

# Land of Opportunity

January 2010

## *Land is Back!*

### **Stirling Realty Advisors, LLC**

Stirling Realty Advisors, LLC is a boutique real estate investment bank that provides financial advisory services to medium and large size developers and operators of commercial real estate projects. Based in the Washington DC area, Stirling focuses on raising equity, mezzanine and structured debt capital, and conducting valuation analyses for real estate developers and operators nationwide.

Collectively, the principals have raised nearly \$4.0 billion in equity for public REITs and real estate operators and developers, as well as an additional \$3.6 billion in senior and subordinated financing.

We are excited to share our inaugural issue of *Land of Opportunity*, a newsletter we co-created with our land brokerage partner in the Washington DC area. Since our firms have come together last fall there have been many important and positive changes in the land market in the Mid-Atlantic region. The Washington DC area in particular is leading the country as we begin to emerge from the residential real estate crisis of the last few years. Unlike the rest of the country, the key indicators in this market are trending up and transactions of size are occurring with more regularity. As you read further you will see, we have the market intelligence and relationships you need to be successful in this market.

There are many reasons the Washington DC Metropolitan region is playing a leading role in the reemergence of the residential sector including:

- The region's population ranks among the highest educated populations in the country providing high paying white collar jobs in many sectors.
- We have a business sector supporting the Federal government that represents approximately 33% of the local economy. In fact, Northrop Grumman recently announced it will be relocating its corporate office to the region in 2011.
- Home prices have dropped back to more affordable levels, particularly for first time homebuyers and first time move ups.

These factors in concert with historically low interest rates, first time homebuyer tax credits, and outstanding risk adjusted returns leads one to understand why this market will continue to lead the residential real estate recovery. Two additional primary drivers for the region's market leadership are:

1. **Supply Constraints**
2. **Lowest Unemployment Rate in the Country**

## *Supply Constrained Market*

The Washington DC region is becoming more and more supply constrained as each day passes. Quality single family and townhome finished lot inventory in the region is approximately 32,000 lots, of which approximately 18,000 are located in core Maryland markets and 14,000 are located in core Virginia markets. We have compiled the data on a county and submarket basis to suit your needs. Please contact us for more specific data.

Based on current absorption, many counties' inventory levels are in the 3-6 month range. In core market areas equilibrium typically is approximately 5-6 months of inventory. These constraints have resulted in climbing demand for single family and townhome lots particularly from the national homebuilders who need to rebuild inventories to take advantage of the next cycle. They must build to thrive. The regional builders and land developers will follow suit as they see success in the market and capital becomes more readily available. As the available finished lots are absorbed we have seen more interest in raw land purchases, including the two most recent transactions in the market representing in excess of 4,200 acres and 3,500 units (see page 4). When combined with current existing home inventories of approximately eight months in the MSA, compared to eleven months one year ago, it is evident that the demand side is continuing to improve.

