South Florida Distressed Real Estate

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Foreclosed & REO Condos!
In each of these buildings, a number of foreclosed and "*in foreclosure*" units can still be acquired for a third of their 2005 values

ESTIMATING POTENTIAL RETURNS

To evaluate the potential returns of Devco Properties investments, one can use the following case study. One of the targeted asset sectors for the pool's will be suburban condominium units in western Broward County.

The Bubble and Its Absorption

Most of these properties were initially built as rental properties and eventually converted to condominium ownership. As we reached the peak of the most recent cycle in late 2005, these mainly 1 and 2 bedroom units were generally selling between $200 and $240 per net square foot.

This most recent bubble was created mainly by easy financing terms both for builders and end-buyers, which together brought on intense speculation, and the resulting overbuilding. On the other hand, the current crisis is mainly driven by very restricted availability to financing and the post-bubble flood of inventory.

While it is not easy to assert when financing will ease, the one assured and irreversible trend is the increase in population. This demographic trend is especially strong in Florida and will progressively eliminate the vacant inventory.

The Upcoming Challenge

Assuming one could find buildable land, the replacement value of such suburban properties is still approximately $180 per net usable square foot, when including land, infrastructure, lakes, club houses, soft costs, etc. However, to obtain construction financing for such a

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Florida Population Growth

Florida has been one of the fastest growing states for over 40 years. While its growth may have slowed in the middle of the last decade because of climbing housing costs, the severe drop will attract many newcomers.

More importantly, this state remains the traditional destination of 27% of US retirees. Considering that there are currently more than 75 million baby-boomers, and that the current population is only 18.3 million, the upcoming migration and the ensuing housing demand will be rather staggering.

There is no doubt that between Florida's internal growth, its notorious immigration, and the just-begun migration of baby-boomers, its population continues to increase much faster than the national average.

CONSTRUCTION GRINDS TO A HALT

Although many are concerned about the excess unsold inventory, it is important to look at numbers in the proper context.

While it is true that South Florida was Ground Zero to the recent speculative boom, as can be seen in the Broward County chart below constructions starts have ground to a halt.

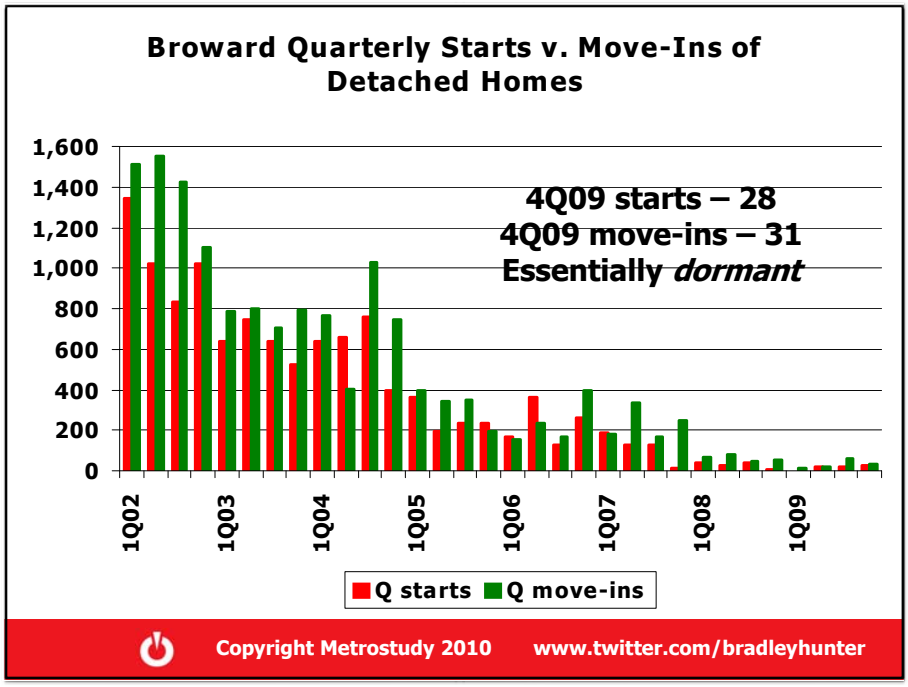
This chart shows how construction starts of Detached Homes (single family) in Broward County have gone from a quarterly average in excess of 1,250 units per quarter in 2002, to only 31 homes in the last quarter of 2009.

