

Builder

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INSIDE STORY

COMMENTARY AND ANALYSIS OF CURRENT EVENTS ■ EDITED BY JOHN CAULFIELD



DAVID CLARK

TARGETING RENTERS

Exception to the Rule

Converting renters to owners propels LGI Homes' growth.

MIKE SNIDER LIKES TO SAY THAT LGI Homes, where he's executive vice president of home building, does "everything the opposite of other builders."

That contrariness has been paying dividends for the Conroe, Texas-based company, whose officers claim is the only

production builder among the top 200 that increased its revenue and closings in each of the last three years.

LGI has a unique business model that favors spec building, targets local renters, and follows leads with a highly trained salesforce. The company expects to break records for dollars and unit sales again in

2009 and is raising capital to expand beyond its two subdivisions in Houston and one in San Antonio. "There's no reason why, in the Texas market, we can't go to five, eight, 10 communities, take the LGI way of selling there, and be phenomenally successful," says Eric Lipar, the builder's president.

That confidence, in the face of a housing recession, would be laughable if it weren't for LGI's track record in recent years (see "A Decade of Growth," *at right*) Lipar's father founded LGI Homes in 1995 as a land developer specializing in acreage home sites located 45 to 60 miles outside of urban centers. It continues in that business today, but five years ago its owners decided to take that business model into entry-level housing. A year later, it hired Snider, a former project manager at Tadian Homes in Michigan, whose training has focused on environmental sciences and land-use planning.

"We try to keep things simple," says Snider, starting with the homes: LGI builds from six house plans per subdivision and doesn't offer options, so it can build houses in 45 days that range from 900 to 2,500 square feet and sell from \$95,000 to \$160,000. LGI prefers specs because it wants buyers to see what they'd be moving into, surrounded by lots of parks and playground space.

Every four to six weeks, LGI spends \$60,000 per subdivision to send out 38,000 direct mail pieces to apartment dwellers within a 30-mile radius of each of its communities. "Repetition is key," says Snider, in getting prospects to see how owning a house can be less expensive than renting an apartment. And that strategy is working: LGI received, on average, 95

A DECADE OF GROWTH		
Year	Closings (in units)	Revenue (in millions)
2005	260	\$28
2006	418	\$54
2007	434	\$59
2008	475	\$63
2009 (est.)	500	\$65-\$70

SOURCE: LGI HOMES

CREATING NEW CUSTOMERS: LGI Homes has expanded steadily by marketing its entry-level homes to local renters.

prospect calls per week in 2008.

Unlike other builders, which have reduced their sales staffs and office hours, LGI has five to seven sales reps per subdivision. Each of the sales offices is open from 8:30 a.m. to 8 p.m., seven days a week. Every salesperson goes through 30 days of corporate-culture indoctrination and 90 days of sales training before he or she speaks to a customer.

Through its affiliation with Interline Mortgage, LGI can place a loan officer at each subdivision to guide renters through the ownership process. LGI pre-qualifies all prospects before they ever see a house, and most customers buy with either an FHA or USDA rural development loan. Snider says LGI is closing its customers within 30 days of their purchase.

LGI Homes purposely bought enough

land in its three subdivisions to build between 700 and 900 units in each, which means it has enough land to meet its construction and sales goals for the next two years. "We believe we have a story to sell, a story that needs to be told, and a story that will allow us to grow," says Lipar. By raising \$10 million from private equity sources, Lipar says his company is gearing up for what he anticipates will be "lots of opportunities" to pick up distressed property taken over by banks "for 20, 30, 50 cents on the dollar." The builder will open two new communities this year, and neither Lipar nor Snider seems worried that the housing recession could linger for a couple more years. "Apartment rent and occupancy [rates] are on the rise," says Snider. "So we believe the downturn is positive for our business."—J.C.



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