Bob Clark

Episode 251: The Evolution of Home Building: Land Banking, Affordability, and Market Resilience

GUEST Q & A

Stewart: Welcome to another edition of the InsuranceAUM.com Podcast. Real estate is the topic of the day, and not just any real estate. This is different. I think you'll find it interesting. I certainly do. We've been joined today by Bob Clark, who's the founding partner and chief investment officer at Domain Real Estate Partners. Bob, welcome. Thanks for coming on. We can't wait to hear from you today.

Bob: Stewart, thanks so much. I'm really excited to be here.

Stewart: This is going to be fun. I've had the chance to talk to you a couple of different times and I really, really enjoy it. I want to talk about the history of Domain and how you got where you are today, but I really want to start out with kind of the way we always do, which is where did you grow up and what was your first job, not the fancy one? And then how did you get to a place where you could found a significant real estate asset management firm?

Bob: Yeah, I kind of grew up thinking I'd be a mathematician, actually. I grew up in a small business family in St. Louis. We own Imo's Pizza. If anybody's familiar with St. Louis, they'll be familiar with Imo's Pizza and studied math in college-

Stewart: Stop. Your family owns Imo's Pizza?

Bob: Yeah, 12 of them. Yeah. We're not the Imo's family, but we know the Imo's family well, yeah. You didn't know that?

Stewart: No.

Bob: Right at the beginning, I've got you with Imo's.

Stewart: Dude, come on. I grew up in Imperial Missouri, which is outside on the outskirts of St. Louis, and Imo's is legendary, legendary pizza in St. Louis. Legit. First of all, you got to tell people what provel cheese is. That's the first thing, out of the box.

Bob: Well, so it's not provolone, which people used to mozzarella in their cheese, or maybe provolone. It's a mixture of provolone and cheddar. So it doesn't do well outside of St. Louis, Stewart, I'll tell you that for sure.

Stewart: Yeah, no, I can understand that. But man, I mean, if you're an Imo's Pizza person, all the St. Louis people like Imo's Pizza and Ted Drew's, come on, you can't go wrong. Let's talk about it. So your family's in the pizza business. That's interesting. I swear to God I didn't know that. That's so cool.

Bob: Yeah, no, those are the family conversations growing up. So I was a little bit the oddball if I was doing hardcore mathematics and always thought I would do that, but not a real estate background as a family. Although I guess my parents did buy a couple student housing assets down near Washington University, but kind grew up in a small business family, kind of Reaganite family from the '80s and studied mathematics. Didn't really think I'd go into finance and then decided like I know I was going to be the assistant professor to nobody at the University of Nowhere, and realized I wasn't going to love that and decided to go into finance.

So first job was at Morgan Stanley. I actually worked for the guy that I founded the hedge fund with in 2009, and we spun out of a firm called Brevan Howard. So I worked at Morgan Stanley for seven years with a gentleman named David Warren that ran various credit businesses there and I really learned the corporate credit business. So we did a bit of kind of investment grade, corporate credit, high yield credit, some structured corporate credit, really not a real estate business. We looked at the home builders because they were corporate credits. And actually were kind of short a lot of these businesses back in the housing bubble pre the financial crisis.

So my earliest exposure to home building and finance in that direction was looking at these businesses in the housing bubble before the global financial crisis and understanding how they report, how they work. Traditionally, home building, not really thought of as a great business, like a kind of Porter's five forces. How does this business stack up? Very capital intensive business, very local business with a lot of competition. Pretty low barriers to entry compared to some businesses, meaning if you and I want to launch the next chemical company, we want to start chemical plants, it's a little harder business to get into versus we can go build 20 homes somewhere and see if we're any good at it and try to go. So became familiar with the industry there. Did a lot of distressed debt in the financial crisis initially at Brevan Howard, where we moved to the buy side and then we spun out and formed a firm called DW Partners. And that's the firm that actually... It's the parent firm that started this strategy in 2015, which we call Domain Real Estate Partners, which is solely focused on the US home building space.

