



FOCUS ON LAND

MARKET NEWS: Speculators Lose, Investors Win

Strategic Investors Stand to Gain as Speculators Exit the Market

At the height of the 2005 real estate frenzy, a rush of speculative buying had lifted land values throughout Florida to unprecedented heights. As expectations of easy short-term gains disappeared, however, the speculators have been exiting in droves, driving the values in the opposite direction.

In addition, excess inventories of new homes have caused many homebuilders, buyers of land in 2005, to become sellers in 2006. The excess supply of land on the market has caused a sustained decline in values in virtually all regions of the state.

continued on page 2



Dear Friend,

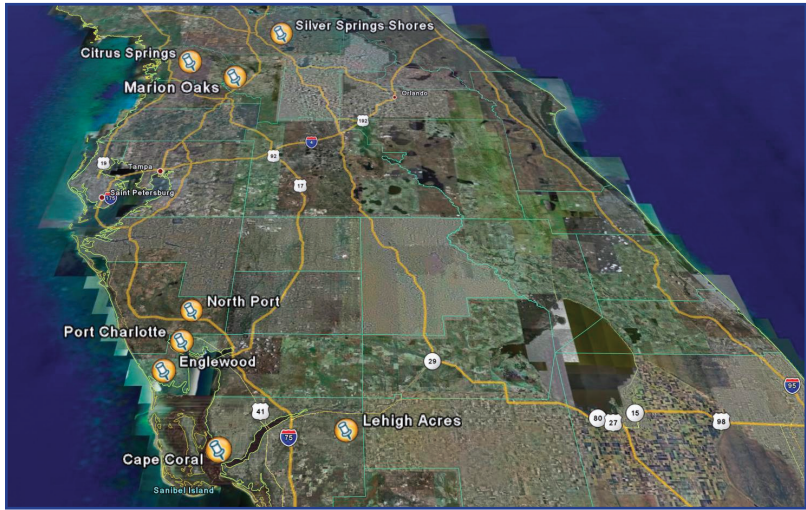
Welcome to the first edition of our quarterly newsletter. The mission of this publication is to inform and educate, to describe opportunities and pitfalls of investing in land. I firmly believe that the land markets in Florida present continuous opportunities due to national population and migration trends, and that by making well-timed buy/sell decisions our clients will be able to stay ahead of the game and gain a solid financial edge.

This newsletter's coverage area includes all major developing lot markets in Florida, including Cape Coral, Lehigh Acres, Port Charlotte/Englewood, North Port, Marion Oaks, Silver Springs Shores, and Citrus Springs. We chose to exclude more mature markets, as they generally represent lower appreciation potential and require higher upfront investment, though we may expand our coverage area in the future. We also plan to provide topical coverage of the broader real estate trends in Florida, including single family and condo markets.

I am now an active licensed broker in the State of Florida and will always be happy to help you with all your real estate needs, including purchase or sale of any residential, commercial, or vacant property in the state.

Sincerely,

Coverage Area:



What's Inside This Issue?

ECONOMICS: Are We Running Out of Land?

High Cost of Land Development Supports Values of Existing Lots

PLOTS & PLOYS: Win/Win

The Scoop on Babcock Ranch & Murdock Village Projects

STRATEGIES: The Rich Dad

What's True for Stocks is True for Lots

Market News: Speculators Lose, Investors Win

continued from page 1

As the market unwound, the fundamentals remained as strong as ever. Unemployment in Florida is 3.2%, interest rates are still low, and the state is attracting new residents as rapidly as ever. Commercial sector of real estate is booming, with construction of new stores, offices, and hotels taking place in practically every populated area of the state. Infrastructure is being built and improved at a record pace. The state has had no weather-related problems in over a year. Property taxes and home insurance rates are expected to stabilize next year.

We are now seeing a solid bottom in most of the lot markets, with prices leveling in the last two months and buyers slowly beginning to come in. The smart, long-term, strategic investors recognize the temporary nature of present issues, and are buying selectively in areas expected to sustain the highest levels of growth over the next decade. Armed with knowledge and strategic thinking, these investors are laying the building blocks of their future wealth.