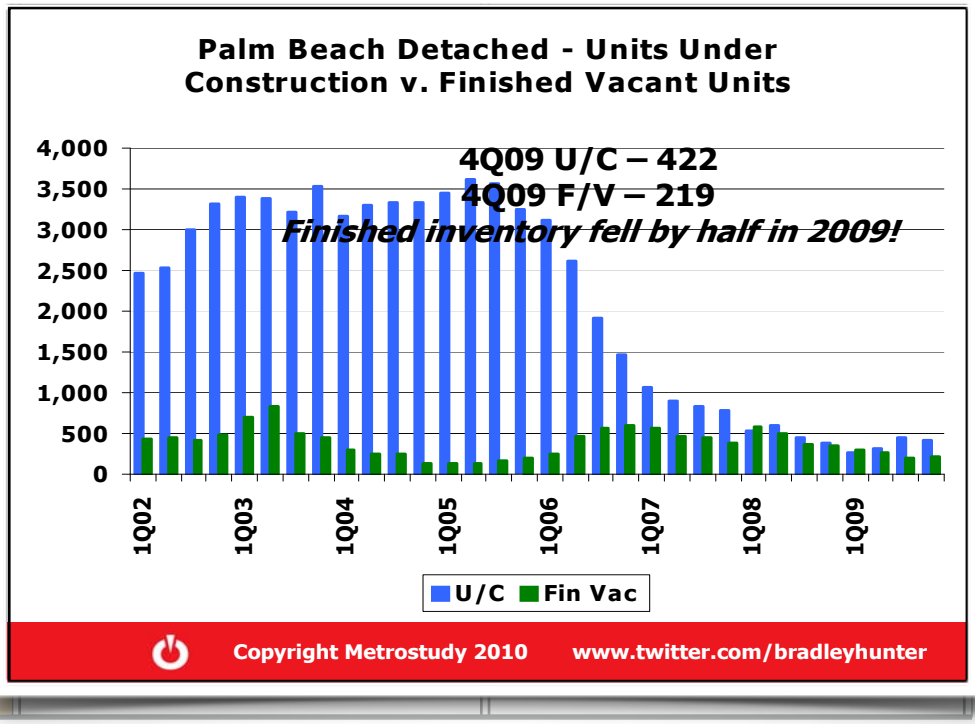
This reflects a virtual stop where only a handful of builders, non-profit organizations and private homeowners begin new houses.

The Palm Beach chart tells the same story in a different way by analyzing the remaining inventory. It compares how many homes are under construction to how many are sitting vacant.

Again we observe the same market forces shutting down the supply of additional units, while the total remaining unsold inventory drops to levels not seen in over a decade.

Charts for all counties in the region tell the same story to varying degrees. It is clear that with no new units going under construction, it will be some time before new construction competes with the existing resale market.





