

"Learn from yesterday, live for today, hope for tomorrow." - Albert Einstein

None of us are as smart as Albert Einstein, but if any of us are able to learn from all the mistakes that both we've made on our own accord and from those others have made the last few years we may soon surpass him in the knowledge and wisdom categories. 2010 continued to provide challenges to everyone from a financial perspective at all levels, but fortunately it also left all of us a tremendous amount to "hope" for heading into 2011.

2010 RECAP

2010 was a great year for Bellator Real Estate. Despite the fact that we are a very small operation we still managed to have 83 closings totaling over \$15,000,000 in sales. Over the course of the last 12 months we have managed to move 31 homes, and buy and sell over 200 lots for our clients. Historically the end of the year is a very slow time for the real estate industry, but our market as a whole has been extremely busy over the last 60-90 days, which is hopefully a sign of good things to come.

While the negativity surrounding the housing sector continues to dominate the national news we actually saw a lot of positives in this area in 2010, predominantly in the new construction arena with homes priced under \$300,000. The preponderance of the custom home builders in Baldwin County have either chosen or been forced to slow their building starts to a snail's pace over the last several years, but the few custom builders that are still aggressively building had extremely good years in 2010. We all hear over and over about the glut of inventory and the number of foreclosures still to come (which is all true as 22% of mortgages nationally are under water), but what we don't hear is that construction costs have fallen to such low levels that builders willing to make smaller margins can compete with foreclosures. Buyers are starting to slowly realize that every bank is not going to sell every foreclosed home they have for half of the list price, and after months of looking become frustrated with the entire process and willing to pay the extra 5-10% for a new home without all the headache. Financing continues to remain an incredible challenge for local homebuilders though, especially relative to spec homes. Many have turned to private funding at higher interest rates than traditional construction financing in order to try and meet the demand for spec inventory in our market. From a national home builder perspective D.R. Horton has continued to dominate the Baldwin County market by aggressively pursuing discounted lots from both banks and developers, but look for other large regional or even national builders to enter our market in 2011 to try and steal some of their market share.

From an investment standpoint we focused the majority of our efforts towards bank owned properties in 2010, and it has led to some great buys for our clients. As a result of being able to put numerous deals together this past year to purchase both notes and real estate from 8 different banks we have been able to establish solid relationships with the OREO (Other Real Estate Owned) managers for the bulk of the banks with real estate holdings in our area. The number of



larger deals were few and far between during the first three quarters of this past year, but over the last 90 days there seems to have been an influx in both local and out of town investors attempting to acquire properties in the area. This is an indication of two things: (1) banks are becoming more motivated to move OREO assets off their balance sheets, which results in more aggressive asset pricing, and (2) investors believe we may have reached a bottom. There are plenty of sound commercial deals in the market offering solid 8-10% returns, but if investors are desiring anything higher they are going to have to be willing to take on the risk that comes with the higher returns.

Financing was without a doubt the biggest challenge in our industry in 2010. Even though rates have been at historic lows it has been difficult to see deals through due to the down payment and liquidity requirements now being made by lenders. The majority of all investment deals closed in 2010 were either cash or at an extremely low loan to cost percentage. The reason the Baldwin County market became so inflated during the boom was because it was fueled almost 100% by speculation, particularly in the southern part of the county, and it is also the reason it has taken such a significant hit over the last three.

2011 OUTLOOK

"We must look for the opportunity in every difficulty instead of being paralyzed at the thought of the difficulty in every opportunity." - Walter E. Cole

The banks and greed on our part as individuals got us into this mess, and it will be the banks and greed that lead us out of it. Look for prices to continue decline into 2011 as a whole, but certain asset classes will perform much better than others.

- Housing prices should remain level locally
- Commercial prices will continue to push downwards
- Large land tracts will be the most difficult to move unless they are marketed at agricultural or timber values as new development is years away
- Larger deals should become more competitive as investors jump off the sidelines
- The number of real estate transactions will increase significantly in our area
- The lending environment will improve and by the end of the second quarter there should start to be a noticeable difference
- The number of people walking away from properties (residential and commercial) will continue to increase



With all of that being said we are very excited about the prospects 2011 has to offer, and look forward to our real estate market turning the corner at some point this year from a volume perspective if nothing else as both prospective home owners and investors will aggressively enter the market this year to take advantage of heavily depressed prices before it is too late. We believe the prospects for the future make Baldwin County an extremely appealing place to live, work, and invest, and look forward to working with you in the coming year.

ABOUT

Bellator Real Estate & Development, Inc. is a full service real estate company that specializes in developing, listing, brokering, and acquiring properties located in Baldwin County, Alabama. Not only do we represent individuals in the marketing of their properties, but we also represent numerous investment groups in a wide range of deals. We pride ourselves on our creativity and flexibility when trying to work a deal for our clients, and unlike a traditional real estate company we have the ability to pair up private lenders and borrowers. We feel it is our honest reputation, work ethic, and strong connections throughout the entire community that set us apart from the pack. *"Fortes Fortuna Juvat"*, is a way of life for all of us at Bellator as we certainly believe *"Fortune Favors the Bold."*

Nathan L. Cox is a licensed real estate in the State of Alabama and is the Owner and Broker of Bellator Real Estate & Development, Inc.

