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ROCKY RIDGE POINTE

CALGARY, ALBERTA, CANADA



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III INTRODUCTION:

A. THE BUILDER/DEVELOPER

As is the case quite often in Calgary, the land is owned, serviced, developed and sold by a land developer who has no interest in the building of the housing project. The land developer in this case is the "Marquis Corporation".

The Marquis Corporation is a privately held international company with its head office in Macau and an associate office in Hong Kong. Their Rocky Ridge land was purchased in 1992 at a price of \$7.2 million which was a genuine bargain at that time. In order to bring lots to market, Marquis had the daunting and expensive task of leapfrogging a 1/4 section of raw land with a \$7 million utility trunk. This trunk line had to be capable of servicing 1000 acres and delayed construction for at least one year.

Once services were brought to the raw land, the cost of servicing each lot runs between \$25,000 - \$31,000. This explains why these lot prices are rather high compared to other cities.

Several builders were asked to submit presentations to Marquis for the build-out and sale of the subject project. Each presenter was asked to bring in a second builder with whom they would joint venture the development. The "subject builder" in this case is known as Stepper Homes Inc.

Stepper Homes Inc. is a family builder established in 1956. The story of this builder is an amazing story in perseverance, honesty, guts, and good old fashioned family values.

Some 40 years ago, Rudy Stepper, a young German entrepreneur immigrated to Canada. Without a dollar to his name, Mr. Stepper scarcely reached his destination. But once arriving, he began to build a thriving business based on a few simple principles: work hard, build a good product and provide outstanding service.

After forty-one years in the business and thousands of houses later, Rudy Stepper and his family have demonstrated the value of life's simple ideas! The Steppers are truly a family, building for families.

The tremendous emphasis placed upon building and maintaining a strong financial base for their company has allowed Stepper Homes to weather many financial storms and, in fact, prosper during Calgary's infamous economic volatility.

Stepper Homes Inc. is active in six other subdivisions in Calgary as a participating model home builder and has a significant interest in a separate land development corporation known as Ultima Development Corporation.

Stepper Homes Inc. is currently managed by Rudy Stepper's eldest son Harry, who was also president of the Calgary Home Builders Association for 1997 - 1998.

As a joint venture partner, we invited another long time local builder to join us - Sterling Homes. Over the years we have undertaken many projects with the Qualico Group of Companies out of Winnipeg, Manitoba. Sterling is a subsidiary of the Qualico Group and is currently their local flagship operation. They have a very impressive and sophisticated management team. This developing relationship between Sterling and Stepper will be dealt with again in the case study.

My company, Tom Burk Real Estate Inc. was contracted by Stepper Homes Inc. in January of 1996 to rebuild, redirect and refocus their ailing sales and marketing department. My official role is that of Sales Manager but Tom Burk Real Estate Inc. is actually only under contract to perform and produce. This is a very unusual way of doing business here.

A brief word regarding the philosophy Tom Burk Real Estate brings to the table is necessary as I personally oversee and manage all sales functions. Stepper was attracted to my philosophy because of my direct and forceful nature and my commitment to "point of purchase" merchandising. This basically means that I feel I can piggy-back developers' institutional advertising and spend our dollars on interior merchandising and quality sales people.

My philosophy for attracting top sales people is simple. Hire mature, experienced people and set them up for success. I allow them significant input into model design, interior merchandising schemes, lot purchases etc. I feel that I encourage a proprietary attitude, a sense of responsible ownership to the project and therefore, a totally committed salesperson.

The Calgary marketplace is large and growing very quickly. We all know that a resource based economy has certain volatility concerns, but Calgary possesses many of the assets needed to sustain long term economic growth. These assets include a temperate climate, incredible natural beauty and related activities, the second largest number of corporate head office locations in Canada and Canada's best educated population. For these reasons, I believe that the housing market in this city can prosper for many years. Currently, most developable land is controlled by very large corporations who dictate the terms of engagement to the builder. We know that the "bare land condo" method of developing land is becoming more popular with these large developers due to reduced costs and increased control architecturally. Because these bare-land condominium projects control all landscaping and exterior maintenance, the land developers also feel they can better control the visual appeal of their community through the long build-out period (generally several years). In a climate such as ours, the growing season lasts less than 100 days. Therefore, landscaping, maintenance and snow removal are vitally important to a quality project.

Because we believe the bare-land condominium concept is the wave of the future here, we wanted to take on this project and prove to local developers that we were the kind of company that could make this heretofore poorly received concept work in our market place. This would perhaps enhance our reputation and increase our future opportunities.

B. THE PROJECT

1. LOCATION

Located high in the rolling hills at the extreme northwest corner of the city of Calgary is the fine upscale community of Rocky Ridge Ranch. Situated north of Crowchild Trail between Rocky Ridge Road and Twelve Mile Coulee Road, it offers absolutely stunning and unobstructed views of the Rocky Mountains to the west, and Canada Olympic Park, home to many of the 1988 Winter Olympic venues, to the south.

Rocky Ridge encompasses approximately four hundred and seven acres of developable land to be "brought on" in twelve phases over a period of eight to ten years.

Architectural controls for the subdivision are controlled by the I.B.I. Architectural Group and are strictly enforced, to say the least. Architectural details such as set backs, side yards, (both maximum and minimum), roof pitch, siding and roofing materials and overall square footage are regulated from phase to phase and street to street.

Approximately forty acres or ten per cent of Rocky Ridge has been set aside by the Marquis Corporation as Municipal Reserve, Environmental Reserve or otherwise useable public space. This area includes a five thousand square foot community building used by the residents, as well as wading pools, tennis courts, bicycle and walking paths. Hugh emphasis has been placed upon the use of "dry and wet ponds" for storm water management. Marquis and their contract engineers are considered experts in this field.

Aside from the natural beauty of the development, Rocky Ridge offers easy one hour access to Banff National Park and all of the wonderful recreation facilities of the Canadian Rocky Mountains. Canada Olympic Park, host site of the 1988 Winter Olympic Games, is a short five minute drive from the gates of Rocky Ridge Pointe.

Excellent local shopping is available and the downtown core is a simple twenty minute drive or thirty minute transit ride away.

Acres of parks and miles of bicycle paths border this community and spread in all directions.

The University of Calgary is located within a ten minute drive at any time of day. The University of Calgary as an institution is ranked in the top fifteen Universities in Canada academically and has a very strong athletic program. Present enrollment exceeds 22,000 students.

Communities that offer competitive housing to Rocky Ridge Pointe would include Tuscany, Arbour Lake and Valley Ridge. These communities are highlighted on maps EXHIBIT 1-A.

2 Description of Development

Phases 4, 5 and 6, of the project are known as Rocky Ridge Pointe, and is the object of this case study. Phase 4 encompasses 84 building lots plus a large "dry pond" (*see EXHIBIT I-D*). We shall concentrate only on the 84 lot phase, as it is unlikely that Phase 5 will be underway by the time this case study is submitted.

Of the 84 original lots, 42 were held for Stepper Homes Inc. and 42 for Sterling. Each builder built and decorated two models. Sterling on lots 42 and 43 and Stepper on lots 44 and 45. Except for lots 46 to 58, which were split alternately between the two builders, the phase was divided down the middle with Stepper taking the east half.

Reference will regularly be made to Sterling, but this report deals specifically with the efforts of Stepper Homes Inc.

Lots 25 to 32 back north onto undeveloped acreage land with a regional pathway between. These lots are the widest in the phase and average 42 ft in width and 111½ feet in average depth. The lots have been priced at \$50,000 and would be best suited to two-storey product of approximately 1800 square feet or one-storey product. (We will refer to one-storey product as "bungalows" to remain within the vernacular)

Unfortunately the grading for these lots is back to front and will not allow for walk-out type basements. These basements are very popular and are virtually a requirement for marketing to some demographic groups.

Lots 46 through 58 run east and south from the model homes and vary in width between 31 feet and 36 feet. They will allow for two-storey product approximately 1300 sq.ft. to 1600 sq.ft.

Lots 62 through 65 (across from the model homes) are mostly regular in shape but are very short at an average depth of 100 feet. They also back onto low rise attached condominiums but will have some peek-a-boo mountain views. Prices vary between \$40,000 to \$44,000.

Lots 66 to 75 would be considered premium home sites. They all back onto the manicured dry pond and are fenced in the rear by green chain link fence. Width average 36 ft.

All of the lots noted up until now have required two-car front drive attached garages. Lots 33 to 41 have a paved laneway and require 20' x 20' rear load garages only. These lots are priced at an average of \$41,000 and represent width of approximately 32 feet.

All houses to be built will be single family homes. 80% will have double attached garages and 20% will have 20' x 20' rear load detached garages. Prices for house and lot will vary between \$150,000 and \$220,000.

THE BARE-LAND CONDOMINIUM ISSUE

As is the case with any home builder in this city, we are constantly on the look-out for opportunities. The market is, of course, always either entering or leaving periods of good times. Because of this uncertainty, a company's ability to anticipate what their land requirements will be is one of the biggest determining factors in not only your success, but your survival. Not enough land and you cannot do the volume, too much land commitment and the carrying costs eat you up. React too late and you may buy into positions that cost too much and your margins at the end of the day reflect your poor planning.

At the time that Tom Burk Real Estate Inc. was hired by Stepper Homes Inc. in early 1996, Stepper's land position was not strong enough to ensure prosperity, as the local economy was pulling out of a difficult downturn. I personally, had been lobbying all local developers in search of opportunities and had achieved some level of success. The Marquis Corp. was one of those that I lobbied vigorously. As it turned out, in the summer of 1996 one of Marquis' stable of Showhome builders felt they could not continue to meet their obligations. Marquis offered them a way out. If a builder could be found to complete the construction of their model home and agree to take on their purchase obligations. Stepper Homes was approached because of its ability to react quickly and because of its strong financial position. Although we were excited to find this opportunity, we had concerns that we would be building houses in a market somewhat higher than our regular target market.

The true enticement for Stepper Homes Inc. was that Marquis promised to allow Stepper to bid on an exclusive area of Rocky Ridge which would become known as Rocky Ridge Pointe. Rocky Ridge Pointe was to be an enclave of smaller homes with a mixture of attached garage and non-garage product. This mix would be allowed for under the zoning of R-1A. This R-1A product was right up "Stepper's alley" and was enough to convince us to make the large commitment.

Over a period of the next year we struggled through the large Rocky Ridge product and learned to compete quite favourably. During that time we negotiated a contract to undertake the Rocky Ridge Pointe R-1A project.

Very late in negotiations, when virtually all commitments had been made, a relative bombshell was dropped on us by the Marquis group. This bombshell was when Marquis and their contract engineers, the I.B.I. Group, had decided that the Rocky Ridge Pointe project was to be zoned R-1A DC. The "D.C." allowed for a form of ownership known locally as "Bare-Land Condominium". This project had quickly gone from a "can't miss" to a huge uncertainty. Bare-land projects in the area had been attempted several times, but rarely with much success. Stepper and Sterling (the joint venture partner discussed earlier) had little time to debate this issue and therefore agreed to proceed. This monumental change in direction set the *marketing of this project* back 12 months, but construction continued as scheduled. It doesn't take a rocket scientist to determine that when construction is that far ahead of marketing you have a big problem on your hands.

A BRIEF EXPLANATION OF THE BARE-LAND CONDOMINIUM CRITERIA

As is commonly known, a condominium is not a type of structure but a style of ownership. Traditional condos, though, are buildings attached in nature with common areas that encompass hallways, parking lots, green areas, etc. Physical ownership tends to be everything inside the interior walls of each unit. All exterior maintenance, lawn and yards are owned and maintained by the condominium corporation. Traditional condominiums are designed, located, marketed and built to appeal to very specific market requirements.

Bare-land Condominium is very different. Each home is a single detached dwelling. Lawn and lots are exactly as you would see in a single family home area. Set-backs and side yards are similar to any other single detached community.

From the developer's prospective it is a great concept. All servicing costs (not inconsequential in climes north of the 49th parallel) are considerably less than a regular R-1 community. Streets can be narrower, street lights can be fewer and further between. The City of Calgary loves the idea because the condominium association is responsible for maintenance of the common area. In this case that would include deep and shallow utilities, streets, curbs, gutters and street lights.

