



MARGARET WHELAN *Whelan Advisory, LLC*

Margaret Whelan has been ceo of Whelan Advisory since founding the company in 2014. Whelan, 50, was previously managing director real estate and lodging at JPMorgan; she joined the company in 2007. Earlier, she spent 10 years at UBS. Whelan has participated in financing transactions representing more than \$30 billion in capital raised over the last 25 years.

In the following interview, Whelan discusses recent industry milestones and the outlook for M&A and capitalization activity.

HBE: Describe today's Whelan Advisory.

MW: We are a boutique investment bank serving home building and construction companies, with a dedicated focus on working for owners and founders when they are ready to sell or raise capital.

We are also certified as a woman-owned firm, one of the few investment banks on Wall Street able to claim that distinction.

HBE: What led you to start the company in 2014?

MW: I had worked for JPMorgan and UBS for more than two decades and felt there was an opportunity to offer a higher level of service to a smaller group of clients. It was a window that was not being served for many mid-sized companies in the top 200 builders.

I brought together a team of people who had worked for me previously at the larger banks. The one thing we all had in common was a love of home building and its clients. We are extremely service oriented, and the model has been working well.

HBE: How has the home building industry changed over the 30 years you've been involved in it?

MW: Structurally, there has not been that much change. The industry is known for being in the bottom of the fourth quartile of innovation and leveraging technology. While many believe we have a labor shortage or a housing affordability problem, both of those challenges could be resolved if we built houses much more efficiently. Hopefully, this slowdown magnifies the opportunity to pursue putting these best practices into place. Pulte, NVR, and some others are already ahead of that curve.

HBE: What notable entrepreneurs have you represented or interfaced with?

MW: All the major industry figures I've worked with have been interesting.

I've spent significant time with Don Horton, and he has been a terrific mentor to me over the years. I worked with Bob Toll in the past and was sad to see that he passed away last year. I also had the privilege of working for Jamie Dimon, ceo of JPMorgan, for eight years.

Home building is a scrappy, entrepreneurial business; there can be no underestimating how difficult it is to be an entrepreneur in this industry, which requires a great deal of cash. I have the utmost respect for all of them.

HBE: What companies in the industry have you represented?

MW: We helped McStain Neighborhoods in Denver sell a majority stake to Platform Ventures in October.

We represented TruMark in its 2020 sale to Daiwa House, which included a massive equity injection.

ResiBuilt Homes, a build-to-rent builder in Atlanta, tapped us in 2020 to raise \$500 million.

And in 2018, we represented Thomas James Homes, an in-fill builder in West Los Angeles with a great business model, in its sale to Oaktree Capital Management with a commitment of \$200 million in growth equity.

HBE: What made those dealings attractive?

MW: In one instance, McStain has a fantastic multi-generational team that has been together for decades. Platform Ventures is a family office with several other home builder investments that have been successful. They understood the business and presented themselves as well-capitalized and a good strategic partner for our clients, and they knew the deal wasn't about a moment in time but about a bigger opportunity in the Denver housing market, which is very short supplied.

While there wasn't as much visibility as we had been used to, our client is now positioned to drive harder and grow faster given its access to more capital.

HBE: What trends in the builder industry did you anticipate when founding the company that have materialized?

MW: Near the end of the global financial crisis while at JPMorgan, I worked with a lot of single-family rental firms on their IPOs, and many of those companies have started build-to-rent divisions. It was a trend we were ahead of, and we successfully represented several big companies that are pursuing that strategy.

HBE: What has occurred in the builder industry that you did not anticipate?

MW: A downturn always magnifies opportunities for improvement. Shortly after Pulte named Ryan Marshall ceo, the company bought ICG, an off-site producer of wood-framed construction, and then expanded it late last year with a second facility. Pulte's fresh perspective revealed a different way, a better way, of thinking.

The industry has had many opportunities to adapt to offsite solutions, but, unfortunately, many big builders are not embracing it to any real extent.

HBE: What was the environment for deals during 2020 and 2021?

