

newsletter

The Crowd Frets, Avanti Invests

Today, two crowds are fretting about real estate investment. The first believes that all real estate is overvalued, that we are in the “late stage of the cycle,” and that real estate asset allocations need to be “right-sized.” The other group is agitated specifically about housing, and for other reasons: Because interest rates and construction costs are rising. Because month-to-month starts are wobbly. Because housing is expensive and homebuilder stocks are down. Their conclusion? “Avoid real estate, including housing.”

As usual, the crowds miss the point. It is precisely during a climate of fear that patient, disciplined value investing can lead to sustained success over time. In fact, today’s crowd noise is hiding an opportunity in plain sight: to invest at the beginning of what we believe will be a lengthy expansion in American housing and land.

Underbuilding Continues

This opportunity exists for two reasons. First, we are massively underbuilt across the country, particularly at the affordable end of the market, where supply shortages are extreme. Inventories are near multi-year lows, and we are building far below not only current demand but also long-term – 50-year! – averages.

For example, since the Eisenhower administration, we’ve built an average of 1.4 million units per year. Today, driven primarily by household formation, demand amounts to 1.7 million. In contrast, how many homes will we build in 2018? Maybe 1.2 million, a number that leads to a supply gap of 500,000 units this year alone. As importantly, we’ve been underbuilding for years, which

Massively Underbuilt Nationwide



Housing demand in 2018:

1.7 million units

New homes built in 2018:

1.2 million units

Supply gap in 2018:

500,000 units

Cumulative housing deficit:

3.0 million units

Source: Census, Moody’s Analytics Sept 2018

has led to a cumulative deficit of 3 million units.

Because it will take time to build all these new homes (just to return to normal levels of supply and demand), we believe that carefully investing in residential land today will lay a strong foundation for this future supply – and should yield strong returns that could last for the next decade. And if we can continue investing while everyone else is fearful, then all the better.

Millennials Emerging

Second, don’t forget that this current snapshot doesn’t include millions of Millennials who will soon be adding to this demand. Born between 1980 and 2000, this generation numbers 80 million, and its oldest members are in their prime home-buying years today. Furthermore, with the average age of the first-time homebuyer at 33, and the

largest Millennial age group only 27, millions more are on the way.

So, against this landscape of large demand but little supply, what to do? To us, the answer is simple:

Create more supply, which Avanti does by investing in well-located land and development projects in its target markets, **at the right price**, which empowers us to be patient until demand overwhelms short-term housing volatility, **while ignoring the herd**. Joining fearful crowds is no way to live (or invest). If you assume that everyone needs a roof over their head, we will not be underbuilt forever. We’ll let others fret over rates, costs, and market gyrations, and we’ll do the opposite. At Avanti, we’re doing everything we can to get in front of this burgeoning wave of fundamental demand.

**“Avanti’s answer:
Create more supply, at the right price, while ignoring the herd.”**

Our Builder Customers Agree

But don’t just take our word for it. If one listens closely enough through the chatter, others agree – most importantly, our builder customers. Indeed, across the country, national and regional homebuilders are grappling with how to deliver homes that a household earning a median income of \$61,000 can afford. Even in a market where prices and rates are high, builders are nevertheless branding affordable divisions and offering smaller homes with less-expensive finishes. A public builder CEO recently

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acknowledged that affordably priced homes a) sell faster, b) are becoming an ever more critical part of his company's business, c) are in short supply, and d) will see their demand exceed the demand for more expensive homes over the long term.

All of this confirms what we at Avanti see in our markets, where our selling is as strong as our buying. Indeed, we are selling at strong rates throughout our portfolio across a range of property types, markets, and investment vintages. And specifically, when we can deliver well-priced residential lots to builders who in turn will deliver affordable homes, the lots are flying off our proverbial shelves. In fact, most of the investments we are evaluating today have proven near-term builder demand for at least a portion of the property. Likewise, we're able to invest safely even in development projects that require a heavy initial commitment of time and capital, because they make sense when they can be purchased with



Superior Town Center, Denver CO

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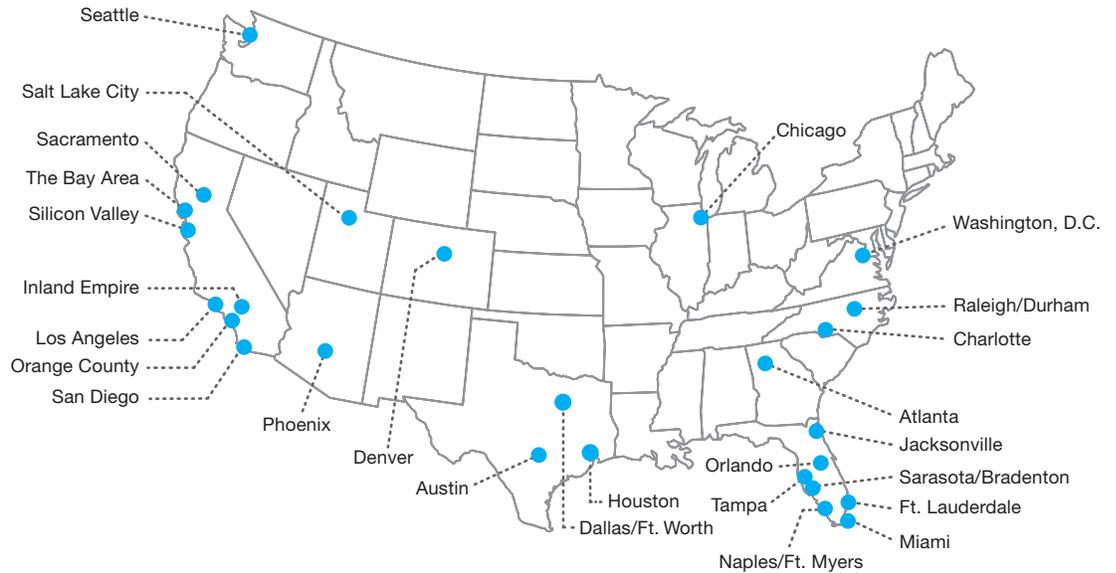
a wide margin of safety, secured by solid builder deposits and planned for affordable homes that sell reliably.

When it comes to housing, let the crowds be nervous. At Avanti, we are investing in a fundamental, demand-driven opportunity that has not existed in more than a decade. So bring us your well-located, well-priced land and development deals in any of our target markets, where our patient equity can

safely capitalize deals - in a funding market where acquisition and development capital is otherwise difficult to find. With such a bright future in view, we believe our investments will yield returns and profits more quickly and with even more certainty than in years past. And by delivering land for the affordable homes that America needs, we and our partners look forward to continuing to do the business that we all enjoy. Join us!

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



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