Stewart: So are you telling me that you didn't end up flipping pizzas at some point?

Bob: Oh, definitely.

Stewart: Because when you said your first job is Morgan Stanley, I'm like, "Wait a minute. Your family owned 12 Imo's and you weren't flipping pizzas? Come on."

Bob: Oh, for sure. I mean, I think I was on the register, initially, when I was 12 and 13. I'm sure it wasn't legal. It wasn't legal to work there until I was 15, I think. But no, I didn't really have snow dates growing up, Stewart. If it's snowed, people don't come in and everybody orders pizza. And so there's a little supply and demand in a very micro level or out of whack when you've got a thousand pizza orders and employees don't want to come into work. And so I would go and work in the pizza place on snow days growing up.

Stewart: Yeah, that's legit. I mean, if you've ever owned a restaurant, man, that's a tough business. It is challenging. So let's talk about home building for a second. Before we dive into home builder finance, which is your specialty, can we talk a little bit about the home building industry and just give people a sense of the areas in which you are going to be talking about today? Because I honestly didn't know. I mean, I kind of knew, but I didn't really appreciate your particular niche in home building.

Bob: Yeah, absolutely. So we're talking about the US home building space. So these are firms like D.R. Horton, Lennar, Pulte, NVR and Toll Brothers down the line. So I think there's 20 public companies that are involved in the home building industry. At the US macro level, we sell about 700,000 single-family new homes. So that's a combination of town homes and single-family, mostly single-family detached homes around the United States. So average sales price around $500 grand, maybe briefly went above and now is back below $500 grand for the average delivered new home price. So new home price is at a little premium to existing home prices. That's a $350 billion a year revenue industry.

And the public home builders, I think they were maybe a little below 30% market share when I started looking at them 20 years ago. They're almost 50% now. So if you just take those 20 public companies, they delivered 320,000 homes in 2023 in a market that overall is just shy of 700,000 deliveries last year. So 45% to 50% market share from the public home builders.

And then there's sort of these quasi-public home builders in the space. And so you've got firms like Clayton Homes, which is owned by Berkshire Hathaway, Ashton Woods, David Weekly and so on that deliver another ballpark 40,000 homes. And so really large institutions now are actually over half of the home building industry where traditionally there's a very fragmented industry.

We haven't seen a ton of new home builders get started. Only recently have we a couple IPOs of some faster growth home builders. So it's an industry that really is a local business. Just because you know how to buy land and build and sell homes to a customer in Dallas doesn't mean you can go fly to Seattle and immediately take what you're doing there, right? It's not like you're making fashion handbags and if they sell in LA, they probably sell in New York. It's a really local business.

Every year, it's a very capital intensive business as well. So they turn their assets about naturally about one time a year. And so they're constantly having to buy land, develop lots, and then build and sell homes. And we'll get into a bit how that's evolved because they sort of historically have been in the land development business most of these businesses because they're forced to and they can't get enough supply of residential lots unless they self-develop their own assets.

So in terms of just scale, I think it's helpful when you call it a niche, it's not small by the means of all types of business in the United States, assets of that top half that's the public builders is just over $175 billion. You're talking about industry that maybe has somewhere in the $350 to $400 billion of capital deployed. The market cap of all 20 of the public builders is $240 billion. Netflix has a $300 billion market cap. So when we're talking about the scale of the industry, it is kind of a niche versus the overall real estate industry where things like multifamily where you go make apartment buildings, somebody has to own the apartment building. So a lot of real estate investing is focused on owning cash flow producing assets. So all the apartment buildings in the United States are probably worth something like ballpark $9 trillion.

