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Mergers and Acquisitions

Dream Weavers

As home building's active M&A market attracts interest from deal makers from outside the industry, small players need to learn the rules of the game.

By [Alison Rice](#)

THE LETTER ARRIVED [IN](#) THE MAIL bearing the promise of a big payoff. “A billion-dollar company has expressed interest in acquiring your company,” it read. What builder wouldn't be interested in hearing more? As public builders purchase land and competitors to fuel growth and market-share gains, many smaller firms are exploring their options, wondering if it's time to cash in on their years of hard work.

So was the case for one [Maryland](#) builder who found himself tempted by just such a letter. “The market is such that now is the time to sell,” says the builder, who spoke on condition of anonymity, given the potential impact to his business. “You want to sell when things are strong. You want to sell from strength.”

He's right. As housing remains hot, so has the home building mergers and acquisitions market, which has begun to attract the interest of firms outside the industry's traditional deal-making structure of well-known business brokers, high-level home building executives, and Wall Street investment bankers. “You see people doing it every now and again, making cold calls on builders,” says Tony Avila, managing director for JMP Securities in [San Francisco](#), who's represented public and private builders in deals big and small.

Among the new kids on the block is West Investment Banking Group, a Pompano Beach, Fla.–based firm that has been contacting builders to assess their interest in selling their companies. Despite its limited track record (West has never done a builder transaction), the company has tapped into something. According to David Acquavella, senior vice president of West, the company currently represents five to 10 builders.

One of the bigger builders West has pitched is [KB Home](#), which looked at an opportunity presented by West. (KB has never retained West to source deals, however.) “We are constantly looking for attractive acquisition candidates to augment our organic growth,” says Charles

Schetter, KB Home's senior vice president of business development. "We use a lot of sources. We have our own in-house management team, we are open to investment bankers and to independent brokers. We want to present an open face to the outside world."

For builders considering putting their company on the block, one of those best-known independent brokers is Michael P. Kahn & Associates, a Ponte Vedra Beach, Fla.-based company that arranged 13 home building deals in 2003 and expects to at least double that number this year. According to Kahn, packaging a company for sale usually takes three to four weeks, with another four weeks dedicated to meeting with potential buyers. After a letter of intent is signed between the buyer and seller, 30 to 40 days are allotted for due diligence, eliminating any surprises, and negotiating final agreements. Finalizing the deal requires another 15 to 30 days. Overall, the process takes 90 to 120 days, although deal makers can go into hyperdrive if circumstances require. Kahn completed one transaction in just seven days from the date of a handshake agreement. "That's the fastest deal we've ever done," he says.

Costs vary, but Kahn and Avila say their initial fees or retainers are typically offset by transaction fees paid in a completed deal. For a single-market home building company, Kahn says, it usually runs \$10,000 to \$15,000 to package a company for sale, with fees totaling around \$50,000 to \$60,000 (mainly for time and meetings with prospective buyers) by the time a letter of intent is signed.

But there's more to picking a broker or an investment banker than just comparing fees.

Avila, who's worked with public and private companies, recommends that builders interested in selling their companies do their homework on any advisor they're considering. "Ask them [about] the number of home builder transactions they've done, closed and completed, and the guys they've worked with," he says. "Talk with both the buyer and seller involved in a deal and see what they think of the advisor."