The question posed was, what are we offering the consumer and why would he want to buy here? Unfortunately, we were deep into the project and had not even asked the questions much less determined any answers.

This case study will back track to the beginning of this project and describe corrections made due to knowledge gained from the IRM courses and finally summarize the outcome to date.

IV BACKGROUND

A. MARKET RESEARCH

DEMOGRAPHIC & CENSUS RESEARCH

The following data has been supplied by the Planning and Building Department with the City of Calgary.

Economic Outlook

Calgary's overall economic prospects for the five year period ending 2001 were reviewed by the City's Finance Department. Some of the conclusions of this analysis are summarized below:

FIGURE A

	1997	1998	1999	2000	2001
Calgary CPI (%)	2.0	2.0	2.0	2.0	2.0
Population	781,000	795,000	809,000	823,000	838,000
Net Migration	6,606	7,358	7,952	8,487	9,088
Unemployment Rate (%)	7.9	7.7	7.5	7.3	7.1
Total Housing Starts	5,630	5,780	5,900	6,050	6,260

After a relatively modest growth period during the first half of the decade, Calgary appears to be entering a much stronger growth phase, marked by significantly higher levels of net migration and housing demand.

Current City population forecasts suggest that Calgary's population will increase by approximately 71,000 people by 2001 (see table below). This forecast assumes substantial levels of net migration to the city and represents annual growth of about 1.8% or an increase of approximately 14,200 people annually.

Short-term Population Projections 1997 - 2001

FIGURE B _____

Projected Net Migration

Year	Medium
1996 (Actual)	9,979
1997	6,600
1998	7,400
1999	8,000
2000	8,500
2001	9,100

FIGURE C _____

Projected Population

Year	Medium
1996 (Actual)	767,059
1997	781,000
1998	795,000
1999	809,000
2000	823,000
2001	838,000

Source: City of Calgary Finance Department, 1996 July

Housing Forecasts: Up Until 2001

The demand for new housing is driven by both an increase in the number of households and changes in consumer housing needs/preferences. In turn, the makeup of the population creating a demand for housing at any point in time will affect the level of demand in particular sectors of the city, as some areas have traditionally served specific market segments.

The focus here is on the demand for new single detached houses. Single family development continues to account for most of the housing activity in the city, and generally occurs in new suburban areas. It is the driving force behind the demand for most new subdivisions. The anticipated level of demand for new single detached housing is to continue. In 1995, there were 3,681 single housing starts within the city, which increased to 5,081 starts in 1996. It is expected that the annual demand for new single detached houses will at this level in 1998. This will result in an increase of approximately 24,000 new units between 1997 and 2001.

Suburban Residential Land Requirements: 1997 - 2001

The demand for residential land in the short-term is calculated on the basis of an average density of five to seven units per residential acre. This reflects the density traditionally being achieved or currently being planned for in the suburban communities developing in Calgary.

The density of individual communities varies. Depending on the mix of housing types, single detached lot sizes, and extent of other land uses and amenities within the community. However, these variations are quite site-specific.

Over the long term, average densities in new areas are likely to increase. It is expected that demographic and market changes will lead to a gradual increase in proportions of multi-family units and smaller lots being developed in some communities. The City has also recently approved policies intended to increase average densities five to seven units per acre and to encourage a broader mix of housing types in growth areas. It is not expected that these changes will significantly affect land absorption rates in the immediate future.

Indicators of Market Share, by Sector

The Northwest, North and Southeast sectors have been the city's strongest growth corridors over the last five years. In combination, these three sectors have accounted for roughly 64% of the new suburban single detached market since 1991. All three sectors have seen relatively stable and substantial market shares, accommodating approximately 66% of the market in the last census years.

Market Share Distribution of New Suburban Single Detached Housing, By Sector 1991 - 1996

FIGURE D

Sector	1991-92	1992-93	1993-94	1994-95	1995-96	Average Share 1991-1996
North	15%	16%	19%	18%	22%	18%
Northeast	14%	13%	11%	8%	10%	11%
East	5%	5%	4%	4%	4%	4%
Southeast	19%	23%	24%	18%	20%	21%
South	18%	12%	10%	13%	13%	13%
West	8%	8%	7%	7%	7%	7%
NORTHWEST	21%	23%	25%	32%	24%	25%
Suburban Total	100%	100%	100%	100%	100%	100%

Source: Civic Census, 1996 December

Short-term Estimates of Single Detached Housing Demand and Distribution by Sector

FIGURE E

Sector	1997		1998		1999		2000		2001		Average Share (%)	Total Units	Total Acres
	%	Units	%	Units	%	Units	%	Units	%	Units			
North	20%	"1,000"	20%	940	20%	940	20%	940	20%	980	20%	"4,800"	960
Northeast	10%	500	10%	470	10%	470	11%	520	13%	640	11%	"2,600"	520
East	4%	200	4%	190	3%	140	2%	90	0%	0	3%	620	120
Southeast	20%	"1,000"	20%	940	20%	940	20%	940	20%	980	20%	"4,800"	960
South	13%	650	14%	660	15%	710	15%	710	15%	740	14%	"3,470"	690
West	7%	350	7%	330	7%	330	7%	330	7%	340	7%	"1,680"	340
Northwest	26%	"1,300"	25%	"1,180"	25%	"1,180"	25%	"1,180"	25%	"1,230"	25%	"6,070"	"1,210"
Total	100%	"5,000"	100%	"4,700"	100%	"4,700"	100%	"4,700"	100%	"4,900"	100%	"24,000"	"4,800"

Notes: Numbers may not total due to rounding

SOURCE: City of Calgary Planning and Building Department, 1996 November

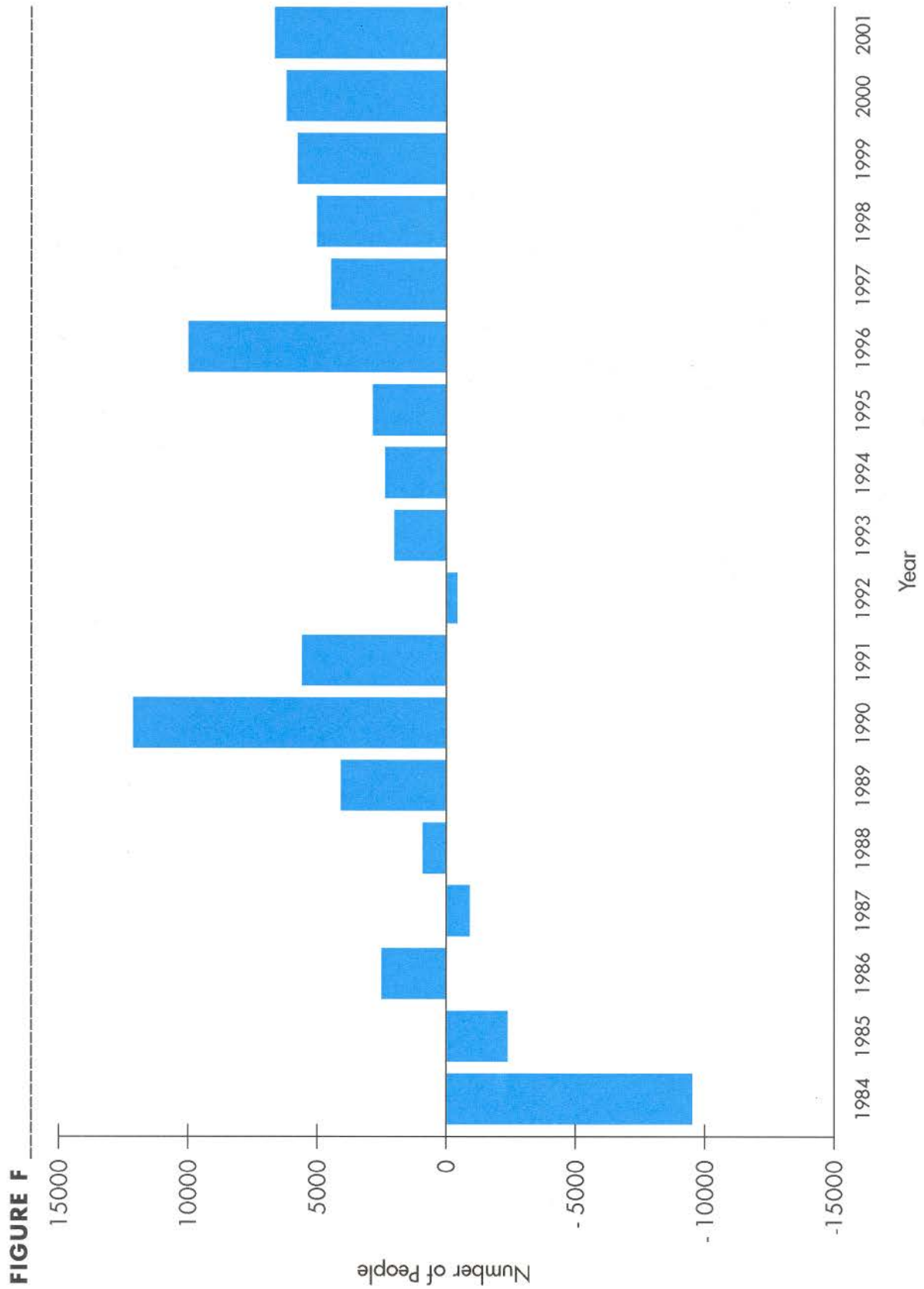
The Northwest remains the city's largest and strongest growth corridor and averaged a 25% share of the new market or 1,005 units per year since 1991. The sector continued to remain a strong market share (24%) in the last census year, adding 882 units.

Housing construction was active in nine communities in the sector in the last year: Edgemont, Hawkwood, Scenic Acres, The Hamptons, Citadel, Arbour Lake, Valley Ridge, Tuscany and Rocky Ridge Ranch. Hawkwood is effectively built-out.

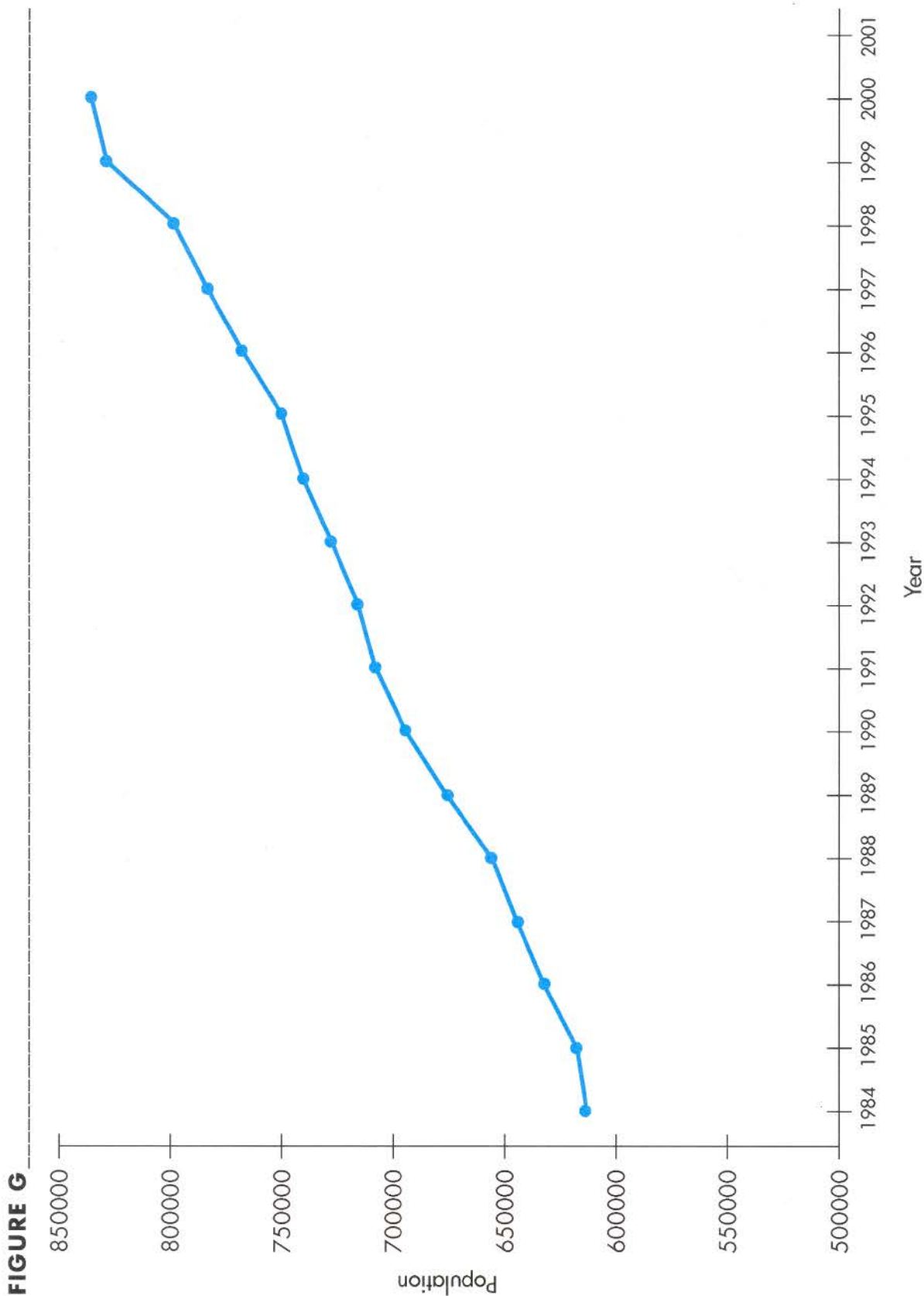
It is expected that activity in this sector will remain strong and even increase in the near future.

