

## The Next Real Estate Boom

**In the coming 25 years, the biggest wave of development since World War II will turn America's major metro areas into giant "megapolitans" teeming with opportunity. Want to get in? We've found some strategies that are already paying dividends.**

By Paul Kaihla, [November 2005 Issue](#)

Nearly 20 years ago, Mike Ingram, almost broke, took the gamble of a lifetime. He packed his wife and six children into an Oldsmobile and U-Haul and drove 1,000 miles to Phoenix, leaving his life in Oklahoma City in the dust. The company that Ingram had run, a distributor of veterinary drugs and garden supplies, provided a decent living, but after Ingram's bank went belly-up, like many others at the time, Ingram decided to sell the business. Then 42, Ingram was prepared to take a flier on a tantalizing Plan B: buying plots of desert land in places like Arizona that were on the verge of a building boom. "Phoenix was set to go," Ingram says, "and so was I."

Today, Phoenix is still going. And Ingram, the dust-bowl migrant, is still cementing his reputation as one of the Sun Belt's most prescient speculators. The investments he scraped together in the mid-1980s for tracts of farmland -- including a ranch once owned by John Wayne -- helped ignite a suburban building boom that hasn't let up. More than 500,000 homes have been erected in Phoenix since 1990. Ingram's real estate investment firm, El Dorado Holdings, ranks as one of the biggest private landowners in Arizona, with holdings worth nearly \$1 billion.

But the real payoff, Ingram says, lies ahead. Among other deals in the works, Ingram is spearheading a development called Douglas Ranch -- covering 34,000 acres, more than twice the size of Manhattan -- near the small town of Buckeye, 45 minutes west of Phoenix. Plans for more than a dozen adjacent communities are already in the making. At the moment, Buckeye is essentially a dusty crossroads on Interstate 10, home to 15,000 farmers and longtime residents. But within two decades, brokers say, it will be transformed into a giant suburban metropolis nearly as large as Phoenix itself.

Ingram's latest deal hints at a bigger story starting to unfold nationwide. As Buckeye and other exurbs emerge, eventually they'll bolt onto one another until Phoenix and Tucson, its sister city 120 miles southeast, join somewhere in the middle. According to new studies by Robert Lang, an urban planning professor at Virginia Tech, and researchers at the Brookings Institution, similar growth scenarios will play out in nine other major metro areas around the country, forming what Lang calls the new "megapolitan" regions of the United States. (For a detailed look at these megapolitans and their growth prospects, see "The \$25 Trillion Land Grab.")

As America makes room for 70 million more people during the next two decades, these supercities represent the biggest long-term business opportunities since the end of World War II. In Oregon and Washington, growth trends see Portland and Seattle merging by 2030 into a single megaregion Lang has dubbed Cascadia. In the South, Atlanta and Raleigh-Durham stand at opposite ends of a 400-mile stretch of Interstate 85, but emerging hubs in transportation, banking, and biotech will knit them together. "There's a spectacular phenomenon here that people have ignored," says Armando Carbonell, co-chairman of planning and development at the Lincoln Institute of Land Policy in Cambridge, Mass. "Everybody is so focused on whether the real estate market is headed up or down, they can't see what's down the road."

Figuring out what investment angles to play -- in which regions, from so many statistical trajectories, covering such a long time period -- would give most entrepreneurs a migraine. But for others, the paths to becoming a megapolitan mogul are clearer than you might think. Brokers, planners, and developers agree on three emerging strategies: In the South and the West, owning a piece of tomorrow's boomtowns is already driving billions in long-term speculation; Ingram is just one master of the game. In the more congested East, developers are buying parking lots and other underutilized land with an eye toward launching massive "infill" projects -- looking for the cheapest downtown and suburban property to deliver the biggest returns. And in almost every region, a third trend is reeling in big money: Surging numbers of young Latino families and immigrants are opening doors of opportunity for businesses jostling to figure out what they'll need and want.

There are more cautious ways to get a piece of the action, of course, such as buying stock in companies like Target and Wal-Mart, which will always go where the growth is. "But if you're a more hands-on type," says Bruce Katz, the top urban planning researcher at the Brookings Institution, "there's land speculation and a whole new generation of opportunities." Here are just a few -- and some of the players placing the biggest bets.

### **STRATEGY 1** **Step Into the Path of Sprawl**

Lang's 10 megapolitans are already home to more than two-thirds of Americans, and according to census projections, their aggregate population will grow by more than 25 percent during the next 25 years. By 2040 the regions will account for 75 percent of all money spent in the United States on private real estate (about \$10 trillion) and create 64 million new jobs.

