

newsletter

Amidst the Noise, Avanti's Disciplined Investment in a Growing America

When asked to describe Avanti, our late co-founder, Charles Schwartz, would answer deliberately and pause for emphasis: "We are in the Land. Investment. Business."

Charles's succinct statement captured our core discipline. Indeed, for more than 30 years we have done only one thing: invest in medium-term land at deep values in proven locations in large, growing, and economically diverse markets across the southern and western United States.

Babble on the Airwaves

At Avanti, we have maintained our investment discipline by focusing on established trends proven to be true throughout decades of American history. We work to disregard the fevered day-to-day chatter of the financial world, even if much of the noise at the moment revolves around housing – and thus may superficially seem relevant to land.

Because the Great Recession was so deep, it continues to shape the discourse about real estate. We hear debates about whether the Recession has led to permanent changes in American home ownership preferences. We are asked if we have transformed into a nation of renters. Many wonder whether we are experiencing a paradigm shift in which young people forsake the suburbs for urban areas in which they can "live, work, and play." As 80 million Millennials – those born between the early 1980s and the early 2000s – move into adulthood, aren't they looking to shed suburban home ownership in favor of renting apartments in cities? And doesn't this fundamental change spell doom for single-family housing and, therefore, investment in residential land?

The answer to both questions is, "NO."

Facts on the Ground

If it sounds like we are shouting, it is because the facts are clear. While the underlying narrative may feel logical – especially to those who live in hip urban areas of Manhattan,

Brooklyn, and San Francisco – these facts tell a different story. To see why, let's consider the data:

1. Neither Americans in general nor Millennials in particular are disproportionately moving into cities. In the first three years of this decade, the share of people in their 20s living in urban areas actually declined. Recent increases in higher-density urban construction represent a mere fraction of a metropolitan area's housing demand, and high-density housing has been declining as a percentage of total housing. For example, the 10-year average percentage of housing starts in the city of Washington, DC, itself amounted to *only 10% of starts in the entire Washington metropolitan area*. In fact, even at its recent 2011 peak, DC proper accounted for less than a quarter of all metropolitan area starts and declined to 15% in 2013.

2. ...because most do not want to live in cities. A recent survey of Millennials showed that 62% preferred suburban or rural living to large urban areas.

3. ...and, MOST IMPORTANTLY, because most cannot afford to live in cities. It is more expensive to live in the

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Tributary, one of Avanti's properties in suburb of Atlanta, GA, is a partially developed master-planned residential community. A recent survey of Millennials showed that 62% preferred suburban living because it is more affordable.

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city than in the suburbs, and the reasons are not surprising. Compared with the cost in the suburbs, land and construction are more expensive in cities. In Orlando, the cost of renting downtown is at least double the cost of owning a suburban home. A suburban homeowner can get double the space – with a yard and without paying for private schools or parking – for the same monthly payment as in the city. The difference is even starker in cities such as Atlanta, where urban rents can be as much as four to five times the cost of housing in the suburbs.

4. Most Americans want to own homes. Survey after survey – whether Gallup, Harris, the Conference Board, the American Enterprise Institute, *The New York Times*, the Federal Reserve Bank of New York, or the Joint Center for Housing Studies at Harvard University – shows that most Americans, including Millennials, want to own their own homes or see home ownership as a good investment.

5. Home ownership is declining only from unsustainable pre-recession highs – it is returning to historical norms. For over five decades, 64–65% of Americans owned

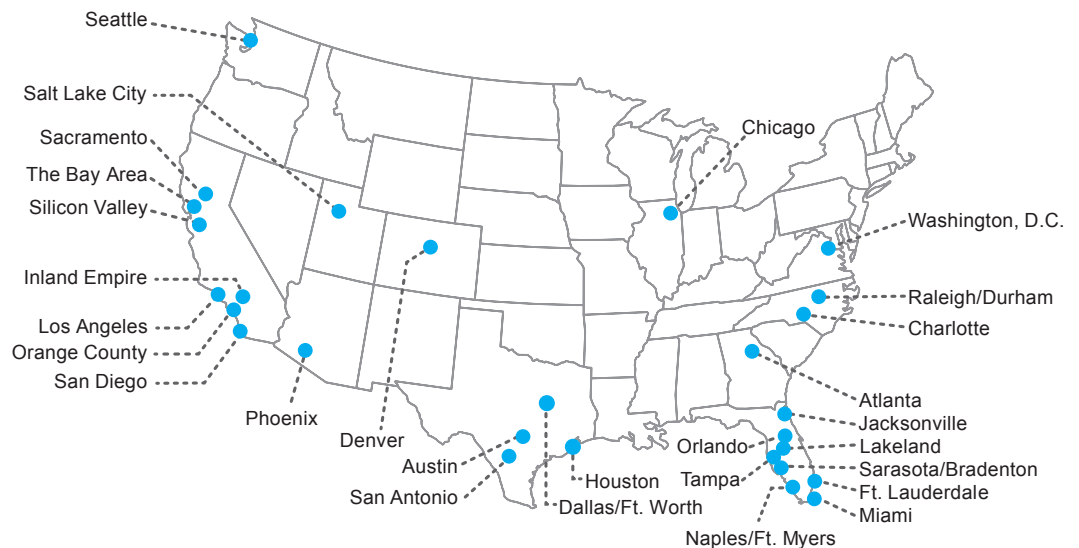
their own homes. During the housing bubble of the early to mid-2000s, the home ownership rate climbed to near 70%. While the rate has declined since then, it has reverted only to the long-established trend. And even if the rate declined further, population growth, particularly among those in their prime home buying years, would still drive demand for millions of new homes over the next decade. Moreover, over 50% of rental properties are *not* large-scale apartment projects, but single-family homes and duplexes. Both trends demonstrate that the demand for traditional housing will endure.

As investors rather than traders, we don't pretend to predict what will happen in the next week or the next quarter. But as the leading edge of the Echo Boomers enters its prime home-buying years and as *housing demand exceeds supply by 600,000 units per year*, we are poised for an expansion in American housing over time. By investing – with local land developers and ourselves – in strategically located land with patient equity, discipline, and a margin of safety, we and our partners can profit from this demand – as we watch today's noise over housing go the way of the Y2K bug, the Mayan Calendar, and the dodo bird.

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For more than 30 years, Avanti has dedicated itself to land investment, focusing on well-located sites in fast-growing metropolitan areas. Today, Avanti owns land that can accommodate nearly 45,000 homes in its residential holdings alone. Avanti looks forward to working with experienced local land developers who benefit from having a strong equity partner for medium- to longer-term projects requiring \$5–\$50 million.

Avanti's Sourcing Network and Markets



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Best Wishes
for the Holiday Season
and a Happy, Healthy,
and Prosperous
New Year.