The following graphs further illustrate Calgary's anticipated growth and building permit demand.

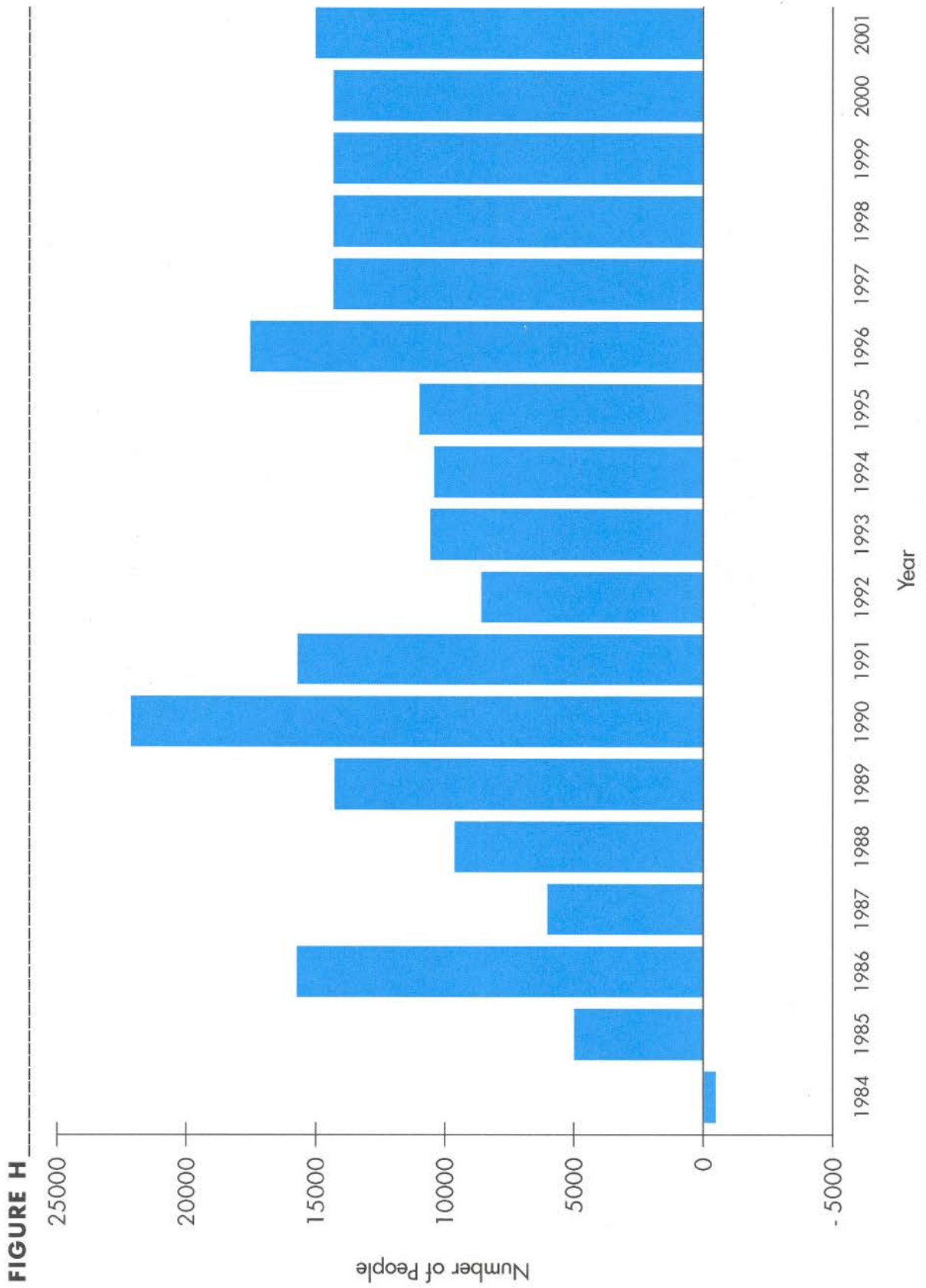
Annual Net Migration for Calgary Actual (1984 – 1996) and Forecasted (1997 – 2001)



Recent and Forecasted Population Growth for Calgary, 1984 – 2001



Annual Population Growth Actual (1984 – 1996) and Forecasted (1997 – 2001)



Single Family Housing Starts, Actual (1984 – 1996) and Forecasted (1997 – 2001)



CONSUMER RESEARCH

Calgary, as with most other North American centres, is anticipating an ever increasing number of affluent couples and singles to emerge into the new home market over the next 15 years. These people are young, fit, free of young children and quite affluent. This city has an abundance of recreational and cultural opportunities for these people to indulge in and enjoy. Calgary is also only one hour from some of the best snow skiing resorts in North America.

Because of the fact that Calgary houses the second largest number of corporate head offices in Canada, we have a very large number of young men and women who are single or childless and are taking advantage of the corporate "fast track."

We believe that Rocky Ridge Pointe can accommodate the above noted demographic groups. Both of these groups want to enjoy the advantages and privacy of single detached homes but do not want to, or have the time to worry about or be burdened by the demands of maintaining a typical suburban type home. The idea of Bare-land condominium and the associated maintenance free lifestyle should be a perfect fit for these busy people.

Our research also showed that these people enjoy entertaining but do not want the large homes and the associated headaches of keeping them up. It must be noted that the high quality furnishings, flexible floor plans and the opportunity to develop a quality home office is very important to the people surveyed.

ANALYSIS OF DATA

As the attached data clearly indicates, Calgary is looking forward to continued growth for the next several years. Northwest Calgary has enjoyed the most success and largest number of building starts recently and the future availability of land suggest that this trend will continue for some time.

Access to the mountain resorts and improved access to downtown from the northwest will be huge advantages in bringing the above noted buyers to communities like Rocky Ridge Ranch. It is believed though if we carefully gear our product and presentation to the socioeconomic group that I have explained above, we will achieve success and turn this project around effectively.

Based upon the data collected relative to competitive products, some conclusions became quite clear. First of all, the Westhills area was very active in the "bare-land condominium" type of market. Bungalows, two-storeys, duplexes, clusters and many more configurations and styles were being sold effectively. It seems that the young affluent people were buying here mainly because of access to the downtown core.

The adult style bungalows of McKenzie, Chaparral, and Hamptons were selling well to the plus 50 group.

We felt that with Rocky Ridge's great access to the outstanding recreational opportunities of the Northwest, we would take some of the Westhills crowd away and our location was a natural for the move down market coming out of the surrounding communities.

The truly unique factor that we must fully exploit is that our bare-land condominium offers single detached homes. No other project in our market place offer this huge advantage.

Although end price is always a factor, we must be careful not to overemphasize its importance.

The two groups to whom we are attempting to market, are generally quite different. Equity percentages of Canadian and especially these Canadian purchasers tends to be very high. There are no tax advantage in Canada to high mortgage advances.

Because equity among this target market is high, the resultant gross debt ratios would rarely exceed 15%. Therefore a \$5000. or \$10,000. price difference from our competition is not an insurmountable figure. By far, the most important factor is lifestyle and whether we are providing a product to the market which appeals to the anticipated lifestyle of these purchasers.

An analysis of condominium activity is the geographic target market area over a recent six month period.

FIGURE J -----

Active Condominiums of M.L.S. Currently on Market 48

TARGET MARKET AREA:		RECENT SALES ON M.L.S	
150,000 - 175,000	37	150,000 - 175,000	37
175,000 - 199,000	2	175,000 - 199,000	14
200,000 - 225,000	1	200,000 - 225,000	4

AVERAGE DAYS ON MARKET 59

FIGURE K

ABSORPTION MODEL

1. Based upon information received from City of Calgary Census 1997

All cumulative information was taken from Wards 1,2,3,4,5,6, & 14

2. Anticipated Increase in Market Area Households

Year	End of year Households	Beginning of year Households	Increase during Year
1996	148282	143848	4434
1997	155092	148282	6810
Total			11244

3. Estimated intro. Market Household

Year	
1996	7094
1997	10896

4. Proportion of Single - Family, Multi-Family Residences Presently Found in Market Area

	Owner Occupied	Renter Occupied	Vacant	Total	%
single family	89349	5648	730	95727	62.7
multi family	25249	30045	1501	56795	37.3
	114593	35693	2231	152675	100%

5. Probable New Occupancies of Single Family Residences

A. Year	Household Increases	% of Total	# of New Occupancies Resulting from Households Increase
1996	4434	62.7	2780
1997	6810	62.7	4270
Total			7050

B. Year	Household Increases	% of Total	# of New Occupancies Resulting from Households Transfers
1996	7094	62.7	4448
1997	10896	62.7	6832
Total			11280

C. Year	New Occupancies from Household in Increase	New Occupancies from Household Transfers	Total New Single-Family Occupancies
1996	2780	4448	7228
1997	4270	6832	11102
Total			18330

D. Probable New Occupancies of Multi-Family Residences

Year	Household Increase		% of Total	# of New Occupancies Resulting from Households Increase
1996	4434	x	37.3	1654
1997	6810	x	37.3	2540
Total				4194

E. Year	Household Increase		% of Total	# of New Occupancies Resulting from Households Transfers
1996	7094	x	37.3	2646
1997	10896	x	37.3	4064
Total				6710

F. Year	New Occupancies from households increase		New Occupancies from household transfers	Total New multi -family occupancies
1996	1654	+	2646	4300
1997	2540	+	4064	6604
Total				10904

6. Single Family & Multi-Family Home Ownership Ratios

	total units	owner occupied	% owner occupied units
Single family	95727	89349	93%
Multi-family	56795	25249	44%

7. Potential Home Purchases Resulting from Increase in Market Area Households

a)	Households Increase Moving Into	Home Ownership Ratio	Purchase Resulting from Households Increase
Single family	7050	93%	6557
Multi-family	4194	44%	1845
Total			8402

Potential Home Purchases Resulting from Intramarket Household Transfers

b)	Household Transfers Moving Into	Home Ownership Ratio	Purchases Resulting from Intramarket Transfers
Single family	11280	93%	10490
Multi-family	6710	44%	2952
Total			13442

c)	Home Purchases from Households Increase		Home Purchases from Household Transfers	Total Home Purchases
	8402	+	13442	21844

8. New Vs Used Home Sales Ratios

Year	New Sales		Used Sales	Total	New Sales Ratios
1997	7623	+	21472	29095	26.2%

9. Potential New Home Demand

Predicted Total Homes Sales		New Home Sales Ratio		Potential New Home Demand
21844	x	.262	=	5723

10. Expected Sub-Market Demand/Sales Share

19.7% based upon 1997 Calgary Real Estate Board Statistics

11. Potential Sub-Market New Homes Demand/Sales

Total Area New Home Sales		Expected Sub-market Share	=	Potential Sub-market Sales
5723	x	19.7		1127

12. & 13. Submarket Demand by Price Category

New Home Sales Price Range	Percent of Total Sales	Submarket Demand by Price Range of your Homes
\$150,000 - 174,999	6.7%	76
\$175,000 - 199,900	3.9%	44
\$200,000 - 225,000	2.0%	23
Total		143

14. Anticipated Capture Rate = 30%

15. Predicted Product Absorption

New Homes Sales Price Range	Total Sub-market Sales		Anticipated Capture Rate	Predicted Project Sales
\$150,000 - 174,999	76	x	.30	23
\$175,000 - 199,999	44	x	.30	13
\$200,00 - 225,000	23	x	.30	7
Total				43 units

B. DECISION PROCESS

1. TARGET MARKETS

In addressing this entire target market issue, it will undoubtedly testify to the advantage of "buying in" and utilizing what is taught in this MIRM program.