### **Contact Us**

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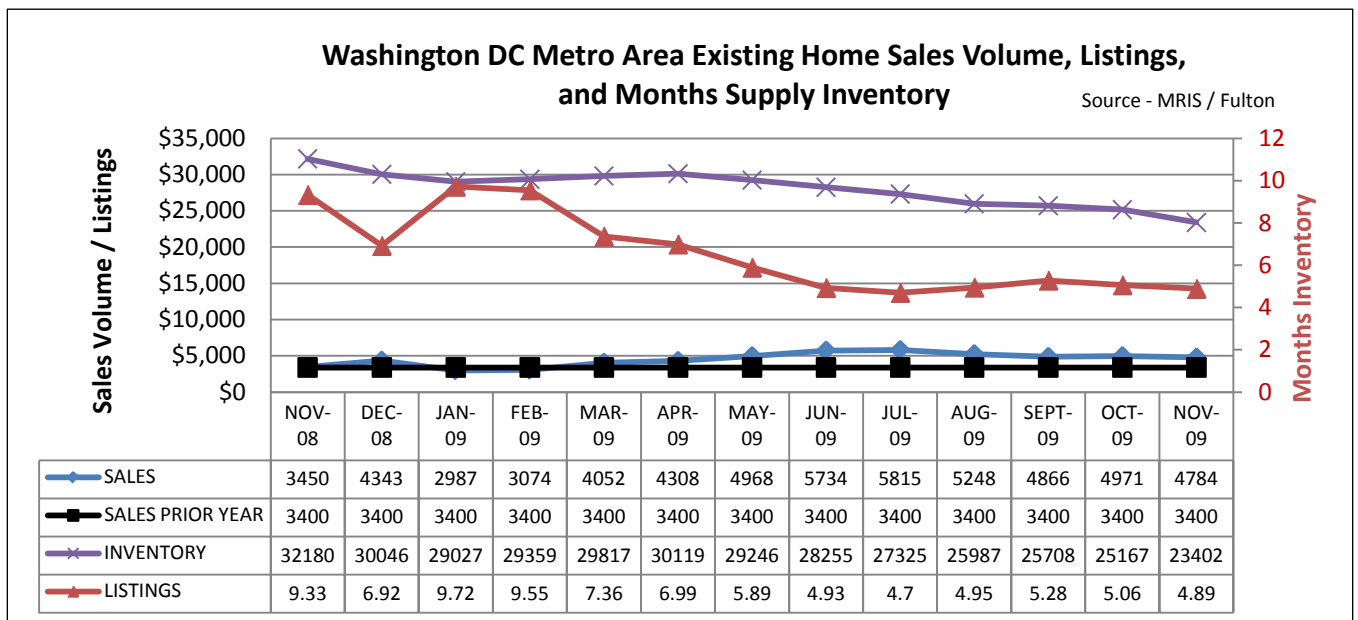
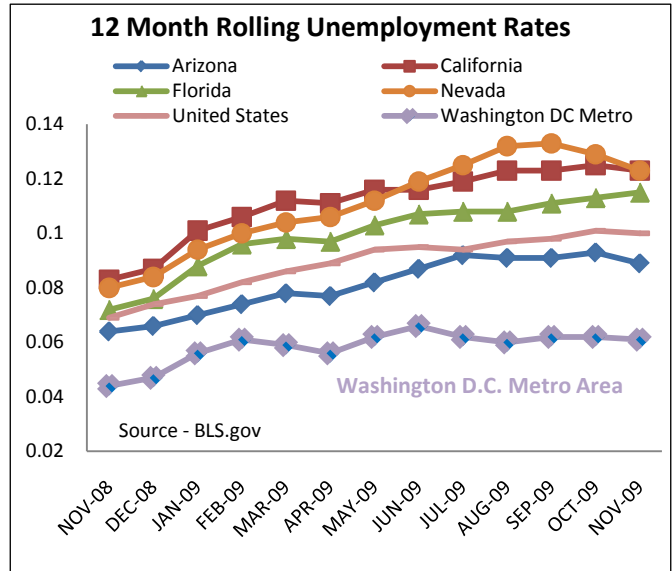
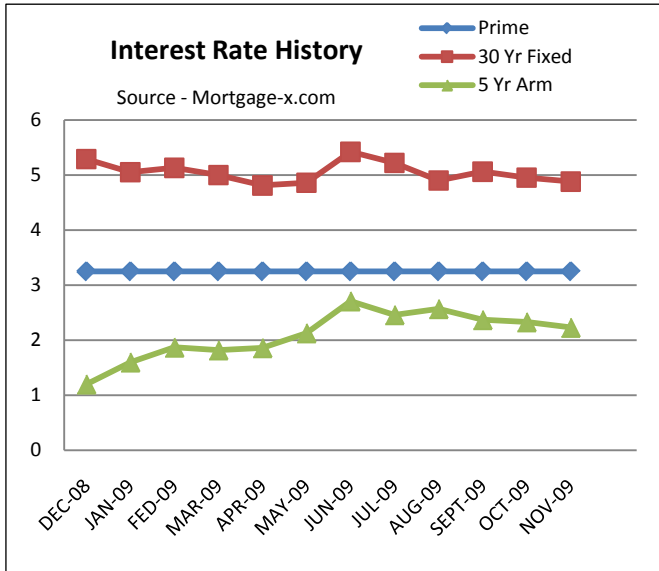
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## Unemployment / Job Growth Statistics