ECONOMICS: Are We Running Out of Land?

High Cost of Land Development Supports Values of Existing Lots

The business of land development is becoming more complex and costly as land use regulations continue to tighten. It is now more difficult than ever to get land rezoned from a less intensive use (i.e. agriculture) to a more intensive use (i.e. residential and commercial). As the population continues to increase, it is becoming apparent that maintaining high quality of life requires careful planning. As a result, counties and cities continue to toughen land use and development laws and requirements.

In 1950s, 60s, and 70s, land development was hardly regulated at all. When the Rosen brothers developed Cape Coral forty years ago, they were allowed to dredge tens of miles of saltwater canals; they didn't have to worry about having central water and sewer to each lot or building sufficient water retention.

Today, developing lots smaller than 1/2 of an acre requires putting in central water and sewer lines. Availability of such lines and sufficient treatment plant capacities further restricts the supply of land that is developable. In addition, the developer has to create on-site water retention ponds, otherwise called "lakes". While having lakes in a subdivision makes property more attractive, up to 40% of raw landmass in a subdivision may end up getting converted to water retention instead of roads and homesites. In addition, developers are often required to dedicate a certain percentage of raw land to conservation.

Regulation has become so onerous to the developers today that large devel-

opments of vacant lots have simply become financially prohibitive. Typically, land is developed in small subdivisions and is slated to fill up with homes within 2 years of breaking ground. It is virtually impossible to develop a lot anywhere in the state at a cost of less than \$60,000. A builder would often sell lots far below cost, on the condition that the buyer would be obligated to order a house from the builder who had sold him the lot within a reasonably short period of time. The



builder then takes the loss on the lot and takes a larger profit on the house. The lot was simply the bait to get the business locked up. Another approach that larger builders often take is to build specula-

tive houses on the newly developed land, either pre-selling them to investors or holding them in the builder's inventory for sale upon completion.

The bright side of all this for lot investors is that more regulation translates into higher values for pre-developed lots. They become very attractive to homebuilders large and small. After all, why go through the risk and expense of land development when developed lots are readily available? This argument is beginning to resonate even with the largest builders in the U.S. For example, DR Horton, the largest single-family homebuilder in the country, has already started building on developed lots inside some older subdivisions, such as Marion Oaks near Ocala.

Regulation is, indeed, a friend of the lot investor.

PLOTS & PLOYS: Win/Win

The Scoop on Babcock Ranch & Murdock Village Projects



Having closed on over 91,000 acres of land in a high-profile Babcock Ranch deal, Kitson & Partners, LLC has now taken over the Murdock Village project in Charlotte County. Babcock Ranch project involved complete purchase of the property, which is located in southern Charlotte and northern Lee Counties, and sale of 74,000 acres of land to the state for preservation. The balance of the land, roughly 17,000 acres, will be turned into a new town, with at least half of the land staying in green and open space to help buffer small villages that surround a town center. Construction is slated to begin in phases around 2009, with complete build-out projected for the year 2020.

Charlotte County can't seem to get enough of Kitson & Partners and its charismatic CEO, Syd Kitson. Having completed the assembly of 800 acres of vacant lots in central Port Charlotte, the county needed to find a serious development partner, quickly. The county has spend over \$90 million on purchase of lots, at an average price of \$30,000 per lot. Kitson & Partners will purchase the land from the county in phases, and on it build an urban core of the county.

Kitson's plan includes 3,500 residences, retail space, and offices in high-density, walkable neighborhoods. The centerpiece of Kitson's plan is a new

Florida Gulf Coast University campus, which would be integrated into the neighborhood.

The timeline for development roughly mirrors that of Babcock Ranch, with the groundbreaking projected for 2009. Kitson expects to mount a massive national marketing effort for both projects. This campaign will benefit all property owners in the county, as scores of new buyers will be introduced to the area. Kitson & Partners is backed by the Morgan Stanley Real Estate Fund.

STRATEGIES: The Rich Dad

What's True for Stocks is True for Lots

Dollar-cost averaging is the practice of investing or saving money at specific times, regardless of market conditions or your personal financial outlook. It is a common-sense strategy for building wealth long-term, and, as such, is widely recommended to stock investors by most financial advisors.

