiveness of the industry, the attractiveness of entering it, and where an edge can be achieved over rivals. The following is an analysis of the residential real estate market in the Calgary area.

2.1.1 Threat of Substitutes (Strong)

Within a given market, substitutes are alternative products that customers can purchase. They are not necessarily similar competitor products; they can be entirely different products. This force is listed as strong as the new company will be able to compete with many substitutes. Also, the ability to differentiate its product from its competition has been a key success factor in the Vancouver market and the plan is to continue this focus in the Calgary market.

2.1.1.1 Switching Costs

Switching costs can be high for this type of product, thus we do not see too much of this in the industry. Generally, the decision to substitute is made before the purchase, and usually it involves consumers who are looking for a rental who make the decision to switch to buying a home.

2.1.1.2 Buyers Inclination to Substitute

In the real estate market, the threat of substitution occurs if buyers begin to think that the market is overpriced. When this occurs, many consumers defer the decision to purchase. Currently, in the Vancouver market, the advice is to rent. Also, if interest rates start to climb, people will not be able to afford their mortgages and will either go back to renting or not buy. If this happens and buyers start waiting for a dip in the market, and resale supply or a developer's inventory starts to build up, then developers suffer. Unsold inventory means interest accumulates with no relief; this is "death" to a developer.

2.1.1.3 Types of Substitutes & Contingencies

There are many different substitutes for row homes; detached homes, duplexes, used homes, and apartments are the main substitutes. Fortunately for MOSAIC, their market happens to have the highest rental occupancy rates compared to the rest of Canada. The same is true for Calgary; its vacancy rate is the lowest in the province. However, as mortgage rates are currently so low, many customers are looking at getting into a starter home, and are prepared to consider a townhome. What competes with this notion is that some experts believe that the market is overpriced and that a correction will come. This may make buyers continue to rent.

2.1.1.4 Price Performance of Substitutes

Rental costs in Calgary are among the highest in the province. If owners can get over the uncertainly factor of the market, then current mortgage payments will not be

that different from monthly rents. Thus, a key factor is if a new product can compete with a low price, renters could be persuaded to become buyers. The same can be for competing with buyers of used homes. Why buy used, when you can pay the same price and buy new? Another argument is that if renters cannot afford detached homes, then the low price point of a row home could a first step to getting into the market. The logic would be that a row homes requires less money; they are using less money now to buy a quality product that will hold its value over time and while building equity for their next purchase.

2.1.1.5 Product Differentiation

Product differentiation is where MOSAIC has been successful. Details like designing a well thought out and practical home, getting the most out of small homes, densifying to the maximum profit potential, marketing a product with the final customer in mind (both before and after construction), coming up with the right price point, and delivering after the product is sold are all key differentiation strategies. With various competitors in the Calgary market, the new MOSAIC associate will have to be able to differentiate to avoid losing buyers.

2.1.2 Bargaining Power of Suppliers (Medium)

Suppliers provide inputs such as raw materials, labour and other such services. In some cases, suppliers can have power over an organization. This force is listed as medium because construction is contracted out. Materials and labour are included in the tendered prices quoted for the job. Therefore, the main supplier component is the contractor. Being new to the Calgary market, relationships with trades have not been established. However, if an experienced development manager with experience in the Calgary market can be found then most certainly this force will be rated lower.

The other major input is land. Acquiring land at the right price and location is critical to a profitable project. One of the keys to success in the Calgary market is acquiring land. There is a potential to work with a third party that already owns land in

Calgary but does not have development expertise. If this relation can be utilized the strength of this force will be low. Thus, despite a low exposure or experience in the Calgary market, much of the uncertainty with suppliers can be managed by hiring an experienced personnel and having a strategic land partner.

2.1.2.1 Impact of Input on Cost or Differentiation

There are many suppliers in this market. Those with good reputations sought after. It is important to align with suppliers for both current and future business. This ensures the suppliers more volume in the future. Most developers contract out the construction work to various trades. A construction manager, along with a site superintendent, manages the whole process. They are tasked with keeping suppliers in line.

That said, trade contracts are put out to tender. The developer will pick the trade that has the best quote, reputation and ability to follow through on the contract. Just before 2008, contractors were able to demand higher pricing for their services in the Vancouver market; but since then pricing for contractors has become more reasonable and Calgary seems to have experienced the same trend. The inflow of more skilled trades has helped this situation. Before the 2008 bust in BC, building trades commanded very high prices because of shortages of skilled labour. More recently, that has not been so much the case.

2.1.2.2 Supplier Switching Costs

If a supplier or trade is not performing, switching can be done, but it is best to avoid this situation by aligning with quality contractors. Switching suppliers is inefficient.

2.1.2.3 Degree of Differentiation of Inputs

As mentioned, the subcontractors will all have various skill levels; good workers will be in high demand and may dictate a higher price. The inputs themselves should

not be that different, all should be ticketed workers, licensed under their various trade associations. As a company not well known in the Calgary market, the challenge will be attracting skilled workers.

A key success factor here is being able to develop supplier relations for both land acquisitions and contractors. Both are key elements in the development process. Having more than one contractor is essential to reduce supplier power. Also having key contractors working on multiple projects can create cost efficiencies through volume purchases.

2.1.3 Bargaining Power of Buyers (Weak)

The buyer power is the market for the outputs of an organization. Can customers put pressure on firms to produce what they want? Buyers tend to have less power as there are so many in the market. Most are first time home buyers who are trying to get out of the rental game. By providing quality, differentiated homes at an affordable price, buyers could be literally lining up. Although this force is listed as low, a developer still has to back up their product and provide any deficiency work necessary.

In Chapter one, we defined the market segment that the venture will be focusing on: young professionals working downtown, new migrants, first time buyers, young families and foreign investors. Young professionals working downtown will have low power, as their need to buy a home close to downtown. They also do not want yards to maintain; thus are not interested in detached homes. A row home has the property taken care of by the strata, which reduces the amount of work the owner has to do. New migrants are looking to get settled in; they may be looking to rent until they are comfortable in their new environment. Those who are looking to buy will want quality and affordability, and may be pressed for time. Their power is medium because they may have more reasons to defer purchasing. First time buyers and young families can be pulled into the market by the attractiveness of buying from the MOSAIC associate. This will be one of the key markets that the new company focuses on. Their power is low, as they can be drawn into the market because of the relative competitiveness of buying

compared to renting. Given current conditions, they will be able to purchase a brand new quality home and carry a mortgage with monthly payments almost equivalent to rental costs. Foreign investors are another segment that will have medium power. They do have many investment opportunities and could buy other products, but the quality and affordability of the product will appeal to this group. Given the low vacancy rates, an investment property will be appealing.

