Avanti Properties Group
Investing in land where America grows
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Keep on Movin'

"Keep on movin'. Keep on movin'. Don't stop, no." In the early 1990s, the British R&B group Soul II Soul sang these words against the background of a steady beat. Their lyrics offered timely advice. While the song was climbing the charts, the US real estate market was headed toward recession because of the savings & loan crisis. After a decade of overleveraging and speculation, hundreds of S&Ls were failing, prices were falling, and the feds were scrambling. As values declined, many in real estate felt paralyzed. For different reasons, many of the same conditions existed during the Great Financial Crisis. *But*, for investors who maintained their discipline, avoided the excesses that led to the crisis, and *kept on movin'*, the aftermath of these events offered significant opportunity.

Focusing on Proven Locations in Strong Growth Corridors

Homes and future homesites at Avanti's Horizon Uptown community, a 383-acre mixed-use site in the Denver, CO area entitled for more than 3,000 homes and apartments as well as commercial acreage.

While we're not in the immediate wake of a recession today, it does feel like housing and commercial real estate are paralyzed. Relative to recent history, the 30-year mortgage is high, even if it's not high compared to long-term trends. Prices are up and are not affordable in many locations. Labor costs are high, and laborers themselves are scarce. Construction costs remain elevated (even outside the turmoil over tariffs), and homebuilders are complaining (or whining, depending on your perspective) about narrowing profit margins. The re-sale market has slowed, as existing homeowners hold on to their sub-4% mortgages for as long as they can. And we are all keeping an eye on uncertainty related to AI's impact on employment, prolonged curbs on immigration, and longer-term demographic headwinds.

But, as history demonstrates, these challenges contrast with some impressive fundamental attributes. Most notably, following years of accumulated pent-up demand, America still has a shortfall of 1.5 to 2 million homes – all in an environment of low unemployment, reasonable economic growth, and equity markets that are near all-time highs. This supply deficit is so pronounced – and higher in our markets – that it will take *years of building* at levels beyond current demand to simply reach a normal balance, which translates into millions of new homes over the next decade, in spite of headwinds. Over time, people will need to *keep on movin'* to shelter, no matter the interest rate environment.

Notwithstanding these continuing strengths, current homebuilder activity has slowed significantly in many markets, and measures of builder sentiment are weak. Today, with few exceptions, builders have almost no interest in owning land ahead of their immediate need to build vertically. And for those builders who don't walk from land purchases altogether, many offload their parcels to so-called "land bankers" immediately after closing. These short-term capital sources assume both the risks of land ownership and horizontal development, hoping one day to sell finished lots back to the builders. (More on why we avoid this strategy below.)

What to do? If you're a land seller who has the wherewithal and ability to wait it out in this environment, it may make sense to do so. Better to be patient and sell from a position of strength when the longer-term fundamentals lead to better market conditions over time.

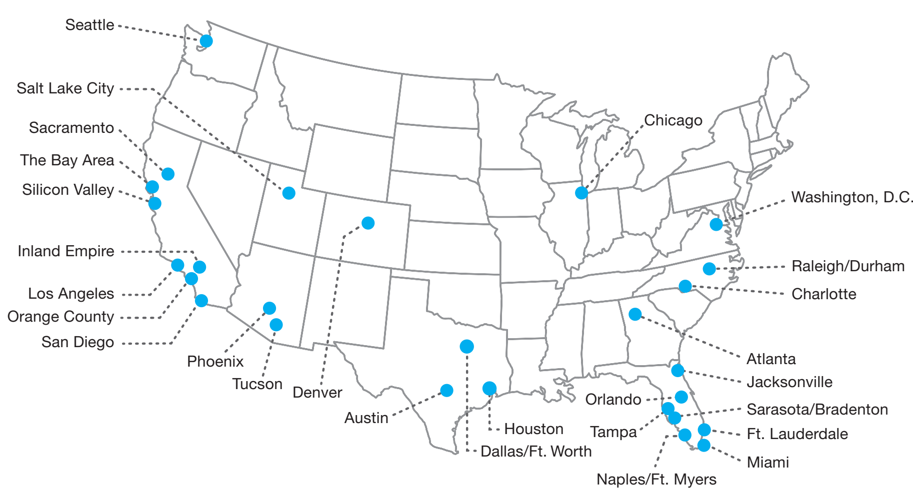
For Avanti, it can pay to *keep on movin'*, with discipline. Here are a few things we're focused on:

- **Avanti is on the hunt for new opportunities – but only at the right price.** The medium- to longer-term investment market in land has always been undercapitalized, and today it is especially so. While land sellers are generally better capitalized than they were in the run-up to the Great Financial Crisis, there will be some who would rather move on than wait for the user market to return. We're ready to deploy our equity capital either to partner with sellers waiting for a sunnier day, or to acquire sites outright. As always, we are most focused on those sites that offer compelling value relative to what future users will pay.
- **We focus on proven locations in strong growth corridors.** By sticking with large, economically diverse growth markets that lead the country in every key metric, we can comfortably bide our time until markets return to strength. We avoid smaller cities, second-home markets, and far-out exurbs away from job corridors, which may show strength in some parts of the cycle but are quick to weaken and slow to recover.
- **We won't join the herd of capital galloping toward "lot banking," short-term lot finishing deals, or quick off-balance sheet transactions.** There has been a tsunami of money chasing land and lot development positions from balance-sheet sensitive homebuilders. In fact, it's hard to think of any builder acquisitions these days that don't involve these strategies. Today, many of our own dispositions involve sales to these groups, at healthy multiples. While this business can be profitable, it nevertheless comes with risks that are amplified during broader market slowdowns – not unlike playing a game of musical chairs when the music stops. And for us, those risks are unnecessary. Instead, we will continue buying with a deep margin of safety and avoiding the risk of leverage, and as always, we will not rely on short-term builder performance to deliver returns for our partners. Plus, we don't like crowds. When everyone else is doing something, we'd rather just sell to them *and keep on movin'*.

As summer draws to a close, we're grateful for our partners and enthusiastic about the year ahead. We fundamentally believe that if you look below the soft surface there is significant strength. Over the preceding 12 months, we've made significant acquisitions across our sunbelt markets, including Arizona, Colorado, DC, and Texas, with total capital commitments exceeding $150 million. And we're continuing to deliver profitable sales when the market demands, even in cities where the overall market has softened. We're open to creative structures when both buying and selling, and we've had success partnering with builders for longer-term development ventures where the short-termers fear to tread. Any time there is anxiety, the market paves the way for opportunity. Let's *keep on movin'* and go find it, at the right price!

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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