

newsletter

Market Overview: As Recovery Progresses, Much Value Remains

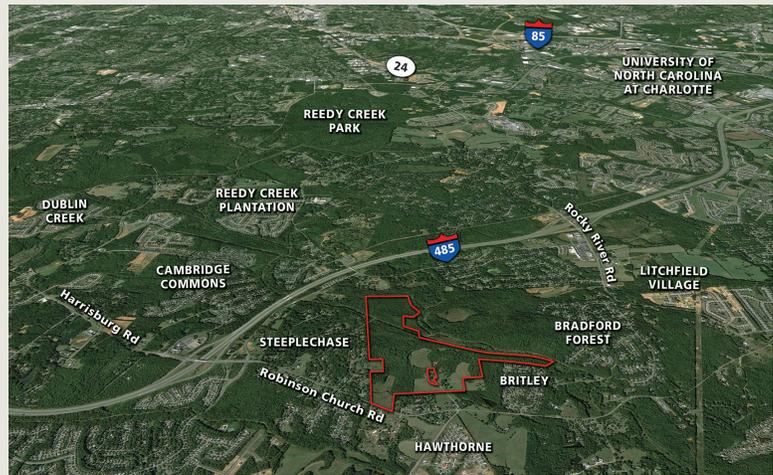
As 2015 passes its midpoint, the nation's real estate markets continue their seven-year recovery from the Great Recession. Across Avanti's target cities and throughout the country, housing starts and existing-home sales are growing, employment and wages are strengthening, and the large surpluses of well-located finished lots have become a thing of the past. In most locations, house prices have returned to a rational relationship to household income after hyper-inflating during the boom and hyper-deflating during the bust.

Today, we are in a sweet spot. With the opportunity to sell into the early stages of recovery and to buy for what see as a significant expansionary period, Avanti is poised to reach the highest combined annual sales and acquisition volume in our history. Indeed, today is a particularly good time in which to invest – especially in the growth markets of the south and west.

First, America is not building enough homes. Housing starts have reached only 70% of the levels required simply to meet *existing* demand from household formations, obsolescence, and second homes. Not surprisingly, the number of single-family starts in most of Avanti's markets remains markedly below long-term averages. Second, as the homeownership rate returns to historical levels after an unsustainable peak, surveys show that a healthy majority of Americans – including the much-discussed Millennial generation – wish to own their own homes or see homeownership as a good investment. Third, the population continues to grow across

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Featured Transaction: Robinson Church, Charlotte, NC



Robinson Church, Charlotte, NC

This spring, Avanti acquired an assemblage of six contiguous in-fill properties to create a 181-acre residential development site in the Cabarrus County town of Harrisburg, just east of Charlotte, NC. The property, known as Robinson Church, is located on the west side of Robinson Church Road and is less than one mile east of Interstate 485 – a proven suburban location close to retail establishments, schools, employment centers, and other residential communities. The site is approved for 260 lots, each of which Avanti acquired for a fraction of its ultimate user value.

With a diverse set of economic drivers and as home to a number of large firms and corporate headquarters, Charlotte enjoys

a strong higher-end and move-up new-home market with a tight inventory of desirable lots. Because Charlotte is currently building homes at only 72% of its long-term average annual rate, the region's new-home market is expected to gain steadily as the region's economy strengthens. Indeed, Robinson Church has already attracted interest from several local and national builders – but Avanti's acquisition price allows for strong returns and capital multiples even over an extended holding period.

Avanti's acquisition of Robinson Church exemplifies its 30-year track record of finding deep value in *medium-term land at all stages of the economic cycle*

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the country – and at higher rates in Avanti’s markets.

