

newsletter

The Wisdom of Avoiding Crowds

As Housing Flourishes, Land Delivers Healthy Returns and Risk Protection

Today, it is undeniable that a long-awaited, broad-based, nationwide housing expansion is sweeping across America. And because this return to growth is grounded in the fundamentals of low supply and strengthening demand – not an early 2000s mirage of foolish financing and shifting paradigms – even COVID-19 hasn't been able to stop it.

Yet surprisingly, as a nation, we are even *more* underbuilt today than when the pandemic struck last year. According to Freddie Mac's most recent studies, we've now accumulated an aggregate nationwide deficit approaching 4 million homes. More conservative analyses still calculate underbuilding at nearly 2 million – homes that should have been built, but have yet to be. And with growing numbers of Millennials buying their first-time and first move-up homes, additional demand is increasing the pressure on this historically low inventory.

In our own portfolio, we're witnessing this growth every day, with acute supply shortages in the growing suburban Sunbelt corridors of our target markets. In Avanti's communities, from Phoenix to Florida, we are selling at our highest rates in years. We've even



Devonshire, an Avanti community under active development in the Dallas, TX area.

seen builders that are in the business of selling homes choose *not* to sell in some communities because they don't want to run out of houses to offer.

In short, we are simply not building enough homes to house America's growing population and re-emerging workforce. The supply-demand imbalance is clear. But the question is, how do we take advantage of it in a way that makes sense? Where is it possible to find value in this expansion?

One response is to do what everybody else is doing – maybe invest in the stocks of publicly traded homebuilders, though prices have doubled or tripled in the last year, or possibly consider a new multifamily project, even if it is bearing a minimal cap rate fortified by rosy projections of future rent growth. Perhaps one could chase the next build-to-rent deal, the new investment product *du jour*, a sector in which John Burns Real Estate Consulting reports that more than \$9

billion of equity has been deployed just since March 2020 – providing, in some locales, more cash to deploy than there are investments to be made.

Or, you can do what makes sense in another context these days: avoid the crowds. Avanti does so by focusing on what is persistently undercapitalized even now – the one place in the housing supply chain where it is possible to find deep value without taking the risk of leverage, and with the clearest exit in at least a decade and a half: land, the most enduring reservoir of true value remaining in the expanding housing market.

It is in land – in the right locations and in the best growth cities – that we find investments at prices today that are a fraction of what a builder will pay tomorrow. Where competition to buy is minimal from both homebuilders and the Wall Street types. Where we protect the downside without taking debt,

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political, or environmental risk. And where we can in turn deliver at fair retail prices to both builders that build to sell *and* those that build to rent.

Those who worry about rising home prices are right to be wary of recent growth. We are too. And affordability may be further strained if the cost of lumber does not moderate or if interest rates climb from their current low levels. But in answer to all these concerns, builders ultimately will adjust house sizes and finishes to provide what homebuyers can afford. We see these trends in Avanti's own communities, where public builders are growing new brands focused on affordability and delivering homes on smaller than typical lot sizes, with some well-appointed homes as small as 1,100 square feet.

As importantly, when we invest with disciplined underwriting based on



Lake Pleasant, an Avanti community under active development in the Phoenix, AZ area.

long-established relationships to household incomes, and do not bet on long-term price escalation in response to fleeting short-term home price appreciation, durable profits will follow – even if prices moderate or decline. As value investors, we don't need price appreciation for investment success.

Rather, with a manifest need for millions of new homes over the coming years, investing in the right locations at the right prices can still deliver strong returns and multiples independently of home price fluctuations – because, to paraphrase a legendary campaign manager, "it's the volume, stupid."

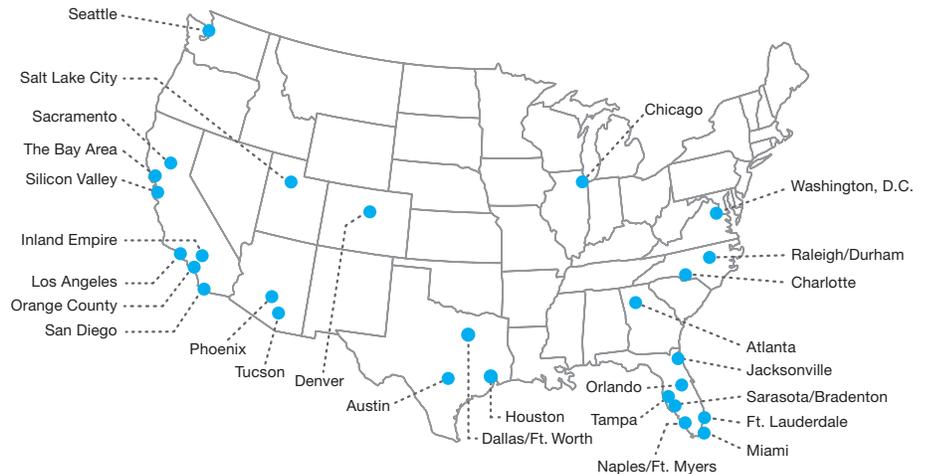
Historic Opportunity

As we officially launch Avanti's 10th institutional land investment fund, we look forward to discussing your well-priced and -located land investment and development projects. These days, we're seeing broad opportunities to invest across our markets as housing takes flight, with nearer-term demand and clearer outcomes than we've seen in

a long time, if ever. So far this year, we've successfully sourced a strong pipeline of opportunities from a wide array of land sellers, all of which benefit from near-term builder interest but are complex and sizable enough to deter builder appetite for carrying this land on their balance sheets. With these kinds of deals, Avanti's speed, knowledge, and equity look forward to unlocking profits with you as America's housing expansion accelerates.

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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