
COLORFUL COOKING NEGOTIATION

Confidential Information for Indigogreen

You are Indigogreen's project manager for Purple Lake Woods, a high-end residential "exurbia" an hour or so outside Seattle. The land you located and purchased was spectacular, 400 acres of forested terrain at the edge of a large clear lake. Unfortunately, not all the acreage proved to be stable: A few months after you began land development for the planned 67 sites, a landslide on the west side rendered approximately 20% of the property unusable, including the project entrance and 11 sites -- 6 lakefront and 5 other sites. Geological experts retained by Indigogreen have stated that no additional property is at risk.

Still, you must create an entrance and salvage the project. You have had a spectacular contemporary 3,000-square-foot model home built by an excellent local contractor. He built the model at 20% below market in exchange for its promotional value. But no matter how glorious the model home and the land, you can't sell anything without an entrance to the development.

The only option you see is to negotiate the purchase of land for an entrance from the owners to the east side (a minimum of five acres is needed).

A few years ago, a twenty-acre parcel on the east side was offered for sale but was taken off the market shortly after a timber company put in a bid. The land to the east (120 acres in all) is held by the Cooke family trust. The entire parcel would make a great addition to the planned exurbia; it would probably allow up to 50 more sites. The land wasn't for sale when Indigogreen bid on the current Rocky Lake Woods property. At the time, you heard that one of the Cooke family members objected to breaking up the property and is passionately anti-development.

The project is worthless without an entrance, giving you no choice but to approach the Cookes. A title search revealed that Randy Cooke is the Trustee of the Cooke Family Trust. Its beneficiaries are Randy and Randy's brother and sister. Randy Cooke spends most weekends in a modest ranch house on the far eastern side of the property. You contacted Randy and asked if they would talk about selling a small portion of the Cooke property. Randy hesitated, and then said, "Well, it won't hurt to talk."

The economics: The original project plan was to sell the 67 single acre sites for \$12,000,000— \$200,000 for each of the 22 lake front sites, \$240,000 for 5 higher elevation sites with the most spectacular views, and \$160,000 for each of the remaining 40 sites. Total land and all other costs were originally projected at \$5.4 million, leaving a \$6.6 million or 55 % gross profit.



The landslide will mean \$2,000,000 less in revenues (6 lakefront and 5 other sites gone), \$200,000 in additional costs for land work *plus* the cost of a new entrance. In other words, gross profit will be at only \$4.4 million or 44% (with total revenues of \$10 million and costs of \$5.6 million), *before* paying for the new entrance. This is far less than Indigogreen's normal profit, but it would make the best of a bad situation. You have already bought the land, started excavation, and sold several sites. The project needs an entrance, which will require a minimum of 5 acres. Indigogreen's profits will be reduced by whatever you pay for the entrance land and the associated landscaping and roadwork costs (estimated at \$60,000). Of course, profits would increase if more acreage could be purchased. The goal is to pay as little as possible for the land, but you would pay whatever it takes to at least break even on the project. Negotiate the best deal you can for Indigogreen.