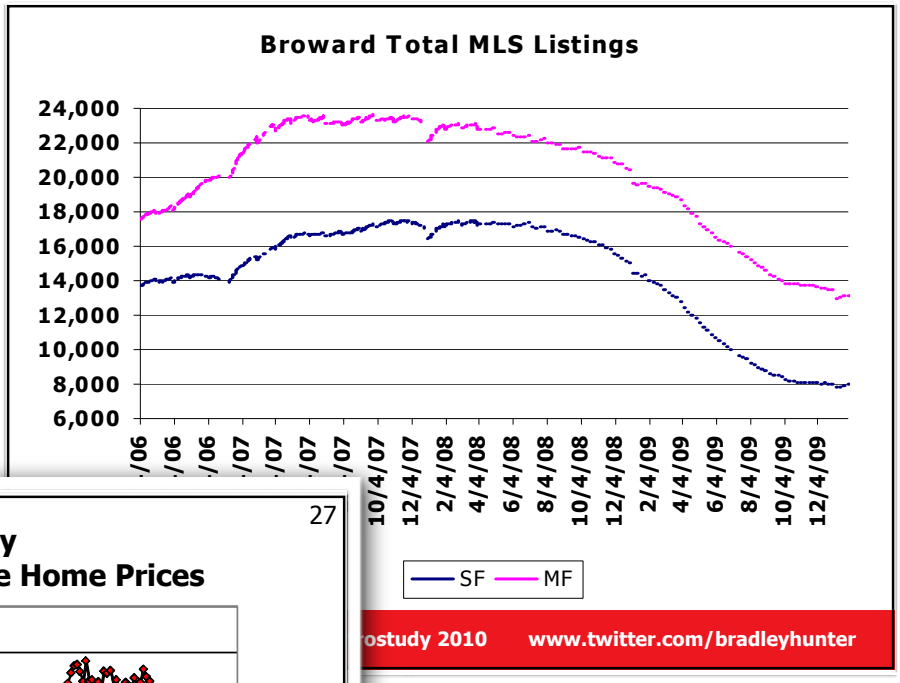
HOME PRICES BOTTOMING OUT

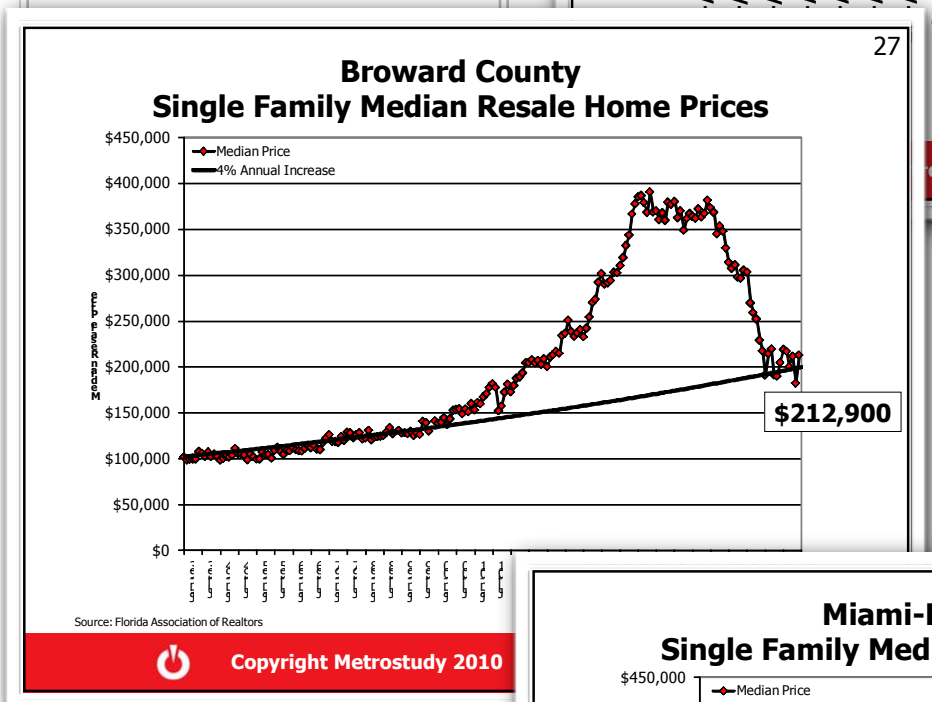
Signs of progressive absorption are also evident when reviewing other metrics relating to existing homes.

The MLS Listing chart on the right shows clearly how the inventory of existing homes has been cut by more that half since the peak of the excess inventory two years ago.

Again, this is the same trend that is being witnessed in all neighboring counties.