This whole industry is basically constantly making homes and selling them. And so the kind of permanent real estate asset classes are really assets that are the built, constructed real estate. Obviously we have a huge thing going on in data centers, but you've always had a large mortgage market lending to the single family space. The multi-family market is much more liquid and deeper because there's people who own and hold income producing assets in those spaces. Build for rent has been a huge transformative part of coming in that something's very adjacent to home building because we haven't traditionally had single-family detached homes that are rented except kind of more from individual investors, but that's getting institutionalized. But that's the space we're talking about. It's the home builders like Lennar, D.R. Horton, those are the two kind of 800 pound gorillas in the space. Between them, they're 20% of us home sales.

But it's a really fascinating industry, really interesting industry, and it's changed over time. It was never as bad as airlines and it probably isn't as consolidated as airlines are, but there's a similar arc where concentration has led to the best operators who have real cost advantages, real excellence in how they operate. I mean, these guys are really good at building homes. They're really smart about identifying projects that work, really good at underwriting, and then they're really good at building a good product at a good price.

Stewart: That's super helpful. So let's get into home builder finance. With the background that you just gave us, how does a firm like Domain get involved in financing home builders? Which is what you do, right? I mean, can you get the big crayons out and tell me what Domain does?

Bob: Yeah, so just talk about how the space is capitalized, right? If there's this sort of $350 to $400 billion of capital that's invested in the space, half of that is in the public companies, half is in privates. It's really a lot of equity, traditionally. It's equity dollars that are invested. And then the capital that's been available to the space historically has been debt capital for the construction of the home.

So if you and I were going to go out and build 50 homes next year and take our money and invest it, there is debt capital available to us, but it's bank debt capital and it'll come in at the time we're ready to actually build a home. And so the build home, if you take the average across the US, the actual cost to build that house, just the dollars to build the house is just over 50%. It's, 52% is the national average of the cost to build the home versus the selling price of the home, right? Because there's other major components.

So the land and the land development building the community, the civil construction of the community, which is what domain finance is, that is about 20% to 25%. It's typically called 25% for a national average. And then they have a profit margin that's around 20%, 21% for gross profit and they have some selling costs. And so that's what the income statement looks like of a home.

And so where capital's available traditionally to home builders is in that vertical construction, and that's relatively cheap, bank capital. If you're a smaller player, it's maybe that's prime plus a half or prime plus one money. If you're a really large builder, you have an unsecured revolver typically, and that's pricing prime minus. You're in the SOFR 250 or something, 225.

And so capital's really traditionally available at that home construction stage. And before that, it's really equity dollars. What we've seen is you did have financing of land and land development back before the financial crisis really started in California in the late '90s. And it was a fairly niche strategy then, but you had firms like GMAC and some private capital doing what we call land banking. What they do is they will finance the land and the land development and the home builder gets you to a finish lot.

And so this is basically the credit profile that's just outside of building the home, but it's that next chunk of the process. The most speculative asset is going and buying unentitled or unzoned land, just raw land sitting somewhere with no right to build homes on it. That's really even not what the home builders do. That's private guys, that's land brokers. That's a whole other cast of characters.

The home builders are really professional outfits that come in once land is entitled and ready to build homes. They buy land, they prepare the site, which means putting in the streets, the sewers, the wet and dry utilities, getting everything ready that you need to pull a building permit and build a home. And then at the time they're ready to build a home, they kind of hand off operations over to the home building side, which is really a consumer-facing build and sell a home. It's really two businesses. There's a land development business that gets land from entitled land all the way to what we call a finished lot where you're ready to build a home. And then there's a home building business where you go out and build and sell homes.

In some countries, those are actually two different industries, right? So in Australia, you don't go like United States and just buy a finished home, you actually go and buy a lot and then you pick who you want to build your home. Like we do custom homes here, right? If you're going to go build a multi-million dollar mansion, you tend not to buy that from a production home builder. You tend to buy that where you go and pick your land and you decide to build a home on that site. There's really no reason those two businesses have to be together. And what Domain does is really come in at that land development stage and we finance the land and land development. So we can talk about what drove that, but that's where we're focused.