Stepper Homes Inc. is a relatively large and very successful home builder and I presumably am one of the top realtors in the Re/Max International system, but when the project became bare land condo we did not adjust our thought process and attempt any more than superficial demographic research.

We at Stepper Homes Inc. felt that our market would be first time move up buyers (again our specialty). It was felt that these young families would accept the condominium lifestyle because there is no other place in Rocky Ridge they could afford to buy. Our product was designed with young families in mind and our interior merchandising reflected this.

Sterling Homes, on the other hand, was convinced that this was an Empty Nester community and geared their product to address this. We at Stepper agreed that we could generate lots of Empty Nester traffic, but we felt that because of the shallowness of the lots and our inability to build walkout basements, this traffic would not buy here. Lots 25 through 32 are well designed for 1 storey product (bungalow), but over half of these lots actually have back to front drainage and would be the last to sell.

Model homes opened in February of 1998. Originally traffic was quite strong and loved our product. Unfortunately the consumers were confused. Our target market wanted to do their own yard work and saw no value in the bare land condo concept and associated fees. Sterling's buyers thought that this community was too family oriented and did not provide the kind of environment they were looking for. Sales between February and July 1, 1998 totaled ten. This was a dismal number considering Calgary was experiencing the hottest real estate market in it's history. We had to reevaluate the data and commit to a new direction.

While early on we almost apologized for the "condo issue", we decided to embrace the condo concept. Our new research showed that there was a very high population of young affluent couples and singles who would embrace the idea of a single detached home but had no interest in yard work or related activities. It also showed us that many mature couples had sold their large houses and moved to apartment condos and town house style units. We felt it logical many of these people would miss having the ability to have grandchildren stay over and other advantages associated with single-detached living.

After exhaustive meetings we finally felt we had nailed it. Our market would be the young affluent condo initiated, and mature couples with no children Figure L suggests this theory by showing that by far the highest percentage of people living in the geographical target area are between the ages of 25 - 44 years (31.4%) The second most prevalent group is 65 years and over (16%). This clearly shows an empty nester potential as well.

Figure M again suggests that 32% of households in the target area have only two residents. This figure is 11 percentage points higher than the next family size group. This would suggest a large number of empty nesters and childless couples. Perfect for our community.

Probable buyer pool by age group

FIGURE L

Neighboring communities from where buyers are likely to be derived

- Brentwood
- Capital Hill
- Dalhousie *see map # 1 - E for community locations*
- Briar Hill
- North Haven
- Varsity

Total residents 65+ years of age	5721
Total residents 25-44 years of age	11234
Total residents	35724
% potential empty nester	16%
% potential young affluent	31.4%
next largest age group 45 -54	4580

N.B. Figures provided by City of Calgary Planning and Building Department 1997 Civic Census Table 1.

Household size of our target market area.

FIGURE M -----

Aldermanic Wards 1 & 2

Total Households	45181	
Total 2 person households	14645	
% of 2 person households	32%	
next largest household sizes	- 21%	- 4 person households

N.B. Figures provided by City of Calgary Planning and Building Department 1997 Civic Census Table 9

2. FINANCIAL CONSIDERATIONS

As stated earlier in this case study, the local market was only beginning to strengthen at the time this project was considered. We felt that we were paying a premium for the land at an average cost of \$1,350.00 per front foot. The market for similar land in this area at the time was \$1,200 to \$1,250 per front foot.

It was anticipated that 2 storey product could be brought to the market at approximately \$65. per square foot, by the time the project came to market in February 1998, we were forced to market at \$69 to \$75 per square foot.

Fortunately, the price of serviced land had risen to approximately \$1,350. per front foot making the opportunity for profits on the land quite likely while no land profit had originally been anticipated.

Unfortunately, the increase in house prices had taken the lower end of our anticipated market away.

Because very little spec house activity was undertaken, carrying costs were hardly a factor and any cost to carry land could be added to lot prices as the project advanced.

N.B. It must be noted that the cost per square foot figure above does not include the lot. Elsewhere in the report I have made calculations using the lot cost as part of the equation.

MARKETING AUDIT

Introduction

The purpose of this report is to prove the feasibility of undertaking this project. The entire concept is new to the marketplace and very little historical data is available to aid in coming to a conclusion. Many explanations and analysis pertaining to this project are clearly outlined in other sections. In those cases I have referred to section numbers for easy reference.

Executive Summary

The marketing department believes it can generate sales in Rocky Ridge Pointe at a rate of two sales per month for a sell out period of twenty-two months. Average serviced lot values should prove to be approximately \$45,452.00 or \$1300 per front foot.

Our proforma has been established to prove a before tax profit of 7% based upon anticipated overhead consistent with this marketplace.

Because of the wide variance in lot prices, it is difficult and somewhat misleading to establish house and lot price averaging. We will attempt to calculate a reliable average low and average point for this report.

Figures N and O show that we have a significant price advantage over our strictest competition. Builder A and B offer lower prices and a competitive dollar per square foot figure but they are located the furthest distance from the subject community. Our density and amenities offer a superior product to theirs. Builders C, D and F are geographically similar to the Subject and will be strict competition. These builders are considerably more expensive in dollars per square foot and average overall price. Builder E is located close to the subject. Builder E is certainly the best priced project but offers very high densities and few amenities that would appeal to our target market. We feel that these figures very favourably place us in a strong market position.

As was stated previously, our market place and architectural controls require a much wider variety of plans that what would be considered normal in the United States.

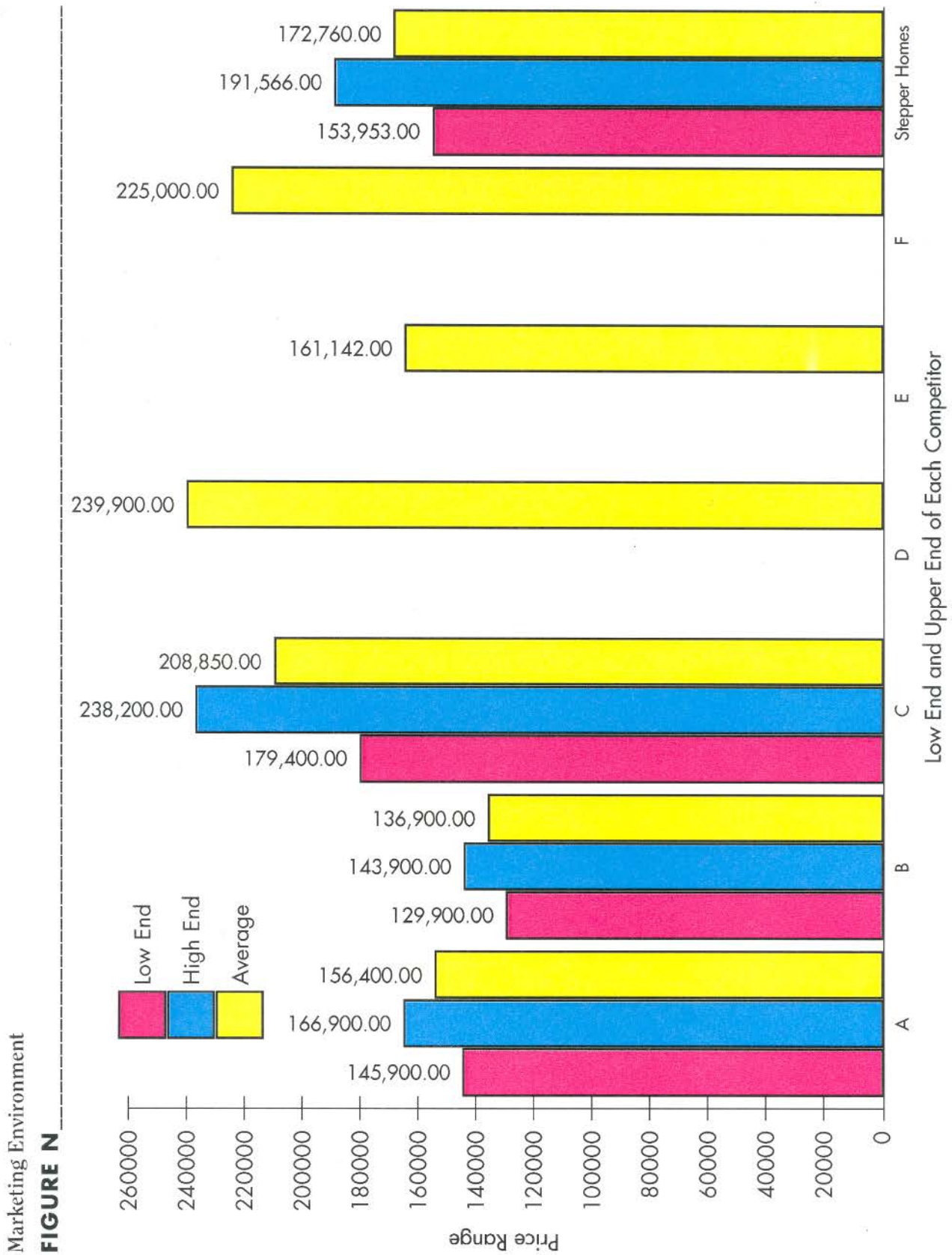
Average lot price	\$45,452.00
Average small house	\$101,900.00
Average larger house	\$137,900.00
Average small house and lot including tax	\$153,953.00
Average larger house and lot including tax	\$191,566.00

Because of the uniqueness of this bare land project, we believe that we must bring this project to the marketplace showing a higher level of perceived value to the purchaser. This appears to be a reasonable objective based upon the graphs on the following pages.

Canada Mortgage and Housing has effectively given its "blessing" to the project. This allows our purchasers the opportunity to mortgage up to 95% of the value of the home and lot.