From a historic perspective, the following 20 year charts show how



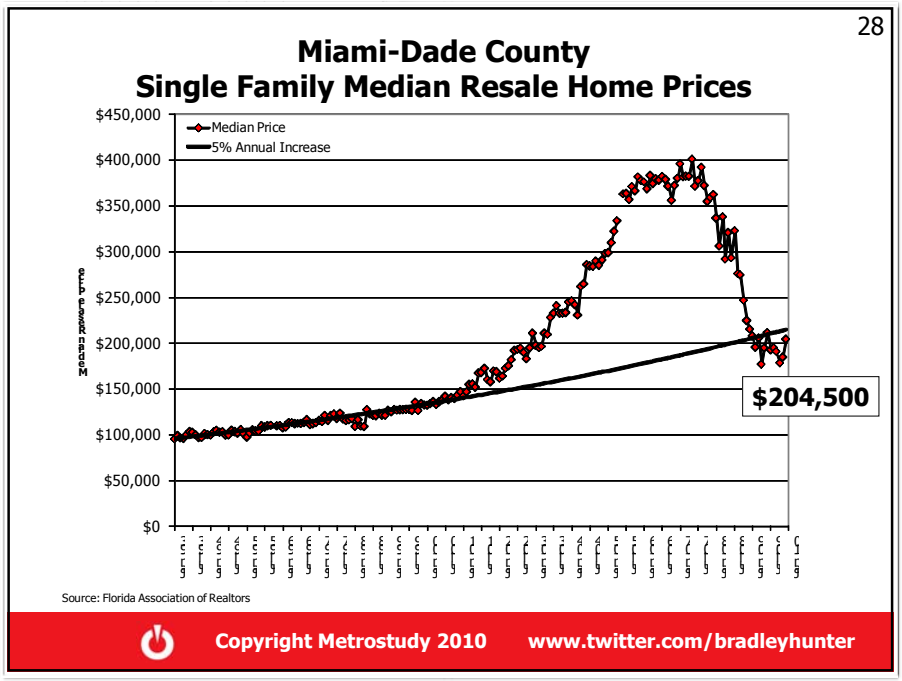


prices have returned to the traditional trend-line.

In some case as in Mami/Dade, prices are even over-correcting the trend-line and may well rebound even faster as inventory is depleted. This excessive drop is being witnessed especially in areas where

there was the greatest speculation and over-building.

An argument can be made as to the validity of the constant trend-line (approx. 4%) and whether it should not be increased higher. In fact, the increasing demand for construction materials from emerging markets is forcing an obvious increase in construction prices. This may well have for effect that the trend-line will need to be adjusted to 5% or 6%. When compounded for a few years, this could move the trend-line's extension substantially higher.



EXISTING HOME SALES PICK UP

A tighter inspection of the local data reveals similar trends. The area comprised in zip code 33311 is located in central Fort Lauderdale and is quite typical of other Broward County middle class neighborhood.

When reviewing the 24 month table on the right and its corresponding chart below, we notice that although listings climbed to 323 in April 2008, they have dropped by more than half.

Days on the market (DOM) has also gone from a high of 182 in late 2008 down to only 95 today.

Absorption, which represents how many units among those available sell each month has gone from under 2% to almost 7% in the last quarter.

Finally, "months of supply" has dropped from a high of 60 to less than 15.

The consequence of this market improvement is that prices seem to have bottomed out as indicated by the Median Price column. In fact, the median price has now reached a level not seen in 6 months.

As has been the norm in previous cycles, this trend is even more obvious is more desirable neighborhoods and then trickles down to other markets.

Once more, this trend is being witnessed in all neighboring counties of South Florida.

	Active Listings					
Month	Count	Median Price	DOM	Absorption		Months Supply
2/2008	316	$131,500	135	8.75	(2.77 %)	36.1
3/2008	321	$129,000	138	7.75	(2.41 %)	41.4
4/2008	323	$122,900	138	6.83	(2.12 %)	47.3
5/2008	315	$121,900	145	6.08	(1.93 %)	51.8
6/2008	316	$115,000	147	6	(1.9 %)	52.7
7/2008	315	$110,000	156	5.08	(1.61 %)	62
8/2008	313	$109,500	166	5.17	(1.65 %)	60.6
9/2008	287	$92,000	164	4.83	(1.68 %)	59.4
10/2008	269	$89,900	164	4.83	(1.8 %)	55.7
11/2008	243	$89,500	174	5.08	(2.09 %)	47.8
12/2008	234	$84,950	182	5	(2.14 %)	46.8
1/2009	220	$84,900	148	5.33	(2.42 %)	41.3
2/2009	223	$85,000	149	5.42	(2.43 %)	41.2
3/2009	229	$84,900	151	5.67	(2.47 %)	40.4
4/2009	226	$80,000	134	6	(2.65 %)	37.7
5/2009	202	$80,000	140	6.67	(3.3 %)	30.3
6/2009	196	$79,900	142	7.5	(3.83 %)	26.1
7/2009	187	$79,000	148	8.25	(4.41 %)	22.7
8/2009	173	$77,500	159	8.75	(5.06 %)	19.8
9/2009	163	$79,900	157	8.92	(5.47 %)	18.3
10/2009	152	$79,000	136	9.58	(6.3 %)	15.9
11/2009	148	$75,450	111	10.33	(6.98 %)	14.3
12/2009	155	$79,900	95	10.42	(6.72 %)	14.9
1/2010	0	-n/a-		0	(0 %)	0

Notes:
DOM: *Median Days On Market*
Months Supply: *The number of months it would take to clear the market if no more houses were listed based on a 12-month rolling average of sales rates*
Absorption: *Average number of properties sold per month based on 12-month rolling average, both as count and percent of active supply.*

Estimating Potential Returns

From Page 1

new development would require one to substantiate that the market could support at least $230 per net usable square foot.