One opportunity that may be explored is to expand into single family homes or apartments after a few row home projects are completed. If the row homes are successful, then then new products can be leveraged from this success.

2.1.3.1 Buyer Price Sensitivity

Buyers can also be categorized by income segments. First time buyers will have less choice. Buyers with more income will have more choice and can pick from other types of homes, semi-detached or detached. Another consideration is that higher income buyers could also be looking at investment opportunities in the form of rental properties.

2.1.3.2 Buyer Concentration

Because of its size and economic importance, there is significant buyer concentration in Calgary. In particular, we will be targeting young professionals who want to live close to downtown and avoiding the commuting costs. This group has a clear preference for particular locations. As mentioned in the industry overview, there is still strong net immigration into Alberta and it is anticipated that a significant portion of this buyer group will focus on an area like Calgary.

2.1.3.3 Availability of Buyer Information

Buyers are also becoming more sophisticated. With so much information on the internet, through blogs, commentary and various social media channels, buyers are well informed and aware of their options before they even enter a sales office. Developers

have to be aware of this and be ready for comparisons with their competition and able to meet buyers' expectations. This could actually help with MOSAIC's Calgary operation, as buyers may be aware of the success of the Vancouver operation.

Buyers are constantly comparing prices of new developments, thus price sensitivity is very important to buyers. An overstated price can leave a developer with surplus inventory. This is where branding and differentiation among developers can create value for a developer and be seen as value to a buyer.

Therefore, the key success factor from this force is being able to target the right market segment. As mentioned above, professionals, first time buyers, new migrants and foreign investors are the key targets. The key is being able to convey to this group that these homes are quality, affordable, and very comparable to renting. Another key factor here is that eventually MOSAIC Calgary will have the brand recognition that it has in Vancouver and buyers will have more comfort buying these homes.

2.1.4 Threat of New Competition (Weak)

The threat of new competition comes from barriers to entry and the threat of new entrants.

Profitable markets attract more competition and new entrants. This will eventually decrease profitability, unless new entrants are blocked. There are no legal restrictions to building homes in Alberta. Currently there are many medium to large-scale developers in Calgary. However, branding and reputation go a long way. This force is listed as a low due to the fact the MOSAIC Calgary can potentially align themselves with landowners and execute on their product, which will put them in a more favourable position.

2.1.4.1 Barriers to Entry

Although there are no formal barriers to entry, in general development markets are not easy to get into; capital, land, building expertise and delivering quality products take time to develop and master. However, as MOSAIC has been in the market for years,

it can build on this knowledge and transfer much of this competitive advantage to the Calgary market, thus it is will be easier for MOSAIC to enter this new market.

Acquiring good land sites is critical to success of a project. With land at a premium, new entrants may find it hard to start medium sized developments as sellers may be hesitant about selling to newcomers, as they may not be willing to close and do not have an established reputation. Also, the city may look at a more experienced developer more favourably. The alignment strategy mention above, can give MOSAIC a distinct competitive advantage in acquiring land sites. The ability to acquire land is a key success factor.

Another major risk is having unsold inventory. If the homes do not sell, sitting on debt that is accumulating interest can be very costly. To help mitigate this scenario, the project could be divided into phases. If phase one is not selling well, then the start of construction for phase two will be delayed.

As mentioned, currently mortgage rates are at historical lows. This has helped stimulate sales in the real estate sector. However, history tells us that these rates will not stay this low forever. If rates start climbing, the affordability of homes (new or used) will certainly be reduced. This will have an impact on absorption rates and effect sales.

2.1.4.2 Brand Equity

MOSAIC has been around for nearly 10 years and has built a good reputation and a well-recognized brand. Branding and marketing have helped us to the point where we can actually pre-sell projects. We intend to build on this success in Calgary. The strength of our branding will eventually keep other entrants out; but, as mentioned previously, the threat from new entrants is not strong. Nonetheless, brand equity is still a key success factor for a developer.

2.1.4.3 Capital Requirements

One of the big barriers competitors face is access to capital. For larger projects, greater capital is required to start projects, and lenders, especially these days, are more reluctant to lend to newcomers. Capital is required to purchase good sites and favourable borrowing terms need to be negotiated. A new operation will face challenges negotiating favourable borrowing rates. However, MOSAIC Calgary will be able to leverage the Vancouver operation's position and reputation to achieve a competitive advantage. For all operators in the industry, access to capital and favourable financing terms are key success factors.

2.1.4.4 Industry Profitability

Real estate development profits can be in the 15 – 30% range, which makes the opportunity seem very attractive to new competitors.

2.1.4.5 Government Policy

As was experienced with the onset of the HST in British Columbia in July 2010, the effect of HST on new home builders was significant. The cost to a purchaser had increased by 7%, which, on a few hundred thousand dollars, was significant. Rebates were offered to purchasers to assist with the burden of the additional tax, but on homes above \$525,000 there was no relief. Considering the high prices in the Vancouver market, a new home purchase could easily be above the \$525,000 limit. If the Alberta government ever decided to institute a provincial sales tax this could affect the sale of new homes.

Additional examples of potential threats are contained in the 2011 federal budget. The Honourable Minister of Finance announced significant changes to the way partnerships are taxed in Canada. For many years, partnerships have been very prevalent in the real estate industry across Canada. The proposed changes will have an impact on the cash flow of most developers structured as partnerships as the deferral of tax on income will be eliminated. This could be significant as many developers could

potentially have income from projects, but have no cash to pay taxes on the income, as they are paying down debt to lenders first.

Government policy is a significant component in barriers to entry. The government's implicit support of the Bank of Canada's low interest rate policy lowers the capital borrowing barrier. The reduction in maximum terms for mortgages and the increase in minimum down payments will prevent some buyers from entering the market.

Based on the above, the key success factors are having enough capital to start projects, being able to acquire or join with a partner that has land available, having good relations with lenders, and having a respected and well-recognized brand.

