

newsletter

Calmly Investing through a Hot Summer

It's been a hot summer full of tumult, and we are only at the halfway point. We've seen Brexit, stock market swoons and rebounds, and choppy month-to-month employment reports. We hear monthly pronouncements from the Federal Reserve and its officials. And we're in the midst of a presidential election that is just warming up. For many, the day-to-day economic and political noise offers much to distract us.

But success in business comes, in part, from ignoring the daily Twitter feed and maintaining a disciplined focus on longer-term trends. As deep-value investors in medium-term land, Avanti has learned that investing equity in well-located land in proven corridors of large, growing, and economically diverse markets leads to profitable returns in and out of market cycles. By sticking with the fundamentals and patiently looking for opportunities, the noise becomes irrelevant, and the future brightens. This outlook is particularly true now – the current market allows us to buy from motivated sellers today and then sell into a gathering and growing wave of demand.

Consider three simple facts:

- **Underbuilding continues.** The majority of Avanti's markets – the large metropolitan areas of the South and West – are still building homes *at rates lower than their 15-year averages*. In other words, there is plenty of running room for housing starts to return to normalcy, even if prices increase only with inflation. This is especially true in today's environment of historically-low interest rates and strengthening consumer credit.
- **Growing populations are generating strong housing demand.** Avanti's target markets are the best for growth by virtually any measure and exceed the national average in growth

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Featured Acquisition: McHenry Oaks, Chicago, IL



McHenry Oaks, Chicago, IL

This spring, Avanti acquired a partially completed 40-acre residential community in the suburban City of McHenry, 30 miles north of Chicago. The community, known as the Oaks at Irish Prairie, or McHenry Oaks, is a collection of 152 platted single-family lots, the majority of which are substantially developed. Residents of McHenry Oaks enjoy affordable, easy access to the town centers of both McHenry and nearby Crystal Lake. Moreover, the site offers convenience not only to Chicago commuters via rail, but also to suburban commuters who drive to employment centers to the north and northwest of the city.

Chicago's economic recovery continues to progress, with steady employment growth, decreasing unemployment rates, and increasing single-family residential

starts. As the business center of the Midwest and a world financial center in its own right, Chicago's economy benefits from a high level of diversification, a large pool of talented workers, and a strong roster of leading educational institutions. In addition, the region's central location amid a vast transportation network will contribute to its future economic growth and is attracting a new wave of high-tech employment. Finally, because Chicago is currently building homes at about only 50% of its long-term average annual rate, the area's new-home market is expected to grow steadily as the region's economy strengthens. McHenry Oaks has already attracted builder interest.

Avanti's acquisition of McHenry Oaks exemplifies our 30-year

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rates. This population growth is leading to household formation, which is leading to demand for housing and for land of all kinds. Demand of 1.6 to 1.8 million units per year nationally, and supply of only 1.1 to 1.2 million starts this year, leaves a pronounced gap that will eventually absorb the well-priced land Avanti can buy today.

- **Little competitive capital exists for the medium term.** Nevertheless, even for well-located sites in proven growth corridors, it remains difficult to find patient equity capital that can safely nurture longer-term projects to fruition. Many developers, homebuilders, and capital sources focus only on projects for the next year or two. But there are plenty of opportunities just beyond this immediate window that lie squarely in Avanti's niche.

For land developers, these three ingredients, combined with Avanti's patient equity, offer a recipe for profits – fortified by the ultimate downside protection if projects take longer or cost more than anticipated. With Avanti assuming the

risks of time and capital, developers can broaden their business to include more deals while sleeping soundly at night.

Investing Avanti's Eighth Institutional Land Investment Fund

Like our business, our goal is simple: finding well-located properties in good markets at the right price. Even as the economy is solidly in recovery, good potential acquisitions exist in most of our target markets. And as we continue to invest our eighth institutional land investment fund, totaling \$195 million, we are finding types of sellers beyond just the banks, defaulted developers, and bankrupt homebuilders from which we bought during the Great Recession. As a result, our pipeline of potential buys is large – and we're eager to add to it.

But good investing takes hard work. We can't do it alone. We need your help. You have our phone numbers and our email addresses. We still even have a fax machine. Please bring us well-located land and land development projects in strong locations that can be bought well, and we'll gladly bring the capital.

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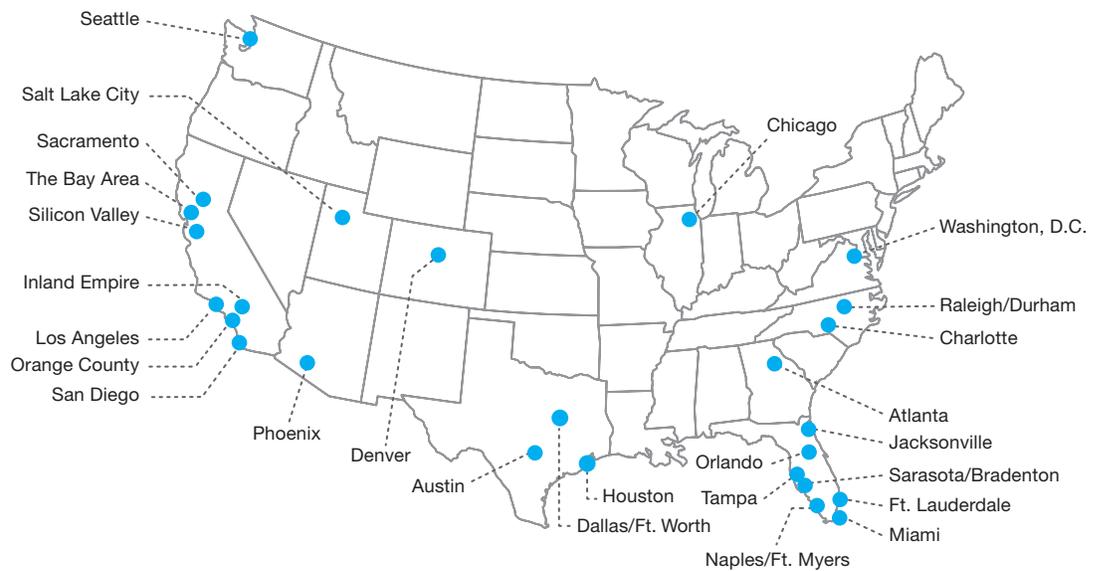
track record of finding deep value in **medium-term land at all stages of the economic cycle – including as markets strengthen.** Indeed, the Oaks illustrates how sellers can take advantage of Avanti's **decisive and efficient pre-acquisition approach** to close complex transactions while enabling interrupted neighborhoods to return to vibrancy, strengthened by the **patience of Avanti's equity capital.**

As Chicago continues its climb out of the Great Recession, and its economy and housing market return to historical norms, the region's renewed activity should drive demand to well-located sites like McHenry Oaks – while continuing to create additional exceptional medium-term land investment opportunities in the area.

McHenry Oaks is Avanti's **fifth investment** in Chicago.

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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Best wishes for a safe, happy, and prosperous summer. And stay tuned for our annual holiday newsletter, where we'll offer our comments on housing the much-discussed Millennial generation.