



California Market Watch, October 8, 2010

Meyers Brings its Capital Seminar to Northern California

Meyers Builder Advisors recently hosted an event in Pleasanton, Calif. "Capital Sources for the Private Homebuilder" that provided insight into capital resources available to private builders. Jeff Meyers, Founder and CEO at Meyers Builder Advisors, recapped the findings from the midyear "[Capital Markets--Debt & Equity Survey](#)." In addition, there was a strong group of panelists from Wells Fargo Home Mortgage, Argosy Real Estate Partners, Resmark Equity Partners, and Morgan Stanley Merchant Banking Group. The conference was extremely informative, creating a great opportunity for private builders to get a better understanding of what it takes to get deals done in today's environment.

Some key insights included:

- **What is the cost of capital?** Groups priced their funds in direct relation to the risk profile of the project, taking into consideration the timing, peak equity exposure, and type of investment. Most funds felt a 20%-30% IRR was reasonable, with anything above this being fairly unrealistic. One of the panelists commented that a projected IRR of 60% will only lead to questions about the analysis performed on the project.
- **Deal size will depend on the various funds.** Each group on the panel had a different target, ranging from \$5 million to \$10 million on the low end with larger institutional investors able to finance \$40 million to \$50 million on the high end. Clearly, there is more capital than deals today. Part of the problem is in their target size. When a large amount of capital needs to be deployed, the funds won't waste time on smaller deals. However, with the reduction in land values, what was once a \$20 million is now a \$3 million deal. Obviously, there is a big disconnect.
- **How much capital will be deployed over the next few years?** All the panelists seemed to agree that there would be a significant increase in the amount of capital deployed over the next two years. The specific amount ranged anywhere from \$50 million to \$500 million depending on the size of the fund.
- **What to expect for the co-invest.** Co-investment is necessary in the range of 5%-20%. This might make most private home builders cringe, but it is the reality of today's environment. A stronger co-invest will put you in a position of strength. If the builder is willing to put their own money at risk, the fund is more likely to believe you have done the required research and analysis to justify your assumptions.
- **New approach to grading the markets.** One of the panelists made an interesting point regarding his grading of markets in today's environment, he said that he no longer looks at markets as "A, B, C....", rather, in today's environment, it is better to classify them as "A,B and F" where F markets are untouchable. Some "F markets" include Central Calif., and parts of Sacramento. However, all the panelists were quick to say that there are always exceptions in these markets, especially in-fill locations.
- **How to best approach them:** The economics and feasibility of a deal are always important, but potential for future relationship and track record of the builder can also affect a deal's viability. When searching for capital and submitting opportunities for funds to review, complete business plans with a market study and understandable and realistic cash flows will get the required attention. Moreover, when e-mailing these items, one attachment is preferred. Do what's necessary to simplify their life!

In the end, the attitude was fairly positive all around. While we may have seen a slowdown in new home sales over the last few months, most of the capital sources felt that the next few years would see overall improvement. This was especially the case in certain parts of California where there are high barriers to entry and supply conditions are such that entitled land is scarce. As a result, any job growth will likely spike demand. Finally, all the panelists agreed that absorption was amongst the hardest items to validate when analyzing a deal given the changes we have been experiencing in the market recently and the lack of comparable projects.

For a more detailed look at the capital markets, please e-mail wchouceir@builderadvisors.com or visit our website for a copy of our "[Capital Markets – Debt & Equity Survey](#)". This report will provide you with insight into the debt and equity markets straight from commercial banks and equity funds that control over \$1.5 billion.

About Meyers Builder Advisors

[Meyers Builder Advisors](#) is at the forefront of providing advice to cash strapped private builders and developers, helping them navigate their way through the various capital sources. Our talented team of consultants has a proven track record and can provide your company with a “complete package” that includes a business plan, entitlement review, financial cash flows, and market study. Combined, the team boasts over 100 years of market experience, with a wide range of services including site specific analysis, strategic workouts, due diligence, and forensic analysis. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

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