2.1.5 Intensity of Competitive Rivalry (Medium)

The intensity of competitive rivalry is concerned with competitiveness within an industry. Being able to sustain competitive advantage through innovation, advertising and other competitive strategies all contribute to the competitiveness of the industry. This force has been ranked as medium because although there are a number of players the market is robust and barriers to entry are relatively high. MOSAIC, in particular, has the knowledge and tools available to focus on the Calgary market. What rivals may not have caught onto are the opportunities that row housing can offer through densification and the advantages of the style and design that MOSAIC is proposing.

2.1.5.1 Sustainable Competitive Advantage

The new housing market in the Lower Mainland is very competitive. A few major players in the market seem to get most of the press. Calgary is no different. Organizations like Morrison Construction, 2011 JD Power Award winner for New-Home Builder Satisfaction Study, are clear favourites.

MOSAIC has been able to capture market share through intelligent land purchases and keeping construction costs down. This allows MOASIC to compete on price and turnover their product more quickly than their competitors. There is

definitely competition; but it seems the ability to compete on all levels gives MOSAIC the advantage. To be competitive in Calgary, these same advantages will have to be acquired in that market.

Product differentiation has given MOSAIC a distinctive advantage. The redbrick, distinct entryway, gables, and planter boxes are just a few examples of exterior differences. Inside the use of every corner and angles gives the illusion of larger units. All of these items are not by chance, but by design. Other developers have tried copying the style but have not been able to replicate the whole package.

2.1.5.2 Level of Advertising

Traditionally, MOSAIC has been conservative with its advertising. It does not go in for flashy radio or TV ads, just strategic signage, print ads in real estate magazines, and lately more emphasis on social media. These forms have been sufficient as the company's brand and reputation in Vancouver have grown, and this has made it easier for MOSAIC to compete. The true test is the satisfaction of their customers. Satisfied customers are boosting MOSAIC's reputational capital. Developers take years to develop their reputations in the marketplace; this capital cannot be gained overnight. Together, all these components speak to branding; branding is what has made MOSAIC successful in the Lower Mainland market and it is what will make the Calgary operation successful.

2.1.5.3 Competition

As we will see later in the paper, Calgary has its share of award winning competition in the single family market. The new venture will focus on row townhomes. While this style of development is not a focus for rivals in Calgary, it will be the focus for MOSAIC. There still is a market for row homes. They will have all the feel of a detached home, without the higher price tag. A competitive strategy will be in place that will appeal to the target segments and may even take customers away from the

competition. The Calgary operation will focus on the key success factors of branding, product advantages and product differentiation.

In terms of rivalry, focusing on a particular target market with a quality differentiated product will be key success factors. Given its experience is designing quality products and ability to market to a particular target, MOSAIC Calgary can compete in this market. As is evident from the photographs of current townhouses in Calgary, presented in Figure 3, the competition in Calgary has not been able to produce row homes of the same quality as single family detached homes.

2.1.6 Industry Attractiveness

Table 12 shows the relative attractiveness of each of the five forces described above.

Table 12 Relative Strength of Forces

FORCE	STRENGTH OF FORCE
Threat of Substitutes	High
Bargaining Power of Suppliers	Medium
Bargaining Power of Buyers	Low
Threat of New Competition	Low
Rivalry	Medium

2.1.7 Key Success Factors

Derived from the five forces analysis presented in the previous section, Table 13 below shows the key success factors (KSF) with a scale to indicate the relative importance of each KSF.

Table 13 Key Success Factors

KSF	FORCE	SCALE (3 highest, 1 lowest)
Differentiation – product and service differences	Substitutes/Buyers/ Competition/Rivals	3
Branding – reputation, logo’s, reputable builder	Buyers/Competition	3
Land Acquisition – acquiring prime spots, leveraging Vancouver contacts for acquiring land	Suppliers/Competition	3
Capital Injection – being able to finance projects, having capital to inject on land deals and on construction loans	Competition/Rivals	3
Advertising/Marketing – amount spent on advertising	Rivalry	2
Availability of Inputs – building relations with contractors/strong hires	Suppliers	2
Target market segment	Buyers/Rivalry	3

2.2 Competitive Analysis

This section will present an analysis of three direct competitors, Morrison Construction, Carma Developers and Sterling Homes, and describe how they compare on the KSFs mentioned above. A brief description of each company is given below:

2.2.1 Morrison Construction

- 50 year history of building in Calgary
- 2011 JD Power – Customer Satisfaction award winner and one of Canada’s 50 best managed companies
- Calgary builder of the year 2001 – 2010
- Values are integrity, craftsmanship and personalized service
- Community involvement through Make-A-Wish, United Way and Canadian Cancer Society

Morrison is one of the largest developers in Alberta. With their long history and award winning status, their brand is second to none. They develop single homes,

duplexes and townhomes. Their strategy seems to be one of quality product supported by great service, suggesting they are primarily pursuing a differentiation strategy.

2.2.2 Brookfield Properties

- Over 50 year history, was a diversified international company, but now just focused on Canadian development (Calgary, Edmonton, Victoria and Toronto)
- High company values and standards
- Decentralized decision making allows for differentiation
- Culture of learning and developing staff

Brookfield also has a long history in Calgary and an award winning reputation. They are a public company with ample access to capital. They value their customers and their own staff. They are a recognized community leader that has spear headed many communities in Calgary. Brookfield would be a good model for a competitor to follow. They focus on detached and semi-detached homes. Their product is differentiated by unique architecture and award winning service.

2.2.3 Sterling Homes

- 60 year history in Calgary market
- High customer service and company values
- Detached and semi-detached homes

Sterling Homes also has a long history and extensive market experience. They have won awards for their customer service in the past.

Table 14 Comparison of KSFs for MOSAIC and Competition

KSF	MOSAIC - Calgary	Morrison Construction	Brookfield Properties	Sterling Homes
Differentiation	5	4	4	3
Branding	5	5	4	3
Land Acquisition	5	4	4	3
Capital Injection	5	5	5	5
Advertising	4	4	4	3
Availability of Inputs	3	4	4	4
Market Segments	5	4	4	4
Total	32	30	29	25

2.2.4 MOSAIC – Competition Comparison

MOSAIC has experience with row townhouse development. They have been around for just over ten years, and have concentrated on this product. Because of the focus on row homes, they have been able to create advantageous economies of scale that the competition in Calgary does not have. MOSAIC is ranked higher in differentiation for this reason. The competition has been successful in the single-family market, but does not have experience in the row home market.

