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AFFORDABLE SENIORS' HOUSING

TAKING ADVANTAGE OF THE DOWNTURN

BY NATHAN W. JAMESON

Mark Twain provides homebuilders a good reminder in the midst of today's housing market. A swirling undertow of decreased demand, increased supply, investor buyers and subprime defaults left many builders afloat in an ocean of uncertainty.

The inherently cyclical homebuilding industry demands builders make ready for the next wave. But it is not enough to begin paddling once that wave is upon them. By then, it will be too late and the opportunity to ride the crest will be missed. Rather, builders must position themselves for the next wave before it arrives. Now is the time to do this by taking four important steps: 1) Identify opportunities; 2) Hire talent; 3) Secure land; and 4) Access capital.

Identify opportunities.

The existing slowdown has given builders plenty to ponder. During the boom, peaking prices and accelerating absorption kept builders from taking a critical look at their own organization, and also led them to pass on new market opportunities. "If it ain't broke, don't fix it," was a common motto heard in homebuilder circles.

Today, an exacting eye on one's organization and the current marketplace will reveal opportunities aplenty. Those that lead the way out of the current trough will use the downturn to leverage strengths and improve weaknesses. They will identify opportunities to anticipate and meet homebuyer demand, and on the strength of this demand, will sustain their growth for the coming

decade.

Much, perhaps even most, of the demand for new housing in the coming decade will be driven by the nearly 80 million members of the Baby Boomer generation. 12,000 Boomers turn 55 every day. Selecting a strategy to meet this generation's demand for housing that caters to its desire for an active lifestyle will plant seeds of long-term success.

The Boomers will redefine this stage of living and the housing choices that accommodate it. And while active adult buyers are the most demanding of any market segment, given the opportunity, they may be the most profitable.

Hire talent.

Though the labor market remains tight nationally, many large homebuilders are shedding overhead in response to the slowdown. This reshuffling is freeing up management talent not available two years ago. Growing local and regional builders should seize this opening to recruit experienced talent to fill existing needs and upgrade current staff.

Investing in people will pay dividends for growth-oriented builders intent on using the downturn to grab market share. Securing key personnel to help develop and execute the long-term business vision is critical to surviving the slowdown and thriving in an upswing.

“I WAS SELDOM ABLE TO SEE AN OPPORTUNITY UNTIL IT HAD CEASED TO BE ONE.”

— Mark Twain

Secure land.

Well-located, competitively-priced land is the first ingredient in the recipe for successful communities. Builders that suspend acquisition activity to mind the store may miss the chance to secure land positions that ensure their success for the next decade.

More reasonable terms and prices than those seen in 2006 and early 2007 appear to be on the horizon. While land sellers have been slow to move on price, the length of the downturn is adding pressure on landowners to move from the selling sidelines.

The next 12 to 18 months will likely see a host of new acquisition opportunities as publicly traded builders take new write-downs, developers face increased pressure from lenders and banks look to reposition troubled loans. Astute builders will network with each of these groups to fill their pipeline.

Access capital.

Identifying opportunities, hiring talent and securing land requires significant investment. It will be too late to act once the market jump starts. Now is the time to determine how you will finance these steps.

In prior downturns, most privately-held builders lacked access to adequate and affordable capital. Previously, a builder's vision was limited by the size of the owner's wallet. Today, a variety of sources from wealthy individuals to private equity and pension funds offer qualified builders a

range of capital products – from project equity and subordinate debt to acquisition and pre-development financing.

Enterprising builders employ these resources to increase owner liquidity and decrease risk. This paves the way for sustainable growth and creates a lasting enterprise value for owners and employees.

The strongest investment teams employ extensive backgrounds in development and construction to accurately price risks associated with a builder and project. Investors are actively pursuing builders that understand the Baby Boomer opportunity and are taking steps to address it. Like builders, savvy investors understand the importance of preparing for the next wave before it arrives.

In the midst of the current downturn, experienced executives are positioning their organizations for long-term success by identifying opportunities, hiring talent, securing new land and accessing capital for long-term growth. If Mark Twain's sentiments too closely resemble your own, resolve to begin preparing today for the next wave of housing demand.

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