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Ashton Woods CEO Ken Balogh

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PUBLIC PEDIGREE PRIVATE PRACTICE

Ashton Woods has the brass and the cash to get down and dirty in a quick-turn REO-dominated real estate landscape.

By John McManus / Photography by Bob Mahoney

God didn't create all distressed residential real estate deals equal.

Plenty of them involve ranches, farms, estates, fields, forests, and glens that Google Maps to the path of most certain growth, but whose time-release mechanisms are set to trigger later than once assumed. Most certain growth, it seems, checked up at least temporarily amidst a series of aftershocks of a heretofore jobless recovery from the Great Recession.

Their day will come, but not soon.

Others are tracts seemingly born and bred to transact in 2011 or 2012, bitter-sweet harbingers, perhaps, of worse days past and better ones to come. These deals, their participants believe, may prime the pump for more trades in months ahead. Their moment is now, and the best and brightest of these near-term distressed land deals must serve two functions. First, they will represent the industry's initial best hope to expand a measly trickle of 325,000 or so new-home sales in 2010, into something more suggestive of a stream of 350,000 or more this year.

At the same time, these few and far between diamonds-in-the-rough distressed deals will redound directly to organizations who buy them. As a direct consequence of being successful acquirers, such companies will grow disproportionately, even amidst a tortuously anemic frontline advance for home building as a sector.

Exactly one type of firm will take part

in this type of accelerated recovery program: a company that knows such a deal when it sees it, and has the intestinal fortitude, the trove of cash, and the agility

and will to strike first, decisively, with no compunction—the appetite, if you will, to kiss a frog or two in the search for that one and only. Today, absent a clear, sustainable, viable demand for new homes, land is like that; you've got to buy it to be rid of it—it's like having to swallow poison to grow strength enough to overcome its ill effects.

Atlanta-based Ashton Woods—which like others that beelined from living large in 2006 to a near-death experience by late 2008—may be one of private home building's count-on-two-hands examples of such a firm. Across its eight divisions, its 12 months ahead look to management like an unevenly distributed average of 150 home closings per division.

FROM SURVIVAL TO GROWTH MODE

Unlike eight or so now-defunct home building companies that ranked higher

than it did in the peak year of 2006—when its 2,471 homes generating \$735 million in revenue earned it a 37th wrung on the BUILDER 100 ladder—Ashton Woods could reach further down into itself when its lot values—especially in South Florida, Arizona, and the Atlanta area—went splotch, and the bank covenant alarms all blared in protest. Instead of coming up against a hollow echo of empty coffers and a pack of good intentions like those eight other firms, Ashton Woods came up with cash, a newfound sense of gut survival instinct, and a plan.

During a death-defying stretch in 2009, Ashton Woods swapped its nearer-term debt for more ramp-way to pay it back, at a higher cost, of course; in 2010, it secured \$75 million in expansion capital from investors who don't want their names publicized, and got a \$10 million adrenaline boost of new equity from its





Toronto-based Great Gulf Group majority owner. Too, it went from an eight-bank revolver at risk to a two-bank renewed \$35 million revolver its management doesn't intend to touch.

And just like that, with \$80 million in fresh funding, Ashton Woods went from life support to a place brim with financial feistiness. Other private building companies continued to succumb to the gravity of their land debts turning upside down, and lay powerless to move either to avert added peril or leap toward a flash of redemption. Ashton's management scrubbed its balance sheet, gulped its medicine, and got around to the business of preserving what may have been one of its more precious assets—its ability to pro forma forward sales based on its current pace.

Equal parts business model and belief system, Ashton Woods has shaped itself

“Everyone in this room has got big builder experience. They have a lot of confidence that we will execute on the disciplines.” —Ken Balogh

into home building's version of the Bionic Man—public company pedigree on a private company budget, value system, and DIY-corporate culture. Among corporate and divisional leaders, Ashton Woods' 12-member brain trust represents 200-plus years of home building experience, and every one of its key talent spent formative years with publics—mostly Centex, Pulte, Lennar, Beazer, KB Home, and Toll Brothers. Great Gulf Group president and CEO Jerry Patava doesn't mince words about his expectations for the company's operations south of the Canadian border.

“Ashton Woods is a national builder waiting to happen,” Patava says, noting that Great Gulf knows the big dig out

from the hell of the past four years is going to take time. “We're going to continue to contribute to their capital needs as the market bumps along the bottom and they stay profitable at a modest level for the next year or 18 months.”