Newer properties are often worth 20% to 30% more than 20-year old ones, therefore in order to obtain the necessary market study, the older properties will need to trade in the range of $160 to $175 per square foot.

The Current Opportunity

We can currently acquire such units for between $50 and $80 per square foot. This explains why there is no new construction possible in markets at this time.

We do not expect that these prices levels are sustainable since, as inventories get absorbed, the demand will pressure prices up to the necessary levels before construction can begin adding more units. No doubt that before prices can rebound to such levels, we may suffer another housing affordability and availability crisis. It mat nonetheless be an inevitable fact as witnessed in every previous cycle.

While we consider the movement of the values we described is inevitable, the speed at which this happens remains uncertain. No doubt it will be influenced by macro economic factors such as inflation, unemployment, taxes and stimulus programs, just to name a few.

While it may take some time before prices return to their full replacement value (i.e. from the $60/sf to $160/sf for the example given above), exceptional profit can be made along the way.

Devco Properties' goal is to leverage its three decades of residential development experience in this geographical area to acquire units such as those given in this example, with the expectation that they will begin to rebound towards their replacement value (discounted for age) well within the next 5 years.

This is not to say that we will need to wait 5 years to liquidate these assets. In fact, we may liquidate much earlier since the prices are expected to return progressively in line with their replacement value. In the same way that its properties will be acquired over a certain time, they will no doubt also be disposed of over a similar period, enabling Devco Properties to achieve the benefits of dollar-cost averaging.

Inequality

While such pricing trends apply in a general way across the nation, there can also be important variations between regions, neighborhoods and demographic market segments. Not every city suffered overbuilding to the extent that downtown Miami did, not every town offers the same job opportunities to attract the demand, and finally, not all neighborhoods are equally desirable.

Whereas it is most difficult to predict how fast any given market will return, it is easier to understand that some markets having better characteristics, will rebound earlier and stronger than others. While current statistics are difficult to attain and never tell the full story, local market knowledge a most valuable asset.

The Effects of Foreclosures on Market Demand

Many pundits are forecasting an eminent flood of foreclosures and hinting to dire potential consequences. For sure, no one should discount the known statistics as the number of foreclosures (current and forecast) is momentous. However, while this foreclosure epidemic may seem to forecast an increase in the number of dwelling units offered on the market, in fact it does not, nor does it eliminate the families that have lost their homes.

From a real estate perspective, these foreclosed families are simply going from being owners to renters in another dwelling, so they do not increase or reduce the demand for housing.

Thus, while it may appear that 100,000 foreclosures will cause 100,000 properties to put up for sale, one should realize that it also creates *immediate* demand for 100,000 additional rentals and gives rise for more investors to become landlords.

Case Study of Typical Assets
Operations Phase

		1 Bedroom Unit		2 Bedroom Unit	
		Area	800 sf	Area	1,050 sf
Acquisition Price		**$ 55,000**	$ 68.75 /sf	**$ 70,000**	$ 66.67 /sf
Closing Expenses	2.50%	$ 1,375		$ 1,750	
Acquisition Management Fee		$ 2,000		$ 2,000	
Capital Improvements		$ 6,000		$ 8,000	
Total Acquisition Cost		**$ 64,375**	$ 80.47 /sf	**$ 81,750**	$ 77.86 /sf

Although no financial return projection can be assured, this case study illustrates the potential results that may be achieved.

While this case study does not relate to any specific transaction, it reflects prices, revenues and costs commonly encountered today in South Florida.

Acquisition Cost

For the study, two unit types were selected that are most common, i.e. a 1 and a 2 bedroom unit, of size and acquisition price that are typical of the local middle market segment.