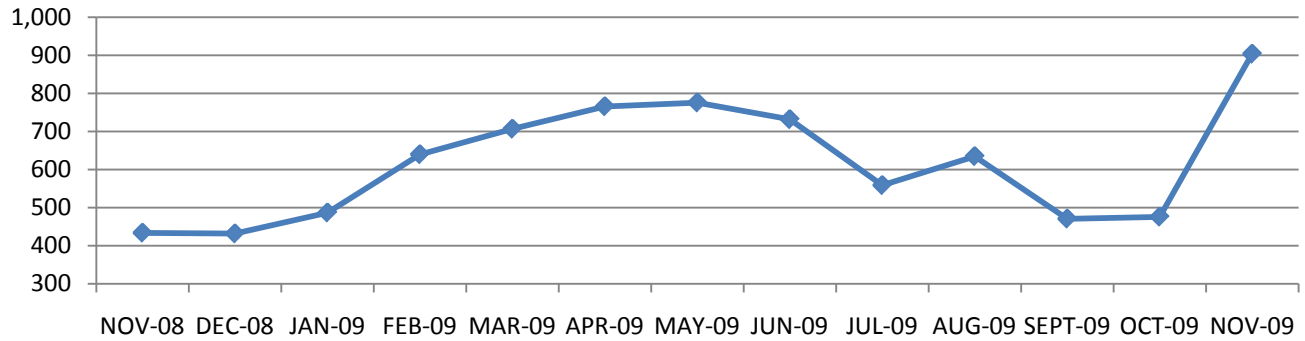
Historically the Metropolitan Washington DC market has had stronger employment growth and lower unemployment numbers than the country as a whole. This trend is continuing as the unemployment rate in the region as of 11/09 is 6.1% compared to the national rate of 10%. According to The Bureau of Labor Statistics, The DC Metro region has the lowest unemployment rate in the country. Recent economic forecasts show this trend continuing and job growth returning as early as 3Q 2010. We expect sales of finished and raw single family and townhome land to continue to accelerate during 2010. Although demand for multifamily land is flat at the moment, we expect the fundamentals which are driving single family and townhome demand will lead to a resurgence in multifamily activity in late 2010.

Below is some illustrative statistical information for your review. We encourage you to contact us so we can share more comprehensive analysis.



