When the phone rang in May, Denver-based Century Communities co-chief executive officers, brothers Dale and Robert Francescon, could be excused for hitting the ‘ignore’ button. At that time, the financials were all that mattered.

The brothers were hacking for what seemed like the zillionth time at a PowerPoint deck and learning a script intended to make little data points get very big, very fast. A 10-day whirlwind road show would get underway less than two weeks from that moment. The pledge-drive-like blitz to fill “the book” of institutional investment commitments would cover both coasts, a half-dozen cites, and end with the ceremonial ringing of the opening bell at the New York Stock Exchange on June 18. That day, Century Communities would join 23 other home builders as a publicly traded, Wall Street–fueled organization.

So, if it were not someone critical to the Francescons’ imminent initial public offering (IPO) on the line—somebody from the Security and Exchange Commission, for instance—it makes sense that they’d more than likely decline the call. Unless it was Michael J. Kahn—which it was. A home building mergers and acquisitions dealmaker like no other, Kahn was well aware of the matter that commanded their attention. Still, Kahn phoned with a proposition—an opportunity for them to grow their emerging company.

The Francescon brothers weren’t the only home building executives feverishly crunching numbers and looking for opportunities to amass land. A number of other companies—TRI Pointe Homes, Taylor Morrison Homes, William Lyon Homes, WCI Communities, LGI Homes, and The New Home Co.—used IPOs to raise capital over the course of the same 18 months. A seventh, Woodside Homes, recently mothballed plans to be next in line in a bid to secure as much as $200 million in public equity.

But two companies stand out—Century Communities and UCP, a San Jose, Calif.—based home builder and land developer that went public in 2013. UCP beat a path to the door of a $110 million IPO in July 2013, and Century went on a similar sprint to raise $241.5 million 11 months later. The story of UCP and Century is not simply one of how two firms—each shy of 1/60 the size of D.R. Horton, the No. 1 builder on our BUILDER 100 list—were able to jump into line among eight
companies that issued shares to the public for the first time and raised in excess of $4.8 billion in market capitalization since January 2013. It’s how they were able to secure residential real estate’s most precious and finite literal property—land.

Although the Francescons had a longtime relationship with Kahn, it’s possible that they might not have been on the receiving end of that phone call for the opportunity to amass more land if they hadn’t made the decision to go public.

Speaking the Language

When Kahn got through to Dale and Rob Francescon, he told them they should meet Rick Carruthers, chief executive officer of Peachtree Communities, a family-owned, privately run Atlanta-area home building powerhouse.

Fast-forward a couple of months to mid-summer: Carruthers met the Francescon brothers at Hartsfield-Jackson airport in Atlanta. He would spend the better part of the next couple of days with them, showing them 35 Peachtree neighborhoods in varying stages of sell-through, some prospective land buys, and one or two things that fit into the big idea category. At that point, the Francescons had the better part of a half-billion-dollar balance sheet to deploy at their disposal, so the big idea category was a welcome part of the conversation.

“The connection was instant; we spoke the same language,” Robert Francescon recalled the day after Century announced it had acquired Peachtree, the second-largest builder in the second-largest home building market in the nation. “When you spend two days in a car with a guy, you know right then whether you’re going to be able to spend a third day in the car with him.” Carruthers is now a Century executive vice president and president of the fast-growing public’s Southeastern division.

This language they speak? It’s home building’s native tongue: Land, people, capital.

Those three simple words are all you need to map out home building’s next multi-regional empire, but they also layer in complex meanings, and each can slip into hiding, becoming exceedingly hard to define and even harder to find. Home building’s smallest companies are made—and messily unmade—of these three ingredients, and in this way, they are no different than the biggest enterprises in the sector.

Home builders—who seem to be made of their own particular brand of DNA—actually get a rush when they’re in the company of fellow deal junkies. Their central lingual building block is an internal rate of return, and their heights of hilarity orbit around how so-and-so penciled hurdle rates on a specific piece of dirt that everyone’s walked. They’re particularly drawn to those who can execute on their “visions” of value, when all anybody else sees is ground.

In one way, though—and the motivation for these companies hardly bears mentioning among people who make a living building and developing homes—all of these entities rely on a common denominator raw material asset.

“It all boils down to land,” says Robert Francescon. “It’s the most important commodity in our business; it represents the highest potential for profitability, and also the highest degree of risk.”

When 24 public home building companies ingest a tad less than 36 percent of a total pie of about 440,000 annual new-home sales in 2014, it’s pretty plain to the naked eye where you want to be in that pie. You can add the sales of 176 other companies on the BUILDER 100 and Next 100 list, and that total will be a lower number than those 24 publics.

It’s the ones with land—and lots. It was those with improved, entitled, approved, and developed lots who got to make the best match with prospective and real home buyers in the early recovery months of 2012, 2013, and 2014.

What’s more, in order to get land, you need those other two ingredients: people with a proven track record at matching up land and new-home

“It all boils down to land. It’s the most important commodity in our business; it represents the highest potential for profitability, and also the highest degree of risk.”
construction with buyers, and capital. And to get capital these days, you have to have capital.

