

Publicly Traded Home Building
And The Growth in the Southern California Market
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January 2004

The early years of public companies entering the homebuilding business was anything but a rousing success. Many large public companies acquired small (by their standards) local and/or regional homebuilders. Most of these acquisitions resulted in failures with the small local builders repurchasing the remains of the businesses that only a few years prior they had sold to the publics. Local builders dominated the homebuilding industry. Today, the industry is dominated by public companies. Committees make decisions with good information and market research rather than the local entrepreneur with a gut feel for the market.

The 1980s saw the bottom fall out of the homebuilding industry. By the 1990s, the RTC had come on the scene to clean up the financial failures of many banks and savings and loan associations. The RTC removed the Savings and Loans from the homebuilding business. FIRREA put banks in charge of construction lending and it required the verification of equity capital. This verification process replaced the smoke and mirrors equity and had been in many deals of the 1980s.

During the 1990s many local long-term homebuilders failed and stopped operating as homebuilding companies. Publicly traded homebuilding companies quickly filled this void in the homebuilding industry. But, the publicly traded companies had a very poor reputation for customer service. An example of the early 1990s customer service was from KB homes. They have such a horrible reputation that if you had a problem house the industry presumed that it was a KB home. Out of this customer service problem, KB homes developed a new internal culture that emphasized customer service and satisfaction. The result was that customer satisfaction soured and the culture of customer service was copied by the other public homebuilders.

By 1995 the market had shifted and it saw an increase in activity of adult oriented (55+) communities. This segment of the new homebuilding market continues to grow to this day.

What's Next?

Large publicly traded companies can raise large amounts of capital in many different ways. Local homebuilders can not do this, hence the average cost of capital is much lower for the public companies and they have a distinct advantage over the local homebuilder.

Large publicly traded companies have organization. They can identify what they want to do. They have the ability to develop and plan and then implement it without any delay. They have the ability to develop a strategic plan. They know what they want to be when they grow up, and they know where they are going.

Large publicly traded companies can move quickly when motivated, and they can embark on big opportunities.

The Future - -

A source of additional profit for the public is the electronic delivery of services, namely mortgage lending, title and escrow. None of these services needs any sales representatives and can be provided by the sales office completely through the electronic medium.

Publicly traded home building companies will start to develop infill projects. These types of projects are already being seen on a limited basis in the Los Angeles and San Diego markets.

What will be the public's reaction to a down market? It is expected that unlike the local builder who will have to curtail (or pull back) their development activities, the public builder will just look to the end of the cycle and keep on going. They have the ability (and capital) to adjust to current market trends.