Stewart: So the home builders that you talked about are buying zoned land. And they're not going to go through the zoning process because there's just way too many things that can go wrong there. So they're going to buy property that is zoned for their use, but it still needs to be improved in the way that you mentioned with streets and wet and dry utilities and so on and so forth. And that helps me get my bearings straight here. Can you talk a little bit more about, kind of take us the next step there because I want to talk about mortgage rates and fed policy, but I want to make sure that we've covered this ground too.

Bob: Yeah, so I mean what's basically been happening with the home builders is they have ample debt availability for vertical construction and they kind of have their equity dollars tied up in land and land development. And it takes quite a bit of time, land and land development. And so even though they won't go to the most speculative assets usually, they're buying things that are entitled, we've really seen development times extend and they have a lot of capital tied up in that phase of the business. You don't produce any revenue during that phase, right?

Once you get into home building, these guys cycle times to build a homes three, four months and they really hit numbers. And so once they're into home building, they're actually generating revenue and they can reinvest in the next home. And so it recycles capital to that stage. During land and land development, you just keep pouring more money in knowing that someday you'll get to the home building stage and you can sell homes. And so it's the really capital intensive part of their business and it really works fantastically if they can have a financial partner that will hold risk in that stage and take the assets off their balance sheet.

So we've seen a variety of different strategies. D.R. Horton in 2017, I believe it was, bought a firm called Forestar and announced that as part of their strategy to hold land that wasn't on the D.R. Horton balance sheet. They still own and control that. It's another public company solely dedicated to developing lots for a variety of builders, but mainly for D.R. Horton.

Lennar has really led the way in doing what using the financing that Domain provides, which is a very structured financing in which they really do all the work. So I don't go employ people with bulldozers. What we do is we underwrite deals, we re-underwrite what the homeowner has already done, and then we come in and actually close on the land. So we go into title on the land, but it's very much like a secured financing. And so we will close on land, we will advance the money to complete the site to finish lots, but the home builder is doing all of the work and they're guaranteeing the time and the cost of completion. They're taking the entitlement risk and processing any remaining entitlements that have to be done on an administrative basis.

It's really still their project, but very much looks like project finance. And so it's a non-recourse project finance structure. Price is in kind of the low double digits. And it's really powerful, I'd say, financially in terms of their business model because it allows them to look much more like an asset-light manufacturing company, a company that just buys finished lots, builds and sells homes, right?

If you could buy finished lots, we go to the John Burns conference every spring and traditionally the answer for what should you most invest in home building is always finish lots. Because if you're a good home builder, you can buy a lot, build and sell a home in three to four months at a 20% margin, the ROE is fantastic. And you can debt finance the construction cost of the home. And so the returns in that phase of their business can be really very excellent. And so they've tried to head in that direction. And what they need to do that is they need billions and billions of dollars of people who will finance land and land development. And that's not a thing that you can just... That's not buying Fannie and Freddies, deciding if you want to buy the four and a half or the five and a halfs, right? That's something that requires you to really understand the project and re-underwrite what they've done at the project level and also understand how to structure these transactions.

Stewart: That's super helpful. So do you want to talk about mortgage rates and Fed policy? Or do we want to talk about housing affordability?

Bob: No, I mean I think when people talk about fed policy, they tend to... Everybody wants your opinion on what's going to happen the next meeting or what Paul said or whose shoulder did what or parsing the change in the language statement. I mean we were inside Brevan Howard so I've seen, I think, some of the world's best Fed watchers in action. Their chief economist was led forecasting at the Fed before he joined Brevan. So I really love all of that. But at the same time, really doesn't matter if you're running a business that's operating over years.

And so when I think about what's happened with mortgage rates and Fed policy, I kind of take a step back and think, "This has been really extraordinary four year period." Four and a half years ago, we didn't know what the death rate was going to be from Covid. I remember we were closing transactions the first quarter of 2020 and then you're saying, "What is going to happen?" And so in March and April of 2020, we're going into really times that nobody had experienced. There wasn't a clear playbook, right? People were reading books about World War I influenza.