MW: It was frenzied and difficult to be strategic during that time. U.S. housing became a bright spot in the global economy during the pandemic, as incremental demand, on top of existing pent-up demand because of demographic trends, was accelerated with Covid. There was good improvement from a financing perspective, as technology

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enabled online home selling and approvals. In September 2021, Apollo Global Management buying The New Home Co. was a smaller deal but transformational for New Home. The company hired Matt Zaist, an exceptional home building ceo, which was notable.

HBE: What was unique about the Daiwa House and CastleRock Communities deal?

MW: I had initially worked with a consultant that Daiwa House hired to focus on M&A opportunities in the U.S. I'd known the TruMark team for years and knew that the integrity, fit, and product would be strong. I introduced TruMark, which then sold 60% of the company. Daiwa House then shared with me that Texas was its next target market. I put together a short list, which included CastleRock.

HBE: What is your view of the deals by Dream Finders?

MW: It was known that Frank McGuyer would sell MHI at some point. Hopefully, it's a good fit for both sides.

HBE: What were the notable deals by home builders last year?

MW: There weren't many, because the market slowed when rates started to go up, and dozens of deals fell apart.

HBE: Why didn't the agreement between M.D.C. and The Jones Co. finalize?

MW: We represented Jones, which is a great company. It was unfortunate, but it was one of the many deals in the industry last year that didn't materialize.

HBE: How has the environment for deals changed?

MW: We will continue to see underwriting using third parties to verify and substantiate the cash listed. As the bigger markets are more concentrated, I believe there will be more growth by big builders into the smaller markets where they can increase market share.

HBE: Does the recent deal by D.R. Horton for Riggins set a benchmark for deals this year?

MW: Yes, this is a prime example of builders entering contiguous markets where they can be a bigger fish in a smaller pond.

HBE: What factors are motivating M&A deals now on the seller side?

MW: A measure of humility after a few months of interest rates going up so sharply. Over the last couple of years, everyone thought they were invincible, but recent months have shown that trees don't grow to the sky. There are still many opportunities where we can connect good people with the right capital, enabling them to run a great housing company.

HBE: And what factors on the buyer side?

MW: Different products, different price points, and different segments for larger production builders, and maybe rental homes versus retail.

Builders want to maintain as much velocity as they can to have leverage and big land positions.

HBE: How do the interests of Japanese firms vary from domestic players?

MW: Their interests are largely the same, they just have less expensive capital. That usually results in being able to offer a higher multiple, which makes them very competitive.

They are also long-term oriented, looking for companies with owners that will stay on and continue to grow the business.

HBE: Do you anticipate the public builders making notable plays during this cycle?

MW: For a big builder to make a notable acquisition at this point, they would have to be buying each other. There are probably too many publicly traded home builders, and some are not well regarded or valued by Wall Street. Not having access to capital makes it difficult to be public.

HBE: How many of the public home builders do you envision being acquired?

MW: A few, but not many; not enough, in fact. There are real benefits to consolidation.

HBE: Do you foresee another megadeal like Lennar's acquisition of CalAtlantic in 2018?

MW: CalAtlantic had a large private equity owner, MatlinPatterson, which acted as a catalyst in that instance. I'm not sure that deal would have happened otherwise.

HBE: Barron's mentioned that Toll Brothers could be an acquisition candidate now that its co-founder has died. What is your view?

MW: There is no obvious reason for Toll to not be independent. It has a fantastic ceo and team. I would more closely watch builders with significant leverage that have not performed as well. Home builders that went public 10 years ago have not been through a cycle like this, and some have a great deal of leverage and unique financing.

HBE: What industry developments are you keeping a watchful eye on at this time?

MW: Build-to-rent and capital. This industry requires capital; as margins decline and profitability is compromised, the industry will need more lenders and equity to come in. We're keeping a close eye on mortgage rates and the cost of capital to run these businesses.

HBE: What is your outlook for the home builder capital raise and M&A markets this year?

MW: The nice thing about such sharp declines is that they end. After the first 12 months, comps start to get easier, and we're already coming into that. Sentiment is important and can drive fundamentals.

If rates normalize at this level, which is not historically high, and demographics and the economy are strong, builders will find answers on how to price their homes relevant to the market.

HBE: What other trends do you see impacting the builder capital raise and M&A markets?

