Avanti Properties Group

December 2012 Issue No.7



Market Overview: Approaching a Recovery

America's real estate markets moved closer to balance in 2012. Although the country is still feeling the effects of the housing bubble, our population growth continues unabated and the oversupply is closer to being fully absorbed. The country is adding millions of people, particularly in Avanti's markets, just as we have for decades. Today, this steady expansion is combining with gradually rising employment to create renewed levels of household formation.

As this growing demand eats into excess supply, it is erasing the housing crash's most persistent legacy and allowing recovery. Across the country, excess inventory is at a five-year low, and the number of vacant new homes is the lowest on record. In some markets, the number of existing homes for sale is two-thirds lower than at the peak. Virtually everywhere, single- and multi-family starts are up and prices are rising even as affordability remains near historical levels.

Despite the deep national downturn, all real estate is still local. Every market is unique. The areas once hardest hit, such as Phoenix, Florida, Atlanta, and Inland California, are all emerging from their own depths differently. The regions less battered, such as Houston, Washington DC, and the Bay Area, are growing differently themselves.

In most markets, pent-up demand for housing is strong and will be unlocked with falling unemployment and an improving economy, with affordable prices strengthening as foreclosed inventory is absorbed. As the Echo Boom offspring of the Baby Boomers enter their prime home-buying years, demand for new housing will strengthen. It is our view that these gains will contribute to positive trends in *continued on next page...*

Featured Transactions – Chicago, IL

After searching for more than 12 years, Avanti acquired its first investment in suburban Chicago, Illinois: **Grande Reserve**, a partially developed 2,600-unit residential community in which 440 homes have been built, over 900 lots finished, and significant road, sewer, and water infrastructure completed. Located within commuting distance of tens of thousands of jobs, Grande Reserve is also home to a new elementary school and an array of amenities, including a clubhouse, an aquatic center with three pools, and acres of parks and open space woven throughout the community.

Chicago is an excellent market for value investors in land. With a population of 8 million, Chicago is the third-largest metropolitan region in the country and its economic diversification generates good household incomes. Moreover, its large size generates high absolute growth, which occurs along well-established road and rail corridors. In fact, Grande Reserve is located in one of the region's newest major new-home submarkets, squarely in the path of westward suburban expansion along Interstate 88 and US Route 30 in Yorkville-Oswego.



Entrance of Grande Reserve, Chicago, IL

As believers in the medium-term strength of Chicago and its suburbs, we look forward to pursuing more investments there. Indeed, two weeks after acquiring Grande Reserve, Avanti acquired its second Chicago investment: **Springbank**, a 1,665-unit interrupted development in nearby Plainfield. After acquiring the properties (from different national banks), we will manage and develop them in conjunction with our developer partner, Ocean Atlantic, a land development group with extensive experience in the Chicago metropolitan area.

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the retail, commercial, office, and industrial sectors – all of which will lead to greater demand for land.

Three years ago, some observers seriously asked whether new homes would ever be built in America again. Others warned of a paradigm shift from owning to renting. The recent data prove such fears to be unfounded. Declines in homeownership reflect nothing more than a return to normal ranges established throughout history. Studies show that the Great Recession – severe though it was – has had no long-term impact on the outlook of the vast majority of Americans, who still aspire to own their own homes. This basic need will renew America's enduring demand for housing and contribute to a recovery in real estate.

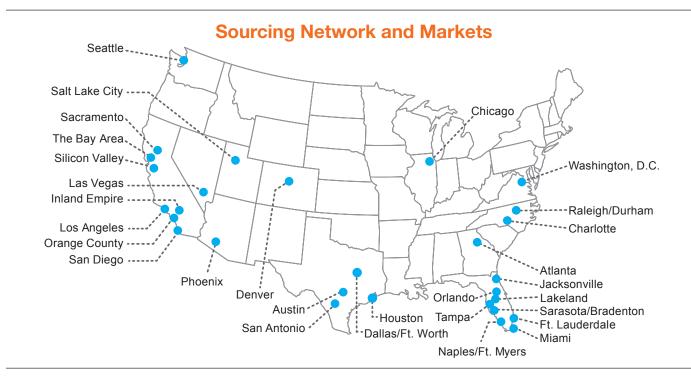
In a Time of Historic Opportunity, Avanti's Disciplined Appetite Is Strong

For nearly 30 years, Avanti has found value in every part of the market cycle. Amidst the gyrations of the past decade, we have maintained our disciplined focus on what we know best: feeding our appetite for land at the right price in the markets where 85% of America's growth occurs. As we move closer to a recovery, there exists a huge and historic volume of robust land investment opportunities. Today, most banks and other owners are recognizing new land values while grappling with their nonperforming loans on overpriced property. Other owners are lowering their prices on land in response to home prices dropping from the peak. These properties include not only infill locations and interrupted developments like our featured transactions, but also well-located commercial and retail sites for which investors other than Avanti are scarce.

In looking toward a prosperous year in 2013, we are monitoring these and hundreds of other sites that, at the right price, will lead to strong returns for Avanti and its partners.

Target Investments

For nearly 30 years, Avanti has dedicated itself to land investment, focusing on well-located sites in large, growing metropolitan areas. Today, Avanti owns land that can accommodate over 42,000 dwelling units and 8 million square feet of commercial, retail, office, and industrial space. We continue to work with experienced local land developers who benefit from having a strong equity partner for mediumand longer-term land entitlement and development deals requiring between \$5 million and \$100 million of capital.



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for the Holiday Season and a Happy, Healthy, and Prosperous New Year.