CARING PARENTS

Patava and Great Gulf founder and principal Elly Reisman recently accompanied their carefully picked successor to longtime chief Tom Krobot, going-on-40-year-old just-anointed CEO Ken Balogh, on a whirlwind tour of the U.S. trenches, eight markets in five states, plus a few visits on reconnaissance to potential markets in the Carolinas, Denver, and Minneapolis.

What's Balogh think of Ashton Woods'



parents in the north, or better yet, what does Balogh believe they think about the U.S. operation?

"I think they would describe us as an entrepreneurial company with big builder disciplines," Balogh says. "Everyone in this room has got big builder experience. They have a lot of confidence that we will execute on the disciplines."

Indeed, Balogh and his assemblage of operators impressed Patava and Reisman on multiple levels as they saw him in action in January. Aggressive, analytical, assertive, effective with both internal and external partners, Balogh projects the energy level and the poise to lead Ashton Woods from where it is today to five-times-plus the volume projected in its five-year plan.

"The quality of Ken's experience is what's important," Patava says of Balogh's fairly meteoric rise up the ranks of Centex divisional and regional management in 16 years of service under the tutelage of longtime Centex senior management member Andy Hannigan and the jefe himself, Tim Eller. As a matter of fact, it was Eller who contacted Krobot and veteran vice president of construction Ralph Farrell and threw Balogh's name into the hat for consideration in leadership just as Great Gulf and Ashton

"Back when times were good, deals were relatively straightforward and simple. Now, they're all complicated and hairy. **Ashton Woods is good at complicated and hairy.**" —Ken Balogh

Woods started piecing together a succession plan for Krobot, who stepped down as CEO on Jan. 1, handing the mantel over to young Balogh, fresh off a stint as president of Centex's Eastern region.

"When someone's handled significant responsibility without having significant years of legacy issues clouding the picture, usually that person proves to be talented beyond his years," says Patava. "That's what we're finding with Ken Balogh."

FIVE-YEAR PLAN

The moment Balogh started at Ashton Woods as an executive vice president in October 2009, company management did what any other company would do after pulling a rabbit out of a hat to survive by favorably renegotiating terms on \$125 million in debt earlier that year: They sat down and reinvented their reason for being. They started with a blank sheet of paper, according to CFO Cory Boydston, who adds, "We wanted to decide what we were going to be when we

grew up?"

Boydston, who'd joined Ashton's super group of executive management earlier in 2009 from Starwood Land Ventures, says, "We're at 1,200 units today, and we want to be at 5,000 units. So how do you get there? And we're slicing and dicing it. So you're going to basically double your volume in the existing markets, and then double again in new markets. How do you get there? We obviously went from 30 markets on the lists down to five or six very quickly?"

Quickly, the math works like this. Today, Ashton Woods operates in Atlanta; Austin, Texas; Dallas; Houston; Orlando, Fla.; Phoenix; Raleigh, N.C.; and Tampa, Fla., with Austin and Raleigh just recently joining the lineup. They own a little more than 2.6 years of lots, which puts them at about 5,200 lots across 48 active communities. Within a year, they'll have expanded community count by 30 percent, and by 2014, they expect to have doubled their active neighborhoods, opened up two or three addition-



TAKE-AWAYS ON ASHTON WOODS

KEY STATS:

2010 closings: 1,197 (down 1% YOY)
2010 revenues: \$308.7 million (down 2% YOY)

KEY MARKETS:

Atlanta; Austin, Texas; Dallas; Houston; Orlando, Fla.; Phoenix; Raleigh, N.C.; Tampa, Fla.

ACTIVE COMMUNITIES: 45 to 48

AVERAGE COMMUNITY SIZE: 75 lots

APPROXIMATE LOT PIPELINE:

2.6 years

PLAN:

Increase community count by 30% in 2011

NEXT TARGET MARKET:

Carolinas—Charleston, S.C., or Charlotte, N.C.

OUTLOOK FOR 2011: 1,200 closings

OUTLOOK FOR 2015: 5,000 closings

FINANCIAL: 2009, debt swap on \$125 million in senior subordinated notes due 2015, plus a \$20 million equity infusion from Great Gulf Group; 2010, raised \$75 million for a five-year term loan; resecured a \$35 million revolver with Wells Fargo and Regions Bank, and got another \$10 million equity infusion from Great Gulf Group.

IN ALL: \$100 million in fresh capital for acquisition, construction, and development during the downturn.

PUBLIC OPTION: "Our discussions have been around growing—it's not about volume—a profitable home building operation in the right markets with the right people, the right positions. Now if you continue the growth trajectory in terms of securing capital, no one's ever ruled anything out. There's not a discussion that says there's a game plan and time frame."
—Ken Balogh, Ashton Woods

al markets—Charlotte, N.C.; Charleston, S.C.; Denver; and Minneapolis are on the radar—and redoubled their land acquisitions in their current eight markets.

