

## newsletter

### Responding to Builder-Driven Growth with Experienced Land Development Capital

For years in these pages, we have discussed two trends that have combined to form a growing wave of housing demand: underbuilding and the advent of the Millennials. Both continue today.

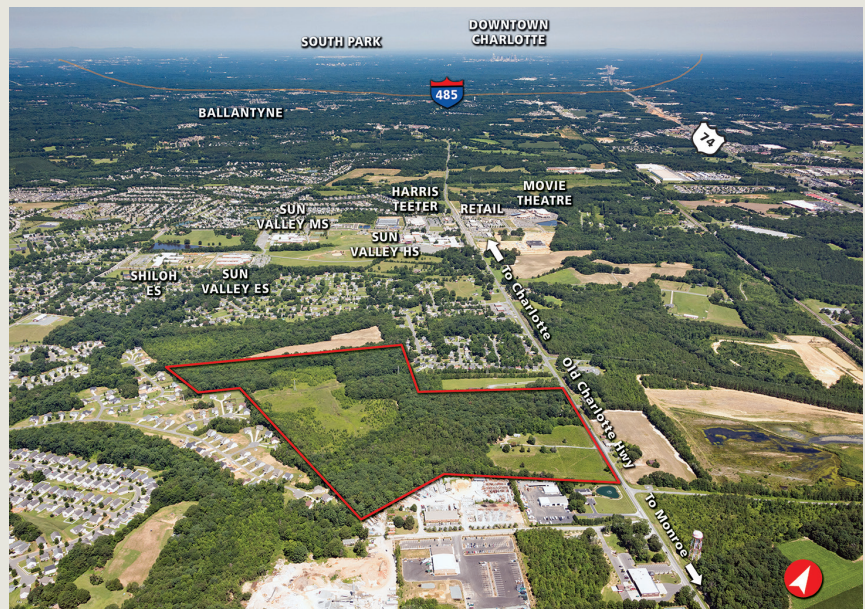
First, even though it has been nearly 10 years since the beginning of the Great Recession, America is still not building enough homes to meet demand. By some measures, we're building 400,000 fewer homes than necessary this year alone, and the country is underbuilt by 2 to 4 million units in aggregate. Furthermore, an inevitable tide of 80 million Millennials is now coming of age and adding further pressure to the housing market. Today, this generation accounts for more home purchases than any other cohort, with millions more on the way. Amid this heavy demand is a stunning lack of existing housing supply, particularly at the affordable end of the market.

In response to this imbalance, Avanti is pursuing well-priced land development deals that can deliver the finished lots that homebuilders require. And builders are buying when they have a homebuyer for the finished home.

In recent years, many large builders have grown significantly, while nevertheless still not wanting to own land ahead of their immediate needs.

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### Featured Acquisition: Harkey Creek, Charlotte, NC



Harkey Creek, Charlotte, NC

Avanti recently acquired a 78-acre residential site known as Harkey Creek in Union County, just a few miles southeast of Charlotte, NC. Harkey Creek lies within a heavily developed residential corridor in a high-growth submarket of southeast Charlotte that serves entry-level and move-up homebuyers attracted by the area's strong schools, abundance of shopping and amenities, and proximity to employment in both uptown and south Charlotte. The property is planned for 268 residential lots – 88 townhomes and 180 single-family detached homes.

Charlotte shares the key attributes of all of Avanti's target markets: it is a growing, economically diverse city with a large population and employ-

ment base. Moreover, its limited finished lot inventory is leading to significant housing demand as the metropolitan area emerges from years of underbuilding in the aftermath of the Great Recession.

Most notable – and emblematic of the state of the nation's housing market generally – was that a national homebuilder contracted with Avanti for the entire site concurrently with Avanti's own closing. This transaction should prove to be a win-win: the builder can maintain a pipeline of future developed lots without keeping them on its balance sheet, and Avanti can take comfort in a strong land basis and accompany-

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They've gobbled up market share from smaller builders and now dominate most metropolitan areas. Moreover, these same builders are shifting their focus to first-time and move-up buyers by growing their affordable home divisions. So, even if their recent focus on affordability leads to declining profit margins (albeit from historically high levels) in a high-cost environment, builders can compensate simply by selling in greater volumes targeting the largest share of home buying demand. And finally, with December's tax reform having already improved margins, builders now have more elbow room to do just that.

### Ready to Deliver

How do the builders bridge this gap between demand and supply, if they do not want to buy land ahead of time? They look for skilled, dependable, well-capitalized land developers who can deliver quality finished lots in a timely and reliable fashion, so that they can focus their efforts on their core business: homebuilding. In other words,

builders call Avanti.

**Remember:** *Avanti not only invests in land, but will also develop all the way to finished lots.* As our builder customers well know, Avanti has long been a steady and reliable provider of lots to national, regional, and local builder customers. By joining our patient equity capital with the experience of seasoned local land developers, we are ready to feed the appetite of the proverbial homebuilding beast.

Today, many of our current deals appear with builders at the ready, just like this issue's featured investment. Indeed, more often than not, we are considering investments in which builders themselves have expressed interest in at least a portion, even prior to our own closing. So to all developers, builders, and others: Bring us your well-located land and land development deals in any of our large, growing, and economically diverse target markets. As we start investing our ninth institutional land investment fund, we look forward to investing profitably together.

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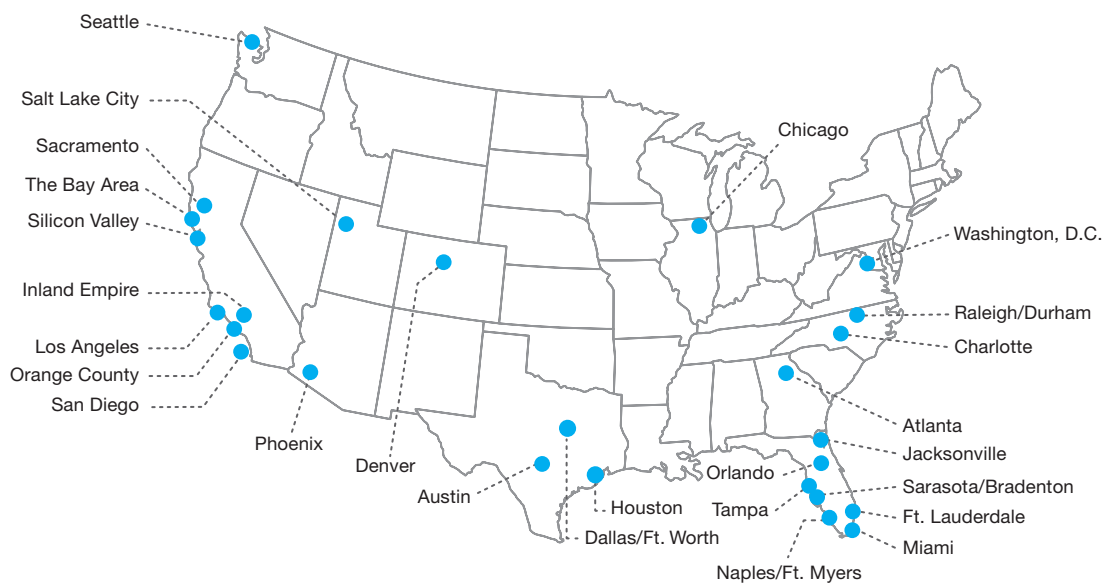
ing builder commitment to deliver solid returns to our partners.

Avanti's purchase of Harkey Creek exemplifies its **35-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** – even in strong markets. 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.

Harkey Creek is Avanti's fifth investment in Charlotte.

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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