To establish the total acquisition cost, a factor of 2.5% of the acquisition price was used to account for closing expenses and title insurance; also $2,000 was applied as purchase management expense. Finally, average capital improvements were assumed, which may include from repainting, carpet or tile, appliances, A/C repairs or cabinet work. The goal of these capital improvements will be to simply get the units into competitive rental condition. While the required improvements will vary, the acquisition price will also reflect these costs.

Operations Results

In reviewing operating result, two conditions were considered, i.e. the immediate depressed situation, and the results once the market will have stabilized. Thus, consideration has been given to reflect how variables are affected in each situation.

From the revenue side, rents have currently dropped because of various reasons such as excess inventory and unemployment. However, the main reason for the weakness in the rental market is the very large number of investment property owners currently defaulting on their mortgage. Many of these are happy renting at any price since they have abandoned any concern of defaulting on their liability. As foreclosures accelerate and properties change hands, this condition will quickly subside.

From an expense perspective, many expenditures will be included in the condo fees, which should remain stable. Property taxes should drop as the appraisals are re-adjusted the following year based on the new price paid. Most others will change proportionally to revenues collected. The administration and management expenses will remain the same.

Conclusion

An important result of these case studies is that they show that even from the outset, revenues should be able to cover all property carrying expenses and pool operating expenses. Later as the market stabilizes, it may be possible to begin distributing returns to the investors.

While at first the bottom line from rental operations may not appear financially appealing, the real profit is expected to be made as property values re-appreciate, and then earned upon the resale of the units, as shown on the next page.

			1 Bedroom Unit				2 Bedroom Unit	
			Area	800 sf			Area	1,050 sf
Current Situation								
Current Revenues		$ 0.94 /sf	$ 750	$ 9,000	$ 0.88 /sf		$ 925	$ 11,100
Condo Fees			$ 250	$ 3,000			$ 300	$ 3,600
Property Taxes	3.0%		$ 138	$ 1,650			$ 175	$ 2,100
Insurance (Liability)			$ 50	$ 600			$ 60	$ 725
Maintenance (Interior Only)	8.0%	*of rev.*	$ 60	$ 720			$ 74	$ 888
Capital Reserves	5.0%	*of rev.*	$ 38	$ 450			$ 46	$ 555
Property Management	5.0%	*of rev.*	$ 38	$ 450			$ 46	$ 555
Other Admin. Expenses	0.5%	*of asset*	$ 27	$ 322			$ 34	$ 409
Pool Management Fee	2.0%	*of asset*	$ 107	$ 1,288			$ 136	$ 1,635
Total Expenses			$ 707	$ 8,479			$ 872	$ 10,467
Annual Return		0.8%	**$ 43**	**$ 521**	0.8%		**$ 53**	**$ 633**
Stabilized Situation								
Stabilized Revenues		*$ 1.10 /sf*	*$ 880*	*$ 10,560*	*$ 1.10 /sf*		*$ 1,155*	*$ 13,860*
Vacancy	*4%*		*$ (35)*	*$ (422)*			*$ (46)*	*$ (554)*
Net Revenues			*$ 845*	*$ 10,138*			*$ 1,109*	*$ 13,306*
Condo Fees			*$ 250*	*$ 3,000*			*$ 300*	*$ 3,600*
Property Taxes	*2.3%*		*$ 105*	*$ 1,265*			*$ 134*	*$ 1,610*
Insurance (Liability)			*$ 50*	*$ 600*			*$ 60*	*$ 600*
Maintenance (Interior Only)	*4.0%*	*of rev.*	*$ 30*	*$ 360*			*$ 37*	*$ 444*
Capital Reserves	*3.0%*	*of rev.*	*$ 23*	*$ 270*			*$ 28*	*$ 333*
Property Management	*5.0%*	*of rev.*	*$ 38*	*$ 450*			*$ 46*	*$ 555*
Other Admin. Expenses	0.5%	*of asset*	$ 27	$ 322			$ 34	$ 409
Pool Management Fee	*2.0%*	*of asset*	*$ 107*	$ 1,288			*$ 136*	$ 1,635
Total Expenses			*$ 630*	*$ 7,554*			*$ 775*	*$ 9,186*
Annual Return		*4.0%*	***$ 215***	***$ 2,583***	*5.0%*		***$ 333***	***$ 4,120***