Or even by April, May of 2020, we had homeowners telling us people are moving up closings. We do monthly calls on every community in our portfolio. So we have a little over 200 communities in the portfolio and we do monthly calls with every division and talk about what they're seeing in the market. And we started hearing from all across the country, "People need to get into the home." And we said, "Okay, that kind of makes sense actually. If you bought a home going into lockdown, you need to close." It's like, "Well, this is temporary." And then we're going into the winter maybe. But by June or July we're hearing from everybody, "Hey, we got overwhelming demand. We need to make more homes." But we've got issues with supply chain, we've got issues with people are out of work. We've got lockdown orders. Lockdown orders generally didn't apply to land and land development or home building. That was essential service.

And so you came out of this 2020 period, you get the vaccine announcement in November of 2020 and risk assets start to rally, but mortgage rates are down sub 3%. Mortgage rates stayed down 3% all the way through '21. You could get a 3% mortgage in December of 2021. So we look back on it knowing the story of what's going to happen in '21 and the boom. It wasn't clear to people writing mortgages in '21 that interest rates are going up 5%, because you get a 3% mortgage. And so firms like First Republic that took their entire balance sheet in solvent maybe didn't understand what was going to happen to mortgage rates. And who's lived through a 5% increase in mortgage rates? Very few people investing. I've been investing for 23 years. I've not seen mortgage rates go up 5%. And the speed with which they went up was so rapid.

If you had told me we'd see a 5% increase in mortgage rates, "What's going to happen?" But we kind of quietly had said for a while, "As mortgage rates normalize and you get back to 5% and 6% mortgage rates, we don't think you'll see a lot of decline in home prices for these reasons, structural under supply, mortgages are locked in." There's a ton of reasons we would've given why we thought increasing mortgage rates would've a muted impact, but wow, they had almost no impact. We had one quarter when home prices really were soft. And so you go through that period where '21 was a complete... Home building was like no other year I've ever seen it in 2021.

One of my favorite things to do in this job is you go and walk communities. You talk to the salespeople, right? So you go talk to the salespeople, "How do you sell homes in this location?" And it's amazing how much they know about the buyer types and what people at the school districts and all the concerns the buyers have to sell homes versus the competing communities.

In 2021, you'd go and talk to them and you'd say, "How many homes did you sell last month?" They'd say 9. "Oh wow, that's a lot. You usually sell 3 homes. This is good in this business. 9 homes. That's a lot. Why'd you sell 9?" "Well, there was demand for 60. Corporate let us sell 9 because we're metered. And so we sold 9." So we really had an extraordinary environment in '21. It was almost like a short squeeze on houses. More people wanted to buy a house than houses available, so house prices skyrocketed.

And so I think it's a very unusual event that happened. And then you go into '22, and the home builders I'd say in the first quarter of '22 were very chippy. Their stock prices all went down and they were kind of talking to us and saying, "We're doing great. What's everybody worried about? We're doing great." And by the summer, corporate had said, "We're re-underwriting everything, shutting down land buying." Almost every public builder told their land act guys, "Take the summer off, buddy. We're not buying anything." And so you go through that period where all of a sudden it's hard on the breaks into '23 and the home buyers showed back up.

And so there's a whole story there with mortgage rates of how they did that. These guys got really smart about buying down. They're mortgage captives. They brought down the mortgage rates. So we should talk about that a little bit too. But it's just been such a roller coaster, I think people should step back. I try to explain to my kids sometimes, "These aren't normal events." I feel like two decades of action happened in a four-year period between global pandemic, supply squeeze, boom, boom times, huge fiscal stimulus, then inflation rate cycle that nobody saw and a lot of people dramatically underestimated. And then actually pretty surprising resilience, right? You have some very smart billionaires that keep going on CNBC explaining that the Fed's an idiot and everything's going to crash. They've been wrong. The US economy's proven very resilient.

