

Najafi to acquire Trend Homes

Buy is latest sign of home-builders' struggle

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Phoenix-based private-equity company Najafi Cos. announced Thursday that it has agreed to purchase Trend Homes Inc. of Gilbert and send it through bankruptcy reorganization.

It is just the latest sign of home-builders' struggles in a slumping market, and another step toward an expected consolidation in the industry. The announcement came a day after Touse Inc., the parent of Engle Homes, the eighth-largest Arizona home builder in 2006, filed for bankruptcy protection in Florida. Touse is based in Hollywood, Fla.

Najafi plans to buy the privately owned Trend Homes, which has focused on building more affordable homes, and some of its affiliates for \$65 million. Home-building experts predict other companies will follow suit, either closing, selling some of their assets, buying out competitors, looking for angel investors or also going through bankruptcy reorganization.

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Jahm Najafi, chief executive officer of Najafi, said this is the first home builder his company has purchased but probably not the last. He said the company is optimistic about the prospects for home building five to 10 years in the future.

Najafi said he considered the purchase a "good value," but he doesn't expect the housing market to improve in the near term.

"We like the industry, so we are looking at expanding our investments in the sector," he said. "It's a good long-term investment, and as a result, we want to expand the business in a long-term fashion. Housing and the requirement for housing is not a business that's going to go away."

His company makes investments of up to \$2 billion across a variety of industries. In 2002, it purchased Network Solutions, a clearinghouse for ".com" and ".net" names, and sold it in early 2007 for \$800 million. In 2006, it acquired the Pert shampoo and Sure brands from Procter & Gamble Co. and earlier this month said it plans to buy Duck brand tape products and two other brands from Henkel Corp.

Assuming the U. S. Bankruptcy Court approves, Trend is projected to emerge from bankruptcy reorganization in 90 days as a company that is "healthier, stronger, better-capitalized and better positioned for growth" than it has been in decades, according to a news release .

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Reed Porter, president of Trend Homes and an owner, said the company had to do something because the housing market has been so bad. Like other home builders, the company has about 100 unsold "spec" homes. Fortunately, it doesn't have a lot of undeveloped land it is sitting on.

"The purpose of the bankruptcy is to set the assets to market value. The debt on some of the assets is greater than some of the market values," he said.

Trend Homes was one of the few privately held home-building companies remaining in metro Phoenix. It began as Trendsetter Homes in Salt Lake City in 1966 and in 1989 moved its headquarters to the Valley. It was located in Mesa and Chandler before moving to Gilbert.

Porter said it is owned by 19 members of three families and that he is the only family member active in the company.

Najafi said no managers or employees will be laid off, and customers should not notice any difference during the transition. In fact, he said, the trait he likes most about Trend is what he called its creative and innovative managers.

Since 2002, Trend has been building about 1,000 homes a year. Last year it was rated 11th in the state, based on 1,095 closings, according to housing analyst RL Brown.

Brown said Trend is one of the pioneers in "cluster housing," the practice of putting full-sized homes on smaller lots to provide more affordable homes. Tim Sullivan, president and founder of Sullivan Group Real Estate Advisors of Scottsdale and San Diego said, "Trend was a fast-moving and, I think, well-positioned home builder for the early 2000s in Phoenix. They are family, and their operational procedures were to go after the meat of the market. Both analysts expect more consolidations, sales and bankruptcy actions.

For the most part, builders have laid off about as many people as they need to and now are concentrating on getting rid of or reducing the value of their land, Sullivan said.

"Were they poorly run? No. That market just fell out from beneath everybody," he said.

Brown predicts in the region and nationally, some builders will quit and others will try to buy competitors to gain market share.

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