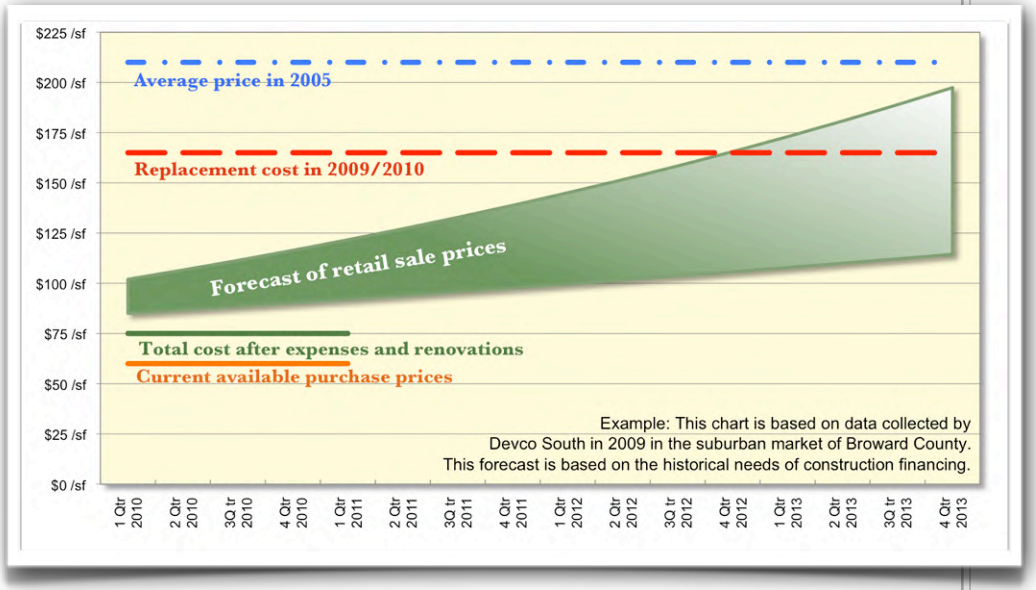
Case Study of Typical Assets
Disposition Phase

The chart on the right attempts to graphically express the tremendous price changes that have recently occurred and the opportunity available.

The *blue line* at the top shows the average price paid (per square foot) in 2005. The *red line* shows typical replacement cost for such type of product.

The *orange line* indicates quite common prices that units can be bought at today, while the *green line* indicates their total cost once acquired and brought back in proper rental condition.

As can be gauged easily, there is a tremendous difference between the 2005 prices and this final cost.



As explained earlier in this document, as inventory decreases and demand pressure increases, values will need to return in line with replacement costs. While not attempting to predict exactly when this might occur, the green wedge shape on the chart expresses the probable evolution of those values.

As can be concluded, there may be substantial profits to be earned well before those values return to their historic highs.

		1 Bedroom Unit		2 Bedroom Unit	
		Area	800 sf	Area	1,050 sf
Potential Resale of Condos – Case 1					
Gross Sales		**$ 125 /sf**	$ 100,000	**$ 120 /sf**	$ 126,000
Marketing & Sales	6%		$ (6,000)		$ (7,560)
Capital Improvements			$ (4,000)		$ (5,500)
Sales Management Fee	2%		$ (2,000)		$ (2,520)
Total Expenses			$ (12,000)		$ (15,580)
Acquisition Cost			$ (64,375)		$ (81,750)
Net Profit from Resale *(Excluding Annual Returns)*		***37%***	$ 23,625	***35%***	$ 28,670
Potential Resale of Condos – Case 2					
Gross Sales		**$ 145 /sf**	$ 116,000	**$ 140 /sf**	$ 147,000
Marketing & Sales	6%		$ (6,960)		$ (8,820)
Capital Improvements			$ (4,000)		$ (5,500)
Sales Management Fee	2%		$ (2,320)		$ (2,940)
Total Expenses			$ (13,280)		$ (17,260)
Acquisition Cost			$ (64,375)		$ (81,750)
Net Profit *(Excluding Annual Returns)*		***60%***	$ 38,345	***59%***	$ 47,990
Potential Resale of Condos – Case 3					
Gross Sales		**$ 165 /sf**	$ 132,000	**$ 175 /sf**	$ 183,750
Marketing & Sales	6%		$ (7,920)		$ (11,025)
Capital Improvements			$ (4,000)		$ (5,500)
Sales Management Fee	2%		$ (2,640)		$ (3,675)
Total Expenses			$ (14,560)		$ (20,200)
Acquisition Cost			$ (64,375)		$ (81,750)
Net Profit *(Excluding Annual Returns)*		***82%***	$ 53,065	***100%***	$ 81,800

Resale Potential

The table to the left analyses the resale of the case study units at 3 different price levels. The table uses sales prices varying between $120 and $175 per square foot, and reviews the results using the acquisition costs from the preceding page.