MW: Build-to-rent is a bigger trend to retain velocity and use up land positions, especially now that the supply chain is normalizing and more labor is available.

HBE: How have the criteria for a capital raise changed now?

MW: The criteria haven't changed; investors still want a great operator in a great market with a seasoned team along with a good brand, good products, and three years of land supply. But the cost of capital is going up because of increased risk.

HBE: What is currently taking the majority of your attention?

MW: There are not as many buyers in the market — but there are buyers. It is a question of finding the right fit from a shorter list of candidates.

BUILDERVIEWPOINT

Home Builders: What Products, Developments at IBS/KBIS Were Standouts?

SVP Architecture

While nothing stands out as an "ah-ha" product, it's great to see that color is back, both inside and outside the house. GE's Monogram booth included color in the kitchen vignettes like we have not seen in a long time, including hot pink. Samsung has some neat advances in appliances, and Kohler always has great product.

It was good to hear that James Hardie is back to full production. Sherwin-Williams bought a new facility that manufactures paint ingredients to help keep its products in stock.

The New American Home was neat — and expensive — but didn't include as many new ideas or products as I'd have liked.

VP Purchasing

The GE all-in-one washer/dryer combo stood out the most. It doesn't require a vent and uses a 120v plug. It's perfect for reducing space needed in utility rooms, thus reducing square footage on homes where price point is key.

The James Hardie exhibit had a lot of new products to share, such as V-groove soffits and architectural panels, and Woodtone's Chrometallics panel products were very interesting.

Purchasing Manager

Three things stood out: GE's all-in-one washer/dryer; Sip-Seal adhesive repair dots for our field managers; and Schluter pre-made seats, which are not new but will help.

National Director Design

New developments in 3D modeling from both MiTek and Builders FirstSource/Paradigm have made a lot of progress that is a meaningful innovation for the industry.

One product that piqued my interest, which I wasn't seeking out, was GAF's solar roof shingles.

Hot water manufacturers are making meaningful progress on heat pump water

heaters. As the industry and building codes move toward all-electric mandates, this will be a critical development to ensure we can continue to deliver high performance.

VP National Purchasing

Products coming out that are Matter-compatible. Matter will eventually replace Z-Wave, Zigbee, Bluetooth, and Wi-Fi as the standard unified connectivity technology for the smart home. It will enable smart home products to work together, with no bridges or hubs. It's definitely cool.

I also talked with a lot of people who have seen a pick-up in sales the last couple of weeks. That was promising.

VP Sales

Away Digital, an Australian company, uses gaming technology to create renderings, interior and exterior product changes, and fly-through tours of model homes. While not new in general, the technology has become better than actual photos.

National Director Purchasing

We saw a few new things and heard a lot about Matter smart home automation technology.

VP Purchasing

Sunnova Energy has an interesting business model, where costs are passed to the consumer in the form of a lease, rather than the direct costs of the home itself.

GAF's solar shingles also looked very interesting.

National VP Purchasing

Meetings were very real and urgent in nature, with very little offered in the way of new product — more "fix what you have" than "show me something new."

VP Purchasing

GE's single-drum washer & dryer unit was a standout.

President

A few minor things included a kit to help install a pocket door — expensive but cool; screens, primarily for replacements; cabinet hardware, where we buy special hardware; and thin stone.

President

While we are already using Higharc's homebuilding automation platform, we are continually impressed with what it is doing.

From a design standpoint, it was interesting to learn that customers are still not limiting themselves on design ideas, like in previous generations, in order to maximize resale value.

Co-Founder

The new GE Café kitchen products were really innovative. A plumbing item from Aquor would provide better freeze protection on the outside hose bib.

Sessions with chief economists Robert Dietz, Ali Wolf, and Danielle Hale included good data that was easy to understand and very insightful.

SVP

I saw a lot of technology that we can implement across our website to improve conversion rates of internet traffic. In particular, a chatbot will allow us to have a 24/7 response to inquiries and provide our sales team with detailed follow-up leads.

Some bath fixtures and appliances are bringing back 1970's pastel colors.

VP Strategic Sourcing

My focus was on helping the current state of our organization, so I didn't see anything that would separate itself.