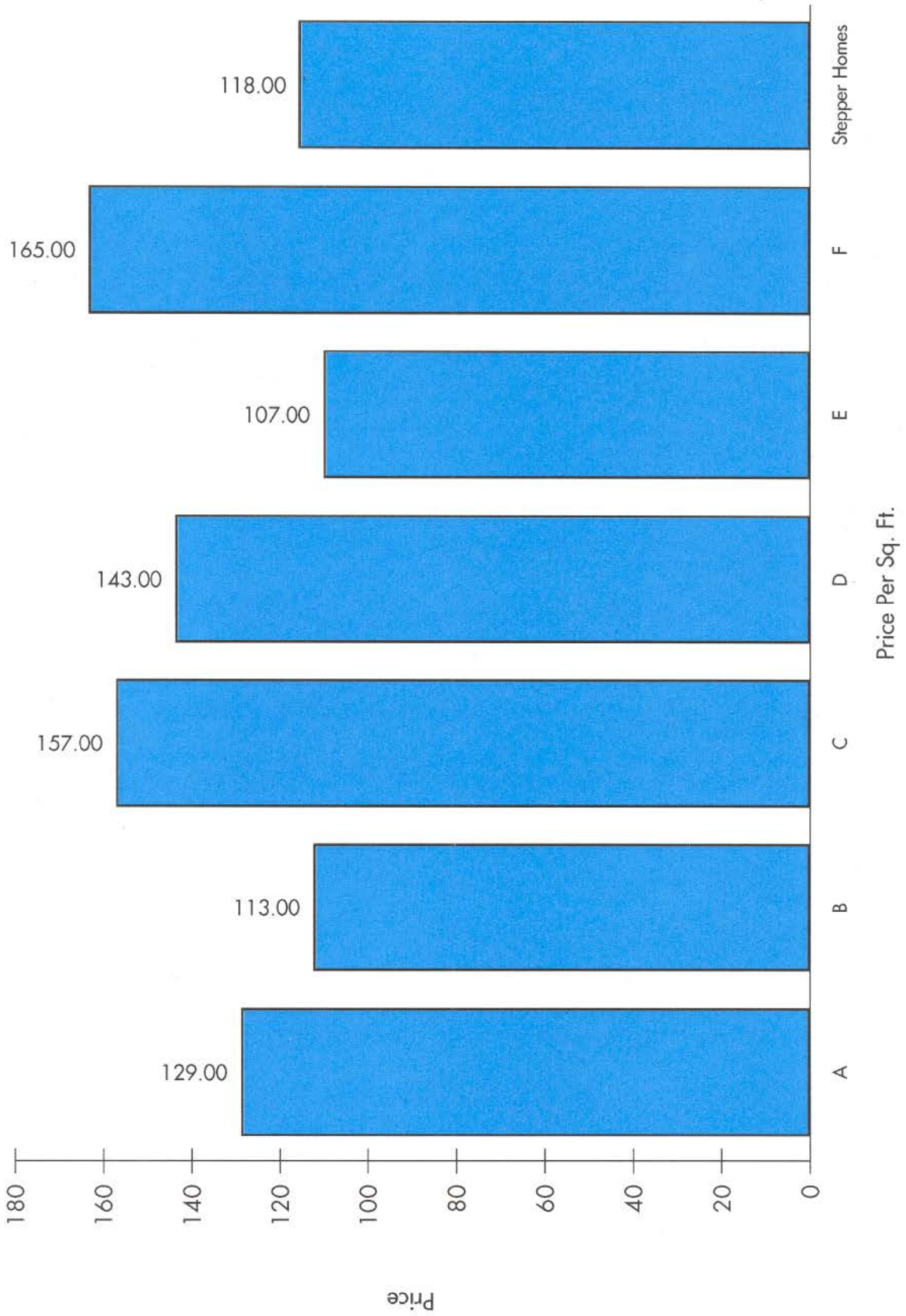
The Bank of Montreal has been contracted to supply all mortgage money at discounted rate of 3/4 of 1% below posted rates.

The model and sales centre office is carefully detailed in sections IV. B. 6. page 44. A detailed drawing of this sales centre is located as EXHIBIT #13.



Graph Showing Average \$/Ft.² of Each Builder

FIGURE O



Product Portfolio Performa

FIGURE P

Plan	Bung. 1200 - 1500	2 Storey 1100 - 1400	2 Storey 1401 - 1600	2 Storey 1601 - 1800	Rear Load - Garage 2ST
Average Sales Price	"178,352"	"153,552"	"169,152"	"177,352"	"170,352"
PBT (\$)	"11,620"	"6,755"	"12,059"	"14,847"	"12,467"
PBT (%)	7%	4%	7%	8%	7%
G&A (4%)	"7,134"	"6,142"	"6,766"	"7,094"	"6,814"
Finance (2%)	"3,567"	"3,071"	"3,383"	"3,547"	"3,407"
Marketing (7%)	"12,485"	"10,749"	"11,841"	"12,415"	"11,925"
Gross Profit (\$)	"34,806"	"26,717"	"34,049"	"37,903"	"34,613"
Gross Profit (%)	20%	17%	20%	21%	20%
Lot (\$)	"45,452"	"45,452"	"45,452"	"45,452"	"45,452"
Lot (%)	25.50%	29.60%	26.80%	25.60%	26.60%
Indirect (2%)	"3,567"	"3,071"	"3,383"	"3,547"	"3,407"
Direct (51%)	"94,527"	"78,312"	"86,268"	"90,450"	"86,880"
Cost/Sq. Ft.	66.44	62.01	57.55	53.27	61.44
Ave. Sq. Ft.	1369.00	1263.00	1499.00	1698.00	1414.00

PRODUCT PORTFOLIO PROFORMA FIGURE P

Upon reviewing this proforma the following items should be noted:

Financing cost: the figures of 2% is used rather than a much higher figure. Stepper Homes is financially very strong and requires no bank participation in a project the size of Rocky Ridge Pointe. Stepper Homes Inc. management feel that 2% is an acceptable figure.

Direct costs: Stepper Homes Inc. management feels that a figure of 51% is more realistic in this case.

2 Storey product 1,100 sq. ft - 1,400 sq. ft. would often be placed on less expensive lots than the average. For purposes of this report the average lot price was used. This has adversely affected the P.B.T. figure.

MARKETING STRATEGY

Based on the target market group that are clearly explained in section IV B 1 we feel that the Product Portfolio Proforma on the preceding page clearly illustrates the five product categories to be marketed.

MARKETING BUDGET

You will note from our proforma that we are proposing a marketing budget of 7%. Based on a two year sellout, our plan would be as follows:

Sales Compensation	
In-House Compensations	2.1%
Co-op Fees @ 25% x 3%	.75
Sales Management	1.05
Total Compensation	3.9%
Start Up Investment	
Signage (flags and Pageantry)	\$2,600.00
Sales Office	\$6,000.00
Model 2 @ \$15,000.00 each	\$30,000.00
Total Start-Up	.90%
Communication	
Brochures	\$10,000.00
Media	\$100,000
Total Communication	1.6%
Other	
Telephones	
Utilities	
Maintenance	\$1,850.00 per month
Cleaning	
Supplies	
Total Other	.6%
TOTAL	7%

3. SITE SELECTION

Since Rocky Ridge Pointe is simply a 2 or 3 phase section of the much larger Rocky Ridge Ranch project, it is important to understand Rocky Ridge Ranch itself. As you can see by the attached map (exhibit I - A), Rocky Ridge land is situated high on a hill at the extreme north-west corner of the city. This is relatively non arable "foothill" country with very few trees but fantastic views of the Rocky Mountains and downtown Calgary. Access routes are in place and modern underground servicing and utility hookups were convenient although extremely expensive.

Early phases of Rocky Ridge Ranch are mostly estate style housing with 40 - 46 foot wide lots. Rocky Ridge Pointe is located in what will be the heart of the subdivision and is clearly visible from Phase 1 & 2 houses and the collector street. This site selection is critical as the residents of Rocky Ridge Ranch were very vocal in their concern that the bare land condo project and it's relatively high density would compromise their higher property values.

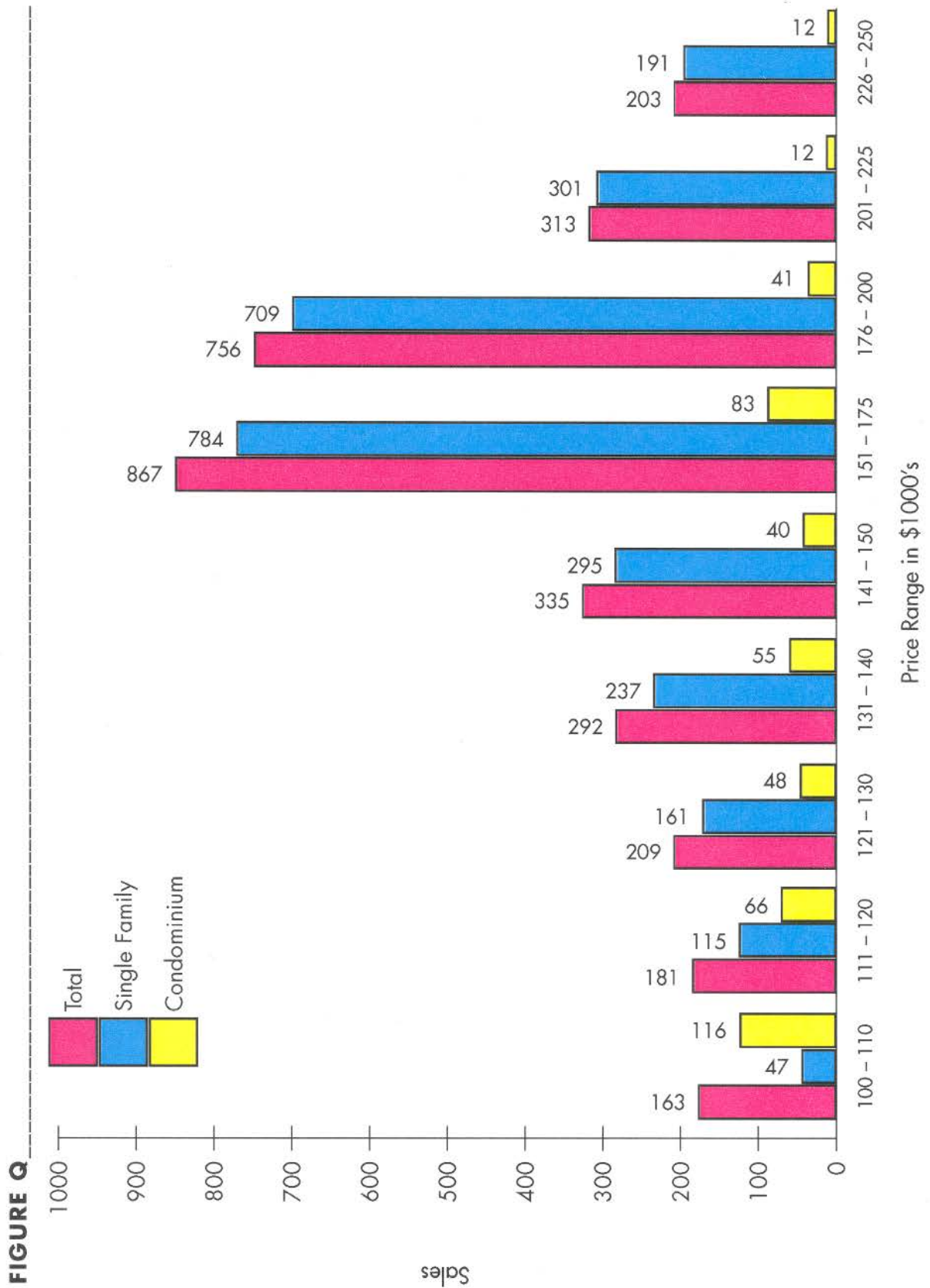
Early phases of Rocky Ridge Ranch were zoned R-1 with approximately five units per acre. Rocky Ridge Pointe was zoned R-1A and would increase density to seven units per acre. Herein lies the concern.

Immediately to the north of this development is land currently zoned agricultural and is made up of large acreage style estates. All development of Rocky Ridge Pointe must be cleared with these acreage owners. Rear elevations, house massing, roof pitches and exterior materials and trim treatments had to be upgraded to meet the demands of all surrounding interested parties.

Wet and dry pond storm water storage management had to be accounted for as well as several small "wet-land" areas which required significant engineering and sensitivity

Rocky Ridge Ranch was purchased by the Marquis Corp. in 1992 at a price of \$20,000 per acre as raw land. The most recent sale of comparable land took place in May of 1998 at a price of plus or minus \$80,000 per acre. The first serviced lots sold in 1994 at approximately \$1,150.00 per front footage. At the time of this report, serviced lots in the community and surrounding communities are selling at \$1,450.00 per front footage. It can be expected that the land costs will continue to escalate as demand, servicing costs and raw land prices continue to rise.

N.W. Market Overall Sales March - October 1998 vs Condominium Sales March - October 1998



4. COMPETITIVE ANALYSIS

The resale housing market has been tremendously active for almost two years. Available inventory is low in all sectors of the market.

Empty nester communities are springing up everywhere but virtually all of them are one storey attached style housing. This forces people who have had family homes to alter their lifestyle and give up their private back yards and associated activities.

Small two storey homes and one story homes are available on the resale market but most are in young family areas. These do not offer the upscale features so sought after by both our target market groups.