So anyway, that's my kind of narrative story. And going forward, I certainly don't have a crystal ball, but I'd say I take a little bit of confidence from how resilient the home buying demand has been so far. So there's places like Texas and Florida that are weakening and we focus on permits and a lot availability. But the Fed really, it's been unfortunate for the very rate sensitive industry. They said they get whipsawed, right? You offer for everybody a 2.5% or 3% mortgage and they all want to pay anything for the home. And then you take the mortgage rate to 7% and then you're like, "Well, nobody's going to make any then."

And so Powell's really smart on this, right? He meets with the top CEOs of this industry and he understands we need supply. He understands supply problems, largely not a federal issue. And then there's a little whipsaw from the Fed's main tool, the interest rate. And so not only do they induce maybe a business cycle at the macro level, but at the micro level, not every sector is as sense rate. Facebook's not as sensitive to what the Fed interest rate is as if your job is to go out and have consumers buy a $500,000 item with 90% debt. So it's a little more rate sensitive of an industry.

So I would just say it's been resilient given how much of a whipsaw was induced by the Fed cycle. And I'm just very impressed with how these businesses have navigated the environment over the last four years.

Stewart: It's interesting because you and I talked before this podcast about it's different because home building materials, I mean prices went up, call it 40%. Houses are more expensive, which is part of why house prices aren't up because of rampant speculation. It's just they're more expensive to build. Is that a fair assessment, do you think?

Bob: Yeah. I mean everyone wants to compare it to 2008 because home prices have gone up a lot. This is just extremely different environment, right? We don't have a mortgage credit quality problem. We have a huge affordability problem. Affordability is worse than it was in '07. And so it's not that home prices are at a reasonable happy level, right? It's going to be a political issue in this country where home prices are. We're at six times home price to income. Over time, four is fairly healthy. We were below four as a country for a long time. Five would be less scary to me. Six is not a good number. Sorry to talking round numbers, but take the nominal home price divided by the nominal income. I don't have to talk to you about chain CPI or get technical. It's just like it's a nominal dollars to nominal dollars. I like that ratio. It's not indexed by mortgage rates. Just a simple ratio to understand.

Most housing affordability indices talk about the cost to own the home and they compare that to income. That's really indexed by mortgage rates. And so it moves dramatically. It makes for great charts. And if you want to tell a story that you don't care about the data, you can do it with that. I really like home price to income. And I think affordability is very bad. But to your point, it's not speculation that people are buying homes that's taking it here. People aren't betting on home. They're closing their eyes and saying, "Well, hopefully the mortgage rate will come down" or, "I got to buy this. I'm getting some help from my parents to buy this house" or, "My income's going to grow into this house and I need to make this move for my wife's circumstances now." There's not a lot of supply.

I think Freddie Mac did this really good paper on mortgage lock-in. Their conclusion was home prices was about 7% higher than they would be if you didn't have the existing mortgage stock fixed at like 3%, right? So much of people's existing mortgages make it where they can't sell their home because if you bought a $350,000 home six years ago, already that's like a $550,000 home now. And for you to do a move-up buy and say you want to sell that and buy a $750,000 home because doing great in your career and it's the time for you to move into a really nice home, that's extraordinarily difficult if you're taking down a 6.5% mortgage. That's just not affordable. And so you've got people who just aren't going to sell their existing home and that is reducing supply.

Existing home sales were, in '21, up north of 6 million a year. We're down below 4 right now. And so you just have a very constrained supply of existing homes. Now it's come back. So in some states you've actually gotten back to 2019 levels of listed inventory on the existing home or secondary home market. And so the new home builders have actually come in and taken some share and built into that. And that's somewhat healthy, but we really need nominal incomes.

