



Wooded area and entrance road to Lot 54

Some of the lands like this lot were accessible by existing roads and trails through beautiful hardwood forests.

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Introduction

One thing that is unchanging in the electric utility business today is that everything is still changing. This is also true of the right of way function. In my 35 years in this work, my direction of emphasis has changed course many times.

First, it was transmission line right of way and substations beginning with 138,000-volt lines and then moving up to the extra high voltage of 345 kV and even higher. We also spent some time acquiring sites for future generating plants, each one it seems bigger than the last. In the midst of all this came substantial relocations of our facilities for the interstate highway system and the related billings and collection of relocation costs.

Effective selling of utility recreation lands

by William L. Reid, SR/WA

Team work, knowledge of the laws, face-to-face communication with the authorities, and constant study of the real estate market are some of the necessary steps to convert unneeded land assets into maximum dollar assets.

Then came financial hard times and the need to raise additional revenues by the sale of assets, especially real estate that is no longer used or useful to our business. Consumers Power Company, my employer, by virtue of its early history and the geography of its territory was blessed with substantial acreage that could be sold.

In the early years, this Company acquired thousands of acres of land along rivers in the northern sector of the Lower Peninsula of Michigan for the purpose of building hydroelectric facilities. These lands have become surplus because many planned hydroelectric facilities were never built. The lands were not sold then because they were on the Company's books at a very low cost, taxes were low and there was considerable public relations value in having the lands available to the public on a day-use basis. Later, however, increasing taxes, capital financing needs and simple people-pressure caused us to begin selling them.

Our Company, in the initial sale of its northern Michigan river lands, sold only to the United States Forest Service, the Michigan Department of Natural

Resources or existing lessees. These lands were located some 200 miles north of the more urban areas of southern Michigan and did not lend themselves well to massive development. Furthermore, there was considerable pressure for us to retain the wild, pristine quality of the lands that had existed for all of the time we had owned them.

Planning for sale

More recently, however, a certain tract of land on the Muskegon River fell into a different category. Initially, neither of the government agencies were interested in purchasing it. Furthermore, it was much farther south, actually about 50 miles from the metropolitan area of Grand Rapids, which is one of the most populous areas in the state outside of Detroit. The tract in question was about 1,500 acres in size and was accessible on both sides of the river by good paved roads. It was within a few miles of a freeway which ran south to Grand Rapids, where it connected with other freeways running east to Detroit and west to Chicago.

We decided to test the market a little bit and to see how much interest there

really was. We discovered, with very little effort, that there were several hundred people ready and anxious to purchase recreation sites of this type. Without any advertising at all, we developed an initial mailing list of some 450 potential purchasers, the majority living within 75 miles of Grand Rapids. They were mostly Michigan residents, they were customers of our Company and, thus, logical purchasers of this type of land.

We made a careful economic study which seemed to indicate that even if we spent money to subdivide the land and to build roads and utilities, we stood a very good chance of making more money in this way than we would if we sold the land wholesale in one piece to a developer so that he could make the extra money.



Registration of tract under State and Federal Land Sales Acts

We realized that if we were going to split this tract up into smaller lots and if there were to be more than 25 of these lots, then we would have to register the entire tract under both the Michigan Land Sales Act and the Federal Interstate Land Sales Act. While the requirements of the federal and state acts are somewhat different, they still contain many very similar requirements so that registering under the two acts was not a whole lot more complicated than just registering under the one act.

This would be the first time that our Company had registered land for sale under either of these acts; for that reason we took the matter very seriously and made our applications quite carefully and in considerable detail. Experience has shown us that most people who are interested in this type of property, even though it is subdivided, prefer to have rather large lots, 10 acres or more, and are very well satisfied with gravel roads so that the existing wilderness aspects of the land can be, for the most part, retained.

We divided the 1,500-acre parcel into 115 lots, all but 8 of which had river frontage. Before the registration applications could be filed, each lot in the subdivision had to be surveyed, road construction completed, and the utilities provided for. We made percolation tests

Several small streams and creeks enter the mainstream of the river through lots, adding further benefit for the purchaser.

on many of the lots and prepared a substantial packet of material which was handed to each prospective purchaser so that he would know exactly where the roads are, where the nearest schools and churches are and an estimate of the likely taxes on the lot after purchase.

The preparation of this registration was accomplished with several face-to-face meetings with the government officials with jurisdiction over the acts. That is the only way to effectively get the registration approved in a timely manner. Even so, it took more than six months to complete the registrations and during this time we put together our full list of potential purchasers. We also sent a letter to each of these prospects. We included a map of the entire tract, a price list of each lot and the financial arrangements we were willing to consider for the purchases. We did our own financing. We also established a certain Saturday in April 1985 for the sale. This was about six weeks after the letters went out. This Saturday was to be later known as Sale Day. The letters stated that the lots would be sold on a first-come, first-served basis. During the intervening time, the prospects were encouraged to go up and inspect the property. All of the lots were clearly identified on the ground.

In the meantime, even though they had earlier said they were not interested in the lots, the Michigan Department of Natural Resources, with some pressure from local government units, did in fact become very interested and insisted that they, on behalf of the public, had the right to purchase certain of the lots. They indicated that this stretch of the river produced exceptionally good fishing.