Because Calgary is a relatively small centre and has a highly mobile population, I felt that serious consumers would consider developments at all corners of the city so long as their basic requirements were met.

Figure Q clearly shows that the bulk of real estate sales in the northwest quadrant have been in the price range of \$150,000 - \$225,000 our target range.

With this in mind, I carefully analyzed developments in McKenzie Towne, Lake Chaparral, Westhills and Hamptons. Refer to *Exhibit I-A* for location of these communities in relation to the subject community.

A comparison of the competing developments is as follows:

- | | |
|------------------------|------------------------------------|
| 1. HIGHCASTLE | - PROJECT NAME |
| MCKENZIE TOWNE | - DEVELOPMENT |
| HAWTHORNE HOMES | - BUILDER |
| NEO TRADITIONAL | - OVERALL COMMUNITY CONCEPT |

Located a similar distance to city centre as Rocky Ridge Pointe. This area has great access to parks, golf courses and shopping as the subject community.

Interior specifications are similar to Rocky Ridge Pointe product. Floor plans are limited to only four designs. The project is split into four phases totaling 34 units.

Sales totaled five of first eight released in first three months.

Prices range from:

\$145,900 for 1142 sq.ft. with single attached garage to \$166,900 for 1192 sq.ft. complete with garage and walk-out basement.

Average price:	\$157,025
Average area:	1215.25 sq.ft.
Average price per sq.ft.:	\$129.21 per sq.ft. including Lot

Target market appears to be young retired couples. Community not quite as attractive to "young affluent" crowd.

Point of purchase presentation "very slick" with "virtual reality" display and very high quality handout material.

- 2. **CHAPARRAL POINTE** - *PROJECT NAME*
- LAKE CHAPARRAL** - *DEVELOPMENT*
- ROCKFORD DEVELOPMENTS** - *BUILDER*
- CONTEMPORARY FAMILY HOMES** - *OVERALL COMMUNITY CONCEPT*

Located a similar distance to city centre as Rocky Ridge Pointe. Enjoys many of the same outstanding facilities and amenities as Highcastle.

Interior specification are similar to Rocky Ridge Pointe floor plans are limited to only three designs.

This development is a pure Bare-land Condominium with duplex and four-plex configurations. All homes are one-storey bungalow types. R-1A guidelines for street width and street lighting are immediately apparent upon arrival.

The all bungalow concept has proved hugely popular and was successful in generating 46 sales in six months. This represents a virtual sell-out during that time.

Prices range from \$12900 for 1227 sq. ft. with single attached garage to \$143,900 for 1106 sq. ft. plus 683 sq. ft. of developed (non-walkout) basement.

Average price:	\$135,233
Average area (not including basement)	1142 sq. ft.
Average price per sq. ft. (not including basement)	\$112.75 per sq. ft.

Target market appears to be very similar to Highcastle.

Point of purchase presentation is very basic with simple photo copied handout material. The very popular all bungalow concept appeals to people who want to be near their extended families and recreational opportunities. "Price point," not slick presentation, is the obvious focus here.

- 3. **PATTERSON RIDGE ESTATES** - *PROJECT NAME*
- PATTERSON HEIGHTS (WESTHILLS)** - *DEVELOPMENT*
- PATTERSON RIDGE DEVELOPMENTS LTD.** - *BUILDER*
- CONTEMPORARY SINGLE FAMILY & MULTI** - *OVERALL COMMUNITY CONCEPT*

Located in a wonderful area of the Westhills section of the city (see Exhibit A-1), this development offers stunning views of the city skyline. A short 15 minutes drive to the city centre is a major drawing card. All prices (resale and new) reflect this matter of a convenient commute and wonderful views.

Twenty-four duplex and four-plex units made up of walkout type bungalows and split levels.

Specifications are one significant not of above projects 1 and 2 and Rocky Ridge Pointe, but this is certainly reflected in the prices.

Prices range from \$179,400 for 1254 sq.ft. to \$238,300 for 1458 sq.ft.

Average price	\$214,270
Average area	1375 sq.ft.
Average price per sq.ft.	\$156,56 per sq.ft.

This very upscale project appears to be targeted toward a market we have identified as ours. Patterson Ridge Estates is also considered Bare-land Condominium and has experienced four sales in it's first five weeks of marketing.

- 4. **PROMINENCE PARK** - *PROJECT NAME*
- PATTERSON HEIGHTS (WESTHILLS)** - *DEVELOPMENT*
- HILLTOP HOMES** - *BUILDER*
- CONTEMPORARY SINGLE FAMILY & MULTI** - *OVERALL COMMUNITY CONCEPT*

Located in Westhills area (see Exhibit A-1). This development offers strong city views. Fifteen minute drive to city centre. Location here again is the big plus.

Thirty-one duplex two-storeys. Specifications are reasonably high and match the subject specs quite well.

At this time, final (deep) services as just being installed and formal marketing has not begun.

Sample prices are as follows:

\$239,900 for 1690 sq.ft

Price per sq.ft. = \$142.80

This project appears targeted toward a younger affluent group. No presales have taken place as of yet. This is a Bare-land Condominium.

- 5. **LA VITA** *- PROJECT NAME*
- THE HAMPTONS** *- DEVELOPMENT*
- CALBRIDGE HOMES** *- BUILDER*
- UPSCALE SINGLE FAMILY**
- CONDO AND LIFESTYLE CONDO** *- OVERALL COMMUNITY THEME*

This excellent golf course community is located in the northwest corner of the city (see Exhibit A-1). Commute to city centre will be roughly equivalent to the subject.

One hundred and eighty-five units, of which roughly one half back onto the championship golf course, make up this project. Primarily four-plex and five-plex configurations of bungalows and two-storeys.

Sales have been very strong. Interior specifications would be similar to subject.

Average price of available product	\$161,142
Average area of available product	1511 sq.ft.
Average price per sq.ft. of available product	\$106.65 per sq.ft.

Although the presentation is "first class", the curb appeal is not. The inside units and overall density, which is quite high, suggest that "price point" is very important.

- 6. **COULEE RIDGE VILLAS** - *PROJECT NAME*
- COACH HILL (WEST HILLS)** - *DEVELOPMENT*
- COULEE RIDGE DEVELOPMENTS** - *BUILDER*
- CONTEMPORARY SINGLE FAMILY AND MULTI FAMILY** - *OVERALL COMMUNITY THEME*

Bungalow duplex type of project tucked away at the extreme west side of this popular development.

Thirty unit project, close proximity to "green space". Bare-land condominium concept. Four different plans were available. Interim specifications are certainly one level higher than that of the subject project.

Typical price of unit	\$225,000 +/-
Typical area per unit	1400 square feet
Typical price per square foot	\$165 /per sq. foot

This project sold out in six months, which shows that this empty nester market will pay top dollar for quality and location.

It is quite clear that Rocky Ridge Pointe offers superior value per square foot than the competition. We also continue to emphasize the appeal of the single detached condominium concept as the single greatest selling feature.

Price comparison and market placement is thoroughly discussed in IV. B. 2.

5. **PRODUCT AND PRICING STRATEGY**

Based on surveys of condominium experts in the city, we came to the conclusion that pricing, although of a concern, was not a large determining factor. Our buyers are far more concerned with lifestyle, how they entertain, and what they can do with their leisure time. Our competing developments offered floor plans that specifically were tailored to lifestyle needs.

We were in the market of rapidly increasing prices for both materials and land, and always had to be cautious that we were keeping ahead of the market in this area. The consumers, overall, were still not receiving the bare-land condo concept with open arms, and this kept us from levying incremental price increases. Our focus was trying to establish some sales momentum. The opportunities for profit margin increases would come later in the first phase and subsequent phases if we could establish some early momentum.

Product style and the very advantages of the bare-land condo differentiated us from any competition we faced. Each home was a detached unit with its own garage (whether detached or attached). Each home had its own fenced yard with private deck and flower beds, etc. Each home offered its own distinctive elevation treatments.

From a design perspective, emphasis was placed upon flexibility in each room, and elegance of each floorplan, interest was created with the use of angles, nine-foot high ceiling whenever possible, and the WOW factor in every model which would grab attention and hold interest as long as possible. We consistently emphasized kitchens, great rooms, and master bedrooms in our designs. Detailed below, I have attempted to outline our design thought process of these three rooms:

- **KITCHENS:** Kitchens in each model were to feature high ceilings and liberal uses of ceiling pot lights whenever possible. A choice of oak cabinets or a raised panel European style cabinet was to be made available. Our research showed that the white Euro style would be very popular. Corner pantry units were to be used as often as possible. We also placed emphasis upon food preparation islands which can become an entertainment area focal point. In most models, one quality eating area was to be included. Our research told us that this area must be multi-purpose, spacious and quite informal.
- **GREAT ROOMS:** These rooms, although not necessarily large must flow in and out of the kitchens as this is the only entertainment area of the home. Cozy fireplaces were included in all models, along with mantels included in some models, to test whether people would use them in this setting or opt for a developed basement space with a theatre room.
- **MASTER BEDROOMS:** This private area must offer a tranquil retreat for this type of consumer. Spaciousness, lots of wall space, large walk-in closets and ensuites with a feeling of class and luxury were extremely important and were greatly emphasized.

It was calculated that the perception of value would be significantly enhanced by upgrading exterior materials and details. Steeper than average (8/12) roof pitches were encouraged, expensive architectural composite roofing materials were also mandatory.

Stone or brick pillars and accents, window grid patterns, upgraded front doors and full landscaping contributed heavily to the overall streetscape appeal of the community.

Again though, what makes this community unique in the market, is that the residents enjoy all the advantages of condominium living with the privacy and individuality of single detached homes.

Emphasis was also placed upon highly emotional features such as elaborate deck designs, hot tubs and professional landscape designs. We felt that if we could offer these items as extras we could increase margins significantly and improve overall appeal. This could also help us to keep people in the sales centres longer.

6. MARKETING PLAN, CONDITIONS AND BUDGETS

I Purpose

This report represents the plan for the sales and marketing of Rocky Ridge Pointe.

II Objectives

A. Traffic

1. to generate traffic from the following sources

Realtor Co-op	25%
Advertising	50%
Institutional Traffic Generate by Developer	5%
Other	20%
2. to generate an average of 40 buying units into sales centre per week.
3. to generate a sales ratio of one sale for every sixty buying units into sales centre.

B. Sales

to achieve two sales per month
 to complete and close 42 sales in twenty-two months

Based upon our research and past performance in other Rocky Ridge projects, we felt that our expected sales absorption levels would be as follows:

Developmental Stage	Annual Absorption %
Pre-servicing	5%
Initial Development	10%
First Occupancy	25%
Mature Development	50%
Final Development (85-90% sellout)	10%

C. Closings

to begin closings in the spring of 1998 approximately four months after construction began. At least 60% of sales will be presales with balance being spec inventory.

D. Market Image

to maintain and enhance Steppers' image in the community as a value conscious and honest family builder. To develop the "bare-land condominium" concept as a positive approach to home ownership in our market place.

III A. Marketing Strategy

Most market analysts agree that Calgary will experience strong growth for many years to come. Our economy has diversified and the demographics are outstanding. Mortgage financing is less expensive than in many years and opportunities for large advance (95%) loans are very favorable. A very detailed look at our market place is covered in section IV A - Background - Market Research.

B. Competitive Analysis

Because this is a condominium community we feel that the local single family developments of "freehold title" are not competitions at all. We looked very closely at other "bare-land condominium" projects in the market area. An in-depth analysis of competitive product can be found in section IV A -Market Research. Without question we are in a very competitive market place with a new concept to the local consumer.

C. Major Selling Points

Price: When looking closely at the competition you will see that our average price per square foot is considerably less than the average. Our specifications are quite high but the land component has brought our cost down.

Location: Although this is a strong family location within close proximity to many facilities and amenities, it is not the area of choice for most condominium buyers. This is a challenge we must overcome. That is why it is unrealistic to expect much drive-by condominium traffic to arrive. More detail regarding location can be found in Section III B. 1.

Product Design: Special attention and attention to detail has been put into our product design. All product is geared toward empty nester or young affluent buyer. A detailed analysis and description of product line can be found in Section IV B. 5. Product and Pricing Strategy.

