

newsletter

“No Surprises”

Michael Wilbon is almost never surprised. Among the ESPN commentator’s viewers, it’s become a running joke. If asked, “Were you surprised that the 100-win Dodgers lost so early in the playoffs this year?,” Mr. Wilbon’s response would be a straightforward “No.”

“But you had to be surprised that the Orioles were swept, especially after winning 101 games, right?”

“No. Not surprised.”

“What about the heavily favored Braves losing?”

“No. No. No. Not surprised. Anything can happen. Do the other teams not have professional athletes?” he might say. “Of course they do! This is Major League Baseball.”

Mr. Wilbon’s sports wisdom also applies to investing. Whether in the macroeconomy or in a small business, surprises happen often enough that they *should not be* surprising. Things often turn out differently than expected, especially in the short term. The best investments are those that perform *in spite of* the inevitable surprises.

Avanti’s approach to real estate focuses on making disciplined investments that can deliver in a world full of surprises. This philosophy includes 1) buying at prices that reflect a substantial discount to exit pricing

Nearing Completion: Superior Town Center



Avanti’s Superior Town Center (Boulder County, CO) includes over 1,000 residential units, 260,000 square feet of retail/mixed use space, 415,000 square feet of medical office/life sciences space, and two hotel sites.

to offer a significant margin of safety, 2) without exposure to leverage, 3) in an inefficient investment market, and 4) in large and growing cities, primarily in the South and the West. We’ve learned to avoid strategies that bet on quick builder performance, that are fueled by debt, or that put faith in speculative uses. Instead, we make patient commitments based on proven population and economic trends that have endured for decades, notwithstanding fleeting events that can pop up on any given day, month, or quarter.

In recent months, interest rates have surprised a lot of people. The rapid rise in the 10-year treasury and 30-year mortgage rate (the latter having

more than doubled in two years) has made borrowing more difficult and expensive. Bank lending for land development, as a practical matter, doesn’t exist. And financing for new multi-family or build-to-rent projects is sparse at best, despite the billions in equity that have been raised for these recent darlings of the institutional investment world. Simply put, deals that depend on just the existence of bank debt, let alone low rates, are on the rocks. Many don’t work at all.

In contrast, while the resale home market has ground to a halt, the new-home market has remained decent, even with 30-year mortgages at between 7 and 8%, a level few people

predicted we would reach in such a short time. If rates continue to escalate or simply remain at these levels for a prolonged period, they're bound to negatively affect demand and lead to a more pronounced slowdown. Yet thus far, homebuilders have tapped into historically high profit margins to buy down consumer mortgage rates or have built smaller, less costly homes to meet the significant need for shelter, which remains robust regardless of higher rates.

As we've repeated in these pages for years, America has a nationwide housing shortage, today numbering 1.7 million units, most of which are at the affordable end of the market. With single- and multi-family starts this year projected to reach only 1.3 million, any interest-rate-driven slowdown should add to this deficit. As a result, for sites in Avanti's portfolio that are ready for near-term production to meet this demand, our current sales pipeline is strong and pricing has remained resilient. And last winter, when the initial flurry of rate hikes slowed our sales significantly, our investments took shelter

The Avanti Scholarship in Real Estate



In partnership with the University of Florida's Warrington College of Business graduate school, we are pleased to announce our fourth annual contribution to the Avanti Properties Group Scholarship, awarded annually through the Bergstrom Real Estate Center to a student pursuing the degree of Master of Science in Real Estate. The Avanti Scholarship promotes diversity, equity, and inclusion in the real estate industry, and this year has provided essential support for three deserving candidates.

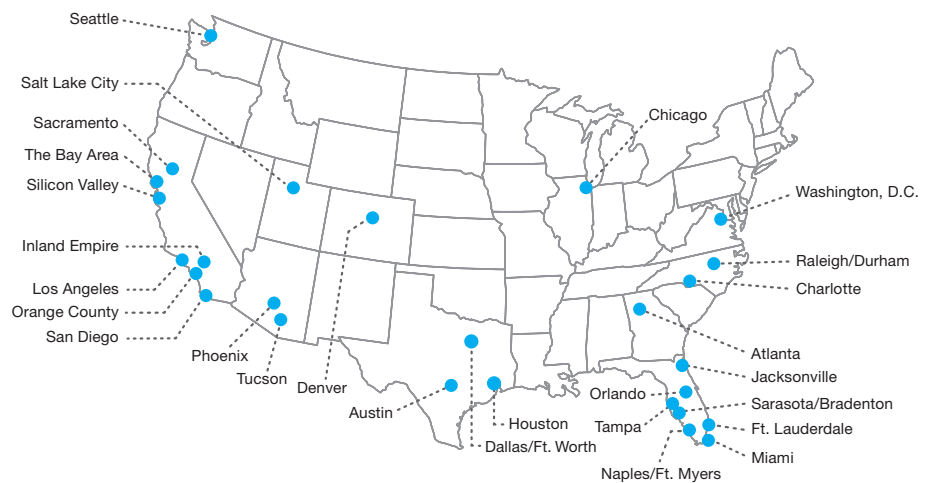
in their deep margin of safety and lack of debt exposure. But for much of this year, builder demand has returned, especially with respect to the suburban single-family residential communities that constitute the vast majority of our holdings.

Buying at deep values is the first step in avoiding being blind-sided by short-term surprises. When it comes to new deals, Avanti's appetite is huge – though as always, only at the right price. While land sellers today are better capitalized than their over-leveraged counterparts in the Great Recession, they still find themselves with few buyers if they need to sell

today. Builders remain disciplined about not placing land on their balance sheets ahead of their immediate need to build and therefore avoid land that requires the time or patience in which Avanti specializes. Likewise, developers or other builders who once relied on debt financing to fuel their short-term bets are no longer relevant competition for Avanti. This inefficient land investment market allows us to buy from a position of deep value strength, while giving us the ability to sell whenever demand emerges. If short-term interest-rate pain persists, it won't be surprising if longer-term investment gains follow.

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.