

newsletter

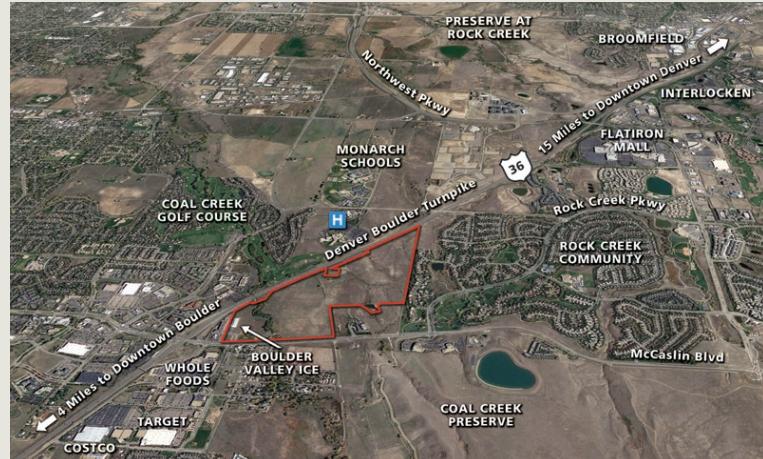
The Market: Returning to Normal

As 2013 draws to a close, the nation's real estate markets continue to recover in earnest. In the large, growing metropolitan areas in the South and West – Avanti's target markets – housing starts are increasing, vacancies are declining, and employment is growing. We believe that barring an adverse systemic impact on the economy as a whole, this recovery will continue for some time.

Our reason for measured optimism is simple: new households are being formed faster than new homes are being built. This increasing demand, coupled with diminished supply, is leading to more new homes that, in turn, will lead to greater demand for land. Indeed, while recent price increases are moderating, housing starts are only two-thirds of what long-term historical trends have established as merely normal levels. And of course, they remain far below the unsustainable peak rates of the bubble.

This return to trend is evident in Avanti's target markets. During 2013, in stronger markets, such as Houston, TX, and the Bay Area in California, new homes are being constructed at or modestly above normal rates. Other markets are recovering at a more moderate pace, for example, new-home starts in Riverside, CA, have been running at only one-third of normal rates. In Phoenix, AZ, a market that has gained national attention for its pricing recovery, the story is similar: starts amount to less than half of the historical average. In total, along with population and employment growth, these signs point to continued housing demand for the balance of the decade, which should also drive the retail, commercial, office, and industrial sectors.

Avanti Returns to Denver



Superior Town Center, Superior, CO

Early this month, Avanti announced a partnership with Ranch Capital in the acquisition of the land planned for The Superior Town Center, in Superior, CO, in one of the most vibrant – yet supply-constrained – corridors in the metropolitan area. The 159-acre site is strategically located at the Denver-Boulder Turnpike's first interchange when traveling from Denver into Boulder County.

With its premium location, Superior Town Center will draw strength from robust regional employment growth in nearby submarkets such as Boulder, Broomfield, and Longmont, which in turn will lead to demand for retail services, offices and housing.

Superior Town Center offers excellent access to schools and shopping, as well as to key employment centers up and down the turnpike. The site is planned for up to approximately one million

square feet of commercial property, including office, retail, private recreation, and civic uses; 1,400 residential units; and up to 500 hotel rooms. Its design will create an exciting mixed-use town center environment, offering its residents housing that is more affordable than in neighboring Boulder. The property is an assemblage of four parcels for which major planning and entitlement have taken place over the past year, a process driven largely by Avanti's partner and developer-manager, Ranch Capital.

Demand for housing in Denver has been fueled by households embracing the region's excellent quality of life, as well as by employment growth, particularly in its research and information technology industries. In addition, the metropolitan area's new-home market has recovered, rental vacancies are the lowest in decades, *continued on next page...*

Avanti and Its Partners: Finding Value in Strengthening Markets

As markets strengthen, Avanti sells. Recent sales have led not only to significant returns for Avanti, but also to profits for our local developers. In one recent California sale to a national homebuilder, Avanti's joint venture partner stands to earn over \$7 million in profit participation. In Atlanta, GA, we recently sold a small portion of a year-old investment for a price equal to nearly three-quarters of our original investment in the whole. Developers are finding that Avanti's patient unlevered equity investment program provides the potential for generous profit participation with significant downside protection.

