



Who Are These Private Equity Players Anyway?

Here at *Big Builder* we've been hearing about--and writing about--how private equity is playing a critical role in home builder finance these days.

Private home builders, in general, are desperate to find new capital sources as too few banks are lending to meet their acute needs for AD&C financing. At the same time, many private equity firms have a lot of capital burning holes in their corporate pockets. They've raised a bunch of money but haven't been able to find a good home for it in conventional commercial real estate investments.

Capital source meets capital sink. Or so it would seem. But the reality is that we haven't seen a ton of these deals close. Blame it on the lack of visibility in home buyer demand or local market uncertainty or home builders' reputation for weak financials, but for every deal you hear about, you know there are probably a dozen (or more!) that fell apart for one reason or another.

So, it's been with great interest that I've been watching [GoldenTree InSite Partners](#), a New York-based global real estate investment firm. The firm's recently been involved in a number of noteworthy residential real estate transactions. Here's a quick rundown:

- **November 2009:** GoldenTree puts up 80% of equity for a [joint-venture deal with Hovnanian](#) to finish developing 11 Hovnanian-controlled communities in Chicago and Palm Beach County, Fla.
- **March 2010:** GoldenTree takes an 85% equity position in [a \\$50 million joint venture with Texas-based LGI Homes](#) to purchase and develop 175 lots in a Fort Worth subdivision.
- **April 2010:** GoldenTree antes up a 70% equity stake in [a partnership with Southwest Value Partners to acquire the 4,500-acre Merrill Ranch parcel](#) in Pinal County near Phoenix. The partnership bought the parcel, partially entitled for up to 18,000 residential lots, from a consortium of 60 banks following a foreclosure on the property.
- **TBD:** Company management says it has closed on a fourth residential real estate deal at the time of this blog posting; however, details have yet to be disclosed. Stay tuned.

And the pace of the company's deal-making isn't likely to slow down any time soon. Tom Shapiro, company president and founder, says he's got a total of about \$500 million earmarked for investment in the sector.

There's no doubt that there's opportunity in the market. Acres and acres of land are being churned through the bankruptcy and foreclosure processes, often at bargain-basement prices. And capital constraints are keeping competition in check, albeit other deep-pocketed investors and public

builders are definitely in the mix. There's no arguing that the right deals today could totally set a company up for huge success in the next five to seven years.

But if it were that easy, we'd see a lot more new deals getting inked. There's obviously still a lot of hesitancy and uncertainty in the market. So, what's the green light for GoldenTree?

Confidence. Plain and simple.

According to Shapiro, the company's more or less "been there, done that." And because what's happening in the U.S. real estate market has a familiar plotline, it's a little easier to make decisions.

If you rewind two-and-a-half years, GoldenTree wasn't a name you'd associate with U.S. real estate. They'd pretty much stayed out of the U.S. market during housing's big run-up, focusing their real estate investment efforts in Brazil. (The company also has an office in Sao Paolo.) The market had been dominated by about 22 publicly held companies, who mostly had access to capital; the private players, on the other hand, were struggling thanks to a dearth of capital, both in the forms of debt and equity. (Is this sounding familiar yet?) These conditions allowed the company to get to close on roughly 24 transactions.

So when things started shaping up similarly in the United States, Shapiro says he knew it was time to switch gears.

Although the company's closed these four deals in rather rapid succession, Shapiro says the company's very selective about its investments when it comes to location and partners. It's all about doing business in the Top 10 markets--he likes places like the Bay Area, Boston, Los Angeles, Phoenix, San Diego, and parts of Florida--with the right partners (local knowledge and solid, repeatable business models are a must).

And he's willing to wait until the right combination of place, project, and partner present themselves. He's got patience when it comes to investing and is comfortable holding land for longer periods of time, a luxury enhanced by the unlevered nature of its typical transaction. For this reason, raw or partially entitled land holds more appeal these days; there's a lot less competition for it, he says.

Of course getting a deal done can go much faster if you don't spend a lot of time looking for it. Shapiro says he's getting a lot of calls these days from builders hoping for a deal.

"You get a lot better looking when you get more capital," he jokes.

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