Single detached living in a maintenance free environment:

A detailed explanation of the concept can be found in Section III B. 1. page 9. "A brief explanation of the Bare-land Condominium Criteria".

D. Target Market:

As detailed in section IV B 1, we have determined our market to be:

- a) young affluent couples
- b) young empty nesters

Very young or no children

Income \$40,000 - \$75,000 /year

Prior Residence – family home - empty nesters smaller attached condominiums, young affluent couples

Prior Residence Location – within thirty minutes of Rocky Ridge in all directions.

E. Project Description

1. Rocky Ridge Pointe location is explained in Section III B 1 and shown in illustrations EXHIBITS 1 - A & C
2. Floorplans

Features that we have emphasized and the rationale used is well described in Section IV B -5 "Product Pricing and Strategy". It should be noted that the consumer demands a much wider variety of floorplan in the Calgary marketplace than would be considered the norm in other cities. We also face an "architectural approval" process that is again demanding and will not allow much elevation repetitiveness. This requires many more floorplans than many analysts would recommend. A complete list and example of available floorplans is available for view in Exhibits.

Landscaping, fencing and maintenance free exterior materials are provided for every house.

F. Summary of Product

1. Base Price

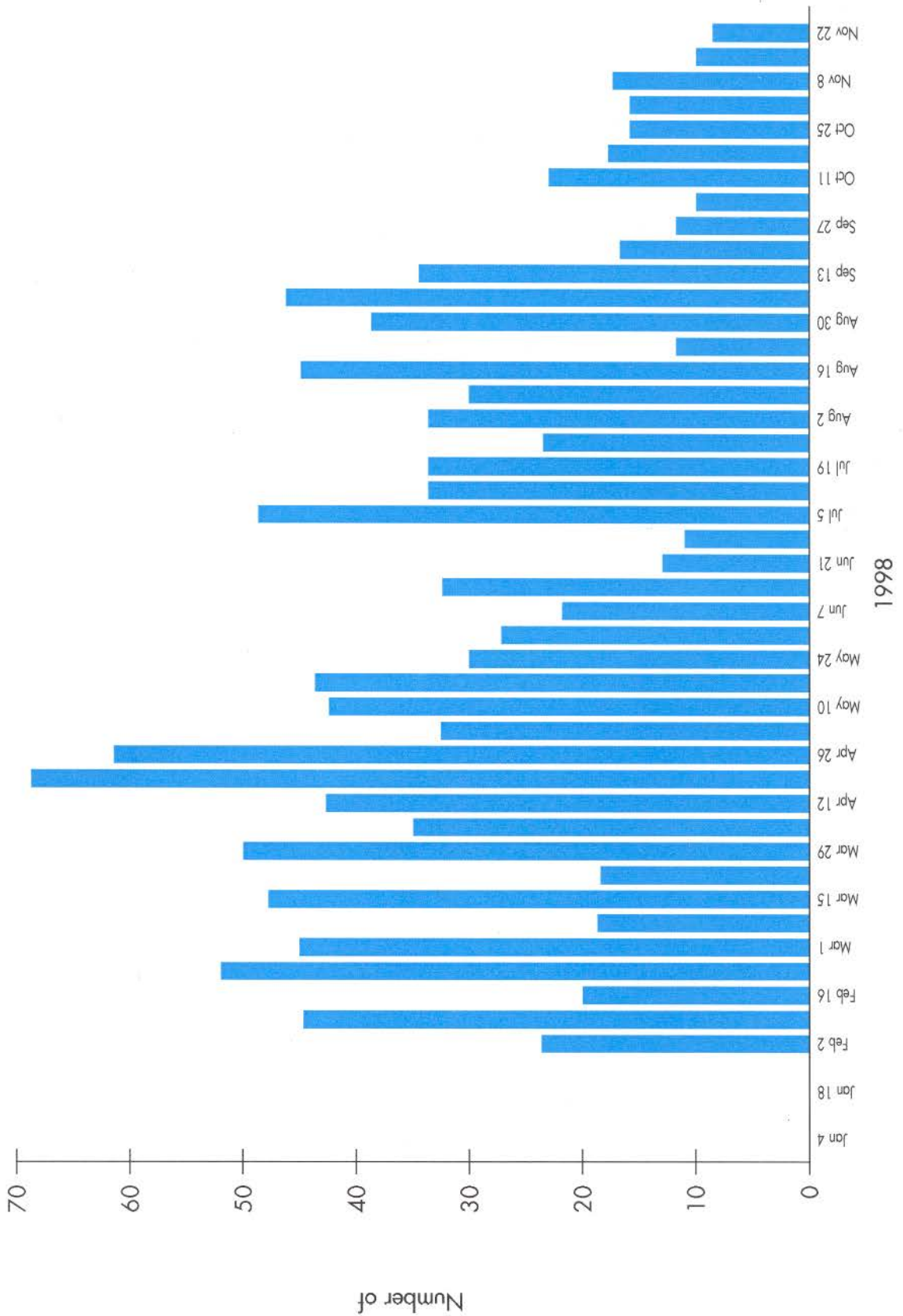
Taking into consideration all pertinent factors, the expected product mix and average pricing is as follows:

Product Type	No.	Ave Price	\$/sq ft	Project Sales Value
Bungalow 1200 - 1500 sq ft.	8	178,352	130	1,426,816
2 Storeys 1000 - 1200 sq ft.	9	153,552	122	1,533,168
2 Storeys 1200 - 1500 "	10	169,152	113	1,773,520
2 Storeys 1500 - 1800 "	7	177,352	104	1,074,864
Rear Load Garage 2 Storey	8	170,352	120	1,353,216
Total	42			\$7,161,584

TRAFFIC COUNTS

Rocky Ridge

FIGURE R



2. Premiums

Premiums have been assessed to each lot depending on rear orientations, whether backing onto “green space” or view potential. Corner lots are somewhat less appealing and lots backing onto multi family projects are discounted.

The following schedule is applicable:

west or south backyard	\$1,500.00
green, open space or bicycle path	\$3,500.00
corner lot	<\$1,500.00>
multi family	<\$2,500.00>

3. Phasing

Our goal with this project, as with any other, is to achieve consistent and successful sales volumes that are predictable and repeatable. This should serve to allow us to make decisions with regard to upcoming phases on this community. Because of the unusual nature of this project, we have very little background information with which to make these decisions. The Marquis Corporation would be looking for commitments from us regarding these future phases soon after we opened and we needed data to assist us.

IV THE OVERALL PRESENTATION STRATEGY FOR THE FIRST PHASE OF THIS PROJECTS IS AS FOLLOWS:

- Name:** Rocky Ridge Pointe
- Street Names:** Rocky Ridge Pointe NW
- Model Names:** Given the outstanding Rocky Mountain view and the close proximity of several mountain recreational areas, it was decided to name the models after well known and highly desirable mountain resorts. *Emerald Lake, Kootenay Bay, Brookfield, Kananaskis, Silver Star, Sydney and Pinehurst.*
- Collateral Information:** Stationary and brochure hand out sheets utilize a "mast head" style of paper with the log imprinted. All floor plans and handouts are printed onto this masthead paper. This is of high quality and is very cost effective. This also allows to be very flexible and responsive to changes that better reflect our buyers wants and needs.
- Logo:** See illustration. This logo depicts the mountains and a horse in order to reinforce the entire Rocky Ridge Ranch theme.
- Signage:** Small directional signage was place throughout the subdivision. this was supplied by the land developer and accurately reflected the Rocky Ridge theme. The entry sign to Rocky Ridge Pointe was located at the southeast corner of the project. This sign was approximately 8' x 14'. We have attempted to illustrate the maintenance free lifestyle clearly in this sign. All signage is the community except the entry sign directs traffic to the developer's information centre as discussed earlier in this report.
- Salescentre:** The Sales centre and information lounge were located in the model home garage. While a traditional "trap" forces people to come back into the Sales centre from the outside, we developed the garage of each of the model homes and linked them with a temporary "pass-through." This allowed the customers to stay inside out of cold temperatures and in a very comfortable environment. It also gave us approximately 1000 square feet of sales centre to work with. Each garage door was removed and replaced with large picture windows and one French door. An industrial grade of broadloom was installed throughout the sales centres. A "chair rail" ran around all inside walls at the 36-inch height with a "picture rail" approximately 18 inches from the ceiling. The chair rail and space below was painted a smoky blue which coordinated well with the interiors of both models. The picture and area above was painted the same colour as the

chair rail. The space between the picture and chair rail was painted the same as the wall colour of the model homes. This tied it all in together very well and created a warm and inviting environment. All model floor plans and colour renderings were mounted on the walls under glass panels. This allowed the salespeople to move people easily through the sales centre. A white lacquered map pod was meant as a gathering and conversation point and was strategically located close to the office area. The second garage was set up as an information lounge with comfortable furniture and an assortment of plants for warmth and a feeling of well being. Several colour pictures of our many models, along with photos of the Stepper family were placed in very visible locations to help reinforce the strength and stability of the organization. Illustrations of elaborate deck designs, hot tubs and landscaping plans were located in each corner of this area as well. This was all undertaken to help reinforce the advantages of the bare-land condo lifestyle and give the sales people plenty of points from which to open discussions.

Advertising:

Initial advertising was concentrated in local print media. It generally illustrated the maintenance free lifestyle and easy living theme. We did change the type of people we used for models in these ads to gauge exactly which photos generated more traffic. All of this advertising was general and institutional in nature. We also ran "product specific" print advertising. This was generally done through the use of a 2"x 3" spot advertising. These ads were effective in generating phone calls but often attracted a poorer quality buyer. Direct Mail flyers were, without question, the most effective advertising we undertook. This campaign was directed to experienced condominium owners and potential empty nester communities. Illustration 6 shows an example of this advertising. It became quite predictable that traffic would improve in quality and volume immediately upon release of this direct mail.

Merchandising:

Furniture, wall treatments and accessories were all chosen to promote an exciting and carefree lifestyle. Paint colours, carpet colours and cabinet colours were similar in both models but accent painting, furniture and accessories were dramatically different. This was an attempt to illustrate the flexibility of the designs and base colour schemes. Each home contained a decorated study or office area. One designed from a female perspective one done from a stereotypical male point of view. Accessories were carefully chosen to appeal to this distinctive target market group.

As explained earlier in this report, the local marketplace looks very favourably at more upscale communities. Our highly educated and affluent younger population and the young retired empty nesters seem to be looking for a similar lifestyle. Keeping this in mind, we tried to present a very upscale environment and image to the public.

Budget: A marketing budget for Rocky Ridge Point has been established. The breakdown is as follows:

Item	Amount	Percent
Sales Office	\$6,000	1.9
Model Merchandising	30,000	9.6
Signage, flags and pageantry	26,000	8.3
Advertising	100,000	31.9
Commissions	151,200	48.3
	\$313,200	100%

SUMMARY

An analysis of the above noted figures suggests that we feel our model merchandising bears a great deal of importance to our target market group. Because of the "out of the way" location compared to other condominium projects, signage and advertising is very high in this budget.

The builder's conservative image is reflected in a relatively low sales office and model merchandising figure. Heavy emphasis is placed upon top quality salespeople and therefore we have higher than average commission figures.

V IMPLEMENTATION

A. ADVERTISING AND PUBLIC RELATIONS

As discussed earlier, advertising was initially concentrated in the print media. Although it was effective in generating traffic, it was not effective in generating quality condominium traffic. The salespeople tired of attempting to explain to people the difference between free hold title and often found themselves attempting to defend the condominium concept with single detached houses.

A concerted effort was made to attract realtors and their clients. A copy of the flyer sent to local realtors is attached in the exhibits. This was effective as it was ongoing for the duration of the project and got the realtors to the site. With this type of advertising it is important to be repetitive as most realtors are focusing on their immediate requirements.

Some spec inventory was listed for sale on MLS in the condo section of the city. This met with limited success. Without question, as I have state earlier, the direct mail pieces were the most effective. This allowed us to target our market very specifically and track our responses. We continued to support all advertising and promotional efforts with institutional print advertising. The advertising schedule is as follows:

October 1997

- Commercial artist is contracted to develop logo.
- Brochure folder is contracted for development.
- Preliminary information is released from Rocky Ridge model home.

