

RIVERHOUSE: A STUDY IN MANAGING SMALL DEAL RISK

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Author's Note - Case Study Intent and Challenge

This case study is taken from a real project, designed and executed by the author. It exemplifies the challenges, settings and difficult waters small developers face in bringing their projects to reality. When managing risk, there are no simple answers. There is no 'math' to tell you got it right. Managing risk is part intuition and part science. It requires an innate ability to envision what *could* happen, and how to best mitigate against the worst possible downside

For this case study, you are asked to consider the various risks – and ways for manage those risks – that were encountered during the course of developing RiverHouse. To do this you will need to discuss and evaluate the options and potential outcomes – both upside and downside - of the identified risks. You should be prepared to present what you thought were the potential downsides/ risks and your recommendation for what you would do to manage that risk.

Recommended Reading

[“Building Small: A Toolkit”](#) | Chapters 1, 2, and 3 (pages 1-55)

PART I: SETTING THE STAGE

The Developer Wannabe

Bob Hutchinson had spent the first decade of his career working inside large design and engineering firms. While he enjoyed the constantly changing project types, he grew increasingly frustrated with the inability to see projects all the way through. He wanted to get his hands dirty and take a project from beginning to end.

Bob had developed a reputation for being visionary and creative, so the design profession was a good place for his talents. But he was also an entrepreneur at heart and was growing frustrated with the long hours and value he was creating, while being compensated with the meager wages prevalent in the Architecture/Engineering (A/E) business.

"Ah, to be my own client! To take everything I've learned and bring my ideas to life the way I want them to be. No more trying to convince reluctant excel jocks with no imagination that an idea 'would pencil'."

Changing Venues

Somewhere along the line, Bob left San Francisco for a more bucolic lifestyle in Sonoma County, California. Settling by dumb luck in Healdsburg - a small town overflowing with fine wine from nearby vineyards, plentiful good food to be found in five-star restaurants, and great cycling in an outdoor-oriented environment - he continued his A/E practice while dabbling in fixing up homes. Tough lessons learned brought new skills and confidence as he did more projects. However, finding capital for each deal was always an issue.

Without easy access to money, bootstrapped capital cocktails - not capital stacks - were the name of the game. A pyramid of no-interest credit cards, maxed out HELOC's on other properties, and a large chunk of his own retirement savings were the keys to funding each new project. Tenacity, brute force, and an ever-optimistic outlook made it all work out. But not without a few sleepless nights.

The Canvas for Building Small

The town of Healdsburg was a microcosm of all that is good – and bad – about developing in California. An idyllic community set amidst wineries and vineyards, the historic town of 12,000 was the poster child for walkable urbanism, small town life, and the real estate value being minted through sense-of-place. Home prices rose steadily over time, new boutique hotels thrived, Michelin star restaurants arrived, and tony shops took over the local mercantile stores.

This change – common in almost any small town that gets discovered – created the typical anti-growth sentiment. People who had lived Healdsburg for decades revolted against all the new money coming to town. And the new money – who now had 'their piece of heaven' - wanted to pull up the drawbridge and prevent others from coming into their playground.....

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