

newsletter

Rational Exuberance

In March, when COVID-19 spread across the country, it felt like the world was coming to an end. Unemployment skyrocketed, restaurants closed, and millions left their offices in an attempt to work from home. In the land business, builders ceased buying lots and hoarded cash while their stock prices plummeted. Some shuttered active and successful projects. Formerly optimistic industry leaders turned downcast; more than a few predicted *zero* new land transactions in their markets for the rest of 2020.

Then, almost unbelievably, that depression evaporated as quickly as it started. By late spring, homebuilding was back. Who would have thought that a global pandemic would have been the spark that unleashed an expansion of housing that was years in the making? But COVID-19 hastened the inevitable: America's ongoing population growth coupled with accelerating Millennial demand finally had reached a point where continued supply shortages were no longer tenable. Rational exuberance had taken hold.

Across the country, even as the pandemic continues, our customers remain exuberant. Large national and regional builders are aggressively buying lots, building spec homes, and searching for new communities. In existing Avanti neighborhoods that are ripe for lot development, we are responding to multiple offers for parcels where we can deliver lots in the next one or two years. And on potential investments, we



Development work progresses at Avanti's Superior Town Center site in Boulder County, CO. Even as the pandemic continues, Avanti's customers are buying lots, building homes, and developing new communities.

are receiving builder interest for at least a portion of this future inventory even before we close on the acquisitions. We're seeing this strength nationwide, in cities as diverse as Atlanta, Austin, Dallas, Denver, Houston, Phoenix, Tampa, and Washington, DC.

Amid this widespread builder enthusiasm, some have asked whether instead it represents irrational exuberance, like during the frenzied housing expansion of the early 2000s that led to the Great Recession. The answer is no. Those days were characterized by massive overbuilding, overleveraging, and overbuying of land. Today, even the current strength in housing is not enough to meet existing consumer demand, let alone to address the deficit of homes that accumulated during years of underbuilding. Moreover, builders remain disciplined about not accumulating land ahead of their immediate one- to two-year needs. They are aggressively pursuing near-term inventory without loading up their balance sheets with land far into the future. And even if

builders may be bidding against others for near-term lots, they are not paying outlandish prices or taking imprudent entitlement or development risks.

This builder exuberance is rational because it is responding to years of significant pent-up consumer demand. Across the country, inventories are historically low and shrinking as absorption outpaces new deliveries. Finished lots for suburban single-family workforce housing are in exceedingly short supply. The country remains critically underbuilt by hundreds of thousands of new homes every year, adding to an aggregate nationwide deficit surpassing three million residential units. At the same time, America's powerful demographic demand drivers continue to strengthen. Even with immigration slowdowns, our population is growing above an already huge base of 330 million people. And millions of Millennials are seeking their first homes in the suburban corridors of our large

continued on next page...

continued from front page...

and growing Sunbelt markets, now with an increased urgency sparked by COVID-19.

Today, we're not just selling; we're investing too. Because even well-located land for future residential development remains a capital-constrained niche, Avanti faces no meaningful organized competition for our prospective acquisitions. As our co-founder Donald Loeb likes to say, "We want to be the only offer on the bid side" – and today we really are. That's fine with us, because minimal competition leads to deeper value for us and our partners. If we don't line up at crowded auctions or submit multiple "best and final" offers to buy, we're more likely able to invest at good values. We're eager investors in the current market, where we can buy with fewer competitors and sell more quickly to a robust pool of users buoyed by fundamentally strong supply and demand dynamics. For well-located land investment and development projects, Avanti can readily provide the

Announcing the Avanti Scholarship in Real Estate



This holiday season, in partnership with the University of Florida's Warrington College of Business graduate school, we are delighted to announce the establishment of the **Avanti Scholarship in Real Estate**. The Avanti Scholarship will be awarded annually through the Bergstrom Real Estate Center to support students pursuing the degree of Master of Science in Real Estate to promote diversity, equity, and inclusion in the real estate industry.

Investing with diversity can lead to superior performance. And it is often the most underrepresented, unappreciated, or unknown ideas that become the best ones. We hope investing to promote diversity will accomplish the same things, in addition to just representing a better way for all of us to live. We're thrilled that the university, the business school, and the Bergstrom Center agree.

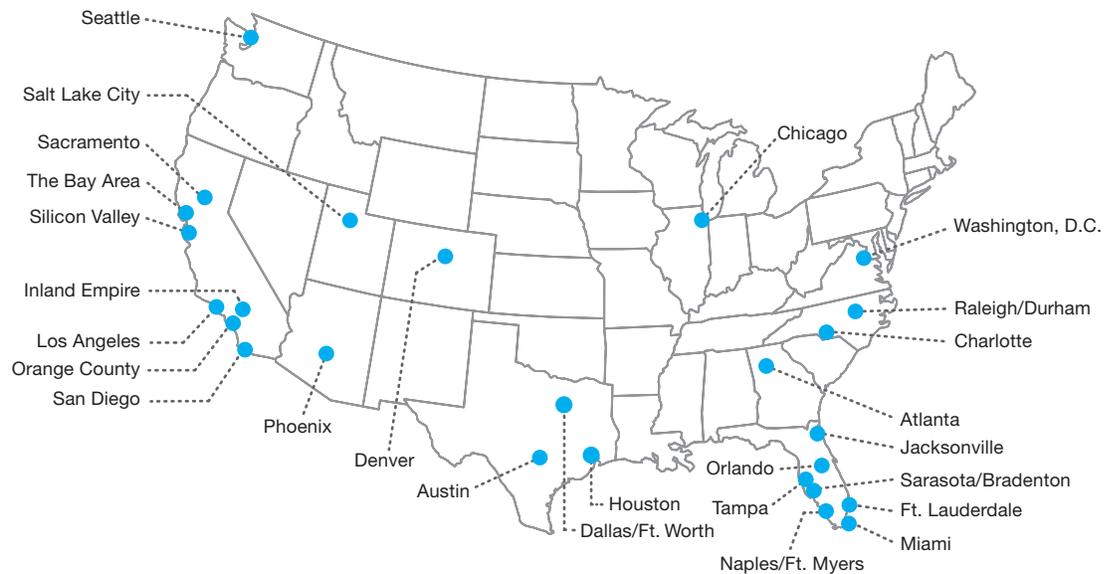
kind of patient equity these new communities will require.

Finally, investing at deep discounts protects against an array of known and unknown pitfalls that always lurk around the corner, whether they are fluctuations in interest rates, instability in raw material pricing, renewed COVID-19 outbreaks, or other macroeconomic disruptions. And buying with a

disciplined margin of safety can help us recognize when exuberance does take an irrational turn. During times when it becomes difficult to buy at deep value in any meaningful amount, we will respond, as we did during the 2000s by selling 80% of our residential portfolio as prices skyrocketed. We're thankful we did, because recognizing irrational exuberance then enabled us to be ready for the rational exuberance of today.

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- to longer-term projects requiring \$5–\$50 million.

Sourcing Network and Markets



Corporate Headquarters:
923 N. Pennsylvania Ave
Winter Park, FL 32789
T: 407-628-8488
F: 407-644-3115
www.avantiprop.com

For more information on Avanti or to discuss any specific proposals, please contact any of the following by phone at 407-628-8488 or by email.

Andrew Dubill
adubill@avantiprop.com
Ryan Lefkowitz
rlefkowitz@avantiprop.com
Marvin Shapiro
mshapiro@avantiprop.com

Best Wishes

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