A Q&A With M&A's Tony Avila

By Jamie Pirrello

Big Builder contributor Jamie Pirrello recently talked with Tony Avila, CEO of Avila Advisors, a San Francisco-based capital markets and M&A advisor, about matching up capital needs with capital sources in today's upside-down world of finance. Avila Advisors most recently was the placement agent for a $50 million investment in a joint venture between LGI Homes, a Texas-based private builder, and Golden Tree InSite Partners, a New York private equity firm.

Big Builder: What's going on in the capital markets, both public and private, as it relates to home building?

Tony Avila: Debt is tough. The further away from the end product [house] you go, the tougher it gets. Vertical financing even with a 75 percent advance rate and the lot contributed unleveraged is challenging to find. Lot/land debt is even tougher. Hard money lenders are the best source. Equity is more available.

BB: What can other home builders learn from the recent LGI Homes-Golden Tree InSite transaction you recently announced?

TA: LGI is losing some of its vertical debt. Golden Tree InSite has capital to put to work. LGI produces phenomenal internal rates of return given their absorption pace, 46-day build cycle, and great margins. It's a perfect match.

BB: Are investors more interested in investing in specific assets such as distressed land or land opportunities or home building businesses on an entity basis?

TA: Yes. Some investors will do entity capital, but they will want approval rights on the use of the capital.

BB: There has been a great deal of discussion lately regarding private builders' difficulty accessing capital with the result being significant market share gains for public builders. True or false?

TA: Yes, it's true. Publics and well-capitalized privates are ruling the roost. As vertical construction debt becomes available, this trend will slow. Private builders can still have tremendous advantages absent the capital problem.