Builders Find Investors Eager to Finance Housing Growth

George Frey/Bloomberg

Contractors work on the roof of a new residential apartment building in Sandy, Utah, on Jan. 15, 2013.

Joel Shine, chief executive officer of Woodside Homes, raised $228 million in a debt and equity recapitalization in October, two years after the Salt Lake City- based builder exited bankruptcy.

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Feb. 20 (Bloomberg) -- Douglas

Investment bankers now are pushing closely held Woodside to sell stock publicly or issue debt as the home-construction industry bounces back from the real estate crash, he said.

"I hope the housing market is as good as the capital market seems to think it is," Shine, who builds in Arizona, Califor-

Yearley, chief executive officer of Toll Brothers Inc., talks about the company's fourth-quarter earnings, outlook and regional housing markets. The largest U.S. luxury-home builder reported net income that trailed analyst estimates and projected narrower margins. Yearley speaks with Pimm Fox on Bloomberg Television's "Taking Stock." (Source: Bloomberg)

Enlarge image

Low interest rates, accelerating household formation and a shrunken supply of existing homes on the market are fueling demand for newly constructed residences. Photographer: Sam Hodgson/Bloomberg

nia, Nevada, Texas and Utah, said in a telephone interview. "Right now, housing is the pretty girl at the bar."

Low mortgage rates, accelerating household formation and a shrunken supply of existing homes on the market are fueling demand for newly constructed residences after the worst housing slump since the 1930s. U.S. builders are turning to stock and bond sales to finance growth. The industry issued $6.3 billion of debt last year, the most on record and $2.8 billion more than the previous 2005 peak, data compiled by Bloomberg show.

In January, builders issued more than $2.2 billion in debt and equity, the second-biggest month, after September, in records going back 12 years, according to Susan Berliner and Richard DeGaetani, New York-based analysts at JPMorgan Chase & Co. The fundraising included a $233 million initial public offering for Tri Pointe Homes Inc. (TPH), the first IPO by a builder since 2004.

More IPOs

"You could see another five private builders go public over the next 12 to 24 months," Robert Crowley, a managing director at Moelis & Co. who advised Tri Pointe and Woodside, said in a telephone interview from Boston. "The public equity markets have demonstrated that there's real demand for additional opportunities to invest in the U.S. housing recovery. Homebuilder IPOs provide a way to do that."

The resurgence of homebuilders follows a shakeout during the housing boom that peaked in 2006. Many smaller builders went out of business after the crash, leaving more opportunities for well-capitalized companies that survived. Membership in the National Association of Home Builders, which is composed mostly of small, closely held companies, has plunged to 140,000 from 250,000 in 2007.

Shares of publicly traded homebuilders are up 65 percent in the past 12 months, compared with an 11 percent gain for the Standard and Poor's 500 Index. (SPX) Better-than-forecast housing data helped drive the Dow Jones Industrial Average to a five-year high yesterday. Builders are trading at about 1.9 times their book value, which is based mostly on their land holdings and is near the top of their historical range, Nishu Sood, a New York- based analyst at Deutsche Bank AG, wrote in a Feb. 25 note.

'Highly Optimistic'

"This implies that investor expectations are currently highly optimistic," Sood wrote.

Investor interest in homebuilders helped lead Taylor Morrison Home Corp. (TMHC), a Scottsdale, Arizona-based company, to double the size of its proposed IPO to $500 million, according to a Feb. 13 filing with the Securities and Exchange Commission.

William Lyon Homes (LWHS), a closely held builder that exited bankruptcy a year ago, filed papers for a stock offering as part of its recapitalization plan, said Matt Zaist, executive vice president at the Newport Beach, California-based company.

"It certainly puts us in a position to take advantage of the public markets if we thought that was the right course of action for our shareholders," Zaist said in a telephone interview.

Other builders that may go public include WCI Communities Inc., a Bonita Springs, Florida-based builder that left bankruptcy four years ago, and New Home Co., an Aliso Viejo, California-based company started in 2009 by former executives from John Laing Homes, which went bankrupt the same year.

Public Advantages

"In today's new housing market, the public builders have all the advantages," New Home Co. Chairman Larry Webb said in a telephone interview. "If you're really going to compete and grow your business, it's very difficult to do without strongly considering a public option."

New-home sales in January rose almost 16 percent to an annual pace of 437,000, their highest level since July 2008, the Commerce Department reported this week.

Single-family housing starts climbed to an annual pace of 613,000 in January, the fastest rate since July 2008, the Commerce Department said last week. Starts probably will increase 22 percent to 650,000 this year, only half of the long- term "normal" pace of 1.3 million, according to the National Association of Home Builders.

Market Share

"It may be reasonable to expect additional private builders to go public, particularly if the housing market improvement is sustained and the rally in homebuilder stocks during 2012 doesn't reverse its course this year," Robert Rulla, a director at Fitch Inc., said in an e-mail from Chicago. "There are opportunities for large public builders to gain market share in the short to intermediate term."

Publicly traded homebuilders tend to have stronger balance sheets and greater access to low-cost capital than smaller, private builders do, Rulla said. That gives larger companies more ability to buy land in good locations, he said.

Meritage Homes Corp. (MTH), a publicly traded builder based in Scottsdale, Arizona, announced plans yesterday to issue $150 million in debt, using $50 million for general purposes such as land purchases and $100 million to redeem notes due in 2017.