As the Ashton brain trust mapped their future, they were mindful as well to connect the dots from the challenging realities of the present.

"Our idea of a mature, fully developed market—we're not going to be 1,000 units a year in a single market or 2,000 units," says Balogh. "We're not looking to be that kind of a builder. Somewhere nearer between 400 and 600 is where we think we're going to cap out. To get to where we want to be growth-wise, we needed to expand beyond the geographic footprint that we have today. So after that, it became the task to figure out what other markets did we want to expand into—what other markets presented the best opportunity not just for macroeconomic conditions, but also that would best fit with our business model?"

There were three things going for them as they considered the fit for their business model. One is the access to capital thanks to a supportive, well-heeled ownership, and an exceptionally talented and well-connected CFO. The other two, perhaps related, are their already-established position as move-up and

second-time move-up builders, and their ability to scale "personalization" relatively seamlessly. In move-up and second-time move-up, Ashton Woods needn't compete in the same ballpark with entry-level contestants for lots, and hence, may be able to avoid overpaying for their land supply. Second, as builders who can adapt floor plans with some structural as well as superficial flexibility, Ashton can not only accommodate the more particular needs of buyers today but also can swing already-existing homeowners and municipal decision-makers over to their side when they're in to fix some of the broken deals that come out of the banks.

An absolute necessity for anything to work today is matching up not just the product, but the operator to the market, Balogh says. It's the local operator who's going to be able to secure Ashton "A" lot positions for its product or not.

"It's a different kind of a challenge these days," says Balogh. "The high-level number on lot supply is that there's 150,000 vacant lots available in Atlanta today, but there are 3,000 to 5,000 of those that we're interested in. Whatever that number is, the supply has diminished in a much faster pace for the past couple of years than have the outlying fringe markets. Because of our business model, we don't need to

go out to those fringe markets. But at the same time, we can't go out to those fringe markets. It's getting tighter in the better submarkets where we want to find those finished lots."

Today's home building landscape is littered with broken deals; this is a positive for Ashton Woods. Divisional management still gets tremendous support when it comes to land acquisition expertise, and as often as not, it's this expertise in the deals "with hair on them" that yields that quick-turn opportunity. Fact is, when people aren't buying homes "off the rack" the way they once were and may or may never do again, home builders need to have something special awaiting each prospect who's ready to get off the sidelines. When deals come out of the banks, as often they will in this marketplace, there are frequently zoning conditions, existing neighborhood residents, price-reset issues, and other challenges a builder needs to face up to if the company is going to be able to take advantage on a moment's notice.

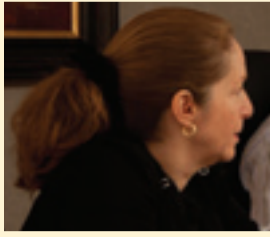
HOW IT WORKS

"Back when times were good, deals were relatively straightforward and simple," says Balogh. "Now, they're all complicated and hairy. Ashton Woods is good at complicated and hairy." One such case of Ashton's proficiency on the ground rolled through the pipeline as Balogh was still considering his options after Pulte had taken over Centex and offered him a post that would have meant moving his family to New Jersey.

Madison Park was a jewel of a 49-lot infill parcel in the tony Atlanta hamlet of Johns Creek, within a well-struck fairway wood of not one but three golf clubs. It fronts Old Alabama Road, which just happens to be on the way to work for a number of home building company executives with offices in Roswell.

In "old normal" dollars, the entirety of the tract penciled to gross about \$10.8 million for its owners. They were developers who'd created the Madison Park LLC to plan, prepare, and market the lots to an Atlanta teeming with builders who'd proven for a stretch of more than seven years that they'd overpay for the privilege of overbuilding the market. But by late summer 2007, Madison Park had gone underwater

TEAM ASHTON WOODS



CORY BOYDSTON
CFO

Joined in 2009; had been SVP and CFO at Starwood Land Ventures; served as VP of finance and CFO for Lennar and SVP of finance and treasurer for Beazer Homes

“You can’t have the same access to capital at the same size at the same price as a public. And you never really will get there. Do you have to be public to get where you need to go? You don’t have to be. I see companies that I’ve thought for a long time that they don’t really access the capital markets in any meaningful way, and I’m not sure why they’re public. It comes with a lot of pain and suffering to be a public company. It’s not all what it’s chalked up to be and certainly in the post-Enron world of Sarbanes-Oxley, it’s increasingly not nearly as fun as it used to be. You’ve got to have a really compelling reason to do it.”



