

## newsletter

# COVID-19 and Beyond

### Sales in the Time of COVID

It's often foolish to make short-term predictions, so we generally don't. Thank goodness. Because when we look back to March, as the global coronavirus pandemic caused businesses to halt, the stock market to tumble, and the national economy to shrink, we wouldn't have bet that any one of the following would have happened in Avanti's portfolio - let alone all three:

- In April, and particularly in May and June, Avanti continued to sell single-family lots at healthy paces across our holdings, including in residential communities in Dallas, Denver, Charlotte, Chicago, and Atlanta.
- At our emerging communities in Phoenix, Austin, and metro Washington, DC, we are experiencing substantial homebuilder demand for our first phases of development.
- We see these trends even in Houston, which has suffered the triple threat of coronavirus, unemployment, and low oil prices. In the country's fourth-largest city, we are both selling well in our existing neighborhoods and responding to strong builder interest for our future communities.

Though these three months have been surprisingly strong, we remain careful not to predict what this performance portends for the next quarter, particularly in this time of COVID-19. As recent weeks have reminded us, life is always uncertain, especially in the near term.



Fieldstone (Houston, TX): All 1,100 lots developed and sold as of December 2019.

Key risks include heightened rates of mortgage delinquencies that could impact the residential market, the degree and timing of any additional fiscal stimulus, and the rapidly increasing spread of the virus, with its uneven impact on both people and the economy.

Luckily, we don't have to answer "what is about to happen now?" Instead, we're better served by maintaining our focus on market fundamentals, while remaining sufficiently resilient to pursue the new opportunities this crisis will likely create.

### Focusing on Proven Fundamentals

Avanti's investment strategy is grounded in long-term trends, so our investments offer steadiness in the face of short-term disruptions. Because the fundamentals of housing supply and demand that were true before COVID-19 remain true today, it's important to understand the basics, as simple as they may be. First, remember that people need shelter and shelter needs land. When the population grows, so too does the demand for both. And don't forget that people

can only live in shelter they can afford, whether they rent or own.

For years, we've discussed how the massive pent-up demand for suburban single-family housing across the country has been increasing as the number of households has grown faster than the number of homes. In many cities today, the lack of affordable housing has become a crisis of its own scale. Simply put, the US remains historically underbuilt, even more severely than before.

In a recent report, Freddie Mac estimated that the national housing market is undersupplied by 3.3 million units, an increase of 800,000 from the year before, and rising by about another 300,000 per year. Virtually all of Avanti's target markets - large, growing, economically vibrant cities like Dallas, Phoenix, Denver, and 23 others - are in states that are undersupplied, where shortages are most acute at the affordable end of the market. The nation's largest homebuilders agree, and have launched affordable home divisions and brands to meet this need.

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In addition, 80 million Millennials are poised to add more demand to this already-constrained supply. As the largest Millennial cohort marches toward its prime homebuying years, millions of new households are forming. Just to keep up, millions more new homes need to be built. When combined with historically low interest rates and Millennial demand, this massive imbalance is driving Avanti's recent sales of land for affordable shelter.

### Resiliency During a Pandemic Allows for Opportunity Ahead

Nevertheless, amid the current downturn, businesses should ask themselves what has made them resilient today so they can be prepared for future opportunity. Over the past four decades at Avanti, we've learned a few lessons that can bring stability in any downturn, whether short-lived or not:

1. Even when the sun is shining – especially when the sun is shining – consider risk. Never assume “everything will work out just fine.” The best investments are protected for the times when everything doesn't.
2. The best way to guard against risk is to invest at deep values. Buying at a significant discount to future pricing compounds capital appreciably and protects it in virtually all events –



Lake Pleasant (Phoenix, AZ): First contracted phase of over 400 lots nears completion.

3. Another way to protect against risk – and a foundational principle at Avanti – is to minimize exposure to debt. Low or no leverage gives businesses the breathing room to operate and perform even when the world turns upside down, so they can plan for when it turns back up.

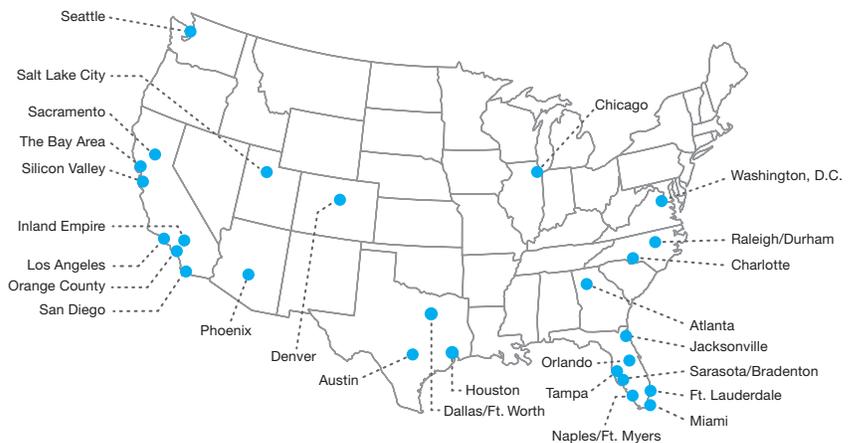
Living these lessons, while sticking with the one business we know, has enabled us to look past the current fog and has given us the breathing room to prepare for future opportunities. It's hard to believe that some degree of pandemic-driven distress won't lead to more investments for Avanti. And it is clear that the decades-long move to Avanti's lower-cost, lower-density, largely warmer-weather cities will continue, if

not accelerate. Moreover, our competitive landscape – always uncrowded – is nearly empty today. Indeed, over the past three months, we've been fielding an increasing number of calls from land sellers, developers, and homebuilders who see the virtue of patient equity investment in their land and land development projects.

Bottom line: the fundamentals of housing will long outlive the virus. So to those who share our belief that growing demographic demand, combined with historically low supply and an eventual return to employment, are the ingredients of investment success in the land where America grows, please be in touch. If we're selling this well during a pandemic, we like what the future holds.

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



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