Until roughly mid-2012, private home building companies tended to pride themselves as having superior company cultures and nimble decision chains, and they coveted their customer-centric design and home buyer service disciplines. There was no love lost between many of the strongest and best private home building companies and their public brethren. Then, global investment turned on its heels, suddenly deciding that U.S. residential real estate had hit bottom and it was time to plow money into it.

Just as suddenly—especially when traditional bank builder finance was knotted up in Dodd-Frank aftershock hell—it was good to be public.

“It’s not a question for many privately held home building companies as to whether they can go public,” says Robert Crowley, a managing director at Moelis, an investment company that’s played a Sherpa role in several IPOs this past couple of years. “It’s a question of whether they should do it or not.”

Still, there’s no hard and fast answer as to which companies should go public, and Crowley was the first to affirm that it has to be a soul-searching, case-by-case decision.

Strategic Management

Three barrier-to-entry necessities did emerge among private builders considering the leap to go public: Land, people, and capital. Sound familiar? Specifically, a private company with designs to go public in the past two years needed to bring land, unencumbered by legacy valuations and devaluations; people, in the form of pedigreed operational expertise; and capital, usually a third-party, large investment partner to the game.

For UCP, the deep portfolio of land holdings and the investor partner fit the generally prescribed formula, but it was the pedigree of its strategic management—or an apparent lack thereof—that broke the mold and put the company into a “who-are-these-guys” category that they’ve had to solve for.

“I’ve spent a lot of my career being told I was too small, or too inexperienced, or too poor, too this, or too that to do what I aimed to do, and I’ve had to work hard to overcome those obstacles,” explains UCP chief executive officer Dustin Bogue, whose two decades of experience has been in land acquisition and entitlement.

In Century’s case, the home building operations and development lineage dated back to the 1980s in the Southern California home and apartment building and development world. Its requisite lot pipeline by the end of the recession was in the 10,000 vicinity. That it came to the dance minus a big Sugar Daddy investor in its pursuit of public equity commitments qualifies Century Communities as an anomaly among its peer class of IPO freshmen.

What, then, prompted these companies to incur the costs in money, time, and focus of preparing their companies for a public offering? How did it occur to each of them that remaining private and growing as they intended were mutually exclusive propositions? Why did they go public?

And now—amid a decidedly patchy and iffy market recovery in late 2014, almost 18 months into the game for UCP and a few months in for Century—is it safe to say that things are going as their management planned?

If you’re a private building company principal, how much of your time have you spent over the past two years chasing financing? How many land deals have you been boxed out of, either because you can’t move fast enough, can’t put your hands on enough cash, or are stuck in an Acquisition, Construction and Development market with no A&D money in it? How much spec can you afford to put down?
If you imagine looking at another two or three years of that, you can see what was goading a number of private home builders to go public.

Let’s take a look at what to expect as these two bootstrap public home builders continue to deploy their balance sheets and fill in what must be the strategic blanks in their respective geographical footprints.

**Ground School**

One way to look at land strategy competence is to look back. In 2005 and 2006, as the last boom cycle started to go haywire, some companies doubled-down on their land holdings to keep pace with the pull in the market. Others didn’t.

Two of those others were UCP and *Century Communities*.

UCP’s Bogue holds two truths of real estate to be both self-evident and prophetic. One is, “Don’t try to be smarter than everybody else.” The other: “Don’t guess where the bottom is.” After white boarding where things were headed, he and his No. 2 henchman and chief financial officer, William La Herran, brought their company to PICO Holdings, paid off all of their initial financial backers, and set up a business that would wait for the right timing, zero in on assets, and work with sellers—both traditional owners and builders—who needed to unload them.

Born of *Tennessee* and South Bay area farmer stock, Bogue is a land guy’s land guy. He started his real estate career in Northern California in the title end of the business, and he levered that experience into commercial and residential development, where he worked for Wellington Corp. and, later, Landcastle Real Estate. What he got good at was this you-have-to-do-it-to-know-it notion of putting value on land. When he struck out entrepreneurially in 2004 with his first five lots in the *San Jose* area and a new aegis called Union Community Partners, he was building, literally, on terra firma.

A piece of dirt, Bogue learned, is in fact a precious resource and full of complex relationships. The owner, seller, and buyer are only at the very periphery of a daisy-chain of people and natural phenomena, such as water supplies and habitat, and access to transportation.

A couple of discoveries Bogue made early on in his entitlement, development, acquisition, and disposition days—with tracts of ground that home builders stake, and grid, and pipeline into billions of profitable vertical construction dollars—made an impression.

One was the value of trust. A home site, he realized, is not simply a complex of connections in space, it’s also the physical asset that connects buyers and sellers in time. In other words, if sellers and buyers trust that both will gain from a transaction, rather than just one party, then they’ll be apt to want to do it again.

As such, Bogue, a man who avows a life and business philosophy that “everything matters,” puts trust at the pivot point of every deal he does. He tells of sellers who have set an asking price for acreage that undervalued the lots.

“Our discovery and analysis showed that they were asking too little for a parcel, so we raised our offering price on it,” Bogue says. When land sellers trust you and trust that they’re going to get lasting value from dealing with you, they will give you something invaluable in return, something Bogue has planted at the strategic center of UCP’s strategy for growth and profitability: the off-market deal.