Tri Pointe CEO Doug Bauer said his company's IPO funds will be used to pay for about half of the 1,550 lots the builder, which started in 2009, has under option, and enable him to go to debt markets for more capital. The Irvine, California-based company fell 0.5 percent to $18.40 at the close of New York trading, and has gained 8.2 percent since going public at $17 a share.

Growth Platform

"It provides a great platform for the company to grow," Bauer said in a telephone interview from Denver, where Tri Pointe began selling homes last year.

Beyond its Colorado and California markets, Tri Pointe is considering expanding into Texas, Phoenix, Nevada and the Northwest, focusing on areas where the cost of land and development are high, Bauer said.

"Generally speaking, higher-barrier-to-entry markets have higher margins," he said.

Credit is still hard to get for many builders, limiting the number of new homes for sale, according to Rick Judson, chairman of the association.

Members of the group "are expressing increasing frustration that they can't get access to construction loans to develop lots in markets where demand is on the upswing," Judson, owner of Evergreen Development in Charlotte, North Carolina, said in a statement two days ago.

Capital Infusions

Credit is still hard to get for many smaller builders. Those that stayed in business often needed infusions of capital from private investors, for whom a public offering is a way to take money off the table, said Crowley of Moelis. He wouldn't name companies he represents that have taken steps toward IPOs.

Not all investors want companies to go public, Crowley said. Mergers and acquisitions also are options.

"I'd expect that in addition to an uptick in IPOs, you're going to see an uptick in M&A activity," he said. "Some shareholders would rather exit these investments now as opposed to taking them public."

An IPO can offer a big payday. Barry Sternlicht, the chairman of Starwood Capital Group LLC, who invested $150 million in Tri Pointe since 2010, sold 5.7 million shares for $97 million as part of the IPO and retained 12 million shares with a value of $221.6 million at yesterday's close.

TPG, Oaktree

David Bonderman's TPG Capital and Howard Marks' Los Angeles-based Oaktree Capital Group LLC (OAK) invested $625 million in March 2011 to buy Taylor Morrison from its London-based parent, Taylor Wimpey Plc. (TW/) The two firms, which have been repaid all but $150 million of the original investment, will have majority control of Taylor Morrison after its IPO, according to a Feb. 13 SEC filing.

Erin Willis, a Taylor Morrison spokeswoman, said the company isn't able to comment because of regulatory restrictions on pre-IPO communications.

Private-equity firms also put money into William Lyon, whose investors include Luxor Capital Group LP, a New York-based investment fund that owns shares totaling 37 percent of the company voting power; John Paulson's Paulson & Co., with 10.5 percent of voting shares; and Thomas Barrack's Colony Capital LLC with 3.9 percent of voting power.

"The capital markets have been red hot," Russ Devendorf, chief financial officer for WCI Communities, said in a telephone interview. "We, just like everybody else, are analyzing the options available."

Florida Sales

WCI Communities sold 461 homes in Florida for $185.9 million last year, up 73 percent from 2011. In 2008, under Carl Icahn, the company's chairman at the time, WCI filed for bankruptcy after failing to obtain new financing and losing 90 percent of its value. In June, the company raised $175 million in debt and equity primarily from Monarch Alternative Capital LP and Stonehill Capital Management LLC.

While WCI hasn't decided whether to go public again, conversations with investment bankers have been "pretty active" recently, Devendorf said.

"They pick up the phone when we call, and we pick up the phone when they call," he said. "We need to see what opportunities are out there and, of course, they like to make money."

When Tri Pointe went public, underwriters received $16.3 million, or 7 percent of the $233 million Tri Pointe raised, according to the builder's prospectus.

Pensions Depart

Homebuilders struggled to raise capital after the housing crash, when bank credit dried up and pension funds such as the California Public Employees' Retirement System cut investments with developers, said Dan McCann, a managing director in real estate investment banking at FBR & Co., who was an underwriter for Tri Pointe's IPO. Repaying high-yield corporate debt is cheaper than the returns expected by private-equity and hedge funds, he said.

Banks have underwritten $89.6 billion of high-yield debt this year, up 36 percent from a year earlier, feeding investor appetite for higher returns, according to data compiled by Bloomberg. Last year's $433 billion of sales was an all-time high for the asset class, the data show.

"There's a giant gap in costs between the public money and the private money," said McCann, who's based in Irvine. "The private money's been very hard to get."

'Bit Disappointed'

A problem with going public can be the lack of investor patience. Toll Brothers Inc. (TOL), the largest U.S. luxury-home builder, fell 9.1 percent on Feb. 20, its biggest one-day loss since December 2008, when it reported earnings that fell short of expectations, even as the value of orders rose 83 percent from a year earlier.

"The analysts were a bit disappointed by the first-quarter deliveries," Toll CEO Doug Yearley said in a Bloomberg Television interview. "I think there was a bit of an over- reaction."

Shine, the Woodside Homes CEO, said he isn't considering taking his company public for now. Instead, the builder has turned to its current investors, such as Oaktree, Stonehill and John Hancock Financial Services, a unit of Toronto-based Manulife Financial Corp.

"The capital markets are fickle," Shine said. "We're still far from hitting the ceiling of what the recovery could and should look like. So I think for those of us that are well-capitalized, there's still plenty of room to grow."

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