Branding is similar to differentiation, in that MOSAIC and Morrison have established reputations; Morrison is an award winning organization. Although Sterling’s advertising touts its reputation and the fact that they have been around for decades, many of the awards and the reputation they promote have come through companies that they have acquired.

Like MOSAIC, the Calgary competitors still have to acquire land at current market prices MOSAIC has an advantage due to a pre-existing relationship with a property management company that owns various lots in Calgary.

MOSAIC may be in a less advantageous positions with it comes to availability of inputs mainly due to the concern that strategic relationships with contractors have not

been developed. The competition has been in the Calgary market for many years and has already established these relationships.

2.3 Opportunities

2.3.1 Differentiation

As mentioned in Chapter one, there seems to be an opportunity to develop quality row homes in Calgary that have more design quality and style than what is currently available in the market. Practical, functional and design driven are the terms used to describe the style of homes that are contemplated. Given that the rivals are not up to the MOSAIC standard, this seems like an opportunity.

The opportunity is not just in the product; the overall MOSAIC experience for a customer is also extremely important. The experience starts with the product, but continues with the sales people, the key turnover, and customer care support after the product is sold. This experience is the true value-add that helps build an organization's reputation capital and differentiate it from the competition.

2.3.2 Branding

Branding has made MOSAIC successful. The name and, more recently, the logo, are what have allowed MOSAIC to gain market share by attracting repeat buyers and investors. This same reputation will be behind the Calgary product. The experience in differentiation will also help build the brand in Calgary. Branding and reputation will also help to secure financing and attract contractors. The threat to MOSAIC's operation in Calgary from immature relationships with financial institutions and contractors will be discussed in Section 2.4.

2.3.3 Land Acquisition

Compared to the Lower Maintain, there is not a great deal of competition in the townhouse market in Calgary. This may be due to the shortage of land in the Lower

Mainland; the challenge in Calgary is availability. The problem is not that there is a shortage of land but that a select few developers have a virtual monopoly on the most promising development sites in the city. MOSAIC maybe collaborating with a property management company that has land in Calgary. This relationship grew out of MOSAIC's tentative foray into high rise development in Vancouver. The possibility that MOSAIC could co-develop projects in Calgary is definitely an opportunity worth exploring.

2.3.4 Target Market Segments

The fact that MOSAIC's market will, at least initially, be narrowly defined also presents an opportunity. The marketing strategy will be focused on particular target market segments, which have been previously identified. The foreign investor could be a wild card; if the operation can tap into this market and convince investors that an opportunity exists, it could really help sales. Contacts in Vancouver can be leveraged for Calgary.

2.4 Threats

A clear threat that emerges from the above analysis is being new to the Calgary market. Relationships with suppliers will have to be created and nurtured. These relations take time and the established competition has a clear advantage in this area. However, by hiring key personnel who have worked in the Calgary market and have solid connections, some, if not most, of this risk associated with this threat can be minimized.

2.5 Strategic Alternatives

The strategic alternative that is being considered is a row town home development in the city of Calgary, which would be consistent with the city's densification strategy. Within the city there seems to be a shortage of quality row

housing. There are many facets to a development project: land acquisition, development, construction, marketing and finance. MOSAIC has the experience in all these areas to make the venture in Calgary successful. To make the venture even more successful, an addition opportunity is to align with a property management company that already owns land in Calgary. The other keys to success will be being able to capitalize on the differentiated product that MOSAIC has to offer and utilize MOSAIC's brand to market the product effectively.

This business plan could be executed almost immediately; however, much preparation would be required before actual development could start. Before development can begin, it is critical that qualified personnel are in place to fill vital roles first. In addition, the company will have to negotiate land sites or initiate discussions with a potential partner and start talking to lenders regarding financing. Choosing the right extent of densification (i.e., the right number of units to be produced), lining up suppliers, and developing a construction schedule that considers potentially adverse weather conditions are all important considerations. All these important decisions will be managed by personnel hired to work in situ. Each person will have skill sets matched to the needs of the operation and the MOSAIC Vancouver owners will be available to provide guidance and support the Calgary operation.

One of the key roles of the sales and marketing manager is to tap into the foreign investor market. Contacts in the Vancouver market could be very helpful in this strategy. Quick turnaround of units will be very important to the profitability of the venture. If the project can be sold within the year and before the winter comes, then the venture will be more profitable. An aggressive strategy to absorb all units as quickly as possible is vital. This makes the attractiveness of getting land at low prices or working with a landowner even more important, as lower land prices can allow units to be absorbed more quickly by offering higher discounts if necessary.

3: INTERNAL ANALYSIS

The previous chapter described a strategic alternative. The focus of this chapter is to determine whether there are sufficient resources and internal capabilities to implement the strategy. The analysis will include a discussion of management preferences related to internal structure, a detail description of the organization and the resources that will be required to bring the project to successful completion. (Crossan et al, 2009)

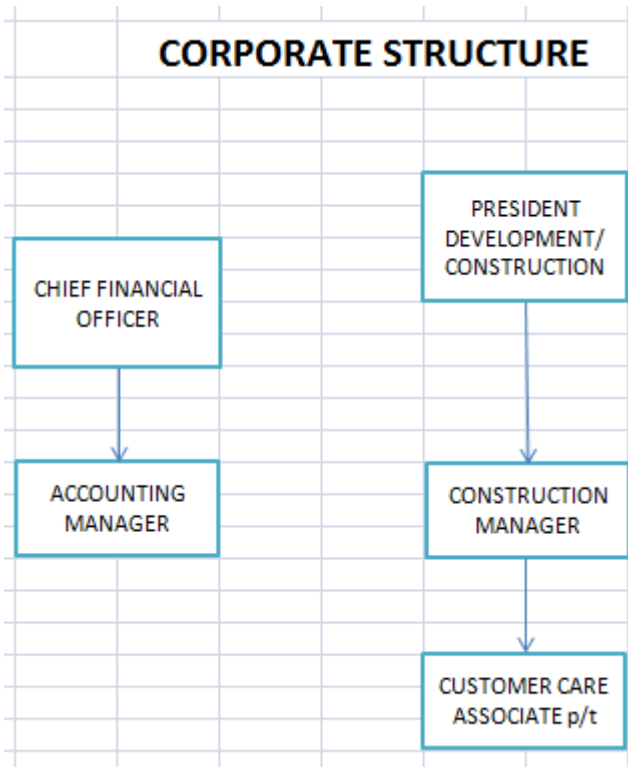
3.1 Management Preferences

The management preferences relevant to this analysis relate to the organization's internal structure. This section will provide details of key management personnel, including compensation and ownership position. It will include a brief description of the board of advisors and the position of other current investors. (Crossan et al, 2009)