Pursuing dollar-cost averaging through direct ownership of real estate is a challenge. Properties are typically too expensive for buyers to purchase in a sustained manner without incurring huge debt and introducing the burden

of management. Imagine, for example, setting out to buy a \$250,000 condo every year for the next 10 years. Lots, on the other hand, are quite affordable and easy to hold. They require no management. They don't need insurance. They can be sold one by one at different times.

Let's examine how a sound lot investment program can solve a practical problem for a thirty-something couple. The couple wishes to fund future college tuition for their eight-year old son and four-year old daughter. Assuming

both children go to a private four-year college at the age of eighteen, the parents need to budget for eight straight years of tuition payments beginning ten years from now, in 2016.

By buying one non-waterfront lot a year from 2006 to 2013, and selling one lot per year between 2016 and 2023, the parents would fulfill the objective of funding their children's college tuition and expenses, and are likely to have a large surplus of funds left over for other projects.

MARKET UPDATES:

Cape Coral

Profile:

Located in Southwest Florida next to Fort Myers. Miles of salt-water canal waterfront lots. Northwest Cape Coral is being built out with higher-end properties. Dry lots are expensive relative to other markets we cover.

Issues:

In certain areas, need at least two lots to build a house.

Conditions:

Negative due to overbuilding and high pricing of lots.

Recommendation:

Buy selectively and conservatively, dry lots only if for purposes of investment.

Lehigh Acres

Profile:

Working-class suburb of Fort Myers, located east of the city. Dominated by dry lots on streets arranged in a grid pattern, this is the biggest subdivision in the state. Although still largely vacant, the market is experiencing a population boom.

Issues:

Soil types play a role in the type of construction allowed. Some property is not buildable.

Conditions:

Prices show stabilization roughly in line with Port Charlotte and North Port.

Recommendation:

Other markets may present better buying opportunities at this time.

Port Charlotte/Englewood

Profile:

Population center of Charlotte County. Located between Fort Myers and Sarasota. Home to numerous quality subdivisions dominated by new construction.

Issues:

Certain lots not buildable at this time due to the presence of endangered birds on the property.

Conditions:

Prices appear to have bottomed out, market is one of the most liquid in Southwest Florida. Developers are rushing into the county with progressive projects such as Babcock Ranch and Murdock Village.

Recommendation:

Strong buy in select areas.

North Port

Profile:

Located in south Sarasota County, this city is dominated by young working families. Many residents commute to jobs in Sarasota.

Issues:

Certain lots are not buildable at this time due to presence of endangered birds on the property. Many roads require major repairs.

Conditions:

Excess supply of new single-family homes still dogs the market. Commercial development is booming.

Recommendation:

Buy in select areas to diversify Port Charlotte lot holdings.

Silver Springs Shores

Profile:

Located in southeast Ocala, northwest of Orlando, this subdivision is growing mainly due to influx of defense, manufacturing, and service sector jobs into the area. Proximity to the giant retirement development called the Villages provides additional support to the area.

Issues: None.**Conditions:**

Strong job market and in-migration are supporting this market. Ocala is currently number two nationally in the real estate market performance.

Recommendation:

Strong buy. The growth in this market is unrelenting and the employment centers are located in direct proximity to the subdivision.

Marion Oaks

Profile:

Located in southwest Ocala, this subdivision is less than 1.5 hours from Orlando International Airport. One of the cleanest subdivisions in the state, it is a magnet for migrants from New York and Miami.

Issues: None.**Conditions:**

Softening market conditions present a buying opportunity. However, being at a bit of a distance from major centers of employment will hurt this subdivision in the short term.

Recommendation:

Buy selectively in areas with newer construction.

Citrus Springs

Profile:

Located west of Ocala and north of Tampa, in Citrus County, this subdivision is primarily retiree driven.

Issues: None.**Conditions:**

Likely the most spectacular boom/bust story in the state. Located away from the employment centers, this subdivision continues to feel the pain.

Recommendation:

Valuations are becoming extremely attractive. Worth looking at for diversification purposes. Looses out to Ocala on fundamentals.