TAD SERBIN
Vice President of Sales and Marketing

Joined in 2002; had been VP of sales and marketing for Pulte Homes, Orlando

“The challenge is educating the buyers and the prospective buyers out there about what a better opportunity it is to buy a new home versus a used home—all the energy efficiency and green aspects, the ability to personalize, and actually get that dream home right now. Getting the message out that one doesn’t have to go out and acquire a home that doesn’t have less than you’re looking for. What most of them sitting on the sidelines are doing is waiting to see if there’s going to be some flattening out or some uptick in the marketplace.”



RALPH FARRELL
Vice President of Construction

Joined in 2004; had been VP of construction for Centex Homes, Atlanta, and had been construction manager and held other positions at Pulte Homes

“We’ve broken out unit pricing with some turnkey vendors. We sat the vendors down ... and that was a big cost savings because it helped them understand where their costs were going to be and the materials they were using. In Atlanta, for example, our plumber and our HVAC contractor use our purchase order to ship materials to the job sites. That’s how clean and precise it is. Linear footage of duct work, vents, everything ... it’s pretty detailed. The big difference for us and a big builder is we take the time with a vendor to teach them, work with them, and help them run their business.”



THAD DIGIURO
Vice President of Strategic Marketing

Joined in 2003; had been senior strategic market analyst for the Southeastern region for Pulte Homes

“Talent in the market is a big key. There’s a lot of opportunities in all downturns, and this one’s no different. Not only from the land position standpoint, but there’s so much talent out there. We really felt we could leverage that to help us do our start-up operations, and so far so good. We’ve been very fortunate about who we’ve pulled in to head up our start-up operations. All solid guys with similar backgrounds to us—all with big builder, public builder experience—who were yearning for some more autonomy than a public would normally allow.”

on its acquisition and development loan with Georgian Bank.

Like any good, red-blooded, deal-compulsive home builder, Greg Huff saw opportunity in the developers’ distress and reached out to them. Problem is, so did every other home builder in Atlanta. With a bachelor’s in construction science from Purdue, an MBA from Indiana, 12 years of experience, and a vaunted Pulte pedigree, Huff—who’d come over to run the Atlanta division of Ashton Woods earlier that year—knew that at the right price, Madison Park could be a winner, even in the worst of all markets. Other builders felt the same way, including Balogh, a then 37-year-old up-and-coming regional president at Centex.

That summer of 2007, the owner developers said “thanks but no thanks” to Ashton’s offer, and then promptly defaulted. With the deal sitting back as a Georgian Bank REO, Ashton succeeded in leveraging its relationship with the bank for an upper hand in a fee-build deal, on a planned takedown schedule in April 2009.

About 90 days later, Georgian said,

“Never mind the takedown deal, we need to sell the full deal, for cash, within three weeks.” Urgency.

Huff ran the numbers. Krobot, then-Ashton Woods CEO, checked them twice and made a few calls to his 88 percent majority owners, the Great Gulf Group. Deal done in a week. Total time for the transaction, three weeks. Total cash price for the 49 lots came in at \$74,000 per lot, \$0.36 on the dollar. The closing happened the morning of Sept. 25.

That evening, the Federal Deposit Insurance Corp. seized \$2 billion in assets of Georgian Bank and shifted them to First Citizen Bank.

As the ink dried on the deal, Ashton Woods went to the town of Johns Creek to address some zoning conditions that gave this particular deal its “hairiness:” 16 lots were zoned for rear entry, a no-no for this particular market, and the minimum lot size was zoned at 3,500 square feet, too big to work flexibly with the land plan. Thanks to the company’s relationships with town planning and zoning board officials, Ashton got approval for a new plan, with front entry for all of the 49 lots.

If Ashton hadn’t managed to close that deal in that time, who’s to say who would have wound up with this gem, which opened Dec. 18, 2009, and has sold 45 of its 49 homes starting in the mid-\$500s in a period of 15 months?

“At Centex, we were furious when we lost that deal,” says Balogh, who within a couple of weeks of that moment moved to Ashton Woods as executive vice president. “I called Tim Eller about the deal and told him it was going to be done in a week, with a closing in two to three weeks, and he said, ‘We won’t even have an investment committee meeting in that amount of time.’” In other words, Centex couldn’t move that fast.

Nor could any other public. Nor, as it turns out, could any other private. Publics had too much bureaucracy; privates too little access to the \$3 million or \$4 million it would take to wrest the deal out of REO.

Only Ashton Woods could pull the trigger. Part business model, part belief system, Ashton Woods is now able to turn adversity into a strengthening run at success. **BB**