Builder

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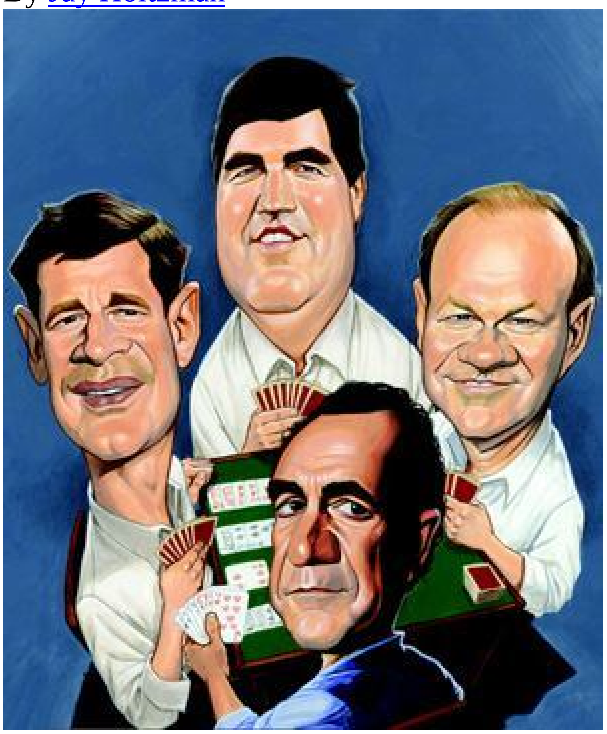
Big Bids Strong Suits

Across market peaks and the uncertain terrain of softening home sales, industry mergers and acquisitions appear likely to keep rolling along.

By Jay Holtzman



Home building royalty's relative few, the industry's seeming breeder-reactors of cash production, stayed sharp on their empire-building game in 2005. Scarcity in every dimension—land, market entrée or share, product, talent, and capacity—makes a grand prize of every seller. Each acquired company, almost irrespective of size or substance, seems to be an ideal fit somewhere in the evolving, voracious, all-things-to-all-people portfolios of residential construction's power elite.

More deals, bigger deals, and heftier and more diverse sources of capital for these deals characterized the year and suggested still more of the same for the future. Whether they occur with the opportunistic brilliance of a K. Hovnanian, the hyper-metabolic land-appetite of a

Standard Pacific, the painstaking due diligence of a Meritage, or the jigsaw puzzle melding of a Neumann Homes, the result is the same. More ubiquity, more diversification, more cash, and in turn, more deals. As uncertainty settles in and softness crops up as a moving target in spot markets around the nation, valuations may gyrate, but aggressiveness loses no velocity. Consolidation has become its own strategic objective. Bigger may not be better, but when you believe you're better to start with, doing it in the biggest way possible is the only way to go.

STILL TIME LEFT TO DEAL As of early November, with almost 60 days left in the year, 2005 already had witnessed 18 completed transactions in nine states, the acquired operations representing an aggregate of more than 12,000 homes delivered in 2004, worth $3 billion or more in revenue, involving more than 2,000 employees. More are said to be on the way soon, according to consultants and investment bankers involved in the deals. There were 17 deals made in all of 2004.

“This was probably our biggest year, and there are still other transactions in the works,” says Jodi Kahn Kline of Michael P. Kahn Associates, a Ponte Vedra Beach, Fla.-based home building financial consultancy. MPKA was involved in six builder acquisitions in 2004 and eight—to date—in 2005.

Clockwise from top: John Landon, Stephen Scarborough, Ara Hovnanian, and Kenneth Neumann. Typically, the values of transactions weren't made public, but based on seller home closings, big builders did some of their largest and smallest deals of recent years.

Topping the year's transactions was Hovnanian's March acquisition of Town & Country Homes in Lombard, Ill., (some 2,000 closing in 2005)—the biggest private home builder acquisition to date, according to Hovnanian—followed in July by the even larger acquisition of Transeastern Properties in Coral Springs, Fla., (2004 closings of 2,385) by Technical Olympic USA.

Among big sellers it was certainly the most active year in recent memory. All told, four BUILDER 100 companies were sold during the year: Transeastern (No. 37), First Home builders of Florida (No. 51), Town & Country (No. 62), and Cambridge Homes (No. 88 in 2003). And with nine of the year's 18 sellers located in Florida, the state remained the country's top market for home builder acquisitions.

Smaller acquisitions included NVR's January purchase of Marc Homebuilding in Columbia, S.C., (231 closings in 2004) and the acquisition of Oster Homes of Lorain, Ohio, (247 closings in 2004) by Hovnanian Enterprises in August.

Investment capital and joint ventures played a more prominent role in 2005 M&As. Most notably, Richie Capital Management, an international asset management firm, participated in Technical Olympic's joint venture to acquire Transeastern. The Blackstone Group, a private investment firm, partnered with Hovnanian to acquire Town & Country. This latter transaction was done through a liquidating joint venture, “a structure that was somewhat unique to the market,” according to Ivy Zelman, managing director at Credit Suisse First Boston, and “the first time we've seen something like that.”