3.1.1 Internal Structure

Figure 5 presents a simple internal organization chart for the venture. The key management roles are the top two positions. The President and CFO roles will need to be established at the outset. These two officers will also be key equity contributors to the operation. Each will contribute \$500,000 to the operation. Sales and marketing functions will be contracted out. Each senior manager will need one support staff person, but staffing will be kept at a minimum to preserve costs. The support staff may have to work on contract to keep payroll taxes at a minimum.

Figure 5 Organization Chart for the Venture



3.1.2 Key Management Personnel

The President should be experienced in both development and construction and have connections or established business relationships in the Calgary market. The threats listed earlier in the paper acknowledged that not having contractor connections in the Calgary market is a weakness. Prior experience in the Calgary market will help alleviate this threat. The President They will be responsible for overseeing the development and construction process. This will include hiring and overseeing contractors. The President should have a strong personality and strength of mind. These traits are important as the city of Calgary is a somewhat “blue collar” city and the business environment reflects a similar mentality. The President will need to understand the importance of differentiation to the success of the operation. It maybe that visits to Vancouver will be necessary to fully appreciate the impact differentiation has had for MOSAIC in the Vancouver market.

The CFO will have to have experience in all real estate related matters, such as legal, accounting, financing, insurance and taxation. Additional responsibilities will include IT, assisting with land acquisitions, assisting in structuring contractor agreements, determining the legal requirements for the corporate structure and overseeing sales closures with assistance from external lawyers. This individual should have more of a “white-collar” personality, worker, which will complement the traits of the President.

The two other team members of the team should be bright and hardworking individuals who are willing to take instruction. They will be responsible for much of the work that the two seniors cannot spend time doing. With these roles filled, the internal capability of the operation will be met.

3.1.2.1 Management Compensation and Ownership

The President and the CFO will both have a base salary of \$100,000. They will also be owners and thus will have dividend potential, depending on the success of the project. The two support positions will be paid a base salary with a bonus potential based on the success of the project. Providing a bonus incentive is designed to motivate these persons to perform their jobs to the utmost.

3.1.2.2 Other Current Investors

In order to get the operation started, funding will be needed to cover all anticipated costs. It is anticipated that an additional \$1.0 million will be required, thus roughly 40% of equity may have to be given up to get the proper funding. This may come down to negotiations but the goal is not to alienate than 50% in order not to lose control.

3.1.2.3 Board of Directors or Board of Advisors

At the beginning, there will not a board of directors but there will be a board of advisors. This will be comprised of people such as the four shareholders of the MOSAIC

group (Vancouver developers), external financial advisors with whom MOASIC has existing relationships, and accounting and tax advisors. Each of the MOSAIC owners has expertise in land acquisitions, development, construction and sales.

3.1.2.4 Other Shareholders, Rights and Restrictions

It may be necessary to bring additional shareholders on board to secure land or if additional financing is needed. If land cannot be secured outright, a negotiation that results in the project being jointly owned may be necessary. The limited partnership structure mentioned earlier may be an alternative if this is the case. The land would be transferred to the partnership and the third party would take an interest in the partnership; the venture would own the balance.

3.2 Organization

The organization analysis will refer to structural differentiation, systems, conditions of employment, and supporting professional advisors and services, with particular reference to legal issues affecting operations. A brief description of the organization's anticipated corporate culture and how it will be developed is included.

3.2.1 Structure

Differentiation is a KSF, thus the structure of the company has to be decentralized and decisions must be made independently. This structure will help the implementation of the differentiation strategies. All members of the venture will be educated and experienced, thus the opportunity to add value will always be possible.

3.2.2 Systems

When an office location is selected, basic equipment, such as servers, network computers and an all in one photocopier, will be required. Most of equipment can be purchased, as initially, it should not be a significant outlay. The current tax rules also

allow 100% deduction of computer equipment. The office space will be leased and will be sufficiently large to allow for expansion..

Systems will also be needed on the development and construction side to deal with design approvals and construction permits applications. On the finance side, loan draws will have to be approved by senior management, and a system of controls needs to be in place for these. Accounting practices will be over seen by the accounting manager, as tracking costs and managing cash flows are critical to development activities. Despite all the systems listed, a balance will have to be maintained to determine many different systems are necessary and when they should be instituted. It will be a small operation at the beginning and the goal is not to have so many rules and processes that the efficiency of being a small operation is negated.

3.2.3 Employment and Other Agreements

Terms of employment letters will be needed for each employee. The letter will detail the employees' duties and responsibilities and describe the contractual terms of employment, including the compensation scheme. A shareholders agreement will be necessary to ensure each shareholder is properly protected. Having this established will also show external shareholders that their interests are being looked after.

3.2.4 Supporting Professional Advisors and Services

The accounting and tax firms that the venture will have connections with are KPMG, CA's and Price Waterhouse Coopers, CA's. The corporate lawyers are Fraser Milner Casgrain LLP. Each has offices in Calgary. The company will do business with HSBC and Canadian Western Trust and various mezzanine financing companies. New relations will have to be developed with architects, construction contractors and marketing agencies.

3.2.5 Legal Issues Affecting Operations

Most legal issues for developers involve dealing with building inspections done by the city. These various inspections are required to determine that all local building codes are followed. These inspections will be done during the construction phase of the homes.

3.2.6 Organization Culture

The culture of the organization will be entrepreneurial. To be successful, a quality product must be built, and customers and staff must be taken care of. To ensure this happens, the company will encourage a culture of learning, accountability and growth. Many of the same values from the MOSAIC Vancouver operation will be introduced, but with a smaller somewhat less corporate footprint. The culture should also be evident in the brand that the operation will try to take advantage of. Having a culture of taking care of customers will help to develop the MOSAIC Calgary experience that will form part of its brand.