After some negotiation, a total of about 30 lots were sold to the Department of natural Resources. Each one was sold at its appraised price with no discount for the package purchase. Also, there were about ten other lots that were sold in advance either to existing lessees or to parties who owned on all sides of the lots, making access to them difficult without considerable, expensive road construction.

Planning for Sale Day

A great amount of planning went into Sale Day because there were many potential problems to solve. First, there was the handling of the prospective purchasers in the parking lot of our Grand Rapids Service Center. After thorough discussion with our security forces, we decided that we did not want a long line

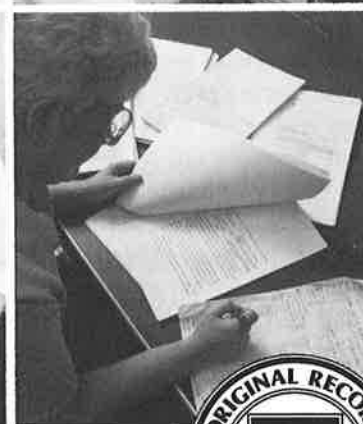
of cars extending out into the public street, tying up traffic. Therefore, whoever came first would be given a tag with the No 1 on it and each succeeding car would be given the next number. The cars would then be free to leave although they could spend the remaining time before the sale began in the service center parking lot and have access to restrooms inside if they wished. (It is interesting to note that the first car arrived on Thursday afternoon, about 36 hours before the sale began. More than 30 cars had arrived the evening before and by the time the sale began at 8:30 on Saturday morning, there were nearly 70 cars registered in the parking lot.)

Arrangements were also made to use the break room at the service center for the prospective purchasers to wait their turn. A large map of the entire subdivision was in the break room as well as in the room where the sale took place and as the individual lots were sold, they were marked on these maps, so that the people would know which lots were still available when they came in.

The sale room itself had been an auditorium for cooking demonstrations and similar activities. It took a little bit of ingenuity and a lot of thought to figure out how to lay out this room for our purposes and to make maximum use of the fairly small number of people we had with us.

Several "dry run" practice sessions were held with other department employees acting as prospective purchasers. This eliminated a lot of bugs, and helped make Sale Day run more smoothly. A receptionist greeted the people at the door when they came in and had them pick out the lot that they wanted. After this was done, they went to one of two tables where the details of that particular lot were made known to them. The next step involved three people doing similar work with the purchasers. There the details of the sale were worked out — the amount of down payment, monthly payments, etc. After all this was done, they went to a final table where the actual \$1,000 earnest money payment was made, and the preliminary documents signed.

In all there were four steps involving seven department people. In addition, our Regional office provided one of its



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controllers to keep track of the money for us and to take it to a depository in the building from time to time. Finally, one representative of our department acted as a floater, keeping the maps updated, making copies or relieving the other people.

Sale Day — Results

The really important thing is that Sale Day was very successful. By the time the last party had left at 4:30 in the afternoon, deposits had been received on 37 lots for a total purchase price of nearly \$750,000, and that is a pretty good day's work for any real estate firm. Everyone was tired but "pumped up" by the obvious success of this genuine team effort.

Several other significant steps then followed: Each purchaser was given a title commitment to the lot he proposed to purchase and had 45 days in which to either express his satisfaction or to find fault with the title. In addition to that, he

had 30 days in which to satisfy himself, by percolation or other tests, that the lot was suitable for construction of septic tank and drain field. Finally, he could at any time within 30 days decide that he didn't wish to proceed at all, under which circumstance we would be required to refund the deposit.

Approximately four of the 37 lots committed on Sale Day were in fact later rejected for one or more of these reasons but all of these have subsequently been resold. If the party was then satisfied with the title and percolation test, he submitted the remainder of his down payment which was placed with an Escrow Agent hired by the Company for this project. Then the property was released from the Company's Trust Indenture and only after that did the final closing take place and the purchaser begin making payments on his mortgage.

Sales efforts continued throughout the remainder of the year with many differ-

ent parties expressing interest, and at year's end 93 of the lots of 81% had been committed for sale, leaving 22 lots unsold. Closing had taken place on 74 of the lots for a total purchase price of \$1,334,300.

Conclusions

An obvious question arises as to whether we were right in expending the time, money and effort to create this subdivision and sell these lots rather than wholesaling to one purchaser. It was estimated that the wholesale value of the property was \$1.2 million and that the cost of subdividing, surveying, constructing roads and building utilities was \$300,000. If the remainder of the lots are purchased within the next few months as is expected, then the total purchase price will be about \$2 million and the net gain to the Company by retailing rather than wholesaling will be approximately \$500,000. That would seem to make it well worth the effort.

There are several conclusions that can be reached from a study of this entire project. First, when one begins to go through the process of registration, he realizes how much we need to pay attention to laws while they are being enacted because they are so difficult to change. Second, if it is determined that registration of lands should occur, then it needs to be done with great care, with full study of the law and its accompanying regulations, and as much face-to-face communication as is needed with the authorities in charge. Third, this type of operation will not always work; wholesaling is sometimes best. Therefore, it is important to test the market by appraisal and other means before spending the money to create the subdivision. Fourth, the marketing effort must be a team effort to succeed — with all team members actively participating in the planning as well as the actual selling and, finally it becomes very clear that if utility right of way departments are to do their jobs fully, then they need to be constantly studying the real estate markets within their service area and taking steps that are necessary in order to convert unneeded land assets into the maximum amount of dollar assets that can be secured.

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