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Where Are They Now? A Progress Report on Some of the Industry's Newest Home Building Companies

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Back in October, the Big Builder team **profiled a number of intrepid home building entrepreneurs** who had for one reason or another decided to strike out on their own, starting new home building companies in the midst of housing's darkest days. All had ambitious plans for their fledgling companies, plans that would leverage both their business savvy and longtime industry relationships to catapult their start-ups into the ranks of big builder-dom in record time.

To them, and others like them, there couldn't be a better time to start a new company. They could start with a fresh, unencumbered balance sheet, free from good deals gone bad. Land was not only plentiful but cheap, as established companies lightened up, gave up, or went belly up. Materials costs were down, and talent was plentiful; throngs of experienced home building managers and executives, casualties of everything from company RIFs to RIPs, milled about on home building's sidelines, waiting for the next good opportunity.

Recently, I checked in on a few of our October profile subjects to see how things were going. I was mainly interested in seeing what they'd been able to open since early fall and how they were selling, but I also wanted to get some insight into what the home building world was looking like from their corner.

Financing. That was the big question mark for them as they looked to roll out the welcome mat, and it's still the big hurdle for them now. Despite a resurgence of capital interest in the sector, getting a deal done is a challenge.

In terms of entity-level financing, many start-ups have been able to locate equity partners. For some, it's been easier than for others. But either way, they've needed to put as much, if not more, skin in the game as their partners. And that means all have had to dig deep--really deep--within their own pockets to seed their shiny, new enterprises.

However, what seems to be the bigger problem these days now that many of these de novo builders are officially up and running is the stuff of day-to-day financing. As AD&C lending has shrunk--total **outstanding AD&C loans have shrunk 23% in the past**

year, according to Zelman & Associates--many companies have had to self-fund operations. However, self-funding clearly has a limited runway.

Michael Maples, a principal with Trumark Cos., parent company of Trumark Homes, joked that if he were to give himself a report card since the last time we talked, he'd probably give himself a D on construction financing. The company's struggled to get vertical financing for some of its projects.

"We thought regional banks would be the saving grace for construction loans," he said.

He said he knew financing from the big banks was pretty much out of the question, so he thought the well-capitalized regional players might step up to fill that gap. However, what Maples--and perhaps even the banks--hadn't counted on was a commercial market meltdown. Many regional banks made a lot of loans to small businesses for things like new offices. With the commercial market defaulting like crazy today, that's created a lot of concern over the regional banks' capital reserves, which in turn has them thinking twice about doing construction loans that last spring they thought they'd be making.

And private construction financing is just too costly for start-up players like Maples. "It's so expensive," he says. "When you look at all the fees, you get into the mid- to high teens."

So, for now, many start-up execs continue to self-fund while they search for more reasonable alternatives. The hope is that by next year, money will come cheaper.

In the meantime, it's all about setting themselves up for future success by creating a good lot pipeline while building and selling what they can. Here's a 30-second update from three of our profiled start-ups:

- **Trumark Homes.** This California-based company has been busy. It's got 951 lots purchased or under option; the lots have about an even geographic split between Northern California and Southern California. The company's got one neighborhood open--Wyeth Cove in Upland--and is about to open a second--Highlights in Grenada Hills--in late April. The company appears more or less on track to deliver 60 homes in 2010, with that number ramping up to 150 in 2011.

- **The New Home Co.** Former John Laing Homes CEO Larry Webb's baby, this start-up is also out of the gate with a couple of communities--one in SoCal and the other in NoCal. The first, its Carmel neighborhood located in the Woodbury community in Irvine, Calif., opened Jan. 30 and is 18 for 18 for sales versus releases. The company plans to release phase 4 on March 20. Its second community, New Rhoads in Elk Grove, is expected to officially open soon.

- **Wellington Homes.** Former Taylor Morrison executives Rick Dalton and Dale Dubberly have continued to plod away on their first community. The duo had locked up 13 lots in the 500-unit MuraBella community in St. Augustine, Fla., in mid-2009 and today has two home sites remaining for sale.