



California Market Watch, March 13, 2010

## Capital Sources for the Private Homebuilder

Meyers Builder Advisors recently hosted an event “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, brought together a strong group of panelists from Sentient Capital Funding, 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. Expect mid 20% to mid 30% for shorter term land plays and vertical ventures. Interestingly, groups looking for longer term land investment were looking for a more realistic IRR in the high teens to low 20%. One panelist commented that an IRR in the 30% range is just not realistic, as it will generally yield a land residual of zero.
- **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.
- **By and large, horizontal deals are preferred.** There is much more interest in land deals than vertical construction. However, financing for vertical construction is obtainable.
- **What to expect for the co-invest.** Co-investment is necessary in the range of 10% to 15% and should represent a “meaningful” amount. Some groups will finance 100% under fee build structures, but don’t expect to see significant distributable cash flow on your side of the deal.
- **Understanding the “rule of thumb” on management fees.** A management fee totaling 3% of revenue is a good place to start. All groups indicated that a management fee should not represent a profit center. Expect fees in an amount necessary to properly handle the asset.
- **What they want to see:** 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 packages with understandable and realistic cash flows will get the required attention.

In the end, the attitude was fairly positive all around. The general consensus amongst the panelists was a “muted” positive outlook with potential for healthy returns over the next several years. As far as their expectations for the market, one panelist commented, “in the last cycle it was the three Ls: Liquidity, Liquidity, Liquidity. The new three Ls are: Jobs, Jobs Jobs”.

### About Meyers Builder Advisors

[Meyers Builder Advisors](http://www.builderadvisors.com) 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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