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Regional Builder Chooses Bonds Over Banks

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By Kris Hudson


Woodside Homes
Woodside CEO Joel Shine in one of the builder's newest communities in Utah.
Bigger is better for home builders searching for financing these days.

Woodside Homes, which anticipates selling 1,500 homes this year in five Western states, recently raised $220 million by selling unsecured notes at a 6.75% interest rate. The builder will use the proceeds to retire $127 million of older debt carrying a 10% interest rate and for expansion.

Woodside, based in Salt Lake City, landed the bond financing partly due to its size and partly because of its balance sheet, which was cleansed in a two-year bankruptcy stint that ended in 2010.

The capital markets have been choosy about homebuilders since the recession. Publicly traded builders encounter few hurdles raising capital, but small builders have found banks' terms for loans on their projects to be pricey.

"Banks are very conservative right now, whereas the public markets have a much more optimistic view of housing," said John Burns, chief executive of a home-builder consulting firm in Irvine, Calif.

Woodside, however, is large enough to borrow on the corporate level by selling bonds rather than borrowing through its individual projects, like smaller competitors do. That gives Woodside more flexibility in how it spends the money. Plus, Woodside counts the results of its bankruptcy as a benefit. “We don’t have any old liabilities, and that becomes attractive to the bond markets,” said Joel Shine, Woodside’s CEO and chairman. “The major problem for many small builders is that they’re too small to go to the bond market.”

Tony Avila, managing principal of real-estate fund manager Encore Housing Opportunity Fund, said more lenders will venture back into the market as the housing industry continues to improve. In particular, smaller loans to regional and local builders will resurface. “We are starting to see that market come back now,” Mr. Avila said.