While Avanti's markets lead the nation by any measure of large-scale growth over the long term, different markets continue to recover at different rates – and Avanti's levels of buying and selling vary as a result. In some areas, demand from users such as homebuilders and developers is leading to price increases. Nevertheless, there remains a perennial shortage of capital for medium- to longer-term land in every market. In response, Avanti has committed \$100 million to new acquisitions this

year. In addition to the Superior, CO, property described above, Avanti has acquired land in markets as diverse as Atlanta; the Inland Empire, CA; Orlando, FL; Chicago, IL; and even Houston – one of the strongest markets in the nation.

Our most recent investments demonstrate Avanti's ability to find value not just in times of distress, but also in nearly any stage of the economic cycle. Most importantly, they all reflect Avanti's devotion to purchase price discipline, which has endured for more than three decades of land investing. By investing with a deep margin of safety using equity that allows for patience, we can avoid the panic of a weakening market, just as we invest prudently in the euphoria of a rising one.

Finally, a note about the newest player on Avanti's team, Ryan Lefkowitz: This spring, Ryan joined Avanti, bringing a background in land development and finance. Most importantly, he also served as our local land developer partner on two Avanti investments in Orlando. Just as the late Victor Kiam was so enamored of a Remington razor that he bought the company, we were so impressed with Ryan that we brought him on board. You'll see his name on the masthead below, and we're thrilled that he's a member of the team.

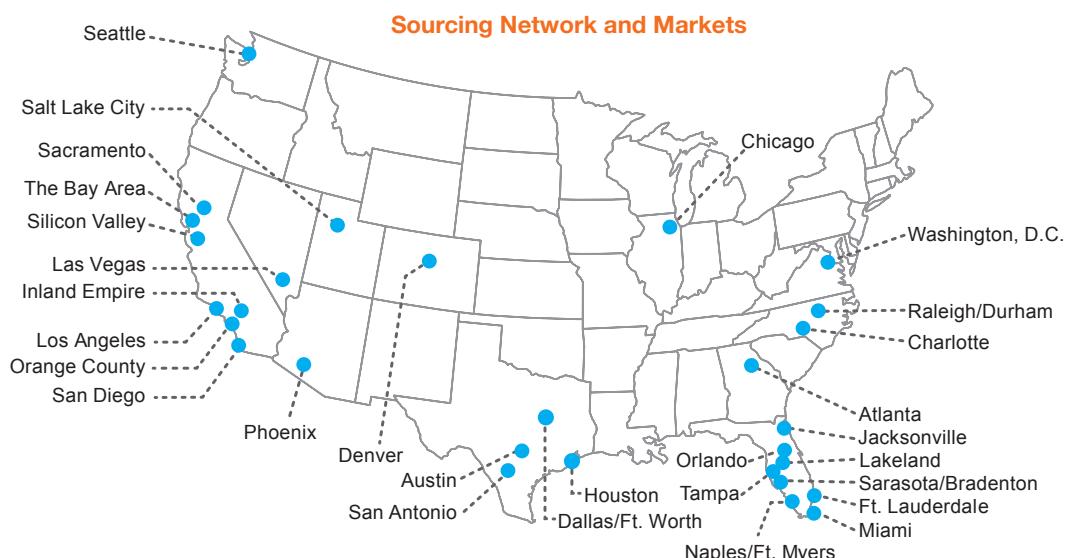
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and finished and vacant housing inventory continues to decline.

This investment illustrates Avanti's willingness to engage in complex transactions with perseverance – even those involving multiple landowners, fluid political environments, and entitlement questions that evolve over many months.

As it has done across the country for years, Avanti supplied the majority of the capital necessary to acquire and develop Superior Town Center and joined with a developer that has considerable local experience. This investment marks Avanti's second such venture with Ranch Capital.

For more than 30 years, Avanti has dedicated itself to land investment, focusing on well-located sites in fast-growing metropolitan areas. Today, Avanti owns land that can accommodate nearly 45,000 homes in its residential holdings alone. Avanti looks forward to working with experienced local land developers who benefit from having a strong equity partner for medium-to longer-term projects requiring \$5–\$50 million.



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