Off-market land opportunities—ones that a potential buyer will hear about before a property hits the street—are a human relationship carry-over into today’s real estate work.
The other key learning Bogue has soldered into UCP’s business model: “Never call the bottom,” he says. “You start trying to be smarter than everybody else when it comes to land, and you’re in big trouble. Don’t try to be smarter.” That is where land and people blend to keep capital risk to a minimum.

Meanwhile, the Francescons—who sold their first Denver-based company, Trimark Communities, to D.R. Horton in 1996, and stayed on at Horton for four years as Denver division leaders—put their Horton academy training to work in every aspect of their return to the business in 2002. By 2006, they had quite an efficient enterprise building in the Denver market.

“In 2005 and 2006, we saw the irrational exuberance in the market, so we slowed ourselves down, built up cash, and paid off all our debt,” Dale Francescon says. By the time 2009 and 2010 came around, the Francescons were in a position to pick up lots of distressed deals from banks and builders. “We picked up more than 3,000 lots during the downturn,” he adds.

Both the Francescons and Bogue quickly caught on to the fact that if they wanted to keep the wheels on their growth plan into the early stages of recovery, and if they wanted to continue to be good at what they were good at—recognizing how to put value on a land asset—then they’d need to build up their balance sheets.

“We initially entered the business acquiring lots that we believed to be significantly undervalued,” explains PICO Holdings chief executive officer John Hart. “Our going–in strategy was to hold those lots and improve them as necessary, and then sell them when the time was right. What Dustin showed us is that a home building operation would give us a higher value multiple on the land assets. It gives you a leg up when you establish a brand and put vertical value on the site.”

Century Communities and UCP got a leg up in business by going public, and both companies realize what’s at the core of the language of home building: land, people, and capital.

### See How They Grow Post-IPO

Here’s a look at the eight private-to-public home building companies’ lot-count expansion from the Securities and Exchange Commission S-1, just before each company issued shares to the public, and the current reporting period (period ended Sept. 30, 2014).

<table>
<thead>
<tr>
<th>Builder</th>
<th>S1 Lots Owned &amp; Controled</th>
<th>3Q14 Lots Owned &amp; Controled</th>
<th>Percent Change</th>
<th>3Q14 Closings (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taylor Morrison Home Corp.</td>
<td>82,430</td>
<td>123,612</td>
<td>49.95%</td>
<td>1209</td>
</tr>
<tr>
<td>TRI Pointe Homes</td>
<td>1,393</td>
<td>30,111</td>
<td>2061.59%</td>
<td>137</td>
</tr>
<tr>
<td>UCP</td>
<td>4,916</td>
<td>5,964</td>
<td>21.32%</td>
<td>111</td>
</tr>
<tr>
<td>William Lyon Homes</td>
<td>11,842</td>
<td>18,075</td>
<td>52.63%</td>
<td>484</td>
</tr>
<tr>
<td>New Home Co.</td>
<td>639</td>
<td>2,224</td>
<td>248.04%</td>
<td>73</td>
</tr>
<tr>
<td>WCI Communities(1)</td>
<td>8,332</td>
<td>10,400</td>
<td>24.82%</td>
<td>140</td>
</tr>
<tr>
<td>LGI Homes</td>
<td>9,962</td>
<td>21,638</td>
<td>117.21%</td>
<td>509</td>
</tr>
<tr>
<td>Century Communities</td>
<td>10,095</td>
<td>9,449 (2)</td>
<td>-6.39%</td>
<td>258</td>
</tr>
<tr>
<td>Total</td>
<td>129,609</td>
<td>221,473</td>
<td>70.87%</td>
<td>2,921</td>
</tr>
</tbody>
</table>

Source: BUILDER analysis of company data and Metrostudy

(1) WCI 3Q14 data is approximate to the nearest 100
(2) Century acquired Peachtree Communities in November 2014, bringing total lots to 11,569 and a 14.60% increase since the S1 Registration
(3) Closings based on preliminary Metrostudy data and subject to increase in recorded numbers.
JOHN MCMANUS

John McManus is an award-winning editorial and digital content director for the Residential Group at Hanley Wood in Washington, DC. In addition to the Builder digital, print, and in-person editorial and programming portfolio, his accountability for the group includes strategic content direction for Affordable Housing Finance, Aquatics International, Big Builder, Custom Home, the Journal of Light Construction, Multifamily Executive, Pool & Spa News, Professional Deck Builder, ProSales, Remodeling, Replacement Contractor, and Tools of the Trade.

---

Keywords:

Subject:

Leadership

---

More from Builder

---

Builder

Ashton Names Southwest Florida General Sales Manager

Baltimore Sun

Maryland Home Builder Passes Away

Whov

Pulte VP Passes Away at 55

Next Avenue

Give Thanks in the Workplace

Builder

Beazer Adds Building Industry Vet to its Board

Linkedin

5 Lessons From a Project Manager’s First Year in Home Building

---

Join the Discussion

Please read our Content Guidelines before posting

Write a comment

0 Comments

Subscribe RSS