3.2.6.1 Culture Gap

Culture is not something that can be formed overnight. If there is a gap, it will be because the corporate culture will take time to develop. This process can be facilitated by hiring people whose personalities and values are compatible with values of the operation.

3.3 Resources

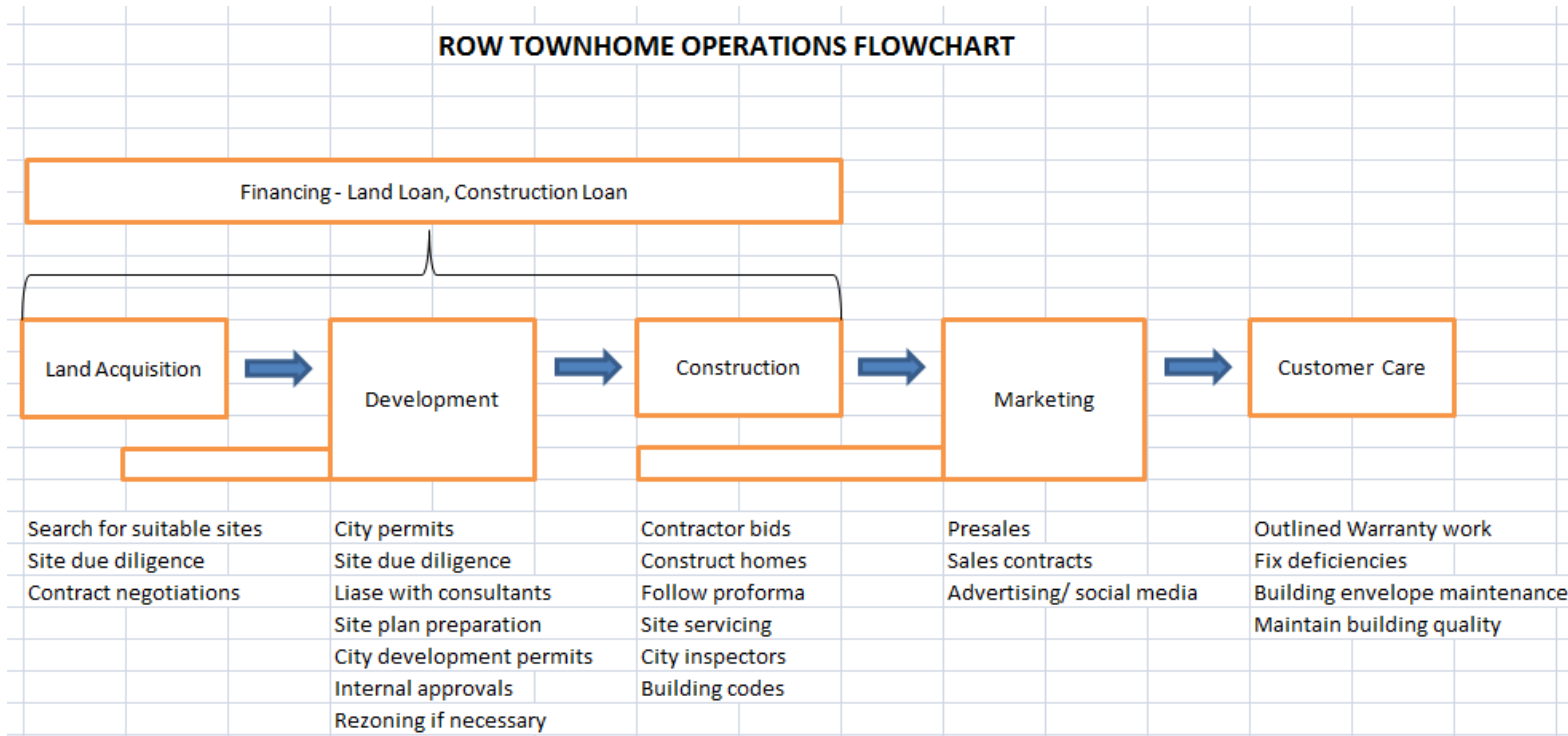
The resources required by the organization are directly related to the operational model and cycle, and the operations strategy. This relationship will be explained, and details of financial and human resources requirements will be given. As it is essential that the venture be profitable, careful financial planning is mandatory. The financial resources section will include revenue drivers and profit margins, start-up

costs, fixed and variable costs, the implications of operating leverage, and a breakeven calculation. The section will conclude with a brief description of profit durability.

3.3.1 Operational Model and Cycle

It is evidence from the operations flowchart presented in Figure 6 that there are many details involved in each major step of the cycle. Some of the boxes are overlapped to show that some of the stages start before each step is complete. This overlap is important to ensure sales are not delayed. Communication and coordination is required to make sure that each area knows what the other is doing.

Figure 6 Row Townhome Operations Flowchart



Bottlenecks can occur in acquiring building permits from the city. This can cause delays as construction teams may be ready to go but the permit is still being processed by the city. The construction cycle will also have to be timed carefully as construction cannot take place during the cold winter months.

3.3.2 Operations Strategy

Based on the flow chart presented in Figure 6, many of the major processes will be managed in-house. Architectural work and construction work will be done by contractors. Land acquisition, development and construction management will be done by in-house staff. The sales and marketing, as well as a part-time customer care person, will be outsourced. From a utilization point of view, there may not be enough work to keep these roles busy full time; some cost savings associated with these functions may accrue.

The contractors will need to be screened and examined through references and referrals. As this will be a new market, time will have to be invested to develop these relationships. As mentioned, the President should have connections in the market that will ease the development of relationships with the contractor.

Quality control must always be monitored in construction projects. Beyond the regulations and rules set down by the municipal building codes, building a quality product is essential to building a solid reputation. The in-house management will have to monitor this. What will be put in place is a scheduled review of each type of work done on the home, for example, pouring the foundation, framing, electrical, plumbing, drywall, etc. Many of these procedures require inspections by the city as well.

3.3.3 Human Resources

As a small operation, human resources management will be simplified at the outset, but the hiring process is critical. The President's role and responsibilities are critical. Being able to deal with the new experience of operating in the Calgary market and being able to deal with subcontractors is critical to the success of the operation.

