

# Merger Mania

Nov 15<sup>th</sup>, 2013

There have been a flurry of acquisitions in the home building space this year but it was especially prominent last week when a couple of publicly-traded homebuilders announced two major deals. It was announced last Monday that Tri Pointe Homes will pay \$2.7 billion to acquire Weyerhaeuser's homebuilding division. Then later in the week, Toll Brothers announced they would be paying \$1.6 billion for Shapell Industries Inc.'s homebuilding business. Some of the factors driving consolidation in the builder space and what it means for the industry are highlighted below:

- **Large homebuilders are flush with cash.** Builders were very conservative during the recession by cutting costs and building up their capital positions. Now that market conditions are clearly improving, they are putting that cash to good use.
- **Builders are obtaining lots by acquiring companies outright.** This is leading to consolidation in the industry where bigger players are going to become more dominant. After this wave of activity, there will be fewer companies owning more land.
- **Raising equity to be a bigger player.** There have already been five homebuilder IPO's so far in 2013 (Tri Pointe Homes, Taylor Morrison Homes, WCI Communities, William Lyon Homes, and UCP Inc.). Tri Pointe, Taylor Morrison and William Lyon Homes have been active in acquisitions over the past 12 months. Century Communities, a Colorado builder, also leveraged a Rule 144a equity offering to enter the Texas market with the acquisition of Jimmy Jacobs Homes a couple of months ago.
- **Deals are a sign of builder and investor confidence.** Many of these acquisitions are opportunities for builders to gain exposure to attractive markets that they were not operating in. The size and the frequency of these deals as of late show a lot of confidence in the market from the builder perspective.
- **Tight credit market favors bigger builders.** Although banks have been less stingy with loans as the economy has improved, it is still difficult for many small builders to access capital. This gives builders with deeper pockets a competitive advantage when it comes to expansion and land acquisition.

There are three more builders slated to go public so deal making in the homebuilder space is not likely to decelerate anytime soon. With the housing environment improving and cash-rich builders looking to expand geography and increase lot supply, mergers and acquisitions in this sector should remain elevated going into next year's spring home-buying season.

## About Meyers Research

Meyers Research is a premier consulting practice for the residential industry, providing a national perspective as well as local expertise to homebuilders, multifamily developers and financial institutions. The company is based in Beverly Hills, CA with a team of 35 employees. To learn more, please visit [www.meyersresearchllc.com](http://www.meyersresearchllc.com).

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