One of the few predictions I'll make over the next 20 years is nominal incomes are going to grow faster than nominal house prices. That I think is a very safe bet because we're at too high of home price to income. It has to come down. But how does it go down? We mainly are credit player. And so what destroys credit is big, big downside moves. How do you get home prices down 20%? If some guy at Harvard does a calculation and publishes a paper that says he thinks home prices are overvalued 20% and they should go down, you need somebody to sell millions and millions of homes to make home prices go down 20%. They don't go down 20% because some guy writes a paper.

And so I think we are clearly overvalued. It's not a good deal to buy a new home today, generally speaking. It's about as bad a deal as it's been and people are very stretched. But the reason we're here is more like that short squeeze. There's so many people who want to buy a home, right? We've had enough household formation and we've under-built for a while. And so you have in the locations people want to live and buy a home, you have very constrained supply of available housing and that's why prices are where they are.

So we do not like being an equity player right now. We just think home price appreciation faces big headwinds. But from a credit perspective, unemployment rate going to 10%, that would cause people who need to sell their home and not what we saw in 2020 where it's largely people who are renters who lost their job unfortunately in that move. Real corporate layoffs and places where people aren't going to be able to afford their mortgage payment and need to sell, that could cause real weakness in housing.

If we have a soft year in Florida or Texas because people kind of finally get enough supply on the ground that home prices go down 2% or 3%, that's actually very healthy. So it won't feel great to people who stretched and bought a home or overpaid for a single home or something, but it's actually very much from a macro perspective what needs to happen and I think not scary to us at all in terms of that's not a sign. When a bubble ends, it goes down 2% because it's going down 40%. That's just not the environment we're in. We're an undersupplied housing market with massive demand for housing and we need a little better affordability just to actually fit people's budgets.

Stewart: Yeah, it makes good sense. So let's talk directly to the audience here that we've got and let's talk about insurance capital for a minute. So how are insurance companies involved in your space today and how do you see them being involved in the future? Because the macro dominoes line up for a long-term opportunity here, which insurance companies, they need to deploy capital in a way that they can count on over time and understand the investment, the dynamics of that investment. So talk a little bit about how you're working with insurers today and where you see them active in your space.

Bob: Yeah, great question and something I think that people will become more informed about the space as it grows. So because the homeowners are heading towards this land light model and want to finance more of their land and land development activities through structures like what Domain does, I really do think insurance companies will end up being the very important capital providers to the space and in these structures.

They're not the main players today. So even things like vertical construction lines largely done by banks and syndicated facilities. And the current players in kind of land banking or the horizontal lot development that we finance, primarily private credit investors, fund investors, large institutional global investors, but not really sitting on US insurance company balance sheets.

And so first outreach for us is really around, we're doing a private placement for one program with a specific builder this month. We've also talked to a couple insurance companies about coming in and being a debt provider to the strategy which is more natural, like traditionally investment-grade asset.

We did do one at portfolio financing for a very large builder last year in which we had the entire strategy done as a note. It was rated investment grade, it got an A- rating. And so we're coming up with the structures just now that will actually be appropriate for insurance companies. But I'd say it's pretty low penetration. And very much a strategic goal of ours is to bring insurance capital to the space and to some of these investment structures and strategies because our kind of role is we have great relationships with the home builders and we have access to really good institutional capital.

But I think over time as the space grows, insurance companies are really well suited for taking this sort of fixed income risk that has liquidity risk but is fundamentally good credit. We've done over 300 deals, we have no credit losses over the last 10 years. The whole history of the strategy, which is 10 years.

So this is a good credit asset and a performing credit asset. And getting into the right structures for insurance companies is the other half of our mission in life, which is to connect really good home builders with really good capital providers in sound investment structures. And that's kind of core to our mission.

Stewart: And can you cover duration range that just because the insurance community, it depends on the lines of business of where folks are looking across the yield curve, is there a particular duration that this usually falls into?

