

## newsletter

### Finding Value as Markets Return to Normalcy

As housing markets strengthen across the country, many observers wonder how we can find land at values deep enough to deliver strong returns. The answer is the same as it's been for Avanti's 35 years of business: because the market for medium-term land is undercapitalized, there is always a good market for equity that can buy decisively when sellers are sufficiently motivated to sell at the right price.

Simply put, markets do not have to be in distress to find deep value in land. In fact, while there may be more distressed land pricing during a recession, the duration of those investments could be longer and their ultimate maturities more difficult to predict. Conversely, buying today might cost more, but the clarity of recovery and maturity of investments will be more certain - resulting in comparable or even better returns.

But here's what is constant at nearly every stage of the cycle: most users (such as builders and developers) want land only when they need it to build vertically - and have no interest until then. By shopping in this chronically underserved market, Avanti can find strong value in well-located land, part or all of which is not yet ripe for development. And when we can't find it, we're likely to be strong sellers. Or on vacation.

Although we can buy in good economies and bad, there are compelling reasons to buy today as markets return to

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### Featured Acquisition: Lake Pleasant Heights, Phoenix, AZ



Lake Pleasant Heights, Phoenix, AZ

This year, Avanti Properties Group acquired Lake Pleasant Heights, a nearly 1,100-acre property entitled for 3,000 residential units in the city of Peoria, AZ. The site is located in one of Phoenix's key suburban growth corridors and offers proximity to employment, transportation arteries, and retail amenities. In addition, the site offers vistas of open space and mountains while being adjacent to proven residential communities approaching maturity. Ultimately, planned improvements to El Mirage Road will enhance the property's access to Lone Mountain Parkway, which itself intersects with Loop 303, the newly completed freeway connecting Interstates 10 and 17.

Avanti has engaged Voyager Properties, whose experienced principals have developed over 90,000 residential lots in their careers, to manage and develop the site. Lake Pleasant

will be planned for a diverse array of housing to meet the needs of this growing area and to complement the property's scenic desert landscape.

With a diverse, service-oriented economy and its core industries driving a 3.9% annual growth rate, Phoenix is poised for continued growth in housing. As its low costs and vibrant workforce attract business to the area, Phoenix remains a significant relocation destination for employers and retirees not only from nearby Southern California but also from other cities across the country. In addition, as the region's housing market recovers from the excesses of the housing crisis, residential construction is expanding. And with the number of housing starts remaining well below historical levels, the metropolitan area has plenty of room to grow.

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normalcy after their nine year (!) climb from the Great Recession:

• **Large demand, smaller supply.**

Across the country, a persistent gulf remains between demand and supply for homes. With demand from household formation, obsolescence, and second homes totaling about 1.7 million units – compared with 1.2 million units of supply – the disparity is stark, particularly for more affordable homes. We believe that we can sell a large part of our residential portfolio, including the land we buy today, as the volume of construction increases and this gap narrows.

• **Historical underbuilding.** In 40% of Avanti’s target markets, including metropolitan areas like Atlanta; Phoenix; Washington, DC; Tampa; and the Inland Empire, rates of single-family housing starts continue to lag 15-year averages. As in the rest of Avanti’s markets, the populations of these cities grow in excess of the national av-

erage. As these cities return to normal – not peak – levels of homebuilding, demand for land will surely follow.

• **Millennials emerging.** As we noted this winter, the oldest of 80 million millennials are now 36 years old and in their prime home buying years, and with this generation’s largest cohort now only about age 27, millions more will soon need places of their own. And with the vast majority of these seeking affordable, suburban homes, millennial demand will in turn drive demand for housing – and land – for years to come.

For builders and developers who agree that now is a good time to invest, we invite you to grow your business by taking advantage of Avanti’s patient capital for your well-located land and development projects. Keep us in mind for those medium- to longer-term deals that you would otherwise pass up for lack of proper equity. As we invest our \$195 million institutional land investment fund, we will gladly shoulder the financial risk.

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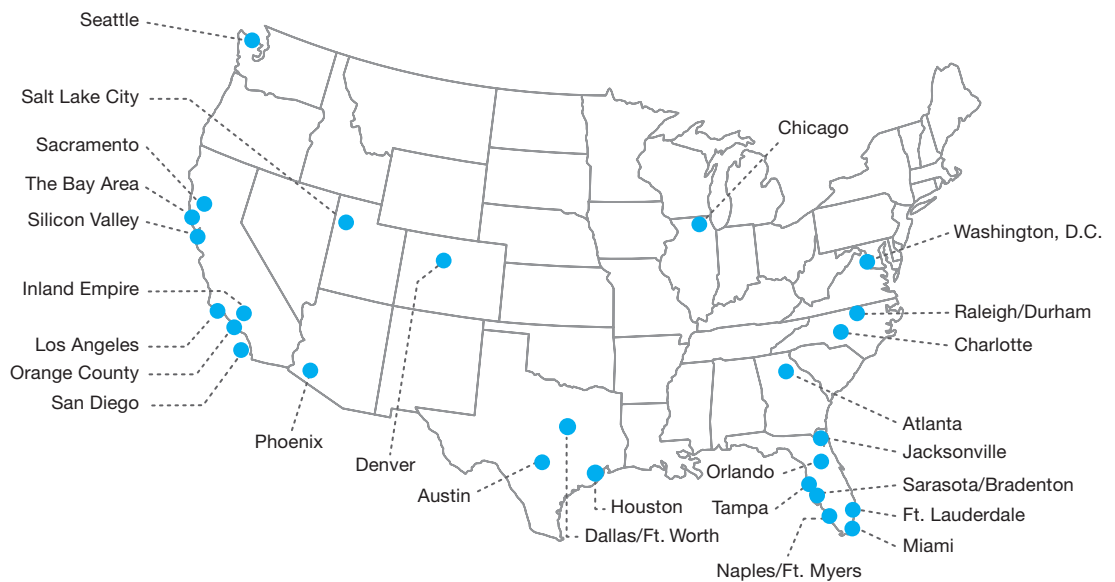
As Phoenix continues its climb out of the Great Recession, continued economic and population growth should contribute to the need for a broad range of housing, which in turn will drive demand for well-located sites like Lake Pleasant Heights.

Avanti’s purchase of Lake Pleasant Heights exemplifies its **30-year track record** of finding **deep value in medium-term land** not just in times of distress, but at all stages of the economic cycle – including **as markets strengthen**. Finally, this acquisition demonstrates how Avanti’s **efficient underwriting** and **due diligence** can offer **highly skilled** and **experienced** local developers the safety of Avanti’s patient equity to broaden their own portfolios.

Lake Pleasant Heights is Avanti’s seventh investment in Phoenix.

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.

### Sourcing Network and Markets



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