The same type of diligence will have to be exercised by the support staff. Their capacity to fit in with and enhance the culture that the operation is trying to create will be as important as their ability.

3.3.4 Financial

This section will consider revenue drivers, fixed and variables costs, the implications of operating leverage and start up costs. It will include a brief overview of the economics, explain how breakeven was calculated, and address profit durability.

3.3.4.1 Revenue Drivers and Profit Margins

The major revenue drivers are the amount of land that can be acquired, the amount of densification the city will allow, and the types of homes (two or three bedrooms).

The profit margins are almost a reverse calculation. A residual land approach to profit margins is often used in real estate. A minimum of 15% profit margin is required. Based on the market estimates for each type of cost can be determined, which will determine the price range for a home. The cost at which land must be acquired will be derived based on a 15% return on costs.

3.3.5 Fixed and Variable Costs

Land acquisition will be the main fixed cost. Nothing can be built without incurring the cost of land; the number of homes built does not increase or decrease the amount paid for the land. In order to determine the feasibility of a project, costs will have to be incurred on the development side to determine if the project is possible or not; thus, these costs should also be considered as fixed.

The balance of development costs, construction costs, financing costs and marketing costs are all variable.

3.3.6 Operating Leverage and its Implications

With such high fixed land costs, the venture would be classified as high operating leverage. While it will take a certain number of sales, at least half the units, before breakeven occurs, the balance of sales would be profits. It is important to note that row townhomes project can be more efficient in reducing costs as each project can be broken down into phases. With the completion of each phase, you can close sales and receive cash to pay down debt and reduce interest costs.

3.3.7 Start-Up Costs

Development costs to determine if a project is feasible can be considered start-up costs. These types of costs are necessary for each proposed project.

Other start-up costs, such as incorporation and setting up the legal structure, will be onetime costs.

3.3.8 Overall Economic Model

Overall, the venture will have high operating leverage, with high margins, low volumes and medium revenue drives. Though this may be viewed as a risky venture, the potential returns may outweigh the risks. The high operating leverage is typical for real estate developments and cannot be avoided. If this is acknowledged then the other pieces of the economic model do not seem so onerous.

3.3.9 Breakeven Calculation

Breakeven can be projected based on a simple formula. Based on the pro-forma, 32 units will be needed to be sold before reaching breakeven. Assuming sales of nine per month, then the venture can breakeven in three and a half months. We will have to adjust the monthly sales figures for seasonality, as sales in the winter tend to be slower than in the other three seasons (CREB Annual Statistics, 2010). This is a worst-case scenario as it assumes land costs at the highest point to achieve the minimum 15% return.

Table 15 Breakeven Calculation

Formula:

$$\begin{aligned} \text{B/E} &= \frac{\text{Fixed Costs}}{\text{Contribution Margin \%}} = \frac{4,294,800}{41\%} = 10,507,853 \\ & \\ & \frac{10,507,853}{\text{Avg Unit Price}} = 32 \quad \text{Units} \end{aligned}$$

3.3.10 Profit Durability

An aggressive marketing program will be put in place even before construction is completed, primarily directed at the market segments that are being targeted. The intent is to create a buzz and awareness of the project and the opportunity. We will focus on online media to maintain a competitive edge over competitors. Another key selling point is the attention to detail that differentiates our product from the competition.

3.4 Highlights of the Financial Statements

The highlight of the financial statements is definitely the profit potential for the venture. The sales figures used are conservative and have been used to calculate the cost of land using residual land method. If land can be purchased for less, then profits will be higher. The amount listed in the pro-forma for land is the maximum price that would be paid.

Land financing terms for a starter developer are 50% of value at a prime (currently 3.0%) plus 2% rate. Thus, the other 50% will have to come from the founders and investors. Construction loans for a starter will be about 75% of construction costs at prime plus 1%. An additional layer of financing is going to be needed, as the venture

will likely not be able to raise more than \$2.0 million to start. Currently, this additional layer of mezzanine financing costs about 15%.

Lenders will be looking at the income statement and at the reasonableness of the revenues predicted. Often appraisal reports are required to confirm that the projected returns are justifiable. Lenders are usually aware that start-up real estate developers often rely on leverage to begin operations. Thus, the income statement for this venture is the highlight of the financial information.

Pro-forma income statements and balance sheets are presented in Appendix B. All costs are based on current industry practices and rates. The base case is a minimum 15% before taxes. If land is acquired at current market rates, then the return can be about 25% before tax. The tax rates are 25%, but this can be reduced through some creative tax planning. The lowest possible business tax rate is 14%.

3.5 Cost Controls

Costs controls will be monitored via an accounting software program that is designed for real estate developers. The software is able to provide reports that compare actual costs to pro-forma costs and illustrate variances. These variances can be checked monthly by the construction manager and the CFO to determine why costs are out of line. Monthly meetings to review costs will be necessary.

In addition, the construction loan draws will be based on projected costs for the month. If costs are higher than projected, then there will not be sufficient cash to cover any additional or abnormal costs. This will be another way of checking whether costs are in line with expectations.

4: FINAL RECOMMENDATION

4.1 Recommendation

The strategy that has been proposed is a row townhouse development in Calgary, Alberta. Based on what has been developed in the city to date and the fact that the city and other prominent figures have stated that urban sprawl is an issue for the city of Calgary, it seems that Calgary is ready for this type of urban densification. When looking at the growth potential of the city and the forecast sales, there is a market that can be capitalized. Various other opportunities, including the potential alignment with landowners, make this venture very attractive. The venture is not without challenges from established competitors; but through proper planning and hiring, these challenges can be minimized.

Based on the implementation analysis, the operation can be successful with proper monitoring and experienced developers. The two senior members of the team have skills that complement each other and should be able to guide the operation.

4.2 Sub-recommendations

Earlier on in the venture, relationships will need to be developed with potential landowners and subcontractors. These two key relationships need to be established immediately to make the venture successful. The threat inherent in being new to the market must be minimized, a conscientious effort must be made to mitigate this threat.

4.3 Quarterly Timeline

The following overall schedule shows a quarterly timeline. Set up and planning would start in late fall. Planning would be done over the winter months with a target of starting building in the spring.