Even at these conservative pricing levels which are still much lower than in 2005, the potential profit ranges from 37% to 100%. The remaining uncertainty is over how many years can this profit be achieved.

If the most conservative results took 5 years to achieve, the results would still be average approximately 7.5% per year in addition to the income earned from rental operations.

If the more positive results were achieved in 3.5 years, then the returns could easily exceed 30% per year which is also in addition to the income earned from rental operations.

These returns are achieved without the benefit of leverage. No doubt that if financing is put in place at the appropriate time, these returns could climb much higher.

Devco Properties LLC

Fort Lauderdale-based Devco Properties, LLC Raises Initial Tranche of Investment Pool for Gold Coast Real Estate Opportunities

Press Release – Fort Lauderdale, FL February 8, 2010

Devco South, LLC, whose principles have developed dozens of residential real estate properties along the Gold Coast since 1978, has raised the initial $1 million tranche of a new acquisition pool. This growing reserve of capital is being used to take advantage of residential real estate opportunities in the distressed South Florida market.

Within a month following the launch of the project, several American and international investors joined the pool, recognizing the enormous opportunities in Florida. In fact, Devco Properties, LLC has another $2.5M of investment support in the pipeline, mostly from international participants.

According to Rene H. Lepine, head of Florida operations, "*Unquestionably, record low real estate prices in our area and the weakening US dollar have prompted keen interest from savvy investors. We are being approached by businessmen from Canada, Hong Kong, South Africa, France, Switzerland, Norway and Colombia.*"

Making the launch of this new investment vehicle particularly timely, Lepine adds, "*The US Treasury has recently passed new regulations on "short sales" that will enhance our ability to turn a higher rate of profit. As of April 2010, lenders will be required to respond to "short sales" within 10 days. This should considerably increase fluidity in the real estate market, particularly in the hard hit Gold Coast region of Florida where Devco will focus its operations.*"

Many individuals believe that the time has come and gone for them to benefit from Florida's depressed real estate market. Not true, genuine opportunities can still be found, but that requires local presence and expertise to find and re-position those bargains. Devco Properties, LLC, whose principals have "boots on the ground" and a 30-year track record in the Florida, is the ideal acquisition structure.

The pool offers its individual partners the same chance to acquire real estate assets at these once-in-a-generation low prices that the large financial institutions and "vulture" funds have been grabbing.

Notice about Equity Investments

Devco South LLC is partnering with local and foreign investors to form Devco Properties LLC with the intent of profiting from the eventual return of values on the residential real estate market in South Florida. Its business plan is to pool these resources in order to acquire a portfolio of various dwelling units, rent them until the market rebounds and eventually dispose of them at a profit. These properties will be acquired using equity from the investment pool, and as such it is a speculative equity investment similar to any capital appreciation fund wherein one invests with the expectation of increased asset values based on certain expected trends.

In the same way as many such equity funds, the intention is to acquire the assets at a price that is considered to be very discounted, as opposed to adding value to the asset with the expectation that such added value will generate a profit. Since there is no way to forecast with any certainty what the portfolio's value will become, it is expected that the profit will have been made "*on the purchase*".

While Devco South LLC can review certain facts and statistics to attempt to rationalize the situation and where the market can go, it can only do so looking back at past facts and cannot be held responsible for future results. When evaluating the merits of an investment such as this one, any projections are strictly conjecture. Each investor should evaluate for himself how the market and any future events may influence the value of his investment.

www.DevcoSouth.com

Devco South's mission is to leverage its 30 years of financial and practical experience in the South Florida residential real estate market for the benefit and profit of its investors and financial partners.

715 NW 1st Avenue
Fort Lauderdale FL 33311
USA

Phone: +1 (954) 634-0100
Fax: +1 (954) 634-0105

Warning

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