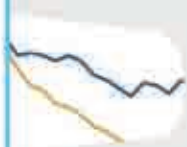




▶ FOCUS ON REAL ESTATE MARKET WATCH 1



▶ FLORIDA REAL ESTATE MARKET 2-3

▶ SILVER LINING IN REAL ESTATE CLOUD 3



▶ MARCO ISLAND & NAPLES RENTAL MARKET 4

Real Estate *focus*

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A great time to buy

This is the best time to buy in Southwest Florida since prices began to rise three years ago. The current slowdown is the last chance to buy inexpensive real estate in Florida. Prices are expected to level off, and with thousands of people moving into the state every week, and both national and international investors buying property, activity levels will eventually increase.

In this report, we'll closely examine Florida's real estate market.

Market Watch— Real Estate

It is now obvious that there is an over all slowdown in the real estate market. Of all real estate the vacant land market has seen the greatest reduction in demand. According to the NAR, housing starts are down considerably from 2005.

Home sales and home price growth forecasts have also been lowered noticeably. According to NAR, the past couple of months of housing data have been lower than originally anticipated. Looking at some

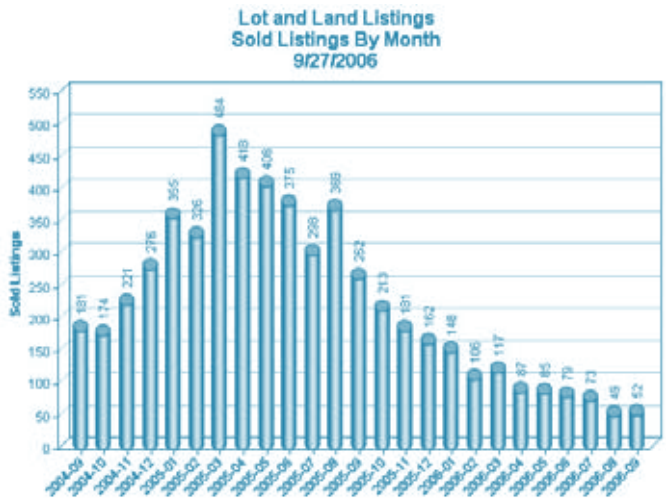
of the recent NAR figures: July existing-home sales were down 11 percent from a year ago, July pending home sales were 16 percent lower from a year ago, July new home sales were down 22 percent from a year ago, June and July single-family housing starts were down 14 percent and 17 percent, respectively, June and July single-family permits were down 17 percent and 23 percent, respectively June and July mortgage purchase applications (cont. page 2)



were down 19 percent and 24 percent, respectively. Inventories for both new and existing homes were at an all-time high - 4.4 million homes on the market, which is equivalent to one listing for every 17 homes in the country. Home prices have been crawling with less than 1 percent appreciation from a year ago in the recent two months, and that is not all.

The economy has also been underperforming. The net payroll head count rose by an average of 142,000 per month in the past 12

months. In an expanding economy, the count should be above 200,000 per month. The forecast for GDP growth for the remainder of the year is also weak at only 2.5 percent. The weakening in the housing sector is the prime reason for the sub-par growth. The only positive news is the recent declines in mortgage rates. From a cyclical high of 6.8 percent at the end of June, 30-year fixed rates have trended lower since then with the latest weekly reading (as of September 8) coming in at 6.5 percent.



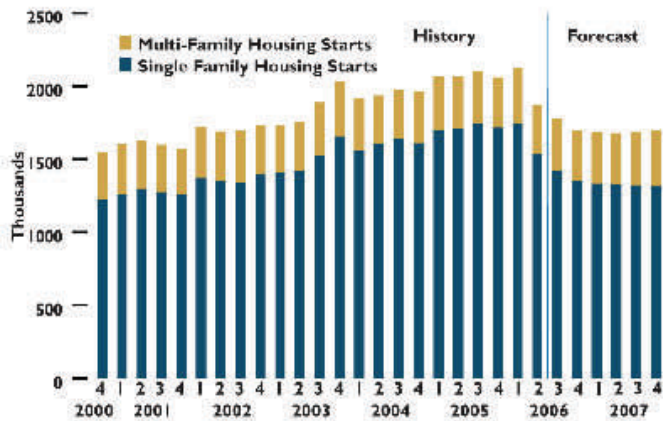
Real Estate is local in nature. This is one of the first rules of real estate, "location, location, location". This saying is even truer for vacant land as generally the only distinguishing feature of a residential lot is its location. Other distinguishing features for vacant land is square footage, utilities and whether or not the property is waterfront.

figures than that for the nation as a whole. Home price-to-income ratio, home price-to-rent ratio, and more importantly, mortgage debt servicing cost-to-income ratio have greatly increased in some markets. The NAR figures point out that the ratio metrics in Florida, California, Arizona, Nevada, Virginia, and Maryland markets exhibit trends far above local historical norms. So it would not be surprising to see slight price declines in these states.

Home price growth will be minimal at less than 3 percent in both 2006 and 2007. But it is again worth emphasizing that all real estate is local. Some local markets will post much stronger

Housing Starts

Rising costs temper building activity



Sources: Bureau of the Census, NAR Forecast

Had rates continued their upward path and reached 7.5 percent, perhaps a third of the country's housing markets would be experiencing considerable reductions in price.

Other factors that are currently affecting the market are local government taxes and impact fees. Across the state of Florida there have been increases in local property taxes for prop-

erty owners. The increase in property taxes is due to the jump in property values in the last two years. Many properties have been reassessed higher by local government property appraisers. Although Florida has the Homestead Act and Save Our Land legislation, this does not protect investors and vacant land owners.