November 1997

- Construction begins on model homes for project.
- Masthead paper is developed and printed.
- Large billboard sign is developed and erected next to project.

December 1997

- Model home is designed.
- All wall mount renderings and floor plans are finalized.
- Salescentre furniture is coordinated and purchased.
- Information is released to Rocky Ridge Information.

January 1998

- All model homes are readied for opening.
- Salescentre is installed.
- Merchandising is complete and all homes are fully decorated.
- Flags and directional signage is installed.
- Newspaper advertising commences.
- Local realtors are notified and invited to preview product.

February 1998

- Opening takes place.
- Salespeople notify all customers on data base and invite showings.
- Traffic is sluggish and very non-committal. These are not condo buyers.

March 1998

- Advertising focus is stepped up.
- Large colour advertising is run in local newspaper.
- Sales force continue to show project.
- Sales and traffic improve.
- Coaching sessions are conducted with condominium consultants and other experienced salespeople in our company in a attempt to improve our sales performance.

April 1998

- Although sales improve, salespeople show lack of focus. one salesperson is dismissed and the other is moved to another project.
- Selling Systems Inc. is contracted to review our salespeople and report back.
- Selling Systems' report is negative and they recommend a change be made.
- New salesperson is hired and a great deal of time is spent training this person.

May 1998

- Sales continue to be slow and traffic sluggish.
- New salesperson's attitude quickly deteriorates.
- Newspaper advertising continues until we come to the revelation that we have used the entire first phase budget in the first five months with very poor sales to show for it.
- We have a big problem. It is time to completely refocus, reevaluate what we have done and make some big changes.

June 1998

- Every condominium marketing team in the city is interviewed in an attempt to research our problem. This is all explained elsewhere in this report.
- New condominium team is hired and given the 'green light' to make this work.
- Homes are redecorated to appeal to our more upscale clientel (see DECISION PROCESS TARGET MARKETS).
- Condo documents are reviewed and sanitized for easier interpretation.
- Advertising is completely changed to promote condominium living and stop apologizing for it.
- Direct Mail program is undertaken. Graphic artists are contacted to begin development.
- Traffic improves in quality and sales immediately improve.

July 1998

- New sales team continues to show product.
- Sales continue to improve.
- Direct Mail program commences accompanied by a 'scratch & win' promotion.
- Traffic volumes and quality improve dramatically.

August 1998

- Weather is very hot. This seems to slow traffic down but quality is still very high. We can see a direct correlation between traffic volumes and mail drop days.
- Sales still quite strong.

September 1998

- Decision is made to direct traffic to Emerald Lake model first. This is accomplished by moving traffic into the information lounge before view models. See sales centre layout Exhibit 12.
- Mail drop ends and traffic volume and quality suffer tremendously. Decision is made to restart mail drop program as soon as possible.

October 1998

- Stock markets and oil prices weaken. This affects the quality of our traffic significantly. The above factors affect the liquidity of the average Calgarians and tend to curtail their buying habits.
- Mail drop resumed and traffic volume and quality improves toward month end. Because mail drops are so well targeted, we decided to continue this strategy indefinitely.
- Traffic generated by institutional developer advertising continues to be of little use.
- Flyer drops to local Real Estate offices resume. This generates interest but no sales Realtors are quite nervous about introducing their clients to the unproven 'bare-land' concept.

November 1998

- Mail drops continue to draw traffic but volumes are quite low.
- Quality of traffic is relatively high and November produces a relatively strong sales month.
- Weather is very warm and this keeps some people at home extending their fall yard work.
- We continue to concentrate on attracting realtor traffic through office meetings and viewing invitations.

B. SALES

1. PROJECTIONS:

As discussed earlier in this report, the sales absorption rate and projection were based upon competing "bare-land" projects and our company's recent track record in Rocky Ridge. We realize that the typical condominium buyer will find Rocky Ridge Pointe off the beaten track. We also realize that the sheer novelty of the concept will be a difficult hurdle. All of these issues will no doubt contribute to the impression of pioneering the concept and will make it difficult to realize more than the budgeted two sales per month that we had budgeted for. The upside was of course the tremendous potential for long term high sales volumes that we expected to enjoy in Rocky Ridge.

The models as presented were quite upscale in nature and many upgrades or options were discussed in the sales centre. Landscaping design, deck design and hot tubs were encouraged by the salespeople. This increased the company's opportunity for profit and was highly effective at building the emotional commitment necessary to close these "very lifestyle conscious" buyers.

2. ENVIRONMENT:

A sales center and information lounge were constructed inside the two garages of the model homes. These garages were located side by side and were connected by a fully finished breezeway.

The models were located on lots 44 and 45 close to the entry to the project and very close to the "dry pond" park area.

The models could only be viewed by entering through the sales centre and once inside, all displays led people to the other models. This created a very strong sales trap environment but was not as threatening as a traditional, fenced off trap area.

The goal of the sales centre was to provide a non threatening environment with information and displays to excite the buyer and appeal to his or her lifestyle requirements.

The following items were included in the sales centre presentation:

- map of entire community
- map of Rocky Ridge Point and lots, sold and available
- colour renderings and floorplans of all models
- the "Builders Story"
- list of standard features and high lites
- landscaping plans
- deck designs
- hot tub ideas
- list of why condominium living is a great idea
- "dry mounted" photos of models not available for viewing on site

A complete overview of the sales centre is discussed in Section IV B-6 Marketing Plans, Conditions and Budgets, page 43. A floorplan of the salescentre layout is include as EXHIBIT 12.

The two models were professionally decorated and merchandised by "Jan Addams Design Dimension Inc.". An explanation of the merchandising philosophy is discussed in Section IV B-6 Market Plans, Conditions and Budgets, page 43. All decorating was done with comfort and convenience in mind. We felt that our target market is very entertainment oriented and put a high value on comfort and a feeling of casual elegance. All sales demonstrations and dialogue were done with this in mind and utilized the merchandising effectively.

Signage to Rocky Ridge leads all people to the "information centre" in the heart of the community. From this centre, people are directed by the land developer to the appropriate project. As a builder, we would prefer that this did not happen but is beyond our control to stop. Upon leaving the information centre, there is plenty of signage in the form of permanent community directional and temporary sandwich boards. Our large Rocky Ridge Pointe sign is placed at the south east border of our project and directs people from that point.

We at Rocky Ridge Pointe feel very strongly that we are offering the consumer the ultimate in flexibility that can only be achieved by a single detached home. We offer all the advantages of condominium living with the privacy of a detached home and the opportunity to completely customize the home without the obvious restrictions of attached housing. Our entire sales and marketing presentation is based on this idea of enhanced value.

3. STAFF:

It was determined that volume of sales could not support any more than one full time dedicated sales person. The trials and tribulations we underwent in coming to these conclusions are well documented in this report Section V.

Initially the sales team had been chosen because of their experience and past service with the company. As has been well documented in this report, this was just another mistake in a long series of errors. When we finally realized that an entire second look had to be given to the project, we also re-evaluated our sales personnel needs.

An exhaustive search of local condominium experts was undertaken. We also contracted a company know as "Condominium Support Services". Condominium Support Services review all condominium documentation and summarized confusing clauses, they also recommended several condominium salespeople with proven track records. This refocus of our personnel issues helped a great deal. An extensive interview, reference check and series of psychological test were undertaken to narrow the choice of applicants.

The final choice, although a licenced Real Estate agent, is considered a Stepper Home Inc. employee and is completely involved in all company function and responsibilities.

Weekly sales meetings with the sales and marketing manager and all other sales people are mandatory and "on site meetings" with the sales manager are held on a regular basis.

The sales person is expected to be on site Monday - Thursday - 2:00 p.m. - 8:00 p.m. and Saturday and Sunday Noon - 5 p.m. Fridays are days off and one other day off each week is handled by a qualified assistant.

Compensation was determined to be strictly commission with 50% paid upon waiver of all "conditions precedent" and 50% upon closing. Commissions are calculated upon the base price of the house only (lot not included) and amount to 3% of this figure.

In the case of a presale contract written by an outside Real Estate agent, the salesperson continues to receive their commission as in any other customer. This added cost is anticipated and calculated into our sales and marketing budget as a 25% ratio of sales.

As it was determined by consumer reaction or demand, the sales people's input is required in the development of new plans or updating old plans. We have maintained an open door policy with regards to this issue as believe there are no "sacred cows". This has encouraged salespeople to be proactive, innovative and very interactive with our "in house" design team, a real positive and morale booster.

Upon embarking on a more professional approach to hiring sales people, the success of this project appears much more assured.

C. FINANCING

As stated earlier, the Bank of Montreal was contracted to supply all required mortgage funding. The "bank" agreed to reduce their posted rates for 1,3 and 5 year loans (terms not amortization) by 3/4 of 1%. This allowed for very attractive rates across the board.

All mortgage application and appraisal fees were waived by the bank and cost for preparation and registration of all mortgage documents were reduced by the legal firm of Fric Lowenstein. Because the Bank of Montreal hold all loans for their entire duration, the purchasers do not have to bear the cost of the discounted selling of these loans.

Calgary Mortgage and Housing Corporation, who traditionally underwrite all high ratio mortgages, viewed and approved the project. This required supplying all condominium budgets and deferred maintenance of the servicing infrastructure. Once C.M.H.C.'s endorsement had been received our purchasers had the opportunity to buy for as little as 5% downpayment.

VI INITIAL RESULTS

Early in this case study, we discussed that early results were very inconsistent. Sales in the first three months totaled three. Initial projections were set at six deals so therefore we were well under our goals. More alarming, though, was that our traffic was becoming increasingly non committal as we struggled in an attempt to make this project appeal to everyone who walked in the door. Our price sensitive Silverton and Somerton models were the only ones to garner any support. This was simply a reflection of our lack of direction on the part of the management team and the salespeople.

The comprehensive research undertaken as a result of this MIRM program forced the management team to refocus, re-evaluate and hire completely new people. The dismal beginning to this project was eventually turned around and sales slowly improved. The corrective process outlined in section VII highlight the five areas which were successfully addressed.

VII CORRECTIVE PROCESS

As discussed extensively in this report, the uncertainty of the builder created uncertainty in the purchasers. Initial research was poorly undertaken and this resulted in very mediocre early results. By paying attention to the research outlined in this case study, the entire project was turned around. The following remedial measures allowed for this transformation;

- A. acceptance of the condominium concept as a positive rather than an obstacle.
- B. identifying that the single detached unit was our "unique factor" and exploiting this as our one true advantage over our "slicker" competition.
- C. redecoration of the models in a focused attempt to mechanize, to our belatedly identified target market
- D. refocussing our advertising to direct mail which was delivered to the door of intended market. This mail drop type of advertising was repetitive and had a time limited offer which was a true "call to action".
- E. the hiring of the Real E Team and Barbara Doyle in particular to spearhead our "point of purchase" presentation.

VIII COMPLETION OF THE DEVELOPMENT

The corrective changes had a dramatic effect in the progress of the project. As we better identified the target market, we were able to remain focused in our product revision and designs and our advertising.

By changing our salespeople we were better able to monitor the public's reaction to the concept and project as a whole.

It is impossible to determine the final outcome as we are only ten months into a twenty-two month project.

Because absolutely no initial budgets were undertaken, there is no way of determining budgets from actuals. "As long as I am involved with this company - no project will be undertaken without utilizing the valuable information taught in this IRM program".

IX EVALUATION AND CONCLUSION

Much of the evaluation has been discussed earlier in this report. Without question, the figures show that this is a marginal project at best. In fact, though, there is tremendous upside in undertaking the development. Further land positions, both fee simple and strata are now available because of Stepper's pioneering in Rocky Ridge Pointe. As stated earlier, bare-land condominium is certainly the wave of the future and the experience gained in having "toughed this out" will help us in future phases and help us to evaluate future opportunities.

When determining whether or not I would recommend a project of this type again, it depends entirely upon the perspective. If a simple review of the numbers is done, then I would not recommend this project a second time but, weighing the experience gained and future opportunities made available, I would recommend a development of this type be undertaken a second time.