

## newsletter

### #AvantiLand InDemand

Someone once suggested that Avanti join Twitter. Not exactly our style. But if we had, our feed would be busier than ever. We'd be tweeting a steady stream of good news – from the strong sales across our portfolio to the steady pipeline of investment opportunities, against a backdrop of historically favorable supply and demand dynamics:

#### New sales across our portfolio:

Throughout Avanti's holdings, we're consistently selling lots and land to both public and private homebuilders. During the second half of 2021 – even with supply chain problems and a pandemic – Avanti's land sales remained strong in all our markets, and we have hundreds of millions of dollars more under contract.

#### New buyers with big checkbooks:

While our principal customers remain major builders of homes for sale, we're increasingly selling to builders of rental homes. If operators in this "new asset class" can deliver the right product for our communities while paying the right price, we're happy to sell to them. Indeed, with \$60 billion in new investment capital flooding the build-to-rent market in recent months, we wouldn't be surprised to sell more in 2022, and at prices higher than projected.

#### New acquisitions offering deep value:

Even amid America's housing expansion, we continue to find deep-value investments. Most builders and investors still have little appetite for acquiring land beyond their near-term needs



Georgetown, an Avanti community under development in Tampa, FL.

and avoid sites that require complex pre-development work. This allows Avanti to venture with land developers and sellers to unlock deep value in properties today by readying them for builder demand tomorrow.

None of what we're seeing surprises us. These trends reflect fundamentals we've noted for years, including a significant national shortage of housing and the added demand from Millennials, now America's largest age cohort. These ingredients offer a recipe for continued success, both in finding acquisitions and executing on our fastest sales pace in 15 years. So though we haven't signed up for Twitter, these market fundamentals merit a new hashtag: #AvantiLandInDemand.

#### Pricing, Population, and Prediction

Despite this strength, it's wise to ask whether today's expansion could lead to an unsustainable frenzy. With home prices, it pays to be wary: they must relate to household incomes. If prices

outpace income growth, both demand and supply could be affected. Likewise, rising interest rates could decrease affordability. So, especially in locations that have already seen double-digit increases, projecting significant price escalation would be imprudent.

And unnecessary! As deep value investors, and not momentum traders, Avanti doesn't bet on price inflation or low interest rates. Instead, we maintain a disciplined focus on rational exit pricing, always anchoring our underwriting to household incomes in our markets. When you pay \$1 with an eye to selling for an uninflated \$3 or \$4, you don't need to rely on price escalation for profits; you just need consumers who need shelter and builders that need lots. If inflation leads to \$5 or \$6, all the better.

Many factors drive housing demand, but two fundamentals stand out. First, the US faces a significant housing shortage nationwide. Even with  
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low mortgage rates, strong consumer balance sheets, and sustained employment growth, the backlog is real. While analysts calculate a wide range of undersupply (from zero to 5.5 million units) we believe a significant deficit exists based on household formation alone. Even if one assumes the undersupply is just 1 million units, it would take several years to balance supply and demand.

Second, the Millennials add further to sustainable, broad-based housing growth. The oldest Millennials are entering their home-buying years; this added growth alone means millions of new homes will be needed over the next decade, particularly in the large, warm-weather, high-growth, and generally low-tax cities where Avanti invests.

Nevertheless, recent population and household formation trends have caused some pessimism about the future of housing. But it is tricky to extrapolate about what might happen in the medium or long term based on a snapshot from today; current statistics reflect the confluence of two historic anomalies: extremely low immigration rates and 770,000 US deaths from COVID-19. As these factors ameliorate,

## Announcing another contribution to the Avanti Scholarship in Real Estate



This holiday season, in partnership with the University of Florida's Warrington College of Business graduate school, we're pleased to announce another contribution to the **Avanti Scholarship in Real Estate**, awarded annually through the Bergstrom Real Estate Center to a student pursuing the degree of Master of Science in Real Estate. The Avanti Scholarship, which promotes diversity, equity, and inclusion in the real estate industry, provided critical support for our inaugural recipient – the first of what we hope will be many deserving candidates.

so will the outlook for US population growth. Let's not ignore strong fundamentals while focusing on trends that, at worst, will evolve over the very long term.

As importantly, with a US population of 330 million, even lower birth rates lead to millions of new households over time. The vast majority of these households will want to own or rent suburban single-family homes that offer space for families and pets, a trend that has accelerated with COVID. With working from home becoming a permanent reality, workers will value the space that suburban single-family housing offers. Most of this growth will occur where Avanti invests; of the top 10 states for population growth in the

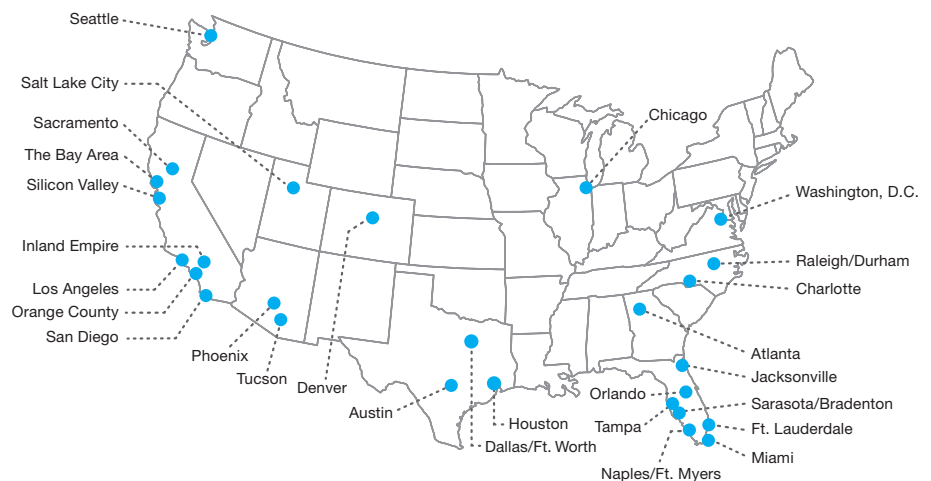
last decade, *nine are home to our target markets.*

Finally, let's not forget immigration. If the US opened its borders, millions would move here. While recent immigration policies don't inspire near-term optimism, over the long term it is inconceivable that business and government won't realize that increased immigration is critical to America's economic and employment growth. When they do, the gates will reopen.

Whether we're in the early, middle, or extra innings of America's housing expansion, today's supply-demand fundamentals are so compelling that we think we're still very much in the game.

## Sourcing Network and Markets

For 35 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 more than 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-term projects requiring \$5–\$50 million.



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*Best Wishes*

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