

## newsletter

### Amidst the Uncertainty, Stay Grounded with Land

Interest rates? Inflation? Increasing inventories, credit spreads, or risks of recession? Which way are they headed? It would be nice to know, and many Wall Street analysts spend a lot of time pretending they do. But let's be honest: speculating about such predictions is largely a waste of time and should be irrelevant to making specific investment decisions. Choosing whether to buy in June should have nothing to do with a hunch that we'll be in a recession by December.

Likewise, it can be a mistake *not* to invest simply because one feels a sense of macroeconomic uncertainty; it may be better to accept the reality that uncertainty *always* exists, especially over the near term. As the late Donald Rumsfeld said, we live in a larger world full of "known unknowns" and "unknown unknowns," or what Avanti calls "recurring nonrecurrings:" all manner of one-off events, from pandemics to political earthquakes, the risks of which exist apart from whatever Wall Street is watching at any moment.

When investing, instead of worrying about what everyone else is fearing, it makes more sense to accept what we can't control. And as deep value investors in land, we look for investments that can be protected against whatever an uncertain world may throw at us. For example, we can control where we

#### Meeting Demand for America's Housing



Land, lots, and homes being prepared for sale at Avanti's Mystic at Lake Pleasant Heights community, a 1,000-acre development located in the Phoenix, AZ area.

buy, how we investigate, and what we pay, all of which contribute to a margin of safety that leads to durability over time. Rather than betting on short-term momentum, we prefer focusing on what is measurable today and trends that have proven themselves over decades.

While we don't know for certain where rates are going in the near term, their recent impact is clear. For leveraged shorter-term strategies that bet on timely builder performance, last year's interest rates, or steadily increasing rents, today's market is tricky. As mortgage payments doubled over the past year, expensive housing became

even less affordable, while starts and sales have slowed. Homebuilders have reacted by lowering prices, buying down mortgages, and offering other incentives to sell existing inventory. And having suffered in the past by aggressively buying larger parcels of land ahead of their immediate need, most builders now speak of balance sheet discipline. The public builders, at least, seem more selective about buying land and are not afraid to walk away from pending purchases. Despite the high costs of land development and construction, they can afford to walk away occasionally, in part because their profit margins remain historically high.

We believe that despite recent slow-downs, investments in America's strong longer-term housing fundamentals will offer compelling opportunities when made prudently. Across Avanti's large, growing, and economically diverse Sunbelt markets, finished and engineered lot inventory is very low, and housing for America's workforce is undersupplied. Consumer balance sheets are better than in previous slowdowns, mortgage underwriting remains sober, and pent-up demand for affordable housing is robust. For those who doubt this unmet demand exists, how else does one explain the increase in housing starts in January and February when mortgage rates dipped back into the 5% region? **There are simply not enough homes to meet fundamental household demand.**

But in an always uncertain near-term market, we avoid betting on the short term. Instead, Avanti sticks with our disciplined investment philosophy by seeking durability that both protects capital during slowdowns and then leads to profits when markets return to growth:

- **We start with markets that are large, growing, and economically diverse** – vibrant cities that have

proven themselves over the past half century of America's growth, in and out of cycles. And we refuse to speculate on location by choosing sites in strong corridors that are close to jobs, schools, and transportation, attributes that will attract demand as these cities grow over time.

- **We buy at deep discounts** relative to what users such as homebuilders will pay us when they are ready to buy lots and build vertically. Paying 35 or 25 cents for a future dollar offers a lot of breathing room when markets go south – or sideways.
- **We avoid exposure to the risk of leverage** and are careful not to develop ahead of demand. When rates increase, sales slow, prices decline, and builders walk, it's no fun to pay for a variable interest rate when the clock is ticking on the term of a loan.
- **We don't wait for the last dollar.** When there's an opportunity to sell at an acceptable return and multiple, it pays to grab it.

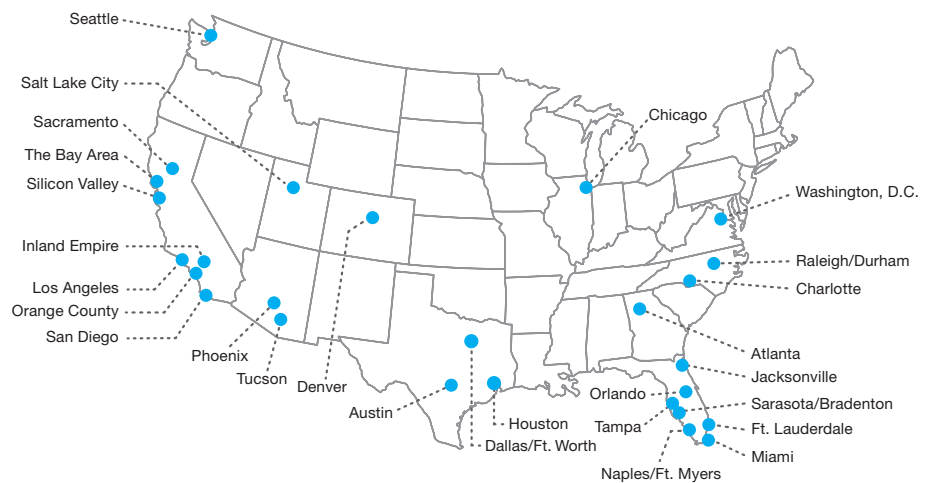
At least with respect to housing, today's feeling of economic anxiety can overshadow what are truly strong longer-term supply and demand fundamentals. In our experience, when

uncertainty prevails, so do opportunities. That said, finding good value is never easy, even in the chronically inefficient land investment market. In contrast to 2008 through 2010, many landowners seem better capitalized and appear to be under less immediate pressure to sell. Nevertheless, when owners are ready to sell before there is an immediate user market, Avanti remains a proven, well capitalized, and committed equity source.

These days, demand remains healthy within our own portfolio, notwithstanding the current news, with pending dispositions in Atlanta, Dallas, Houston, and Phoenix. In addition, our pipeline of potential investments is growing, with new buying opportunities in Houston and Dallas, as well as in Denver and the DC metro area. And for well over three decades, we have served as an efficient capital partner for land sellers, land developers, and homebuilders who appreciate how our combination of equity, responsiveness, and decisiveness can deliver durable profits over the medium and long term. **With fresh capital to invest, we're enthusiastic – not afraid! – about what the next decade will bring.**

## 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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