



California Market Watch, June 4, 2009

## Due Diligence Difficulties Can be Costly

City and County budget cuts and staff reductions have begun to have an impact on services normally used by builders to identify and assess development opportunities. Information that has been easily assessable on-line is rapidly disappearing from City and County web sites, making the due diligence process more time consuming. According to David Hudson, Principal in charge of Development Services at Meyers Builder Advisors, "Home prices are not the only thing that has gone back to 1990's"...gathering information about a particular project is quickly becoming what our industry was like in the pre-internet days." Here are a few of the changes we have observed recently as we help clients with due diligence investigations.

- **Cities are cutting back on web-based project information.** Cities have historically kept project data (e.g. project staff reports, Council and Commission meeting minutes, project environmental and technical studies, etc.) on public web sites while the project is being processed and up to 1 to 2 years afterward. Recently, some municipalities have reduced the amount of online material to save on web hosting costs making it more difficult to get a quick assessment of a project's status.
- **Documents generated in 2007 may not be usable; are out of date or may have been discarded.** Much of the technical data that was completed for projects that were stopped in mid 2007 due to the declining housing market may no longer be relevant or have passed their statutory timeframe. Most biological studies, for example, must show continuity from season to season and cannot be relied upon if too much time has elapsed. If several years have passed, and the project was under review, but not approved, such documents may be shredded as part of the municipality's policies for document retention and destruction.
- **More municipalities are beginning to charge for on-line documents to generate revenue.** As cities and counties look for more ways to compensate for budget reductions, some are now charging a fee for web based public information. Originally seen as a way to reduce public counter personnel costs, charging for on-line information may increase the need to review information "in-person" at the public counter (which so far is still free), thus significantly slowing down access to project related information.
- **Banks often have only summary information.** Banks have been mandated to process bankrupt projects with little or no added costs. Due diligence is scarcely complete and often conducted at a very preliminary level for those willing to do it for free at the prospect of acquiring the property. This results in acquisition decisions based on sometimes faulty and in most cases incomplete information.
- **Change in building codes can impact plans that were approved two or three years ago.** Meyers Builder Advisors recently completed an analysis for a capital partner that inherited a land plan that included approved architecture and reduced setbacks that although currently valid will not be consistent with future City code adoptions. If buyers of such projects are interested in holding the project for any length of time, such changes could make a currently viable project unbuildable in the future without a wholesale redesign.

**David Hudson** heads Development Services at Meyers Builder Advisors, focusing in the collection and analysis of critical project data including entitlement, development and environmental status which can identify potential project issues and concerns. Mr. Hudson brings over 25 years of experience spanning the public, private, and professional sectors of the development industry. His extensive knowledge is specialized in the planning, entitlement and development of residential, commercial, and mixed-use projects throughout California, Arizona and Colorado. Mr. Hudson's time spent as a public agency planner and a land development project manager enables him to successfully balance public agency requirements with socioeconomic realities. Mr. Hudson has been recognized by the American Planning Association multiple times for Outstanding Planning Awards in the Comprehensive Planning and Planning Implementation categories.

Meyers Builder Advisors can provide due diligence at a cursory or in-depth level, at a project level or to gauge supply conditions for a larger target submarket.

### About Meyers Builder Advisors

[Meyers Builder Advisors](#) brings together a talented pool of consultants with a strong understanding of the homebuilding industry and the market dynamics that drive it. Combined, the team boasts over 100 years of market experience, with a wide range of

services including site specific analysis, strategic workouts, due diligence, and forensic analysis. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

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