### New Home Sales for Selected Counties\* in MD and VA: Nov. 2008 to Nov. 2009

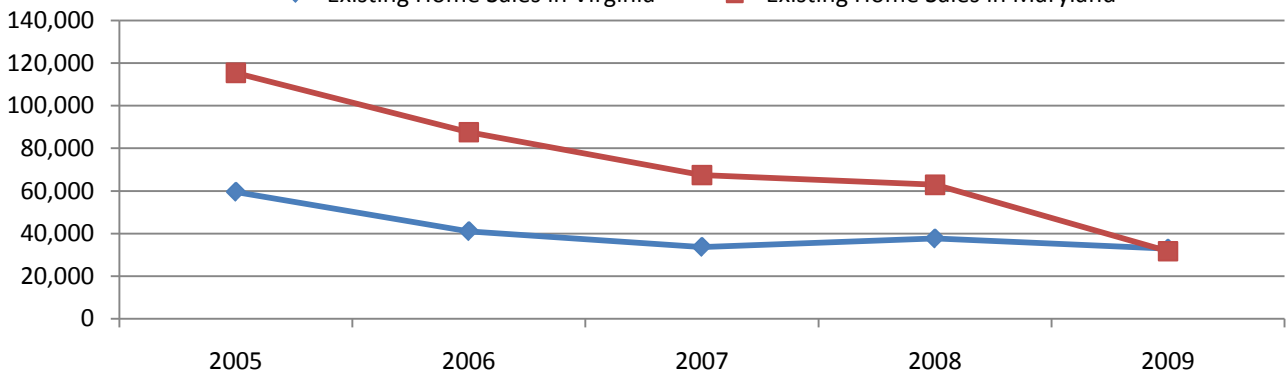
Source - Hanley Wood



### Existing Home Sales for Selected Counties\* in MD and VA: 2005 - 2009

Source - MRIS

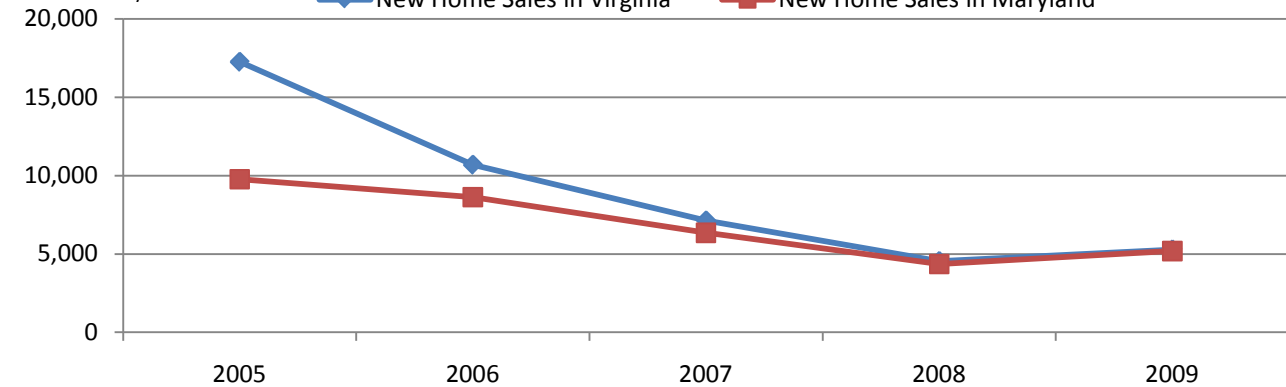
Existing Home Sales in Virginia Existing Home Sales in Maryland



### New Home Sales for Selected Counties\* in MD and VA: 2005 - 2009

Source - Hanley Wood

New Home Sales in Virginia New Home Sales in Maryland



**\*COUNTIES REPRESENTED:**

VIRGINIA - Alexandria, Arlington, Fairfax, Fairfax City, Loudoun, Prince William, Stafford, Spotsylvania, Fauquier  
 MARYLAND - Anne Arundel, Charles, Frederick, Howard, Montgomery, Prince George's, St. Mary's

## *RECENT TRANSACTIONS*

### **CROWN FARM**

Crown Farm was originally purchased by KB Home of Maryland & Centex Homes in 2005 for \$137MM. After interest carry, entitlement costs and proffers the total project costs ballooned to approximately \$220MM.

Sunbrook Partners completed this transaction after extensive negotiations with the original purchasers and lender. The current purchase price represented a discount to total project cost of 64%.

### **DULLES SOUTH**

The various parcels comprising Dulles South were originally purchased by Greenvest in 2005 for approximately \$250MM.

This transaction was completed by The Rockpoint Group through a bidding process run by the lender. The current purchase price represented a discount to the original purchase price of approximately 64%.

These two transactions are the first significant transactions, since 2006, in terms of size and price and demonstrate the desire for debt and equity capital to invest in land in this region.

<b>Project Name: Crown Farm</b>
Location: Gaithersburg MD
Sales Price: \$78MM
Size: 180 Acres
Description: 2,250 residential units and 320,000 sq ft of retail
Sale Date: December 2009

<b>Project Name: Dulles South</b>
Location: Loudoun County, VA
Sales Price: \$90MM
Size: 4,100 Acres
Description: 2,000 residential units
Sale Date: December 2009

## *Conclusions*

We are looking forward to a very successful 2010 for our clients and business partners. We are already seeing land prices escalating and truly believe this region will provide the risk adjusted returns for those who commit now. Stirling and our partner stand ready to assist you in partnering capital with "Best in Class" operators and projects. Please feel free to contact us with any needs you may have. We look forward to working with you in 2010 and beyond.