Bob: Yeah, this is pretty short. So most of our deals are kind of four-year and they amortize. And so our durations will be in that two, maybe two and a half, but we're pretty short duration. And so, one of the things we've had to solve as we've gone out to Insurance Capital is coming up with structures that naturally reinvest under a fixed set of criteria so you get a little longer duration. So the private placement we're doing is a five-year, non-call three. But I think over time, especially as we scale our ability to do longer term debt structures and have the underlying assets revolve a bit, people obviously can buy AAA credit card securitization, right? Credit cards pay off monthly. So the idea that underlying the assets going to have to revolve a little bit, we sometimes call our business a treadmill business because the assets are always amortizing and we have to re-originate just to stay in place, much less to grow.

So the whole space is growing, and I think the capital demand is pretty significant. Now, it's not profound. This isn't something that people talk about these numbers and data centers and you're like, "Oh my god. Something like a trillion dollars or something." It's not a trillion dollar space, right? This is something where maybe there's $150, $160 billion of land and land development, but this could very well be something where there's $40, $50 billion out four or five years of this strategy happening. And to scale to that, I think it will be a really good opportunity for insurance companies to get involved.

Stewart: So if I could get you to give us some key takeaways for today for our audience to take with them, what would they be?

Bob: I mean, I think first, just since the industry I'm talking about is home building, the home building industry is absolutely thriving today. They've consolidated. You have really great operators on the public side. And the public home builders are growing and performing very well despite a normalized mortgage rate environment.

Then aside from just the fact that the industry is doing really well, I'd say a second takeaway maybe is that the largest home builders are all in one way or another, transitioning to a land-light capital efficient business model. And what that means is they all have need for a financial partner, a private credit provider who will help them finance land and land development, and that's what Domain does.

And then the last is probably more on the housing affordability point because I think outside of just this industry, people have exposure to residential US housing, home prices are really high. And understanding that, I'd say pretty clear view from us on that is that housing affordability will be a material headwind to home prices, but we just do not have a deep credit problem in mortgages. We do not have a supply glut of homes. We don't really have the indicia of a bubble. We have something that more looks like an undersupplied market with, resultingly, high prices.

Stewart: Very cool. I got a couple of fun ones for you out the door if you're interested. I think it's really interesting that we both grew up in the St. Louis area. When you look back on your career... And I've got a really soft spot in my heart for people who are early in their career, I wish I would've had more guidance. My family didn't have a background in business and they didn't really know how to advise me. And so I think it's important for guys that are fortunate enough to wind up in a seat like yours. What advice would you give a 21-year-old Bob Clark coming out of undergraduate school?

Bob: Yeah, that's a great question. I think probably I focused a lot more on what are you going to major in and what classes you're taking and much less on understanding the economy or what career paths there were. And they would do these things where they'd have somebody come and talk and say, "What's your day like as a lawyer or something?" I actually found it really helpful to not shadow somebody or try to understand it, but actually read about the US economy. What are the big firms that are employing people? I read The Economist during college. That hugely opened my aperture. So I would say pick something like the Wall Street Journal, The Financial Times, or The Economist and read it. That will just open your eyes to the landscape; I would give people that advice.

Bob: But I think those two are going to agree on a lot of things even though they're politically a little different. So let's throw a Karl Marx in as well.

Stewart: Wow. There you go.

Bob: And we'll have a spirited but civil debate.

Stewart: I like it. I've learned a lot today. I really have. I appreciate you being on, Bob. Thanks so much for taking the time.

Bob: Stewart, absolute pleasure. Really enjoyed it.

Stewart: We've been joined today by Bob Clark, founding partner and CIO of Domain Real Estate Partners. Thanks for listening. If you have ideas for a podcast, please shoot me a note at stewart@insuranceaum.com. Please rate us, like us, or review us on Apple Podcasts Spotify, Amazon, Google Play, or wherever you listen to your favorite shows. We'll see you next time on the InsuranceAUM.com Podcast.