Every megapolitan has its own Buckeyes -- raw land destined for bulldozers and homebuilders -- but few possess the kind of economic perfect storm for growth and profit that Arizona boasts. No other region offers such great volumes of buildable land at such low prices. An acre of dirt can still be had for as little as \$25,000, compared with \$1 million on the outer fringes of Chicago. Land tagged for development will drive a near doubling of the Phoenix

Tucson region's population, and unlike Los Angeles, the area has enough water -- from underground rivers, aqueducts, and nearby mountains -- to support all the new residents.

No wonder speculators have been circling the Arizona desert like condors. One California-based developer of big-box malls recently paid \$15 million for a 77-acre quadrant of empty desert at a new freeway exit outside Buckeye. A plot for a future exit down the road that sold for \$2 a square foot last year is flipped today for \$4. "The country is swarming Phoenix," says Nate Nathan, the top commercial real estate broker in the area. "This place is on fire."

The fire has been hottest for folks like Ingram who got in early and bet big. Before taking on the Douglas Ranch project in Buckeye, Ingram and his longtime partner, Monty Ortman, had acquired some 18,000 acres. Most of that land, Ingram says, he got for just \$500 per acre. Along the way, he sold off half of the holdings at huge profits to fund new acquisitions and subdivisions. Here's a typical deal: In 1992, Ingram and Ortman acquired John Wayne's 6,500-acre former ranch in Maricopa, another nascent "boomburb" 40 miles south of Phoenix, for about \$3 million. Earlier this year El Dorado Holdings sold two-thirds of it to Engle Homes, a national homebuilder, for \$160 million plus a future royalty on each of the 15,000 houses Engle will build there. An even bigger payday awaits Ingram in Buckeye. Douglas Ranch will eventually have 84,000 homes, 250,000 residents, four freeway interchanges, and dozens of office parks and malls. "Buckeye's fate is sealed," Lang says. "It will be a big city."

Each region has a few "edge" cities like Buckeye, where trends are converging to trigger a flash flood of construction. Buying land early there can generate head-spinning windfalls for players like Ingram, but there are plenty of lucrative wrinkles for others. In-N-Out Burger, for instance, emerged from 1960s suburban sprawl outside Los Angeles. HEB Grocery Stores became an \$11 billion company by establishing footholds in bedroom communities around San Antonio.

Tomorrow's boomtowns hold the same promise. In Maricopa, a Subway franchise and a Carl's Jr. were among the main eateries in town at the start of the year. Pat Kieny, who had spent 20 years managing other people's restaurants in the region, took that as a cue: Start a restaurant in Maricopa that could become a regional favorite before a stampede of national brands overruns the town. With help from friends, Kieny, 45, put down 20 percent of the \$850,000 initial investment and last July opened Native New Yorker, a Chili's-like sports bar. Kieny says he'll be able to repay his investors in three years, by which time he hopes to open two new locations. "McDonald's, Taco Bell, and other food chains are coming next year," Kieny says. "But I've already got a local brand and a loyal clientele. The mayor and fire chief eat lunch here."

Sounds almost too easy. The truth is, it's easy to make a lot of foolish bets in sprawl development where the conditions aren't as friendly as they are in Arizona. In more congested suburban metro areas -- like the northern Virginia towns enveloping Washington, or the exurbs of Chicago -- rising fuel costs and long commutes are killing the appetite for more bulldozing of raw land. Many people who bought a McMansion an hour away from the office when gas cost less than \$2 a gallon are already downsizing. Zoning nightmares in denser regions are also sending developers elsewhere. "In Dallas, I can get a development approved in nine months," says Greg Vogel, a top commercial land broker based in Scottsdale, Ariz. "Around San Francisco or Los Angeles, it can take a decade -- lawsuits included."

## **STRATEGY 2**

### **Park Money in Parking Lots**

If the major metro areas around the country were to grow the way they did after World War II, they would gobble up more than 100 million acres of raw land and convert it to urban space by 2030. But you won't find that kind of available land in dense Eastern cities like Boston and New York. That's one reason roughly half of all new development between now and 2030 will simply replace existing structures. "Every beltway around every big metro, and all of the big arterial highways and interstate links, have been used up," says Bob Yaro, a planning expert in New York City who chairs an advisory group for the reconstruction of the World Trade Center. "There's no capacity. We're going to have to be really creative."

And smart. Investing in new skyscrapers doesn't work in a city surrounded by a horizon of cheaper land. That's why Arizona developers are rolling their eyes at Donald Trump and other out-of-towners who have proposed high-rise condo towers in nearby Scottsdale. They won't sell, they argue, because a buyer can get a house with a two-car garage and pool for the same price in the suburbs. "You have to go with the flow," says Robert Mayhew, an executive at DMB, the developer behind a new community in Buckeye called Verrado. (See "Unarrested Development," page 104.) "Why would you do infill in a market like this?"