Table 16 Quarterly Timeline

**OVERALL
SCHEDULE**

STEP

1

SEPTEMBER - DECEMBER

- Incorporate company
- Shareholders agreement signed
- Register with CRA, payroll and HST
- Acquire business license
- Setup bank accounts
- Initial capital injection
- Employee letters signed - Pres. And CFO
- Acquire computers and software (home office)
- Search for office space
- Search for land site
- Development due diligence

STEP 2 - MILESTONES

- Incorporate company
- Initial capital injection
- Development due diligence

STEP

3

Secure land financing
Close on land site

Close on land site

JANUARY -

MARCH

Get city approval for development
Start initial marketing campaign
Sign office space lease
Search for and negotiate construction financing
Hire sales and marketing consultants
Hire accounting manager
Hire construction manager

Get city approval for development

Hire sales and marketing consultants

Hire sales and marketing consultants
Hire accounting manager
Hire construction manager

APRIL –

JUNE

Acquire building permit from city
Start construction
Construction draws start to fund operations
Hire sales
manager
Sales office and display suite opens
Social media campaign starts

Acquire building permit from city
Start construction

Sales office and display suite opens

Hire sales
manager

JULY – AUGUST

Continue with sales and marketing campaign

Payoff lenders

Hire customer care associate

First home buyers move in

Strata council

forms

Construction completes

Search for next year's project site

Payoff lenders

Hire customer care associate

Construction completes

SEPTEMBER - DECEMBER

Sellout project

Deficiency work done

Sellout project

Step one refers to the detailed steps that are required on a quarterly basis. Some of the steps extend beyond one quarter. Step two is the milestones of achievement in the development process. Each is a critical goal to strive for in each quarter. Step three is the “ramp up” stage where additional staff is needed to maintain the development process and support the senior managers.

There are several key steps that could cause scheduling delays in the development process.

1. Getting city approval to develop the project could be a bottleneck,
2. Delays in buildings permits are common; construction cannot commence until the permit is received, and
3. Getting legal documents like easements executed.

APPENDICES

Appendix A Differences from Competition

1. Attention to the front entries.
 - create a stoop to step up to make the entry mimic a grand house;
 - pay attention that all the trims are authentic to the architectural style and coordinated;
 - pay attention that all the trims are authentic to the architectural style and coordinated;
 - always ensure there is a min. two foot overhang on the roof entry;
 - a signature doorbell; and
 - place a signature tile or transom symbol that represents the tradition of master builders.
2. Express the individually of each home:
 - important in a multiple unit development to give each home its own identity;
 - entries are isolated on their own as much as possible;
 - units are staggered in plan in relationship to each other not just a straight line of units;
 - rain water leaders are used between homes to vertically divide one home from another;
 - homes are given different colours; and
 - hedges are used between home to define front yards and rear driveways.
3. Attention to landscaping:
 - different plant materials are used to layer between sidewalks and front yards adds to the rich feel of the homes, and
 - theme landscaping in different areas to give unique identity to each area.

4. Sculpting interior space:

- we create thoughtful space modulators that define the kitchen, the dining area, and the living room; and
- create useful niches in prominent locations.

Appendix B Pro Forma Balance Sheet

PRO FORMA BALANCE SHEET					
	Opening	Land Acq.	Phase 1	Phase 2	Ending
Cash	2,000,000	710,000	228,760	2,259,660	6,021,800
Furniture and Computers		40,000	40,000	40,000	40,000
Land		2,500,000	2,500,000	2,500,000	-
Construction Costs			4,812,400	4,812,400	-
	<u>2,000,000</u>	<u>3,250,000</u>	<u>7,581,160</u>	<u>9,612,060</u>	<u>6,061,800</u>
Land Debt		1,250,000	1,250,000	1,250,000	
Long Term Debt			4,331,160	4,331,160	-
Share Capital					
Founders	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Equity Partners	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
				2,030,900	4,061,800
	<u>2,000,000</u>	<u>3,250,000</u>	<u>7,581,160</u>	<u>9,612,060</u>	<u>6,061,800</u>

Appendix C Pro Forma Income Statement

Proforma Income Statement				Proforma	%	Fixed or Variable
Project	Calgary					
Total units		2 bdrm		30		
		3 bdrm		20		
Net site area - acres & square feet			2.00	87,120		
Gross buildable / Net saleable area (excl amenities / rec centre)						
Unit size		2 bdrm		1300		
		3 bdrm		1450		
Construction cost PSF (gross buildable)				\$ 100.00		
Selling price per unit		2 bdrm		\$ 320,000.00		
		3 bdrm		\$ 350,000.00		
Selling price per square foot (net saleable)		2 bdrm		\$ 246.15		
		3 bdrm		\$ 241.38		
Sales per month				3		

			Residual Approach	2 Acres Land Appraised		
REVENUES						
Base unit sales revenue			16,600,000	16,600,000	100%	
Selling costs	0.00%	included in consultants costs	-	-		
Total sales revenue net selling costs			16,600,000	16,600,000		
COSTS						
Land			3,882,800	2,500,000	plugs	
Property transfer tax			-	-		
Land acquisition and holding costs			303,000	303,000		
Property taxes			103,000	103,000		
Sub-total Land			4,294,800	2,912,000	26%	Fixed
Design & consultants	\$ 6,300	per unit	189,000	-		
Municipal fees			135,000	135,000		
Development cost charges			270,000	270,000		
GYS & DD Sewer Levy			113,000	113,000		
School site acquisition charge			32,000	32,000		
All other levies	\$ 2,500	per unit	75,000	75,000		
Sub-total Development			814,000	625,000	5%	Variable (Due diligence fixed)
Offsite servicing			810,000	810,000		
Construction			6,800,000	6,800,000		
Salary (VP and Mgr)			180,000	180,000		
Sub-total Construction costs			7,790,000	7,790,000	47%	Variable
Salary (CFD and Mgr)			160,000	160,000		
Home warranty cost	\$ 3,000	per unit	150,000	150,000		
Bank interest			602,400	602,400		
Commitment and other finance costs	1.50%		-	-		
Sub-total Finance costs			912,400	912,400	5%	Variable
Sales and Marketing Consultants	1.80%	of base sales revenue	298,800	298,800		
Sub-total Marketing costs			298,800	298,800	2%	Variable
Total cost			14,110,000	12,538,200		
Gross profit potential			\$ 2,490,000	\$ 4,061,800		
Gross margin as % of sales			15.0%	24.5%		

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