All of these factors will lead to more demand for housing and, in turn, for land of all kinds. In fact, as this supply gap persists, Avanti is buying from motivated sellers while looking forward to selling into a building wave of demand. Even as we make profitable sales, Avanti’s acquisition pipeline remains strong for two reasons: a) while builders and other users buy land in good locations for immediate use, a scarce few will buy land ahead of their present need, and b) the Wall Street-type opportunity capital that flooded the market during the recession has moved on. So today, many of Avanti’s investments arrive at our doorstep with builders in tow for initial phases and with eyes on the balance. One such community, Robinson Church, is profiled in this newsletter.

As we look to the end of 2015 with recovery continuing and pent-up housing demand increasing, we will maintain our disciplined focus on finding value in proven locations in growing and economically diverse markets. We’ll work to ignore the Wall Street chatter that rejoices in housing starts one month (like in April, when starts exceeded expectations) and panics about them the next (like in May, when they fell short). And we’ll look beyond the fleeting noise of those who proclaim “permanent changes” in homeownership trends and the end of suburban growth. Instead, we’ll focus on long-term trends that have proven themselves over generations. Simply put, we believe that people need to live, work, and shop somewhere they can afford. And that somewhere will be on the land in which, at the right price, Avanti will invest today.

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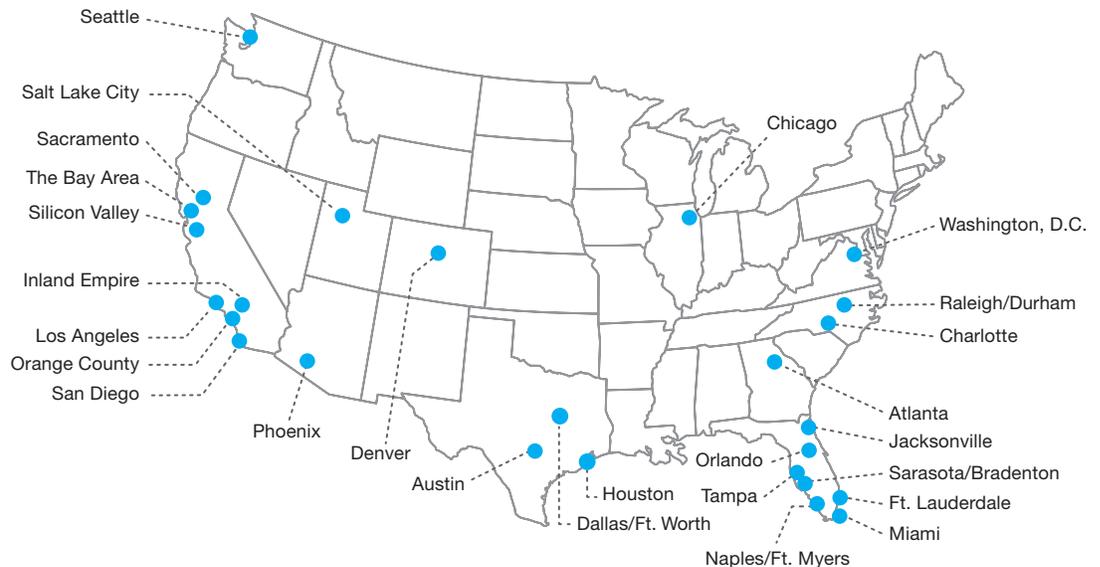
– **including as markets strengthen.** In addition, Robinson Church illustrates how developers can take advantage of Avanti’s **patient equity** and **disciplined pre-acquisition approach** to complex transactions. In this case, Avanti spent nearly a year working with Ed Goodwin, an experienced Charlotte-area developer with whom Avanti has developed a neighboring community, to assemble the properties, annex the sites into the Town of Harrisburg, acquire sufficient utility capacity, and rezone the land to permit single-family housing.

As Charlotte continues its climb out of the Great Recession and its economy and housing market return to historical norms, the region’s renewed activity should drive demand to well-located sites like Robinson Church.

Robinson Church is Avanti’s **fourth investment** in Charlotte.

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.

Sourcing Network and Markets



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