Home Sales

Sales pace slowing, but still above 6 million units



Sources: NAR, Bureau of the Census, NAR Forecast

It would be easy to put a positive spin on the current real estate market, but ultimately all forecasts are just speculation. The general rule of investment is buy low and sell high. Undoubtedly most investors will decide to hold on to their property rather than sell at a loss.

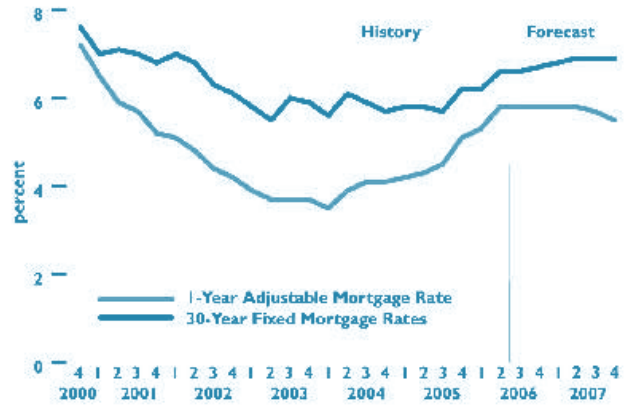
Unfortunately some real estate investors have neither the time nor the cash flow to wait out a slump in the real estate market. These investors

will have no choice but to sell, even if that means at a loss. Some have already chosen to accept the current market conditions, and have placed their properties considerably lower than similar properties on the market. Whether or not the real estate prices will continue to fall is unclear, but investors looking to shed their financial liabilities would be wise to adjust their prices to the current market.



Mortgage Rates

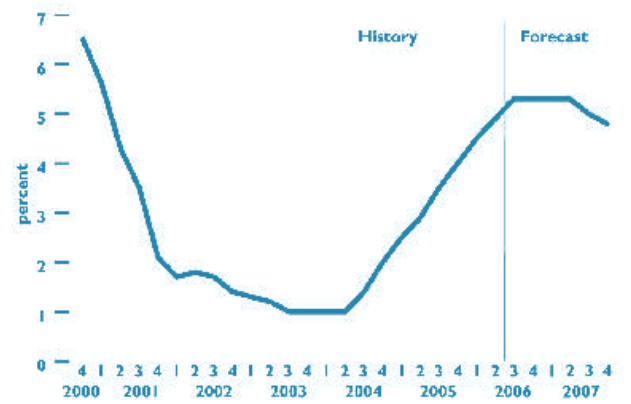
Rising slightly, then leveling off



Sources: Freddie Mac, NAR Forecast

Federal Funds Rate

The Fed pauses



Sources: Federal Reserve Board, NAR Forecast

Silver lining in the real estate cloud

Sluggish real estate appreciation getting you down? Don't think of the housing market as sick. Think of it as convalescent.

It was almost inevitable, during a five-year real estate boom that demand would fall and inventories increase. Now, 2006 is shaping up as the year a fundamentally healthy real estate market purged itself of toxins.

There's good news for the Central Florida real estate market in all of this. Ocala, Sebring, & Sun N Lake avoided the rampant over construction and speculation afflicting Orlando, Miami and Naples. Also keep in mind that Florida remains the market with the strongest "gravity": the favorite retirement destination of late career baby boomers. Current projections are showing Florida, by 2030, absorbing new residents equal to the populations of Pennsylvania and Maryland.

That doesn't mean the short term will be pretty. NAR predicts prices will slip in many parts of Florida as a buyers' market takes hold and sellers revise their expectations downward.

Many sellers must choose now between being patient or selling now at current market prices. If sellers choose not to wait things out, they will have to price their properties competitively. Regrettably those sellers who bought this year cannot compete with sellers who bought over five years ago. Everyone is very aware of the real estate market, and those investors with good sense will buy when most people are selling and sell when most people are buying.

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Marco Island & Naples Rental Market Assessment

As the real estate market is cooling off the residential rental market is heating up.

Trend-setting levels of job growth, employment rates and population gains—matched by a fast pace of condo conversions—have resulted in strong rental growth in Florida's multifamily market. Few scheduled deliveries for the rest of 2006 are expected to heighten these conditions across the state.

The conversion craze significantly diminished apartment supply and greatly contributed to the stellar apartment performance now being experienced. As the amount of new rental units continue to decrease, strong rent growth at existing properties will persist.

Strong employment, affluent residents, escalating home prices and high property values make multifamily investment in Naples extremely attractive. Current demand for area condos is extraordinary. Between 1990 and

2006, Collier County's population as a whole increased incredibly.

Rents across all unit types and ages average \$1,335. The submarket has shown an amazing 13.5 percent rent increase between March 2005 and March 2006. Local residents pay rental rates 25 percent above the regional norm.

Investors should continue to see strong performance from Florida properties. The positive economic outlook will continue to attract new residents—and affordable housing will be at a premium.

— *Call Land & Sea Vacation Rentals LLC for expert advice and assistance with rental properties. Office: 239.389.0022 or visit www.LandandSeaRentals.com.*

SMARTER RENTING:

By Owner vs Agency



Many rental property owners are having to choose between for rent by owner and using a rental agency. Owners looking to avoid the pitfalls of being a land lord should consider using a rental agency.

Like real estate agents, rental agents offer a variety of expertise like market valuation, creating lease contracts and advertising the rental. They also can be relied upon to keep an eye on the property for absentee owners.



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