So where does infill work? On the cheapest land in the most crowded places: parking lots. They're adjacent to commercial and retail structures, they cost little to demolish, and there are plenty of them. According to the Urban Land Institute, the United States has about 30 percent more parking spaces than it needs, one reason many developers believe they'll deliver the biggest returns.

Parking lots helped persuade Charles Wang, the 61-year-old founder of Computer Associates, now the world's third-largest software company, to become a real estate mogul. After stepping down four years ago as CA's chairman, Wang, a co-owner of the New York Islanders hockey franchise, launched a development firm and began dreaming of a massive complex around the Nassau Coliseum, where the Islanders play.

Wang bought a long-term lease for the 77-acre site in Long Island's Uniondale, nearly all of it covered by parking spaces that sat empty 95 percent of the time. "It's an asphalt desert," Wang says of his acquisition. His plan will replace the pavement with a multilevel parking deck for thousands of cars, leaving room for condos, a conference center, and a 60-story skyscraper. Estimated price tag: \$1 billion.

Yaro calls the project a crucible of the future. "It's a perfect example of how we're going to have to exploit land previously wasted by 50 years of sprawl," he says. "There's no other way to accommodate growth in the East."

## **STRATEGY 3**

### **Give Them What They Quieren**

Capitalizing on the development boom doesn't mean risking everything on a land grab. You can find opportunities just as big by starting businesses that cater to an underserved Latino population that is growing like no other group in American history. The U.S. Latino population will swell from 40 million to 73 million between now and 2030. It is the fastest-growing ethnic group in all but three of the 10 megapolitans.

Numbers like those helped persuade Toyota to build a new \$850 million plant in San Antonio to produce Tundra pickups. "We think the Hispanic market and I-35 present a long-range opportunity," says Toyota senior vice president Dennis Cuneo. Texas is the largest truck market in the United States, with Latinos making up the fastest-growing group of buyers. Toyota wants to unseat Ford's F-150 in the Texas market but currently ranks third in sales, behind Ford and Chevrolet.

The solution? Build brand loyalty by helping to crown a new generation of Latino industrialists. Toyota has begun signing contracts to purchase Tundra parts from new suppliers in the area that are majority-owned by Latinos. One such entrepreneur is former SBC executive Berto Guerra, 55, who retired last year to create Avanzar Interior Technologies, a supplier of seats and other parts. Guerra and his partners own 51 percent of the firm, which is part of a joint venture with \$28 billion Johnson Controls. Next year Guerra will have 400 workers, and he estimates first-year sales at \$100 million.

Just as Toyota "made" Guerra, Guerra will soon make others. He plans to recruit other Latinos to become some of his many subcontractors. "I'll walk into the bank when they apply for a loan and say, 'I want this business to supply me with this gizmo for the next 10 years,'" Guerra says. "Think of the ripple effect."

Another player profiting from Latino growth is CityView, a development firm founded five years ago by Henry Cisneros, a former U.S. secretary of housing, with \$7 billion homebuilder KB Homes. The company has invested \$1 billion in inner-city homes aimed at Latino markets in Texas and California and will soon move into Atlanta, Chicago, and Tampa. CityView makes money by acting as a venture capitalist. It funds builders when it spots the right project, and then tunes the design to buyers' tastes. When architects saw that Dallas residents converted carports into bedrooms, CityView decided to embed plumbing in the carports for future sinks and toilets. CityView estimates 2006 revenues of \$1 billion on 20 percent returns -- considered a home run in urban redevelopment.

Where Latinos will shop will also look different from the malls of classic suburbia. Hispanic Retail Group, a division of \$1 billion Forest City Enterprises, recently bought an empty Kmart and Vons in Coachella, Calif., a desert town east of Palm Springs. The stores didn't appeal to residents -- 90 percent are Latino -- so HRG plans to subdivide the Kmart into a village market inspired by Plaza Mexico, a Latino retail mecca in the southeastern L.A. suburb of Lynwood. HRG president Andres Friedman pitched a similar project last year to a city official in nearby Indio but got a cold reception. "She said consumers there want upscale stores like Williams-Sonoma," Friedman says. "Indio is 75 percent Hispanic. They're not into Williams-Sonoma."

The future residents of Buckeye certainly will be, if the luxury homes Mike Ingram and others are building sell as planned. At the moment, there's little reason to think they won't. But if his real estate ambitions go sour, or if projections about megapolitan growth are off the mark, Ingram has an ace up his sleeve. Having watched his own overleveraged bank and 60 others collapse along with oil prices in the early 1980s, he and Ortman decided long ago to always pay cash for land. Should the boom go bust, they won't owe anyone a dime. "It's been a wonderful run, and it's a wonderful market," Ingram says, "but you don't count your money when you're still at the table." ◆

